



It's  
**Good**  
to **Be**  
**Green**

**Increasingly companies are recognizing the benefits of eco-efficiency.**

In partnership with:



World Business Council for  
Sustainable Development

## Executives can no longer bury their heads in the sand.

Now that the CEOs of Wal-Mart and General Electric have endorsed sustainable development, their suppliers, their competitors, and even their customers will, in all likelihood, follow suit. Wal-Mart chief Lee Scott shocked the world when he said, "Being a good steward of the environment and our communities, and being an efficient and profitable business are not mutually exclusive." His comment was made months before the screening of *An Inconvenient Truth*, the film narrated by Al Gore, at an annual meeting of Wal-Mart associates. Such talk marks a sea change for corporate America. But the fact is that many companies have quietly employed eco-friendly policies for years. And contrary to its reputation as a budget-buster, an ecologically responsible approach has helped their businesses thrive.

The basic concept behind sustainability goes like this: Economic development, to meet the needs of the present, should be undertaken in a way that does not compromise the needs of future generations. Often such development involves the environmental issues highlighted in the film. There aren't enough natural resources

to go around, so using them efficiently is key. But beyond that, sustainability involves social issues as well.

### Urgent Environment Problems

One thing the globalization of business has taught us is that we are all interdependent. "Populations in parts of the developed world are shrinking," says Lloyd Timberlake, director of communications at the World Business Council for Sustainable Development. "All of the growth is in emerging countries. Companies in the developed world want to do business there, but they can't if such countries are full of poor people who can't even afford their goods." The new mandate to conduct sustainable business in those countries is simple: It must operate in ways that improve the livelihoods of the poor.

The momentum behind certain environmental issues has become so great that CEOs now ignore them at their peril. The two most urgent are global warming and the energy crisis. The climate outlook has become increasingly dire. Nine of the last ten years have been the warmest since modern record-keeping began in 1861; costs from natural disasters such as hurricanes (apparently stemming from those temperature increases) rose to

\$225 billion in 2005, almost double the \$118 billion record in 2004. As the polar ice caps have begun to melt, sea levels have slowly started to rise. A 20-foot increase would place Miami and other major port cities around the world under water. Meanwhile, oil prices have soared, reaching a recent peak of \$78 a barrel, more than seven times their \$11 per barrel low in 1999.

While some skeptics may still dispute the science behind global warming, there's no denying that the pressure to do something about it has intensified. In February the Carbon Disclosure Project, a coalition of 211 institutional investors managing a collective \$31 trillion, sent questionnaires to the world's 1,800 largest companies, asking them to disclose in detail the

Illustrations by Erik Mausser



**"Hurricanes Katrina and Rita put a face on global climate change and its risks."**

extent of their greenhouse gas emissions—the primary cause, most scientists agree, of the warming.

For Brent Dorsey, director of environmental programs at New Orleans-based electrical utility Entergy, the need for such transparency couldn't be more urgent. "Hurricanes Katrina and Rita put a face on global climate change and its risks," he says. "Both

storms caused us to redouble our efforts for carbon disclosure." So Entergy not only participates in the project, it is also lobbying Congress to regulate emissions and force companies to pay for their environmental costs. "In Washington when we speak to officials, it's not whether or not carbon emissions will be regulated," he says. "It's just a matter of when."

## Green Goes Mainstream

The good news is that the problems are not insurmountable. Moreover, now that powerhouses such as GE and Wal-Mart are on board, it's easier for everyone else to join them. GE launched its "Eco-imagination" campaign in 2005, announcing plans to cut greenhouse gas emissions by 1% and increase energy efficiency 30% by 2012—and double investments in climate-friendly technologies.

Wal-Mart's goals are even more ambitious. According to Wal-Mart's Scott, they are: to be supplied by 100% renewable energy, to create zero waste, and to sell products that sustain our natural resources and environment. "That GE and Wal-Mart are doing this is massive," says Chris Coulter, vice president at GlobeScan, a Toronto-based research-consulting firm. "It's a sign that sustainable development has gone mainstream. When communicating with their shareholders, managers at other companies can now point to GE and Wal-Mart and say, 'If they're doing it, environmentalism is not just a soft, fuzzy peripheral thing. It's serious.'"

