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Ethics in Business: Interview with Sujeesh Krishnan and Euan Murray

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JULIA KENNEDY: Welcome to the Carnegie Council's Global Ethics Forum. I'm Julia Kennedy.

I recently spoke with Sujeesh Krishnan and Euan Murray from The Carbon Trust. Krishnan oversees The Carbon Trust's operations in the United States and Murray looks at the company's carbon footprinting work globally.

The Carbon Trust was set up, in part, by the British government to accelerate the move to a low-carbon economy. In the past couple of years, the nongovernmental organization has made waves with its ideas for carbon labeling—that is, putting a number on consumer products to let buyers know more about the environmental impacts of their purchases.

Walkers Potato Chips in the United Kingdom has been one of the first companies to go from studying its own carbon footprint to actually putting its emissions on potato chip bags. Murray began our conversation by telling me about Walkers' experience.

EUAN MURRAY: The big emissions sources are not where we expect them to be. That really reflects the idea that this is such a new area of innovation for companies.

In the case of the bag of potato chips, almost half of the emissions actually come back from the agriculture stage, from growing the potatoes themselves and the inputs that go into that potato farming, and also making the sunflower oil that the potato chips are cooked in.

On first pass, we were all quite surprised that that was where the lion's share of the emissions were. When we did this a couple of years ago, in the United Kingdom the big issues on people's minds, what the average consumer would respond to, were things around packaging and plastic bags and their recycling; and also things like food miles, so the idea that the distance products travel is a good indicator. What we were able to show is that, yes, those two are important, but actually, if that's all you focus on, you miss the bigger picture.

In the case of that bag of potato chips, food miles made up less than 10 percent of the total carbon footprint, whereas the process to make the fertilizer that the farmer was using was more like 15 percent. I'm not embarrassed to say when I first saw that I made the guys go and check the numbers. I didn't believe it. But it turns out it's true.

If we're really going to take climate change seriously, if we are going to find the fastest, cheapest, easiest ways to make savings, then we've got to go, not where the conventional wisdom says we should go, but where we actually really know the big emissions sources are, where we know the big reduction opportunities are.

This work has prompted Walkers to set up quarterly supplier sustainability summits. They get all of their key suppliers together now every three months and they share ideas for carbon measurement and carbon reduction.

JULIA KENNEDY: The recommendations you make to companies then who are looking at the supply chain, do you recommend that in the future, as they choose suppliers, they take into account the kinds of carbon that they emit?

EUAN MURRAY: It's an important thing for companies to be thinking about, and it's something that we want to help them get their hands around.

Some companies are now in a place where they really understand their supply chain very well and they've got their suppliers engaged. That for me is the most important step. We all must help companies realize a problem shared is a problem halved, and that working collaboratively with their supplier companies can improve resource efficiency, cutting waste, they can often improve logistics by sharing routes with suppliers, and all of these things together add up to a lower-carbon product but also a product that is cheaper to produce, so it makes clear business sense.

JULIA KENNEDY: Now let's talk a little bit about the labeling piece. Walkers did put this carbon number on the label. How do you educate consumers to then know what they are looking at when they see a carbon number on that label?

EUAN MURRAY: Increasingly, consumers are saying, "We recognize climate change is an issue. We want to do our bit. But, at the same time, we expect companies to be doing their bit too and taking the lead, and we expect companies to make it easy for us to do the right thing."

Consumers are increasingly getting a bit tired of the same old messages, that it's about insulating their house and about energy-efficient light bulbs. These things are really important, and they're the things that consumers should tackle first, but they are almost ready for a bit more now, I think.

So the real challenge that we have now is to help educate them that basically every purchasing decision that they make has an impact on the climate in one form or another, either through the emissions that it took to get that product into their hands or the emissions that are generated when they then use and dispose of the product afterward.

And so the label for me is really one tool that companies have to start that education process and to demonstrate a commitment to consumers that they have taken the responsibility seriously, that they have stepped up and gone through the process to measure their footprint, and they are committing to reduce it over time. That for me is the most important thing.

I think companies that claim today they have solved the problem aren't really credible actually. But if a company steps up and says, "Yes, we want to do the right thing here—we're not perfect, but we're heading in the right direction," that builds trust and it helps them open that communications channel to the consumer so that they can then explain to the consumer how they can better use the product in their home and make sure it is disposed of in an environmentally friendly way.

SUJEESH KRISHNAN: And some of these things are also about consumer behavioral changes. As we look at the supply chain and where carbon impacts are, there are sets of products where it is actually in the use phase of these products that the emissions impacts are from a significance perspective. And so that education and awareness-building process then becomes quite important.

