

America for Sale? An Examination of the Practices of Private Funds

Statement by Jim Baker, Executive Director, Private Equity Stakeholder Project

November 19, 2019

Madam Chair and members of the Committee,

Thank you for holding this hearing on the growing impact of private funds investments.

The Private Equity Stakeholder Project is a nonprofit organization that seeks to understand the impacts of private equity and other private funds investments on workers, communities, consumers and other stakeholders and lift up the voices of those stakeholders in pursuit of more just outcomes.

While there are a variety of issues to raise regarding private funds investments, today we wish to focus on two specific issues: (1) the growing impact of private funds investments on the environment and climate change, and (2) the fluctuating numbers of jobs at private equity-backed companies cited by private equity industry groups.

The growing impact of private funds investments on the environment and climate change

The private equity industry and more broadly the private funds industry – encompassing private equity, venture capital, private debt, private infrastructure, private real estate, and similar asset classes – has grown dramatically over the past several years, from \$1 trillion prior to the global financial crisis to a record \$5.8 trillion in assets under management in 2018.¹ Private equity and other private funds have come to account for a larger share of many institutional investors' assets, a trend that is expected to continue.²

As private funds have grown, they have increasingly come to impact the environment, with their investments playing a growing role in generating atmospheric carbon and driving climate change.

For example, private funds managers have come to play growing part in the exploration, production, and transmission of fossil fuels as well as fossil fuel-fired power generation.

A number of private equity firms substantially increased their investments in fossil fuels following the 2015 decline in oil prices, taking advantage of the dislocation to buy or invest capital into smaller oil exploration and production companies and to buy assets that the publicly-traded oil majors and independents, in need of cash, were looking to offload. Private equity funds dedicated to natural resources raised nearly \$70 billion of capital in 2015, according to SailingStone Capital Partners, an energy-focused investment firm, and over \$100 billion in 2016. Today, 35 percent of all horizontal drilling (i.e. fracking) is done by privately backed companies.³

Rather than funding the development of renewable energy sources, private equity firms have too often been investing new capital in fossil fuel exploration and infrastructure. And while publicly traded energy companies, following demands from investors and others, have increasingly provided greater transparency regarding the impacts and risks of their investments, private equity firms have remained largely opaque regarding their investments in fossil fuels.⁴

The Blackstone Group, for example, the largest alternative asset management firm in the world, has raised at least \$20 billion to invest in the energy sector in the past several years.⁵ Of the dozens of energy firms Blackstone has invested in, just a handful appear to have made renewable energy



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investments. Instead, Blackstone has invested in oil pipelines⁶, coal-fired power plants⁷, and tar/oil sands.⁸

Beyond fossil fuel investments, Blackstone has recently drawn scrutiny for exacerbating deforestation in the Amazon Rainforest through its investment in a Brazilian infrastructure firm, Hidrovias do Brasil, that operates a grain transshipment station in the middle of the Amazon.⁹

The Amazon Rainforest, where a record number of fires have been raging, is the world's largest rainforest. It absorbs a significant amount of carbon dioxide, a major contributor to the climate crisis. The fires are mostly a man-made event, set to clear land for agriculture.¹⁰

Hidrovias do Brasil runs a shipping terminal at Miritituba in the Pará state of Brazil to export grain and soybeans.¹¹ In the spring of 2019, the government of Jair Bolsonaro announced that Hidrovias would partner in the privatization and development of the B.R.-163 roadway through the Amazon. Hidrovias paid for a feasibility study on a 10-year concession of B.R.-163 which would include paving of the unpaved sections of the road.¹² Developing the roadway itself causes deforestation and helps make possible the broader transformation of the Amazon from jungle to farmland.¹³

The attached memo, "Blackstone investments driving Amazon deforestation and other climate concerns," takes a closer look at both Blackstone's connection to Amazon Rainforest deforestation and the firm's investments in fossil fuels, including coal-fired power plants, oil pipelines, and tar/oil sands.

The American Investment Council has failed to explain the decline in millions of jobs at private equity-backed companies in estimates it has cited since late 2017

The Committee will receive testimony today from Drew Maloney, President and CEO of the American Investment Council, the main private equity lobbying group.