Of course, such strategies aren't just good for the environment. They're smart business. A number of recent studies have shown that there are powerful financial benefits for companies practicing

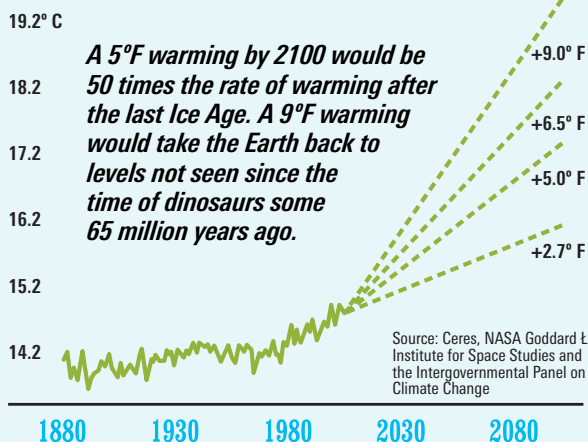
sustainable development. "The Eco-efficiency Premium Puzzle," published in the *Financial Analysts Journal* in March 2005, is one of the most convincing. Although previous studies showed that stocks of eco-friendly companies performed well, critics often claimed they were inaccurate or misleading. "They'd assume that a portfolio of environmentally friendly companies would overweight certain sectors such as technology and outperform for that reason," says Matthew Kiernan, CEO of Innovest Strategic Value Advisors, a Toronto-based research and advisory firm that specializes in socially responsible investing. But this study, which employed Innovest's eco-efficiency company ratings, compared companies in like industries: automakers, for instance, with high eco-efficiency rankings to automakers with low ones. The results: From 1995 through 2003 shares of the most environmentally-friendly companies earned a 13.1% annualized return on average, vs. just 9.9% for the lowest ranked companies.

Kiernan says the reason for the outperformance boils down to management. "Every Wall Street analyst on earth says the No. 1 driver of company performance is management," he says. "If I can show you a company that manages complex environmental issues

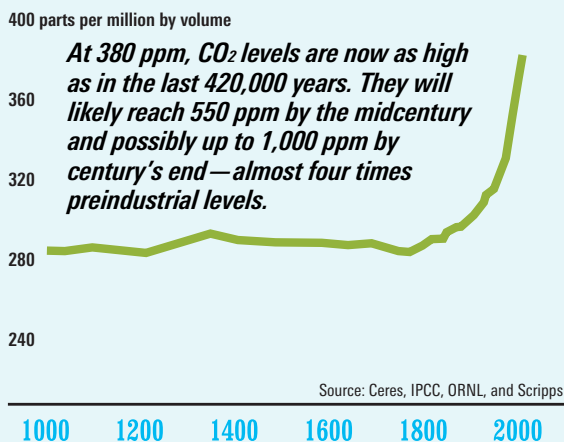


**The cost of natural disasters rose to \$225 billion last year. Now more companies realize green strategies aren't just good for the environment. They're good for business too.**

### Average Global Temperature



### Atmospheric Concentrations of CO<sub>2</sub>



better than its competitors, I can show you a better-managed company. Period." Innovest's ratings employ 125 variables to determine whether a company is eco-efficient, meaning that it can manage environmental risks and capture environmental opportunities better than its competitors.

### Dodging Risks

Traditionally, corporations have undertaken sustainable development mainly to avoid additional regulation, fines, or media fallout for environmental or social misconduct. Managing these risks continues to be important. For example, one factor Kiernan uses to evaluate a company's eco-efficiency is the social license for it to do business in new and difficult markets. "If you screw up with regulators, you could get your license revoked," he says. "Often we see

production stop in industries such as mining or oil exploration because of environmental or social opposition within developing nations."

Entergy's Brent Dorsey says the electric utility's prudent risk management has been a big part of its success. "The stock market rewards certainty and punishes uncertainty," he says. "The more successfully you manage risk—financial, social, environmental, whatever—the higher your stock usually goes." Since the company became the first U.S. utility to voluntarily commit to stabilizing emissions of carbon dioxide and other greenhouse gases in May 2001, its stock has more than doubled, from \$37 to today's \$77. Dorsey does not attribute all of that gain to Entergy's environmental policies, but since nuclear facilities produce about 52% of the electricity generated by

Entergy, he thinks the company's clean environmental record really helps. "Since 1999, we've bought five nuclear reactors and are operating a sixth in Nebraska," he says. "We might not have gotten the regulatory approval to do that if we didn't have such a good environmental record."

Looking solely at avoiding risk could lead executives to ignore the compelling opportunities available from operating a sustainable business. The most obvious is the savings from being more efficient. "In the real estate sector, the energy costs of running a building—the heating, the lighting, etc.—are 30% of total operating expenses," says Kiernan. "If I can install energy-saving equipment and get a 25% head start on my costs, you do the math."

