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Also in this issue:

The Electricity Deregulation Con Game

by Sharon Beder

Electricity deregulation was supposed to bring cheaper electricity prices and more choice of suppliers to householders. Instead it has brought wildly volatile wholesale prices and undermined the reliability of the electricity supply. The rising electricity prices and blackouts in California and the northeastern states of the US are consequences of the changes engineered by vested interests; changes that were accomplished through a massive PR campaign to deceive politicians and opinion leaders about their benefits.

Despite efforts to manufacture an appearance of grassroots support, deregulation was primarily driven by large industrial users, who thought they could save money, and energy companies, who thought they could make money out of it. The case for deregulation could not be presented in self-interested terms to the public. It had to be presented as being in the interests of the wider public. Groups such as large industrial energy users used the language of free-market advocates to state their case in terms that disguised their self-interest.

The Heritage Foundation, a conservative think tank, helped spread the rationale for deregulation. Texas Congressman Thomas DeLay set out his "free-market vision" for the electricity industry at a Heritage Foundation lecture: "Bringing electricity into the competitive world will unleash new products, greater efficiencies, business synergies, and entrepreneurial success stories," he said. "It will create new industries,

Flack Attack

Propaganda is the art of persuading people to accept ideas that are not necessarily in their own best interests. This is why propagandists often look for ways to conceal the identity and motives of their client from the people they are trying to influence. This also explains why public relations firms sometimes find themselves enmeshed in conflicts of interest.

Past issues of *PR Watch* have reported on firms that specialize in working simultaneously for nonprofit organizations, governments and corporate clients, often for the express purpose of achieving what the Porter/Novelli PR firm describes as "cross-pollination"—which helped it persuade the American Cancer Society and the National Cancer Institute to sign letters supporting the position of P/N's paying clients, including produce growers and pesticide makers.

Something similar happens, as Sharon Beder illustrates in her articles for this issue, when utility companies like Enron are able to recruit environmentalists to support their self-serving positions in favor of electricity deregulation. The result is that policies contrary to the public interest are sold to the public under false pretenses. The dangers inherent in conflicts of interest should be obvious, but they often go unnoticed and unremarked until the damage has been done.

The same theme runs through Paul Goldberg's article on page eight. Conflicts of interest place PR firms where the action is happening in terms of influencing policy. When PR firm works for the National Dialogue on Cancer, it gets a seat at central command in the war on cancer, with an opportunity to influence key players and policies in subtle ways that the public may never see. And if they get caught serving two masters, they simply apologize and call it an innocent oversight.

new entrepreneurs, and new jobs." Delay, the majority whip in the U.S. House of Representatives, was closely connected to Enron and a beneficiary of Enron donations. Two influential members of his "kitchen cabinet" were used as lobbyists by Enron. In Texas, his efforts to promote deregulation earned him the nickname DeReg.

In *Energizing America: A Blueprint for Deregulating the Electricity Market,* Adam Thierer, a fellow of the Heritage Foundation, argued that regulation of electricity monopolies had caused a "lack of price competition and consumer choices, limited innovations, and a lackluster environmental record" whereas "deregulation of the electricity marketplace" promised "rich rewards." These rewards, he argued, included lower prices, lower operating costs for industry, more jobs, increased reliability of service and a cleaner environment.

Even the more centrist think tank, the Brookings Institute, produced a report supporting electricity deregulation for its potential consumer savings. The report was financed by companies lobbying for deregulation including Enron, Pennsylvania Power and Light, Wisconsin Electric Power, Cinergy and the Electricity Consumers Resource Council, a coalition of large electricity users.

Advocates of deregulation also formed a plethora of corporate front groups and coalitions, including the Alliance for Competitive Electricity, Citizens for State Power, Electric Utilities Shareholders' Alliances, the Alliance for Power Privatization, and the Coalition for Customer Choice in Electricity. The campaign was coordinated by Americans for Affordable Electricity (AAE), whose members included the Ford Motor Company, Enron and various utilities. AAE raised millions of dollars for lobbying and advertising, spending $4 million a year on top of what each of its members spent. Member companies and groups also donated the time of their public relations, legal, policy and lobbying personnel.

Citizens for a Sound Economy (CSE), a front group with close Republican ties, spent tens of thousands on advertising in various states and even used banners from airplanes to promote "consumer choice." It commissioned a study (funded in part by Enron) claiming that deregulation would reduce the average electricity bill by 43 percent. Politicians financed by business interests were eager to use think tank and front group data in their arguments for deregulation. After CSE's figure of 43 percent was cited by the Heritage Foundation, the Foundation's report was publicized by others as a confirmation of CSE's study. A press release from the House Commerce Committee claimed that "yet another academic study" had concluded "that giving consumers the freedom to choose their own electric utility will result in lower rates, improved service and better reliability." The Committee also cited the Brookings Institute report.

Politicians promoted the concept of consumer choice as a primary benefit of deregulation because they wanted wide voter support, which is why the actual legislation had names like the "Electric Consumers' Power to Choose Act." When the chair of the Commerce Committee, Tom Bliley, appeared at a press conference promoting the bill, he brought along representatives of what were supposed to be hundreds of consumer groups that wanted consumer choice. This was to avoid the impression that the bill was being introduced for the benefit of big business. The press conference announced a "media outreach" initiative telling consumers that deregulation could save up to 43% on their power bills.

"During the first six months of 1996 alone, energy interests spent at least $37 million to lobby Congress and federal agencies on deregulation," notes the Center for Responsive Politics. In addition, millions of dollars were spent on PR, including television advertising and polling aimed at persuading politicians and bureaucrats. The Edison Electric Institute (EEI) alone spent $11 million on lobbying in 1996. It hired 15 different firms to supplement its eight in-house lobbyists including the lobbying firms of three former Congressmen—two Republican and one Democrat—and a former lobbyist for the AFL-CIO.