The private equity industry, most notably the American Investment Council, has repeatedly cited job creation by private equity firms to defend the lucrative tax breaks, most notably the carried interest tax loophole, that private funds firms and executives benefit from.

Yet rather than job creation, the American Investment Council's own numbers suggest a marked decline in jobs at private equity-backed firms in the past two years.

In December 2017, Laura Christof, a spokeswoman for the American Investment Council, told *Fox Business* "more than 11 million Americans in all 50 states and in every congressional district" were employed by the private equity industry.¹⁴

Around the same time, the American Investment Council and others emphasized private equity's role in creating jobs to justify maintaining the carried interest tax loophole in the 2017 Tax Cuts & Jobs Act.¹⁵

Yet just seven months later, in July 2018, the American Investment Council reported that "there are 4.9 million Americans who are employed by both small and large companies backed by private equity."¹⁶

In other words, over a period of seven months, the American Investment Council's estimate of the number of jobs at private equity-owned companies dropped from 11 million to 4.9 million.

This suggests a 6.1 million job decline at private equity-owned businesses, a 55% drop.

This decline happened against a backdrop of substantial job growth in the US economy more broadly and growth in private equity assets under management.¹⁷

The American Investment Council in April 2019 revised its estimate of jobs at private equity-backed companies upward to 5.8 million, a 21% increase from the prior year but still 47% (5.2 million jobs) fewer than the number it had used in December 2017.¹⁸

Most recently, the American Investment Council in October 2019 released a study conducted by Ernst & Young that found that in 2018, the US private equity sector directly employed 8.8 million workers.¹⁹

This 8.8 million worker number is still 2.2 million jobs/ workers (20%) less than the number (11 million) the American Investment Council cited in December 2017.

The Private Equity Stakeholder Project, along with United for Respect, the Center for Popular Democracy, and the Americans for Financial Reform Education Fund this summer looked at private equity investments in the retail industry and found that while the retail industry as a whole added more than a million jobs in the last decade, private equity-owned retailers shed nearly 600,000 jobs over that period.²⁰

In addition, a recent study by academics at Harvard Business School and the University of Chicago found that private equity takeovers result in significant job losses.²¹

In August, we sent a letter to Mr. Maloney seeking an explanation for the American Investment Council's declining job numbers. I have attached a copy of the letter. Despite following up with Mr. Maloney multiple times, the American Investment Council still has not provided an explanation of why the number of jobs it cites at private equity-backed companies has dropped so significantly since late 2017.

Thank you.

¹ ["When you dial 911 and Wall Street answers." New York Times, June 25, 2016. "Private markets come of age." McKinsey & Company, Feb 2019.](#)

² ["Preqin: Number of \\$1 billion-plus private equity investors up 14% in 2018." Pensions & Investments, Jun 14, 2018.](#)

³ ["The Next Financial Crisis Lurks Underground." NY Times, Sept 1, 2018.](#)

⁴ For example, none of the largest private equity firms in the US – Blackstone, Apollo, KKR, Carlyle, Oaktree, TPG and Ares Management – appear to have provided information to the Carbon Disclosure Project (CDP). [CDP database, accessed Nov 17, 2019.](#)

⁵ Including Blackstone Infrastructure Partners - \$5 billion, Blackstone Energy Partners III - \$3.35 billion, GSO Energy Select Opportunities Fund - \$2.86 billion, Blackstone Energy Partners II - \$4.8 billion, Blackstone Energy Partners I - \$2.5 billion, and energy investments made from flagship private equity and private debt funds.

⁶ ["Blackstone Energy to Spend \\$1.57 Billion on Stake in Troubled Rover Pipeline." Wall Street Journal, Jul 31, 2017.](#)

⁷ [Comments of Lightstone Generation, LLC Testimony on HB 6 - April 24, 2019. http://www.sitheglobal.com/projects.cfm](#), accessed Sept 7, 2019.

