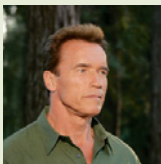


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to Congress:
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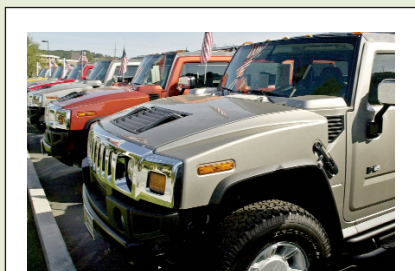
A year of
victories for
the planet 4



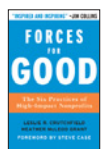
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Guzzle no more
Our federal court win ends
free ride for biggest SUVs.
See page 2



**A force
for good**
New book calls
Environmental
Defense "a model of social
innovation." See page 7

Fate of global warming action rests with the Senate

OUR STUDY PROVES LEGISLATION **WON'T** HARM THE ECONOMY

The nations of the world gathered in Bali recently to negotiate a new global warming treaty to follow Kyoto, but all eyes remained on the United States. America is closer than ever to joining the fight against global warming at last, with a bipartisan climate bill moving through the Senate. Environmental Defense played a key role in building support for and strengthening that bill, America's Climate Security Act.

Opponents like Senator James Inhofe (R-OK), having lost the scientific argument, now argue that addressing global warming will wreck the economy. Anticipating this attack, we undertook the broadest economic assessment to date of global warming policy and came up with a finding that startled even us:

The cost of capping greenhouse gases over the next two decades will have almost no impact on U.S. economic growth.

Our findings were announced just as the Senate took up the bill, adding momentum to the discussion. California's largest electric utility, PG&E, testified in support of the bill, as did our president Fred Krupp and other environmental leaders.

Introduced by Senators Joe Lieberman (I-CT) and John Warner (R-VA), the measure establishes a cap-and-trade system and energy efficiency requirements. It would cut greenhouse gas emissions about 19% (from 2005 levels) by 2020 and 63% by 2050.

"This bill will put America on track to

avoid the worst consequences of warming," says our national climate campaign director Steve Cochran. With our partners, we secured greater short-term reductions than in an earlier version of the bill and won provisions that allow the 63% long-term goal to be strengthened. We want 80% reductions by 2050, the level scientists say is needed.

Our groundbreaking economic analysis reveals that the costs of such action are affordable. Economist Dr. Nathaniel Keohane synthesized for the first time the findings of state-of-the-art economic models and found that the cost of a cap-and-trade policy like the Lieberman-Warner bill will be almost immeasurable—less than 1% of U.S. GDP by 2030. Even household electricity bills—where the impact would be greatest—will increase by less than \$10 a month.

"Nothing in the numbers supports the doomsayers," notes Keohane. "We can afford to cut greenhouse gas emissions. Doing nothing would be the most expensive choice."



The whole world
is watching

Why we support America's Climate Security Act



On my recent visit to Capitol Hill, a senator button-holed me: "Why do we need to start cutting global warming emissions so aggressively today?" he

asked. First, I said, if we don't act fast, we will have to make steeper, more costly reductions later. Second, the sooner we start, the sooner China will act to control its carbon emissions. And third, sending a strong signal to the business community will put new, low carbon innovations on the fast track.

The Lieberman-Warner climate bill now under debate in the Senate recognizes the urgency. As I testified in a recent Senate hearing, America's Climate Security Act provides

the fastest route to the reductions scientists say are necessary in a way that makes sense for the economy. The bill's declining cap, with strong early targets, will unleash the entrepreneurial spirit we need to develop the best low-carbon technologies.

Twenty-seven Fortune 500 companies, from DuPont to General Motors,

If we wait, we'll have to cut emissions twice as fast

have joined us in calling for strong climate legislation. These hard-nosed business people have concluded that a nationwide carbon cap will be an engine for economic growth.

By acting now, the United States will have the moral credibility to ask other major emitters, like China, to

move quickly to control their greenhouse gas pollution. Until we take the lead, no one seriously believes these nations will feel pressure to act.