WHAT'S GOOD FOR ENRON

Political campaign donations helped Enron play a major role in the deregulation campaign. In total, Enron donated just under $6 million to election campaigns beginning with the 1989-90 election cycle. It contributed to the campaigns of 71 current senators and 188 current members comprising 43 percent of Congress. It became the sixth highest contributor during the 1994 election cycle and by 2000 was the top contributor of all corporations in the Energy/Natural Resources sector. Enron also spent millions lobbying Congress, the White House and federal agencies. Like the EEI, Enron drew its lobbyists from both the Republican and Democrat parties. By the late 1990s it employed more than 150 people on state and federal government affairs in Washington, DC.

The battle for deregulation at the state level was equally well financed. Following their successes in Congress, the power companies spent large amounts of money on lobbying for deregulation at the state level. Enron's lobbyists sought out consumer groups, schools and other community groups that would benefit from cheaper electricity and tried to persuade them that deregulation would be good for them.

Enron CEO Ken Lay "is pulling out all stops to hasten deregulation," *Business Week* reported. "In April [1997], he launched a $25 million-a-year nationwide ad campaign and says he'll spend up to $200 million to argue the merits of free-market electricity. Behind the scenes, he has deployed legislative SWAT teams in front-line states such as New York, Massachusetts, and Texas.

In Texas, Enron spent $5.8 million between 1998 and 2000 on funding state politicians, hiring 83 lobbyists, advertising, and donations to Texan charities. It used its enormous political influence to overcome the resistance of the existing regulated utilities in Texas and persuade the public (which was already paying low prices for electricity) that they would be better off with deregulation.

In California, big electricity users formed Californians for Competitive Electricity to lobby for deregulation. It encompassed a range of other coalitions including the California League of Food Processors, the California Manufacturers Association, the California Large Energy Consumers Association—a coalition of cement companies, steel manufacturers and a gold mining company, and the California Independent Energy Producers Association. The California Manufacturers Association spent $1.7 million on lobbying in 1995 and 1996. The California Large Energy Consumers Association and Californians for Competitive Electricity also spent hundreds of thousands of dollars.

Existing regulated utilities also participated in the campaign for deregulation. The Center for Public Integrity estimates that three major Californian utilities spent $69 million between 1994 and 2000 on lobbying and political spending. In return for giving up their monopoly status, the regulated utilities negotiated a deal assuring them that $28.5 billion of ratepayer money would be used to pay off past debts from capital investment ('stranded costs') incurred by the construction of nuclear power plants.

The utilities were influential supporters of deregulation. For decades they had been giving campaign contributions and other donations to local politicians to ensure that the issue of public power was kept off the political agenda. They also donated money to a variety of community and civic groups and charities. According to the *San Francisco Bay Guardian,* the Pacific Gas & Electric Company (PG&E) "infused itself into San Francisco politics, society, culture and business—using its money to make connections that have insulated the company from criticism or political challenge."

"The politicians and the community groups are all neutralized by the money, and there's no countervailing force to fight the utility," observed consumer advocate Ralph Nader. PG&E insinuated itself into several influential business organizations and onto the boards of large companies in the area. Even after prices for electricity soared and service deteriorated, business groups refused to publicly support a shift to publicly-owned utilities. According to Nader, PG&E also spread large amounts of "money around to the big law firms, so there's no major firm that can take on PG&E. Then they enlist the political power of these law firms to press their agenda."

The revolving door between business and government also helped the deregulators line up bipartisan support. Although Republican Governor Pete Wilson led the push for deregulation. Democratic Senator Steve Peace was also a key advocate and received $277,000 in campaign contributions from the three large utilities. David

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Takashima, who had been Peace's chief of staff in the 1980s before working as a lobbyist for utility SoCalEd, returned to work for Peace and helped shape the deregulation bill. Takashima then left to be director of government affairs for PG&E.

In addition to campaign contributions, legislators also reaped personal benefits. Energy companies supported an organization called the California Foundation on the Environment and Economy (CFEE), which had representatives of the three main utilities on its board of directors. CFEE paid for various overseas trips for politicians and members of the Californian Public Utilities Commission (PUC) to "study deregulation."

The state government also spent tens of millions on an "education program" in preparation for deregulation. "Plug in, California" was an $89 million government advertising campaign aimed at householders and small businesses that promised degulation would mean cost savings, reliability and consumer rights. It included television, radio and newspaper ads as well as direct mail and trained speakers talking to 84 community groups.

Enron spent more than $345,000 lobbying for deregulation in California and another $438,155 on political contributions. It hired former legislators and Californian PUC officials to shape legislation that created the disastrous energy market which would later be referred to as "the Enron model."

Enron made huge amounts of money from Californian energy deregulation. A significant proportion of California's electricity and natural gas market operated through Enron's online auction. According to Public Citizen, the auction "allowed Enron's unregulated energy trading subsidiary to manipulate supply in such a way as to threaten millions of California households and businesses with power outages for the sole purpose of increasing the company's profits."

Even after the profiteering of Enron and other electricity companies got out of hand, the spin doctors worked to divert the blame from deregulation. Even as the utilities threatened bankruptcy and ongoing blackouts unless the state government bailed them out, the major media outlets in California and throughout the world depicted the problem as a shortage of energy itself. Hundreds of articles were publishinged insisting that the crisis stemmed from a booming economy and industrial growth, coupled with unusually hot, dry weather which caused energy demand to surge.

California utilities, claiming bankruptcy as a result of the price manipulation by unregulated power companies, used their information channels to ensure that the crisis was not depicted as a failure of deregulation. PG&E inserted a letter into 4.6 million ratepayers' bills saying that "the state's booming economy can be a mixed blessing," referring to rapidly growing population and the "multiple electronic devices" of the Internet age: "New energy supplies have not kept pace with that growth… Factors like that lead to shortages and shortages lead to higher prices."

