

The Cleantech Crash & Politicians Insider Trading

Despite billions invested by the U.S. government in so-called “Cleantech” energy, Washington and Silicon Valley have little to show for it

About a decade ago, the smart people who funded the Internet turned their attention to the energy sector, rallying tech engineers to invent ways to get us off fossil fuels, devise powerful solar panels, clean cars, and futuristic batteries. The idea got a catchy name: “Cleantech.”

Silicon Valley got Washington excited about it. President Bush was an early supporter, but the federal purse strings truly loosened under President Obama. Hoping to create innovation and jobs, he committed north of a \$100 billion in loans, grants and tax breaks to Cleantech. But instead of breakthroughs, the sector suffered a string of expensive tax-funded flops. Suddenly Cleantech was a dirty word.

Investor Vinod Khosla, known as the father of the Cleantech revolution, has poured over a billion dollars of his own money into some 50 energy startups. He took us to one in Columbus, Miss. KiOR is a biofuel company that’s replacing oil drilling with oil making.

Vinod Khosla: Nature takes a million years to produce our crude oil. KiOR can produce it in seconds.

The company took over this old paper mill, where logs are picked up by a giant claw, dropped into a shredder and pulverized into woodchips.



Giant

pile of woodchips at KiOR CBS News Vinod Khosla: And we take that, add this magic catalyst-

Lesley Stahl: This is the secret sauce?

Vinod Khosla: Yeah.

Lesley Stahl: You throw that on top of the chips?

Vinod Khosla: And then, out comes something that looks that looks just like crude oil.

The crude is created through a thermo-chemical reaction in seconds. And by using wood instead of corn, this biofuel doesn't raise food prices which was a concern with ethanol.

Vinod Khosla: It smells like crude, it works like crude except it's 100 percent renewable.

Then it's distilled onsite into...

Lesley Stahl: Clean gasoline?

Vinod Khosla: Clean green gasoline.

Lesley Stahl: This goes right into the tank, right? You don't have to build a new infrastructure?

Vinod Khosla: Absolutely.

Lesley Stahl: You make it sound almost – sorry – too good to be true. There must be a downside.

Vinod Khosla: There is no downside.



Well there is: first off, his clean green gasoline costs much more than what you pay at the pump. And despite hundreds of millions of dollars invested – including 165 million of Khosla's own money, KiOR is still in the red, and the manufacturing is so complex, it is riddled with delays.

Lesley Stahl: All kinds of glitches.

Vinod Khosla: That always happens but part of anything, whether you're building a refinery or a solar facility or a computer factory, you get exactly the same unanticipated glitches.

He's downplaying the glitches. But the venture capital model is that for every 10 startups, nine go under. And he says he expects at least half of his energy companies will fail. But Khosla can take that gamble. He earned billions with two giant Silicon Valley winners: Sun Microsystems and Juniper Networks. It was successes like these that gave Khosla and the other Silicon Valley moneymen the moxie to jump into energy.

Steven Koonin: I think they saw it as a technical opportunity, thinking that the people in energy are just troglodytes and they don't understand what they're doing.

Former Energy Department under secretary, Physicist Steven Koonin, says there was a lot of arrogance. He thought the venture capitalists and Internet geniuses were underestimating the challenges of the energy sector.

Lesley Stahl: Like what?

Steven Koonin: Managing risks that have to do with market, with supply, with operation, with regulation. And in the end, hoping that you get returns on a 20 or 30-year time scale.

Lesley Stahl: Yeah, but they must've known they weren't going to get a payoff for 20 or 30 years.

Steven Koonin: I don't think they understood that. The average venture capitalist likes to get in and out in about 3 to 5 years.

While other venture capitalists have withdrawn from the energy sector, Khosla is staying in, but with a lot of help from taxpayers. Over the years, the federal government has committed north of a hundred million dollars to his various Cleantech ventures and several states have pitched in hundreds of millions as well. But his critics say he's in over his head.

Robert Rapier: Vinod Khosla is very smart, but would you let him operate on your heart?

Lesley Stahl: No.