The worst thing Congress can do is delay. If we delay by just two years, we would have to reduce emissions 4% a year instead of 2%—twice as fast—to achieve the same reduction by 2020.

By January 2030, U.S. gross domestic product is projected to double to \$26 trillion. Under America's Climate Security Act, the country will reach that benchmark a few months later, according to a conservative forecast. A few months to avoid catastrophe is a small price to pay. Let's move now!

Court to government: Close SUV mileage loophole

A federal appeals court on November 15 struck down the Bush administration's proposed fuel-economy standards for light trucks and SUVs. The court ruled that the 23 mpg average standards for 2008-2011 are overly lax and improperly exempted large vehicles like the Hummer H2.

Relying heavily on analysis by

Environmental Defense, the court also ordered the Department of Transportation to develop new mileage standards "as expeditiously as possible" that take into account the benefits of reducing global warming pollution.

It was the third federal court ruling in recent months ordering regulators to take climate change into account. We were party to all three suits.

The latest case was argued jointly by California deputy attorney general Susan Fiering and our counsel Sean Donahue on behalf of 11 states and four environmental groups that had filed suit. Technical comments submitted by our experts were

cited by the court more than 30 times.

The decision comes at a pivotal time, with Congress taking up discussion of climate change. Said our attorney Vickie Patton: "Science has demonstrated a compelling case for action on global warming. Now the law is finally catching up."



Gas-guzzling SUVs and light trucks comprise about half of the U.S. auto market.

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ENVIRONMENTAL DEFENSE
Finding the ways that work

Solutions

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Online at www.environmentaldefense.org

Insurance giant teams up with Chinese farmers to fight warming



Galen Rowell/Corbis

In rural China, a carbon storage and trading project is a model for the future.

American International Group (AIG) will be paying farmers in two of China's poorest provinces to combat global warming by storing carbon, thanks to a project by Environmental Defense.

Two years ago, our economists Dr. Dan Dudek and Dr. Zach Willey began working in Xinjiang and Sichuan provinces to promote climate-friendly agricultural production.

The various practices also reduce water use, provide biogas from agricultural and human wastes for cooking and lighting, and stop the spread of desertification by planting native trees.

The projects, a glimpse into the future, will keep 310,000 metric tons of carbon dioxide out of the atmosphere over the next three years—roughly half the total emissions attributable to AIG's global operations.

As part of a plan to reduce its climate impact, the company will retire the credits it earns for the reductions in China, keeping that carbon permanently out of the atmosphere.

"This agreement reduces pollution and brings badly needed income to China's rural farmers," says Dudek. "It also demonstrates the power of a carbon market."

Governors to Congress: DO SOMETHING ON CLIMATE

"In state after state we're taking action. Now it's time for Congress to act." Three governors: conservative Republican Jon Huntsman, Jr., of Utah, Republican Arnold Schwarzenegger of California and Democrat Brian Schweitzer of Montana have come together to deliver this message in an ad campaign by Environmental Defense to be aired on TV sets across the nation.

It's the first time such a politically diverse group of governors has appeared in an ad sponsored by an environmental group to call on Congress to act. Initially the ad will run in 11 states and the District of Columbia. It is part of our hard-hitting campaign to counter a handful of industry groups spending millions to stop Congress from passing climate legislation.

To increase pressure on the federal government, Environmental Defense has worked with the states to demonstrate that cutting greenhouse gases is achievable and doesn't harm the economy. We cosponsored legislation in California that caps greenhouse gas pollution and in Florida recommended ambitious initiatives, adopted by Governor Charlie Crist, to curb global warming pollution.

Our campaign also includes grassroots efforts in key states. Senator Max Baucus (D-MT) signed on to the bill after we organized support from the Montana Grain Growers Association. Hard political data helped convince others: A survey we commissioned by Republican pollster Whit Ayres shows that 57% of independent voters want greenhouse gas regulations.

The governors were not paid for their appearance in the ad, which reflects their impatience at the lack of federal leadership. As Governor Schweitzer told *The New York Times*: "Here's a novel concept for Congress: Do something. Anything. Move!"