These arguments continued to circulate in the media even though they were contradicted by independent studies from groups like the Californian Independent System Operator (CA-ISO), a nonprofit group that manages 75 percent of the state's power grid. Born of deregulation in 1998 with the blessing of utility companies, politicians and regulators, CA-ISO compiled data showing that growth in demand was less dramatic than portrayed and not a primary cause of the crisis.

FINGERING ENVIRONMENTALISTS

Environmentalists were also blamed for the state's energy problems. Ed Gillespie, a former George W. Bush campaign strategist who now chairs the Republican National Committee, worked for Enron while concurrently heading the 21st Century Energy Project, a coalition of conservative groups which claimed that environmentalists had created the problems by impeding the construction of new electricity generation.

Mainstream media bought into the propaganda and helped to spread it. Many media reports in fact stated that the problem was too *little* deregulation. "Demand for electricity outpaced older power plants," stated the *New York Times,* "while a botched experiment with partial price deregulation and longstanding environmental opposition combined to create disincentives to build new power plants or create cheaper wholesale prices through competition."

The federal government used the Californian energy crisis to call for easing California's environmental rules, particularly air pollution regulations. (Subsequently California experienced its worst air pollution for several years.) The energy industry used the crisis to justify a general repeal of pollution regulations and withdrawal from the Kyoto agreement on global warming. In *Newsweek*, Robert Samuelson argued that you couldn't curb pollution and global warming if you wanted cheap power.

The energy industry also used the pretext of an energy shortfall to call for more nuclear energy and oil drilling in protected places such as Arctic National Wildlife Refuge—even though the utilities had admitted the uncompetitiveness of nuclear energy, which was the reason behind the state's rate freeze; even though most Californian electrical generators used natural gas, not oil; even though the blackouts were not caused by a shortage of gas or oil; and even though curtailing of environmentally-friendly generation and conservation had contributed to the lack of surplus electricity in the first place.

By 2001 many Californians had swallowed the propaganda, and a majority supported nuclear power plants for the first time since the Three Mile Island accident in 1979. The National Energy Policy released in May 2001 recommended building "between 1,300 and 1,900 new electric plants" with an emphasis on natural gas and nuclear generation. It also promoted "enhanced oil and gas recovery," which included drilling for oil in ANWR, as a way of dealing with the 'crisis'. It blamed electricity shortages for rising electricity costs. The same spin is being put on the August blackout in the northeast of the United States and Canada. The disaster is again being blamed on increasing electricity demand, environmentalists who supposedly prevented the transmission system from being upgraded and expanded, and insufficient deregulation.

The real problem, however, is that deregulation has enabled producers to evade responsibility for investment that would prevent such failures. The new unregulated market is more interested in profitability than providing a reliable service. In the case of electricity transmission the link between profitability and reliable service provision is so tenuous that the deregulation process has been more of an act of faith than one grounded in common sense. That faith, in turn, has been purposely fostered by those with a vested interest in deregulation. ■

Sharon Beder is author of *Power Play: The Fight for Control of the World's Electricity,* The New Press, NY, 2003.

How Environmentalists Sold Out to Help Enron

by Sharon Beder

A key component of the PR campaign by private power companies consisted of efforts to target key environmentalists, enrolling them to their cause while attacking environmentalists who were not so easily persuaded.

During the 1970s, environmentalists criticized the expansionist mindset of the power companies and the rating structure which rewarded high electricity consumption and provided no incentives for conservation and efficiency. In the late 1980s, however, "sustainable development" became the catchphrase and some mainstream environmental groups were swayed by business proffers of "win-win" situations that they promised would enable companies to make profits while supposedly helping the environment.

In 1989, Ralph Cavanagh, a senior lawyer at the Natural Resources Defense Council (NRDC), set up the "California Collaborative Process." The *San Francisco Bay Guardian* called it a process whereby "key environmentalists could meet behind closed doors with top executives from private utilities to smooth over their differences and hammer out energy-efficiency programs."

Thanks to the Collaborative Process, PG&E was able to greenwash its image by running ratepayer-funded television advertisements with titles such as "Conversations with the Earth" and "Smarter Energy for a Better World." At the same time NRDC defended PG&E's commitment to environmental protection and supported PG&E causes such as higher electricity rates.

When President Bush awarded PG&E the Environmental and Conservation Challenge Award in 1991, Cavanagh was featured in full-page newspaper ads praising PG&E's environmental efforts. Cavanagh also produced videos on behalf of PG&E, and collaborated with PG&E personnel to coauthor an article on their conservation efforts. Cavanagh was appointed to a steering committee with Amory Lovins and others for a PG&E research project, and he generally received favorable media coverage for his "positive" and cooperative stance.

NRDC had been founded in 1970 by two Wall Street lawyers to fight legal cases to protect the environment. It was funded by the Ford Foundation on the condition that it accepted a conservative board of trustees that included Laurence Rockefeller and other wealthy conservatives. Additionally, Ford stipulated that its legal activities had to be cleared by a group of past presidents of the American Bar Association. One of the two founding lawyers, Stephen Duggan, was a partner in the New York law firm, Simpson, Thatcher & Bartlett, which included utilities as a major part of its clientele. At the behest of the Ford Foundation, the NRDC also incorporated a similar public interest law group made up of Yale Law School graduates, which included John Bryson, who later became head of the Californian Public Utilities Commission (CPUC) and then chief executive of Southern California Edison Company (SoCalEd). Cavanagh was reportedly a "disciple of Bryson."

