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Impartial Research on Companies and Shareholders Worldwide

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Shareholder Proponents Stay the Course on Gay Rights

November saw an unprecedented number of decisions, primarily at the ballot box but also at the U.S. Supreme Court, determining the rights of gays and lesbians in the United States. While gay rights supporters could claim some bright spots on Election Day, these victories paled in comparison to the passage of constitutional amendments banning same-sex marriage in all 11 states where they were on the ballot. Domestic partner benefits are now in jeopardy in the public sector in most of these states and perhaps in the private sector in at least two states. The courts will likely take years to sort out the full ramifications of these amendments.

Shareholder activists say recent developments have not had any impact on their plans to file resolutions that seek protection from discrimination for gays and lesbians in the workplace. Yet as other gay rights activists regroup from these defeats and formulate a new strategy to promote equality for gays, some are reexamining ways to leverage support from the corporate community.

Gay rights gained prominence

in the 2004 presidential race, with some analysts attributing George W. Bush's win to social conservatives who turned out in key states to support these amendments and Bush's re-election. In addition to Ohio, which emerged as a pivotal

At present, all but 90 of the Fortune 500 include sexual orientation in their equal employment policies, and nearly half of the 500 offer domestic partner health benefits.

state in the election, Arkansas, Georgia, Kentucky, Michigan, Mississippi, Montana, North Dakota, Oklahoma, Oregon and Utah joined two others—Louisiana and Mis-

souri—that adopted constitutional amendments banning gay marriage earlier in the year. Another dozen or so states are preparing to introduce their own same-sex marriage bans in the next two years. Altogether, some 40 states have laws or constitutional amendments barring marriage for same-sex couples.

Gay rights supporters took heart on Election Day in Cincinnati's vote to repeal anti-gay legislation, as well as the re-election of all incumbent legislators in Massachusetts who supported gay rights. More good news for gay rights followed late this November, when the U.S. Supreme Court declined, without comment, to review the Massachusetts Supreme Court's decision legalizing gay marriage. Massachusetts is the only state to sanction gay marriage, and in the past year at least 3,000 gay Massachusetts couples have wed. Vermont is the only state to recognize same-sex civil unions.

Equality Activists Unfazed
Despite gay rights having made headlines on almost a daily basis during the last month, shareholder

(continued on p. 3)

8 Persistent Violations Raise Questions about Monitoring

13 U.S. Firms Not Immune to Climate Emissions Controls

14 IRRC Voting Clients Converge on Some Issues

In This Issue

Workplace

Shareholder Proponents Stay the Course on Gay Rights – November saw an unprecedented number of decisions, at the ballot box and U.S. Supreme Court, on the rights of gays and lesbians in the United States. While gay rights supporters could claim some bright spots on Election Day, these victories paled in comparison to the passage of constitutional amendments banning same-sex marriage in all 11 states where they were on the ballot. Shareholder activists say recent developments have not had any impact on their plans to file resolutions that seek protection from discrimination for gays and lesbians in the workplace. **1**

Persistent Violations Raise Questions about Monitoring – A recent article in the *Los Angeles Times* paints a somber picture of excess overtime, wage violations and other problems at Chinese suppliers that manufacture toys for Mattel and its competitors. Some might find the conditions surprising, considering Mattel's efforts over the past seven years to monitor its supplier code of conduct—the most comprehensive in the toy industry and one of the most rigorous among S&P 500 firms. Yet labor experts say that the conditions the article depicts are typical of the global supply chain. **8**

Are Schools' Licensees Flunking, Too? – Mattel is not alone in being dogged by reports of sweatshop conditions in its supply chain. Factory conditions in the university-branded apparel market are also coming in for criticism. **9**

Environment

U.S. Firms Not Immune to Climate Emissions Controls - Those who think that the reelection of President George W. Bush assures the continuation of current government policy on climate change are half right. The Bush administration is standing firm in its opposition to federal limits on greenhouse gas emissions. Yet U.S. companies are facing more controls at the state and regional level as well as in key markets abroad. **13**

Proxy Season

IRRC Voting Clients Converge on Some Issues- Institutional investors who rely on IRRC to vote their proxies have distinct, and differing, voting philosophies, but they also exhibit a surprising degree of consensus on a few key social issues. Taft-Hartley Funds, religious investors and investment managers of all stripes indicate that they support requests to their portfolio companies to report on their human rights policies, to expand their fair employment policies to protect gay and lesbian employees, and to implement and monitor core labor standards in their global operations. **14**

Voting Guidelines of IRRC Clients for Selected Issues **15**

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activists say they remain uninfluenced by the recent controversies, pursuing their shareholder campaign in a systematic fashion. They continue to work down the list of the *Fortune 500*, targeting the remaining companies that have not amended their EEO policies to ban discrimination based on sexual orientation. All but 90 of the *Fortune 500* have adopted such a policy, according to the Human Rights Campaign (HRC), the largest national lesbian, gay, bisexual and transgender political organization, representing a considerable change from 10 years ago when fewer than half had done so.

This dramatic shift in numbers can be attributed in large part to the work of the New York City pension funds, which continue to coordinate a large shareholder campaign on this issue. In just the last two years, shareholders withdrew 40 resolutions at companies that either agreed to adopt the requested policy or had unpublicized policies already in place. Patrick Doherty of the New York City Comptroller's Office told IRRC that recent events "would not affect us." New York has always considered banning discrimination against gays and lesbians in the workplace to be "as much a bottom line issue as a human rights issue." By not explicitly banning this form of discrimination, corporations "limit their talent pools, which can mean less efficient operations and ultimately less profits being generated. Shareholders ultimately suffer," he said.

For the 2005 proxy season, at least 26 resolutions asking companies to change their EEO policies to ban discrimination based on sexual orientation are planned or filed (see below for company-specific information). Three of the resolutions focus on the Equality Principles, a set of principles first in-

troduced in 1995 that prohibit discrimination based on sexual orientation and gender identity. Despite their introduction nearly a decade ago, the Equality Principles have been not the subject of shareholders resolutions since 1997.

Likely Heroes

While shareholder proponents plan to stay the course, the HRC plans to redouble its efforts in the corporate sector, according to Daryl Herrschaft, deputy director of HRC's WorkNet program. In 2002 when HRC released its first Corporate Equality Index, then HRC executive director Elizabeth Birch heralded corporate America as the "unlikely hero in the movement for equality of gay and lesbian Americans." Birch was referring to the lack of government protection for gay and lesbian employees and private industry's role in partially filling the gap through their nondiscrimination policies. Still no federal legislation protects gay and lesbian workers in private employment from discrimination based on their sexual orientation, and only 14 states and the District of Columbia declare it illegal to fire employees based on their sexual orientation.

Today, Herrschaft still sees corporate America taking the lead in equality for gays and lesbians. But Herrschaft now views corporations as "likely" heroes given larger corporations' broad acceptance of the business case for equality and growing public support for equality in the workplace. Herrschaft cited a March 2004 *Los Angeles Times* poll that found nearly three-quarters of those polled believed anti-gay job discrimination should be outlawed. Herrschaft also pointed out that AP exit polls on Election Day found that nationally, 60 percent of those polled support some form of part-

ner recognition: 25 percent support gay marriage and 35 percent support civil unions.

