



THE UNITED CHURCH FOUNDATION

SOCIAL ISSUES PROXY VOTING GUIDELINES

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I. SOCIAL

A. Equality

i. Board Diversity

Issue: Companies are realizing that in the face of changing demographics and the rapid globalization of business, greater diversity on their boards of directors is a critical business strategy for both growing shareholder value and managing corporate reputation. An emphasis on board diversity can also be a measure of a company's organizational commitment to diversity. Although their representation on corporate boards has been increasing slowly over the last 15 years, women and minorities continue to account for only a small percentage of the total number of corporate directors.

Guideline: a) We will withhold votes from board nominees if the board, together with the slate, does not include minorities and women. b) We support proposals asking companies to increase board inclusiveness and report on their progress towards this goal, including how the board or its nomination committee ensures that women and minority candidates are routinely sought as part of every board search the company undertakes.

ii. Workforce Diversity

Issue: Historical approaches to workforce diversity primarily focused on how companies responded to equal employment opportunity and affirmative action legislation. Today, proactive companies have expanded their approaches to diversity and are embracing diversity as a strategy to remain competitive in the face of changing demographics and the rapid globalization of business. However, many barriers still exist, and employment discrimination cases are on the rise. In a corporate management context, women of all races and qualified minority men still face a "glass ceiling" – an artificial barrier perpetuated by attitudinal or organizational bias which prevents them from advancing up the corporate ladder.

Guideline: a) We support proposals requesting companies to disclose statistical and policy information about the gender and racial composition of their workforces. Such disclosure could include a company's EEO-1 report that is filed with the Equal Employment Opportunity Commission, non-discrimination policies, company programs designed to increase the number of qualified females and racial minorities at the management level, and the company's efforts to increase purchasing from women and minority-owned businesses. b) We support proposals asking companies to review and report on their progress towards addressing the Glass Ceiling Commission's business recommendations

iii. Indigenous Rights

Issue: The United Nations describes indigenous communities as peoples and nations having a historical continuity with pre-colonial societies that subsequently developed on their territories. They represent non-dominant sectors of society and are determined to preserve, develop and transmit their ancestral territories and ethnic identities to future generations, in accordance with their own cultural patterns, social institutions, and legal systems. Efforts to extract or develop natural resources in areas populated by indigenous peoples often threaten their lives and cultures, as well as their natural environments. In addition, the commercial use of indigenous people imagery (as well as other minority groups) is often viewed as offensive and objectionable, and are considered factors leading to the perpetuation of racism and bigotry.

Guideline: a) We support proposals asking companies to avoid the use of images that offend the cultural or historical significance of any group of persons in the company's advertising or for other corporate purposes. b) We support proposals requesting companies to mitigate any damaging impacts that their

operations may have on indigenous communities and their environment. c) We support proposals calling on companies to engage in greater consultation with indigenous people where company operations may have negative effects on indigenous communities and their environment.

iv. Sexual Orientation

Issue: While federal law prohibits discrimination in the workplace based on race or gender, no federal legislation protects gay and lesbian workers in private employment from discrimination based on their sexual orientation. While more than 60 percent of *Fortune 500* companies have voluntarily barred discrimination based on sexual orientation within their nondiscrimination policies, many gay and lesbian adults still face hostility or harassment on the job. The Equality Principles on Sexual Orientation is a voluntary code of corporate conduct designed to prevent discrimination against gays and lesbians in the workplace and in corporate advertising and sales policy.

Guideline: a) We support proposals requesting that companies adopt non-discrimination policies for sexual orientation. We oppose proposals requesting companies to revoke existing non-discrimination policies for sexual orientation.

v. Religious Discrimination

Issue: The MacBride Principles are a set of nine equal opportunity/affirmative action principles developed in 1984 as one response to the problem of religious discrimination in employment in Northern Ireland. Catholics historically have faced discrimination from the Protestant majority in Northern Ireland, and this concern has expressed itself in the area of employment discrimination. Companies based in the United States comprise a significant portion of foreign investment in Northern Ireland.