During the 1970s and 80s, the NRDC made a name for itself by fighting legal battles to enforce clean air and water legislation as well as cases to do with pesticides, arms testing and a myriad of other issues. When it came to energy issues, however, NRDC moved from being a confrontational outsider to a significant player with a seat at the negotiation table, with the help of the San-Francisco-based Energy Foundation.

NRDC received $3.1 million from the Energy Foundation between 1991 and 1997 and $1.13 million from the Pew Foundation between 1993 and 1995. Both foundations were set up with corporate money made in oil and other industries. These foundations dominated the funding for activist groups, ensuring that their lobbying on energy issues took a pro-business, pro-deregulation and pro-private utility stance. According to Ralph Nader, "the network of funders has become a network of enforcers. And these guys are all on a first-name basis with these corporate [utility] executives." The Energy Foundation ran conferences where environmentalists and consumer activists could hob nob with utility executives and get on their wavelength.

Despite all this friendly hob-nobbing, Californian private utilities cut their budgets for achieving energy efficiency between 1994 and 1998: PG&E by 38 percent, San Diego Gas & Electric by 58 percent and SoCalEd by 23 percent.

NRDC played a key role in gaining the support of environmental groups for deregulation in California during the 1990s. Many environmentalists were persuaded that deregulation would remove incentives from the regulated monopolies to increase electricity sales and build large new power plants. They also believed that the unregulated "free market" would provide more opportunites for companies offering alternative power generation from renewable sources.

To shore up environmentalist support for the deregulation law, the California legislature included a small budget for energy efficiency and the development of electricity generation from renewable resources. Harvey Wasserman, author of *The Last Energy War,* claims that the pro-environmental measures in the bill were a "few eco-scraps" that enabled Cavanagh to sell the deregulation bill to the media and the mainstream environmental community. Cavanagh was quoted by the media as the voice of environmentalists on the issue, preventing others with more critical stances from being heard.

According to the *American Prospect,* SoCalEd CEO John Bryson got NRDC support for deregulation by promising a commitment to various conservation programs but he later got the Federal Energy Regulatory Commission (FERC) "to overturn the conservation mandate." Far from benefitting the environment, deregulation in California crippled the nascent solar and energy efficiency industries, because of the uncertain investment environment created and the surcharges necessary to bail out the utilities.

"YOU CAN TRUST ENRON"

Environmental groups also provided reputational support to Enron, which was hailed as an ethical company, won environmental awards and was listed prominently on social responsibility investment indexes even as it fought pollution restrictions in Texas, enabling its methanol facility to continue emitting more than 3,000 tons of air pollution each year while its pipelines in the developing world caused major environmental damage.

Enron won environmentalist praise because it lobbied for environmental regulations that were in its own interest. Its stand on global warming, for example, had more to do with the anticipated profit opportunities from greenhouse gas emissions trading than from a desire to save the planet. One company memo stated that the Kyoto treaty "would do more to promote Enron's business than will almost any other regulatory initiative outside of restructuring the energy and natural-gas industries in Europe and the United States."

Another Enron memo stated: "Enron now has excellent credentials with many 'green' interests including Greenpeace, World Wildlife Fund, Natural Resources Defense Council [NRDC], German Watch." NRDC's Cavanagh was particularly impressed with [Ken] Lay's opposition to some anti-environmental measures in Congress. "He is part of the reason why the bad guys ultimately failed at most of what they attempted," Cavanaugh stated. "On environmental stewardship, our experience is that you can trust Enron."

Enron used donations and its relationship with the NRDC to win approval for its purchase of the largest electric utility in Oregon, Portland General Electric (PGE). The purchase faced considerable opposition within the state. Even Oregon's Public Utility Commission opposed the takeover, warning that prices would rise, workers would lose their jobs, and the environment would not be protected. Others went further, arguing that Enron planned to sell off PGE's assets and sell its cheap hydropower to California for large profits.

NRDC's Cavanagh played a key role in pacifying some of this opposition. He negotiated a memo of understanding between Enron and Oregon environmental groups involving a transfer of $500,000 of financial support from Enron to the groups. Cavanagh repeatedly declared that Enron was a socially responsible company that could be trusted. The takeover went ahead. And sure enough, in the following two years rates went up, assets were sold and PGE's electricity made its way to California. Enron then sold the utility. ■

Utility Company Propaganda: The Early Years

by Sharon Beder

During the early twentieth century, private electricity companies and their trade associations developed the arsenal of public relations techniques that enabled them to survive and grow through the 20th century, with very little government interference, despite growing evidence of their extortionist practices and despite popular movements for public control and ownership.

The utilities ran a massive nation-wide propaganda campaign to persuade the public that government ownership of electricity utilities threatened the American Way of Life. The campaign utilized smear tactics and appealed to patriotic feeling rather than reason. Utility representatives were urged "not to argue with the advocates of public ownership but to arouse prejudice against them by pinning on them the bolshevik idea."

A federal inquiry into the electricity industry ran from 1928 to 1934. It concluded that "no campaign approaching it in magnitude has ever been conducted except possibly by governments in war time." The activities of the various power companies and utilities were coordinated by the National Electric Light Association (NELA). It had an annual budget of a million dollars and additional special funds for special purposes such as its $25-30 million per year advertising budget.

Public relations material was sent to every conceivable outlet. Employees were trained in public speaking and public relations and gave thousands of talks to business, schools and other groups, reaching millions of people each year. The campaign was careful in its use of language. Public ownership became "political ownership" and private utilities became "public utilities" or "public service companies".

Female employees were also used by the utilities to influence the community. The women were trained to promote the utilities with "their friends and neighbours, their associates in business and professional women's organizations, social clubs and church societies." They were taught how to casually bring the conversation around to the issue of utility ownership at social gatherings, so as to give the utility point of view. This view was not to be attributed to the utility but rather to some other respected community figure such as "my banker" or "my doctor." One company entertained 10,000 women in just two days at tea parties organized for this purpose.

