

The Washington Post

FINAL

Inside: Washington Business
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Washington. (See box on Page A4)

Weather

Today: Partly sunny. Rain
late. High 60. Low 49.
Tuesday: Mostly cloudy.
High 80. Low 64.

Details, Page B8

126TH YEAR No. 151 M2 DM VA

MONDAY, MAY 5, 2003

M1 M2 M3 M4 M5 V1 V2 V3 V4

BIG GREEN | When Conservation and Business Fail to Mix

How a Bid to Save a Species Came to Grief

Second of three articles

By JOE STEPHENS
and DAVID B. OTTAWAY
Washington Post Staff Writers

TEXAS CITY, Tex.—Eight years ago, Mobil Oil gave the Nature Conservancy what was one of the group's largest corporate donations, a patch of prairie that encompassed the last native breeding ground of a highly endangered bird.

Mobil officials said that the donation offered "the last best hope" of saving the Attwater's prairie chicken, a speckled grouse whose high-stepping mating dance at-

tracts avid bird watchers to the Texas plains each spring.
Then an unusual role reversal took place.

The Conservancy, whose core mission is preserving land to protect species such as the prairie chicken, started acting like an oil company. The Conservancy sank a well under the bird's nesting ground.

Drilling in sensitive areas is opposed as destructive by most environmentalists. But the Conservancy subscribes to an aggressive form of "compatible development," a pragmatic approach that seeks to accommodate the needs of business as well as environmentalism. The Conservancy

wanted the Texas City Prairie Preserve to be a national model to show that drilling can be accomplished without harming the environment. It would use the drilling profits to buy more habitat for the birds.

That's not the way things worked out. Today, there are fewer prairie chickens on the preserve than there were when drilling began. The number of endangered grouse nesting there has fallen from a peak of 36 in 1998 to a current estimate of 16. A previously unreported analysis by the Conservancy's Texas science director stated that the project had subjected the grouse



BY PHILIPPE DEDERICK FOR THE WASHINGTON POST
An endangered Attwater's prairie chicken. Drilling to increase its habitat went awry.

See BIG GREEN, A10, Col. 1

Iraqis Break Silence About Secret Graves

Frantic Search Begins for the Missing

By SCOTT WILSON
Washington Post Foreign Service

HILLA, Iraq, May 4—Iraqis began breaking years of frightened silence over the location of mass graves today, directing U.S. troops and neighbors with relatives who vanished during the rule of Saddam Hussein to two dusty pits holding scores of human remains.

Near the city of Najaf and in this farming town 60 miles south of Baghdad, hundreds of Iraqis frantic for information about relatives missing for more than a decade began excavating graves previously known only to a few townspeople. Digging gingerly with shovels and hands, they began pulling from the ground skulls stained brown after years in the earth, bits of clothing and sets of false teeth.

More than 80 sets of remains were unearthed at the two sites, including those of women and children, and the number was climbing as darkness came. But international human rights workers, who say Hussein left scores of mass graves during 24 years in power, worried that the amateur search would destroy forensic evidence essential to identifying victims and recording the gov-

ernment's crimes.

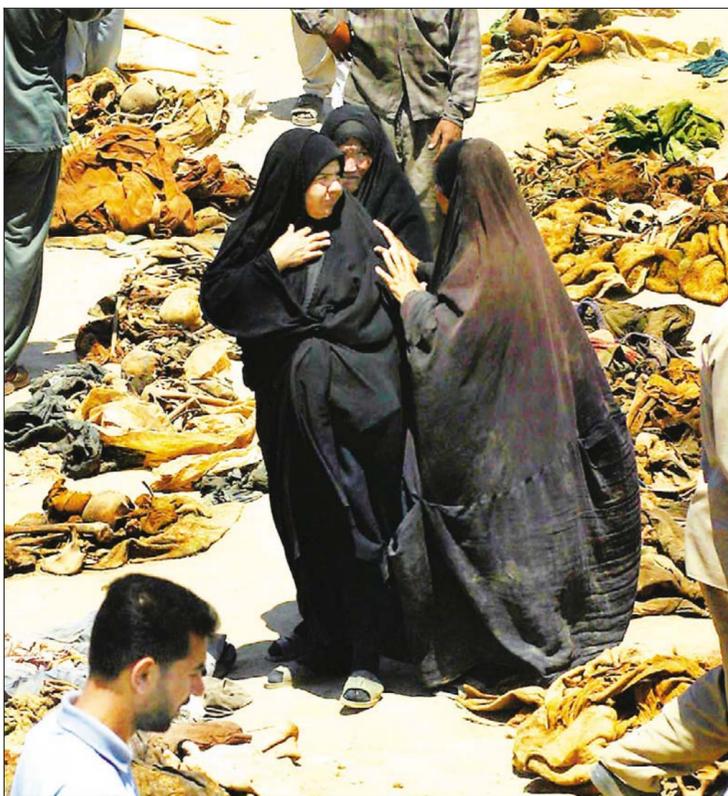
At a sun-scorched plot near a mosque on the edge of this city, Mohammed Abed arrived with a shovel at midday to begin searching. He was looking for the remains of three brothers he had not seen since the town's large Shiite population rose up against Hussein after the 1991 Persian Gulf War. The uprising was encouraged by the U.S. government, which promised support that never materialized.

Like many here, Abed heard of the grave only the day before, after a Hilla man guided the region's governor and U.S. troops to a mound that he had known for more than a decade held the body of his son. Picking away at a small hill, Abed bent occasionally to remove chunks of bone from the ground. But he could not identify what he was finding.

"I'm hoping I might recognize some clothes because what else can I do, really?" said Abed, with dust coloring his dark hair a shade of gray. "Otherwise, all I'm seeing is a pile of bones."