Guideline: a) We support proposals asking companies to endorse the MacBride Principles for fair employment in Northern Ireland, as well as those requesting companies to advise their franchises in Northern Ireland to adopt the MacBride Principles.

B. Health and Healthcare

i. Domestic Prescription Drugs

Issue: Prescription drugs are the fastest growing health expenditure in the United States, and by 2010 is estimated to be ten percent of all health care expenditures. Prices for prescription drugs are on average higher in the United States than anywhere else in the world, and the uninsured, underinsured and senior citizens are particularly affected by this problem. While many facets of society play a role in this problem, considerable corporate social responsibility issues facing the pharmaceutical industry involve the accessibility to and affordability of prescription drugs. Corporate use of the prescription drug patent system, pricing policies, and marketing practices are significant concerns to many stakeholder groups.

Guideline: a) We support proposals requesting companies to disclose the extent and types of payments, incentives and rebates to doctors, pharmacy benefit managers and other pharmaceutical purchasers, made in order to influence the selection of a particular drug. b) We support proposals requesting companies to disclose how they intend to respond to the Department of Health and Human Services standards with respect to new prohibitions concerning financial incentives and other tangible benefits. c) We abstain from proposals seeking the development of ethical criteria for the extension of patents on prescription drugs and to issue a report on the implications of such criteria. d) We support proposals asking pharmaceutical companies and pharmacy management companies to disclose how they are responding to rising regulatory, legislative and public pressure to increase access to and affordability of prescriptions drugs.

ii. Global Health Epidemics

Issue: HIV/AIDS, Tuberculosis, and Malaria are critical public health challenges undermining development in many countries around the world. The epidemic is increasingly recognized as a substantial threat to social and political stability. There are over 40 million people worldwide infected with HIV/AIDS, the overwhelming majority of which live in the developing world with virtually no access for antiretroviral therapy. Tuberculosis is a leading killer of people with HIV/AIDS, and Malaria causes more than 300 million acute illnesses, of which 90 percent occur in Sub-Saharan Africa.

Guideline: a) We support proposals seeking the establishment and implementation of standards of response to the health pandemic of HIV/AIDS, TB and Malaria in developing countries, particularly Africa, and for a report of such standards and their implementation. b) We support proposals asking companies to develop and implement a policy to provide pharmaceuticals for the prevention and treatment of HIV/AIDS, tuberculosis and malaria in ways that the majority of infected persons in African nations can afford and for a report of the development and implementation of such a policy. c) We support proposals directed at companies with substantial leverage in the labor market of Sub-Saharan Africa to report on the effect of deadly diseases on the company's operations as well as on any measures taken in response.

iii. Tobacco

Issue: Decades of research has confirmed that smoking and other forms of tobacco consumption constitutes a significant public health concern and is responsible for more than 440,000 deaths each year in the United States alone. More than 45 million American smoke, and smoking is the leading cause of lung cancer and other respiratory diseases. Secondhand smoke (also called environmental tobacco smoke) exposure is also associated with a variety of health risks. Children are particularly susceptible to becoming addicted to tobacco use through both direct marketing by tobacco producers and the portrayal of smoking in various media outlets. The Pension Boards' social screening policy restricts investments in companies which derive a significant portion of their revenues from the manufacture, sale or distribution of tobacco products.

Guideline: a) We support proposals asking companies to adopt smoke-free policies for restaurants and facilities, and to consider incorporating such policies into future franchise agreements. b) We support proposals requesting media companies to review and report on the ways in which smoking is portrayed in movies and television programming, as well as eliminate tobacco advertising that appeals to minors. c) We support proposals asking retail companies who sell tobacco products to implement and report on programs designed to ensure compliance with restrictions on sales to minors.