NELA also utilized the now common technique of getting other third parties to convey their message so that it would not appear to be self-interested. Third parties employed for this purpose included newspapers, schools, clubs, insurance companies, churches, government officials, political leaders, bankers and industrialists. NELA and individual companies organized and paid for outings such as deep sea fishing, theatre parties, baseball games, and duck shooting parties for influential politicians, educators, business people and newspaper editors. Through donations and other forms of patronage, it persuaded a number of seemingly independent organizations to promote the utility viewpoint.

The utility information committees spent an estimated $30 million annually in advertising, which served as a lever to secure editorial loyalty in reporting on utility matters. They consciously used their huge budget to reward newspapers that gave them good coverage and withheld advertising from those that were critical.

Media support was also gained in various other ways. In the mid-1920s the Hearst papers ceased their populist front-page stories supporting public ownership of electricity systems after Hearst received a loan from Herbert Fleishhacker, president of the London and Paris National Bank in San Francisco and a leading advocate of privatization of water and electricity. Hearst instructed his employees to maintain "pleasant relations" with Fleishhacker and not criticise his activities.

The utilities even tried to simply buy many of the most influential newspapers around the nation so as to control press coverage. They tried their hand at radio broadcasting and made good use of press agencies that sent news items, editorials and features to newspapers around the country. Often the information committee would draft an opinion piece and then persuade a prominent person—a governor, judge or attorney—to sign it as author. This ensured that newspapers printed them and provided third party endorsement for utility views.

Local managers were expected "to cultivate personal acquaintance with the school superintendents, teachers, to arrange for [private utility] lectures, offering prizes, making use of school papers." Universities were offered financial assistance to gain their cooperation in ensuring courses were conducive to private power company interests. NELA also encouraged and subsidized courses on utilities. This was often not done directly but by using people who appeared to be independent.

The utilities influenced many organizations by providing their most influential members, those "with standing and reputation as distinguished members commanding the confidence of their fellows," with expense accounts in return for getting their organization to endorse the utility viewpoint. A government committee reported in 1923: "Another practice…was that of employing as campaign workers, persons prominent in commercial bodies, farm organizations, labor unions, social literary, and civic clubs, without these hired representatives disclosing their employment." ■

Cancer PR Firms Still Addicted to Tobacco

by Paul Goldberg, editor, The Cancer Letter

The American Cancer Society (ACS) had a problem: it wasn't a major player in cancer politics in Washington.

To move to center stage, the Atlanta-based charity turned to two PR firms, Shandwick International and, later, Edelman. To develop an overarching cancer agenda, Shandwick and ACS constructed a political structure called the National Dialogue on Cancer, and convinced former President George Bush and the California Democratic Senator Dianne Feinstein to lead it.

The Dialogue is a dream opportunity for a PR firm to tap into a pack of multi-billion-dollar industries, including health care, pharmaceuticals and food. Unfortunately, the firms involved have been unable to steer away from another multi-billion-dollar industry: tobacco.

Four years ago, soon after Shandwick and ACS set up the Dialogue, *The Cancer Letter*, a weekly newsletter that covers the politics of cancer, reported that the firm also represented R.J. Reynolds Tobacco Holdings. The embarrassment of that disclosure in January 2000, caused ACS to fire Shandwick on the spot.

The Dialogue, however, continues. Meeting behind closed doors at sundry Washington hotels, at the George Bush Presidential Library and Museum, and at the Bush family compound in Kennebunkport, the Dialogue has been planning fundamental legislative and regulatory changes in cancer research and cancer care.

After George W. Bush became President, he appointed urologist Andrew von Eschenbach, a family friend and one of the Dialogue founders, to lead the National Cancer Institute. The Dialogue was becoming the ideal place to meet important players and influence policy. Money poured in. The Dialogue has lined up about $21 million in pledges and contributions, enough to consider hiring another big-time PR firm.

After a search last fall, the Dialogue chose Edelman, which, alas, was known for its 50-year history of representing tobacco clients worldwide, and—on one embarrassing occasion also uncovered by *The Cancer Letter*—ACS. Was Edelman prepared to make itself tobacco-free to get the Dialogue business?

It was. In October 2002, Edelman top executives Richard Edelman and Daniel Edelman signed a pledge that their companies would no longer serve tobacco clients. The letter pledged that Edelman and StrategyOne, two firms owned by parent company Daniel J. Edelman Inc., would not work with tobacco companies on any business, including marketing, corporate reputation, social responsibility, and research.

Until that dramatic pledge, Edelman sought to promote both tobacco and health, serving pharmaceutical companies and advocacy groups. The firm's health image was enhanced in part by Richard Edelman's position on the board of the CDC Foundation, a non-profit group that develops partnerships between Centers for Disease Control and Prevention and others entities. If the letter from the Edelmans was sincere, the PR firm would serve two masters no longer.

Peggy Conlon, a member of the Dialogue board and head of its communications committee, described the Edelman pledge as a dramatic conversion. "I am impressed by people who are willing to set aside the profit motive," said Conlon, head of the committee that selected Edelman and president and CEO of the Ad Council, a New York-based non-profit group that produces public service announcements. "There is a culture there that wants to do everything they can to improve the health of the country."

Yet, the pledge notwithstanding, the PR firm didn't sever its ties to tobacco. *The Cancer Letter* reported that eight months later, the company's office in Malaysia was helping British American Tobacco promote "social reporting," a political process that critics say is designed to preempt global tobacco control. Also, an Edelman affiliate continued to represent BAT in Russia, and a press release from an affiliate in Poland claimed completion of award-winning projects for Philip Morris Polska and that country's tobacco industry association.