Robert Rapier: No, because that's not his area of expertise.

Robert Rapier, a chemical engineer specializing in Biofuels, says Khosla and almost all the other venture capitalists in Silicon Valley got caught up in their own hype.

Robert Rapier: He set up a system where he overpromised and under-delivered and so the public and the politicians all developed unreasonable expectations.

Lesley Stahl: But hasn't technology advanced enough so that somebody like Vinod Khosla could think: "Ah, we can do it more cheaply, faster."

Robert Rapier: Well yeah, but in the field of advanced biofuels, he has not done very well. The companies that he's brought out are in trouble. Their share prices are down 80, 85 percent.

"[Vinod Khosla] set up a system where he overpromised and under-delivered, and so the public and the politicians all developed unreasonable expectations."

Lesley Stahl: What about this criticism that what it takes to be successful in Silicon Valley does not translate into the energy business? It's such a completely different field.

Vinod Khosla: That's fair criticism. But I am learning. And I am trying. And they're sitting there doing nothing. They're being the nay-sayers, the pundits who say why it can't be done. But they won't try. Now, sure we've done lots of things that failed in energy. But every time, we learned. Picked ourselves up and tried something new.

Robert Rapier: He's getting up that learning curve, but taxpayers funded that. A billionaire came into the energy business –

Lesley Stahl: You're saying we paid him to learn is what—

Robert Rapier: We paid him to learn the energy business.

The federal government has allocated a total of \$150 billion to Cleantech – through loans, grants and tax breaks with little to show for it.

Lesley Stahl: The taxpayers have lost a lotta money in the general Cleantech area.

Vinod Khosla: Look, we have to take risks. And risks mean the risk of losing money. So let me ask you a question. We've been looking for a cure for cancer for a long time. How much money has the U.S. government spent? Billions and billions of dollars. Should we stop looking for a cure for cancer because we haven't found a cure?

But under the Obama Stimulus Act, the government wasn't just supporting research. With Cleantech it was shoveling money to build assembly lines, helping startups in the manufacturing phase. Over half a billion dollars went to a solar-panel company named Solyndra to build a factory. When solar was undercut by low prices in China, Solyndra died.

Another half billion in loan guarantees went to Fisker, a clean car startup that promised to open a plant in Delaware, but went bankrupt. And in other cases production was ramped up before there was any demand – as with LG Chem in Michigan.

"Look, we have to take risks. And risks mean the risk of losing money. So let me ask you a question. We've been looking for a cure for cancer for a long time. How much money has the U.S. government spent? Billions and billions of dollars. Should we stop looking for a cure for cancer because we haven't found a cure?"

[Obama: Shovels will soon be moving earth and trucks will be pouring concrete where we are standing.]

The plant was built with \$151 million from the stimulus to make batteries for electric cars that people never bought. So the plant went idle and workers were paid tax dollars to sit around and do nothing.

These loans and grants were administered by the Energy Department. They wouldn't give us an interview, but Steven Koonin was actually the head scientist for the department, approving many of the stimulus projects.

Lesley Stahl: The government spent about \$150 billion into these innovations. Taxpayer dollars. Money well spent?

Steven Koonin: I think there are significant developments that have come out of that spending that impact our energy system now. New technologies demonstrated. I think it was good value for the money.

Lesley Stahl: Well, Solyndra went through over half a billion dollars before it failed. Then I'm gonna give you a list of other failures: Abound Energy, Beacon Power, Fisker, V.P.G., Range Fuels, Ener1, A123. ECOtality. I'm exhausted.

Steven Koonin: As I told you in the beginning, the energy business is tough.

Lesley Stahl: What happened?

Steven Koonin: Oh, gosh, there are so many reasons. I put some of the major blame on the government, both the executive branch and Congress, for an inability to set a thoughtful and consistent energy policy.

Lesley Stahl: Let me interrupt you. You were the government. How many of the loans were you involved in?

Steven Koonin: Difficult to know the exact number. But I would say in the order of 30.

Lesley Stahl: Did you make mistakes?

