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Michael P. Auerbach

■ Enron collapse

Definition: A scandal that caused the bankruptcy of Houston-based Enron Corporation, a leading energy company

A publicly traded natural gas and commodities company, Enron grew swiftly through diversification and innovation. Its stock rose dramatically. However, the company was riddled with fraud. In 2001, stock values plunged, and Enron was forced to file bankruptcy. Thousands of Enron employees lost jobs and pensions, investors were bilked for billions, and several company executives were imprisoned.

Enron began honestly in 1985 as an energy supplier via a network of North American natural gas pipelines. The company added capabilities by building or acquiring electric power plants around the globe and expanded into such enterprises as petrochemicals, plastics, pulp and paper, broadband, and water. The company lobbied successfully for natural gas trade deregulation, and it made enormous profits by supplying electricity at inflated prices. Throughout the 1990s, the value of Enron stock soared, topping more than \$90 per share in August of 2000.

How the Downfall Began

Not all Enron efforts were profitable. Many ventures—such as the massive Dabhol power project in India—were disastrous failures. However, to present the false impression the company was booming and to keep investments pouring in, Enron engaged in dubious, unethical, or downright fraudulent business practices.

The company built a complicated web of special purpose offshore shell companies to boost apparent income and asset value and to disguise significant losses. Arthur Andersen, a large and respected Chicago-based accounting firm, assisted Enron for years in altering their bookkeeping in exchange for multimillion-dollar auditing and consultation fees. Executives at Andersen were also found to have shredded documents to conceal the company's involvement in Enron's scheme. As a result of these deceptive accounting practices, investments rolled in, and top Enron officers collected enormous salaries and bonuses based on expected performances that never materialized.

A significant part of Enron's plan involved the willing and active participation of important political figures. Enron was a major contributor to the campaigns of US president George W. Bush and US senator Phil Gramm, who streamlined legislation benefiting the company. Senator Gramm was husband of Wendy Gramm, chair of the Commodity Futures Trading Commission (CFTC), who in the early 1990s changed rules governing energy futures trading to Enron's advantage. She later accepted a seat on Enron's board of directors and served on its Audit Committee, both highly paid positions within the company. President Bush, the Gramms, Vice President Dick Cheney, Treasury Secretary Paul O'Neill and other influential individuals were instrumental in spearheading, at Enron's urging, federal deregulation of energy markets in late 2000.

Policies that eliminated oversight allowed Enron to shift its emphasis to power brokerage and to freely manipulate the energy supply in major markets. In California, for example, the company engineered more than thirty-five rolling blackouts that interrupted or withheld power in the state. Hundreds of thousands of business and private customers were subsequently forced to pay inflated prices for electricity. Before tougher energy regulations were instituted in mid-2001, Enron gouged billions of dollars from customers and contributed to a national energy crisis. Once regulations were instituted, a massive revenue stream dried up, and Enron's shaky financial situation was exposed.

The Crash and the Aftereffects

Enron came under scrutiny in early 2001 after a series of articles in respected financial publications raised questions about the company's suspicious income, profits, and debt accounting practices.



The Enron complex in Houston, Texas. (Courtesy eflon)

Enron's empire was ready to collapse. In August of that year, Chief Executive Officer (CEO) Jeffrey Skilling resigned—after selling his shares of company stock for more than \$30 million. Other top executives similarly divested themselves of their holdings for enormous sums of money as the company crumbled.

Enron received a brief reprieve on September 11, 2001, when terrorist attacks on the World Trade Center moved the spotlight away from the company's practices. In the interim, the company sold some assets and issued "corrected" accounting reports for previous years of operation in a desperate attempt to support its financial profile and maintain investor confidence. The ploy did not work, and by late October 2001, the price of Enron stock had plunged to \$20 per share. The company's credit rating was downgraded, which further reduced investments. In November, the Securities and Exchange Commission (SEC), the federal stock market regulatory agency, announced it would begin a formal investigation of Enron.