Herrschaft sees a need not only to continue to educate the corporate community, especially medium-sized and smaller companies, but also to enlist corporations to educate their legislators as to why equality makes economic sense. The HRC also plans to raise the bar for corporations. Beginning with the 2006 Corporate Equality Index, the HRC will rate companies not only on whether they provide health benefits to domestic partners, but whether they also provide additional benefits, such as bereavement benefits, ones provided under the Family and Medical Leave Act and temporary health benefits under COBRA (Consolidated Omnibus Budget Reconciliation Act). In other words, says Herrschaft, the HRC will be reviewing companies for parity on the benefits issue.

At present, nearly half, or 229, of the *Fortune 500* offer domestic partner health benefits. The provision of health benefits takes on added importance at a time when states are passing constitutional amendments that have implications for workplace benefits. Nine of the 13 state constitutional amendments go beyond marriage and seek to ban other, more limited forms of partner recognition, including civil unions and domestic partnerships. As a result, domestic partner benefits for both gay and straight employees are now in jeopardy in those states. "In a country in which 45 million people lack health coverage and costs are skyrocketing, the last thing we should be doing is stripping people of employer-provided health coverage," said Sean Cahill, the director of the National Gay and Lesbian Task Force's Policy Institute, in a press release. "Unfortunately, that's

what most of these amendments do," he added.

While the language in these amendments does not explicitly prohibit domestic partner benefits, lawsuits will almost certainly be filed against public institutions offering these benefits. Within days of passage of Michigan's state constitutional amendment banning gay marriage, the amendment's proponents announced they plan to review the benefit policies of all public employers. The proponents are seeking to change policies that extend health insurance, bereavement leave and other benefits solely to homosexual couples as employee contracts expire, arguing that they will be in violation of the Michigan Constitution, according to the *Lansing State Journal*. In early December, Michigan Gov. Jennifer Granholm decided to pull same-sex partner benefits from new contracts with state employees until a court can decide whether they are legal. In contrast, the University of Michigan, which recently defended its affirmative action program before the U.S. Supreme Court, says that it plans to continue offering benefits to domestic partners and will defend its right to do so.

In nearly all of these states, the impact of the amendments appears to be limited to the public sector, although no one can fully predict how judges will interpret them. The ability of private companies to offer domestic partner benefits is likely to be the subject of future litigation in at least Ohio and possibly Michigan. Ohio also provides examples of how corporations can take leadership roles in the public debate on amendments that result in restrictions on gay rights in the workplace. Procter & Gamble, Nationwide Insurance and Limited Brands, which operates The Limited, Victoria's Secret and Bath &

Body Works stores, all warned the electorate that such restrictions would be bad for business.

New Battleground in Ohio?

Ohio not only gained prominence for its role in determining the presidential election, but its state constitutional amendment banning gay marriage also proved to be the most controversial of the 11 facing voters across the nation last month. It was by far the broadest, barring any status that "intends to approximate the design, qualities, significance or effect of marriage." Ohio Attorney General Jim Petro, who is responsible for defending the amendment against court challenges, along with Gov. Bob Taft and both U.S. senators—all Republicans—had opposed the ban, saying the language was too broad, too ambiguous and could harm Ohio's economy.

Taft, who had signed a state Defense of Marriage Act into law in February 2004, issued a press release saying that the ballot amendment was "unnecessary," an "ambiguous invitation to litigation" and would hurt business by making it "more difficult for us to retain and attract the young talented knowledge workers we need to advance Ohio's prosperity in the 21st century." "There will be as many interpretations of the words, 'Intends to approximate the design, qualities, significance or effect of marriage,' as there are judges in the state of Ohio," he warned.

State Attorney General Petro said prior to the election that the constitutional amendment would not only affect state institutions, but also could affect private employers' ability to provide domestic partner benefits. Business leaders helped fund TV ads that warned the amendment "dictates to employers how they must operate by eliminat-

ing health-care benefits, and it'll drive away jobs...." Linda Woggon of the Ohio Chamber of Commerce also reported in an October interview on National Public Radio (NPR) that "We're hearing from many of our members, particularly our larger members, that they're quite concerned about the amendment because they believe that it will cause a problem for them in attracting a diverse work force and will also prohibit them from offering domestic-partner health-care benefits." Phil Burrell, who headed the coalition backing the measure and is president of the Cincinnati-based Citizens for Community Values, offered a different interpretation in the NPR interview, saying "Under no circumstances, any way, shape or form, is this going to affect the private industry."

Cincinnati Bucks the Trend

Bucking the national trend, Cincinnati voted to repeal an amendment to its charter that prevented the city from passing any legislation to protect gays and lesbians from discrimination. It was the only U.S. city to have banned laws supporting gay rights.

Many members of the city's corporate community, most prominently Procter & Gamble, lobbied for repeal of the 10-year old provision, arguing that it was taking an economic toll on the region and its ability to attract a top-quality work force. Procter & Gamble continued to speak out against the law even though evangelical groups across the country mounted a boycott against the company. In addition to contributing \$40,000 to the effort to repeal the amendment, a company executive also took a leave of absence from the company to run the campaign.

The Cincinnati law came to the attention of shareholders during

the 2004 proxy season in connection with **Fifth Third Bancorp**, which is based in that city. In June, the company amended its nondiscrimination policy to include sexual orientation after a shareholder resolution on the subject garnered nearly 63 percent of the shares voted at its March annual meeting. In an unusual move, Fifth Third Bancorp's board of directors did not provide shareholders with a voting recommendation on the resolution. Nor did the board discuss its views on the implications of amending its equal employment policy to ban discrimination based on sexual orientation. Unlike other major corporations in the city, Fifth Third Bancorp also took no position on the charter amendment.

Federal Legislation Stalled

President Bush has promised to make a federal constitutional amendment banning same-sex marriage a priority of his second term, and the 109th Congress, which is set to convene in January, is likely to vote on the issue. Yet despite the combination of President Bush's support, the recent passage of state constitutional amendments banning gay marriage, and an increasingly conservative Congress, there seems to be little chance that a federal constitutional amendment will pass the House or Senate with the necessary two-thirds majority in the near term. Legislators in 38 states also would then have to approve the constitutional amendment before it could go into effect.

"Thank goodness our founders required a two-thirds majority to pass a constitutional amendment," Rep. Tammy Baldwin (D-Wis.), one of three openly gay members of the House, told the *Washington Blade*. "I think they will still fall short of a two-thirds majority needed to pass a marriage amendment." Both the

House and Senate defeated the Federal Marriage Amendment, a proposed constitutional ban on gay marriage, in 2004.

But other gay rights supporters, including gay Rep. Barney Frank (D-Mass.), believes the dynamics could change quickly if there were a court decision overturning or weakening the federal 1996 Defense of Marriage Act. DOMA defines marriage under federal law as the union only between a man and a woman and gives states the authority to refuse to recognize same-sex marriages issued in other states. Many House and Senate members who voted against the proposed constitutional ban on gay marriage say DOMA makes it unnecessary.