Just a simple example is what one of our initial partners, Boots, did with their shampoos. When they measured the carbon impact of those shampoos, the majority of that impact was actually when somebody buys the bottle of shampoo and washes their hair, because it is typically done in hot water. So what they did was they had some of their hair scientists do some research on the effects of washing your hair in different temperatures of water and then had point-of-sale advertising and marketing material talking about what the impacts are from a carbon emissions perspective, but then also the impacts from your hair perspective and from a cost-savings perspective and all of that.

So I think as we look at the label it's a way to also, I think, try and educate consumers in a way that their own behavioral changes can also be impacted for certain types of products.

JULIA KENNEDY: Now, tell me a little bit about what you're doing also with PepsiCo in the United States, with Tropicana, and some of the challenges you have run into in terms of labeling with that.

SUJEESH KRISHNAN: We've worked with PepsiCo now in the United States for about 12 months. Tropicana was the first of a set of products that we're working with PepsiCo here on.

With Tropicana it was actually quite interesting, because when you look at the supply chain of a product like an orange juice, it's coming from Brazil, the processing happens here in Florida, and then it gets distributed all around the United States.

Similar to what Euan was talking about from the Walkers crisps example, transportation miles is where you would logically expect all the emissions to be. But as we looked at the details, it was primarily around agriculture. So the growing of the oranges, the fertilizer used in the orange groves, and all of that, is where the majority of the emissions were.

JULIA KENNEDY: So, clearly, this was really good internal education for PepsiCo, to figure out how this works. There was some publicity done—*The New York Times* ran an article about this—so it became somewhat public knowledge. But they haven't yet put a carbon label on Tropicana juice. Is that something you are working with them on, or how did they come to that decision?

SUJEESH KRISHNAN: It's something we are continuing to discuss with them. Part of the discussion is around the readiness of the American consumer to understand the label.

So one of the things that they are actually thinking about is: Are there other, more effective media where this information can be displayed first? So, for example, a Website or some other material where there is a lot more real estate to explain what all of this means. It's part of what the PepsiCo team and we are discussing in terms of how best to communicate this to the consumer, where it's actually meaningful to the average person.

JULIA KENNEDY: That sort of leads into another topic I wanted to discuss with both of you, which is how you are finding different markets, both from the consumer side and from the business side, are receiving your efforts as Carbon Trust. How do you find your reception different in different places?

EUAN MURRAY: The reception from the business audience is actually pretty universal. For different companies the balance is different. For some it's mostly about consumer engagement. For others it's mostly about cost reduction. What we see is that the business case is strong however that balance looks. And so they are really stepping up.

I think where the difference lies with respect to the consumer is perhaps around their current levels of understanding of what climate change is and what they need to be doing. But I fully expect that in the next couple of years consumers pretty much anywhere in the developed world will recognize that they have a role to play and that really this is about partnership between consumers themselves, between business, and then between governments to have a role in educating and supporting the other two.

JULIA KENNEDY: How are you rolling this out in the United States? I know you have several clients in the United Kingdom and abroad, but are you really trying to work with PepsiCo and a few select clients first and then work more broadly, or what's your strategy here?

SUJEESH KRISHNAN: No. I think as we look at the U.S. market, there is work going on in these topics in every sector of the market here. Our goal here is to make sure that all of these sectors are actually moving in a similar way as they go forward here.

We are starting to get engaged in the electronics and computer sector. We are engaged in the food and beverage industry. Everybody needs these tools, and to the extent that we can help push these things across multiple sectors, then that's a win for us.

So as we engage, we engage with companies directly. Then we are also engaging with industry groups and trade bodies as they try to move the entire industry group or a sector forward. And sometimes those are a little more powerful, because then it gets the backing of the entire industry to move an initiative forward.

JULIA KENNEDY: How do you envision the breakdown between responsibility in the private sector versus responsibility in the public sector? I think there's a lot of "That's the government's job, to regulate; that's the business's job, to innovate." How do you see that breaking down?

SUJEESH KRISHNAN: I'll start with the U.S. perspective and then Euan can talk about the global perspective.

From the United States, I think some of the activities now happening at a federal level, from a climate change perspective, are actually driving companies to push these initiatives even further within their own organizations. In the next couple of years, there is definitely a view that a carbon tax or a cap-and-trade system is going to be in place. With these regulatory changes, there are going to be impacts on how companies do business and how successful they are in those sorts of environments. And so getting ahead of that curve and understanding what the impacts are across their supply chain will help them be better prepared for those sorts of things.

