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Kerry's world's fair dream crushed by debt

Dozens of vendors built a chic U.S. pavilion at last year's Milan expo, but no one knows how to pay them.

By **SARAH WHEATON** | 02/24/2016 05:50 PM EST | Updated 02/24/2016 08:15 PM EST



John Kerry attends a reception for U.S. companies based in Italy that are donors and potential donors for a U.S. Pavillion at the 2015 Milan expo, in Rome on Mar. 27, 2014. | Getty

Thinc Design, a New York firm whose credits include the 9/11 Memorial Museum, designed exhibits along a boardwalk brought in from Coney Island and hung living plant “chandeliers” to create a distinctive look for the U.S. pavilion at last year’s World Expo in Milan, a big success for its State Department sponsors.

The problem is nobody paid for it. Thinc Design is in the hole \$1 million, after the State Department failed to raise enough private money to fund the display — and its owner wants John Kerry to help pay him back, a humiliating end to what was supposed to be

revitalized international tradition that would evoke comparisons to the aspirational and future-embracing 1939 and 1964 World's Fairs.

"A lot of us just feel like we did our part and now we're kind of being abandoned," said the owner, Tom Hennes. His firm is just one of nearly 40 other merchants in Italy and the United States whose unpaid invoices total \$26 million.

The huge shortfalls in funding for last year's World Expo exhibit, which drew 6 million people, now loom as a big embarrassment for the State Department and its leader. Officials will hold a conference call on Thursday to try to appease dozens of creditors.

Kerry, for his part, didn't have the luxury of using State Department funds to pay for the exhibit, which was widely considered an important part of the department's public diplomacy efforts. A penny-pinching law from the 1990s bans the use of department funds for world's fairs. But the nonprofit Kerry chose to run it — with the promise of major fundraising help from himself and his political allies — fell about \$26 million short of covering its bills.



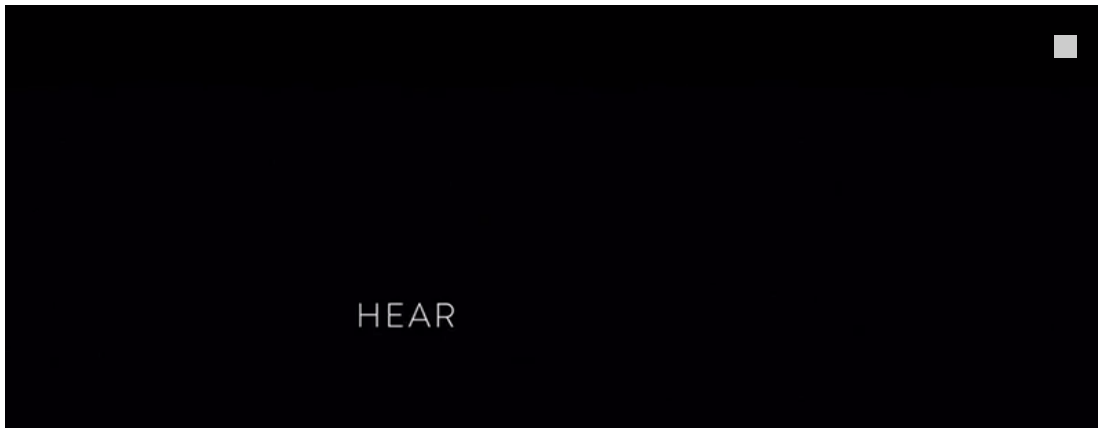
John Kerry: Climate deal is a 'signal'

By KEVIN ROBILLARD

"This was an incredible success for the U.S. government, for the Department of State, and the idea that individuals, including me, are paying for that is simply unconscionable," said James Biber, whose architecture firm has collected only half of its \$2 million bill. "That is a huge amount of money for a company of my size and it's not something that we could ever afford to just write off. ... We've already had to lay people off."

