Sustainability

Ask a dozen people what "sustainability" means and their answers may surprise you.

In New Hampshire, the Sustainability Program is a campaign by Democrats to “Keep NH Blue” (i.e., Democratic) in next year's elections.

The California Sustainable Winegrowing Alliance is devoted to ensuring “that the California wine community is recognized as a changing leader in the global marketplace.”

A more credible definition originated at a United Nations conference. It defined sustainability as a way to “meet the needs of the present without compromising the ability of future generations to meet their needs.”

Vision

As Charles Koch emphasized in the Vision chapter of his book, The Science of Success, sustainability is inherent in the way we think and operate:

“For a business to survive and prosper long term, it must develop and use its capabilities to create real, sustainable, superior value for its customers and for society.”

That way of thinking helped shape KII’s Sustainability Vision, which reflects all 10 of our MBM® Guiding Principles: “We create long-term value for society by using resources more efficiently; protecting the environment and the safety and health of our workers and others; consistently applying good science; and, employing Market-Based Management®. Together, these contribute to our overall quality of life.”

All Koch companies share in the implementation of this vision.

Action steps

Flint Hills Resources’ refineries, for example, have been able to cost-effectively reduce emissions by nearly 8,000 tons per year since 1999. Those same facilities have also reduced landfill waste by thousands of tons.

Koch Chemical Technology Group companies have developed technologies that significantly reduce emissions. Koch Membrane Systems, a KCTG company, makes products that help conserve water and reduce pollutant discharges into rivers and streams.

By using MBM, Koch’s Matador Cattle Co. has been able to improve its ranching business while enhancing wildlife habitat.

And Georgia-Pacific makes more than 200 away-from-home tissue products containing recycled fiber, several made with 100 percent recycled fiber.

“The real measure of sustainability: creating long-term value for society.”

2006 KII EH&S Progress and Community Stewardship Report

Not just us

Koch companies look for a similar commitment from suppliers, vendors and other partners.

“For us, sustainability is not an end. It's about creating value,” said Sheryl Corrigan, Koch Industries’ director of compliance. “It’s something we incorporate in our businesses and operations.

“This is not new for us. Our Sustainability Vision is about applying MBM for many years to come.”
On the Cover:
This photo of an American bald eagle was taken at INVISTA’s site near Camden, S.C. On June 28, the bald eagle was removed from the federal government’s list of threatened and endangered species.

Charles Koch’s *The Science of Success* was something I found compelling and so stimulating. It brilliantly integrates values, concepts, principles, practices and vision drawn from physical science, human management, history and philosophy into a coherent, incredibly well-organized, succinct and eminently worthwhile work.

I zipped through it in about three hours (and I was going slowly), dog-eared almost every page, marked many notes and will savor and re-read it.

It is a great tribute to freedom, free enterprise, and personal responsibility. Bravo!

John Garvey
Chairman, president and CEO, Petroleum Inc.
Wichita, Kan.

P.S. – It’s also faster than reading *Human Action* by Von Mises.

Thank you so much for all of the scholarship support I have received from the Fred C. and Mary R. Koch Foundation over the past four years.

I have graduated and will be teaching seventh grade language arts and reading this fall.

Erin Blasi
Wichita, Kan.

On behalf of the people of Greensburg and the State of Kansas, I want to thank you for your support of the many Kansans devastated by the tornado that struck Greensburg.

Our state motto is “Ad astra per aspera” or “To the stars through difficulty.” It is through the many kind thoughts, volunteer assistance and financial donations that Kansans will be able to rise above the difficult memory of the May 4th tornado.

I am very appreciative of the generous donation you made to help these Kansans rebuild their lives. Thank you again for your support through this difficult time.

Kathleen Sebelius
Governor of Kansas
Topeka, Kan.

Koch companies donated more than $150,000, including a Kill match of almost $50,000 in employee donations supporting Salvation Army relief efforts. Kill also donated $25,000 in pre-paid gasoline cards.