The ENDA Controversy

While preventing anti-gay legislation from passing into law is becoming more difficult, there appears to be little hope for the 109th Congress advancing any gay civil rights legislation. Passing federal legislation that would prohibit employment discrimination based on sexual orientation has been the goal of several advocacy groups since 1980. The long-standing Employment Nondiscrimination Act (ENDA) came within one vote of passing the Senate in 1996, but its prospects dimmed considerably when Sen. Judd Gregg (R-N.H.) replaced Sen. Edward Kennedy (D-Mass.) as chair of the Senate Committee on Health, Education, Labor & Pensions in 2003. While Kennedy has been ENDA's lead sponsor, Gregg has opposed it.

With ENDA appearing to have little or no chance of passage over the next two years, supporters of gay rights are split on a course of action. Some, including HRC, want to focus on public education. They support expanding ENDA to in-

clude protection for transgendered persons in the workplace by adding language that would ban discrimination on the basis of "gender identity and expression." "What are the prospects for passing ENDA? Zero," Mara Kiesling, executive director of the National Center for Transgender Equality, told the *Washington Blade*. "As to whether we may lose co-sponsors, we may. But I don't know if that will really matter. There are people who don't come through for us on a number of bills. So we will use this to educate our friends."

Others want to keep the bill in a form that would garner the broadest support and oppose adding the proposed language. "The best thing we can say is the bill as it stands now has enough obstacles in its way," Jason Kello, a spokesman for Rep. Mark Foley (R-Fla.), one of the lead Republican co-sponsors of ENDA in the House, told the *Blade*. "Adding something new to weigh it down further won't be helpful to moving it," added Kello. Sen. Kennedy has not yet indicated which version of ENDA he favors.

Shareholder Resolutions

Meanwhile, shareholder proponents continue to pursue protection in the workplace corporation by corporation, and can already point to several victories from their filings for the 2005 season. Walden Asset Management, joined by a number of cofilers, has withdrawn a resubmission at **Alltel** and a first-time proposal at **Carlisle** asking each to amend its written equal employment opportunity policy to explicitly prohibit discrimination based on sexual orientation after the companies agreed to do so. (The proposal at Alltel, one of the few gay rights resolutions that was not withdrawn in 2004, had gotten 27.5 percent support.) Similarly,

Workplace

Calvert Asset Management has been able to withdraw a resolution at **CH Robinson Worldwide**, and the New York City pension funds one they had filed at **United States Steel**.

The New York City pension funds are filing or co-filing numerous resolutions on gays and lesbians in the workplace, including three on the Equality Principles. The New York City Employees' Retirement System (NYCERS) plans to refile an anti-bias resolution at **ExxonMobil**, with several co-filers. That resolution garnered support from nearly 29 percent of the votes cast in 2004.

In addition, all five city funds are filing similar resolutions at: **Advance Auto Parts, Allegheny Energy, BB&T, Computer Sciences, Coventry Health Care, Dana Corp., Echo Star Communications, Fisher Scientific International, L-3 Communications, Land America Financial Group, Owens-Illinois, Sara Lee, and Universal Health Services**. (The city funds also filed a proposal with Harrah's Entertainment, but plan to withdraw it because the company has confirmed that its written non-discrimination policy covers sexual orientation.) With the exceptions of Computer Sciences, Fisher Scientific and Sara Lee, all these companies have filing deadlines from early November through early January. In addition, NYCERS and the Teachers' Retirement System for the City of New York (TRS), have filed the same resolution at **Alcoa**.

Various SRI firms are filing the balance of the proposals this season. Walden has a resolution pending at **Gentex**, and Northstar Asset Management plans to be the primary filer of a similar resolution at **Sherwin-Williams**. Domini has filed at **Emerson Electric**, and Trillium As-

set Management has filed at **Nucor** and **Reliant Energy**. In addition, Calvert has a resolution pending at **Omnicare**, with Swarthmore College as a co-filer.

It remains to be seen whether, and in what manner, corporations that have resisted offering workplace protection to gay and lesbians will be influenced by recent events. Based on discussions to date, "We have reason to be encouraged that some companies will be responsive on this issue, as have a number of others we have approached in recent years," Doherty told IRRC. The agreement at Alltel, which had opposed changing its EEO policy for the last three years, also bodes well for the upcoming proxy season.

Equality Principles Filings

All five New York City funds also plan to file a resolution essentially calling for adoption of the "Equality Principles" at **Cerner Corp., Delta Airlines** and **Toys 'R' Us**. The resolution asks that management implement equal employment opportunity policies based on the following set of 10 principles prohibiting discrimination based on sexual orientation and gender identity.

- 1) Discrimination based on sexual orientation and gender identity will be prohibited in the company's employment policy statement.
- 2) The non-discrimination policy will be distributed to all employees.
- 3) There will be no discrimination based on any employee's actual or perceived health condition, status, or disability.
- 4) There will be no discrimination in the allocation of employee benefits on the basis of sexual orientation or gender identity.
- 5) Sexual orientation and gender identity issues will be included in corporate employee diversity

and sensitivity programs.

- 6) There will be no discrimination in the recognition of employee groups based on sexual orientation or gender identity.
- 7) Corporate advertising policy will avoid the use of negative stereotypes based on sexual orientation or gender identity.
- 8) There will be no discrimination in corporate advertising and marketing policy based on sexual orientation or gender identity.
- 9) There will be no discrimination in the sale of goods and services based on sexual orientation or gender identity, and
- 10) There will be no policy barring on corporate charitable contributions to groups and organizations based on sexual orientation.

The Wall Street Project, part of the Community and Lesbian and Gay Rights Institute, launched the Equality Principles on Sexual Orientation in 1995. New York City Council Member Thomas Duane, New York State Assembly Member Deborah Glick and San Francisco Supervisor Carole Migden sponsored the principles. The Equality Project then was formed to press companies to implement the Equality Principles and today its members include financial professionals, investors, writers, academics, lawyers and artists.

In March 2004, a coalition led by the Equality Project Vice Chair Grant Lukenbill, Gay & Lesbian Independent Democrats President Brad Hoyleman and Stonewall Democrats President Tom Smith called on NYCERS and TRS to advocate the Equality Principles in their shareholder negotiations with *Fortune 500* companies. "We applaud and respect the leadership Comptroller Thompson has shown to date by organizing shareholder actions urging key com-

panies to adopt policies that bar discrimination in the American workplace,” said Lukenbill. “But merely calling for a company to amend its written policy does not go far enough. Many of these companies have continued to discriminate against gays and lesbians by not offering them equal health care benefits. And nearly all continue to disregard issues related to discrimination and gender expression. Only companies that abide by the Equality Principles, now endorsed by every leading gay and lesbian human rights group in country, can be truly trusted, as Thompson himself has said, ‘to do the right thing.’ We ask for his help in calling for, and negotiating with, these companies in pursuit of their full adoption of the Equality Principles in both word and deed,” said Lukenbill.

