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STANFORD SOCIAL INNOVATION *review*

Q&A

Fred Krupp

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Stanford Social Innovation Review
518 Memorial Way, Stanford, CA 94305-5015
Ph: 650-725-5399. Fax: 650-723-0516
Email: info@ssireview.com, www.ssireview.com



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Fred Krupp

has helped accomplish what some thought was impossible—getting businesses to go green voluntarily.

BY ANY MEASURE, Fred Krupp's 24-year tenure as president of the Environmental Defense Fund (EDF) has been a success. The organization's budget has jumped from \$3 million to more than \$100 million, the staff has grown from 50 to 400, and membership has expanded from 40,000 to more than 500,000. More important, under Krupp's leadership EDF has become one of the most important power brokers in the environmental arena.

Krupp has accomplished all of this by relentlessly focusing on an important insight—that economic incentives can be used to entice businesses to behave in environmentally friendly ways. It's like using the carrot instead of the stick to get people to do what you want them to do. This social innovation has garnered its share of critics, but Krupp is unwavering, and by all indications his approach is gathering momentum.

In this interview with *Stanford Social Innovation Review* Managing Editor Eric Nee, Krupp explains why EDF is putting so much energy into getting a cap-and-trade bill regulating greenhouse gases on President Obama's desk. Krupp goes on to discuss the lessons EDF has learned from its pioneering partnerships with corporations like FedEx and McDonald's. And last, Krupp explains why EDF opened an office in Beijing 15 years ago and why he is optimistic that China is on the right environmental path.

Eric Nee: Why is EDF putting so much energy into getting Congress to pass a cap-and-trade bill to regulate greenhouse gas emissions?

Fred Krupp: We've never solved an air pollution problem anywhere in the world



without putting a limit on the amount of pollution that can be spewed into the air. What the Waxman-Markey bill would do is just that for carbon dioxide and other greenhouse gases. It would realign the incentives so that entrepreneurs, innovators, and engineers are all invested in finding ways to reduce carbon emissions and lower greenhouse gases. The profit motive is what's gotten us into this fix. If we turn the

profit motive on its head and make it more profitable to put out less global warming pollution, then we have a good chance to lick this problem.

EDF was instrumental in forming the U.S. Climate Action Partnership, a coalition that includes large manufacturers and nonprofits that supports cap-and-trade legislation. There are, however, many companies still

opposing this type of legislation. Why have a few companies been convinced that it's in their interest to support restrictions on emissions while so many other companies have not been convinced of that?

Some companies, like GE, which played a leadership role in pulling together the partnership, say, "Give me the rules and we'll figure out how to profit from them."

They've got the self-confidence that they can profit from change. As for the companies that don't support this measure, I'm not sure that they can see over the horizon. Perhaps they don't believe in global warming. Or maybe they're cynical enough to believe that they can profit more with the status quo. That certainly describes Exxon. They've clearly decided that they can be more profitable in a world that does not limit carbon emissions, so they have opposed efforts to go forward.

Even though many companies have not yet signed on to cap-and-trade legislation, never in the history of our country has there been such broad support for environmental legislation. There wasn't anything like the amount of business support for the Clean Water Act or the Clean Air Act that there is for this piece of legislation. The fact that five nonprofits got together with 25 big businesses and agreed on one blueprint for environmental legislative action, and that Henry Waxman and the House Committee on Energy and Commerce actually took the blueprint and used it to shape their legislation, is unprecedented. Combine that with the fact that we now have a president who talks about the need for America to put in place a declining market-based cap on carbon pollution. It's not a foregone conclusion that it'll get past the Senate. But with a lot of work, it can happen.

Why should carbon offsets be included in the bill when many believe they are not an effective way of solving the problem of greenhouse gas emissions?

Today, in the voluntary unregulated United States, we don't have any laws regulating what an emissions reduction is, so there is not a good way to police offsets. One of the important things about passing a law is that instead of allowing anyone to go into the marketplace and assert that they've got a carbon offset for sale, the Waxman-Markey

bill would give the government the authority to certify what offsets meet the test of science. We need to have the legislation empower a scientific advisory panel to verify the scientific basis of different types of offsets and establish a scientific process for their certification.

Once the standards are set, we go from a situation where there are legitimate questions to one where there are important opportunities. By allowing farmers to get payments when they change their practices, we can harvest additional low-cost ways to reduce emissions. As long as they're legitimate and scientifically verifiable, the more opportunities we harvest to reduce emissions, the better. That will bring down the price, which is a good thing. The goal is not to get a high price for carbon. The goal is to get a high quantity of emissions reduction.

The price of reducing sulfur, for example, became much less expensive than was predicted because a market for reduction was created. Was that good or bad? It was great! In 2005 the second President Bush, who opposed serious action on climate change, allowed EPA to order an additional 70 percent reduction in sulfur emissions over the original 50 percent cut. Why? Because the price of doing so was low. And the reason the price was low was that we harnessed entrepreneurs and used the profit motive to inspire a hunt for low-cost ways to reduce pollution. So offsets, when they're real and only when they're real, can help get deeper cuts.

Are you putting more resources into the political arena now that you have an eco-friendly president?

We set our priorities based mostly on two things: What are the most important problems and where can we realistically make transformational changes? We were working to get a climate bill through Congress in the Bush administration. President Obama's call for a comprehensive energy and climate law and a market-based decline and cap on global warming pollution means that we have increased our spending in the legislative arena because our chances of making it happen are much higher.