In addition, the Koch Nitrogen plant in Dodge City, which serves the Greensburg area, donated $25,000 and Georgia-Pacific donated two truckloads of supplies.

What an incredible outpouring of compassion by Koch company employees. The entire contribution of more than $150,000 will certainly be a great help in serving the needs of the families affected by the Greensburg disaster.

Please express our appreciation to the Kochs and everyone at Koch Industries for their generous contributions.

Maj. Charles Smith
Salvation Army
Peoria, Ill.

This weekend, I volunteered to help distribute vouchers to families in Haviland (about 10 miles east of Greensburg) where people would come for help.

Every single person was amazingly grateful for the Koch voucher, good for $60 worth of gas. Many cried at the kindness of not only Koch but the gifts of clothing and other items.

Please accept a thank you from one who has felt the generosity of the Koch family in so many ways.

Patrick Hill
Wichita, Kan.

Please accept this copy of the legislative citation recognizing the 2007 Flint Hills Volunteer Award recipients.

This annual event honors individuals and groups who have demonstrated qualities of selflessness and excellence in their volunteer service.

This is the Alaska legislature’s way of recognizing exceptional contributions to the community.

Scott Kawasaki
Rep., District 9
Fairbanks, Alaska

On behalf of the Kansas Association for Conservation and Environmental Education and the National Office of Project Learning Tree, I would like to thank Koch Industries and Georgia-Pacific for your support of our Coordinator’s Conference, which hosted participants from 40 states as well as Japan and Mexico.

Your ongoing support of quality, non-biased, science-based environmental education will help us raise the next generation of those who will honor and care for the natural resources of our state.

Laura Downey
KACEE Executive Director
Manhattan, Kan.

Rich Fink  Charles Koch
Jeff Gentry  Jim Mahoney
Dale Gibbens  Dave Robertson
Mary Beth Jarvis  Katie Stavinoha

On behalf of the people of Haviland (about 10 miles east of Greensburg) where people would come for help.

P.S. – It’s also faster than reading *Human Action* by Von Mises.
Fiber optic bandwidth and weather derivatives are fairly recent examples that come to mind.

But a new interest has developed in something even more unusual: carbon emissions credits. It’s a market that has attracted the attention of Koch Supply & Trading.

Trading credits involves a simple cap-and-trade concept. For example, the 27-member European Union, based in Brussels, decides how much carbon dioxide a company should emit (the cap), then issues that company credits it can “spend” for that amount.

If the company exceeds its cap and spends all its credits, it must buy credits from companies with leftover credits. This creates trading opportunities where buyers pay for emitting more while sellers are compensated for having lower emissions.

How big is this government program? Colin Moore, head of environmental markets for KS&T in Houston, estimates that credits valued at $150 million or more are traded every day.

In the E.U., 2.19 billion tons of CO₂ emissions credits were issued to 11,428 industrial installations for 2005-2007. About 764 million tons of EU emissions permits worth $18.2 billion were traded in the first nine months of 2006. That compares with 324 million tons worth $8.2 billion for all of 2005.

KS&T began trading emission credits for sulfur and nitrogen oxide emissions in the U.S. before venturing into the European market.

KS&T also trades on the Certified Emission Reduction market, which was created for non-industrialized nations, including many in Africa and Asia.

Emissions trading is a high-risk enterprise. Prices for credits plunged this year when the market realized actual emissions were running hundreds of million tons below allowable levels.

That meant a surplus of credits, which drove prices down from €30 per ton last April to about €1.1 in recent trading on the European Climate Exchange.

“To successfully trade in this government program,” Moore said, “we’ve got to have very effective risk management solutions to offer our customers.”
Making Matters Worse

This summer's record gasoline prices in the United States have prompted anti-business critics and environmental extremists to become more vocal than ever. They accuse the industry of price-gouging, profiteering and polluting.

Their unrest, amplified by media coverage, has prompted U.S. policymakers (many of whom face re-election next year) to "do something."

Unfortunately, instead of facing the facts and learning from past mistakes, many policymakers are resurrecting old energy policies that have consistently failed in the past.