C. Human Rights and Global Labor Standards

Issue: One byproduct of globalization is the fact that corporations operate in a "borderless" economy. Instead of owning and operating their own factories, an increasing number of companies in different sectors outsource work to sub-contractors and suppliers around the globe. Various stakeholder groups expect corporations to be actively involved in promoting human and labor rights and to take responsibility for all aspects of their supply chains. This expectation extends to a corporation's influence over their vendors' policies and practices as well. There is also a growing business case for corporate attention to human rights concerns. Corporate responses have included the development of codes of conduct or their adoption of other human rights principles. The eight issues addressed by [International Labor Organization](#) conventions, including child and forced labor, have been used to form the basis for some corporate codes of conduct.

Moreover, U.S corporations often buy products or set up production facilities in countries where basic human rights are in question, such as Burma and China. Companies operate in these countries through joint ventures with state owned and operated companies. China and Burma have consistently been named as being in violation of international norms and standards protecting human rights. The greatest workers rights issue facing multinational corporations is the use of prison labor in these countries, which make it

difficult for corporations to avoid purchase of materials, components or services from a forced labor or prison labor facility.

Guideline: a) We support proposals asking companies to adopt a comprehensive human rights policy based on existing international standards. Such standards would include the 1948 UN Universal Declaration of Human Rights and the International Labor Organization's (ILO) core labor conventions. b) We support proposals to companies requesting disclosure of their code of conduct or vendor standards applicable to the company's foreign suppliers and licensees. Components of such a code of conduct would include how foreign suppliers and licensees satisfy existing standards and laws protecting employees' wages, benefits, working conditions, freedom of association, ban on forced labor and other rights. We support proposals that request disclosure of a company's current practices for monitoring its code of conduct, as well as how the company encourages adoption of the code throughout its supply chain. c) We support proposals asking companies to establish independent, third-party monitoring programs for ensuring supplier and licensee compliance with their codes of conduct. The participation of local non-governmental and respected religious and human rights groups is often cited as an essential component of such a monitoring program. d) We support proposals to companies calling for the adoption of principles or codes of conduct relating to company investment in countries with patterns of human rights abuses. e) We support proposals asking companies to report on financial risks posed by company operations in countries with a pattern of ongoing and systematic violations of human rights and the costs of continued involvement in the country.

D. Militarism and Security

Issue: Faith-based and other socially conscious investors have addressed issues concerning corporations' involvement in military contracting since the early 1970s. Adopting criteria relating to foreign military sales and the consequence of building weapons systems with space-based components are current priorities of those investors concerned with the global impact of military products and services. Of particular economic concern are offset agreements (direct and indirect), arrangements in which U.S. aerospace and military manufacturers secure sales contracts with foreign governments by promising to offset the purchase price by transferring technology or part of the assembly process to the purchasing country. There is also increasing scrutiny on the corporate activity of foreign subsidiaries, particularly in the case where operations exist in countries identified as state sponsors of terrorism (as defined by the U.S. State Department).

Guideline: a) We support proposals seeking disclosure of a company's foreign sales of weapon-related products and services and a company's significant promises made to foreign governments or foreign firms in connection with foreign military sales, intended to offset the U.S. dollar cost of weapons purchased by foreign nations. b) We abstain from proposals seeking disclosure of a company's involvement in the development of space-based weaponization systems. c) We support proposals asking companies to review operations in countries defined by the U.S. State Department as "sponsors of terrorism," and report to shareholders on the potential financial and reputational risks incurred by the company through such operations.

E. Animal Welfare

Issue: Animal welfare issues include the range of topics concerning animal testing, as well as corporate standards for supply chain management. Opponents of animal testing argue for companies to limit or restrict practices where alternatives may now exist. Ensuring that food sector corporations adopt global standards and only purchase from suppliers that treat animals in a humane manner is also a priority.

Guideline: a) We support proposals asking companies to adopt and enforce consistent animal welfare standards internationally, and to report on these standards to the shareholders.