Often efficiency means producing less waste, recycling it, or using it

for different processes.

"Waste is a relatively recent notion in human history," says Donald Carli, senior research fellow at the Institute for Sustainable Communication in New York. "In nature there is no waste. Waste equals food. Increasingly companies are realizing that what they previously thought of as waste is a feed stock for some other process."

### Saving Jobs

Perhaps no other company has capitalized on this concept more than Waste Management, North America's largest and one of its oldest environmental-services companies. The company recycled 5.8 million tons of commodities in 2005, which included 2.5 million tons of newspaper, enough to save 41 million trees. It has also been turning waste into energy for more than three decades through its Wheelabrator

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Technologies subsidiary, which has converted more than 130 million tons of municipal solid waste into energy, saving more than 130 million barrels of oil while generating more than 70 billion kilowatts of clean, renewable energy.

Such gains obviously have environmental and financial benefits, but they can generate social dividends as well. The less a company spends on energy, the more it can spend on employees. For example, Waste Management collects methane emitted at its landfills and converts it to renewable energy. In 2005 gas from a landfill near Montreal began powering the local Cascades Fine Papers mill, replacing 75% of the mill's natural-gas usage and reducing fuel costs. Ultimately the landfill helped sustain the mill when rising fuel costs threatened its closure. "We not only took 540,000 tons of carbon dioxide out of the air," says Wes Muir, Waste Management's communications director. "The landfill gas-to-energy project was also credited for saving over 300 jobs."

While the impact of energy and waste efficiency is easily measurable, sustainable business practices add an intangible value to companies that may be even more significant. In today's market, few companies are valued solely by their hard assets. Intellectual capital, patents, and brand strength are becoming far more

important. As the saying goes, 90% of the value of Microsoft goes up and down the elevator shaft every day. Indeed, according to a 2004 report by the Global Environmental Management Initiative (GEMI), a nonprofit association of sustainable companies, some 50% to 90% of the average company's stock-market value is now driven by such intangibles. Moreover, a GEMI survey of executives at 500 of the world's largest companies found that 81% believed environmental polices were one of the top ten drivers of that intangible value.

### Workers Approve

And don't underestimate the effect that responsible stewardship has on employees. According to a 2006 GlobeScan survey of workers at large companies with more than 1,000 employees, 80% in the U.S. felt that having a good track record in corporate social responsibility "increases my motivation and loyalty." In fact, in none of the eight countries GlobeScan surveyed was the percentage less than 70%. "When we ask people what they expect companies to do with regard to corporate responsibility, the desire for good environmental practices is a huge part of their response," says GlobeScan's Coulter.

Such sentiments make sense. After all, employees spend most of their daily lives on the job, and

## Ten Ways to Save the Planet

**H**ow do companies deal with environmental risk in a post-Hurricane Katrina world? How do they take advantage of environmental opportunities? Ceres, a national network of environmental organizations and investment funds, has come up with a list of steps for companies to follow in order to build environmentally sustainable businesses.

ASSESS	1 Create a climate management team and develop a board oversight committee.
	2 Measure, benchmark, and inventory greenhouse gas emissions from operations, electricity use, and products.
	3 Compute physical, regulatory, and financial risk exposure in fixed assets, products, and competitive positioning.
	4 Assess strategic, branding, and product opportunities related to climate change.
IMPLEMENT	5 Develop corporate policies and procedures to reduce climate risk and increase value.
	6 Create absolute greenhouse gas emission reduction goals and deadlines, and an action plan to achieve results.
	7 Set goals to increase energy efficiency, purchase or develop clean energy technologies, and offset greenhouse-gas emissions.
	8 Engage in policy dialogues about reducing climate risk and enhancing opportunities.
DISCLOSE & ENGAGE	9 Publicly disclose assessments and implementation plans in annual financial reports and corporate responsibility reports.
	10 Engage shareholders, analysts, staff, and public interest groups to receive valuable feedback and develop proactive responses to climate change.



**WM**  
WASTE MANAGEMENT

**Last year we recycled  
enough paper to save  
over 41 million trees.**

**Trees do more than beautify our world.** They help clean the air of carbon dioxide – a major greenhouse gas. As North America's largest recycler, we're ensuring that more trees can keep up the good work. And with thousands of commercial and community recycling programs nationwide, the results are truly adding up.