The discoveries come as Iraqis search government archives, military bases and grave sites seeking

See GRAVES, A14, Col. 1



BY ANDREA BRUCE WOODALL—THE WASHINGTON POST
Some Iraqis who lost loved ones during the rule of Saddam Hussein gather around bones found in a mass grave in the town of Hilla. Many brought photos hoping to match them with clothing found in the graves.

U.S. Military Slow to Fill Leadership Vacuum Left by War

By RAJIV CHANDRASEKARAN
Washington Post Foreign Service

BAGHDAD, May 4—Abbas Hussein Zubaidi, a 31-year-old electronics technician who recently proclaimed himself director of Baghdad's Kindi Hospital, has never been to medical school. He has no professional experience. His only claim to power is a one-page edict from Iraq's most influential group of Shiite Muslim schol-

ars, secured under a glass pane, that deputizes him to run the 350-bed facility.

On that authority, he commandeered the keys to the stores of medicines, food and fuel. He placed the ambulances and other vehicles under his control. He deployed armed guards at the entrances. He even seized the hospital's rubber stamp, using it to make permission slips that are doled out to his supplicants.

The hospital's doctors want Zubaidi to

leave. Fearful that asking him to go could provoke his armed supporters, the doctors have repeatedly asked U.S. officials to remove Zubaidi. But more than a week after the first request was made, they said they have received no definitive response.

"This is the responsibility of the Americans," said an orthopedist. "They are occupying our country. They should be protecting us. Where are they?"

After seeking to project an image of in-

controvertible force on the battlefield during the campaign to topple Saddam Hussein's government, U.S. military commanders have done relatively little to crack down on the legions of religious clerics, tribal sheiks and once-exiled opposition leaders who have since grabbed power without permission in postwar Iraq.

See IRAQ, A14, Col. 1

Vietnam Took Lead In Containing SARS

Decisiveness, Luck Credited

By ELLEN NAKASHIMA
Washington Post Foreign Service

HANOI—Johnny Chen was a hard-driving American businessman based in Shanghai, used to making things happen. So he was dispirited, even angry, when, after a visit to Hong Kong, he became fatigued and feverish and wound up in a hospital bed here.

Chen checked into Hanoi French Hospital, the city's only private hospital, in late February with a 104-degree fever, a sandpaper cough and muscle aches that would alarm an Italian parasitologist, Carlo Urbani, who would alert the world to a strange, new respiratory disease.

By the time Chen died on March 13, four days after his 49th birthday, it was clear to a group of health care experts that the businessman was the victim of a new disease. A day earlier, the World Health Organization had put out a global alert.

But on April 28, just six weeks after Chen died, Vietnam's government was able to declare the country the



BY ELLEN NAKASHIMA—THE WASHINGTON POST
Vu Khac Khoan, 76, and Nguyen Duc Khiem, 67, Vietnam's final two SARS patients, were released Friday from Bach Mai Hospital, which became the main SARS facility.

first in the world to contain severe acute respiratory syndrome, or SARS.

It would appear unlikely that a poor communist country could become the first to tame a mysterious, contagious disease. But Vietnam's handling of SARS is a tale of decisiveness, cooperation and luck, in which early de-

See VIETNAM, A17, Col. 1

At Ritz Complex, Mold Came to Call On Condo Owners

By ANNIE GROER
Washington Post Staff Writer

The location was perfect, walking distance to Georgetown, downtown, the Kennedy Center. The amenities were sterling. And for venture capitalist Carol Anderson and her attorney husband, Stanton, price was not an issue.

In January of 2001 they moved into a spacious \$1 million retreat at the Residences at the Ritz-Carlton in West End. In came an artist to paint a mural in the foyer. Up went the John Singer Sargent watercolor of Venice in the living room. Onto the floor went the \$45,000 Persian rug.

Adding to the building's cachet, residents would come to include diplomats, politicians and such Washington luminaries as Kennedy Center director Michael M. Kaiser, soccer star Mia Hamm and basketball legend Michael Jordan.

But for the Andersons and many of their wealthy neighbors, gracious living at the Ritz brought an unwelcome houseguest: mold. Because of plumbing and construction problems, flooding and leaks sent water into lobby areas, hallways and the bowels of the building, creating the perfect environment for the black fungus that grew behind walls and under floors.

When the scope of the problem became evident, numerous owners were relocated to other apartments while their places were torn apart. Some fled entirely, complaining of mold-induced illnesses. To date, four multimillion-dollar lawsuits have been filed by owners and renters against the firms that developed and manage the property. And that does not count a pair of con-

See RITZ, A12, Col. 1

Gun Firms On Verge Of Winning New Shield

Liability Bill Reflects Industry, NRA Clout

By JIM VANDEHEI
Washington Post Staff Writer

The gun industry, demonstrating its resurgent influence over Washington politics, is on the cusp of convincing President Bush and Congress to protect it from pending and future lawsuits.

Under pressure from the National Rifle Association and a lesser-known organization funded with \$100 million from gun manufacturers, Bush and a majority of lawmakers are on record supporting significant new legal protections for companies that make and sell guns. The legislation would prevent victims of gun crimes from making civil claims against companies that manufactured, imported or sold the weapons.

The NRA calls the legislation a prudent way to prevent companies from going belly up simply because a criminal used their gun illegally. But critics say the measure would allow some gunmakers who misplace caches of weapons—or dealers who sell guns to felons—to escape civil penalties.

Victims of the Washington area sniper, for instance, might be prohibited from suing the controversial gun dealer in Tacoma, Wash., who supplied the Bushmaster rifle used in some of last October's shootings if the bill becomes law, according to legal experts.