**Facts**

Thanks to inflation, almost everything has become more expensive. Food, transportation, apparel and recreation all cost more.

The same is true for energy. The average price of unleaded gasoline, for example, has more than doubled since 1982.

But according to the government's Bureau of Labor statistics, so have prices for almost all consumer goods.

In fact, the prices we pay for rent, fruits and vegetables, medical care, college tuition and tobacco products have risen much higher - sometimes more than twice as high - than energy prices.

**Factors**

Nothing affects prices more than supply and demand, and demand for energy has been skyrocketing.

In 1970, global demand for crude oil was around 47 million barrels per day.

Today, demand has reached 85 million barrels per day.

America's share of that demand has fallen from 31 percent of the world's total in 1970 to 24 percent last year.

In other words, even though U.S. energy consumption continues to rise, demand in the rest of the world is rising faster.

Global demand is expected to go up as emerging economies (home to 90 percent of the world's population) develop.

Energy supplies, on the other hand, are getting tougher and more expensive to find and develop.

Many of America's most promising opportunities for new oil and gas production are being kept off-limits by government policy.

Also complicating the supply picture are the unstable governments of some of the world's leading energy producers.

Regardless of where you live, access to energy is vital for supporting a growing economy, rising employment and higher living standards.

Which brings us to a critical question: Why would some U.S. citizens want to attack their own energy industry?

**Grim reality**

Rather than focusing on what most people want - lower prices, reliable supplies and less dependence on foreign energy - many U.S. politicians are making those goals difficult, if not impossible, to achieve.

Instead, they are promoting onerous new regulations, special interest mandates, price-gouging laws, "excess profits" taxes and price controls.

Many price-gouging proposals include harsh criminal penalties for violating vague regulations that even their proponents can't explain.

Such proposals undermine the rule of law because they do not provide a real standard for what price-gouging is. In effect, anyone could second-guess anyone else's pricing.

Such proposals would also push needed imports to other markets, leaving the U.S., which imports 10-15 percent of its gasoline (and more than half its crude oil) short of fuel.

It is worth noting that most proponents of these policies seem intent on "punishing" the energy industry. What they fail to admit is that their approach will punish consumers most of all.

**History lesson**

Price-gouging laws, which are essentially price controls, are a perfect example of how not to manage energy policy.

Following Arab oil cutbacks in 1973, the price of crude oil quadrupled. Not surprisingly, the price of gasoline jumped, too.

The U.S. government's "solution" to those high prices included price controls for crude oil. "Old" crude oil, discovered before the embargo, had to be sold at "old" prices. But "new" crude, discovered after the embargo, could be sold at much higher market prices.

The result? Only "new" crude was readily available, and there wasn't enough of it to meet demand. Consequently, U.S. refineries couldn't make enough gasoline.

Additional price controls on gasoline resulted in a gasoline "shortage" that led to long lines at gas stations, gas rationing and enormous frustration among consumers.

Price controls also provoke uncertainty, causing investors to lose confidence.

Why build a new refinery, or even open a new gas station (investments that typically take many years to recoup) if supplies are questionable or the government might treat you as a criminal or prevent you from making an attractive return on your investment?
Biofuels?

Biofuels may hold promise, but the way U.S. lawmakers have chosen to quickly and forcefully mandate corn-based ethanol is a serious – and expensive – mistake.

Every gallon of corn-based ethanol is subsidized by tax credits and mandates. When the U.S. Congress mandates the nation triple or quadruple the use of corn-based ethanol (to 36 billion gallons by 2022), they are effectively tripling or quadrupling ethanol subsidies at citizens’ expense.

And how can all that ethanol move? Refined products are safely and efficiently moved by pipelines. But corn-based ethanol is corrosive and cannot be transported by that same petroleum infrastructure.

Ethanol policies have already increased corn prices, and DuPont has said it expects to raise prices on its popular Pioneer corn seed “by double digits” next year.