Kerry commissioned the agreement in 2013 with a one-off nonprofit, Friends of U.S. Pavilion, to design, build, operate and pay for the U.S. display in Milan. The group was created with the understanding that the State Department would do the heavy lifting on fundraising. That's what then-Secretary of State Hillary Clinton had done for the 2010 Shanghai World Expo, making personal pitches to CEOs to collect more than \$60 million in just nine months.

ADVERTISING



But many people familiar with the fundraising effort note that Clinton's enormous range of contacts, plus her still-simmering presidential ambitions, had donors lining up quickly in response to calls from her and the cadre of longtime aides she enlisted to help raise the money.

Kerry, by contrast, wasn't viewed as having a political future, and was scrambling to work out a cease-fire between Ukraine and Russian-backed separatists in Crimea.

"We were repeatedly told by the State Department that Secretary Kerry was unable to be involved because he was focused on things that were of greater, and more grave global importance," said one of the U.S. fundraisers, speaking on the condition of anonymity.

"We were on a critical path and repeatedly alerted the State Department that both the U.S. and Italy-based teams needed more support and reachout from principals within this administration," said the fundraiser. "On the rare occasion those calls were made, the fundraising team provided the names of whom to call, did the staff work behind those calls, created the narrative for donors to participate, negotiated the contracts and managed the relationships throughout Expo."

In the end, Kerry's efforts could muster only around \$40 million for a project whose budget ballooned to more than \$60 million.

Now, Friends of USA Pavilion is about \$26 million in debt, according to a confidential financial overview obtained by POLITICO. It's in arrears to nearly 40 companies.

It owes two of the nonprofits that drove the effort from the start, the James Beard Foundation and the International Culinary Center, more than \$1.6 million each. It owes the Italian EXPO corporation more than \$1 million in rent. And it owes Nussli, the Swiss construction company that built the pavilion, \$13.6 million.

State Department officials insist the agency is looking for ways to pay the bills, even though it can't use any of its own money. Nearly four months after the exhibition closed, Kerry is still making fundraising calls, they say, while officials acknowledge that lining up new donors will be nearly impossible with no sponsorships and other perks to offer.

But the department is quick to challenge the idea that Kerry failed to push hard enough for private funding.

"Secretary Kerry was personally engaged in seeking and securing contributions for the USA Pavilion," department spokesman John Kirby said. "He engaged vigorously with key business leaders, hosted round tables and made numerous calls to support the fundraising effort. His direct engagement resulted in a substantial portion of the funding for the pavilion."

Behind the scenes, many in the State Department blame Congress for putting the secretary in this awkward position of having to rely on outside funding and inexperienced operators to mount a major public diplomacy initiative.

"You're asking senior administration officials to essentially dial for dollars," said one senior State Department official, speaking on the condition of anonymity.

Ironically, it was Democrats in Congress who pushed to have world's fair pavilions privately funded, out of fear that lavish displays overseas would strike voters as wasteful and of benefit only to foreigners. They succeeded in getting the law passed in 1994 and signed by President Bill Clinton.

But by the time Hillary Clinton became secretary, in 2009, the law had become a major personal burden for anyone serving as the country's top diplomat.



Russians lay siege to Obama's Syria strategy

By NAHAL TOOSI

Clinton had barely been on the job for a month when she traveled to Beijing and heard about the sorry status of her country's world's fair effort. The nonprofit that had been set up by the Bush administration to build, operate and, crucially, raise funds for the pavilion had alienated potential donors and had only about \$250,000 in the bank.

Clinton's director of policy planning, Anne-Marie Slaughter, explained why U.S. participation would be so important in an undated memo after a visit to Shanghai's expo

site.

“Expos are the soft power Olympics and hence a key part of smart power; we should be willing to ask Congress for money and consider it extremely well spent in terms of building American power in the world — and cheap at the price,” Slaughter wrote.

The “smart power” concept was central to Clinton’s most urgent mission: restoring America’s reputation abroad after the go-it-alone years of George W. Bush.

