

MEETING RECORD
Committee on Mission Responsibility Through Investment
August 21, 2007
Conference Call

Meeting Convened: The meeting was convened by Chairperson Carol Hylkema. Karen Breckenridge gave the opening prayer.

Roll Call: Members present were Lynwood Battle (New Covenant Trust), Karen Breckenridge (ACWC), Lois Clarke (Presbyterian Foundation), Brian Ellison (Board of Pensions), Carol Hylkema (GAC), Adele Langworthy (Board of Pensions), Liz Letzler (At-Large), Bill Saint (ACSWP), Gary Skinner (GAC) and Shelly White Wood (At-Large). Members excused were Bernice McIntyre (At-Large) and Gene Turner (ACREC). Staff present were Judy Freyer (Board of Pensions); Mindy Marchal (Presbyterian Communications); Bill Somplatsky-Jarman (MRTI staff) and George Rue (Presbyterian Foundation/New Covenant Funds). MRTI liaison to ICCR Don Kuespert was present. Observer present was Jim Berkley, Institute for Religion and Democracy.

General Assembly Divestment List for Tobacco and Military-Related Companies:

The research on companies affected by the General Assembly's guidelines for tobacco and military-related investments was reviewed.

Brian Ellison moved and Adele Langworthy seconded the following motion:

1. **That MRTI affirm the report identifying eleven corporations as affected by the General Assembly military-related divestment guidelines.**
2. **That MRTI affirm the report identifying the top ten tobacco companies to be placed on the General Assembly tobacco divestment list.**
3. **That as soon as the acquisition of Altadis by Imperial Tobacco is complete, UST will be added to the General Assembly divestment/proscription list as the newly merged company will be the tenth largest tobacco company (UST will already be on the tobacco screening list used by the Board of Pensions and the Foundation/New Covenant Trust pursuant to their own policies).**
4. **That MRTI communicate the military-related and tobacco lists of companies affected by the GA policies in 2007-2008 to the Board of Pensions and the Presbyterian Church (USA) Foundation, Inc./New Covenant Trust Company urging them to utilize the General Assembly's list as a proscriptive screen in the management of the assets in their portfolios.**
5. **That MRTI make this information available to the Presbyterian Church (USA) middle governing bodies; related theological seminaries, colleges and universities; and congregations and individuals who have requested this information, and post the information on the MRTI website.**

Following discussion the motion **PASSED**.

Companies affected by the GA guidelines are:

Comprehensive List of Affected Military-Related Corporations

<u>COMPANY</u>	<u>CRITERIA</u>
1. Alliant Techsystems, Inc.	4
2. Boeing	1, 2
3. CACI	2
4. DRS Technologies	2
5. General Dynamics	1, 2
6. L-3 Communications	2
7. Lockheed Martin	1, 2, 4
8. Northrop Grumman	1, 2
9. Raytheon	1, 2, 4
10. United Industrial Corp.	2, 4
11. Vishay Intertechnology	4

Tobacco List

The General Assembly policy on investments in tobacco companies is to place the top ten (by tobacco revenue averaged over two years) on the divestment list. The most recent data revealed the following top ten companies:

Company	Average Revenue in millions of US dollars
1. Altria Group (MO)	\$65,078
2. British American Tobacco (BTI)	45,310
3. Japan Group (2914)	36,955
4. Imperial Tobacco (ITY)	20,824
5. Reynolds American, Inc.	8,383
6. Loews Corp. (Carolina Group)	3,748
7. Altadis (ALD)	3,728
8. K. T. & G. (“033780”)	2,229
9. Alliance One International (AOI)	2,046
10. Universal Corp. (UVV)	1,894
11. UST (UST)	1,543

Notes:

Japan Tobacco acquired Gallaher Group in April 2007. Previously in 1999, it had acquired RJR International, the non-U.S. tobacco operations of RJR Nabisco.

Imperial Tobacco announced its intention to acquire Altadis.

Reynolds American is the holding company for R.J. Reynolds Tobacco following its merger with the U.S. operations of British American Tobacco (known as Brown & Williamson Tobacco). BAT owns 42% of Reynolds America.