F. Violence in Society

Possible sub-topics in this section include proposals submitted to manufacturers of handguns for the retail market and violent video games (those featuring virtual murder, brutalization of women and minorities and strong sexual content). For the 2004 proxy season, no shareholder proposals on these topics were filed with

publicly held corporations. Instead, shareholder activists are approaching companies through other means. The CSR Ministry will monitor developments in this area and report to the Committee during its fall meeting.

II. ENVIRONMENT

A. Principles and Disclosure

Issue: Hundreds of U.S. companies now routinely issue voluntary reports or statements about their environmental policies and practices. Stakeholders are continually seeking to improve the quality and relevance of environmental disclosure they receive from companies, as well as advocate for the integration of these issues into long-term business planning. Corporations can benefit in a variety of ways by committing to specific environmental accountability standards, such as the [CERES Principles](#). Experience with environmental reporting has fostered the growth of “triple bottom line” reporting in which the social, environmental, and economic aspects of a corporation are integrated and voluntarily disclosed. The [Global Reporting Initiative](#) provides a voluntary standard for such reporting. This combined approach is also called a corporation’s “sustainability” performance, as investors try to assess how social, environmental, and economic factors are considered during the business decision-making process.

Guideline: a) We support proposals requesting companies to study or endorse voluntary environmental principles, such as the CERES Principles. b) We support proposals asking companies to disclose the environmental and occupational health and safety standards required by their suppliers and vendors. c) We support proposals requesting companies to prepare voluntary environmental reports (including using the CERES report format as a guide), describing company programs, progress, liabilities, and future plans. d) We support proposals (i.) requesting disclosure of the company’s sustainability performance (i.e. a review of current company policies and practices related to its social, environmental, and economic performance), and (ii.) requesting disclosure of a company’s social, environmental, and economic performance by issuing an annual report based on the Global Reporting Initiative’s Sustainability Reporting Guidelines.

B. Global Warming and Climate Change

Issue: “Global warming” refers to the rise in the Earth’s temperature resulting from an increase in heat-trapping gases in the atmosphere. Heat-trapping gases include carbon dioxide and pollutants, the main source of which are the fossil fuels consumed by the electric power and transportation sectors, as well as other industrial sources. Scientists are increasingly confident that a global temperature rise would be associated with significant and irreversible climate change impacts – such as regional changes in temperature and weather patterns. Since greenhouse gas emissions projections resulting from human activities continue to rise, many scientists also contend that significant emission reductions are necessary to stabilize the climate. Decreased reliance on fossil fuels through increased attention on the development of renewable energy sources is one way to stabilize or reverse the upward trend.

Guideline: a) We support proposals seeking disclosure of (i.) the annual greenhouse gas (carbon dioxide and other global warming pollutants) emissions from a company’s operations and products; (ii.) the public stance of the company regarding efforts to reduce greenhouse gas emissions; (iii.) the economic risks associated with a company’s past, present, and future emissions of greenhouse gases, and the economic benefits of committing to a substantial reduction of those emissions related to its current business activities; and (iv.) how the company is responding to rising regulatory, competitive and public pressure to significantly reduce carbon dioxide and other emissions. b) We support proposals requesting the involvement of independent Directors in the oversight of global warming and climate change-related reports. c) We support proposals requesting that a company develop renewable energy sources as a means

of reducing carbon dioxide and other greenhouse gas emissions.

C. Genetically Modified Organisms

Issue: Modern genetic engineering techniques allow scientists to manipulate genetic material in ways not possible through traditional selective breeding. The most prevalent application is in agriculture whereby traits such as herbicide tolerance, insect tolerance, and virus tolerance are introduced into crops. Critics of the technology contend that unless companies can demonstrate that there is adequate evidence to provide assurance of long-term human and environmental safety, GMOs (particularly food products) should not be marketed or distributed. They also advocate for food labeling on the principle that consumers have the right to know if GMOs are present in the products they purchase and consume.