So she sprang into action, deputizing Elizabeth Bagley, a longtime fundraiser for her and her husband, to lead the effort at State, and appointing a senior adviser to her 2008 campaign, Jose Villarreal, as the commissioner general for the pavilion, another fundraising-heavy post.

Clinton checked in frequently, her emails show, and the secretary herself got involved, holding conference calls with CEOs in the spring and summer 2009, and bringing the issue up at tech conferences and other meetings in Washington. In January 2010, she even planned to call then-Mayor Michael Bloomberg in hopes of getting New York City to pitch in.

He didn’t bite, but lots of big companies did, in a big way: Citigroup, General Electric, Johnson & Johnson, PepsiCo and Chevron gave \$5 million each. Proctor & Gamble, Dow Chemical and Boeing chipped in more than \$2 million each.

And some of Clinton’s biggest donors helped bundle more payments. In March of 2010, just three months before the gates opened in Shanghai, Clinton asked her head of Global Partnerships, Kris Balderston, if there was anything else she could do.

“Think we are in good shape. Immelt, Indra and Huntsman making calls,” Balderston wrote back, referring to GE CEO Jeff Immelt, PepsiCo CEO Indra Nooyi and the U.S. ambassador to China, former Utah Gov. Jon Huntsman. Longtime Clinton operatives Mark Penn and Terry McAuliffe had also been “very helpful,” Balderston added. In all, Clinton and her team brought in more than \$67 million.

Chevron was particularly generous, not only contributing \$5 million for Shanghai, but also pitching in for a similar exhibition in Seoul a few years later. They even paid for a reception for one of Clinton’s pet initiatives, the Office on Global Women’s Issues, as one of her best friends and lieutenants, Melanne Verveer, informed her in an email.

But Chevron, which was not included on the web site listing official partners in Milan, gave only \$1 million to the expo effort under Kerry. Disney did not give at all, nor Yum! Brands — even though the Expo's theme was food security. And it wasn't for lack of asking.

In some instances, donors told fundraisers they were turned off by the Shanghai experience. The U.S. is the only country that has to rely on private money at the worlds fairs, and critics said it showed — one writing in the Los Angeles Times that the U.S. display had “all the appeal of a suburban multiplex” that allowed sponsors to offer “platitudes” without highlighting true American creativity.



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Organizers were determined to do Milan differently, working to design an attractive pavilion that told the story of American innovation when it came to the expo's broader theme, “Feeding the Planet, Energy for Life.” And it was, by most measures, a huge success: The 6.1 million visitors blew past projections and surpassed attendance at any other country's pavilion.

But in terms of fundraising, the Milan approach mirrored Clinton's Shanghai effort. Kerry installed one of his top bundlers, Silicon Valley magnate Doug Hickey, in Villareal's role. Inside State, David Thorne, a longtime close friend of Kerry's now serving as his senior adviser, was the point man. Louis Susman, whose appointment as U.S. ambassador to the United Kingdom from 2009 to 2013 was seen as a reward for being an Obama bundler, was also called in to make donor pitches.

Friends of USA Pavilion fired its initial set of gastro-philanthropy fundraisers in favor of political operatives, Jeanne Esti and Julie Wadler, and a bit later on, top Democratic fundraiser and former White House social secretary Julianna Smoot. Balderston, Clinton's commercial diplomacy evangelist who was central to the Shanghai fundraising push, was also brought on through his current firm, FleishmanHillard, where he heads the global firm's Washington practice.

Their efforts fell far short.

Current and former State Department officials acknowledged they felt that they had to move forward with the project even though they weren't confident they could raise enough money, especially amid negotiations over a new transatlantic trade treaty.

“When the U.S. doesn’t do something that it traditionally does, there’s always outsized blowback,” said a former Kerry aide. Milan was “always sort of considered a necessary burden.”

(The U.S. did skip the 2000 Expo in Hannover, drawing German ire.)

With cost-containment in mind, the State Department called on outside groups to bid for the pavilion effort with proposals in the \$25 million to \$45 million range. They received five bids, including one from Friends of USA Pavilion, driven by gourmet mavens at the James Beard Foundation and International Culinary Center.