Steven Koonin: I think I didn't do as good a job as I could've. In retrospect, I would've done things a bit differently.

Lesley Stahl: Part of this was supposed to be creating new jobs. Everything I've read there were not many jobs created.

Steven Koonin: That's correct.

Lesley Stahl: So what went wrong there?

Steven Koonin: I didn't say it would create jobs. Other people did.

Lesley Stahl: So you never thought it was gonna create-

Steven Koonin: I didn't think it mattered as a job creation, no.

Lesley Stahl: So, is Cleantech dead?

Steven Koonin: There are parts of it that I would say are on life support right now.

The stimulus investment wasn't a total bust. It helped create the successful electric car company Tesla. A few of other companies are starting to show promise, and loans are being repaid.

But Cleantech was dealt a hammer blow by this: plentiful, inexpensive and relatively clean domestic natural gas. So by 2012, the moneymen of Silicon Valley were dropping energy from their portfolios and soon struggling and bankrupt Cleantech companies were on the auction block at firesale prices. And guess who snatched them up? China! The most aggressive buyer is arguably this man.

Pin Ni and his autoparts company Wanxiang have made six big investments in American Cleantech so far, including buying A123, another electric car battery startup that lost over 130 million tax dollars.



Pin

Ni and Lesley Stahl CBS News Lesley Stahl: A lot of the companies that you have bought in the Cleantech area got a lot of federal subsidies. I have the list.

Pin Ni: A123 did, yes.

Lesley Stahl: Well, Ener1 did –

Pin Ni: Ener1 did, yeah.

Lesley Stahl: Smith Electric Trucks.

Pin Ni: I would think so, yeah.

Lesley Stahl: There's something that just doesn't feel right about a Chinese company coming in and scooping it all up after the taxpayers put so much money into it.



Pin Ni: My answer will be: Do we like the capitalism or not? If we do, that is the capitalism.

Lesley Stahl: But do you think it's a good business? Do you think Cleantech is going well?

Pin Ni: Cleantech is not going well.

But China is willing to make a long-term bet on the technology, and spend what it takes to develop the manufacturing. But here's where it gets complicated: this is Wanxiang's American subsidiary with 27 plants in 13 states and some 6,000 American workers. Pin Ni says every third car made in the U.S. has Wanxiang parts.

Lesley Stahl: You understand the suspicion around you, this company that you're here just to take our high-tech-

Pin Ni: Sure. Absolutely.

Lesley Stahl: --technology, you know, and get it back to China as fast as you can.

Pin Ni: But my simple question is: for what? I'm not the president of China. I'm the president of Wanxiang America, right? So whatever we do has to benefit us. We are here to conduct business. We are here to make money.

And so the irony: that taxpayer money for Cleantech and jobs ended up with a Chinese company creating Cleantech and Jobs... in America.

Lesley Stahl: American taxpayers have spent billions on Cleantech. Have we gotten our money's worth?

Pin Ni: If you measure them by today's standard I would say definitely not. You didn't see anything come out of it. But if you view this as a step stone to the future, when you get there, when you look back, I would say yes.

But Vinod Khosla says if the U.S. government doesn't put more money into this technology – when we get there, it will all be in China. He wants to open KiOR biofuel plants like this in every defunct paper mill in the country.

Lesley Stahl: Now some people call you a dreamer, and I don't think they mean it in a positive way.

Steve Kroft reports that members of Congress can legally trade stock based on non-public information from Capitol Hill

Washington, D.C. is a town that runs on inside information - but should our elected officials be able to use that information to pad their own pockets? As Steve Kroft reports, members of Congress and their aides have regular access to powerful political intelligence, and many have made well-timed stock market trades in the very industries they regulate. For now, the practice is perfectly legal, but some say it's time for the law to change.

The next national election is now less than a year away and congressmen and senators are expending much of their time and their energy raising the millions of dollars in campaign funds they'll need just to hold onto a job that pays \$174,000 a year.