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Think Green.® Think Waste Management.*

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their work often shapes their identities. The fact that forest products giant Weyerhaeuser has publicly committed to reducing its greenhouse-gas emissions 40% by 2020 makes the job of Charlie Gadzik, the company's advertising manager, much easier. "I live in Seattle, one of the most liberal cities in the country," he says. "All of my friends are environmentally conscious, and it makes a big difference to me that I can tell them I'm doing something I'm proud of. As a spokesperson, it's essential that what I say to other people is something I absolutely believe myself."

### Exemplary Branding

If sustainable business matters to employees, it's even more significant to customers. The value of a company's brand often depends on it, especially for resource-intensive businesses. Think of the paper industry. "Globally the paper industry is the single largest consumer of water and trees and the third largest emitter of greenhouse gases," says George Milner, senior vice president of energy, environmental, and government affairs at Mohawk Fine Papers. "Many of our customers want to know that we're using those resources responsibly."

Rather than view such customer demands as a

liability, Mohawk has carved out a niche for itself as a do-gooder. A relatively small, private company, based in Albany, N.Y., it has become the 22nd-largest consumer of wind energy in the U.S. and the fourth-largest among manufacturers

As part of its branding campaign, Mohawk encourages customers to incorporate its Windpower logo, a whirling turbine, on their print communications. The company also produces a 100% recycled paper line called

its paper and logos on their annual or sustainability reports. Mohawk's brand helps distinguish them as good corporate citizens.

As a product differentiator, recycled paper has become a hot item. The paper from Cascades Fine Papers Group's Quebec mills is, on average, about 30% post-consumer recycled waste. The company's fastest-growing product line, Rolland Enviro100, is 100% post-consumer recycled, which has driven sales growth into the high double-digits during the last two years. "The values of consumers have changed significantly in the last ten to 15 years," explains Normand Lecours, the company's vice president of sales and marketing. "They're usually willing to pay a little bit more for a recycled product."

In fact, although the Canadian paper industry has recently suffered a significant downturn because of changes in currency rates with the U.S., Cascades has remained profitable in large part, Lecours says, because of the popularity of its eco-friendly brands. On the heels of that success, the company launched an "Environmental by Choice" marketing campaign this September. "Our objective is to become known as the supplier of paper that is the environmentally safe choice for people to use," Lecours says.

after Johnson & Johnson. "Up until about ten years ago we weren't well known outside the northeast," Milner says. "Our promotion of renewable energy has helped raise our profile—particularly among like-minded corporations."

Mohawk Options, which incorporates a patented process called Inxwell, enabling it to retain the look and feel of premium paper. As a result of these efforts, Mohawk has attracted some high-powered clientele. Companies as diverse as GE and Ford Motor Co. have used

## Following the Paper Trail

Did you know that...

**Recycling half the world's paper would free 20 million acres of forestland.**

Sources: iD2 Communications, *The Recycler's Handbook*, 1990

**Recycling one ton of paper saves 682.5 gallons of oil, 7,000 gallons of water, and 3.3 cubic yards of landfill space.**

Sources: iD2 Communications, *Waste Reduction is a Smart Business Decision*, Onondaga Resource Recovery Agency, 1998

**Every ton of recycled paper saves about 17 trees.**

Sources: iD2 Communications, Purdue Research Foundation and U.S. Environmental Protection Agency, 1996

**Recycled paper requires 64% less energy than making paper from virgin wood pulp.**

Sources: Energy Educators of Ontario, 1993, iD2 Communications

**Leading the pack: 77% of paper is recycled in the Netherlands; 67% of paper is recycled in Germany; 52% of paper is recycled in Japan; 45% of paper is recycled in the U.S.**

Sources: iD2 Communications, *Washington Post*, Worldwatch Institute



## PAPER IS responsible

What kind of company can turn wind into paper? Our kind. At Mohawk, we're driven by the belief that a paper mill should be more than a source of products—it should be an environmental asset to our customers. Which is why we offer designers and corporations an unmatched level of responsible choices, from products manufactured with renewable, non-polluting, wind-generated electricity to completely recycled papers. In a world of increasing expectations, the answer is increasing innovation. Paper is what you make of it. Mohawk makes it more. Visit us at [mohawkpaper.com](http://mohawkpaper.com).