There is talk of regulatory changes from a labeling perspective. That may also impact companies. So you have AB 19 in California. You have some new amendments in the Waxman-Markey bill that focus on some pilots around carbon labeling and all of that. So again, it's companies trying to get ahead of public policymaking that will help them be ahead of the curve as some of these changes come into play.

JULIA KENNEDY: How are you at The Carbon Trust involved in those sorts of amendments and governmental changes? Do you work at all with the U.S. government, lobbying, things like that, or are you mostly private sector in your U.S. capacity?

SUJEESH KRISHNAN: We're not necessarily lobbying with the government bodies, but we have been asked to provide comments on both of those bills, the AB 19 and the amendments to the Waxman-Markey bill. At those levels it's more of a collaborative effort of using our experience that we have gained through the last few years of work to say, "This is how a program could be set up," either federally or in California. So it's more of a collaborative process.

JULIA KENNEDY: Expert advice.

SUJEESH KRISHNAN: Yes, exactly.

EUAN MURRAY: I think governments around the world have a role to play in making sure that everyone does what they need to do. So legislation is the stick almost. Government has a role to make sure products are safe and that the worst of the environmental impacts are excluded.

But I think that will only take you so far. The forward-thinking companies see opportunities there for them to get ahead of everyone else, and that's where the carrot comes in of a program like ours, in helping them go further than their competitors, find cost savings and efficiencies that their competitors haven't yet found. I think there is a balance there.

JULIA KENNEDY: How does this supply chain analysis and your news that farmers are really key in the carbon emissions process affect the developing world, and does it affect those kinds of farmers adversely?

EUAN MURRAY: I think it's really important for the developing world that climate change and climate change mitigation isn't something that we in the West use to go and hit them over the head with, that actually it is seen as a way to work together to find the best way to get products and services into the hands of the consumer. I think that this is good for developing world farmers, because very often the developing world is the best place to grow particular products and it's the best place to find other raw materials to make products to get them into consumers' hands ultimately.

A low-carbon banana is very probably one that comes from the Caribbean or from Africa to Europe and the United States. It's not going to be one that is grown in a heated greenhouse in Scotland or Wisconsin. That says we need to be working with those guys in the Caribbean and Africa so that they can demonstrate that they are doing the right thing, they've got a good product that we in the West can be proud of when we buy it.

JULIA KENNEDY: I think there are struggles in the developing world to try and bring in more fertilizer so that they can really reduce their production costs, but then on the other side they want to be more sustainable. So what do you advise in that capacity?

EUAN MURRAY: Farming, like any business, is about managing tradeoffs, it's about getting efficiency up but keeping the cost base low. Fertilizer, I think, is going to be an area of focus in the future to make emissions reductions.

The key issues with farming are less about CO2 and more about the other greenhouse gases. So the two big ones here are methane, which often comes from livestock, and nitrogen dioxide, which is part of the nitrogen cycle, part of the way soil works, and very important to make plants grow. But inorganic fertilizer generates a lot of methane and nitrogen dioxide when you make it, and also there are emissions from the soils as you apply it, if you over-apply it, and if you put it on at the wrong time of the year.

So what we are looking for are some simple guidelines that we can give to farmers, whether they be in North America, Europe, or the developing world, to say, "This is how best to run that farming system." We are already doing that with companies like Tesco and Sainsbury, Cadbury, and a number of others, to help educate their farmers about how best to run their businesses from a carbon point of view as well as a cost point of view.

JULIA KENNEDY: What are your initiatives in China right now? What do those look like?

EUAN MURRAY: The Carbon Trust is doing a lot of work in China just now, working with an organization called CECIC, which is a government-funded organization in China dedicated to environmental sustainability. We're working with them looking at low-carbon innovation and a number of other initiatives.

But we also have a set of projects like those in Europe, the United States, and the United Kingdom, looking at product footprints. Now, of course, a big chunk of emissions—roughly a quarter by most estimates—of the emissions from China are to make products that we in the West then go on to buy. That's a really important piece of information. It shows how our purchasing as Western consumers and our businesses and our brands here in the West have a very strong link back to production emissions in China and other parts of the developing world. And it shows the ability that we have to influence and to work collaboratively to make reductions over time.

So we're not just relying on a political process, but we have an economic and a social process too that sits alongside that. That for me is really important.

In the same way as companies we've been working with in Europe, wanting to replicate that in the United States, we see the same in China. A number of companies there that are trialing product footprinting and labeling with us are really extensions of the projects we already have. That's great to see, creating those global systems and a single standard. It is starting to happen from the bottom up. That has to be the right way to go about it.