⁸ ["PE-backed Osum Oil Sands to buy Orion project for \\$325 mln." PEHub, Jun 11, 2014. Osum Oil Sands corporate presentation, Oct 2018.](#)

⁹ ["A Top Financier of Trump and McConnell Is a Driving Force Behind Amazon Deforestation." The Intercept, Aug 27, 2019.](#)

¹⁰ ["We're thinking about the Amazon fires all wrong. These maps show why." Washington Post, Sept 5, 2019.](#)

¹¹ ["A Top Financier of Trump and McConnell Is a Driving Force Behind Amazon Deforestation." The Intercept, Aug 27, 2019.](#)

¹² [Hidrovias do Brasil 2018 Earnings Release, Apr 13, 2019.](#)

¹³ ["A Top Financier of Trump and McConnell Is a Driving Force Behind Amazon Deforestation." The Intercept, Aug 27, 2019.](#)

¹⁴ ["Money Talks: Blackstone, Carlyle, KKR dial up donations to key GOP lawmakers as tax bill protects carried interest loophole." Fox Business, Dec 20, 2017.](#)

¹⁵ ["Money Talks: Blackstone, Carlyle, KKR dial up donations to key GOP lawmakers as tax bill protects carried interest loophole." Fox Business, Dec 20, 2017.](#)

¹⁶ ["New AIC Report Highlights Private Equity Investment Across the Country." American Investment Council, July 9, 2017.](#)

¹⁷ ["Current Employment Statistics Highlights." Bureau of Labor Statistics, July 2019. "Preqin: Private equity AUM grows 20% in 2017 to record \\$3.06 trillion." Pensions & Investments, Jul 24, 2018. "Private markets come of age." McKinsey Global Private Markets Review 2019.](#)

¹⁸ ["2018 Top States and Districts." American Investment Council, Apr 29, 2019.](#)

¹⁹ ["Economic contribution of the US private equity sector in 2018." Ernst & Young, Oct 2019.](#)

²⁰ ["Pirate Equity: How Wall Street Firms are Pillaging American Retail." Private Equity Stakeholder Project, Jul 2019.](#)

²¹ ["Private equity takeovers result in significant job losses." Axios, Oct 7, 2019.](#)



BLACKSTONE INVESTMENTS DRIVING AMAZON DEFORESTATION AND OTHER CLIMATE CONCERNS

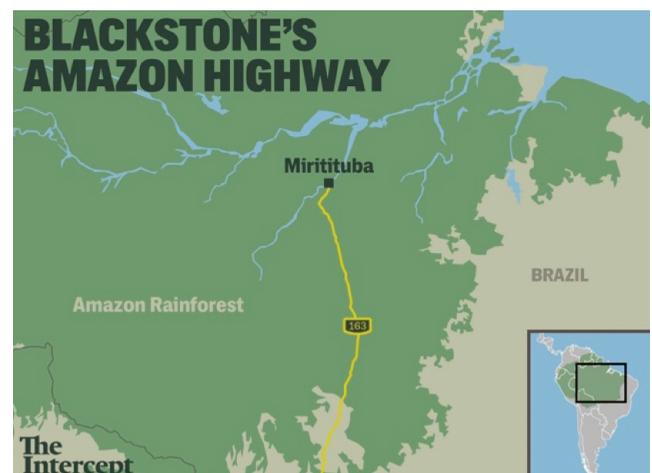
In recent weeks, global attention has focused on the record number of wildfires in the Amazon this year and their broader impact on atmospheric carbon and global warming.

In August, an article in *The Intercept* highlighted investments by private equity firm The Blackstone Group in a Brazilian infrastructure company that has spurred deforestation in the Amazon rainforest. In recent weeks, global attention has focused on the record number of wildfires in the Amazon this year and their broader impact on atmospheric carbon and global warming.

