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Massachusetts

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MEMORANDUM

TO: Leslie Dach
FR: Will Stelle
RE: New England Scheduling
DATE: August 4th

*pls. make
a file -
Massachusetts
& put in
campaign
files
Prof.*

A couple of items for Gore in New England.

1. Go to either the Boston Museum of Science (in Boston) or Woods Hole Oceanographic Institute (Cape Cod) and give a speech about the business of enviro-tech and the enormous export opportunities for that sector. It is the future.

Surround himself with the head of the major academic and research institutions in the region (Woods Hole, MIT) and the CEOs from big business in the region like Raytheon (guns to environmental plough shares is what they are very interested in, and the irony of the Patriot missile manufacturer supporting the greening of DOD is very nice) and the head of the Environmental Business Council, a trade association of enviro tech businesses throughout New England.

Location: Boston is more central, but Woods Hole is a spectacular setting with a world class research institution which would better loop in the need to support basic education, our great university systems, etc. I recommend Woods Hole because it is far more attractive and luring a setting.

617-248-5110
Contact: Don Connors of Choate, Hall and Stuart at 617-227-5020. Don is a senior partner and knows his way around. He put together the Environmental Business Council, has spoken with Katie McGinty about the enviro-tech stuff in the past and will work hard to help put this event together. A strong supporter. Don thinks Raytheon would love to participate and will arrange it.

If Woods Hole is preferable, also contact Mark Forest in Studds' Hyannis (Cape Cod) office at 508-771-0666. He knows the enviros tech stuff cold and Woods Hole cold, and could help with logistics very quickly. It would be a great setting.

2. Burlington, VT

A speech that the environment is our economy will resonate well throughout New England. (Main coast, Mass tourism industry and Cape Cod, etc.) Lake Champlain is at a cross-roads in efforts to come back, and is a big issue. Leahy and former Madaline Kunin could form a good backup, with a speech in a major population center and with good scenic backdrop.

Contact Leahy's office (as you know).

The greening of Rayt

Defense contractor's might turns to the environment

By Paul Hemp
GLOBE STAFF

Raytheon Co. is attempting a major shift in its corporate focus, and in a significant way the defense giant's new priorities reflect the world's.

As the Cold War fades and as fears of global warming replace the threat of a nuclear holocaust, nations are moving resources once devoted to building military might into the battle against pollution.

Likewise, Raytheon - which as the nation's fifth-largest defense contractor is seriously threatened by declining military spending - is forging into new business areas related to the environment.

The Lexington-based company says it wants to triple the sales and profits of its existing environmental businesses over the next five years as part of a broader effort to equalize the size of its defense and nondefense operations.

The company also is considering a major acquisition in the field, chairman Dennis Picard said at last month's annual meeting. Although he didn't name a candidate, analysts say they believe it probably would be a business with sales of \$300 million to \$500 million.

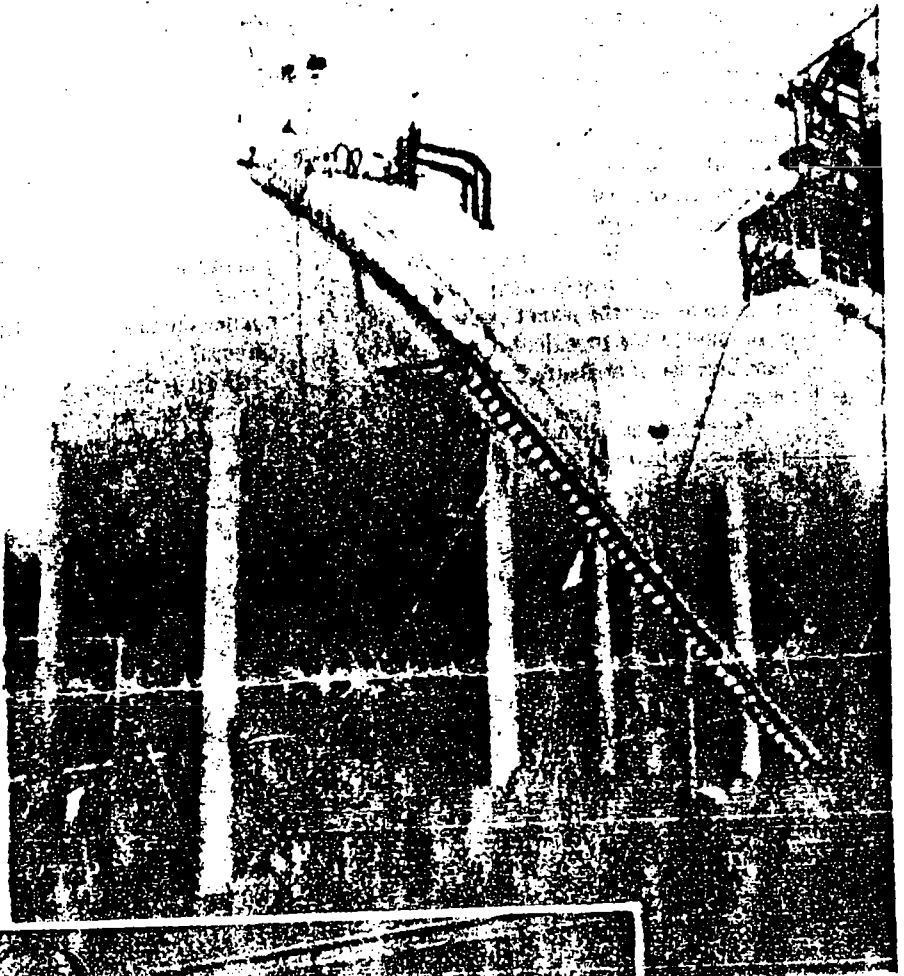
The importance of the environmental business to Raytheon's future is highlighted by recent hiring trends at the company. In the past year, the company's total work force has dropped to 69,400 from 74,800, including layoffs of 1,650 mostly defense workers in New England.