Resolutions requesting companies to adopt the Equality Principles were last proposed in 1997 and 1996, when the Securities and Exchange Commission allowed companies to omit the proposals along with all employment-related resolutions. During the 1999 proxy season, the SEC reversed this policy, known as the Cracker Barrel decision, and found EEO policy, among other employment-related issues, to be a suitable subject for shareholder votes. In contrast, the SEC still considers resolutions asking companies either to extend, or not to extend, benefits for domestic partners to be an ordinary business issue that may not come before shareholders, leading most gay rights shareholder resolutions to focus on EEO policy.

The principles referenced in the resolution differ from the original Equality Principles on Sexual Orientation in the fourth principle’s discussion of benefits. The original principles said “The company will offer equal health insurance and other benefits to employees to cover their

2005 Filings on Gay and Lesbian Workplace Rights		
Company	Primary Filer	Resolution
Advance Auto Parts	NYC funds	Adopt sexual orientation anti-bias policy
Alcoa	NYCERS, NYTRS	Adopt sexual orientation anti-bias policy
Allegheny Energy	NYC funds	Adopt sexual orientation anti-bias policy
Alltel	Walden Asset Mgt.	Adopt sexual orientation anti-bias policy*
BB&T	NYC funds	Adopt sexual orientation anti-bias policy
C.H. Robinson Worldwide	Calvert	Adopt sexual orientation anti-bias policy*
Carlisle	Walden Asset Mgt.	Adopt sexual orientation anti-bias policy*
Cerner Corp.	NYC funds	Adopt Equality Principles
Computer Sciences	NYC funds	Adopt sexual orientation anti-bias policy
Coventry Health Care	NYC funds, Calvert	Adopt sexual orientation anti-bias policy
Dana Corp.	NYC funds	Adopt sexual orientation anti-bias policy
Delta Airlines	NYC funds	Adopt Equality Principles
Echo Star Communications	NYC funds	Adopt sexual orientation anti-bias policy
Emerson Electric	Domini	Adopt sexual orientation anti-bias policy
ExxonMobil	NYCERS	Adopt sexual orientation anti-bias policy
Fisher Scientific International	NYC funds	Adopt sexual orientation anti-bias policy
Gentex	Walden	Adopt sexual orientation anti-bias policy
Harrah's Entertainment	NYC funds	Adopt sexual orientation anti-bias policy*
L-3 Communications	NYC funds	Adopt sexual orientation anti-bias policy
Land American Financial Group	NYC funds	Adopt sexual orientation anti-bias policy
Nucor	Trillium Asset Mgt.	Adopt sexual orientation anti-bias policy
Omnicare	Calvert	Adopt sexual orientation anti-bias policy
Owens-Illinois	NYC funds	Adopt sexual orientation anti-bias policy
Reliant Resources	Trillium	Adopt sexual orientation anti-bias policy
Sara Lee	NYC funds	Adopt sexual orientation anti-bias policy
Sherwin-Williams	Northstar Asset Mgt.	Adopt sexual orientation anti-bias policy
Toys 'R Us	NYC funds	Adopt Equality Principles
U.S. Steel	NYC funds	Adopt sexual orientation anti-bias policy*
Universal Health Services	NYC funds	Adopt sexual orientation anti-bias policy

* the resolution has been withdrawn after company agreed to amend policy, or showed it had the requested policy.

domestic partners regardless of the employee’s marital status, sexual orientation, gender expression or gender identity.” As shown above, the principles included in the shareholder resolution ask companies to ensure there “will be no discrimination in the allocation of employee benefits on the basis of sexual orientation or gender identity.” Just as the courts will determine the fate of do-

mestic partner benefits in states that amended their constitutions to ban gay marriage, the SEC will likely be asked to weigh in on whether resolutions asking companies to implement these principles should come before shareholders.

—Susan Williams

Persistent Violations Raise Questions about Monitoring

An article in the Nov. 26, 2004, edition of the *Los Angeles Times* paints a somber picture of factory conditions at Chinese suppliers that manufacture toys for **Mattel** and its competitors, where excess overtime, wage violations, poor ventilation and verbal threats appear to be the norm. Some might find the conditions surprising, considering Mattel's efforts over the past seven years to monitor its supplier code of conduct—the most comprehensive in the toy industry and one of the most rigorous among S&P 500 firms. Yet labor experts say that the workplace conditions depicted in the *L.A. Times* article are typical of the global supply chain.

Nonetheless, the persistence of sweatshop conditions in factories that are monitored regularly raises doubt about third-party audits' effectiveness in improving labor practices and whether shareholder proponents should continue to request that companies implement such programs. Leading proponents of supplier standards resolutions say, however, that these systems still hold promise in catalyzing long-term improvements in working conditions. Both New York City and the Interfaith Center on Corporate Responsibility plan to continue their campaigns, and an individual proponent plans to press Mattel on why its program is not producing better results.

Toiling in Toys

The *L.A. Times* interviewed workers at 13 factories in China, Indonesia and Mexico that make Mattel products; the sample consisted both of factories owned by Mattel and those owned by contractors. Mattel arranged five of the visits, while the

L.A. Times set up eight on its own with factories that manufacture products not only for Mattel, but also its competitors. For those eight, the paper talked independently with employees, who agreed to speak frankly on the record on the condition that they and their employers would not be named. The workers said that they did not want to be identified or to have their factories implicated in violations by name, because of the threat of retaliation from supervisors. The workers explained that they also were worried that Mattel would cancel contracts with their factories, if the toy company found out about violations.

While Mattel's own factories passed muster on most counts, employees at contractor facilities consistently told the *L.A. Times* that Mattel does not have a clear picture of working conditions. Before Mattel's monitors arrive twice a year for inspections, workers at a supplier in Shenzhen said that managers promise to pay them time-and-a-half if they attest that they only work eight hours a day, six days a week, as allowed by Chinese law. The reality, the workers contend, is 12-hour workdays for six if not more days straight, poor ventilation, few bathroom breaks and a fear that they will be fired if they complain. Some employees of Mattel's suppliers reported working 24 hours straight without a break, and many said they were not paid overtime wages for extra hours. One couple working at a facility in China said a coworker was shouted at for complaining about excess hours and turned up stabbed to death shortly after his shift, placing a clear chill factor on further grievances from workers. The

workers also contend that their factories keep two sets of books, one for their consumption and another for the monitors.

This is not the first time Mattel has come under fire for its suppliers' working conditions. In January 2002, the Hong Kong Christian Industrial Committee released a report, *Toys of Misery, A Report on the Toy Industry in China*. It accused Mattel and its competitor, **Hasbro**, of engaging factories in China with appalling labor conditions. The report was the result of an investigation conducted between July and September of 2001 of eight toy companies with 19 factories and more than 50,000 workers in China's southern province of Guangdong.

The report documented in part how workers' mobility is restricted when factory managers take their travel documents, preventing them from leaving the factory premises or traveling back home, since the Chinese government requires all citizens to carry travel documents at all times. The report added that the workers "face long hours of forced overtime that leave them with two or three hours of sleep a night," and that "they are exposed constantly to chemicals that make them sick," with several workers reporting fainting on the job. Workers, the report said, are "paid wages as low as seven cents an hour, and not a single worker interviewed was receiving the legal minimum wage."