View the ads and learn about our campaign at environmentaldefense.org.



Scott Klepper

Utah Governor Jon Huntsman, Jr. (R)



Anne Sherwood

Governor Brian Schweitzer of Montana (D)



Mauricio Vargas

Governor Arnold Schwarzenegger of California (R)

2007 THE YEAR IN

A green deal as big as Texas

Private equity firms Texas Pacific Group and Kohlberg Kravis Roberts decided not to proceed with their \$45 billion bid to acquire TXU, Texas's largest electricity producer, until reaching an agreement with us on environmental improvements.

Last year TXU announced plans to build 11 old-fashioned dirty coal plants. We sued the company and challenged its plans in the state legislature and on Wall Street. Investors took notice and the company's stock fell.



Corbis

The buyers met with us to hammer out the historic deal. At our insistence, they agreed to cancel plans for eight coal-fired power plants and adopt an unprecedented set of environmental initiatives.

The TXU victory is “this year’s huge environmental coup.”

—U.S. News & World Report, November 19, 2007

A year of Supreme Court victories

In a historic decision, the U.S. Supreme Court decreed that EPA cannot sidestep its authority to regulate greenhouse gas emissions. The decision will hasten progress against global warming. A second ruling, in *Environmental Defense et al. v. Duke Energy*, upheld a key provision of the Clean Air Act that requires old power plants to install modern pollution controls when they expand. That immediately emboldened local communities to demand pollution reductions and affected dozens of plants in the South and Midwest where lawsuits are pending.



Corbis

Novel plan revives embattled fish species



Mark Gibson

Gulf of Mexico red snapper are coming back after a fishery management approach we advocated was adopted. Catch shares allow profitable fishing year-round while capping the total catch and assigning each fisherman a percentage share. We helped design and build support for the program, which replaces old rules that restricted fishing to certain days and forced crews to throw back tons of dying fish. With the new rules, snapper prices are up by one-third and bycatch, the unintentional killing of fish, has dropped 80%.

Wal-Mart sees the light



Corbis

From our new office in Bentonville, Arkansas—Wal-Mart's home—we're helping the world's

largest company reduce its environmental footprint. We're working with the retail giant to reduce packaging, cut per-store energy use and boost Wal-Mart's sales of compact fluorescent light bulbs to 100 million annually. By turning off engines while trucks are being loaded, Wal-Mart is reducing emissions by an amount equal to taking 20,000 cars off the road for a year.

Defending the environment by reforming the Army Corps

The U.S. Army Corps of Engineers has mismanaged many projects, few more conspicuously than the Mississippi River Gulf Outlet (Mr. Go), a little-used shipping channel. By destroying cypress swamps that had provided a buffer against storms, Mr. Go funneled Katrina's storm surge into New Orleans.

This fall, after we assembled the evidence and pressed for action in Washington, Congress passed major water legislation that shuts down Mr. Go and calls on the Corps to submit controversial projects to independent review. “We're pressing for the Corps to start working with nature, not against it,” said our general counsel Jim Tripp.



Corbis

Greening the Big Apple

New York City Mayor Michael Bloomberg announced a plan we helped develop that puts New York on track to become the nation's greenest city. The centerpiece of the 127-point "greenprint" is a congestion pricing proposal that would charge drivers to enter the busiest part of the city during peak times. We helped pioneer the idea, which if approved in Albany will make the air much healthier. We also helped lead a coalition of 120 health, business and civic groups to support the plan.



Leading corporations join us on global warming

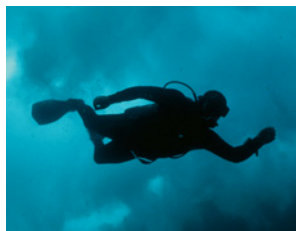
Environmental Defense helped launch the U.S. Climate Action Partnership



(USCAP), an alliance of major corporations and nonprofit groups dedicated to Congressional passage of a national cap on greenhouse gas emissions.

