THE UNIVERSITY OF MICHIGAN
ANN ARBOR 48109

RICHARD L. KENNEDY
VICE PRESIDENT FOR STATE RELATIONS
AND SECRETARY OF THE UNIVERSITY

Memo to: Members of the Board of Regents

From: R. L. Kennedy

Subject: South Africa Issue Update and Request For Action

In accordance with paragraph 4(D) of the March 1978 Regents' Resolution regarding the University's investment holdings of companies doing business in South Africa, we are prepared to include the enclosed South Africa Issue Update and Request for Action in the October Regents agenda. We submit a copy of this report at this time to permit questions before issuing the final report.

The South Africa Issue Update will be reviewed by the Senate Advisory Committee on Financial Affairs at their monthly meeting on October 7th.

If you have any questions concerning the process or substance of the attached reports please feel free to call Mr. Norman Herbert, Investment Officer, at (313) 763-1299 or J. F. Brinkerhoff, (313) 764-7272 who will return to his office on October 6. If we have not heard from you by October 6 we will call you.

attachments

cc: Executive Officers

THE UNIVERSITY OF MICHIGAN
REGENTS' COMMUNICATION

10-1-80

Request For Action

DRAFT

Subject: South Africa - Resolution amended by the Board of Regents September 1979.

Action Requested: Authorization to sell Owens-Corning Fiberglas, bondholding

Background and Summary:

The South African issue update included in the Regents' agenda for this month reports on Owens-Corning Fiberglas as one of the Sullivan non-signatory companies whose efforts to improve labor practices in Fibreglass South Africa have been "only minimal". Owens-Corning owns a 25% interest in Fibreglass South Africa. According to the IRRC analysis, Plate Glass and Shatterprufe, with its 50% interest in Fibreglass South Africa, has the management responsibilities for the company. Limitations on information make it difficult to assess the partner's relationship. However, the unique technology of spun fiberglas which Owens-Corning brings to Fibreglass South Africa should allow it to exert influence beyond its 25% minority shareholder status.

Therefore, in accordance with the Regents' September 1979 Resolution, and based on Owens-Corning Fiberglas' unwillingness to comply with that Resolution, it is suggested that the University's holdings which consists of a $200,000 Owens-Corning Fiberglas bond debenture at 6.875%, due February 1, 1994, be sold. The bond is held in the University's Fund Functioning As Endowment pool and has a current market value of $146,946.

Respectfully submitted,

J. F. Brinkerhoff
Vice President

October 1980

THE UNIVERSITY OF MICHIGAN

REGENTS' COMMUNICATION

Item for Information

10 · 1 · 80

DRAFT

Subject: South Africa Issue Update

Background and Summary:

In March 1978, the Regents adopted a policy whereby the University would retain its financial interests within South Africa and attempt to act as an agent for positive social change from within the economic system. In September 1979, the Regents amended the March 1978 Resolution. The March 1978 Resolution in paragraphs 4A and 4E was restricted to the University's ownership of common stock. The amendment was to include in the monitoring process those companies in which the University had a bondholder interest.

In accordance with this Resolution, we began the first stage of our monitoring process in April 1978. Letters were sent to all of the banks and corporations then thought to be doing business in South Africa notifying them of the Resolution and asking for their compliance. We also look to the Investor Responsibility Research Center, which was established in 1972 by a group of universities and foundations, to provide impartial, concise, timely information on the social and environmental questions raised in shareholder resolutions proposed to major corporations. In response to the specific issues related to the corporations and banks activities in South Africa, IRRC has made available a South Africa Review Service which provides standardized detailed reports based on both questionnaires and actual discussions/visits with management.

In October 1978 and March 1979 reports were submitted to the Regents summarizing the responses received from the corporations and banks. We received satisfactory responses from all the companies contacted with the exception of Black and Decker. Black and Decker proved to be unwilling to comply with the Resolution and in May 1979 the Regents voted to divest all of its holdings of Black and Decker. The actual sale took place over the summer of 1979.