Lowering the Bar

Robert A. Eckert, Mattel's chairman and chief executive, said he wasn't surprised that some contractor factories had violated Mattel's wage-and-hour restrictions, and added that Mattel was working

Are Schools' Licensees Flunking, Too?

Mattel is not alone in being dogged by reports of sweatshop conditions in its supply chain. A recent investigation by the *Hartford Courant* published on Dec. 12 alleges that “despite their bold rhetoric, university officials have largely watched from the sidelines as factory workers in the \$3 billion-a-year college apparel market have lost ground in a global race to the bottom.” For example, workers at a factory in Torreon, Mexico, that makes apparel for the University of Connecticut, Duke and others, told the *Hartford Courant* that the facility routinely violated Mexican labor laws, including forcing employees to work overtime, paying wages at fractions of legal minimums, withholding severance pay and terminating those who complained. Conditions, the paper reports, are far worse in China, where more business threatens to go.

These conditions persist, the article says, despite the efforts of the Worker Rights Consortium (WRC)—with 131 college and university members—and the Fair Labor Association (FLA)—with more than 175 schools in its ranks—which monitor the schools’ licensees. For example, the *Courant* points out that the WRC in its four years has only completed inspections of 14 factories and intervened in a handful of others. While the WRC claimed victories early on, including helping more than 1,500 workers at the BJ&B cap factory in the Dominican Republic unionize and negotiate a contract that provided raises and other benefits, it has not reported a victory since 2002. Moreover, the owners of BJ&B have begun mass layoffs at its unionized factory, while maintaining employment levels at their nonunion factories, according to the *Courant*. Meanwhile, the FLA only sees audits from 5 percent of each licensee’s factories, the *Courant* notes, and the FLA’s public report from 2004 admits that it “recognizes that there is a continued need to improve the quality of monitoring,” and that its findings “do not mirror the realities on the ground.”

The *Courant*’s investigation focused on factories producing licensed apparel for its neighbor, the University of Connecticut. The school raked in more than

\$1 million in royalties on \$21 million in sales following its men’s and women’s basketball championships this year, making it one of the top 25 earners of royalties among universities. Retailers sell the University of Connecticut’s sweatshirts for \$40 and more, and the university collects \$1.20 for each. Yet, workers making the garments only receive pennies for each one, the article says. Reporters also noted that factories did not pay workers making university-licensed apparel anywhere close to a living wage, labor rights groups’ ultimate goal, and that most workers experienced stagnate or declining purchasing power.

The problem in part, the article says, is that schools and their students have lost steam since the issue came to a head on campuses five years ago. It quotes University of Connecticut President Philip Austin as saying that his school’s involvement in fighting sweatshop labor has “faded,” in part because of less pressure from students. He says he also believed factory conditions had “improved mightily.”

With the Multifibre Arrangement set to expire on Jan. 1, 2005, which will allow apparel factories from China and other developing countries to export to the United States without the restrictions of quotas, the threat of greater losses to workers making university-licensed apparel looms. However, it has also rekindled interest in the issue on campuses. Members of the United Students Against Sweatshops, still with more than 150 affiliates on campuses across the United States, say they’re despondent and admit that they might have lost focus, but remain committed. USAS and the WRC are pressuring school administrators to own up to the codes they have adopted.

The answer, some say, might be in consolidating production. For example, the *Courant* says that the University of Connecticut farms out its logo to 311 licensees, which produce goods in more than 2,500 factories, making monitoring difficult. If it and others centralized production in a smaller number of factories, the task of eradicating sweatshops, activists say, might be easier.

with its business partners to recognize and correct the problem. Neither was S. Prakash Sethi, president of the International Center for Corporate Accountability, the independent, non-profit organization

that oversees Mattel’s independent monitoring program. Sethi says that his group had brought these problems to Mattel’s attention before.

“It is hard for Mattel to impose

conditions unilaterally when a vendor is operating with other toy companies, since other buyers do not place the same emphasis on compliance as Mattel,” he said.

When asked why Mattel does

Workplace

not consolidate its production into a fewer number of factories to maximize its leverage, Sethi told IRRC that it simply is not possible. Consolidation places both parties at risk, he explains, as it limits Mattel's flexibility if a vendor closes shop and increases risks for factories if Mattel decides to end a type of production. He also explains that each toy facility is equipped to produce different types of toys, and that many of the production runs Mattel contracts out are seasonal or small and could not keep a single factory in business.

"Mattel's position is extremely difficult, since it is pressured by its own competitors on the one hand, and resisted by the vendors on the other," he says. "The sad irony is that while we hold companies like Mattel responsible for not doing enough, we fail to recognize that other companies are doing so little."

Sethi acknowledges that hours are excessive, but he says there is little Mattel can do about it, except own up to the conditions. Mattel chose to do so by revising its code to reflect the hours of work typical at many of its vendors. "The policy is more realistic in terms of working hours and is strictly enforced," he says. "It shows that Mattel is actively working to address actual conditions at supplier factories instead of putting in place unrealistic policies that may look good on paper." He adds, "Other toy companies that contract with suppliers simply look the other way when their unrealistic policies fail or are willing to accept falsified records verifying compliance."

China's labor law stipulates that there are 251 workdays per year, eight regular working hours per day and 36 maximum permissible hours of overtime per month. This adds up to a total of 2,440 working hours per year, per em-

ployee, of which 432 are overtime hours. Mattel's old standard of 60 hours per week, excluding holidays, allowed each employee to work 3,030 hours per year, of which 1,022 were overtime hours, more than double the legal maximum. Mattel's new policy permits its vendors to have an employee work 72 hours per week, excluding holidays, for a total of 3,234 hours per year and 1,226 hours of overtime, almost triple the legal maximum. Mattel still requires factories to give workers one day off in seven and dictates that all overtime be voluntary, although Sethi acknowledges that workers have little choice but to work the hours if they want to keep their jobs. The silver lining in the changes at Mattel, Sethi says, is that, unlike other manufacturers, Mattel is admitting to its vendors' practices and ensuring that its vendors pay workers at the required overtime rates.

Mistakes from overtiredness, diminishing returns on productivity and higher costs from overtime pay rates don't appear to be discouraging Chinese factory owners from assigning workers excessive hours. Sethi says it is a combination of worker shortages in Guangdong, training costs and expenses related to building dormitories for additional workers that drive factory managers to these practices. He also says that increasing requests from U.S. companies for faster turnaround times on contracts also place the factories under tremendous pressure and lead to excessive hours for workers. Steep competition from other factories for contracts prevents factories from requesting more time or money for orders, he says.

The solution, Sethi says, is to get more retailers and manufacturers involved. "If Hasbro and Wal-Mart would enforce the same stan-

dards vigorously, Mattel would have an easier time convincing suppliers to reduce excessive hours," he says. The other, longer-term solutions, he says, are to persuade the Chinese government and others to enforce their labor laws or to have workers organize to demand better treatment, both highly unlikely scenarios in the foreseeable future.

Earlier this month, Chinese government officials canceled a meeting of union and business leaders that was aimed at persuading multinational companies to guarantee workers in China basic labor rights. The Chinese director general of international cooperation sent AFL-CIO President John J. Sweeney and other labor leaders a letter calling off the meeting and revoking their visas, the labor groups said. The meeting was to address workers' rights to organize, health and safety standards, child and forced labor, and discrimination.