The powerful coalition resulted from initial discussions among Environmental Defense, General Electric and World Resources Institute. USCAP has grown to include 27 corporate members from virtually every sector of the economy and all 50 states. Together, we're calling for a market-based cap to reduce emissions 60% to 80% by 2050.

Protecting an underwater wilderness



We helped design and win approval for the first interstate system of marine parks, stretching from North Carolina to the Florida Keys. The 500,000-acre network comprises eight tracts of stunning deep-water corals that serve as critical habitat for 73 species of grouper, snapper and tile-fish. These fish have been overfished for a century. The new network complements reserves we helped establish earlier, protecting shallow reef habitat in areas such as Florida's Dry Tortugas.

"Environmental Defense has been a critical partner and resource in our efforts to make New York a truly sustainable 21st century city."

—Michael R. Bloomberg
Mayor of New York City

Texas water law is a model for the West

As the West enters a record eighth year of drought, cities, agriculture and industry are vying for scarce water, often leaving too little water in rivers to keep fish and wildlife healthy. Now Texas has become the first state to legally protect natural river flows. We worked with water users to craft a proposal for the legislature and helped push it through—by just two votes. The new law establishes a method to set minimum flow requirements for every river in the state, including the seasonal flooding and other natural processes that rivers, bays and estuaries—and their wildlife—need to thrive.



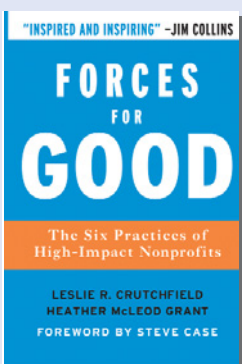
FOR ALLIES, A BIG YEAR AS WELL

Our allies recorded significant victories in 2007. Among the notable wins:

- Ruling for **NRDC**, a federal court ordered the U.S. Navy not to use sonar in the biologically rich waters off Southern California until questions over likely harm to whales, dolphins and other marine mammals can be resolved.
- With its **The Heat is On** campaign, the **League of Conservation Voters** has raised the profile of global warming in the presidential elections. It also set up an online vote tracker to alert the public in real time on how federal legislators vote on environmental issues.
- Grizzly bears in the Yellowstone region were removed from the endangered species list following extensive restoration efforts led by the **National Wildlife Federation**.
- The **Union of Concerned Scientists'** Scientific Integrity Program countered political interference in government-sponsored scientific research.

In the vanguard of change

NEW BOOK HAS HIGH PRAISE FOR ENVIRONMENTAL DEFENSE



With America's nonprofits undergoing rapid change, a new book names Environmental Defense as one of the country's most successful. *Forces for Good: The Six Practices of High-Impact Nonprofits* calls us a model of social innovation.

Authors Leslie Crutchfield and Heather McLeod Grant first set out to identify the key character-

istics that make organizations effective. They surveyed thousands of opinion leaders before selecting 12 groups that have achieved high impact. The best, they say, are run by social entrepreneurs who are "highly adaptive, innovative leaders."

The authors identified six practices common to the 12 exemplary organizations:

- **Work with government and advocate policy change**
- **Harness market forces and see business as a partner**
- **Convert supporters into evangelists for the cause**
- **Build networks, treating other groups as allies**
- **Adapt to the changing environment**
- **Share leadership, empowering others to be forces for good**

Environmental Defense is the only environmental group in the dozen that includes Habitat for Humanity, The Heritage Foundation and Teach for America. We were sin-

gled out for pioneering the use of market forces:

"Although Environmental Defense has achieved enormous legal victories on behalf of the environment, today it is best known for introducing market-based strategies that help change corporate behavior. Environmental Defense's cap-and-trade program was a key component of the Clean Air Act...and now serves as an important model in the fight to reverse climate change."

Singled out as a model of social innovation

By leveraging corporate partnerships, the authors write, "Environmental Defense has even greater impact. It is strategic about partnering with high-profile corporations that can serve as early adopters of a new social innovation—which it can then replicate throughout an entire industry, creating even more positive social change."

Crutchfield and Grant say the 12 nonprofits they profiled are in the vanguard of social change and have truly become forces for good.