The Amazon, where a record number of fires have been raging, is the world's largest rainforest. It absorbs a significant amount of carbon dioxide, a major contributor to the climate crisis. The fires are mostly a man-made event, set to clear land for agriculture.¹

The article in *The Intercept* highlighted Blackstone's investment in Hidrovias do Brasil. In the spring of 2019, the government of Jair Bolsonaro announced that Hidrovias would partner in the privatization and development of the B.R.-163 roadway through the Amazon. Hidrovias paid for a feasibility study on a 10-year concession of B.R.-163 which would include paving of the unpaved sections of the road.² Developing the roadway itself causes deforestation and helps make possible the broader transformation of the Amazon from jungle to farmland. Hidrovias do Brasil runs a shipping terminal at Miritituba in the Pará state of Brazil to export grain and soybeans.³

The leading edge of the invasion of the jungle is being cut by grileiros, or "land-grabbers," who operate outside



Source: *The Intercept*

the law with chainsaws. The grileiros then sell the newly cleared land to agribusiness concerns, whose harvest is driven on the highway to the terminal, before being exported.⁴

The International Finance Corporation, an affiliate of the World Bank that backed the project, noted that, "the construction of the Miritituba port, close to still-intact areas of the Amazon forest, is likely to lower transport costs for farmers and thereby accelerate conversion of natural habitats into agricultural areas, particularly for soy production."⁵ Lax regulation by Bolsonaro's government has encouraged deforestation.

BLACKSTONE DRIVING CLIMATE CONCERNS

BLACKSTONE CONNECTIONS TO HIDROVIAS DO BRASIL

Blackstone has investments in Hidrovias do Brasil both directly and through Pátria Investimentos, a Brazilian private equity firm in which it owns a significant minority stake.



Blackstone is directly invested in Hidrovias do Brasil through its Tactical Opportunities funds.⁶ A spokesperson for Blackstone told *The Intercept* that Blackstone owns 9.3 percent of Hidrovias.⁷

In addition, Blackstone owns a 40% stake in Pátria Investimentos, a Brazilian private equity firm that is the majority owner of Hidrovias do Brasil.⁸ In addition to Blackstone's 9% stake, Pátria Investimentos owns another 55.8% of Hidrovias do Brasil, according to *The Intercept*.⁹ In 2010, when Blackstone announced its investment in Pátria, Blackstone CEO Stephen Schwarzman said, "Partnering with Pátria will enable Blackstone's limited partners and advisory clients to benefit from the fast expanding business opportunities in the country" (i.e. Brazil).¹⁰ Prakash Melwani, Chief Investment Officer of Blackstone's private equity group, and Martin Alderson Smith, a Senior Managing Director at Blackstone, serve on Pátria's board.¹¹ Viral Patel, another Blackstone Senior Managing Director, is involved in Blackstone's investment in Hidrovias.¹²

Pátria Investimentos emphasizes its relationship with Blackstone, featuring the company's logo on its website and notes it is "in partnership with" Blackstone.¹³

OTHER BLACKSTONE INVESTMENTS RAISE CLIMATE CONCERNS

Beyond its investment Hidrovias do Brasil, The Blackstone Group has made a number of other investments that raise climate concerns, including a coal-fired power plant, several investments in fossil fuel extraction and transmission, and a number of investments in carbon-intensive cement production.

COAL AND GAS-FIRED POWER PLANTS

Lightstone Generation – Owns 2,665 MW coal-fired Gen. James M. Gavin Plant in Ohio, three gas-fired power plants.¹⁴

Sithe Global – Owns one and is building another coal-fired power plant in the Philippines.¹⁵

OIL AND GAS PIPELINES AND INFRASTRUCTURE

Cheniere Energy Sabine Pass LNG export terminal¹⁶
Rover Pipeline¹⁷
Tallgrass Energy¹⁸

OIL AND GAS EXPLORATION AND PRODUCTION

Tar/ Oil Sands – Osum Oil Sands Corp¹⁹
Fracking – Western Eagle Ford Assets²⁰, Jetta Permian²¹, Osprey Energy/Falcon Minerals²², Guidon Energy²³, Eagleclaw Midstream²⁴, Huntley & Huntley²⁵, Alta Energy²⁶
Offshore - LLOG Exploration²⁷, Kosmos Energy²⁸

CEMENT PRODUCTION

Summit Materials – Blackstone created Summit Materials in 2009 and used it to acquire more than 35 companies to establish a major U.S.-based supplier of aggregates, concrete and asphalt. Blackstone took Summit public in 2015.²⁹