Some gunmakers and distributors, facing numerous lawsuits nationally from victims and gun control groups and the possibility of losing hundreds of millions of dollars through jury verdicts and legal costs, worry they could be driven out of business if the cases persist.

In a bipartisan political retreat from gun control, more than two-thirds of House members recently voted for the gun bill; 52 senators have sponsored it, and, if it passes the Senate, Bush plans to sign it into law. Opponents are scrambling to persuade at least 41 senators to filibuster the bill, but odds are stacked against them.

Lawmakers cite one overarching reason for the bill's unexpected popularity, partic-

See GUNS, A6, Col. 1

Analysis

Debate Bares Democrats' Great Divide

By DAN BALZ
Washington Post Staff Writer

COLUMBIA, S.C., May 4—Democrats are united in their determination to send President Bush back to Texas in November 2004, but the first debate of the presidential campaign exposed the limits of that unity and the near-total absence of consensus on how best to challenge the president in the general election.

The president was barely a presence at Saturday's 90-minute debate on the campus of the University of South Carolina, attacked from time to time for his tax cuts and record on the economy but hardly the main focus of the nine candidates on the stage.

Instead, the Democrats turned on one another—in some cases to bare serious differences over the war in Iraq or how to expand health care coverage; in other cases to reveal personal animosities and to begin in earnest the jockeying for position in what now promises to be an especially tough battle for the nomination.

Sen. John F. Kerry (D-Mass.) and former Vermont governor Howard Dean attacked one another. Sen. John Edwards (D-N.C.) attacked Rep. Richard A. Gephardt (D-Mo.). And Sen. Joseph I. Lieberman (D-Conn.) attacked any number of his rivals. At different points, Sen. Bob Graham (D-Fla.) and the Rev. Al Sharpton urged their fellow candidates to aim their fire at the president, rather than give the Republicans ammunition to use against the Democratic nominee—but to no avail.

ABC News's George Stephanopoulos skillfully moderated the debate, and by the time it ended, the surprise of the night was Lieberman's strong performance. The party's 2000 vice presidential nominee carved out space in a crowded field as a hawk on national security, a centrist on domestic issues. Democrats cannot win in

See DEMOCRATS, A6, Col. 1

■ Pressure replaces pleasantries in Bush's tax cut drive. Page A4

INSIDE

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Child-Care Aid Down

A GAO study shows nearly half of states have restricted eligibility and lowered benefits for aid, affecting low-income working families.

NATION, Page A2

Anthrax's Genome

A Maryland-based team of scientists has unveiled the entire genetic code of the microbe that causes anthrax.

SCIENCE, Page A7

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BIG GREEN | When Conservation and Business Fail to Mix

The Nature Conservancy Drills for Gas in a Texas Preserve

Birds in trouble . . .

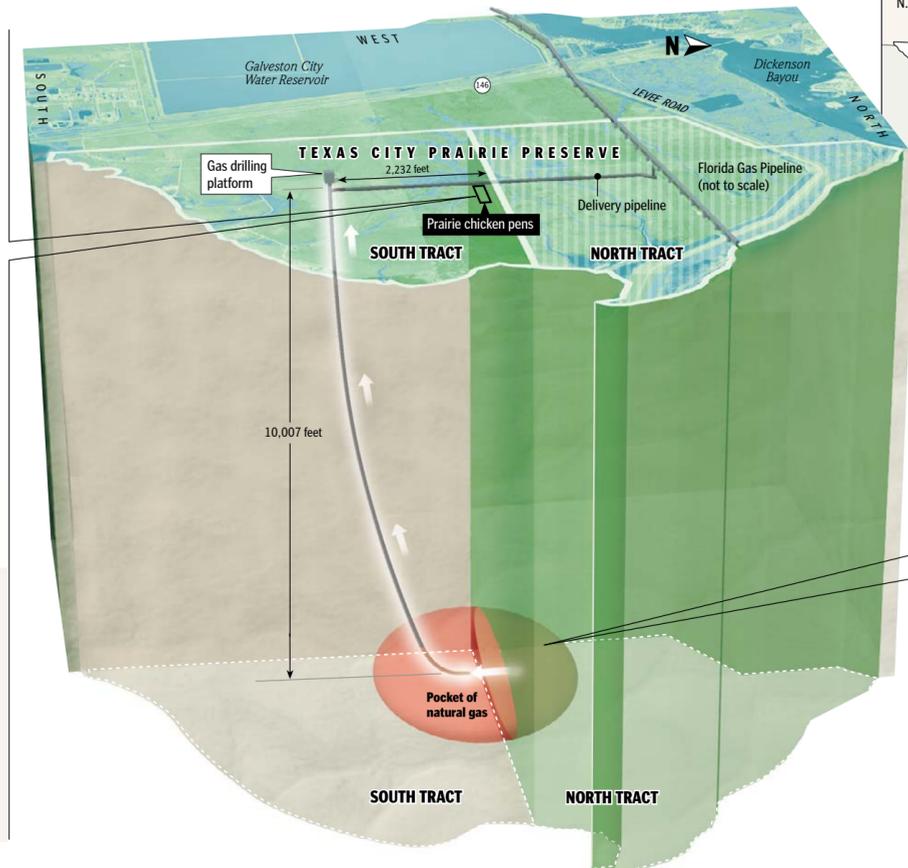
Mobil Oil donated the Texas City preserve to the Conservancy as "the last, best hope of saving one of the world's most endangered species." The Conservancy planned to bolster the Attwater's prairie chicken flock by introducing captive-bred birds in late summer of 1999, giving them time to adjust before hawks and other migrating predators returned. But the Conservancy had also contracted to drill on the land, and when pipeline construction fell behind, the birds' release was delayed to November. That year, each of the 17 captive-bred birds died.