But that’s only the beginning. The U.S. ethanol mandate has produced lots of unintended consequences, such as higher prices for beef, chicken, soap, detergent, milk, soft drinks and fertilizer.

Ethanol also requires nearly as much energy to produce as it supplies and can create adverse environmental effects, such as water depletion and higher emissions.

Meanwhile, an unsubsidized, entrepreneurial approach to the development of alternative fuels is seldom discussed.

Windfall fallacy

So-called windfall profits taxes are another bad idea. Punitive taxation of the U.S. energy industry might mean more money for the U.S. government...for now.

But high taxes also have another effect. They drive away investment and undermine our general welfare. This affects employment and the overall health of the economy.

Every dollar paid in taxes is a dollar that can’t be used to improve, innovate or develop the things people want, including more and better energy.

Punitive taxes on American companies make them less competitive, giving an edge to foreign manufacturers.

Building barriers to foreign energy supplies makes domestic manufacturers even less competitive.

Adding insult to injury is the fact that administering these new taxes is the fact that administering these new taxes is the government bureaucracy at taxpayer expense.

Who pays?

When asked if they want greater energy independence and cleaner energy, most people say yes.

But when asked if they are willing to pay triple or quadruple today’s prices to achieve those goals, the answer becomes a resounding no.


To illustrate how expensive it would be to fund radical environmental policies, Dingell has suggested a bill that would tax carbon emissions (something similar to U.S. Vice President Al Gore’s proposed BTU tax 15 years ago).

In doing so, Dingell has proved that talk is cheap but paying for it is painful.

Such a tax could raise U.S. retail gasoline prices by $2 per gallon or more, sending the national average well above $5 per gallon.

Even politicians who talk the most about saving the planet don’t seem enthused about supporting significantly higher energy prices, especially with an election year coming up.

Consequences

If governments refuse to take realistic, market-based approaches to energy policies, it is consumers, employees and their employers – not energy companies – that will pay the steepest penalty.

Prices for energy and all other products may well rise even higher than they already have.

If prices are controlled, fuel shortages will occur and nations may become more reliant on less stable countries for not just crude oil, but gasoline and other fuel products.

Overregulation and punitive taxes will leave the energy sector with less money to invest in greater oil production and refining capacity, or to develop other energy sources.

That loss of capacity will mean lower economic growth, job losses and diminished economic and national security.

Allowing special interest groups to continue to delay permit approvals for refinery expansions or exploration projects will only compound these problems.

Energy insanity

Price controls, price-gouging proposals, excess profits taxes and over-regulation have failed before. It is foolish to think their results would be any different this time. A new way of thinking is required.

In The Science of Success, Charles Koch wrote about how hard it is to “internalize and apply new mental models. This involves the most difficult and painful of all changes: A change in the way we think.”

Hard as it may be, that’s exactly what U.S. and other politicians need to do...especially where energy is involved.
Can you name the biggest construction project currently underway at any Koch company?

For the moment, it’s the MinnCan Project, a system proposed by Minnesota Pipe Line Co. to transport much-needed Canadian crude oil to refineries in the Twin Cities.

More than 77,000 tons of pipe joints, or sections, are required for the 300-mile system, which will be operated by Koch Pipeline Co.

Motley, Minn. - When welded end-to-end, these sections will stretch for more than 63 miles. The red pipe (upper right), with extra-thick walls and abrasive-resistant coating, is used at river and road crossings.

Underground innovation

Pipeline construction has come a long way since wooden pipes and hollowed out pine logs were used to transport natural gas in the 1820s.

Today, crude oil pipelines are made of carbon steel with a fusion bonded epoxy coating that resists corrosion.

Other improvements involve welding and inspection technology. Pipeline welders must now be tested and certified, and rigorous supervision by inspectors is routine.

Perhaps the biggest change of all is not technical, but bureaucratic.

According to Bob O’Hair, president of Koch Pipeline Co., “It took nine months to approve and build the original Minnesota pipeline system in 1955.

“Permit approvals for the new MinnCan project have already taken 17 months, and construction has yet to begin. That’s a big, big difference.”