After a proposed buyout fell through, further lowered credit ratings, and a flurry of negative media reports were printed, the end came quickly for Enron. With its stock worth just pennies per share, the company filed for bankruptcy on November 30, 2001, and applied for Chapter 11 protection two days later. Four thousand Enron employees immediately lost their jobs. Most of 15,000 other employees—whose pensions were based on the value of now-worthless Enron stock—lost everything they had saved.

Top Enron executives were subsequently tried for fraud, money laundering, conspiracy, and other crimes. More than a dozen received prison terms. Arthur Andersen lost its Certified Public Accountant (CPA) license, costing its 85,000 employees their jobs. Enron founder Kenneth Lay, facing a long confinement for his role in the scandal, died in 2006 before being sentenced.

Impact

Enron's bankruptcy, the largest in US history at the time, was soon surpassed when WorldCom folded in 2002 and was further dwarfed by the bankruptcies of Lehman Brothers and Washington Mutual Bank in 2008.

In a class action lawsuit, former Enron employees each received about \$3,000 in compensation for lost pensions. Shareholders similarly recovered a fraction of nearly \$75 billion they lost. In the wake of the scandal, new legislation—especially the Sarbanes-Oxley Act of 2002—was instituted to strengthen corporate accounting standards and practices.

Further Reading

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Jack Ewing

■ Extraordinary rendition

Definition: The abduction and transport of persons to foreign jurisdictions that allow torture, which is illegal under American statutes and a violation of international law; by contrast, “rendition” is the legal, constitutional transfer of a person between jurisdictions

In an effort to protect the nation following the September 11, 2001, terrorist attacks, the United State government expanded a secret program of extraordinary rendition instituted in the 1990s. Central Intelligence Agency (CIA) operatives apprehended suspected terrorists in domestic or overseas locations and then flew them to countries where torture was allowed, in order to extract information by any means about past or future terrorist acts.

One of the least publicized, least understood aspects of US foreign policy is the government’s involvement in secret activities. From the beginning of its history—acting on the principle that desperate times demand desperate measures—the United States has undertaken numerous surreptitious operations in national interest. Most such practices are clandestine because the object of the action is to remain undetected. Since the beginning of the Cold War, however, an increasing number of US secret operations have been covert: planned and executed in a manner primarily intended to hide the identity of entities behind the activity. The National Security Act of 1947 legally empowered the CIA, upon presidential approval, to enact covert operations for political and military objectives; other agencies such as the Federal Bureau of Investigation (FBI) or the Diplomatic Security Service (DSS) may be called upon for assistance. Such covert activities, which the US government could plausibly deny, may include sabotage, assassinations, or support for the subversion or overthrow of foreign governments. Some operations are only revealed long after they have been enacted, via media disclosure or Freedom of Information Act (FOIA) requests; other covert operations, protected under the blanket of “national security,” may never be known.

An Antiterrorism Measure

Early publicized instances of extraordinary rendition carried out with US government approval occurred following the initial terrorist attack on New York

City’s World Trade Center. In February 1993, a truck bomb exploded in the subterranean parking garage under the North Tower, killing six people and wounding hundreds. Extraordinary rendition, with President Bill Clinton’s approval, was subsequently used to apprehend a number of the perpetrators on foreign soil and transport them to the United States, where they stood trial, were convicted, and were imprisoned for their crimes.

The administration of President George W. Bush reinstated and stepped up the technique of extraordinary rendition after the attacks of September 11, 2001. Between 2001 and 2004, when the media became aware of the program, dozens of terrorist suspects were kidnapped and detained—the full number of individuals apprehended and detained may never be known, but more than 1,200 CIA flights have been documented. During that time, several major changes in policy were instituted. Abductions were often carried out without the knowledge, cooperation, or approval of foreign countries where suspects were found. More significantly, prisoners were not returned to the United States for questioning, thus their treatment was not closely monitored. Instead, blindfolded, shackled, and sedated suspects were transported to prisons in different locations—Egypt, Syria, Jordan, Morocco, Pakistan, Afghanistan, Uzbekistan, Poland, and Romania were popular—or to secret US government–run “black sites” in foreign countries. Prisoners were often subjected to harsh interrogation tactics: placed in stressful positions, sexually humiliated, or water-boarded.