**MOHAWK**

**“It’s important that we don’t think only of the environment and forget that the quality of life we take for granted in developed countries is beyond the reach of a majority of the world’s population.”**

**Five-Star Forests**

Recycled fiber is so popular that demand far outstrips supply. “Globally the recycled portion of the paper market is only 5%,” says Lewis C. Fix, director of business development at Domtar, a Montreal-based paper company. “To address growing environmental concerns, companies are going to the root of the industry—the forests themselves. For example, Domtar has created EarthChoice, an extensive product line made of fiber that comes from well-managed forests—as certified by the Forest Stewardship Council (FSC), the only certification system broadly supported by leading environmental groups.

“Trees are a renewable resource,” says Fix, “but if you don’t adhere to sustainable forestry methods, you contribute to deforestation, as has occurred in Indonesia and South America.” Fix says being FSC certified and having the EarthChoice product line supported by environmental groups like Rainforest Alliance and the World Wildlife Fund of Canada has been an immensely valuable branding tool. “It’s not just us saying ‘Here’s what we do in

sustainability,’” he says. “We now have credible third parties supporting us and telling the world we’re a responsible company.”

Branding, of course, cuts both ways. Companies with bad environmental track records can damage their reputations. For instance, Exxon Mobil’s leadership continues to question the science of climate change and its connection to the oil industry. As a result, it has been strongly

censured by several leading environmentalist and activist groups. “Exxon is today where Wal-Mart was a few years ago,” says Donald Carli. “It is the poster child for attack.” By contrast, competitors such as BP and Royal Dutch Shell, which have both embraced sustainable strategies, have strengthened their brands, so much so that a recent oil spill and an explosion at one of BP’s refineries has only slightly

dented its reputation. “If Exxon had an explosion like BP’s, environmentalists would be all over it,” says Innovest’s Kiernan. “But because of BP’s brand, we’re willing to cut them some slack.”

**The Next Frontier**

Increasingly companies are looking at the social and economic impact of their operations as well as the environmental effect. “It’s important that we don’t think only of the environment and forget that the quality of life we take for granted in developed countries is beyond the reach of a majority of the world’s population,” says Ernesta Ballard, Weyerhaeuser’s senior vice president of corporate affairs.

So, in addition to earning independent certification that all of its North American forests meet international sustainable forestry standards, reducing its greenhouse gas emissions by 13% since 2000, and cutting the number of chemicals in its wood-product facilities by 25% since 2004, Weyerhaeuser has partnered with CARE International, a global relief and development agency, since 1999. In the Guangxi province

**Working With the Poor**

**A**lmost every company can find a way to help the poor create sustainable livelihoods. The World Business Council for Sustainable Development has identified the following methods for different types of businesses.

**Companies selling goods or services** can relate to the poor as customers, suppliers, or distributors.

**Companies extracting and processing natural resources** may have little chance to involve the poor as customers of their finished products. Their main contribution will be the creation of local employment and the strengthening of potential supplier companies near their operations.

**Utility companies** may focus on expanding their services to reach more low-income communities. They may also involve the poor in their operations, but their main contribution will be to ensure the fulfillment of basic and often vital needs (water, electricity, sanitation, and health care) on a sustainable and cost-effective basis.



# Renewing our Commitment

## Preserving Their Habitat. **Ours Too.**



**Renewing our commitment to environmental excellence.** In 2001, we became the first U.S. utility company to voluntarily commit to stabilizing greenhouse gas emissions. While others debated the issues, we took action to stabilize our 2001 to 2005 emissions at year 2000 levels. At the end of 2005, we fulfilled our commitment with emissions that beat our target by 23 percent even as our electrical sales grew by 21 percent during the same period. This year, we renewed our commitment – pledging to stabilize 2006 to 2010 greenhouse gas emissions at 20 percent below year 2000 levels. Reducing greenhouse gas emissions while generating affordable power is just one way we are working to build a more resilient world.

To learn more about Entergy's sustainability commitment, visit [www.energy.com/our\\_community/environment.aspx](http://www.energy.com/our_community/environment.aspx) to download the 2005 Entergy Sustainability Report.

ENVIRONMENTAL, SOCIAL AND ECONOMIC



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BUILDING A MORE Resilient World



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in China, the joint project has taught local families how to efficiently grow and harvest trees in a sustainable manner for themselves. The project also helps families buy stoves that use alternative fuels to firewood, so trees can be used for higher-value purposes. In Ranchi, India, CARE's Women's Initiative for Self-Help teaches participants how to conserve natural resources and market products for family income. In Nepal, Community Forest User groups are taught to manage their forests sustainably, while growing non-timber products such as herbs, spices, and medicinal roots.