These revelations notwithstanding, Edelman has managed to maintain the Dialogue account, positioning the firm squarely in the center of cancer policy. Its employees work alongside NCI officials, cancer researchers, and cancer professional societies. In July 2003, for example, the Dialogue announced a plan to create a tumor bank for genomic research. The day before the announcement at the annual meeting of the American Association for Cancer Research, an NCI staffer sent this email to outside experts who were working on the Dialogue project: "If you are agreeable, and there is sufficient press interest, we would like you to serve as spokespeople for the project. Jennifer Mallory from Edelman (cced above) will be organizing the press interviews over the weekend at AACR. Typically, such interviews are conducted over the phone, and take approximately 20-30 minutes to complete. If you are willing to serve as a spokesperson for the project, and have not done so already, could you please forward Jennifer and me your cell phone number? Jennifer will contact you over the weekend to provide you with more information about how the interview process will operate."

The press release distributed at the AACR annual meeting cites Mallory as the contact, without mentioning her affiliation with Edelman.

EDELMAN'S HISTORY OF TOBACCO FLACKERY

Edelman's tobacco ties were an open secret. One connection was brought to the Dialogue's attention last fall, when Conlon's Dialogue communications group recommended Edelman for the job.

At that time, an Edelman-owned company in the U.S. worked for Altria Group Inc., the parent company of Kraft Foods, Philip Morris International, Philip Morris USA, and Philip Morris Capital Corp. It was this revelation that prompted the Edelmans to make their no-tobacco promise to the Dialogue. "They came back and said, 'We'll resign that business, and you have our full assurances that if you give us the business, we will take no tobacco assignments,'" Conlon said.

Four years ago, the firm was open about representing tobacco outside the US and covert about representing ACS. A week after reporting that Shandwick had designed and launched the Dialogue while also representing R.J.R., *The Cancer Letter* reported that Edelman was similarly serving two incompatible clients: the cancer society and Brown and Williamson Tobacco Corp., a BAT subsidiary.

For ACS, Edelman ran a voter education campaign, placing advertisements in conjunction with the Iowa caucus and the New Hampshire primary. For Brown and Williamson, the PR firm operated a 45-foot-long "mobile media coach," a press center for the Indianapolis-based Team KOOL Green, which competes on the Championship Auto Racing Teams circuit.

At the time, Edelman officials said the company was not "engaged in public affairs on behalf of the tobacco industry in the U.S," adding that the Team KOOL Green relationship involved auto racing and was made by a Canadian office (*The Cancer Letter*, Jan. 21, 2000).

Still, ACS declined to renew Edelman's contract, and the firm has done no work for the cancer society since, said Greg Donaldson, the society spokesman. Though launched by ACS, the Dialogue is a separate not-for-profit organization, which appears to have a greater tolerance of conflicts.

SOCIAL REPORTING: THE OTHER DIALOGUE

Chalk it up to irony, but Edelman's Malaysian office was carrying out a campaign that was initiated primarily by Shandwick.

On June 13, Edelman issued a press release about scholarships for children of tobacco farmers and curers on behalf of British American Tobacco's Malaysian affiliate, BAT Malaysia. "We work with BAT off and on . . . specifically on the community relations and on the social reporting front," said Andy See, an Edelman employee who was listed as one of the contacts on the press release.

"Social reporting" is a curious creation of the modern public relations industry, a purportedly open "dialogue" with "stakeholders." According to See, "It's about being responsive to the needs of the stakeholders." Critics, however, describe this process as an effort by BAT to thwart the World Health Organization's Framework Convention on Tobacco Control.

The BAT strategy involves convincing its opponents and sundry others "to join it in dialogue," wrote Bob Burton and Andy Rowell in the Fourth Quarter 2002 issue of *PR Watch*. A respected political or cultural figure in every BAT territory is found to lead the dialogue, which culminates in production of yearly "social reports."

"BAT coaxed journalists, health advocates, tobacco control activists and government officials to participate in meetings whose purported mission was to advise the company on how to become a responsible corporate citizen," Burton and Rowell wrote.

The word "dialogue" figures prominently in the language of social reporting. "At British American Tobacco, we acknowledge that our products are risky, and we recognize the significant responsibilities of our business," said BAT Malaysia in its statement on social responsibility. "We also believe that a company like ours, with a century's experience of operating in diverse global cultures, which knows our products and its science, supports sensible regulation, and has a long track record of cooperation with governments worldwide, can make a real contribution to progress in reducing the health impact of tobacco," the statement reads. "Our goal is to seek solutions through dialogue with a wide range of our stakeholders. We see this as a better alternative to conflicts and stalemates which can often characterize debates on tobacco issues."

A TALE OF TWO DIALOGUES

Internal tobacco industry documents released earlier this year show that at the time Shandwick was designing the Dialogue for ACS, it was also working on the Framework Convention for BAT and designing its social reporting process.

The documents, obtained from the Minnesota Tobacco Document Depository, which was established as a result of that state's lawsuit against tobacco companies, include a copy of Shandwick's February 2000 presentation to BAT. One of the slides in the presentation describes its strategy to "rebuild reputation and restock the 'reputation reservoir'" through "a bold stroke to capture people's attention, get taken seriously, win a part in the debate."

By the time Shandwick prepared the presentation to BAT, it had spent years covertly representing tobacco companies in controlling the spin from litigation, newly released documents show.

After ACS fired Shandwick, the cancer dialogue endured, evolving on a separate track from the BAT dialogues, but the two dialogues are strikingly similar. Like the BAT dialogues, the cancer dialogue is organized around prominent figures: Bush and Feinstein. The groups seek to bring their opponents to the table, in effect surrendering to seemingly democratic rule by consensus.

The Dialogue's first meeting was held at the Bush library in November 1998. Soon after the cancer Dialogue was launched, Shandwick officials announced the creation of the Cancer Legislation Advisory Committee, a spin-off group that was given the task of designing a new version of the National Cancer Act.