For its part, Mattel has been trying to convince its industry peers to work together to demand better conditions. It persuaded the International Council of Toy Industries to adopt its standards as part of its pilot "CARE Process," now being considered by others in the toy industry.

As far as being duped by factory owners, Sethi does not believe it is happening as often as the *L.A. Times* article suggests. He insists that his people conduct rigorous audits of each facility's books that would catch factory managers attempting to falsify records. He notes that production totals would be out of line with employment totals and hours worked. He also insists that Mattel is enforcing its wage standard and others on health and safety issues, including bathroom breaks and ventilation. He also says the article mischarac-

terizes his organization's monitoring efforts by making it seem that his group does not conduct surprise visits. Sethi says his organization makes unannounced inspections of factories undergoing remediation efforts to verify changes factories claim to have made and ensure that problems do not resurface.

Alison Devore, director of development for Verité, a non-profit monitoring, research, and training group that works with multi-national corporations to create good practices in their global supply chains, also verified for IRRC that the *L.A. Times'* findings are representative of working conditions in China and most developing countries. She says that Verité recently completed a study that found that more than 93 percent of the 142 factories it audited in China for Mattel and other companies in 2002 and 2003 had instances of excessive overtime.

Like Sethi, she believes getting the right stakeholders to the table is key to securing sustained compliance with codes and broader improvements in working conditions. She explains that multinational firms need to upgrade the ways they communicate design specifications to factories to give the facilities more time to plan for and complete orders. She also says that further training of workers and factory managers on code compliance, along with integrating good business practices into compliance models, will help achieve the results activists seek. "Monitoring teams are becoming more sophisticated in overcoming barriers to accessing accurate information and in working with companies and factories to fix problems," she says.

While consumer and shareholder pressure are helping to persuade more companies to get involved, she says, more needs to be

done to bring firms to the table and to have companies move beyond window dressing to serious remediation efforts.

Comparisons

Mattel is one of a handful of consumer products companies, and the only company in the toy industry, to have an independent monitoring program and public reports published regularly. It was the first in the toy industry to launch such a program in 1997. Its *Global Manufacturing Principles*, the 112-item code of conduct at the core of its program, commits Mattel and its suppliers to responsible manufacturing practices by seeking to ensure that wages, working and living conditions, and employee access to management, are just and fair. (See the November issue of IRRC's *Corporate Social Issues Reporter* for more information on supplier standards of S&P 500 and consumer products firms.)

IRRC's 2004 study of supplier

standard requirements among S&P 500 firms found that only 43—or 9 percent—incorporated monitoring as part of their programs, and only 36—or 7 percent—tapped outside help for the task. Of those conducting audits, 19 said they included inspections of subcontractors as part of their programs. Thirty-two had clear enforcement mechanisms as part of their programs, such as consequences for suppliers violating their policies and remediation programs, and 14 had training programs for their staff, suppliers or their contractors' employees on code compliance.

Thirteen said they incorporate unannounced audits as part of their monitoring programs. They were **Eaton, Federated Department Stores, H.J. Heinz, Kohl's, Liz Claiborne, Limited Brands, Mattel, McDonald's, Reebok International, Staples, TJX, VF and Wal-Mart.**

Six said they involved local labor and human rights groups in

Monitoring Practices of the S&P 500			
	S&P 500	Mattel	Hasbro
Monitoring procedure	43 (9 percent)	X	X
Internal monitoring	36 (7 percent)	X	X
External monitoring	24 (5 percent)	X	
Unannounced audits	13 (3 percent)	X	
NGO involvement	6 (1 percent)	X	
Subcontractors	19 (4 percent)	X	
Benchmarks	13 (3 percent)	X	
Enforcement	32 (6 percent)	X	X
Training	14 (3 percent)	X	
Hotline/complaint mechanism	17 (3 percent)	X	
Protection	9 (2 percent)	X	
Source: IRRC's 2004 study of supplier labor standard requirements among the S&P 500. See IRRC's November 2004 issue of the <i>Corporate Social Issues Reporter</i> for more results from this study.			

Workplace

their monitoring efforts—**Gap**, **Liz Claiborne**, **Mattel**, **Nike**, **Nordstrom** and **Reebok International**.

Of the 17 firms with hotlines or other forms of complaint mechanisms, only nine—**Gap**, **Limited Brands**, **Liz Claiborne**, **Mattel**, **Microsoft**, **Nike**, **Nordstrom**, **PepsiCo** and **Reebok International**—made it clear to workers that their jobs and anonymity would be protected if they lodged complaints.

Promise?

Rev. David Schilling, program director of the Interfaith Center on Corporate Responsibility's contract supplier program, told IRRC that his organization continues to back implementation of codes and monitoring programs. He notes, as IRRC's findings show, that relatively few firms have good practices in place, which is part of the larger problem. "If there is going to be effective monitoring, we have to look at how many brands and retailers are really pulling their weight," he told IRRC. "There are a number of companies that have taken this issue seriously and have rigorous monitoring programs, but they are still in the minority." Until such programs are more widely adopted, "suppliers might just as easily turn to customers with lower requirements," he says.

Schilling believes brands need to take other steps as well. "Monitoring gives you a clearer picture, but the next question is what to do to correct problems and make them stick," he says. "Factories making good faith efforts need to be rewarded with longer contracts and better prices for their products." Good labor practices also have to be part of a viable business plan, he says. "Poorly run factories create poor working conditions for work-

ers." Only when firms adopt such policies, he believes, will wider numbers of factories begin to make sustained improvements in working conditions. "Right now, many monitors are finding that problems crop up again almost as soon as they are fixed," he notes. He also says that monitoring needs to include the workers on the factory floor, who "need to understand their rights and be involved in the ongoing effort to identify and fix problems," he says. "Governments also need to be part of the solution and enforce labor laws," he adds.

He says that the Interfaith Center backs programs that focus on worker interviews off site. "Most of the companies that have had auditing programs for five or more years recognize that some of the harder violations of their codes to detect, such as discrimination and harassment, don't pop out to you by doing cursory interviews on the factory premises," he says. "Effective worker interviews are not just about perfecting the questions, but a matter of who is asking them and where they are being asked," he says. Unannounced visits also have an important roll to play to get a clearer sense of the reality of "business as usual," he says.

Pat Doherty from New York City's Comptroller's office agrees that code and monitoring programs still hold hope for improving working conditions. "Unscrupulous people on the ground will always try to find various loopholes from coaching workers on what to say to monitors to keeping separate sets of books; it runs the gambit," he told IRRC. But Doherty does not believe this is a reason to abandon codes and monitoring altogether. The depth and rigor of monitoring visits and the use of surprise visits and off-site interviews with workers help to improve results, he be-

lieves.

Doherty also agrees that more companies need to get involved, dedicate more resources to their programs and work together within industries to reform. "Otherwise, what is the alternative?" he asks. "Companies are not going to disinvest from China; governments in developing countries are not going to begin to enforce their labor laws more vigorously; and workers are not going to organize en masse and demand better treatment in the near future." He adds, "However, you cannot abandon monitoring just because it is not producing the full results you want or expected; it would not be responsible from a fiduciary or moral standpoint." He agrees that new approaches are needed to overcome the poor conditions that continue to plague many manufacturing industries, especially those that marry good business practices with better labor practices.