Guideline: a) We support proposals requesting companies to (i.) review policies for food or seed products containing genetically engineered ingredients; (ii) to disclose to shareholder the risks, financial costs and benefits, and environmental impacts of continued use of genetically engineered ingredients in food or seed products. b) We support proposals requesting companies to (i.) refrain from bringing genetically engineered foods to market without adequate testing; and (ii.) avoid marketing such products without clearly descriptive labeling.

D. Product Responsibility

Issue: Product responsibility is a corporation's commitment to be accountable for all aspects of its products' life cycles – including raw material procurement, the manufacturing phase, the use phase, recycling, and final disposal. A corporate commitment to product responsibility can lead to positive “bottom line” results. For example, pollution prevention leading to a reduction or elimination of waste products in the manufacturing phase can yield significant economic benefits through practices such as: increased efficiency in the use of raw materials, reformulation or redesign of products, and protection of natural resources by conservation. In addition, some companies have adopted a “cradle-to-cradle” or a “take-back” strategy whereby waste generation is minimized by recovering and reprocessing usable products that might otherwise enter the waste stream.

Guideline: a) We support proposals asking companies to report on the feasibility of adopting a policy, implementing programs, and auditing the progress of producer responsibility measures (including recycling and product take-back strategies) for their products. b) We support proposals requesting companies to study the feasibility of removing, phase-out the use of, or substituting with safer alternatives, toxics used in product manufacturing. Such toxics include endocrine disruptors, persistent bio-accumulative chemicals, and chlorinated compounds.

E. Natural Resources

Issue: The economic value often placed on natural resources – including clean water, pristine wilderness, and diverse wildlife populations – often place them at risk for exploitation. Conservation stresses the preservation and renewal of natural resources to assure their highest social benefit over the longest period of time. Through measures such as developing water consumption reduction goals and land procurement policies that incorporate social and environmental factors, corporations can adopt practices which minimize threats to natural resource conservation.

Guideline: a) We support proposals requesting companies to develop and adopt policies that prohibit natural resource extraction in environmentally sensitive areas, and to report on the potential environmental damage resulting from exploitation. Such areas include the Arctic National Wildlife Refuge, and old growth and endangered forests. b) We support proposals asking companies to develop land procurement policies that incorporate social, environmental, and cultural factors. c) We support proposals requesting

companies to evaluate technologies and approaches which could result in significantly reduced water consumption.

F. Toxics and Community Hazards

Issue: Certain past and present corporate activity can be the cause of contaminated communities or pose significant threats to community safety. Industrial facilities responsible for toxic emissions (e.g. an incinerator or petroleum refinery) may be located in or adjacent to a community whose residents bear a disproportionate share of negative environmental impacts of pollution or environmental hazard. Communities may also be subject to exposure from previous contamination and seek remediation measures. Additionally, many local communities are concerned about the potential for human and mechanical error resulting from a nuclear accident in which people are either killed or injured, as well as land contaminated, through a release of radiation. (More than 100 nuclear power plants continue to operate in the United States, and over 400 worldwide.)

Guideline: a) We support proposals requesting companies to report on specific facility or local-level environmental concerns in which communities and the environment have been exposed to toxic emissions or contamination. Such disclosure would include health and environmental consequences of exposure, projected costs or liability anticipated for toxic sites, and cleanup expenses. b) We support proposals asking companies to report on the risks to communities and the environment when significant potential for toxics or other hazards exposures exist.

III. ECONOMIC

A. Compensation

Issue: The range of concerns about compensation exists at all levels of employment. Excessive executive compensation has come under greater scrutiny due to factors such as: the ratio between CEO pay and the lowest paid workers at a company (which have reached unprecedented levels); the observed imbalance between unprecedented levels of executive compensation (with little apparent financial downside risk for recipients) and its relationship to long-term company performance; and, poorly designed pay packages that reduce shareholder value by incentivizing short-term and self-interested behavior. One response is to encourage performance-based compensation criteria, which links executive compensation to quantifiable financial, social, and environmental goals. Conversely, a company's lowest paid workers are also a source of extreme concern to many stakeholders. One outcome of globalization is that a company's workforce may be located in numerous countries, with highly disparate economic conditions from that of the company's headquarter location. Companies are being asked to commit to paying sustainable living wages to their employees, as well as select vendors and suppliers who adhere to this principle.