JULIA KENNEDY: I think there is such a stigma about emissions in China. What are you finding as you are working there? Are you finding that stereotypes about dirty emissions in China are true or that there really is a grassroots yen to change?

EUAN MURRAY: I think it's well documented that China has a lot of cheap coal, and so that is likely to be their power-generating technology of choice for the foreseeable future. But I think that doesn't mean they are shirking their responsibilities. I almost see the opposite, that actually there are a huge number of growing movements in the environmental space in China. It's increasingly becoming something that the average person is aware of, and climate change is a big part of that.

So a number of companies have approached us to say, "We want to get on the front. We see real business benefits in managing our carbon across our supply chain. We think that will help us with our relationships with our Western corporate customers and ultimately with those consumers."

Now, as everywhere, there are challenges around getting good data, getting it all put together in the right way to make up that carbon footprint. But these are things that I think we can tackle over time. We can't expect to solve the problem overnight, but we are certainly heading in the right direction.

JULIA KENNEDY: How have you seen the global financial crisis affect responsiveness to your efforts at The Carbon Trust?

SUJEESH KRISHNAN: The financial crisis has obviously had some impact, from slowing down the velocity with which companies want to move on some of these initiatives. That being said, because a lot of these initiatives are around supply chain efficiency, in this environment it is actually more meaningful for companies to look at these sorts of initiatives because it actually drives cost savings through the supply chain. And so from that perspective it is actually quite interesting for companies to look at this.

Environmental Defense Fund does some work with KKR [Kohlberg Kravis Roberts & Co], which is a big private equity firm. They looked at three of their portfolio companies over the last year: U.S. Food Service, Sealy Mattresses, and Primemedia. Across all these companies over the last year, individually each of those companies saved something in the order of $5 million to $10 million, just in energy efficiency, transportation optimization, and waste reduction activities.

So now, if you can scale that across all the different companies out there, that's a huge savings in an environment of financial difficulty. So I think from that perspective there is actually huge value for companies to continue to focus on these sorts of initiatives right now.

EUAN MURRAY: And we have seen that at a practical level. So back to our Walkers example, we have been working with them now for roughly two years to reduce the footprint of that bag of potato chips. In that time they have saved more than 5,000 tons of carbon dioxide and other greenhouse gases, but that has translated into roughly $600,000 of energy cost saving for them and their suppliers.

At a time when we need to demonstrate the financial case for this sort of activity, there is no greater endorsement than that. That's money that hits the bottom line straight away, and it's actually money that they have said, "We're going to reinvest that in the next set of energy savings for the two years coming."

That shows why I believe that this is as relevant now as it was maybe three or four years ago, when we were just starting out.

JULIA KENNEDY: Have you seen any trends emerging that are disappointing, that are heartening, just as you've been doing this work?

EUAN MURRAY: I think the main trend is just this idea that we've learned so much as a group of companies doing this work and that actually there's still quite a lot to learn, we need to do more.

And so the trend that I want to see going forward is that we're able to really build up that database of information that companies can draw on to do the footprinting work and that we can make it faster and easier for them to footprint many, many products at the same time, because the long-term vision for me is one where carbon emission reduction stops being about individual projects, where every two years somebody from The Carbon Trust comes along and asks you a set of questions; rather, it is something that is built into day-to-day decision-making, and that companies use their accounting systems, or whatever they might be, to capture that carbon information so that it sits alongside their inventory levels, their profitability.

So when the management team is sitting down once a month to review that performance, they've got their carbon footprint there too, and they are able to manage that in the way that they manage all the other aspects of their business. That to me feels like a sustainable change, and one where everybody in the supply chain is doing their bit and passing on that good work down the chain to the next company. That's the trend that we're on, but that's the trend we absolutely need to stay on if we are going to make this really scale.

SUJEESH KRISHNAN: Yes. And I think future activities—one of the key things that I would love to see is these concepts get built into product design and product development. At the moment a lot of what we are doing is retrofitting. There are processes and products that we are trying to make better. But to the extent that these concepts are built into product design, then whatever comes out at the end of that cycle is already the lowest carbon emission product or the most sustainable product at the end of the day.

Those are the sorts of ways that I think, as we take this forward, will help reduce the cost of doing this. It just becomes part of day-to-day operations and the like.

JULIA KENNEDY: Great. Well, this has been very informative. Sujeesh and Euan, thanks so much for sitting down with me.