While New York City and the Interfaith Center will continue to press companies to adopt codes and monitor them through their shareholder campaigns, they will also work with companies that already have codes and monitoring programs to develop better practices that achieve sustained compliance. Another proponent, French shareholder Marie-Claude Hessler-Grisel, will continue to press Mattel. She told IRRC that she plans to submit a shareholder proposal to Mattel for 2005 that will ask the company to report on what it thinks are its program's failings and how they might be fixed.

—Peter DeSimone

U.S. Firms Not Immune to Climate Emissions Controls

For those who think that the reelection of President George W. Bush assures the continuation of current government policy on climate change, they are half right. The Bush administration is standing firm in its opposition to federal limits on greenhouse gas emissions. Yet U.S. companies are facing more controls at the state and regional level as well as in key markets abroad.

Soon after the November election, the Bush administration made clear that it would not be adopting a more proactive stance to address climate change. At a climate change conference in Buenos Aires, Argentina, in early December, U.S. representatives said the United States would continue to favor voluntary programs, basic research and investments in new technology over binding controls on greenhouse gas emissions, as laid out by the Kyoto Protocol.

With 6,000 delegates from 190 nations in attendance, the chief U.S. representative, Harlan Watson, told the conference that “the treaty’s fate will rest on whether or not the Kyoto parties will be willing to take on what we believe would be non-growth economic policies.”

Kyoto Pact and U.S. Firms

While President Bush pulled the United States out of the Kyoto Protocol in 2001, in one of his first major foreign policy decisions, other nations have stepped forward. Just two weeks after Bush’s reelection in November, Russian President Vladimir Putin signed the Kyoto accord. Lacking U.S. involvement, Russian participation was necessary in order to bring the treaty into force.

Now the Kyoto Protocol will take effect on Feb. 16, 2005. Participating countries will be required to re-

duce their emissions by an average of 5.2 percent below 1990 levels by 2012. The 30 industrialized nations that have adopted the Kyoto Protocol account for more than half of developed countries’ greenhouse gas emissions.

Besides the United States, Australia, Lichtenstein and Monaco are the only other developed countries that have opted out of the Kyoto agreement. The United States is the world’s larger emitter of greenhouse gases, accounting for more than a third of industrialized nations’ emissions, and more than 20 percent of such emissions worldwide.

Big U.S. multinationals now must prepare to achieve emission cuts in Europe, Canada and Japan. The EU is putting an Emissions Trading System (ETS) in effect on Jan. 1, 2005, that will cover greenhouse gas emissions from an estimated 13,000 installations in 25 countries, including many facilities owned by U.S. companies.

The ability of these companies to achieve their emission targets will have a direct effect on their bottom lines. The estimated annual value of emissions credits to be allocated under the EU ETS is \$40 billion. This new marketable commodity provides a huge incentive for companies to go beyond their targets and sell credits to others that need them. At the same time, companies that fail to meet their emission targets will have to pay penalties equal to three times the expected market price of the credits.

The stakes are especially high for U.S. companies with substantial overseas operations. According to **DuPont** executive Mack McFarland, “Almost 40 percent of our production and 50 percent of our sales are outside the United States, and we’re go-

ing to be under the European Union caps and trading and allocation system,” he told the *New York Times* in a Dec. 13 article.

2005 Proxy Season

ExxonMobil, an outspoken critic of the Kyoto Protocol, is similarly exposed. It derives more than 40 percent of revenue from markets in Europe, Canada and Japan that are subject to emission controls under the Kyoto Protocol. This fact has not been lost on shareholder proponents, which have been filing global warming resolutions with the world’s largest oil company since 1990. A new proposal filed for 2005 asks ExxonMobil’s board of directors to report on how the company “will meet the greenhouse gas reduction targets of those countries in which it operates that have adopted the Kyoto Protocol.”

Altogether, at least 28 global warming resolutions have been filed for the 2005 proxy season, and another six resolutions have been filed in Canada. This total breaks the record set in the 2003 proxy season, when 31 global warming resolutions were filed in the United States and Canada.

Most of the 2005 resolutions focus on the financial impacts of climate change and companies’ strategies to adopt emissions controls. Once again, the main targets are oil and gas producers, electric utilities and auto makers. In 2005, however, some new industries are facing resolutions as well, including home builders, banks and diversified manufacturers. (For a complete rundown of these proposals, see the forthcoming January 2005 issue of *Corporate Social Issues Reporter*.)

(continued on p. 16)

IRRC Voting Clients Converge on Some Social Issues

Institutional investors who rely on IRRC to vote their proxies have distinct, and differing, voting philosophies, but they also exhibit a surprising degree of consensus on a few key social issues. Taft-Hartley Funds, religious investors and investment managers of all stripes indicate that they support requests to their portfolio companies to report on their human rights policies, to expand their fair employment policies to protect gay and lesbian employees, and to implement and monitor core labor standards in their global operations. The findings are shown in more detail in the accompanying table.

IRRC recently reviewed approximately 200 unique voting guideline sets constructed by clients for the 46 social issue areas in IRRC's "SmartVoter" system, grouping the accounts and their selected guidelines by the type of investor they represented: corporate pension fund, public pension fund, traditional investment manager, investment manager specializing in socially responsible investment, or Taft-Hartley fund. Within each investor group, IRRC determined whether a consensus emerged among the accounts about how to vote on each of these social issues. For the purposes of this article, IRRC defined a consensus as existing when a particular guideline was selected by 55 percent or more of the accounts in the group.

Some notable differences emerged among these six investor types. Corporate pension funds overwhelmingly vote against shareholder proposals on social issues. For all but one of the 46 issue areas, the vast majority selected the "always vote against" guideline. The one possible exception concerned how to treat proposals—historically associated with

individual proponent Evelyn Y. Davis—asking companies to disclose whether their top executives have had prior U.S. government service. While half the corporate pension funds indicate they always vote against such proposals, the remainder appeared to vote case-by-case.

At the other end of the spectrum were SRI investors, a large majority of which selected the "always vote for" option for 28 of the 46 issues. They evince particularly strong support for proposals asking companies to develop or report on their human rights policies, to report on or improve their environmental practices, and to report on, implement or broaden fair employment standards. They also vote in favor of proposals asking companies to report on sustainability. They generally oppose proposals asking companies to review, change or reduce their philanthropic programs, but they favor proposals that companies report on their political campaign contributions, provided the information requested is not already easily available nor the reporting method costly. (Thus, the SRI group would appear to oppose the proposals Evelyn Y. Davis has proposed—that companies take out full-page ads in several major newspapers to report their political contributions—but would support the proposals that labor unions and others filed this year asking companies to disclose the details of their political contributions and policies.)