By contrast, Raytheon's Badger Co. engineering unit - much of whose work involves redesigning refineries to produce cleaner gasoline - has hired 500 people at its Cambridge headquarters during that period, bringing the work force there to 1,700. Across its entire operations, Badger has added 1,100 workers in the past 12 months and expects to hire up to another thousand in the next several years.

"The emphasis on growing this part of the business exists from the chairman on down," says George Sarney, the senior vice president who oversees the company's engineering and environmental operations.

Despite the shift in focus, Raytheon still is primarily a defense company and still is far from even. Although nearly half of its sales come from longstanding commercial operations - including Beech aircraft and Amana appliances - nearly three-

Raytheon-owned Badger Co. designed this Louisiana plant to produce a substitute for chlorofluorocarbons, or CFCs.



GLOBE STAFF PHOTO / SUZANNE KREITER

Sarney: Focus on the environment "from the chairman on down."

quarters of its profits are defense-related, analysts estimate.

And environmental work still makes up only a fraction of Raytheon's overall business. The company's recently reorganized and renamed Energy and Environmental Group had 1991 operating income of \$125 million on sales of \$1.67 billion, just 12 percent of the total company operating income of \$1.04 billion on sales of \$9.27 billion.

Environmental business made up an even smaller per-

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environment

■ RAYTHEON

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centage, about one-quarter of the new sector's sales, or \$400 million, Sarney says. The group - comprised of Badger, United Engineers & Constructors, Raytheon Service Co. and Cedarapids Inc. - also is involved in the engineering and construction of big projects such as power plants.

Thus, the environmental business provides a growing alternative to government defense contracts - but hardly a safety net. "It's a promising area and they have a number of irons in the fire," says Cai von Rumohr, an analyst at Cowen & Co. in Boston. "But if the government business really goes, they will have a problem."

Whatever its ultimate position within the company, the environmental business is bound to grow, Raytheon officials say. New regulations such as the US Clean Air Act of 1990 and a heightened awareness of the dangers of pollution around the world bodes well for environmental firms, they add.

Ironically, a lot of the new environmental contracts will come from the government - just as defense contracts always have. Even the Pentagon, Raytheon's longstanding customer, faces major environmental cleanup projects as bases and weapons facilities close.

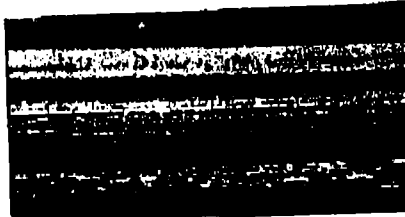
"The fastest-growing budget element in the Department of Defense today is not the B-2 bomber, it's not SDI, it's not Seawolf, it's environmental," says Patrick M. Roddy, president of Raytheon Service, whose work includes the management of environmental cleanup projects. "So although [Defense Department] dollars are contracting, that area is growing."

For example, the Army awarded United Engineers a \$429 million contract last year to operate a chemical weapons destruction facility on Johnston Atoll 800 miles southwest of Hawaii, which United Engineers helped design and construct. Other recent major United Engineer contracts include one from the Department of Energy to store hazardous wastes at the Hanford atomic site in Washington state.

"Uncle Sam has to spend a lot in this area," says Robert C. Marini, chairman and chief executive officer of Camp Dresser & McKee Inc., an environmental engineering firm that is a sometime Raytheon competitor but also a partner in a consulting venture in Europe with the company's Badger unit. "Raytheon has tremendous alliances with the government, knows all those people and how to do business with them."