The tobacco operations of Loews Corp. are conducted through its subsidiary Lorillard, which is publicly traded through a tracking stock called Carolina Group.

In May 2005, DIMON Inc. and Standard Commercial Corp. merged to form Alliance One International.

KT&G (formerly Korea Tobacco and Ginseng) is now the 8th largest tobacco company, and is on the General Assembly divestment list for the first time. Non-Korean shareholders may own up to 35% of the company; any individual non-Korean shareholder is limited to 7% ownership.

Two Indonesian companies are emerging on the scene. PT Gudang Garam Tbk produces clove cigarettes, 97% of which are sold in Indonesia. The company has other ventures as well. PT Hanjaya Sampoerna Tbk is a subsidiary of HM Sampoerna, 85% of which is owned by Altria. Their tobacco revenue will be tracked to determine a two-year average.

Sudan Report and Recommendations:

Brian Ellison moved and Adele Langworthy seconded the following motion:

- 1. That the GAC receive this report from the Committee on Mission Responsibility Through Investment (MRTI).**
- 2. That the GAC expresses its appreciation that the Board of Pensions, Presbyterian Church (USA) Foundation, New Covenant Trust Company and New Covenant Funds, a family of mutual funds sponsored by the Presbyterian Church (USA) Foundation, do not own securities in the twenty-three companies currently on the “Highest Offenders” ranking by the Sudan Divestment Task Force.**
- 3. That the GAC urges MRTI to continue its engagement of companies in which stock is owned that are in the category recommended for “Ongoing Engagement” by the Sudan Divestment Task Force.**
- 4. That the GAC authorizes MRTI to provide a link on its webpage to the website of the Sudan Divestment Task Force (www.sudandivestment.org) where congregations, Presbyterian-related institutions and individual members can obtain information about companies involved in Sudan.**

Bill Somplatsky-Jarman reviewed the narrative report, and the research process (very similar to the process of “phased, selective divestment” outlined in 1985 by the GA) of the Sudan Divestment Task Force. He noted that the Sudan Divestment Task Force updates its research quarterly, and prefers to have individuals and organizations contact them directly for the latest information.

Two Amendments

1. By unanimous consent, MRTI approved Gary Skinner's request that recommendation #1 conclude with the phrase "... on its assignment from the 2006 General Assembly to initiate a process of phased, selective divestment related to companies doing business in Sudan."
2. By unanimous consent, MRTI inserted Bill Saint's suggested phrase at the end of recommendation #3 "...through correspondence in coordination with the Sudan Divestment Task Force."

The amended motion **PASSED**.

Request for Authorization to File Shareholder Resolutions

MRTI considered three shareholder resolution topics for which authorization by the GAC would be needed before the resolutions could be filed. The subjects addressed by the resolutions had not been authorized previously. Once authorization is received from the GAC, the resolutions can be filed with the proposed companies and others following action by MRTI.

1. Foreign Military Sales: Adele Langworthy moved and Lois Clarke seconded **that MRTI request authorization from the General Assembly Council to file or co-file the enclosed shareholder resolution with ITT Industries.**

2008 ITT Industries Resolution on Foreign Military Sales

WHEREAS the United States exports weapons and related military services through foreign military sales (government-to-government), direct commercial weapons sales (U.S. companies to foreign buyers), equipment leases, transfers of excess defense articles and emergency drawdowns of weaponry.

The United States administration has requested \$4.54 billion in Foreign Military Financing for Fiscal Year 2008 including \$3.9 billion for the Near East region (the recent 10-year agreement to increase military aid to Israel and proposed sales to Saudi Arabia may increase that amount).

In a number of recent United States combat engagements (e.g., the first Gulf War, Somalia, Afghanistan and Iraq), our troops faced adversaries who had previously received U.S. weapons or military technology.

In Fiscal Year 2006, ITT Industries was ranked at 18th largest Department of Defense contractor with \$1.746 billion in contracts. (*Government Executive*, August 15, 2007) *Defense News* ranks our company as the world's 17th largest military contractor with \$3.66 billion in defense revenue in 2006.