Documents show that in recent years the preserve has been the site of oil spills and at least one explosion. In one incident, prairie chickens confined to a pen died during a deluge while awaiting release.



About the Attwater's Prairie Chicken

A century ago, the Gulf Coast was home to a million or more of the speckled birds, a species of grouse known for its colorful mating dance. Today, the last wild, breeding population numbers roughly 16 and lives on the Conservancy's Texas City preserve.



. . . and investors in the dark

Oil and gas rights below the Texas City Prairie Preserve were divided. The Conservancy owned all rights in the south, but shared them in the north. When it drilled in the south and struck a pocket of natural gas located on both sides, the Conservancy did not alert the other parties.

How the mineral rights were divided



THE SOUTH TRACT
The Conservancy held sole rights.

THE NORTH TRACT
The Conservancy shared rights with the Russell Sage Foundation of New York and 39 other investors.

How the Conservancy profited

When the Conservancy drilled a well on the south tract, it didn't bore straight down. The drill slanted northward, traveling to within 592 feet of the north tract and tapping into a massive pocket of natural gas that lay under both tracts. The Conservancy profited by selling gas jointly owned by all the rights holders.

BY DOUG STEVENS, LARIS KARKLIS AND LAURA STANTON—THE WASHINGTON POST

Gas Project Intended to Aid Birds Came to Grief

BIG GREEN, From A1

to a "higher probability of death."

The drilling also led to legal and financial problems: Another national charity accused the Conservancy of stealing its mineral rights, forcing the Conservancy and its partners last year to pay a \$10 million settlement.

After The Washington Post began looking into Texas City, Conservancy President Steven J. McCormick wrote an internal memo stating that the organization made an "incorrect" assumption about the mineral rights that resulted in "a mistake." But he insisted, "Our local staff always put the interests of the Attwater's prairie chicken first. . . . We did not compromise our commitment to our mission."

A Conservancy vice president told a reporter visiting the preserve 20 months ago: "We have not been able to detect any negative impact on the birds."

Records and interviews tell a more complex tale.

'Stealing Our Oil'

A century ago, the Gulf Coast was home to a million or more Attwater's prairie chickens, known for a courtship ritual marked by cocked tail feathers and inflated orange necks. Their numbers shrank as development gobbled up coastal grasslands.

Today, each member of the last wild, breeding population of Attwater's can be found on just 2,300 acres, a pancake-flat patch of tallgrass prairie an hour southeast of Houston.

Mobil drilled on the property until 1995, when it gave the land to the Conservancy. At the time, an executive called the donation "the last, best hope of saving one of the world's most endangered species." Mobil, a Conservancy official explained, wanted "to place the land with an entity that would act in the best interest of this endangered bird."

In 1999, the Conservancy announced its own intention to drill. It said it had consulted with the U.S. Fish and Wildlife Service, developed a management plan for the birds and would sink its wells far from the birds' primary habitat.

In late summer that year, Conservancy biologists planned to introduce captive-bred grouse into the natural flock, allowing the birds to acclimate before falcons and other predators returned. The Conservancy stressed that oil work would halt by Sept. 1 to make way for the releases.

Drilling began mid-summer that year.

The story might have ended there if not for the patchwork of oil rights underlying the preserve.

A year later, in July 2000, Houston oilman J. L. "Jack" Schneider Jr. wrote a letter to the 96-year-old nonprofit Russell Sage Foundation of New York. He said he had made "a cursory examination" of Texas records and noticed that for decades the foundation had owned partial oil rights for a 1,000-acre plot.

Schneider described his interest as "speculative," based largely on the discovery of gas beneath land 14 miles away. "We have no data indicating your area is, or will be," profitable, Schneider wrote.

He offered to buy the foundation's rights for \$26,176.

The foundation sent a consultant to evaluate, which led to startling conclusions: that Schneider was fronting for the Conservancy; that the preserve's mineral rights were worth millions; and that the Conservancy already had begun draining the foundation's natural gas.

The result was a bitter legal battle between two nationally respected nonprofits. The Sage Foundation ultimately accused the Conservancy of orchestrating a "conspiracy" to satisfy its "greed."

"As far as I am concerned, it was criminal," said James Roane, a former Conservancy member who co-owned a portion of the mineral rights. "They were stealing our oil."



Drilling was intended to generate funds to be used to expand the habitat of the endangered prairie chicken.

BY PHILIPPE DIEDERICK FOR THE WASHINGTON POST

The Beef About the Brand

Of all the products that carry the Nature Conservancy imprimatur, perhaps the most unexpected is beef.

Hamburger, rib-eye, filet mignon and tenderloin kebabs that can "satisfy your conscience" are sold under the name Conservation Beef, a brand the Conservancy co-owns with the tax-exempt Artemis Wildlife Foundation.

They use the program to bolster imperiled cattle ranches and, along the way, entice ranchers into environmentally friendly grazing practices. Another goal is to persuade them not to sell their land to developers. In an open letter to customers on the Conservation Beef Web site, a Conservancy official writes, "Your purchase will help save great Western landscapes for future generations."

Conservation Beef costs more than the average supermarket T-bone. That premium allows the program to pay ranchers a few cents more per pound than they could pocket selling cattle on the open market. That can translate into \$5,000 or so in additional annual profit per rancher.

The program is designed to sell conservation values to ranchers, who have an "Us versus Them" attitude toward environmentalists, said Artemis President Brian Kahn, who developed the idea while working for the Conservancy. "This is not some good-old-boy system," Kahn said.

However, Consumers Union, which publishes Consumer Reports magazine, said the program has a conflict of interest "since [Conservation Beef] helps create the guidelines and [Conservation Beef] benefits from the sale of the product."

CU's Urvasi Rangan said, "The ranchers pretty much can do whatever they want. They have very loose guidelines."