All of the companies who responded satisfactorily to the Sullivan Principles material indicated they would make "regular reports to publicly disclose corporate progress toward achievements." Both the Rev. Sullivan and Investor Responsibility Research Center, Inc. (IRRC) have distributed and received questionnaires about company activities. The first cycle of reports was not entirely satisfactory. The firms handled the questions in different ways, and some were returned with uncompleted sections. We believe this will improve as the procedures for reporting are further refined, but also believe it is something we must continue to watch carefully in order to comply with the reporting provisions of the Regents' Resolution.

The primary objective of our second stage of the monitoring process, initiated in August 1978, is twofold:

1) to obtain comprehensive and standardized data which would allow an evaluation of change over a period of time.

2) to remind the corporations of our continued interest in learning what measures have been taken to implement the Sullivan Principles or their equivalent.

An immediate goal is to obtain from each corporation one of three types of completed questionnaires; that as distributed by IRRC, the series of questionnaires utilized by Sullivan, or a questionnaire distributed by the University itself (preferably one of the first two).

The second stage of the monitoring process has been implemented in the following manner. Those corporations subsequently added that had not previously received requests for information were sent a letter notifying them of the March 1978 and amended September 1979 (to include bond holdings) Regents' Resolution, asking them for a description of their South African activities, and outlining the procedures that they may follow to comply with the Resolution including completion of one of the standardized forms. Letters were sent to Armstrong Cork, Continental Corporation, Dana, Gulf Oil, Halliburton, Pillsbury and Proctor & Gamble. These corporations did not receive letters in our first mailing because they were not on the IRRC list of corporations doing business in South Africa. They are listed in the slightly more recent and comprehensive U. N. publication Investment in Apartheid. From this mailing, it was determined that Dana Corporation was the only company which actually conducts business in South Africa.

Those corporations that had provided information, but not in a standardized form, were asked to complete either the IRRC or Sullivan questionnaires. (Citicorp, Colgate-Palmolive, Dart, Firestone, General Motors, Goodyear, INA Corporation, Kellogg, Eli Lilly, Merck, Mobil, Sterling Drug, Texaco, Trane and Warner Lambert.)

Those corporations that had provided some standardized information received personalized letters directed toward obtaining any information that was found lacking. (Abbott Laboratories, American Cyanamid, ITT, Monsanto and Union Carbide.)

Finally, letters were sent to those corporations in which the University has only bond holdings by virtue of the Regents' September 1979 action. American Can, Arco Pipeline, Bristol-Myers, Carnation, Deere & Co., Getty Oil, SmithKline, Standard Oil California, Tenneco U. S. Steel, and Xerox. With the exceptions of Arco Pipeline and Getty Oil, all the companies contacted in this mailing admitted to having South African operations.

In accordance with the March 1978 Regents' Resolution, the second stage of the monitoring process includes the following issues:

1) The level of integration of employee facilities.
2) Company benefit plans for whites and non-whites.
3) The relationship between the companies, their labor unions, and black labor unions.
4) Does the company give equal pay for equal work?
5) What is the minimum wage paid by the company in relationship to the locally established minimum economic living level?
6) Training programs and opportunity for promotion for non-whites for supervisory, administrative, clerical, and technical jobs.
7) Non-whites in supervisory positions and non-whites supervising whites.
8) Race and wage distribution of employees.

The majority of this information is provided by both the IRRC and Sullivan questionnaires. Completion of one of these two instruments by a corporation would provide sufficient information to judge whether that corporation is in compliance with the Resolution as amplified by the issues defined above.

The Third Report on Signatory Companies to the Sullivan Principles indicates that 135 companies have endorsed the code. As of September 1, 1980, 45 of the 53 (or 85%) of the companies represented in the University of Michigan's current holdings in South Africa are signers to the Sullivan Principles. As of the latest report, The Third Report, the rating distribution for these firms breaks down into the following categories (Refer to Appendix 1 for a detailed listing):

# of Companies	Sullivan Classification
38	Making Good or Acceptable Progress
2	Needs to Be More Active
1	Submitting First Report
2	Endorsers
1	New Signatories
1	Signatories Who Did Not Report

What follows is a brief description of the 45 companies within these six categories as well as a more detailed account of the eight firms in the University's portfolio which have not signed the Sullivan Principles. Finally, this update contains a summary of the University's 1979 and 1980 voting on shareholder resolutions pertaining to the South African issue.