Let's talk about your partnerships with companies to help them operate in a more environmentally sustainable way. Which

partnerships have been the most successful and why did they succeed?

We define success as partnerships that result in real industry-wide transformation. Our partnership with FedEx is one of those. We went to them to talk about developing a truck that would have 90 percent fewer emissions and travel 50 percent farther on a gallon of fuel. We set up a competition that encouraged vehicle producers to deliver the winning prototype. Within two years of our partnership, there wasn't a truck trade show in North America that didn't have hybrids being shown. At this year's leading truck industry trade show there were 35 different hybrid truck options available and more than 100 different companies had fleets that were using them. That's an example of industry-wide transformation.

Another partnership that resulted in industry-wide transformation was our work with McDonald's to eliminate the use of human antibiotics as growth promoters in poultry. Very soon after McDonald's got its poultry suppliers to stop this practice, the four biggest chicken producers in the United States stopped using these drugs as growth promoters.

The keys to success are having the commitment of the CEO, a clear end goal that EDF and our corporate partners agree on, and clear measures of what success is: Is it tons of greenhouse gas avoided, or is it cost savings? We live by the maxim that you manage what you measure. To ensure objectivity we, unlike a consultant, do not take funding from our corporate partners. This enables us to push them beyond their comfort zone and it keeps us focused on achieving transformational results. Transparency is also essential. From the very first partnership we did with McDonald's, we agreed that this wasn't going to be secret intellectual property and that we would be able to share all the results, tools, and best practices with others in the same industry to encourage widespread and rapid change. The companies that work with us know that because it's in our written agreement.

What's an example of a partnership that didn't work?

Our early partnership with Starbucks was not as successful. It did result in them adopting the use of a corrugated cardboard

sleeve, but the partnership was intended to revolutionize the coffee cup. One of the things we learned from that experience was that we needed to include the supply chain in the conversation early on. With McDonald's, we actually brought the poultry manufacturers into the discussion before McDonald's decided to change their purchasing standard. And with FedEx we got the truck manufacturers involved early on.

How has the economic downturn affected companies' willingness to engage in these kinds of projects?

We've seen more interest, attention, and efforts in recent months by companies to be greener. Companies are focusing more on cutting costs and increasing efficiency, and environ-



mental innovation, it turns out, is often one way to do that. Pollution is waste, and waste usually costs money. So smart companies know that cutting environmental impacts frequently means a leaner, meaner, and more efficient operation.

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All of the companies that you partner with are based in the United States. Why don't you work with foreign firms?

It's probably because most of our staff is here in the United States so it's easier to work with CEOs who are also here. We do have a global impact, however, because our partners are generally multinationals. Wal-Mart's supply chain includes more than 60,000 companies around the world, so our work with them has a huge international impact. There's no reason why, with more resources, we won't expand to companies headquartered outside the United States, and if we found a project like that, I think we'd be quite enthusiastic about undertaking it.

One of the countries you have made an effort to expand into is China.

We've been active in China for 15 years. The

Are you optimistic or pessimistic about the role China will play in solving global warming?

I am optimistic. China has been steadily building its ability to manage its environmental problems effectively. We can see evidence of this in how they've reformed their environmental laws, enhanced the enforcement of their environmental laws, and made pollution

control a top priority in evaluating government officials for promotion. China's people are like our own people. They want a clean and healthy environment, and they expect their government to deliver it.

In China, what type of programs do you get involved in and what types of programs do you avoid for political reasons?

Like the United States, it turns out that market forces in China are a key driver of environmental outcomes. So recognizing the power of the market, EDF has been working with a very powerful set of Chinese partners to harness those forces. For example, we've worked with Wal-Mart to change their master contract to require suppliers to certify compliance with Chinese environmental laws and regulations. We're working in the rural provinces to change agricultural production practices to reduce greenhouse gas emissions. In those provinces, we can help measure the changes and bundle them together and market them for sale in the emerging carbon market. We're also working with the government to reform the penalties for noncompliance with major pieces of

environmental legislation to make sure that it's more expensive to pollute than it is to comply.

But we are mindful of the fact that we are guests in the country. We do see a desire by the government to improve and the opportunity for us to learn about what works and what doesn't work. The decisions that the United States and China make are going to shape the future of the planet. We're doing the best we can to see that the environment is factored into all those decisions.

Do you have any plans to become involved in other large developing economies, such as Brazil, India, and Russia?

Yes. We are already working with partners in Brazil, India, and Russia. They are all very important countries. In Brazil, we've been working for 20 years to stop the deforestation of the Amazon. We've helped them come up with a proposal for how Brazil could reduce its deforestation and get a benefit from the emerging global carbon markets for doing so. What most people don't know is that although China and the United States are the two biggest emitters of global warming pollution, Indonesia and Brazil are numbers three and four. Fifteen percent of the global emissions of greenhouse gases come from deforestation.

Although EDF works around the world, your primary focus is still on the United States. Will that change in the future? Will EDF become a multinational nonprofit?

I've now been here long enough—24 years—to see a trend line. Every year we do more and more things that are international. Certainly, global warming can't be solved by the United States alone. So we are spending an enormous amount of time and energy, for example, on the Copenhagen process and have been increasingly involved in the intensive climate talks that we helped start in the 1980s. Our fisheries work is now expanding down to Mexico and the Caribbean, and I think will expand further internationally. I doubt we will be opening up offices in a lot of other countries, because I just don't think that's necessary. But I think we will be partnering with existing organizations in many countries, and, over time, this trend of doing more international work will continue and maybe accelerate. ■