After SRI managers, religious investors are the next most favorably disposed investor group to proposals on social issues, selecting "always vote for" for 18 of the 46 issue areas, particularly those related to human rights, the environment and labor standards. On most of the remaining issues, however, no strong con-

sensus emerged. Some indicated that they voted case-by-case, while others seemed to favor proposals that asked companies to disclose information, but were more leery of proposals that called for actions beyond reporting. With regard to sustainability reporting, half selected the "always vote for" option, but the remainder indicated they voted case-by-case.

The Taft-Hartley funds, in line with their ties to organized labor, were—like the SRI managers—favorably disposed to proposals to develop or report on their human rights policies and to report on, implement or broaden fair employment standards. They, too, also favor sustainability reporting requests. Where they differ most notably from the SRI managers is in their approach to environmental proposals. The overwhelming majority of Taft-Hartley funds in this sample selected the "always vote against" option for environmental issues, with one exception: they specify they always vote for proposals calling on companies to endorse the 10-point Ceres environmental principles. They also are unsympathetic to proposals, often favored by religious investors and SRI funds, asking companies to report on their defense contracting, tobacco marketing or drug pricing practices.

Traditional investment managers in the IRRC sample—those not specializing in SRI practices—nonetheless are almost as likely as the Taft-Hartley Funds and SRI managers to vote in favor of proposals urging disclosure and stronger standards on human rights and fair employment. They evince no clear consensus on how to handle proposals on environmental issues, political and charitable contributions and sustainability reporting, however. The range

(continued on p. 16)

Voting Guidelines of IRRC Clients, by Investor Type, for Selected Issues						
Issue and Guideline Description	Investor Type*					
	CP	IM	PP	REL	SRI	TH
3000: Develop/report on human rights policy			?			
1 Always vote FOR this proposal.		X		X	X	X
2 Always vote AGAINST this proposal.	X					
3 Always ABSTAIN on this proposal.						
4 Always vote CASE-BY-CASE on this proposal.						
5 Vote AGAINST IF the company does not operate in countries of concern.						
3425: Report or take action on climate change		?	?			
1 Always vote FOR this proposal.				X	X	
2 Always vote AGAINST this proposal.	X					X
3 Always ABSTAIN on this proposal.						
4 Always vote CASE-BY-CASE on this proposal.						
5 Vote AGAINST IF management has issued statement acknowledging global warming threat.						
6 Vote AGAINST IF management has pledged to curb emissions growth against a recent baseline.						
7 Vote AGAINST IF management has pledged to reduce emissions below its 1990 baseline.						
8 Vote AGAINST IF the company is not a major emitter of greenhouse gases.						
3615: Adopt sexual orientation anti-bias policy			?			
1 Always vote FOR this proposal.		X		X	X	X
2 Always vote AGAINST this proposal.	X					
3 Always ABSTAIN on this proposal.						
4 Always vote CASE-BY-CASE on this proposal.						
3681: Monitor/adopt ILO conventions			?			
1 Always vote FOR this proposal.		X		X	X	X
2 Always vote AGAINST this proposal.	X					
3 Always ABSTAIN on this proposal.						
4 Always vote CASE-BY-CASE on this proposal.						
5 Vote AGAINST IF the proposal asks company to use third-party monitors.						
6 Vote AGAINST IF the company has a reasonable code and monitoring system.						
3700: Report on sustainability		?	?	?		
1 Always vote FOR this proposal.					X	X
2 Always vote AGAINST this proposal.	X					
3 Always ABSTAIN on this proposal.						
4 Always vote CASE-BY-CASE on this proposal.						
5 Always vote AGAINST IF the company has already issued report in GRI format.						
Key to abbreviations:	Key to symbols					
<ul style="list-style-type: none"> • CP: Corporate pension fund • IM: Traditional investment manager • PP: Public pension fund • REL: Religious investor • SRI: Investment firm specializing in socially responsible investment • TH: Taft-Hartley Fund 	<ul style="list-style-type: none"> • X: At least 55 percent of the institutions in this group of IRRC voting agency clients selected this guideline. • ?: Fewer than 55 percent of the institutions in this group of IRRC voting agency clients selected any one guideline in this issue area. 					

(continued from p. 13)

States Fill Federal Void

While the Kyoto Protocol draws the most attention in terms of government responses to climate change, not all of the action is taking place abroad. In the United States, more and more states are stepping into the breach caused by lack of federal action to control greenhouse gas emissions. According to a new study by the Pew Center on Global Climate Change, a nonprofit group focused on corporate and government actions to address global warming, 28 states have adopted some measures to reduce greenhouse gas emissions. These include more than a dozen states that have set targets to increase production from renewable energy sources, like wind power. The most recent state target, in Colorado, was set by a voter referendum in November; it calls for 10 percent of the state's power to come from renewable energy sources by 2015.

In addition, nine states in the Northeast will launch an emissions trading system next April that is

similar in many respects to the one that is going into effect in the European Union in January. This Regional Climate Change Initiative, spearheaded by Gov. George Pataki (R-N.Y.), will set caps and allow trading of carbon dioxide emissions from the region's power plants. California, Oregon and Washington are exploring a similar pact for power plants on the West Coast.

California has already approved new greenhouse gas emission standards for automobiles sold in that state. (Gasoline emits nearly 20 pounds of carbon dioxide for each gallon used.) In September, the California Air Resources Board approved regulations to eventually reduce emissions from new vehicles by 30 percent, beginning with 2009 models and fully phased-in by 2016. Seven northeastern states plan to follow California's lead in adopting these auto emission standards.

However, in early December, the Big Three auto makers and six other car companies filed a lawsuit to challenge California's proposed regulations. One of their primary argu-

ments is that federal clean air standards do not classify carbon dioxide as a pollutant, a position backed by the Bush administration. If state regulators in California and the Northeast do move forward with their plans, up to 50 percent of the U.S. car market could be affected.

On Dec. 14, **General Motors** and **DaimlerChrysler** announced that they would be teaming up to make hybrid engines that couple electric motors with conventional internal combustion engines. **Toyota** and **Honda** have taken the early lead in selling hybrid cars in the United States. Because hybrid vehicles are more fuel efficient than conventional gasoline-powered cars, they are considered a key technology to reduce carbon dioxide emissions from the auto sector.

Ford and General Motors are among the companies that have received global warming shareholder resolutions in 2005. Ford introduced its first hybrid model, a version of its Escape sport utility vehicle, this fall.

—Doug Cogan

(continued from p. 14)

in these investment managers' voting policies reflects in large part the views of the clients they represent, which include a variety of endowments and public pension funds. Many of the investment managers have multiple accounts, each with a differing set of voting guidelines, to represent these client viewpoints. (The investment managers who represent institutional investors thus

appear to have much more nuanced policies than the ones disclosed by major mutual funds. As noted in the August/September issue of the *Reporter*, IRRC found that a majority of the nation's 100 largest mutual funds opposed all social issue shareholder resolutions that came to votes in the first half of 2004.)

The public pension funds in IRRC's sample were the most diverse lot. Except for indicating that they

always vote against proposals asking defense contractors to review various aspects of their operations, they demonstrated little consensus on how to vote on social issues proposals.

The accompanying table shows the approaches the six investor groups take on five of the 46 social issue areas. Proposals in these five areas accounted for nearly one-fifth of the 200 proposals on social issues that came to votes in 2004.

—Meg Voorhes