The goal of such projects is economic independence for the poor. This concept of "sustainable livelihoods," first articulated by the World Business Council for Sustainable Development in 1999, has recently gathered tremendous steam. "Even more so than the environment, it represents the next frontier in sustainable business," says the WBCSD's Timberlake. The WBCSD, an alliance that consists of 180 global businesses, including such behemoths as GE and Procter & Gamble, in 2000 launched a major campaign to get its members involved in livelihood projects. It has published a comprehensive report, *Doing Business With the Poor: A Field Guide*, that details some of the results of past efforts.

**The World Business Council for Sustainable Development**

**(WBCSD)** is a coalition of 180 international companies united by a shared commitment to sustainable development via economic growth, ecological balance, and social progress. [www.wbcscd.org](http://www.wbcscd.org)

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**SustainableBusiness.com** is a global Internet portal, covering all sustainable business sectors worldwide, such as renewable energy, green building, and green investing. It publishes "Progressive Investor," and hosts Green Dream Jobs.

**Nurturing Micro-Businesses**

One key to a successful sustainable livelihoods program is being creative about how goods are distributed and sold. Rather than trying to reinvent the wheel in emerging countries and build Western-style operations from the ground up, companies look for what the WBCSD calls "naturally occurring distribution mechanisms." In 1999, for instance, Coca-Cola's southern Africa division created an Entrepreneurs Development Program to help

new entrepreneurs set up ventures selling beverages via transport bicycles and mobile kiosks. Promising entrepreneurs are trained in basic business skills. In 2000 the program created 12,900 new jobs. As these micro-businesses have developed, the company has helped the entrepreneurs move up into more sophisticated jobs and increase their profitability.

Sometimes, as in Waste Management's project with Cascades Fine Papers, social and environmental strategies

intersect. In Brazil, DaimlerChrysler found that coconut fibers work well in filling headrests and seat cushions. By outsourcing the farming, supply, and molding of the fibers to small local enterprises, DaimlerChrysler helped poorer entrepreneurs get on their feet. The local businesses benefited from the additional income and the transfer of technology, while DaimlerChrysler realized a 5% savings on production costs and increased its eco-efficiency through the use of recyclable materials.

Such synergies may increase as the world's most powerful corporations become more active in sustainable development. If Wal-Mart's Lee Scott follows through with his promises, it will not be just Wal-Mart's business that will change but that of many of its suppliers. The company has 1.8 million employees, 176 million customers, and 60,000 suppliers. "Wal-Mart is the single most important leverage point in the supply chain for the U.S. economy," says Globe Scan's Coulter. "The company's ability to get its suppliers to do what it wants is powerful. Its actions will have a ripple effect throughout the entire economy." And as more companies join the sustainable bandwagon, that impact will increasingly benefit the globe. ■



# By 2020, Weyerhaeuser will reduce its greenhouse gas emissions to 40% less than they were in 2000.



**Why we're making this commitment.** Very simply, cutting greenhouse gas emissions from current operations is a smart move for our business. As we use our resources more efficiently and cut our reliance on fossil fuels, we also reduce costs. And that builds value for our shareholders. Of course the environment benefits too. Our long-term commitment to provide forest products responsibly and sustainably is at the heart of our company's values.

**How we'll accomplish it.** By installing cleaner-burning boilers. By increasing our energy efficiency. And by using biomass — an abundant, renewable source of fuel created from bark and other organic material left over from our manufacturing process. Using biomass to power our mills reduces our need for expensive fossil fuels. But the benefits don't stop there. When burned, biomass that comes from sustainably managed forests has a neutral effect on greenhouse gas emissions. The carbon dioxide it releases is offset by the replanted forest, creating a carbon loop.

Trees are a remarkable natural resource. They can lower greenhouse gases and they can raise the bottom line. Unlocking their value and potential is a goal we've been committed to for over 100 years.

## Do the world's harshest environments hold the key to our energy future?



### Ask an expert like Ivan Fedorchenko.

For half the year the temperature on Sakhalin Island in eastern Russia averages  $-11.20^{\circ}\text{F}$  and even the sea is frozen. Here, in one of the toughest places on Earth, Ivan Fedorchenko is managing production for Sakhalin Energy, a Shell-led joint venture. Sakhalin II is one of the world's biggest integrated oil and gas projects, and the conditions make his work hugely demanding. But we're using our experience in extreme environments like the North Sea and Alaska to make this project one that, at full production, will provide 7% of the LNG needs of the entire Asia-Pacific region by 2010. Find out more about how Shell is securing energy in frontier environments at [shell.com/ivan](http://shell.com/ivan)

