

Ethics and Climate Change
By Doug Walker
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Thank you for that introduction, and I would also like to extend my welcome to Seattle to those of you from the Caux Round Table.

To figure out what I might say to you today, I took a look at the Caux “Principles for Business,” which I found to be an impressive statement of ethical business ideas. In this country, the Sarbanes-Oxley Act, which resulted from the Enron scandal, requires public companies to have a “code of ethics.” And this has become a standard practice even for non-public companies. It might be a good practice for more organizations to consult the Caux Principles as they draft their own ethics policies.

But this discussion invariably raises the question: “what is ethics?” In the everyday sense, the word, “ethic,” refers to the underlying “value system” that governs one’s actions and can set the framework for one’s relationships. When we use the phrase “ethical,” we enter an ambiguous area because ethical behavior is dependent upon value systems that are very culturally dependent. But, I have heard it suggested that most statements of ethical principles can be categorized into five groups: statements about honesty, fairness, compassion, responsibility, and respect. Certainly the Caux Principles include statements from all of these categories.

Even with such a deconstruction, it’s hard to find absolute and invariant ethical values. I do think there is an invariant behavior associated with the state of being “ethical,” and that behavior is linked to consideration of the question, “what is the right thing to do?” When this question is truly considered, the resulting actions tend to be much more “ethical” than when the question is not considered or not allowed. Tonight I would ask “what is the right thing to do” about the issue of climate change, and I will use the Caux Principles to guide me in that consideration.

A few key sections of the Caux Principles particularly give some guidance. First, in the “customers” section of the Stakeholder Principles, your 3rd bullet says, “make every effort to ensure that the health and safety of our customers, as well as the quality of their environment, will be sustained or enhanced by our products and services;”

...“sustained or enhanced” - by that you are saying, at a minimum, “Do no harm.”

Moreover, the last sentence of “Principle 1” of your “General Principles” says: “As responsible citizens of the local, national, regional and global communities in which they operate, businesses share a part in shaping the future of those communities.”

And taking these together, I believe you are saying that beyond “doing no harm,” we in the business community have an obligation to shape a sustainable or enhanced future for the global community.

If one accepts the seriousness of the climate change problem, then we inevitably must ask “what does that mean we need to do?”

There is an image I have been carrying around in my head about climate change. In 1990, I was traveling in New Zealand in the area of Mount Cook. We were shocked looking at the dramatic decline of the Tasman Glacier – as much as 50'-100.' And, as a mountain climber, I was also surprised to realize that most of the famous ice-climbing routes were gone. It was really shocking to see this evidence firsthand. It made it real for me that what we were doing, burning gas in our cars, heating our homes, was actually changing the face of the planet, changing the climate. So, that is also the beginning of my story as it relates to climate change, and struggling with the question – now what?

I've got a new image now of course – the Arctic ice melting. The Northwest Passage, sought after for so long by so many explorers, is now open. In the ultimate irony, countries and companies are now racing to see who can lay claim to the oil and mineral reserves in the exposed Arctic and who will set up refueling stations, perhaps the same thinking that got us into this mess in the first place.

Climate change is a large and scary problem. If we know that something big and bad is coming but we think we can't do anything about it, then we end up either paralyzed by fear or we ignore it and hope it goes away. For me, the opportunity to do something to address climate change came when I became a member of the Green Ribbon Commission for the City of Seattle looking at climate change and needed solutions. After we had reached the conclusion that strong business engagement around reducing the carbon footprint was an essential part of any response, the Mayor turned to me as Chairman of the Board of REI and said, "So what is REI going to do to reduce its carbon footprint?"

I can tell you there was a serious moment of doubt that led me to question what I had committed to. I agreed to be part of the process, but I didn't necessarily sign up for what was on the table at the end of the process. Certainly REI has stated values, not unlike the Caux Principles, but we are also a business that needs to be profitable and must use very careful cost control. Would this conflict with a commitment to reduce our greenhouse gas emissions?

But, I'm happy to say that after a period of consideration, REI took a big leap and decided to make the commitment to be carbon neutral by 2020, that is, we would reduce our carbon footprint when possible and purchase offsets when not possible. We also set a 2009 goal to reduce our 2006 emission levels by 1/3.

As you may know, the carbon footprint is the sum of all pollution emissions that contribute to global warming measured as a unit of carbon, as in the molecule carbon dioxide. Being carbon neutral is the notion that arises from the cap and trade approach as envisioned under the Kyoto Treaty and implemented in much of the world on a compliance basis and in the U.S. on a voluntary basis. Simply put, you purchase the right to pollute a certain amount from an entity that can more economically and efficiently reduce their carbon emissions than you can.

The first step in this for REI, as in many things, was the most difficult. After we began looking at our sources of carbon emissions – direct fulfillment, product transportation, employee commuting, corporate travel – we were surprised to discover that REI Adventure Travel, our travel subsidiary, accounted for 26.2% of our footprint. Quantifying this, really for the first time, helped us get over the hurdle - what will it take? From this, we were truly able to make a commitment based on facts, and this took time to do properly. Earlier, I said that a key part

of ethical behavior is being able to ask the question, “what is the right thing to do?” Until you have done an assessment of your carbon impact, you cannot really ask this question; so, if you haven’t already, I would urge all of you to do such an assessment.

