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*Moral Fiber*

# Billionaire Activist On Environment Faces His Own Past

## An 'Eco-Efficiency' Advocate, Swiss Magnate Confronts Questions on Asbestos

## Mr. Schmidheiny's Conscience

By DAVID BANK

NIEDERURNEN, Switzerland—Swiss billionaire Stephan Schmidheiny has spent a decade prodding fellow industrialists to account for their companies' environmental costs. Now he's being called to account for the deadly legacy of asbestos in his own family's factories around the world.

An aggressive prosecutor in neighboring Italy is investigating the 55-year-old businessman for "negligent homicide," after the allegedly asbestos-related deaths of Italians who worked in a Schmidheiny factory here in this small Swiss town. If charged and convicted, Mr. Schmidheiny under Italian law could face up to 12 years in prison for putting workers at risk.

*Stephan Schmidheiny*

The possibility of criminal charges has shocked many who know Mr. Schmidheiny as a thoughtful environmental benefactor. He gained international stature by mobilizing corporate support for the 1992 Earth Summit in Rio de Janeiro. He has promoted GrupoNueva, his cluster of Latin American building-products and forestry companies, as a model of environmentally sound capitalism. And he has become one of the most generous philanthropists in Latin America.

He says the achievement that makes him most proud is getting his family's building-materials company, Eternit AG, out of the asbestos business in the 1990s, some 70 years after his grandfather acquired control of a factory that used the fibrous natural material to strengthen cement. "It's difficult to imagine he wants to indict me .... for something I have done 25 years ago, which I still consider one of my most important and best professional achievements," Mr. Schmidheiny says.

Yet the story is more complicated than that. A close look shows that Mr. Schmidheiny steered a middle path between his environmental beliefs and his business interests. Faced with resistance from foreign partners and his own father, it took him more than a decade, until 1990, to shed most—but not all—of his family's asbestos operations.

### Recognizing Risk

By European standards, Mr. Schmidheiny acted early. A series of seminal studies in the 1960s identified exposure to asbestos as a potentially fatal health risk. American companies generally stopped using it by the early 1980s. But most of Europe, where asbestos was widely used in building materials, has been much slower to drop it. The European Union decided only in 1998 to ban asbestos by 2005.

One reason for the lag: Europe didn't see the kind of mass-injury lawsuits filed on behalf of American asbestos victims since the 1970s. With legal systems that until recently were unreceptive to such actions, many European countries are only now coming to grips with what people here are calling an "asbestos epidemic."

Eternit used asbestos in manufacturing roofing, pipes and even flower pots. The company acknowledges that at least 45 former employees of its Niederurnen factory have died of mesothelioma, a form of lung cancer caused by asbestos exposure. It isn't clear yet how many current and former workers suffer from other respiratory ailments linked to asbestos inhalation. Thousands of people have been exposed to asbestos in plants in Europe, the Middle

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# Wealthy Activist Faces His Past

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East, Africa and Latin America in which the Schmidheinys once held ownership interests.

In this picturesque valley southeast of Zurich, neither Mr. Schmidheiny's asbestos record nor his international environmental reputation impress some current and former employees. "He goes to the conference in Rio and writes books about the environment, while at the same time exposing people and the environment to asbestos," says Franco Basciani, a union official who worked for two years in the early 1980s at Eternit's cement factory here. "Why didn't he have the courage to close the factory when he knew that asbestos can make you sick?"

## Tracking Deaths

Residents of an apartment block behind the factory, many of whom come from Italy, Turkey and the former Yugoslavia, keep count of the deaths of neighbors and co-workers. One resident pulls out an old photograph of his factory work group and points out two colleagues. One, he says, is dead from mesothelioma, the other from an undiagnosed lung ailment.

"When we former workers from Eternit meet, we always say, 'Whatever happened to so-and-so?' " says Mr. Basciani. "The answer is always, 'Oh, he died.' "

The prosecutor in Turin, Italy, Raffaele Guariniello, says he has reports of at least 22 asbestos-related deaths of Italians who worked for Eternit. Mr. Guariniello says he doesn't know yet whether those deaths are among the 45 acknowledged by the company. In any event, Mr. Schmidheiny's efforts to phase out asbestos don't exonerate him, the prosecutor says. "Nineteen-ninety is too late, isn't it?" he asks in an interview. "If judges knew about the dangers, the owner of the factory surely knew about them."