The creation of the committee and appointment of its members wasn't an action of the Dialogue. It was the action of Shandwick and its client, ACS. The committee has produced the framework for a bill, which Feinstein has introduced. Now, the Dialogue is proposing programs and policies for NCI and other government agencies, applauding von Eschenbach's pledge to "end suffering and death due to cancer" in the next 12 years—and collecting money.

"NATURALLY-OCCURRING" NICOTINE

Meanwhile, the BAT dialogues, too, were delivering their intended message.

As Burton and Rowell first reported in *PR Watch,* BAT's first Malaysian social report described nicotine as "a naturally-occurring substance in the tobacco plant which is thought to have a mild stimulant effect."

The report also noted that tar produced by burning tobacco "is thought to be related to some of the health risks associated with smoking."

In Malaysia, the social reporting meetings were organized internally by BAT, and Edelman's role was to "conduct private briefings for selected groups of people, and press briefings," Edelman employee See told *The Cancer Letter*. Also, he said, Edelman wrote the press releases that accompany the BAT reports.

Meanwhile, in Moscow, Imageland Public Relations, an Edelman affiliate, is working on brand development of BAT cigarettes. "We are working on a specific brand," Olga Naumova, an agency employee, said to *The Cancer Letter*. The company is preparing to re-launch Yava Zolotaya, Yava Gold, an updated version of one of the Soviet-era cigarettes. "It's a local product for the Russian market," Naumova said.

Imageland has performed other tasks for BAT Russia. These included corporate relations projects and public relations for three BAT-sponsored exhibits: women artists in the Russian avant-guarde art, the modernist art of Kazimir Malevich, and the works of his followers.

According to an Imageland press release about the women of the avant-guarde exhibit, "the Russian public was able to see the paintings of their famous compatriots in large part because of sponsorship by British American Tobacco Russia, which is continuing the glorious Russian tradition of sponsorship of the arts."

Imageland became an exclusive official representative of Edelman four years ago. According to a press release, it has "access to huge information resources and diverse experience of the global network," and its employees are able "to take internship with many U.S. and European offices of Edelman, as well as leverage their expertise during the annual educational programs by Edelman University Summer School." The company's Web site displays the Edelman affiliate logo.

Another Edelman affiliate, Business Communications Associates S.A. of Warsaw, stated in a May 12 press release that it has completed award-winning projects for Philip Morris Polska and the Polish National Association of Tobacco Industry.

Several Dialogue members said they are watching the Edelman controversy closely.

"We engaged in a partnership to provide funds to the National Dialogue on Cancer, because we want them to move this issue of tobacco much higher up on their agenda, because it is the cause of one-third of all cancer," said Cheryl Healton, president and CEO of the American Legacy Foundation, and a Dialogue participant.

The foundation, established with proceeds from the Master Settlement Agreement between state attorneys general and tobacco companies, committed $3 million to the Dialogue over the next three years. "The foundation works very hard to limit to the maximum extent possible the placement of our dollars with tobacco dollars," Healton told *The Cancer Letter*. "To that end, we received two assurances from the National Dialogue on Cancer. The first was that the National Dialogue Foundation, once it accepted our money, would accept no money from tobacco companies or their subsidiaries. And second, that the PR firm in service to the foundation had relinquished all ties to tobacco industry clients. It is on that basis that we moved forward with them. Our money cannot be commingled with tobacco money."

After a reporter asked about these projects, Edelman vice chairman Leslie Dach said the Malaysian projects would be terminated.

"I instructed our folks there to resign this project relationship," he said, calling back after taking a few minutes to investigate. "Our policy is that we don't do work for tobacco companies through our companies anywhere in the world, and when we find out that that policy hasn't been followed, we move quickly to correct it."

The following day, Richard Edelman sent a letter to the Dialogue's Peggy Conlon. "[The] activity by our Malaysian office violates our clear firm-wide policy," Edelman wrote in the letter dated July 23. "I was unaware of this activity in Malaysia, and we have instructed the Malaysian and Asian operations to resign the client. We take our commitments seriously. This should not have occurred, and we are issuing a firm-wide reminder of our policy. In addition, we will be taking all fees from this activity and donating them to charity."

However, nothing can be done about the Warsaw and Moscow affiliates, Dach told *The Cancer Letter*. "They are independently governed companies," he said. "We don't control their policies. They are affiliate companies, which means that we at times use them in their countries to help us implement projects." Edelman's Web site lists 39 offices and 37 affiliates around the world.

Conlon was sympathetic. "If anything has happened in Malaysia or some place on the other side of the world, I am confident that they didn't know about it," she said. Further, Conlon accepted Edelman's explanation that the work of affiliates is beyond the company's control. "If you don't own the company, how can you force them to resign business?" she said.

Stanton Glantz, an antismoking activist, professor of medicine, and director of the Center for Tobacco Control Research and Education at the University of California at San Francisco, said Edelman's 50-year history of service to tobacco companies makes it a bad hire for managing public relations of an organization promoting tobacco control.

"I think it just shows that they are not serious," Glantz said of the Dialogue. "The great care that smart people take to avoid such situations isn't just an ethical statement. It's also a very practical programmatic statement. You don't want [information] leaking out. It's like the CIA hiring the KGB to do their intelligence work for them, or Bush hiring Al Qaeda to do PR, because they have good connections to Al-Jazeera. It's just amazing, absolutely amazing to me."

CENTRALIZED GLOBAL BILLING

A former Edelman official familiar with accounting practices said that several years ago, the company set up a central billing system, which required that all offices around the world create billing codes for all their accounts. "Edelman utilizes a centralized global billing system managed from their Chicago office by their Chief Financial Officer," the executive said. "To suggest that the leadership of the firm, which review the financials on a monthly basis, doesn't understand what BAT stands for is ludicrous."