Program literature shows that the ranchers help craft their own "stewardship plans," following guidelines agreed on with the Conservancy.

The stewardship plans vary widely. "It is the rancher's right and responsibility to determine specific management proposals to meet the [Conservation Beef] Stewardship Standards," according to the guidelines.

The program works to place development restrictions on participants' land. But ranchers may preserve their rights to subdivide, develop and sell portions of their ranges. Restrictions may affect only part of the grazing land they use. Guidelines have escape clauses, allowing ranchers to substitute "another mutually acceptable way."

Madison Valley Ranchlands Group, comprised of Montana ranchers, helps monitor the program. Ranchlands President John Crumley sells cattle to Conservation Beef himself.

Kahn said that "the monitoring program will be a serious program," but added that it has yet to begin and he does not know what form it will take.

A sales pitch on the Conservation Beef Web site is co-signed by Montana rancher Randy Smith.

Smith said in an interview he has always used the same ranching methods, despite the mention of "innovative land-stewardship plans" in the letter bearing his name.

"People learned a long time ago in this area that if you don't take care of the land, it will take care of you," Smith said. "That's been around for a long time; Conservation Beef is relatively new."

Smith also said he no longer sells beef to the program. Some family members did not want to sign away development rights to their ranch.

— Joe Stephens and David B. Ottaway

A Hidden Buyer

Mineral rights on the Texas City Prairie Preserve had been divided in two. In the north, the Conservancy shared the rights with the Russell Sage Foundation and 39 other investors. In the south, the Conservancy held exclusive rights. The grouse's habitat straddled both tracts. So did a large pocket of natural gas.

By the time of Schneider's offer, Conservancy contractors already had drilled for gas on the south tract. Instead of drilling straight down, they turned and bored northward, traveling to within 600 hundred feet of the north tract. The Conservancy later argued that lateral drilling avoided disturbing the grouse's habitat. Unknown to the north tract owners, the Conservancy's well had tapped into the natural gas deep beneath both tracts. Soon the Conservancy was selling gas owned by all the rights holders on the south and north tracts.

The Conservancy's plan to acquire the north tract mineral rights was born on a turkey hunt. Schneider testified that that's when he recalls exploring the idea with Tom Rollins, an honorary trustee in the Texas chapter of the Conservancy and the chapter's former board chairman. He and other Conservancy officials agreed to send Schneider to acquire the north-tract rights without disclosing the true buyer.

"It sounded like it was a good idea," Ray Johnson, then the Conservancy's manager for eastern Texas, recalled in a deposition. Rollins later defended the hidden-buyer strategy as "industry practice" and a way to cheaply acquire the rights.

Sage Foundation lawyers described it this way: "Schneider and Rollins fabricated a story to hide the truth."

Schneider, who did not return telephone calls, denied in a deposition that he had done anything misleading. Under questioning, however, Rollins acknowledged that Conservancy officials had "ratified" Schneider's tactics and his "misleading" story.

The Conservancy's plan for acquiring the charity's natural gas rights, Rollins agreed under oath, relied on a "lie."

In a hearing, a Sage Foundation lawyer said: "What they did was basically try to steal our interest. . . . They lied. They lied. They lied some more."

Dead Birds

The wrangling in a tiny Texas courthouse dealt only with money. But paperwork generated by the litigation shows some Conservancy officials feared the drilling had harmed the endangered grouse.

Allowing newly released, captive-bred birds to acclimate to their wild surroundings was "critical," a Conservancy biologist said, placing the preferred release window in late July and early August. After that, predators would return and the birds' chances for survival would plummet.

When the Conservancy drilled in 1999, it needed a pipeline to transport the natural gas to an interstate line. Due to construction delays, the pipeline work continued into late summer and then into the fall.

Although the Conservancy's agreements with contractors required that they complete work by the end of July for the sake of the birds, the charity did not halt construction. It allowed work to continue until November, according to depositions and an April 2000 draft report prepared by James Bergan, the organization's Texas science director, and Matt Williams, then manager of the preserve. The Conservancy released the birds three months late.

The report says Williams believed the delay "may have compromised" the operation, noting that all the captive-bred birds "died shortly after their delayed release in No-

See BIG GREEN, A11, Col. 1

About This Series

SUNDAY

Inside the Nature Conservancy

The Nature Conservancy of Arlington, the world's largest environmental nonprofit organization, promises to preserve precious places. It has a million members, 2 million acres and billions of dollars in assets. During the last two decades, the Conservancy has aligned closely with corporations. In addition to land conservation, it pursued drilling, logging and development. Its approach has led to strange bedfellows.

TODAY

When Conservation and Business Fail to Mix

Mobil Oil gave the Nature Conservancy one of the group's largest corporate donations, a patch of prairie that encompassed the last native breeding ground of the most endangered bird in North America. The Conservancy wanted to turn the site into a national model of environmentally compatible drilling. But the results illustrate how the organization's philosophy and pursuit of profit can put its core mission at risk.

TUESDAY

A House in the Woods

Time and again, the Nature Conservancy has bought pristine land and resold it at a loss to a supporter. The sales, part of a program to limit development, allow "conservation buyers" to build houses on environmentally sensitive sites and take huge tax breaks. In those deals, "preserved" land can include a sprawling home with a swimming pool.

BIG GREEN | When Conservation and Business Fail to Mix

2 Nonprofits Engaged In Bitter Legal Battle

BIG GREEN, From A10

member." The report said Williams's opinion was not "conclusive evidence" but "should not be taken lightly."

Although the report did not give a specific number, federal figures show that 17 captive-bred birds were released on the preserve that year.

Bergan wrote in an analysis prepared in June 2002 that "well completion delays forced a delay in releasing [prairie chickens] and subjected them to higher probability of death from raptor predation."