A self-described radical in his student days, Mr. Schmidheiny took his first job in the family business in 1969, enrolling in a five-month training program at a factory in Brazil. He remembers working the 12-hour graveyard shift, lugging bags of asbestos and pouring the white fibers into cement mixers. He says he hasn't suffered any health problems as a result.

In 1974, he went to Sweden, shortly after that country became one of the first to ban asbestos. Eternit had to shut down its operations there. "To people like us this was unthinkable. It was crazy," recalls Mr. Schmidheiny, then a young executive. But after meeting with various scientists, union leaders and politicians, he changed his mind. He didn't want to be associated with a substance that could be harmful to employees, he wrote in an unpublished autobiographical essay.

In an interview, he says he considered the scientific studies at the time to be inconclusive, but the business risks were clear. "I concluded this was serious and could happen elsewhere, and I decided, personally, this was going to be my No. 1 priority," he says.

He took over management of the main Eternit operating company in 1976 and became responsible, at the age of 29, for more than 20,000 employees in 20 countries. He sought a technological fix, starting a research lab specifically to develop safe substitutes for asbestos and installing new filters in factories to reduce dust concentration.

Results were mixed: In some countries and for some products, his staff found replacement materials. But where alternative ingredients were too expensive or thought to be low-quality, Eternit continued to use asbestos through the end of the 1980s, long after it was widely known to be a serious health danger. Even after pledging to drop asbestos by 1990, Mr. Schmidheiny made an exception for pipe production. Explaining this gradual approach, Mr. Schmidheiny says the asbestos problem "was a thing to be managed and monitored."

Mr. Schmidheiny says he felt strong pressure from his father to move slowly. Max Schmidheiny retained ownership of the company until 1984, when he turned it over to Stephan. The elder Schmidheiny repeatedly warned that competitors were exploiting asbestos health fears, says Hans-Rudolf Merz, a longtime consultant to the family who now serves as chairman of Stephan Schmidheiny's holding company. "His father was absolutely of the opinion there was no danger, that that was foolish, exaggerated, even false," says Mr. Merz, who is also a member of Switzerland's part-time parliament.

Mr. Schmidheiny says his father conceded in a deathbed rapprochement in 1991 that the younger man had been right to get out of the asbestos business. But many of Eternit's longtime managers around the world, and its foreign investment partners, opposed the asbestos phase-out, Mr. Schmidheiny says. Even some workers, worried about their jobs, resisted certain interim safety measures, such as an edict to use vacuum cleaners instead of brooms to control factory dust, he says. Mr. Basciani, the union leader, says most workers weren't aware of the dangers at that time.

Mr. Schmidheiny sold Eternit's Swiss operations in 1989 to what is now Holcim Ltd. of Zurich. In other countries, where suitable alternative materials weren't found, he simply shut down some wholly owned Eternit operations using asbestos, such as those in Italy. But in many cases, the company operated plants in which its ownership stake was less than 40%. In most of these instances, he sold the interests and cut all ties, leaving behind functioning factories in which the owners continued to use asbestos for years. "As minority owners, we couldn't insist on having things our way," he says.

In each sale, Mr. Schmidheiny says, he transferred his company's entire interest, including all potential legal liabilities to the buyers. His exit from the asbestos business was prescient, he adds. "We did it early on, and others still believed this was not a big problem and could take on the liabilities."

The disengagement from asbestos dented his fortune. But he rebuilt it with successful investments in the 1990s in Zurich-based engineering company Asea Brown Boveri Group; Union Bank of Switzerland, the forerunner to UBS AG; and Swiss food giant Nestle SA. He is also credited with helping rescue the Swiss watch industry by investing in the consortium that became Swatch. In Latin America, he reorganized the remnants of Eternit's operations and built GrupoNueva, headquartered in Costa Rica, which has become one of the region's largest suppliers of pipes, lumber and other building materials.