BLACKSTONE RESISTANCE TO CARBON FOOTPRINTING

Despite its growing investments in fossil fuels, carbon intensive industries, and investments like Hidrovias do Brasil that spur deforestation, Blackstone has been resistant to measuring the carbon footprint of its portfolio. Blackstone's Chief Sustainability Officer in a 2017 report called measuring a company's carbon footprint "madness," noting "Somehow, carbon has become the maypole for the sustainability community and the "E" in ESG, including attempts to make public disclosure of carbon footprint a mandate associated with corporate transparency."³⁰



Blackstone's Lightstone Generation owns the James N Gavin Plant coal-fired power plant in Ohio

BLACKSTONE DRIVING CLIMATE CONCERNS

Endnotes

- ¹ “We’re thinking about the Amazon fires all wrong. These maps show why.” Washington Post, Sept 5, 2019.
- ² Hidrovias do Brasil 2018 Earnings Release, Apr 13, 2019.
- ³ “A Top Financier of Trump and McConnell Is a Driving Force Behind Amazon Deforestation,” The Intercept, Aug 27, 2019.
- ⁴ “A Top Financier of Trump and McConnell Is a Driving Force Behind Amazon Deforestation,” The Intercept, Aug 27, 2019.
- ⁵ “A Top Financier of Trump and McConnell Is a Driving Force Behind Amazon Deforestation,” The Intercept, Aug 27, 2019.
- ⁶ <https://www.patria.com/media/clipping/com-novos-socios-hidrovias-do-brasil-recebe-investimento-de-us-300-milhoes>, accessed Sept 7, 2019.
- ⁷ “A Top Financier of Trump and McConnell Is a Driving Force Behind Amazon Deforestation,” The Intercept, Aug 27, 2019.
- ⁸ Patria Finance SEC Form ADV, Apr 27, 2019.
- ⁹ “A Top Financier of Trump and McConnell Is a Driving Force Behind Amazon Deforestation,” The Intercept, Aug 27, 2019.
- ¹⁰ “Blackstone and Patria Announce Partnership in Brazil,” Media release, Sept 29, 2010.
- ¹¹ <https://www.blackstone.com/the-firm/our-people/person?person=1000073>, <https://www.blackstone.com/the-firm/our-people/person?person=1000001>, accessed Sept 7, 2019.
- ¹² <https://www.blackstone.com/the-firm/our-people/person?person=1000255>, accessed Sept 7, 2019.
- ¹³ <https://www.patria.com/media/clipping/com-novos-socios-hidrovias-do-brasil-recebe-investimento-de-us-300-milhoes>, accessed Sept 7, 2019.
- ¹⁴ Comments of Lightstone Generation, LLC Testimony on HB 6 - April 24, 2019.
- ¹⁵ <http://www.sitheglobal.com/projects.cfm>, accessed Sept 7, 2019.
- ¹⁶ “Blackstone Weighs Cheniere Energy Partners Stake Sale,” Bloomberg, Jul 22, 2019.
- ¹⁷ “Blackstone Energy to Spend \$1.57 Billion on Stake in Troubled Rover Pipeline,” Wall Street Journal, Jul 31, 2017.
- ¹⁸ “Blackstone Infrastructure Partners Closes Purchase of Controlling Interest in Tallgrass Energy,” Media release, Mar 11, 2019.
- ¹⁹ “PE-backed Osum Oil Sands to buy Orion project for \$325 mln,” PEHub, Jun 11, 2014. Osum Oil Sands corporate presentation, Oct 2018.
- ²⁰ “Blackstone Energy Partners and Sanchez Energy Announce Acquisition of Anadarko’s Eagle Ford Acreage,” Media release, Jan 12, 2017.
- ²¹ “Blackstone Energy Partners and Jetta Form Pure Play Delaware Basin Acquisition Partnership – Jetta Permian, LP,” Media release, Aug 25, 2016.
- ²² “Osprey Energy Acquisition Corp. and Blackstone’s Royal Resources Announce Combination to Form Falcon Minerals Corporation, a Publicly Traded Oil-Weighted Minerals Company,” Media release, Jun 4, 2018.
- ²³ “Guidon Energy and Blackstone Energy Partners Announce a New Permian Basin Platform and First Asset Acquisition,” Media release, Aug 25, 2016.
- ²⁴ “Blackstone Energy Partners to Acquire EagleClaw Midstream Ventures,” Media release, Apr 17, 2017.
- ²⁵ “Blackstone Group Invests \$250M+ in Driller Huntley & Huntley,” Media release, Aug 16, 2017.
- ²⁶ “Blackstone and Alta Resources Enter into Partnership to Invest up to \$1 billion to Acquire and Develop Unconventional Oil & Gas Assets in North America,” Media release, Apr 12, 2011.
- ²⁷ “LLOG Exploration and Blackstone Energy Partners Announce the Formation of a Multi-Billion Dollar Offshore Gulf of Mexico Strategic Partnership,” Media release, Nov 13, 2012.
- ²⁸ Kosmos Energy 2019 Proxy statement
- ²⁹ “Blackstone Close to Deal to Buy CRH Division,” The Wall Street Journal, Jul 15, 2019.
- ³⁰ Sustainability: Myth, Madness, and Magic,” Blackstone Group, August 2017.