FORCES FOR GOOD: The Six Practices of High-Impact Nonprofits; Leslie R. Crutchfield and Heather McLeod Grant; Copyright © 2008 by John Wiley & Sons, Inc. All rights reserved. This material is used by permission of John Wiley & Sons, Inc. For more information, visit www.forcesforgood.net.

Our activists help save a Caribbean gem

Subtropical rainforests, wetlands, beaches and coral reefs along the eastern corner of Puerto Rico's main island are finally getting the protection they need, thanks to a coalition formed by Environmental Defense and allies.

The new 3,240-acre Northeast Ecological Corridor will preserve one of the Caribbean's last great wild areas and help protect the adjacent El Yunque rainforest. The corridor features wetlands crucial for hurricane protection, a rare bioluminescent lagoon and a key nesting area for the endangered leatherback sea turtle.

The Four Seasons and Marriott hotel chains had sought to build mega-resorts with more than 3,000 units and four golf courses on the site. The development would have compromised water

supplies, destroyed coastal vegetation and jeopardized the home of more than 40 rare species, including the Puerto Rican woodpecker and the West Indian whistling duck.

Our policy analyst Ramon Cruz joined with partners to warn of the threat through our Action Network. Nearly 100,000 supporters sent messages of concern. We also published educational materials to alert Puerto Rico's residents.

With political forces in the Puerto Rican Senate blocking this conservation initiative, Governor Aníbal Acevedo Vilá issued an executive order preserving the corridor in October. Over the next eight



Kevin Aitken/Peter Arnold

Endangered leatherback turtles give the new ecological reserve a five-star rating.

months, the government will develop a management plan, which may incorporate small-scale ecotourism.

Cruz said the victory proves "you can reconcile conservation with responsible and sustainable development."

Tom Graff: 'The Godfather'

Bringing warring water factions together

A stark reality was brought home to Californians this year when a federal court ruled that thirsty cities and farms must cut back on the water they take from the ailing San Francisco Bay-Delta. The message from the court: Protect the Delta's ecology. "Our water system is broken, unreliable and in crisis," declared Governor Arnold Schwarzenegger.

The ruling increased the pressure on all sides to meet water supply needs for the state's growing population without devastating the environment. The Schwarzenegger administration tapped Environmental Defense staff to serve on key expert panels to protect the Delta ecosystem as well as its communities and fragile levees.

Heading up our efforts is California regional director Tom Graff. This is familiar territory for Graff. Water officials have called him "the brains behind the environmental movement." Others, like *California Lawyer*, just call him "the Godfather."

In 1971, Graff founded our first California office on the third floor of a former fraternity house in Berkeley. "We really didn't have a plan," he concedes.

Back then, no one did; the modern environmental movement was in its infancy. Educated at Harvard Law School, Graff learned quickly. Soon he was chalking up victories and pioneering water-marketing deals that allowed farms and cities to meet their needs without damming California's wild rivers.

Graff recently received the Jean Auer Award for his lifetime devotion to restoring the Bay-Delta, but his work is far from over. Years of record-high diversions of water to cities and farms have contributed to severe declines in the estuary's fisheries, including the near-extinction of Delta smelt, a key-stone species. Collapse of the Delta's long-neglected levees could endanger the region's water supply.

As part of the solution, Environmental Defense favors alternatives to



Tim Connor

Graff has helped create a better future for California.

new dams, such as water conservation, recycling and purchasing supplies on the open market. "If a resource is scarce, we ought to put a price on it that reflects its value," explains Graff.

As Graff sees it, the current crisis offers California an opportunity to better manage its water. "We cannot repeat the water wars of the past," he says. "We have to find a way to work together, or we will all lose."

Victory on the Mississippi

Acting to protect migratory birds and fish, we scored a court victory that preserves Missouri's last significant floodplain still connected to the Mississippi River. In September, a federal court halted a flawed Army Corps of Engineers plan to wall off and drain 80,000 acres of fish and wildlife habitat.