Williams declined to comment. Bergan said recently that, despite his report's wording, only Williams believed that delays led to the birds' death. Today, Bergan said, he considers the pipeline work to have been one possible factor. "We'll never know if the survival of those birds were or were not tied to the pipeline," he said.

In his deposition, Johnson said that if the endangered birds were the sole concern, "it would have been better if we didn't have any activity on our preserve."

There were other problems: A Conservancy vice president testified that the organization's drilling contractors were difficult to manage, saying, "They were always pushing, pushing, pushing, pushing. And we had to be like a brick wall to protect those birds."

Documents also reveal that a gas explosion and an unspecified number of oil spills took place at the preserve. Then, in 2001, five captive-bred birds that the Conservancy hoped to introduce into the flock died in a deluge while confined to a pen awaiting release, according to a Fish and Wildlife Service e-mail.

Biologist Stanley A. Temple, who toured the site in October at the Conservancy's request, wrote in a report: "I was shocked to find, for example, that one of the release pens is subject to flooding in heavy rains, and that birds have drowned in the pen."

Temple was also surprised at the radio tracking devices on the captive-bred birds.

"All released prairie chickens are radioed with permanent 'poncho-style' harnesses," he wrote. "These will remain on the bird long after the transmitter has died (in a few months) and continue to compromise the bird throughout its life. There is no way that I can justify this practice."

Managing Risk

By January 2002, the Conservancy's natural gas operation had generated about \$8 million in revenue. Officials planned to spend half purchasing additional habitat along the Gulf Coast, but failed to do so. Now, much of the profit has gone toward the lawsuit settlement.

After contributions from its insurance company and partners, the Conservancy said it paid \$5.6 million toward the \$10 million settlement.

The Conservancy still expects to make a net profit on the well and says it will spend the money on the endangered birds. After The Post began examining the

Texas City project, Conservancy President McCormick issued a memo to staffers and state trustees describing "tactics" used at the preserve as "not consistent with our values." McCormick informed the trustees about the newspaper's inquiry and stressed that he saw nothing to be gained by "keeping bad news quiet."

That startled parties to the suit, who said that in return for the \$10 million settlement, the Conservancy had demanded that they sign gag orders. Many declined.

McCormick later explained in an interview: "We just didn't want people to talk about how... stupid we were."

Last October, the Conservancy dispatched Temple, a trustee of its Wisconsin chapter, to Texas City. Temple later said in a report, "The steps taken to minimize the possible disturbances associated with the current oil and gas production seem adequate to protect the birds... although minor incidents have occurred from time to time, none of them has apparently posed any threat to the birds."

Today, the Conservancy continues to pump gas from Texas City.

"The takeaway lesson from our experience at Texas City," McCormick wrote, "is that we need to learn how to manage the risk, not how to avoid it altogether."

In a written defense of the Texas City project, Conservancy officials said:

"Our staff and independent scientists, including one of the world's leading ornithologists, have confirmed that our decisions and actions regarding oil and gas activity have not compromised the protection of the prairie chicken..."

"It is also important to note that there are no other projects in which the Conservancy has initiated oil and gas drilling. It would be inaccurate to suggest this is a common practice at the Conservancy."

There is another environmental group that has experience with drilling on one of its preserves. The Audubon Society received land in 1924 along Louisiana's coast where the donor retained the drilling rights. The drilling started two decades later, and Audubon received a portion of the proceeds. There were no endangered species on the land, but Audubon eventually decided the drilling was too destructive. Audubon and the donors agreed to stop it in the fall of 1999.

Just as the Audubon Society was getting out of the drilling business, the Conservancy was getting in.

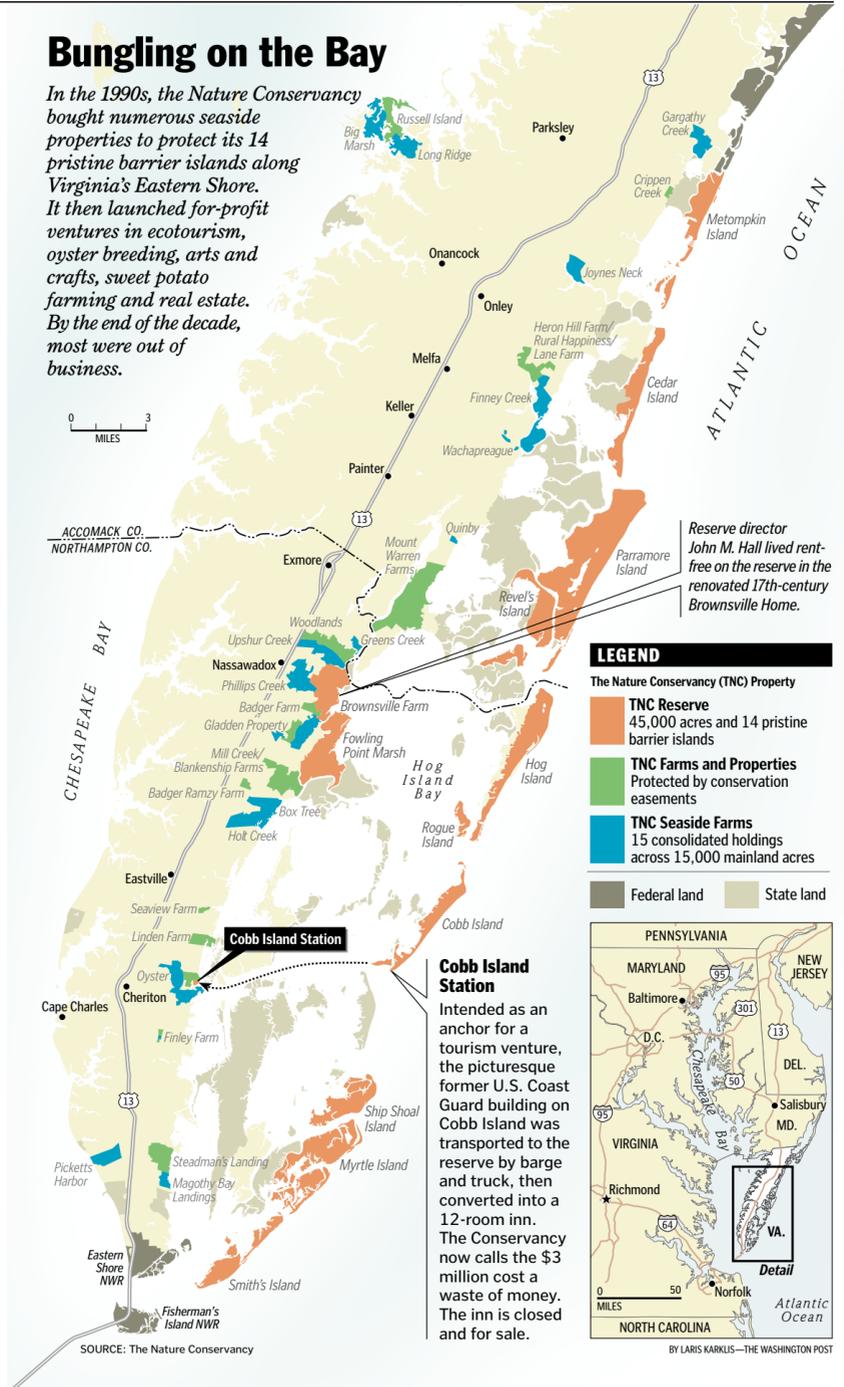
"We have learned from experience that opening fragile nature areas to drilling causes long-term damage to the environment," John Bianchi, Audubon's spokesman, said in January 2001. He added in a recent interview: "This is our cautionary tale for the Nature Conservancy to think about."