Sources said Edelman has a variety of relationships with affiliates, ranging from equity partnerships to commercial relationships.

"Edelman suggests that they are unwilling to attempt to limit the activities of affiliates on behalf of tobacco companies, which can be simply done," said a former executive. "Edelman should refuse to work with any firm not prepared to take a similar anti-tobacco stance. The global commitment Edelman made to change 50 years of pro-tobacco advocacy was obviously not taken seriously enough to drive accountability through the firm."

Many public relations firms create multi-track systems, where purportedly separate units accept tobacco business, allowing the main corporate entity to maintain a no-tobacco appearance.

Dach said he didn't know how the Malaysian tobacco account slipped through the system. "It's not clear to me," he said. "And that's, in a sense, not important to us insofar that it shouldn't have happened, and it's very clear that it will not happen."

The company will not use its affiliates to hide tobacco relationships, Dach said. "We have a very clear policy that no Daniel J. Edelman company will work with tobacco companies on any business. We cannot control what our affiliates do. We derive no financial benefit from their clients, and our people will not work, and do not work, on these matters under these policies.

"If an affiliate attempts to refer work related to a tobacco account to an Edelman office, the company will decline," Dach said. "If they asked us to work on this, we'd say 'No.'"

DEFINING A TOBACCO COMPANY

The relationship between the cancer Dialogue and Edelman raises the question of what constitutes a tobacco company.

According to Dach, Altria, the parent company of Philip Morris and Kraft, is tobacco. "We were doing some research work, not for the tobacco company, but at the Altria level—for Altria—and we terminated that," Dach said.

However, the public relations firm continues to represent Kraft, a separately-traded company owned by Altria. "Kraft is a food company, obviously," said Dach said. "I don't comment on my clients' ownership, but Kraft is obviously a food company."

In the recent past, Edelman handled press relations for the Formula One Lucky Strikes Honda team, and it continues to represent teams on the Winston cup circuit of the National Association for Stock Car Auto Racing. The firm's top entertainment official, Peter Land, lists NASCAR as a client. Land, executive vice president and general manager for sports and entertainment marketing, didn't return calls from a reporter.

Winston Cup, scheduled to be renamed Nextel Cup during the 2004 season, is watched by 75 million people, an audience that makes it second only to the National Football League. According to NASCAR, its fans are three times more likely to buy a product marketed by a sponsor than by a non-sponsor.

Since obesity may be a contributing factor to cancer, Edelman's representation of food companies may be problematic, too.

The PR firm's client roster includes the American Council for Fitness and Nutrition, a coalition that includes Kraft and other food and beverage makers who united late last year to counter the federal government's campaign against obesity. In addition to facing the prospect of regulation, the industry is becoming a target of lawsuits similar to those that have set back the U.S. tobacco industry.

Through ACFN, food companies deliver a message that echoes the "personal responsibility" campaigns of the tobacco firms. Instead of saying, "Eat less," the industry suggests that Americans take responsibility for their health, learn about nutrition, exercise, and keep their children trim.

"Staying healthy, active and well nourished is a lifestyle decision," the industry coalition states on its Web site (www.acfn.org). "Though it seems complex, the equation is simple—we all need to incorporate enough activity into our daily routine to utilize the calories we consume."

The very people who inflate the size of food portions are claiming to promote moderation, said Marion Nestle, chairman of the New York University Department of Nutrition, Food Studies and Public Health and author of *Food Politics; How the Food Industry Influences Nutrition and Health*, a recently published book about the causes of the obesity epidemic.

"On the one hand, they are selling food in larger portions, and on the other hand, they are trying to do something about it," Nestle said to *The Cancer Letter*. "Well, I don't know how that meshes. Exercise is wonderful; I am totally for it. It's just that it's not going to solve the obesity epidemic alone. It's not possible to lose weight if you don't eat less."

NCI Director von Eschenbach speaks often about the relationship between diet and cancer, suggesting it as an area of collaboration between the Institute and FDA.

"With regard to diet, there are extraordinary needs and opportunities," he said at the annual meeting of the American Society for Clinical Oncology last May. "Diet is an issue that for us—even from HHS—has become a major strategic initiative, because of the epidemic of obesity. . . .

"As we look at diet, and as we look at the need to further develop the science of understanding dietary factors and micronutrients, we also need to be working collaboratively and cooperatively with FDA in terms of how to validate the impact in a way that they can make recommendations with regard to dietary guidelines," von Eschenbach said (*The Cancer Letter*, June 6).

Edelman's Dach said his company is able to represent the Dialogue and ACFN. "I don't think there is any sense that representation of food companies and representation of those who care about improving the lives of those with cancer is a conflict," he said.

The food companies aren't a conflict, Conlon agreed. "In my mind, that whole initiative, as I understand it, is to promote healthy lifestyles. Gosh, I sure hope that the food industry isn't the new enemy, because I love eating."

NCI Director Von Eschenbach, who is also the vice-chairman of the Dialogue board, was unavailable for comment. "Why are you assuming that he would have the ultimate decision on the PR firm that they hire?" said Dorie Hightower, an NCI press officer, challenging a reporter.

Conlon declined to discuss the monetary value of the Dialogue's contract with Edelman.

"The amount of services they are providing for NDC is nowhere near what we would pay if we were paying as a for-profit client," she said. "They definitely have given us pro bono consideration, and they are going well beyond what anyone would expect them to do."

The Dialogue's newsletter reported that, "in early 2004, a [Dialogue-sponsored] public service advertising campaign will commence."

The message of that campaign is yet to be determined, Conlon said. "We haven't even framed what the specific message would be, and that would be for the board to decide at a later date," she said. "It could be prevention. It could be detection. That's really something that will serve up some topics for discussion and debate."

Whatever the message, Edelman stands poised to deliver it to the public. ■

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