

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Amendment to Investment Policy: Human Rights in Sudan

RECOMMENDED ACTION:

It is the recommendation of the Finance, Audit and Facilities Committee (FAF) that the Board of Regents amend the “Statement of Objectives and Policy for the Consolidated Endowment Fund” to enable the Chief Investment Officer to act on behalf of the Board concerning human rights violations in the Sudan, including initiation of letters of engagement and shareholder resolutions.

BACKGROUND:

Sudan is emerging as an investment issue, both nationally and locally. Several groups approached the University in the last two months requesting information on the Consolidated Endowment Fund, specifically whether certain companies providing economic support to the current Sudanese regime were held by the UW. The Treasury Office staff has been working with several UW student activists, knowledgeable of the situation in the Sudan, to identify ways in which the University could publicly voice its concern.

Shareholder Activism:

Shareholder activism typically involves one or more of the following: (1) voting on shareholder resolutions (2) engaging the company in a dialogue on its corporate practices (3) sponsoring or co-sponsoring issue-specific shareholder resolutions (4) divestment. The recommended action enables a continuing dialogue with targeted companies. Given its potential to negatively impact portfolio performance, divestment is not recommended at this time. The effectiveness of this policy amendment will be reviewed by the FAF over the upcoming fiscal year.

Research:

To better define the list of companies with direct equity ties to the Sudan, the University turned to an external research provider, Conflict Securities Advisory Group (CSAG). CSAG is an independent, nonprofit corporation located in Washington D. C. which provides a variety of tracking and monitoring services around issues of social policy. Based upon CSAG’s research, there are 44 companies worldwide with direct equity ties to Sudan but the situation is fluid and subject to change. The University currently holds 5 companies from the list in its endowment.

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Institutional Investor Response:

In response to public pressure, Harvard recently divested its holdings in PetroChina. Stanford University will propose divestment from four foreign oil companies with Sudan ties at its June Board of Trustee meeting. The issue has been raised on other campuses around the country including Brown, Dartmouth, Tufts and Michigan State University. State pension plans have also been affected with actions ranging from sponsorship of shareholder resolution (New York City Employee Pension Fund) to divestment (State of Illinois).

UW Historical Response to Ethical Concerns:

With the exception of South Africa in the late 1980's, ethical concerns have not led to divestment. Economic rationale drove the decision to divest the UW's investment portfolios of tobacco stocks in January 2000. Over the years, the UW pursued varying degrees of shareholder activism around human rights violations in Burma and global warming. In these cases there was strong involvement from multiple constituencies including the Board of Regents, faculty, students and staff.

Impact:

The recommended action, if approved, will effectively expand the authority of the Chief Investment Officer under Section K9 "Delegations" of the Statement of Investment Policy and Objectives of the Consolidated Endowment Fund to include the following:

"Take action as appropriate in support of letters of engagement and shareholder resolutions related to human rights violations in the Sudan. This delegation will remain in effect until December 31, 2007."

ENCLOSURES:

Appendix A: UW Student and Faculty Support for Divest Sudan

Appendix B: Sudan Activity by Other Institutions

Appendix C: SAMPLE – UW Sponsorship of Shareholder Resolution: Burma

APPENDIX A

UW STUDENT AND FACULTY SUPPORT – DIVEST SUDAN

Registered Student Organizations Supporting Divestment Campaign

ASUW

Center for Human Rights and Justice

College Republicans

Earth Club at UW

Episcopal Campus Ministry

French Fry Fuel Fools

Fun Guy Drum Club

International Friends

Inter-Varsity Christian Fellowship

Newman Center

Rally for Change

SEED (Students Expressing Environmental Dedication)

Students for Fair Trade

Sustainable UW Alliance

UW Burma Action

WashPIRG

Young Democrats

Faculty Support

Mary Callahan; Associate Professor and Director, International Studies Program,
International Studies

James Felak; Professor, History Department

Sharon B. Garrett; Research Associate, Alcohol and Drug Abuse Institute

Angelina Snodgrass Godoy; Assistant Professor, Jackson School of International
Studies; Law, Society and Justice