August 3, 2019

Drew Maloney
President and CEO
American Investment Council
799 9th Street, NW, Suite 200
Washington, DC 20001



Dear Mr. Maloney,

I write to better understand a significant discrepancy in recent statements by the American Investment Council on the number of jobs at private equity-backed companies in the United States.

In June 2016, James Maloney, a spokesman for the American Investment Council, told the *New York Times*: “Over 11 million Americans work for private-equity-backed businesses.”¹

In December 2017, Laura Christof, a spokeswoman for the American Investment Council, told *Fox Business* “more than 11 million Americans in all 50 states and in every congressional district” were employed by the private equity industry.²

Around the same time, the American Investment Council and others emphasized private equity’s role in creating jobs to justify maintaining the carried interest tax loophole in the 2017 Tax Cuts & Jobs Act.³

Yet just seven months later, in July 2018, the American Investment Council reported that “there are 4.9 million Americans who are employed by both small and large companies backed by private equity.”⁴

In other words, over a period of seven months, the American Investment Council’s estimate of the number of jobs at private equity-owned companies dropped from 11 million to 4.9 million.

This suggests a 6.1 million job decline at private equity-owned businesses, a 55% drop.

This decline happened against a backdrop of substantial job growth in the US economy more broadly and growth in private equity assets under management.⁵

The American Investment Council in April 2019 revised its estimate of jobs at private equity-backed companies upward to 5.8 million, a 21% increase from the prior year but still 47% (5.2 million jobs) less than the number it had used in December 2017.⁶

How does the American Investment Council explain this discrepancy?

How were the December 2017 (11 million jobs), July 2018 (4.9 million), and April 2019 (5.8 million) numbers calculated?

Given the 6.1 million job drop in the American Investment Council’s estimate between December 2017 and July 2018, how is the American Investment Council confident that there was indeed an increase in jobs at private equity-owned businesses in the past year?

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Re".

Jim Baker
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The mission of the Private Equity Stakeholder Project is to identify, engage, and connect stakeholders affected by private funds with the goal of engaging investors and empowering communities, working families, and others impacted by private capital investments.

¹ ["When You Dial 911 and Wall Street Answers." New York Times, Jun 25, 2016.](#)

² ["Money Talks: Blackstone, Carlyle, KKR dial up donations to key GOP lawmakers as tax bill protects carried interest loophole." Fox Business, Dec 20, 2017.](#)

³ ["Money Talks: Blackstone, Carlyle, KKR dial up donations to key GOP lawmakers as tax bill protects carried interest loophole." Fox Business, Dec 20, 2017.](#)

⁴ ["New AIC Report Highlights Private Equity Investment Across the Country." American Investment Council, July 9, 2017.](#)

⁵ ["Current Employment Statistics Highlights." Bureau of Labor Statistics, July 2019.](#) ["Preqin: Private equity AUM grows 20% in 2017 to record \\$3.06 trillion." Pensions & Investments, Jul 24, 2018.](#) ["Private markets come of age." McKinsey Global Private Markets Review 2019.](#)

⁶ ["2018 Top States and Districts." American Investment Council, Apr 29, 2019.](#)