On March 27, 2007, our company announced that it would pay a \$50 million fine and plead guilty to two violations of the International Traffic in Arms Regulations (ITAR), one for improper handling of sensitive documents, and one for making misleading statements.

RESOLVED: Shareholders request that the Board of Directors provide, within six months of the 2008 annual meeting, a comprehensive report, at reasonable cost and omitting proprietary and classified information, of ITT Industries' foreign sales of military and weapons-related products and services.

SUPPORTING STATEMENT

We believe with the American Red Cross that the “greater the availability of arms, the greater the violations of human rights and international humanitarian law.” Global security is security of all people. Weapons sold to one country at a certain time can become a threat to our own security, as we have seen several times in our recent history.

We also believe that this report will assist shareholders in assessing the effectiveness of newly instituted company procedures to prevent another incident of violations of ITAR.

Therefore, we believe it is reasonable that the report include:

1. Processes used to determine and promote foreign sales;
2. Criteria for choosing countries with which to do business;
3. Procedures used to negotiate foreign arms' sales, government-to-government and direct commercial sales and the percentage of sales for each category; and
4. Categories of military equipment or components, include dual use items exported for the past three years, with as much statistical information as permissible; contracts for servicing/maintaining equipment; offset agreements; and licensing and/or co-production with foreign governments.

We urge you to vote in favor of this reasonable resolution.

Following review of the background information, the motion **PASSED**.

2. Ethical Criteria for Military Contracts: Adele Langworthy moved and Lois Clarke seconded **that MRTI request authorization from the General Assembly Council to file or co-file the enclosed resolution with United Technologies.**

2008 United Technologies Resolution on Ethical Criteria for Military Contracts

Resolved: that the Board of Directors review and, if necessary, amend and amplify our Company's code of conduct and statements of ethical criteria for military production-related contract bids, awards and contract execution, and report the results of this process to shareholders within six months of the 2008 annual meeting.

Supporting Statement

United Technologies is a global corporation that faces increasingly complex ethical questions and challenges as the international, social, cultural, economic and political context within which it operates changes.

We believe that authentic global security exists only when all people everywhere feel secure. Global security will only come about when there is justice for all through human development and environmental and economic sustainability.

Faith communities measure the global economy not only by what it produces, but also by its impact on the environment, how it touches human life and whether it protects the dignity of the human person.

“Defense News” ranks our company as the world’s 10th largest military contractor. We believe decisions to develop and to produce weapons can have grave consequences for the lives and/or freedom of people worldwide if the company has not considered its responsibility for its decisions. We believe that economic decision making has both moral and financial components, and that our company’s responsibilities include analyzing the effects of its decisions with respect to employees, communities, nations and a sustainable environmental future.

We believe companies engaging in research, development, production and sales of weapons, weapons’ components and weapons’ delivery systems must evaluate the decisions made when bidding on such work. That bidding/contract process must follow a defined format and include clear, concise criteria and policies.

We recommend that the criteria/standards include:

- ethical business practices such that human rights and fair labor standards are upheld;
- consideration of the impact of the contract on a sustainable environment, which in appropriate cases might include long-term environmental impact studies, questions of waste management or toxic releases and transfers;
- strategies for stability of employment, including descriptions of alternate production plans and funding sources;
- directives for business practices which respect the culture of communities in which factories are located;
- guidelines derived after critical study of political and civil stability of countries and before sale of weapons, weapons’ parts and dual-use technology;
- studies of potential impacts of military production and use of those products on peoples’ economies, environments and societies, along with specific actions for remediation, should it be required;
- disclosure of the existence and nature of arrangements with any local security forces;
- processes that ensure that the principles of the common good and the integrity of creation are considered when making decisions about bidding on contracts.

We believe that careful, values-based consideration of the contracts on which management bids, whether for research and development, production or foreign sales, is crucial for continued public acceptance of the company as an ethical entity entitled to derive profit from armament manufacturing.