Few of them are doing it for the salary and all of them will say they are doing it to serve the public. But there are other benefits: Power, prestige, and the opportunity to become a Washington insider with access to information and connections that no one else has, in an environment of privilege where rules that govern the rest of the country, don't always apply to them.

Most former congressmen and senators manage to leave Washington - if they ever leave Washington - with more money in their pockets than they had when they arrived, and as you are about to see, the biggest challenge is often avoiding temptation.

Peter Schweizer: This is a venture opportunity. This is an opportunity to leverage your position in public service and use that position to enrich yourself, your friends, and your family.

Peter Schweizer is a fellow at the Hoover Institution, a conservative think tank at Stanford University. A year ago he began working on a book about soft corruption in Washington with a team of eight student researchers, who reviewed financial disclosure records. It became a jumping off point for our own story, and we have independently verified the material we've used.

Schweizer says he wanted to know why some congressmen and senators managed to accumulate significant wealth beyond their salaries, and proved particularly adept at buying and selling stocks.

Schweizer: There are all sorts of forms of honest grafts that congressmen engage in that allow them to become very, very wealthy. So it's not illegal, but I think it's highly unethical, I think it's highly offensive, and wrong.

Steve Kroft: What do you mean honest graft?

Schweizer: For example insider trading on the stock market. If you are a member of Congress, those laws are deemed not to apply.

Kroft: So congressman get a pass on insider trading?

Schweizer: They do. The fact is, if you sit on a healthcare committee and you know that Medicare, for example, is-- is considering not reimbursing for a certain drug that's market moving information. And if

you can trade stock on-- off of that information and do so legally, that's a great profit making opportunity. And that sort of behavior goes on.

Kroft: Why does Congress get a pass on this?

Schweizer: It's really the way the rules have been defined. And the people who make the rules are the political class in Washington. And they've conveniently written them in such a way that they don't apply to themselves.

The buying and selling of stock by corporate insiders who have access to non-public information that could affect the stock price can be a criminal offense, just ask hedge fund manager Raj Rajaratnam who recently got 11 years in prison for doing it. But, congressional lawmakers have no corporate responsibilities and have long been considered exempt from insider trading laws, even though they have daily access to non-public information and plenty of opportunities to trade on it.

Schweizer: We know that during the health care debate people were trading health care stocks. We know that during the financial crisis of 2008 they were getting out of the market before the rest of America really knew what was going on.

In mid September 2008 with the Dow Jones Industrial average still above ten thousand, Treasury Secretary Hank Paulson and Federal Reserve Chairman Ben Bernanke were holding closed door briefings with congressional leaders, and privately warning them that a global financial meltdown could occur within a few days. One of those attending was Alabama Representative Spencer Bachus, then the ranking Republican member on the House Financial Services Committee and now its chairman.

Schweizer: These meetings were so sensitive-- that they would actually confiscate cell phones and Blackberries going into those meetings. What we know is that those meetings were held one day and literally the next day Congressman Bachus would engage in buying stock options based on apocalyptic briefings he had the day before from the Fed chairman and treasury secretary. I mean, talk about a stock tip.

While Congressman Bachus was publicly trying to keep the economy from cratering, he was privately betting that it would, buying option funds that would go up in value if the market went down. He would make a variety of trades and profited at a time when most Americans were losing their shirts.

Congressman Bachus declined to talk to us, so we went to his office and ran into his Press Secretary Tim Johnson.

Kroft: Look we're not alleging that Congressman Bachus has violated any laws. All...the only thing we're interested in talking to him is about his trades.

Tim Johnson: Ok...Ok that's a fair enough request.

What we got was a statement from Congressman Bachus' office that he never trades on non-public information, or financial services stock. However, his financial disclosure forms seem to indicate

otherwise. Bachus made money trading General Electric stock during the crisis, and a third of GE's business is in financial services.

During the healthcare debate of 2009, members of Congress were trading health care stocks, including House Minority Leader John Boehner, who led the opposition against the so-called public option, government funded insurance that would compete with private companies. Just days before the provision was finally killed off, Boehner bought health insurance stocks, all of which went up. Now speaker of the House, Congressman Boehner also declined to be interviewed, so we tracked him down at his weekly press conference.