Making Good and Acceptable Progress

The fact that a majority of the companies are ranked in the top category indicates the strong commitment of these signatories as an important force for social change in South Africa, according to Arthur D. Little consulting firm. 17 of these 38 companies have made copies of the questionnaire they submit to Arthur D. Little available to the University so that we might have the opportunity to review the progress they have made in some depth. Others have decided not to do so as either a matter of policy, confidentiality or apprehension that these data may be used in an inappropriate manner.

It is worth noting that the Sullivan Summary Reports for the most part classify the corporation's progress but without any specific detail with regard to each of the principles. Therefore the information obtained through our correspondence or that correspondence of IRRC provides us an opportunity to verify the assigned classification.

Of the 21 companies "making good or acceptable progress" for which we do not receive copies of their Sullivan Reports, twenty have regularly provided us with complete responses to our specific inquiries, often sending additional reports on their South African operations. Further, the Investor Responsibility Research Center (IRRC) in Washington, DC continues to provide us with quality information and reports on most of the major companies doing business in South Africa, the most important of which are the company reports based on staff visits to the plants/facilities/offices in South Africa. INA Corporation is the one Sullivan signator for which we have no such supporting information. We are currently attempting to obtain that information from INA and failure to do so would result in a recommendation to sell the University's common stock holdings during the next reporting period.

Phillips Petroleum, Squibb and Motorola are recent additions to the University's portfolio. All three firms have signed the Sullivan Principles and were classified "as making acceptable progress" in the Third Report. Letters have been sent to the managements of these companies, informing them of the Regents' Resolution on South Africa. Their responses are awaited.

Needs To Be More Active

Carnation and American Can (Butterick Fashion) were two of the University's holdings assigned the lowest rating "needs to be more active". Our office has been unable to obtain detailed information from either company.

The Carnation response under letter of 8/25/80 went as follows: "we will automatically be assigned the lowest classification because we are not a member of the National Federated Chamber of Commerce, the tenth, least substantive, and most political of the Basic Requirements." (The National Federated Chamber of Commerce was established to promote non-white business in South Africa.) We question this explanation because signatories were not required to belong to the National Federated Chamber of Commerce as of the Third Report.

American Can (Butterick Fashion) has yet to respond to our initial inquiry.

If the monitoring process for both Carnation and American Can shows that their respective presence in South Africa is not supportive of the Regents' Resolution a recommendation for sale would be forthcoming.

Submitting First Report

According to Arthur D. Little, progress must be evaluated over a period of time, not on the basis of a single report. Bristol-Myers submitted their first report which resulted in the corresponding classification for the Third Report. Therefore, Bristol-Myers will be rated for the first time in the upcoming Fourth Report scheduled for distribution in October or November. In the meanwhile, a company report prepared by IRRC has allowed us to determine that Bristol-Myers is in compliance with the March 1978 Regents' Resolution.

Endorsers

Pennwalt Corporation and du Pont are endorsers of the Sullivan Principles, rather than signatory companies, due to their relatively small size. At present, to qualify as an endorser, a company must have less than 10 employees or a less than 20% minority interest in a company which conducts business in South Africa. Endorsers are not required to file progress reports with Arthur D. Little.

New Signatories

Dow Chemical was among the companies listed as a "new signatory" in the Third Report and had not yet filed their first progress report with Arthur D. Little. In all likelihood, Dow will be assigned to the "Submitting First Report" category in the upcoming Fourth Report. But our analysis based on data which they have provided indicates that Dow Chemical is in compliance with the Regents' Resolution.

In a 5/6/80 letter to the University, Mr. Brandt of Dow informed us they will send along copies of their Sullivan reports as they become available.