“Even the average depth of a pipeline has changed,” O’Hair said. “It’s much deeper today, and we’re sure not digging them by hand anymore.”

Specs

Most of the steel pipe for the MinnCan system has already been manufactured and delivered to three depots in Minnesota, where it awaits construction crews.

The average pipe joint is 72 feet long and weighs more than three tons. Its walls are .35 inches thick and 24 inches in diameter (measured from the outside edges).

The longest sections stretch for 80 feet and tip the scale at 7,200 pounds.

The pipeline will be installed in a trench that is three feet deep, except in agricultural areas. There, as an extra precaution, the pipe will be four and a half feet below the surface.

Where the pipeline path crosses a river or road, specially-constructed pipe with extra-thick walls and additional coatings will be used.

Pending final permit approvals, the project is targeted for completion in 2008.

Brush with Fame

For more than 20 years, people have associated the STAINMASTER® brand with the carpet on their floors. Now they can think about it on their walls, too.

This spring, INVISTA launched STAINMASTER® paint, a premium-quality interior paint.

Like its famous carpet cousin, STAINMASTER® paint adds style and beauty to any room, and helps keep a variety of spills, splatters and artful escapades from becoming a permanent part of the household landscape. It is also easy to clean.

STAINMASTER® paint is now available at nearly 100 specialty paint retailers in the U.S., a number that should double by the end of the year. It retails in the $34 to $45 per gallon range.

For more information, call 1-800-438-7668 or visit www.stainmaster.com/paint.

Chicago – It’s more than just a big piece of equipment. This new Komatsu front-loader, purchased by KCBX for its coal and petroleum coke facility on the Calumet River, offers better fuel efficiency, a larger load capacity and lower emissions.
Noteworthy

Changing Minds
by Howard Gardner

Anyone who has read Charles Koch’s book, The Science of Success, should be familiar with Howard Gardner. It was Gardner, a psychologist and Harvard professor, who developed the theory of multiple intelligences (discussed on pages 84-87 of Koch’s book).

Gardner’s latest book deals with “the art and science of changing our own and other people’s minds.” He believes that achieving that goal involves not only influence and persuasion, but the psychology of change.

Despite pop culture’s attempts to summarize all this as “how to get anyone to agree with you,” Gardner believes changing minds is hard work.

To be successful, he writes, we must “...accept the changes that will happen anyway, acknowledge that certain other changes may be impossible, and concentrate one’s efforts on those changes of mind that are important, won’t occur naturally, but can be achieved with sufficient effort and motivation.”

Field of Dreams

Forty years ago, construction crews completed the first of several buildings that now occupy the 90-acre Koch campus on 37th Street in northeast Wichita.

Prior to 1967, the company’s Wichita offices and manufacturing facility were all downtown.

Winkler-Koch Engineering, founded in 1925, had offices on the second floor of what is now the Wichita Boathouse on West Lewis.

Wood River Oil and Refining, founded in 1940 (and since renamed Koch Industries), moved from the KFH Radio building on East Douglas to 321 West Douglas along the Arkansas River.

And Koch Engineering, which opened for business in 1945, built its distillation trays at a modest shop on the corner of 9th and Mosley.

All four of these sites are within a one-mile radius.

Vision

It was Charles Koch who convinced his father that Koch Engineering needed to move into a bigger, better facility.

“When I first came to the company in 1961, Koch Engineering had a very narrow vision. Consequently, we were losing our position and our profits.

“This is why vision is so important in what you want to accomplish. If you have a limited vision, you won’t see opportunities, pursue them, or dedicate yourself to them.

“I told my father that we either had to grow Koch Engineering or it would die.”

As Charles successfully pushed for expansion into related products, new opportunities and new markets, Koch Engineering’s downtown facility became inadequate.

“We needed a much bigger manufacturing facility, something that gave us room to grow.”

A new Koch Engineering shop was completed in 1967. It was built on a large parcel of empty farmland just outside the city limits.