Staff researchers Alice Crites and Lucy Shackelford contributed to this report.

NEXT: Conservation for the Wealthy

Bungling on the Bay

In the 1990s, the Nature Conservancy bought numerous seaside properties to protect its 14 pristine barrier islands along Virginia's Eastern Shore. It then launched for-profit ventures in ecotourism, oyster breeding, arts and crafts, sweet potato farming and real estate. By the end of the decade, most were out of business.



On Eastern Shore, For-Profit 'Flagship' Hits Shoals

Local Ventures Launched, Foundered and Failed

By DAVID B. OTTAWAY and JOE STEPHENS
Washington Post Staff Writers

OYSTER, Va.—With great difficulty, the Nature Conservancy five years ago hoisted an abandoned U.S. Coast Guard station building onto a dolly, slipped it on to a barge and shipped it six miles to the outskirts of this little town on Virginia's Eastern Shore.

For \$3 million, the 210-ton Cobb Island Station was then converted into a rustic 12-room inn intended to anchor a high-end tourism venture. The inn was part of a collection of for-profit ventures the Conservancy launched here in the 1990s to convince the dwindling local population that small business could be profitable and preservation-friendly.

Now, the Conservancy has determined the Cobb Island Station project was a waste of money. The restored inn is shuttered and for sale.

One by one, the other Conservancy-backed business ventures at the group's 45,000-acre Virginia Coast Reserve failed. In October, auditors tallied the cost—millions in losses and a slew of failed companies. They also found that the project—which envisioned a locally based sweet-potato-chip company, an oyster-and-clam operation, even a real estate development—was beset by incoherent planning, "management issues" and properties that were a "sink for resources."

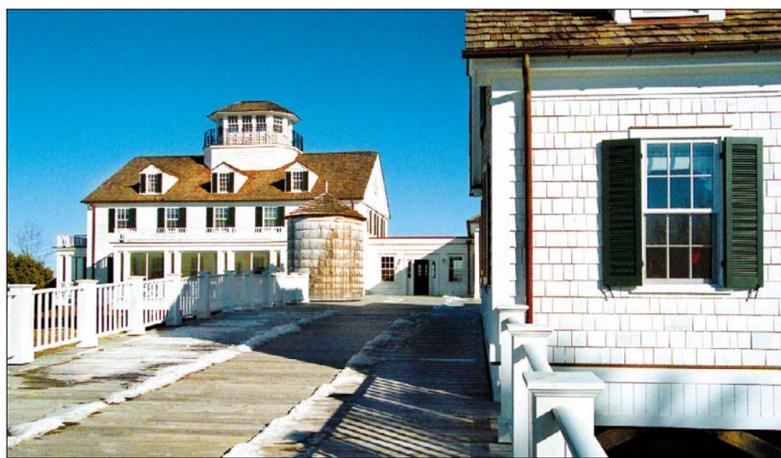
The subject headings in an independent report commissioned by the Ford Foundation, one of the project's financial backers, list more succinct reasons for what went wrong: "flawed concept," "flawed business plan," "flawed execution."

The troubles demonstrate the difficulty of the Conservancy's strategy of blending for-profit businesses with community-based conservation.

The reserve's financial mess led to the resignation of its longtime director and the reassignment of the Conservancy's one-time acting president, W. William Weeks, the project's primary promoter. It spurred an internal assessment reappraising the Conservancy's ability to engage in money-making businesses. The Conservancy audit found that despite the reserve's \$53 million in assets and multimillion-dollar budget, it had "not traditionally employed a person to focus explicitly on its finances." The assessment charged that in pursuing expensive real estate, managers had lost sight of ecological goals.