Kroft: You made a number of trades going back to the health care debate. You bought some insurance stock. Did you make those trades based on non-public information?

John Boehner: I have not made any decisions on day-to-day trading activities in my account. And haven't for years. I don't-- I do not do it, haven't done it and wouldn't do it.

Later Boehner's spokesman told us that the health care trades were made by the speaker's financial adviser, who he only consults with about once a year.

[Peter Schweizer: We need to find out whether they're part of a blind trust or not.]

Peter Schweizer thinks the timing is suspicious, and believes congressional leaders should have their stock funds in blind trusts.

Schweizer: Whether it's uh-- \$15,000 or \$150,000, the principle in my mind is that it's simply wrong and it shouldn't take place.

But there is a long history of self-dealing in Washington. And it doesn't always involve stock trades.

Congressmen and senators also seem to have a special knack for land and real estate deals. When Illinois Congressman Dennis Hastert became speaker of the House in 1999, he was worth a few hundred thousand dollars. He left the job eight years later a multi-millionaire.

Jan Strasma: The road that Hastert wants to build will go through these farm fields right here.

In 2005, Speaker Hastert got a \$207 million federal earmark to build the Prairie Parkway through these cornfields near his home. What Jan Strasma and his neighbors didn't know was that Hastert had also bought some land adjacent to where the highway is supposed to go.

Strasma: And five months after this earmark went through he sold that land and made a bundle of money.

Kroft: How much?

Strasma: Two million dollars.

Kroft: What do you think of it?

Strasma: It stinks.

We stopped by the former speaker's farm, to ask him about the land deal, but he was off in Washington where he now works as a lobbyist. His office told us that property values in the area began to appreciate even before the earmark and that the Hastert land was several miles from the nearest exit.

But the same good fortune befell former New Hampshire Senator Judd Gregg, who helped steer nearly \$70 million dollars in government funds towards redeveloping this defunct Air Force base, which he and his brother both had a commercial interest in. Gregg has said that he violated no congressional rules.

It's but one more example of good things happening to powerful members of Congress. Another is the access to initial public stock offerings, the opportunity to buy a new stock at insider prices just as it goes on the market. They can be incredibly lucrative and hard to get.

Schweizer: If you were a senator, Steve, and I gave you \$10,000 cash, one or both of us is probably gonna go to jail. But if I'm a corporate executive and you're a senator, and I give you IPO shares in stock and over the course of one day that stock nets you \$100,000, that's completely legal.

And former House Speaker Nancy Pelosi and her husband have participated in at least eight IPOs. One of those came in 2008, from Visa, just as a troublesome piece of legislation that would have hurt credit card companies, began making its way through the House. Undisturbed by a potential conflict of interest the Pelosis purchased 5,000 shares of Visa at the initial price of \$44 dollars. Two days later it was trading at \$64. The credit card legislation never made it to the floor of the House.

Congresswoman Pelosi also declined our request for an interview, but agreed to call on us if we attended a news conference.

Kroft: Madam Leader, I wanted to ask you why you and your husband back in March of 2008 accepted and participated in a very large IPO deal from Visa at a time there was major legislation affecting the credit card companies making its way through the-- through the House.

Nancy Pelosi: But--

Kroft: And did you consider that to be a conflict of interest?

Pelosi: The-- y-- I-- I don't know what your point is of your question. Is there some point that you want to make with that?

Kroft: Well, I-- I-- I guess what I'm asking is do you think it's all right for a speaker to accept a very preferential, favorable stock deal?

Pelosi: Well, we didn't.

Kroft: You participated in the IPO. And at the time you were speaker of the House. You don't think it was a conflict of interest or had the appearance--

Pelosi: No, it was not--

Kroft: --of a conflict of interest?

Pelosi: --it doesn't-- it only has appearance if you decide that you're going to have-- elaborate on a false premise. But it-- it-- it's not true and that's that.

Kroft: I don't understand what part's not true.

Pelosi: Yes sir. That-- that I would act upon an investment.