True to Charles Koch’s vision, there was plenty of room to modify and expand that facility in the years that followed.

HQ

The new Koch Industries office building (now called Building B) opened on 37th Street in December 1968.

“You talk about how a company changes,” recalls Joe Moeller, chairman of Georgia-Pacific, “Building B was a small black box sitting out in the middle of the prairie with very little around it.

“We had a basement and two stories. That was it.”

Charles Koch’s office was on the northwest corner of the second story.

This year’s Founder’s Day message from Charles Koch will be videotaped in his original 37th Street office, a space now used by INVISTA’s co-general counsel.

Koch Industries’ eighth annual Founder’s Day will be celebrated Sept. 21.

This two-story office building had more than enough space for KII’s administrative offices and about 60 employees.
These comments are from May speeches in Atlanta to GP’s environmental leaders and the KII EH&S conference.

Market-Based Management® and Principled Entrepreneurship™ teach us that society will only allow a business to succeed long term if it meets certain criteria, including a commitment to always acting lawfully.

Acting lawfully includes Environmental, Health and Safety excellence. It also relates to our principle of creating real, long-term value by the economic means.

Having principles such as integrity, compliance and real value creation is not enough. Society also expects us to establish systems such that every employee lives by these principles.

Scorecard

How well did we live up to those principles during the past year? In general, we made some good EH&S progress. For example:

Pine Bend refinery has operated for more than seven years without exceeding wastewater treatment standards.

Koch Mineral Services companies had no notices of EH&S violations last year.

Many Koch company facilities operated the entire year without a single lost time incident. Several have gone far longer than that, such as John Zink Co. – more than four years, Koch Pipeline – more than five years and Koch Aviation – nearly 60 years.

Unfortunately, despite these successes, we are far from our goal of 10,000 percent compliance, where 100 percent of our employees fully comply 100 percent of the time.

Tragically, we have had fatalities. We also had a large environmental release last year. And there were other incidents and issues.

The challenge

To be successful at compliance, we need a challenge culture where all leaders and employees challenge any deviations from our MBM Guiding Principles. We cannot abide flirting with questionable activities or behaviors.

Leaders must treat all employees with dignity and respect so we can create an open environment, which is essential for a challenge culture. Each of us must have the humility to invite and accept challenges.

Every employee must develop the courage to challenge anyone in a position of authority if they see something that is not right. If that challenge fails, don’t give up.

What to do

The challenge of meeting our compliance goals is complicated by several factors, including our continued growth and an unpredictable future that will only become more difficult.

How do we improve our EH&S performance in such circumstances? MBM can help us in at least seven ways:

First, we must recognize that just one person who is not compliant can put the entire company at risk; therefore, we have to select and retain the right people with the right values, train them and then reward them to reinforce these values.

Second, we must build a culture of EH&S excellence. This is not just a matter of systems, but of reaching the hearts and minds and changing the habits of every employee.

Third, everyone must understand his or her EH&S roles and accept ownership for them.

Fourth, our EH&S systems must be practical and get results. We must eliminate parts that don’t, including bureaucratic procedures and paperwork.

Fifth, where government mandates are unclear or confusing, we must follow the spirit of the law. Don’t operate in gray areas or selectively interpret regulations in the most favorable way.

Sixth, since we tend to focus on whatever is measured, we must create the right measures. When we measure the wrong things, we get the wrong focus.

EH&S excellence is not just about measuring emissions, incident rates or recordable injuries. We need to also identify our exposure to major hazards. Our greatest focus needs to be on eliminating the risk of disasters.

Seventh, and finally, we need to use the best knowledge. This involves seeking and sharing EH&S knowledge among all Koch companies in an appropriate way.

Never forget

Accomplishing all of this is not easy. It requires many things, including the right vision, culture, people, training, systems, incentives and knowledge.

The essential first step is to remember that Principles 1 and 2 – integrity and compliance – must always come first. Without them, we cannot create real value or survive as a company.

I thank every one of you who has contributed to our EH&S progress, and urge you to do even better in the weeks and months ahead.