In addition to tourism, the Conservancy had planned to use the Virginia reserve for "eco-friendly" seaside farms and waterfront homes. But it now believes liquidating the business is the only solution. In recent months, the Conservancy has put most of its 15,000 acres of seaside farms on the market.

The Washington Post began investigating the Conservancy's Virginia reserve business project—which the group had called its "flagship" for-profit venture—after sources within the Conservancy raised concerns. The Post visited the site and obtained the previously unreleased Ford study.



By wheels and barge, former Coast Guard station was hauled six miles to help anchor ambitious tourism venture.

After repeated inquiries, the Conservancy released to The Post an internal 28-page program assessment of the reserve's operations completed in August. The Conservancy refused to release its full audit report. Instead, Conservancy officials provided a two-page summary.

The main promoters of the Conservancy's business experiment were Weeks and a former president, the late John C. Sawhill, an energy official in the Nixon, Ford and Carter administrations.

In a 1997 book called "Beyond the Ark," Weeks argued that the best way to conserve land was to convince local communities to stop selling forests and farms to subdivision builders and instead choose less intrusive development.

At Weeks's suggestion, the Conservancy in 1995 established the Center for Compatible Economic Development, with an annual budget of \$1.5 million and total autonomy. Weeks and everyone else referred to it as his "skunk works."

It launched more than 30 ventures nationwide with seed money provided by Conservancy donors and foundations. Some of the businesses were for-profit, others initially tax-exempt but expected to soon become self-sufficient.

In Virginia, the skunk works set up its flagship operation near the Virginia reserve, a collection of 14 pristine barrier islands owned by the Conservancy. The center launched the for-profit Virginia Eastern Shore Corp. as a holding company for as many as 15 enterprises. The activities included real estate development and tourism, clam and oyster farming, arts and crafts and Hayman Potato Chips, a local specialty sweet-potato chip. Investors included the Ford Foundation, which contributed \$1 million of the initial \$2.25 million in capital.

The reserve's director, John M. Hall, lived rent-free

on the reserve in the renovated 17th-century Brownsville Home, which had once been used for community tours and meetings. The Conservancy's internal assessment later criticized the living arrangement as "not appropriate," but Hall said the on-site housing was provided as a condition of his job. (Conservancy officials now say they do not permit employees to live at Brownsville.)

Hall began buying seaside farms and waterfront properties, using the Conservancy's Land Conservation Fund. Some properties were used for business projects, others resold to buyers who agreed to limit development. The farms were consolidated into 15 large holdings covering 15,000 acres around the towns of Nassawadox and Oyster.

On the 360-acre Phillips Creek Farm, Conservancy officials plotted one-acre wooded, ocean-front lots, priced at \$125,000 each. The Conservancy advertised in the local paper and received 400 inquiries. But the project was halted before any lots were sold.

Hall also spent millions to develop and renovate properties. At his urging, the Conservancy's board approved a \$3.5 million bond issue to help cover costs of the elaborate project to convert the former Cobb Island Station into a country inn.

In mid-1999, the Conservancy's flagship Eastern Shore Corp. suddenly went belly up. Its collapse set off alarms at the Conservancy's headquarters in Arlington. The Ford Foundation commissioned an independent inquiry in late 2000.

Parts of that report, obtained by The Post, document how the Eastern Shore enterprise burned through 86 percent of its initial capital over the first two years before collapsing in "a sea of red ink" in August 1999.

The report excoriated Eastern Shore's management for systematically refusing to listen to outside advice or

warnings. The report blamed hubris. The Eastern Shore Corp. "would do what no one else had ever done—and show the rest of the Nature Conservancy, not to mention the world, how to do it," the report asserted.

Instead of aiding farmers, artisans and business people, the Eastern Shore Corp. had micromanaged everything. "In doing so, it became more of an intruder than a catalyst to local action," the report said.

The report said the Conservancy's attempt to go into business was "the story of a fish out of water."

Direct operation of businesses, the Ford report said, "was a step too far" for the Conservancy.

The Conservancy's own assessment noted that too much money was tied up in properties of no ecological import. The project failed in its core mission, the assessment found, and the efforts had not slowed destruction of the feeding grounds for millions of migratory birds.

The assessment also found that the Conservancy's support of the local clam industry with loans and leases led to "unintended negative consequences": the farms polluted the ocean as the "scale of operations begins to exceed sustainable levels."

The conclusion: "Compatible economic development may create as many problems as it solves."

Ruminating on the Eastern Shore experience, Conservancy President Steven J. McCormick recently expressed doubts about the organization's ability to handle commercial ventures.

"We're a nonprofit organization," he told The Post. "We don't tend to think like a business.... That's okay, probably even appropriate, but it means we're very inexperienced in running a business. We've learned from experiments that it's real hard."

In late 2001, the Conservancy merged its Virginia Coast Reserve operations into its Virginia chapter. The Conservancy's executive summary of its internal audit report said that as of March 31, 2002, the reserve had liabilities of \$24 million—\$20 million of it owed to the parent Conservancy, mainly for land purchases. Conservancy officials said that that internal debt has since been reduced to about \$13 million through the sale of several seaside farms.

Hall, who headed the Virginia Coast Reserve for nearly two decades, resigned in October 2001. He said in an interview he had never seen the Conservancy's audit report or program assessment. But he said when he left, "we were in very good shape financially" and "way ahead in paying off our debt."

He said "mistakes" had been made, but added that "we made a lot of little steps in the right direction." Weeks, once number two in the Conservancy hierarchy, served for a while as a senior adviser to McCormick with no specific duties. He left the Conservancy on April 25.

Reflecting on lessons learned, Weeks conceded his primary goal—establishing successful and environmentally compatible for-profit businesses—had proved elusive.

"We didn't make that business work," Weeks said. "The lesson I take from it is, do a better job managing the business if we're going to do that kind of thing again."