Raytheon is currently building its environmental operations around two engineering businesses it acquired in the late 1960s, Badger and United Engineers. At that time, the company embarked upon a diversification strategy, adding to its engineering and construction businesses the two growing environmental sectors of nuclear power and pesticides.

Badger specialized in the design and engineering of oil refineries and United Engineers specialized in nu-



The US Army's chemical weapons

clear power plants - including, several years later, Seabrook. When the nuclear power industry crashed in the 1970s and the petroleum industry bottomed out in the mid-1980s, so did those Raytheon subsidiaries.

When environmental cleanup and pollution control regained prominence on the national and international agendas several years ago, Raytheon saw an opportunity to take the very engineering experience it had built up designing nuclear plants and oil refineries, and apply them to the new market.

For some time, says Peter Aseritis, an analyst at First Boston Corp. in New York, the diversification strategy "didn't look so good, especially in the 1980s when the defense business was so strong. But looking back, they did the right thing."

The trend toward reducing pollution by designing controls into the manufacturing process particularly benefited the company, executives say.

"We have been successful in building an environmental business because we bring chemical engineering skills to the solution of environmental problems," says L.G. Modigliani, Badger's president and chief executive officer. "In the past, the environmental business was an end-of-the-pipe approach, but today the problem is attacked at the root."

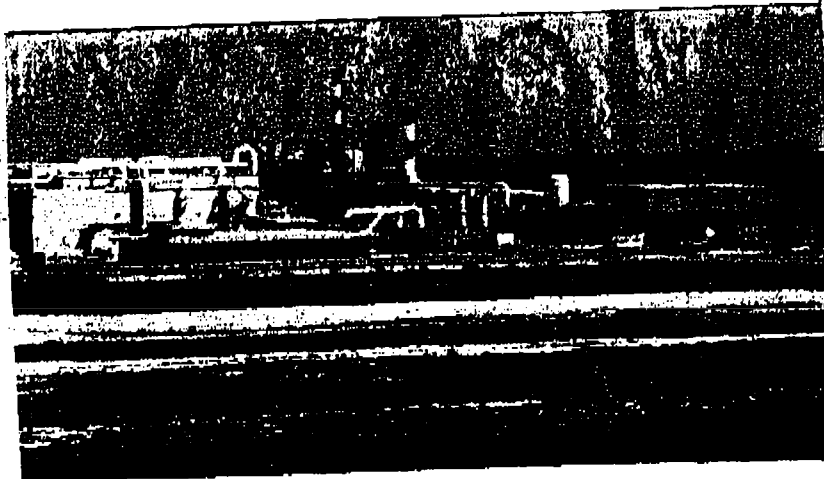
Badger, 70 percent of whose work is outside the United States, has been involved in projects ranging from the design of a Louisiana plant to produce a chemical refrigerant less environmentally damaging than chlorofluorocarbons, or CFCs, to the development of a hazardous waste treatment facility in Thailand.

Philadelphia-based United Engineers has primarily been involved with the study and design of scrubber systems to reduce sulfur discharges at coal-fired power plants. Cedarapids of Iowa, a leader in the somewhat clunky and recently depressed road-building industry, has developed in conjunction with Badger a portable machine to reclaim petroleum-contaminated soil.

The success of its subsidiaries is likely to lead to further acquisitions in the environmental field. This year, Raytheon unsuccessfully bid for two defense-related businesses that General Dynamics Corp. had put on the block - its Cessna aircraft unit and its missile division. The failure to pick up those businesses means Raytheon's balance sheet is strong enough to make a substantial acquisition, the company says. Analysts say it probably would be an engineering firm - possibly a division of another company - with the potential to exploit the environmental market.

Such environmental work may seem a long way from making missiles. Raytheon's best-known business. But a complex engineering

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UNITED ENGINEERS & CONSTRUCTORS

defense facility on Johnston Atoll in the Pacific Ocean.

project is similar to the massive defense contracts that Raytheon knows well, executives say.

"Building a large refinery or a power plant involves thousands of drawing and steps along the way, not unlike managing a Patriot program" or other defense systems contract, says Sarney.

Still, the culture of a company whose primary customer has been the government can sometimes seem a bit alien to executives dealing with private-sector customers.

"I won't tell you that there hasn't been a learning curve at times to find a middle ground. Sometimes it's a little painful," says Charles Miller, president and chief executive officer of United Engineers. "But I've never hit a stone wall or been unable to get something done because of a bu-



PATRICK M. RODDY
Environmental dollars growing

reaucracy.

"Overall, there has been a useful exchange of ideas on how to get a project done."