Following review of the background information, the motion **PASSED**.

3. Code to Protect Children: Brian Ellison moved and Adele Langworthy seconded **that MRTI request authorization from the General Assembly Council to file or co-file the enclosed shareholder resolution with Carnival Corporation.**

2008 Carnival Cruise Lines Resolution on Code to Protect Children

WHEREAS: We believe corporations operating in countries with repressive governments, weak rule of law, endemic corruption, child exploitation, or poor labor standards face serious risks to their reputations and share values if they are seen as responsible for, or complicit in, human rights violations.

Each year more than two million children are exploited in the global commercial sex trade, some as young as five years old. The average age is 14. Child sex tourism (CST) is the practice of foreigners sexually exploiting children in another country. It is an organized multi-million dollar industry that includes tour guides, websites and brothel maps.

Problem countries include Cambodia, Thailand, Costa Rica, Mexico, Dominican Republic, Brazil, India and others. At least 32 countries have extraterritorial laws that allow the prosecution of their citizens for CST crimes committed abroad, including the U.S.

Carnival describes itself as a global cruise company and one of the largest vacation companies in the world. It conducts cruises to ports in some problematic countries, and is therefore exposed to potential risks to its reputation.

In 2003, ECPAT, the World Tourism Organization initiated project funded by the United Nations Children's Fund, created a "Code of Conduct for the Protection of Children from Sexual Exploitation in Travel and Tourism" (<http://www.thecode.org/>), applying to suppliers of tourism services worldwide.

Some parts of the travel and tourism industry are addressing CST. In 1996, the International Hotel & Restaurant Association (IH&RA), recognizing that child sex abusers may attempt to use hotels as the locations to commit their crimes, passed a resolution condemning sexual exploitation of children and recommending that all members consider measures to prevent use of their premises for commercial sexual exploitation of children. IH&RA encourages members to sign the 2003 ECPAT Code. Signatories to the Code include Carlson Hotels, Accor Hotels and Air France.

The Code includes all the critical elements for establishing a company-wide policy with proposed language, includes resources like an operations manual to train personnel, requires procedures to enforce such policies including monitoring and reporting, and has suggested agreement language for supplier and licensee contracts.

We believe a company associated with incidents of Child Sex Tourism could suffer substantial negative impacts in terms of reputation and adverse publicity. We believe commercial advantages may accrue to our company by adopting an effective policy addressing the commercial sexual exploitation of children.

RESOLVED:

The shareholders request the Board of Directors to adopt a policy prohibiting the sexual exploitation of minors on company premises, and to prepare a report by December 2008 made available to shareholders concerning the implementation of this policy, prepared at reasonable cost and omitting proprietary information.

Supporting Statement:

We believe our company's basic policies should be comprehensive, transparent, verifiable and address the provisions contained in "The Code of Conduct for the Protection of Children from Sexual Exploitation in Travel and Tourism." They should also provide training of all company employees on the policy. Your support for this resolution will encourage our company to address this important subject of child sex tourism.

Following review of the background information, the motion **PASSED**.

MRTI co-sponsorship of tour to Israel-Palestine for people interested in "pro-active" investment to promote economic development.

Adele Langworthy moved and Brian Ellison seconded **that MRTI co-sponsor an informational seminar between early February and late April of 2008 to Israel-Palestine on Pro-Active Investment to Promote Economic Development.**

During the discussion, several points were made regarding the purpose of the seminar, who would be asked to participate and how the potential participants would be identified, and whether it would be feasible or realistic. It was suggested that since the Palestinian economic situation is being held hostage to a political solution, the church should concentrate on rearranging the U.S. relationship with Israel. Others countered that there is a value to even symbolic actions, or that the church could make a small difference that would help improve some lives. In the end, it was agreed that staff should continue to work with seminar planners to improve the proposal's focus and scope, and bring a rewritten prospectus back to MRTI in November. Bill Saint abstained from the action.

The meeting was adjourned.

Respectfully submitted,

Bill Somplatsky- Jarman
Recorder

APPROVED: November 9, 2007