In October 2013, the State Department accepted Friends’ \$45 million bid. The original request for proposals warned that there’d be no final agreement until “after the applicant is able to demonstrate that all funding required for this project will be in hand.”

But State ended up requiring only \$5 million in the bank before Assistant Secretary of State for European and Eurasian Affairs Victoria Nuland signed the memorandum of agreement on March 27, 2014. It coincided with Obama’s trip to Rome and, by then, the budget on the books was \$60 million.

The most important time to solicit donations, in the view of the fundraising team, was the spring of 2014. At that time, however, Kerry was consumed by the need to work out a cease-fire between Ukraine and Russian-backed separatists in Crimea.

But senior State Department officials insisted that the secretary worked hard on fundraising, even while engaged in high-stakes diplomacy: “While he was flying around the world [he would] make these calls to connect with CEOs, and he brought in the lion’s share” of the money, one official said.

But the former Kerry aide who spoke on the condition of anonymity called the effort a “slog” and pointed to two factors that made Milan a harder sell than Shanghai. The first was the market: Private companies were eager to draw in new Chinese consumers, while Italy didn’t offer the same fresh audience. The second: donor fatigue. Much of U.S. public diplomacy is, after all, bankrolled in cooperation with the private sector, not to mention a new diplomacy museum in Washington for which both Kerry and Clinton have sought contributions.

“You were going to a cupboard that was pretty bare at that time, on a bit of a white elephant that you’re trying to sell,” the aide said.

There was also a third factor that helped Clinton succeed where Kerry fell short. Even among those who bitterly dispute whether Kerry should have done more, people both inside and outside government who tried to secure Milan funding privately agree that her celebrity and presidential ambitions made Shanghai a comparatively attractive investment.

Meanwhile, contractors working on the U.S. Pavilion began to get nervous, hearing that the fundraising was slow.

Biber, the architect, recalled meeting with Hickey in late 2014, and the ambassador-ranked commissioner general reassured him: “The United States does not leave its bills unpaid. As much as this is clearly a cash-flow problem, it’s all going to get done,” Biber recalled him saying.

But things eventually got so bad at one point that officials considered closing the pavilion midway through the Expo, in August 2015.

That outcome would have deeply embarrassed the U.S. and made it impossible to raise more money.

At that point, Kerry called his old college roommate at FedEx, getting the company to kick in \$2.5 million, according to sources involved in the project. The company is not listed among the official sponsors on the Friends of U.S. Pavilion’s website because the shipper was technically sponsoring a separate display — a workaround to avoid alienating DHL, an early sponsor. GE’s Immelt also tried to get other existing donors to kick in so more cash, with limited success.

The creditors are at a loss for how to recover their cash. If they sue Friends, it will go bankrupt, and no one will get paid. The State Department contends that it has no legal obligation.

“The structure allows them to deny responsibility,” Biber said. “The pavilion design was approved by them, the security measures were really approved by them. They’re the luckiest client in the world because they don’t have to foot the bill.”

Kirby stressed that State “continues to coordinate with the Friends of the USA Pavilion to address the funding shortfall for the pavilion including seeking additional contributions and other solutions.”

That could include finding a way to transfer money from the Commerce and Agriculture Departments. The administration would have to inform Congress of its plans to do that,

raising the possibility that it could be blocked.

Dubai will host the next Expo in 2020, and it is “crucial that the Department of State begin preparing immediately to maximize the public diplomacy opportunities,” wrote career Foreign Service Officer Matthew Asada in the October issue of the *Foreign Service Journal*. He also urged the next administration to request congressional funding for the pavilion.

“This year the United States will spend tens of millions on countering violent extremism,” Asada wrote. “Perhaps a small portion of that should go toward U.S. participation at the next Public Diplomacy Olympics.”

Nahal Toosi contributed to this report.

Correction: An earlier version of this article incorrectly stated that Chevron did not donate any money to the U.S. Pavilion in Milan. The company donated \$1 million.