He says his financial success after his exit from asbestos gave him the confidence to prod fellow industrialists to risk change. He gained world-wide attention in 1992 as the chief liaison to business at the United Nations environmental conference in Rio de Janeiro. That effort led to formation of the World Business Council for Sustainable Development, under whose auspices about 160 chief executives have embraced—at least nominally—the notion of "eco-efficiency," a term Mr. Schmidheiny has championed. The idea is that protecting the environment by, for example, using energy more efficiently, can boost profits as well.

"He's unusual in that he likes to take on things that make a big impact, even if there's a risk of failure," says Jonathan Lash, president of the World Resources Institute, a Washington environmental group that has received funding from Mr. Schmidheiny. "If anybody is a leader, he is."

### Harsh Scrutiny

But with the drive to assess blame for asbestos accelerating, Mr. Schmidheiny finds himself under the harsh scrutiny of hindsight. Some 5,000 Europeans a year are dying of asbestos-related diseases, and the annual count is still rising, according to a 1999 study by the London School of Hygiene and Tropical Medicine. Asbestos-related liability for European insurers could reach $80 billion, according to a report last year by Pricewaterhouse Coopers.

Liability lawsuits concerning current and former Schmidheiny employees are beginning to appear around the world. In France, an appeals court in February opened the way for what could be thousands of claims by former employees of an Eternit joint venture and other companies who were exposed to asbestos from the 1970s through the 1990s. Even though France banned the substance only in 1997, the court ruled that companies that knew, or should have known, about asbestos dangers can be held liable for their "*faute inexcusable*," or inexcusable failure, to protect workers.

In South Africa, a separate lawsuit has been filed on behalf of former employees of Everite Ltd., a cement company in which Eternit held a minority stake until 1992. Earlier this year, Everite acknowledged that 68 employees have died from asbestos-related diseases since the 1940s.

Neither the French nor the South African suits name Eternit, Mr. Schmidheiny or any of his currently owned companies. Mr. Schmidheiny says it's not his responsibility to compensate injured workers. Swiss employees can seek help from that country's workers-insurance agency, he says, while workers elsewhere can make claims against the companies that have acquired Mr. Schmidheiny's stakes.

"In almost all cases where we sold, there is a solvent big company capable of taking care of things," he says. For workers with nowhere else to turn, Mr. Schmidheiny's company has promised to address individual claims "on a humanitarian basis."

The threat of criminal sanction is another matter. The manager of Eternit's former operations in Italy was convicted in 1997 of negligence for putting workers at risk and sentenced to more than a year in prison. That case is on appeal.

The prosecutor in Turin, Mr. Guariniello, launched his investigation of Mr. Schmidheiny in September 2001, after receiving reports of mesothelioma deaths among Italians who had returned home after working for Eternit in Switzerland. The prosecutor says he has been hampered by the refusal of Eternit and the Swiss workers-insurance agency to turn over health records and personnel files. The company contends it has responded properly, and the issue is now before the Swiss courts.

Mr. Schmidheiny says that the asbestos controversy has reinforced his desire to lower his public profile and turn over many of his leadership positions to others. For the U.N.'s 10-year follow-up to the Rio conference in September, he co-wrote a book about corporate environmental initiatives, titled, "Walking the Talk." But he left it to his fellow authors, DuPont Co. CEO Charles Holliday Jr. and Philip Watts, chairman of Royal Dutch/Shell Group, to launch the book at the conference in Johannesburg, which Mr. Schmidheiny skipped altogether.

A few days earlier, he had resigned as head of Anova AG, his holding company, saying it was time for new people to tackle asbestos issues. He has also resigned as chairman of GrupoNueva. He remains chairman of the Avina Foundation and donates about $50 million a year to social and environmental causes, mostly in Latin America.

The industrialist is anguished by the challenge to his reputation. "How could it not upset you?" he says. "I would hate to see the value of what I am doing jeopardized by some allegations."

He expresses indignation over the prosecutor's investigation of his actions two decades ago. "I promise you, I will never go to an Italian prison," he says. "Once in a while, I have to look myself in the mirror. I can very well look this guy in the eyes and feel good about what I have done. Of course, nobody is perfect, and from hindsight, you always know more and you should have done more."

*—Anita Greil of Dow Jones Newswires contributed to this article.*