In principle, American extraordinary renditions conducted in the twenty-first century served several useful purposes. They prevented suspects from participating in acts of terror. In some cases, they provided valuable information about planned acts of future terrorism.

The most successful renditions involved two operatives closely identified with al-Qaeda: Khalid Shaikh Mohammed, who planned the September 11 attacks, and Abu Zubaydah, who directed a terrorist training facility in Afghanistan. Each of the men was separately abducted and detained in Pakistan. Closely interrogated, both provided details about additional figures connected with terrorist groups, and both were coerced into revealing plans for future plots.

Other cases, however, were spectacular failures: through mistaken identity, innocent people

were kidnapped and tortured. Khaled al-Masri, for example, a Lebanese-born citizen of Germany, was kidnapped in Macedonia. Though it soon became obvious that he was not the person the CIA thought he was, al-Masri was held and tortured for several months in Afghanistan, then transported to a remote location in Albania and released to make his way home on his own. An Egyptian-born resident of Italy, Hassan Mustafa Osama Nasr (also known as Abu Omar), was kidnapped in Milan—dozens of bystanders witnessed his abduction—and flown to Egypt for detention and interrogation. Such clumsy intelligence agency operations not only embarrassed the supposed professionals who carried out the captures, but also jeopardized American diplomatic relationships with friendly nations.

Reactions to Extraordinary Rendition

Once the media became aware of the American extraordinary rendition program, the policy and the CIA faced increasing public scrutiny and criticism. Between early 2005 and 2009, numerous reports appeared in domestic and foreign news outlets revealing further details of specific examples of the practice. Government investigations were conducted in many countries. These uncovered evidence that officials at various foreign airports—in France, Germany, Ireland, Portugal, Spain, Sweden, the United Kingdom, and elsewhere—had colluded or cooperated in illegal CIA-operated flights en route with kidnapped suspects to detention facilities. Various human rights groups, including Human Rights Watch, American Civil Liberties Union, and Amnesty International, soon became involved. Protests were lodged, not only for the ostensible condoning of torture, but also for placing American military personnel at potential risk of similar treatment in retaliation. The United States was publicly condemned for engaging in multiple violations of the European Convention on Human Rights and the United Nations Convention against Torture.

The Italian government went further, in the case of Abu Omar, who was detained and interrogated in Egypt for four years before being released and allowed to return home. Italian prosecutors collected a mountain of evidence left behind during a particularly sloppy rendition operation: forged identity cards, genuine American passports containing the actual names of the agents, and statements from witnesses who had observed the abduction. The Italian

courts issued arrest warrants (which were not honored, since the agency involved was locked into a policy of denial) and proceeded to trial. During the trial, the whole conspiracy was uncovered, revealing widespread collusion between American and Italian agents. In 2009, the Italian court convicted more than twenty CIA operatives and a US Air Force officer in absentia—the first agents ever to be publicly tried and found guilty for participating in the American extraordinary rendition program.

Impact

When properly planned and executed, extraordinary renditions have proven useful in the war on terror—a conflict in which the normal rules of engagement have been set aside. Such renditions provide the option of immediate detention in the face of imminent acts of terror that simply cannot wait for the legal process to take effect.

In the wake of public exposure and widespread condemnation, the American rendition policy was closely examined internally in order to make changes aimed at maintaining secrecy, preventing mistakes, and ensuring humane treatment of suspects within acceptable limitations. American-operated black sites were to be discontinued, future suspects would instead be transported to jurisdictions where they were wanted for crimes, and suspects would receive full legal protection during prosecution. Other recommendations adopted included adherence to stricter tactical and operational procedures, assignment of the most experienced agents in carrying out renditions, and closer scrutiny of intelligence gained—since in the process of interrogation, it was discovered that some prisoners will say anything to escape torture.

As the decade drew to a close, the rendition policy began to be more closely monitored by the US government. In 2009, President Barack Obama signed executive orders that retained the rendition policy while also promulgating stricter controls allowing the president to approve or disapprove individual cases. The order also increased the level of oversight regarding the humane treatment of individuals during apprehension, transportation, and detention.

Further Reading

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