Signatories Who Did Not Report

Due to an ITT administrative slip-up, the company failed to submit their Sullivan questionnaire by the deadline date established by Arthur D. Little. Consequently, ITT was not rated along with the other signatory companies. We have been assured, however, by the Sullivan people that ITT had done a "top-notch" job, implying the company might have been put into the "making good progress" category had the data reached Little on time.

Non-Signatory Companies

The remaining 8 firms in the University's portfolio which are not Sullivan Principles signers to date are: Dana Corporation, Kimberly-Clark, Square D, G.D. Searle, U.S. Steel, Owens-Illinois, Owens-Corning Fiberglas and Tenneco.

Dana and Kimberly-Clark follow their own policies with respect to their South African operations. These policies combined with other information such as completed questionnaires provided by the University indicate both companies are in compliance with the Resolution.

Informally, Square D reports less than $100,000 annual assembly volume and in our view should not be required to have their progress monitored.

G. D. Searle has proved to be supportive of the Regents' Resolution but has chosen not to become a signatory company to the Sullivan Principles. In response to our subsequent request for information, G.D. Searle submitted a point by point comparison of their employment policies in South Africa to the Sullivan Principles. They have also assured us of their intent to participate in the IRRC South African survey.

Owens-Illinois, U.S. Steel, and Owens-Corning Fiberglas refuse to sign the Sullivan Principles claiming that they cannot guarantee the implementation of the Code due to their minority/non-controlling interests in South African companies. The task force composed of signatory company representatives which determines the criteria for rating companies has decided that only those firms with less than 20% interest or less than 10 employees should be exempt from signing the Principles. In our view, the ability of a minority shareholder corporation to influence the labor practices of any one of their investments depends on a number of factors and can vary markedly. For example, the number of other partners, factors related to managerial or technical expertise, or how close the minority interest is to 50% can be important. (According to IRRC, only 5 corporations with interests less than 50% have signed to date. Of these only three have actually filed reports with Arthur D. Little. IRRC estimates that there are some 120 other American corporations with interests between 20 and 50% which have not signed the Code.) Hence it would seem appropriate to examine the minority shareholder corporations individually in an effort to determine the feasibility of their arguments.

Based solely on financial considerations, the University is currently in the process of liquidating all its financial interest in Owens-Illinois. Hence, the issue of monitoring Owens-Illinois' involvement in South Africa is no longer relevant.

In the spring/summer of 1979, IRRC visited both U.S. Steel and Owens-Corning Fiberglas's facilities in South Africa and prepared reports. Our office has been unsuccessful in our attempts to obtain information directly from either of these companies. As such, we must rely entirely on the IRRC analyses.

U. S. Steel sold its wholly-owned fluorspar mine in 1979. The IRRC analysis concluded that U. S. Steel is now truly a non-controlling investor in South Africa with no employees or management responsibilities. On the basis of that information, U. S. Steel should not be required to have their progress monitored.

Owens-Corning owns a 25% interest in Fibreglass South Africa whose efforts to improve labor practices has been described by IRRC as "only minimal". According to the analysis, Plate Glass and Shatterprufe with its 50% interest has the management responsibilities for the company. While limitations on information make it difficult to assess the partners' relationship, the unique technology (spun fiberglas) which Owens-Corning brings to Fibreglass South Africa would allow it to exert influence beyond its minority shareholder status (see Appendix 2). Therefore, a recommendation to consider sale of the University's Owens-Corning bondholding is included in this month's Regents agenda.

Tenneco has provided our office with a thorough description of its 3 operating subsidiaries which are engaged in relatively small and wholly unrelated operations in South Africa. In January 1980, the company informed the University that senior management was reviewing the matter of signing the Sullivan Principles and would reach a definitive decision once the reviewwas concluded. At the end of March, we inquired of Tenneco as to whether any decision had been reached. To date we have received no response nor is Arthur D. Little aware of Tenneco's present position. While we intend to follow up on this matter, we are satisfied that Tenneco is in compliance with the Regents' Resolution on the basis of the information they have sent to us.

