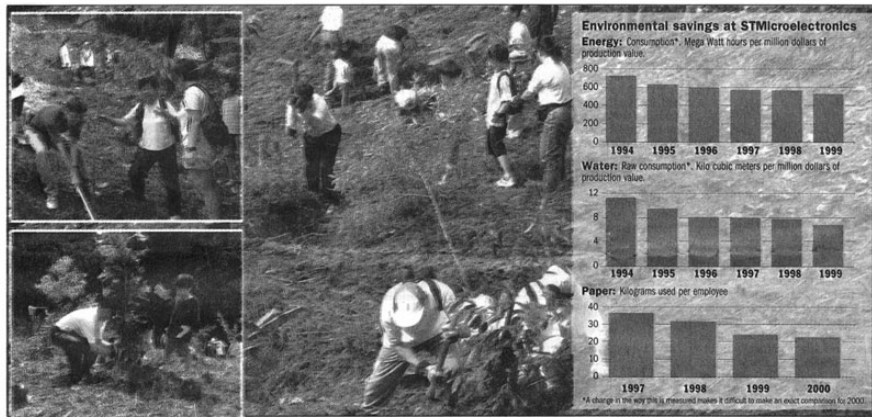


Turning Green Into Gold

STMicroelectronics Hopes to Sow Seeds of Success With Environmental Policy

'They're Doing It in the Name of Shareholder Value, Not Just Because It's Right'



Planting for profits: ST says green projects like this Singapore reforestation program actually boost the bottom line. Source: the company

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NEAR NAGCODOCHES, Texas, STMicroelectronics NV is in the process of planting about 550,000 Loblolly pine seedlings on 500 hectares of land where cattle formerly grazed.

The \$2.5 million (€2.8 million) forestation effort isn't just a public-relations exercise, though. The idea is that it will make money for the Italian-French chip maker's shareholders.

"We're convinced of that," says Georges Auguste, the company's corporate vice president for total quality and environmental management. He says it will boost profit because in time it will enable the firm to obtain credits against any future pollution taxes.

ST is hardly the only business to undertake — and tout — soft-value initiatives like environmental programs. But, while others, most notably in sectors such as oil and tobacco, have done so largely as a "greenwash" to appease critics, such pressures don't guide the Geneva-based firm.

"ST is a real pioneer," says Amory Lovins, a prominent U.S. green energy expert and head of the non-profit Rocky Mountain Institute research and consulting group in Colorado. "They're doing it in the name of shareholder value, not just because it's right."

Catching Up

Unlike other altruistically-minded companies, such as Ben & Jerry's and Levi Strauss, that have ended up fumbling parts of their businesses while trying to do good, ST is actually closing on the competition.

It was the world's sixth-largest semiconductor

manufacturer in 2000, up from the No. 13 slot only five years earlier. Preliminary statistics from research group Gartner Dataquest place it No. 3 in the world for 2001. "STMicroelectronics was the star performer last year," says Andrew Norwood, senior analyst at Gartner Dataquest in London.

But with times as tough as they have been for the chip industry, it isn't easy being green. ST says it fell short of some of its environmental goals in 2001 because sector-wide production cuts meant its plants were less efficient. And it has put tree-planting projects in Australia and Morocco on hold. One union official says the company has reduced its commitment to long-term values like employee well being over the past two years, as it pays greater heed to short-term financial-market pressures. "Things are in the process of evolving in an unfortunate manner," says Jean-Francois Gautier, a company Webmaster and chairman of its Force Ouvriere union. Mr. Gautier cites recent measures obliging staff to take some of their future vacation days during the downturn.

And, not everyone likes the green plans ST has cooked up. Company proposals to build a wind turbine near its offices in St. Genis, France, have been held up by locals who fear such a structure would mar views of the nearby mountain landscape. Analysts say that most ST investors are totally oblivious to the environmental initiatives.

Despite that, however, ST is pushing ahead with programs that are considered optional even in the best of times at other businesses. The company's top executives devote the first day of their quarterly three-day meetings to environmental and total quality-management concerns. Green measures

represented more than 2% of ST's capital investments in 2001, roughly in line with previous years. By 2010, it aims to reduce pollution and plant enough trees, which consume carbon dioxide, that its impact on the amount of so-called "greenhouse gases" in the world is neutral. ST calculates that it uses 28% less electricity and 45% less water than in 1994, when changes in output are factored out.

His colleagues say credit for the environmental thrust goes to the company's long-time chief executive, Pasquale Pistorio, a Motorola alumnus who has headed ST since its creation from two troubled state-controlled firms in 1987. Mr. Pistorio has a penchant for numbered lists, including the 10-point "decatalogue" of environmental goals first made public in 1995. "The environment is free," is one of his mantras.

"Pistorio is a brave, focused visionary who makes things happen," says RMI's Mr. Lovins. (RMI has done some consulting work for ST and says Mr. Pistorio is an investor in one of its spinoff ventures.)

Changing Views

Mr. Pistorio in turn says his eldest son Carmelo, a former philosophy student and self-proclaimed left-winger, has greatly influenced his views on the environment and corporate responsibility. Carmelo, now 35 years old, left his father a copy of the book "State of the World," an annual environmental scorecard, about a decade ago. Today, Mr. Pistorio refers to it as the "bible" of the company.

Carmelo says he was skeptical when ST first outlined its environmental goals in 1995. And he wasn't alone. "The idea of getting a return from the environment was hard for some managers to swallow," says Alain Dutheil, the company's corporate vice president for strategic planning and human resources. "Particularly when we were hungry for capital."

But ST says its experience has shown that green measures more than pay for themselves. The company calculates that it saved \$50 million in 2000 on water and energy thanks to its environmental initiatives and projects nearly \$1 billion in total energy savings between 1994 and 2010.

Colleagues say that, however lofty his ideals, Mr. Pistorio is no softy. At the time of the 1987 merger, "We would go into a meeting and Pasquale would say, 'There are 25 people in this room; only 12 will survive,'" recalls Jean-Philippe Dauvin, ST's corporate vice-president for education and knowledge. In the environmental area, he has shied from some projects where the payoff is less certain, such as any large-scale solar-energy deployment.

"I believe the industrialized world is destroying the planet," says Mr. Pistorio. But, "my first responsibility is to increase shareholder value."