I should mention a few things that helped REI make such a big commitment on climate change. First and foremost, REI's stated mission emphasizes stewardship for the planet. Secondly, the low price of carbon offsets, unjustifiably low in my opinion, means that addressing our air travel carbon footprint was not that expensive – it wasn't going to kill the idea. And finally, many of the steps we took to reduce our footprint actually saved us money. For example:

- Lighting changes at our DC last year saved 1mil KWH (\$100k), which is equal to 3 stores.
- Wind, solar and other renewable power choices reduced our 2006 GHG emissions from electricity usage by about 31 percent from 2005. In addition, by using renewable energy, we reduced our exposure to fossil fuel markets and saved an estimated \$100,000 by avoiding fuel cost surcharges and other rate increases.

REI has partnered with the Bonneville Power Administration (BPA), a regional power grid agency that manages most of the electric grid in the Northwest, to purchase offsets from wind farms and other sources for Adventure Travel. Being first, or at least very early in this, gave us the ability to partner with BPA on terms favorable to our business.

Finally, REI looked around, and while we probably would have taken action anyway, we knew we were in good company with this decision. Consider that:

- Many airlines and online booking agencies allow you to offset the carbon cost of your trip
- Large companies like HSBC, Wells Fargo, Google, Salesforce, Swiss RE (2nd largest global re-insurer), Whole Foods, and many others have made similar commitments.

So, to partially answer our question we asked at the beginning – what does this mean my business should do - I would emphasize that the first step is “do the assessment.” Find out what it will cost you to become more carbon neutral – determine where your most wasteful energy usages are and address those. Take those incremental steps that you can now. Of course, if you are in a compliance market area, you already have to do that to some extent. I would suppose, however, that even in those markets, there is an opportunity to lead.

And this brings me back to a key part of my story - realizing there are actual plausible steps that businesses and individuals can do to begin to affect change on the global scale.

If I think about running a business and prioritizing things to do, the ones that often get up to the top are those that I know I can do. They are also the ones that I know will have some kind of measurable effect. These are the actionable items. The rest are for tomorrow. With climate change, you have the added difficulty that the atmosphere is shared with everyone on the planet, no one owns it, and the pure size of the problem makes it unresponsive to small scale actions.

So, the challenge with climate change is in putting some items related to climate solutions on that list. As said before, doing the initial assessment is one very important item. Until you do

this, you cannot begin to have any reasonable idea what and how costly it might be for your business to address its own impact. Investing in business locations that encourage better land use and less transportation costs might be another step. Creating a team that looks at how to improve your products with a carbon neutral world in mind might be a third. You might put a carbon calculation into all future business acquisitions or product lines. The sum of these small actions, small to the scale of the problem, will ultimately create the right economics.

Another image that I have now about climate change is the school child in Bangladesh. A recent story that appeared in the Seattle Times, entitled "*A Future that Floats*," had a photo of children lined up on benches on what looked like a bamboo hut sitting on a boat. The story talked about how schools in some low-lying areas of Bangladesh are now regularly underwater so an architect has designed a boat that serves as both school "bus" and schoolroom. There are now 45 boats in this fleet, including a library boat, and there are also plans for floating gardens and floating hospitals in case more of the area finds itself under water.

Bangladesh, of course, is one of the poorest countries on the planet and home to over 150 million people. Scientists are already projecting 20% of its landmass will be lost through floods and sea-level rise within 25 years, that is, by the time those children are having families of their own.

This brings me to a question that I have – isn't climate change a moral issue? A person in a developing world, whether one lives in a slum in Mumbai or in a village in Zambia, or a child in Bangladesh, is the most vulnerable to climate change and also absolutely the least responsible for creating the problem in the first place. Simply put, the most vulnerable people in the world are going to pay for our fossil fuel energy usage in the past and the present. It seems clear to me that it has to be considered a moral imperative to do something.

Moreover, if we accept the manifesto of the Caux Principles and we understand that the global community includes those most vulnerable to the threat of climate change, then we must feel a need for action. But what do we do about this feeling? What steps do we take? Over what time frame? Can we merely anticipate what regulators are going to do in a few years' time and just get a jump start? Should we only do actions that are "no regrets," actions that we would do anyway to save us money if we had looked more closely at the particular energy usage? Should we only try for carbon neutrality if our customers demand it? How do we sell this to the Board of Directors? To a management team or the employees?

My answers to these questions might be different than yours. But I hope we can have that conversation.

I would like to end with another image to go along with the melting glaciers, Arctic land grab, and the Bangladeshi floating village. I think that image might be one of you standing up here in 5-10 years talking about how your business not only found a way to be carbon neutral but also how it helped to capitalize on the need for renewable clean energy choices and helped to usher in a new wave of innovation around making a sustainable and enhanced future for the global community.

Thank you.