Congresswoman Pelosi pointed out that the tough credit card legislation eventually passed, but it was two years later and was initiated in the Senate.

Pelosi: I will hold my record in terms of fighting the credit card companies as speaker of the House or as a member of Congress up against anyone.

Corporate executives, members of the executive branch and all federal judges are subject to strict conflict of interest rules. But not the people who write the laws.

Schweizer: If you are a member of Congress and you sit on the defense committee, you are free to trade defense stock as much as you want to if you're on the Senate banking committee you can trade bank stock as much as you want and that regularly goes on-- in-- in all these committees.

Brian Baird: There should only be one thing in your mind when you're drafting legislation, 'Is this good for the United States of America?' That's it. If you're starting to say to yourself 'how's this going to affect my investments,' you've got-- you've got a mixed agenda and a mixed purpose for being there.

Brian Baird is a former congressman from Washington state who served six terms in the house before retiring last year. He spent half of those 12 years trying to get his colleagues to prohibit insider trading in Congress and establish some rules governing conflicts of interest.

Baird: One line in a bill in Congress can be worth millions and millions of dollars. There was one night, we had a late, late night caucus and you could kind of tell how a vote was going to go the next day. I literally walked home and I thought, 'Man, if you-- if you went online and made-- some significant trades, you could make a lot of money on this.' You-- you could just see it. You could see the potential here.

So in 2004, Baird and Congresswoman Louise Slaughter introduced the Stock Act which would make it illegal for members of Congress to trade stocks on non-public information and require them to report their stock trades every 90 days instead of once a year.

Kroft: How far did you get with this?

Baird: We didn't get anywhere. Just flat died. Went nowhere.

Kroft: How many cosponsors did you get?

Baird: I think we got six.

Kroft: Six doesn't sound like a very big amount.

Baird: It's not, Steve. You-- you could have-- 'National Cherry Pie Week' and get 100 cosponsors.

When Baird finally managed to get a congressional hearing on the Stock Act, almost no one showed up. It's reintroduced every session, but is buried so deep in the Capitol we had trouble finding congressmen who had even heard of it.

Kroft: Have you ever heard of the Stock Act?

Steve Palazzo: The what?

Kroft: The Stock Act. Do you know anything about it?

Congressman: No.

Kroft: Congressman. Congressman. Congressman.

Congressman Quayle: I haven't heard about that one yet.

Kroft: Have you ever heard of something called the Stock Act?

Congressman Watt: No.

Male voice: I've heard about, but not. I can't say it's an issue I've spent a lot of time on.

Male voice: I would have no problem with that.

Kroft: Okay.

Male voice: But then again I am a big fan of, you know, instant disclosure on almost everything.

Kroft: They're looking for co-sponsors.

Male voice: And yet, I've never heard of it.

Baird: When you have a bill like this that makes so much sense and you can't get the co-sponsorships, you can't get the leadership to move it, it gets tremendously frustrating. Set aside that it's the right thing to do, it's good politics. People want their Congress to function well. It still baffles me.

But what baffles Baird even more is that the situation has gotten worse. In the past few years a whole new totally unregulated, \$100 million dollar industry has grown up in Washington called political intelligence. It employs former congressmen and former staffers to scour the halls of the Capitol gathering valuable non-public information then selling it to hedge funds and traders on Wall Street who can trade on it.

Baird: Now if you're a political intel guy. And you get that information. Long before it's public. Long before somebody wakes up the next morning and reads or watches the television or whatever, you've got it. And you can make real-- real-time trades before anybody else.

Baird says its taken what would be a criminal enterprise anyplace else in the country and turned it into a profitable business model.

Baird: The town is all about people saying-- what do you know that I don't know. This is the currency of Washington, D.C. And it's that kind of informational currency that translates into real currency. Maybe it's over drinks maybe somebody picks up a phone. And says you know just to let you know it's in the bill. Trades happen. Can't trace 'em. If you can trace 'em, it's not illegal. It's a pretty great system. You feel like an idiot to not take advantage of it.