Nancy Harsock; Professor, Political Science

Ruth L. Honour; HRERN Program Coordinator, Interdisciplinary Arts & Sciences

Linda L. Iltis; Academic Counselor, International Studies; Lecturer, Comparative Religion
and South Asian Studies

Lucy Jarosz; Associate Professor, Geography

Bryan D. Jones; Professor, Political Science

Kelly A. Kajumulo; Research Coordinator, Psychology

Elizabeth Kier; Associate Professor, Political Science

Margaret Levi; Professor, Political Science

Karen T. Litfin; Assistant Professor, Political Science

Jamie Mayerfeld; Associate Professor, Political Science; Seattle Campus Advisor,
Human Rights Minor

Jonathan L. Mercer; Associative Professor, Political Science

M. Jan Meyerding; Program Coordinator, International Studies Center, International
Studies

Naomi D. Murakawa; Assistant Professor, Political Science

Mark Smith; Associate Professor, Political Science

Summer E. Starr; Program Assistant, UW MBA Career Services

Theron Paul Stevenson; International Program Coordinator, Comparative History of Ideas

Susan A. Stoner; Research Associate, Psychology; Research Associate, Alcohol and
Drug Abuse Institute

Carol Strong; Research Coordinator, Psychology

Dr. Jennifer Taggart; Lecturer, Math Department

Lynn M. Thomas; Associate Professor, African History; Chair, African Studies

Bob Weinstein; Fiscal Specialist Supervisor, Business and Finance (Computing and
Communication)

Peter Weiss; Lecturer, Biology

Beverly L. Winner-Coates; Secretary Senior, Henry M. Jackson School of International
Studies

APPENDIX B

SUDAN ACTIVITY BY OTHER INSTITUTIONS

COLLEGE AND UNIVERSITIES

- **Harvard University** Divested from PetroChina on April 4, 2005
- **Stanford University** – Proposal going to the June meeting of the Board of Trustees to divest from 4 foreign oil companies – ABB Ltd., PetroChina, Sinopec and Tatneft
- **Brown University** – Working with student groups to define the issue
- **Dartmouth University** - Working with student groups to define the issue. “Town Hall” scheduled in May to discuss the issue.
- **Swathmore College** – Working with student groups- Student proposal for divestment did not proceed. Swathmore’s policy does not allow divestment
- **Tufts University** – Questions being raised on campus
- **Michigan State University**– Student group active on campus.

STATE AND CITY ACTIVITY

- **State of Illinois** - Bills passed in Illinois 59-0 to bar their five pension funds investing in companies with Sudan links
- **State of New Jersey** and **State of California** have similar bills going through legislation
- **New York City Employee Pension Fund** – sponsoring shareholder resolutions to pressure companies not to do business in Sudan

APPENDIX C

SAMPLE – UW SPONSORSHIP OF SHAREHOLDER RESOLUTION: BURMA

December 5, 1997

Brigitte M. Dewez, Corporate Secretary
UNOCAL
2141 Rosecrans Avenue, Suite 4000
El Segundo, CA 90245

Dear Ms. Dewez:

In 1995, the Board of Regents of the *University of Washington* voted to exercise its shareholder rights in publicly voicing its concerns over human rights violations in Burma. To that end, the *University of Washington* is adding its name as co-filer on the enclosed shareholder resolution requesting *Unocal* to appoint a committee of outside directors to issue a report on the actual and potential economic and public relations cost to *Unocal* of opposition to its business in Burma. The report, omitting confidential information and prepared at reasonable cost, should include the actual and potential benefits of continuing to do business in Burma as well as the costs to *Unocal* of:

1. the growing boycott of *Unocal* products by consumers, including cities and states
2. the increasing lobbying by *Unocal* of federal and local legislatures and governments
3. litigation filed against *Unocal*

We are therefore submitting the enclosed shareholder resolution for inclusion in *Unocal's* proxy statement in accordance with Rule 14-A-8 of the general rules and regulations of the Securities and Exchange Act of 1934. We trust that it will be considered for action by the shareholders at *Unocal's* next annual meeting.