Guideline: a) We support proposals requesting companies to link executive compensation to quantifiable financial, social, and environmental goals. b) We support proposals asking companies to report on their executive compensation packages. Such disclosure could include an evaluation of the ratio of highest to lowest paid employee, rationalization of CEO pay packages, and CEO pay levels in years when sizeable downsizing occurs. c) We support proposals that request companies to assess workers' pay scales using a sustainable living wage model.

B. Financial Services Sector

Issue: The impacts that global financial institutions have on society are numerous. Stakeholders who are concerned about the access to and distribution of capital – both domestically and abroad – advocate for lending and banking policies that are transparent, equitable, and socially responsible. A top domestic priority for some shareholders is verifying that sub-prime lending practices are not – or do not become – “predatory.” Sub-prime lending, where consumers with inferior credit records are charged higher interest rates, is a fundamental aspect of creating access to capital in poor communities. However, conditions can become predatory when financial institutions charge extremely high fees, include harsh pre-payment penalties, or lend based on the value of the home instead of the borrower’s ability to pay. Assuring banks’ compliance with the Community Reinvestment Act has been another important stakeholder role. International concerns about the companies in the financial services sector include their roles as underwriters, lenders, and financial advisors for transactions involving socially and environmentally sensitive projects. Additionally, shareholders are seeking greater disclosure from corporations on the political and reputational risk resulting from being associated with such projects.

Guideline: a) We support proposals asking companies to adopt policies and develop procedures for the prevention of predatory lending practices. b) We support proposals requesting companies to develop procedures to ensure loan screening and originator screening of predatory loans, as well as screening for secondary market securitization of predatory loans. c) We support proposals requesting that companies involve independent directors in the oversight of predatory lending prevention measures. d) We support proposals to companies seeking the adoption of fair-lending community reinvestment policies and practices. Ensuring that home mortgage programs do not discriminate based on race is one example. e) We support proposals to companies seeking disclosure to shareholders on lending achievements, including those attained through the Community Reinvestment Act. f) We support proposals asking companies to review the environmental and human rights impacts of significant projects for which they are lenders, underwriters or financial advisors. We support proposals requesting companies to consider the incorporation of social criteria into their lending and underwriting policies and practices.

C. Corporate Political Influence

Issue: As concern mounts about special interest influence in the political process, the role of corporations in influencing legislation and public policy is receiving greater attention from many stakeholder groups. Shareholders are seeking greater transparency about corporate involvement in campaign financing, lobbying practices, and employing former governmental officials. Increasing scrutiny is being placed on corporate resources devoted to supporting political entities, candidates, and third-party organizations that engage in political activity.

Guideline: a) We support proposals to companies requesting disclosure of corporate resources devoted to supporting political entities or candidates. Such disclosure includes policies for political contributions made with corporate funds and support for third-party organizations that engage in political activity including section 527 organizations. b) We support proposals asking companies to affirm a political non-partisanship position.

D. Corporate Philanthropy

Issue: Many businesses have played a significant role in their local communities by providing financial and other non-monetary giving (product and service donations, technical support, employee volunteer time) to a variety of nonprofit organizations and charitable causes. U.S. companies are not required to report to shareholders on the charitable contributions they make directly; however, some companies voluntarily report on charitable activities. Corporations with established separate foundations are required to publicly disclose grants and contributions, among other information. Shareholders cannot dictate which charitable organizations companies should - or should not - support. Consequently, increased disclosure of charitable

contributions and policy and adoption of "shareholder-designated" contribution programs are more commonly introduced by shareholders.

Guideline: a) We support proposals asking companies to disclose charitable contributions if the information is not publicly available through other means. b) We oppose proposals asking companies to eliminate their corporate philanthropy programs.