The St. John's Bayou-New Madrid Floodway Project, a \$112 million levee and pump, "would have drained more wetlands than all those drained by U.S. developers in an entire year," said our general counsel Jim Tripp. It would not have added any significant flood control protection.

Ruling on our suit, U.S. District Court Judge James Robertson berated the Army Corps for "arbitrary and capricious

reasoning" and for "manipulating models and changing definitions when necessary to make the project seem compliant with the Clean Water Act." He ordered the Corps to cease construction, tear down what's been built and restore damaged wetlands.

Corps projects over the years have separated the Mississippi, originally the largest wetland in North America, from 90% of its floodplain.

But reform is at hand. Pressed by Environmental Defense and allies, Congress recently overrode a presidential veto and passed the Water Resources Development Act, which calls for stronger oversight of Corps projects and restoration of wetlands in coastal Louisiana and Mississippi.

Our court win saved 80,000 acres of wetlands.



David Muency/Corbis

Greener catalogs bring happier holidays

This holiday season, companies like Dell, L.L. Bean, Victoria's Secret and Williams-Sonoma are using recycled paper in their catalogs, reducing the energy, pollution and number of trees cut down to make the 19 billion catalogs that overflow Americans' mailboxes each year. Environmental Defense helped spark the change in 2001 when we convinced Norm Thompson Outfitters to become the first mainstream cataloger to use recycled paper.

That got others involved, and the following year we and our allies unveiled a common vision for transforming the paper industry and protecting forests. We also developed the Paper Calculator (papercalculator.org), which quantifies the trees and energy saved and has influenced companies from Staples to *Harry Potter* publisher Scholastic to go recycled.

Now a new online service, catalog-choice.org, helps consumers slash catalog waste. Developed by the Ecology Center with the National Wildlife Federation and NRDC, the free tool allows individuals to decline catalogs from several companies at once with just a few clicks—not a bad holiday present for the planet.



Ken Levinson

Wanted—a holiday from catalogs.

Finally, safer farmed shrimp

In 2006 the average American consumed 4.4 pounds of shrimp, making the tasty crustacean our most popular seafood. Thanks to new standards we developed with Wegmans supermarket chain, this delicacy just got safer. In October Wegmans began selling only fresh farmed shrimp that meets these rigorous health and environmental requirements.

About three fourths of shrimp consumed in the U.S. are farmed, mostly in Asia and Latin America, where standards are often lax. According to *The New York Times*, the FDA inspects less than 2% of all imported seafood. Wegmans sought our help because shrimp aquaculture operations can destroy ecosystems and contaminate shrimp.

The standards we developed require farmed shrimp producers to eliminate the use of antibiotics, pesticides and fungicides, avoid damaging sensitive wetland habitats and treat waste water. An



Animals Animals

Wild-caught shrimp are increasingly rare on American tables.

auditing system will monitor progress. Wegmans, a family-owned chain, has long been committed to sustainability. By demonstrating the benefits of strong standards, we expect the policy will be a model for the industry. "We've raised the bar for farmed shrimp production," said Gwen Ruta, our director of Corporate Partnerships. "Now it's time for other large seafood buyers to flex their purchasing muscle and make these improvements in their supply chain."



You can find eco-friendly farmed shrimp at all Wegmans markets. Visit www.environmentaldefense.org/shrimp

SIMPLIFY YOUR GIVING

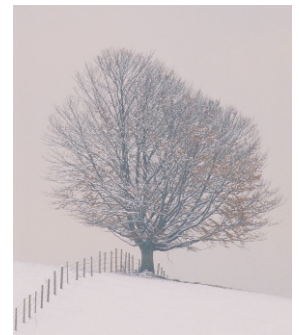
As an alternative to the traditional family foundation, consider the Environmental Defense Donor Advised Fund. Here's why:

It's easy to use. We take care of the paperwork.

It's flexible. Give to any qualified charity.

It's tax-free. Give with no additional tax burdens.

And best of all, you'll be contributing to a better world to pass on to your children. For more information, call us at 1-877-441-7975 or email donoradvisedfund@environmentaldefense.org.



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