The *University of Washington* is one of the nation's premier public research universities. The University's \$1.4 billion investment portfolio is managed by outside investment management firms, two of which are current holders of *Unocal* stock. Confirmation from our investment custodian, *The Northern Trust*, that the *University of Washington* is the beneficial owner of its shares in *Unocal* is attached.

For your reference, we have also attached a copy of the "delegation of authority - shareholder resolutions" which certifies that the Treasurer of the Board of Regents has the authority to act on behalf of the Board in this area. In addition, it provides background on the human rights movement on the *University of Washington* campus.

Sincerely,

V'Ella Warren
Treasurer of the Board of Regents

cc: Roger C. Beach, Unocal Chairman & Chief Executive Officer
Arthur Levitt, Securities and Exchange Commission
Reverend Joseph La Mar, Maryknoll Fathers & Brothers
David Shilling, Interfaith Center on Corporate Responsibility
Meg Voorhes, Investors Responsibility Research Center
Simon Billenness, Franklin Research & Development Corporation
Steve Berger, Cambridge Associates
Suzanne Herbst, The Northern Trust
Finance and Audit Committee of the Board of Regents

APPENDIX C (continued)

**SAMPLE – UW SPONSORSHIP OF SHAREHOLDER RESOLUTION:
BURMA**

**SHAREHOLDER RESOLUTION
REPORT ON FULL COSTS OF DOING BUSINESS IN BURMA: UNOCAL**

WHEREAS: Nobel Peace Prize Laureate and Burmese democracy movement leader Aung San Suu Kyi has called for economic sanctions of Burma, stating that corporations that do business in Burma, “do create jobs for some people but what they’re mainly going to do is make an already wealthy elite wealthier, and increase its greed and strong desire to hang on to power... these companies harm the democratic process a great deal.”

Because of the Burmese military junta’s large- scale repression of the democracy movement, on May 20, 1997, President Clinton signed an executive order banning new US investment in Burma;

Several cities, including New York and San Francisco, and the Commonwealth of Massachusetts have enacted laws that effectively prohibit contracts with companies that do business in Burma;

The Oil, Chemical and Atomic Workers Union (OCAW) and the AFL- CIO support economic sanctions on Burma;

Media such as *Businessweek*, *CNN*, *Economist*, *Los Angeles Times*, *New York Times* and *Washington Post* have published articles about the growing pressure on companies that do business in Burma;

Unocal, in partnership with Total of France, the Petroleum Authority of Thailand and the Burmese state-owned oil company, has an equity stake in the largest investment project in Burma: the building of a pipeline from the offshore Yadana gas- field to Thailand;

Human rights organizations based on the Thai/Burmese border have documented not only numerous human rights abuses committed by Burmese troops deployed to secure the pipeline area but also the use of forced labor by the Burmese military on infrastructure related to the pipeline project;

Unocal has allowed no independent human rights investigation of the numerous documented allegations of abuse of human rights in the pipeline area;

On September 3, 1996, the democratically elected government- in - exile of Burma filed a lawsuit in US federal court seeking a court order halting Unocal’s role in the Yadana pipeline and seeking compensatory and punitive damages. On October 3, 1996, a similar additional lawsuit was filed on behalf of victims of human rights abuses in Burma;

BE IT RESOLVED: The shareholders request that the Board of Directors appoint a committee of outside directors to issue a report by October 1998 on the actual and potential economic and public relations cost to Unocal of opposition to its business in Burma. The report, omitting confidential information and prepared at reasonable cost, should include the actual and potential benefits of continuing to do business in Burma as well as the costs of Unocal of:

1. the growing boycott of Unocal products by consumers, including cities and states
2. the increasing lobbying by Unocal of federal and local legislatures and governments
3. litigation filed against Unocal

SUPPORTING STATEMENT

We are concerned by the growing damage to Unocal's sales and image of its business in Burma. We are also concerned about the mounting cost of lobbying against federal sanctions and local selective purchasing legislation. We wish to learn whether these additional economic and public relations costs outweigh the revenues and benefits that Unocal derives from its business in Burma.