The monitoring process will continue by obtaining progress reports from the companies directly, through IRRC or the Arthur D. Little Company for Rev. Sullivan. The IRRC South Africa reports include the progress companies have made to date and the realistic prospects for further progress, given the individual constraints (economic and otherwise) facing the corporations doing business in South Africa. They have just concluded another trip to South Africa, revisiting the majority of those companies visted last year as well as some for the first time. Reports on the visits will be the basis for the IRRC South Africa reports in the coming months. The Sullivan Progress Report number 4, scheduled for distribution in October or November, will provide us a further update. The results of our continued evaluation will enable us to make further appropriate recommendations in compliance with the Regents' Resolution.

Voting of 1979 and 1980 Shareholder Resolutions

In 1979, the University as a shareholder supported shareholder resolutions submitted to INA and Citicorp, and in 1980 voted for a similar proposal submitted to Morgan (J.P.). These resolutions asked banks to report on their South African loans or asking the company not to underwrite securities sold publicly or privately by the South African government or its agencies as long as the government practices apartheid.

The University also supported the establishment of a committee to examine Caterpillar Tractor's activities in South Africa. A letter was sent to Caterpillar Tractor in 1979 qualifying our support for the resolution in order to obtain the information called for under the March 1978 Regents' Resolution.

Appendix 1
Third Report Sullivan Classifications

Making Good Progress

Caltex
 Standard Oil (California)
 Texaco
Citibank
Colgate-Palmolive*
Deere & Company
Eastman Kodak
Exxon
Ford
IBM
Eli Lilly*
Merck*
Mobil
3M[1/]
Union Carbide*

Needs to be More Active

Carnation
American Can
 (Butterick Fashions)

Submitting First Report

Bristol-Myers

Endorsers

du Pont (3 employees)
Pennwalt (less than 10 employees)

New Signatories

Dow Chemical

Signatories Who Did Not Report

ITT[2/]

U. S. Business in South Africa (according to American Consulate General, Johannesburg) who are not signatories to the Sullivan Principles

Kimberly-Clark[4/]
Owens-Corning Fiberglas
G.D. Searle
Tenneco International[5/]
U.S. Steel

Making Acceptable Progress

Abbott Laboratories
American Cyanamid
American Express
Burroughs
Caterpillar Tractor
Colgate-Palmolive*
CPC International
Dart Industries
Firestone
General Electric
General Motors
Goodyear
INA Corporation
Johnson & Johnson
Kellogg
Eli Lilly*
Merck*
Monsanto
Motorola
Pfizer
Phillips Petroleum
SmithKline
Squibb
Sterling Drug
Trane
Union Carbide*
Uniroyal
Warner-Lambert
Xerox

Companies Not Sought After to Sign Principles and Which Have Responded to U-M That They Consider Their Operations Too Small or Have No Management Control To Become Involved With Rev. Sullivan

Dana
Owens-Illinois[3/]
Square D

Footnotes to Appendix I

*Evaluation of separate corporate subsidiaries or locations in South Africa has resulted in parent company's name resulting in both category I and II.

1/Reporting for two or more locations in a single report has precluded Arthur D. Little's complete analysis of all reporting units for this signatory company.

2/ITT administrative slip-up caused company to submit report late.

3/University of Michigan is currently in process of liquidating all investments in Owens-Illinois based solely on financial considerations.

4/Follows own policy.

5/Earlier in the year, Management was considering signing the Sullivan Principles. To date, their decision is not known.

Appendix 2/

FACT SHEET

OWENS-CORNING FIBERGLAS NON-SIGNATORY TO SULLIVAN PRINCIPLES, RECOGNIZES SACCOLA CODE

Owens-Corning, a leading manufacturer of insulation and fiberglass-reinforced plastics, owns a 25% interest in Fibreglass South Africa.

The company has refused to sign the Sullivan Principles on the grounds that it cannot as a minority stockholder guarantee that the South African firm will implement them. Plate Glass and Shatterprufe with its 50% interest has the management responsibilities for the company. South African company officials provide Owens-Corning with oral reports pertaining to labor practices and issues of corporate social responsibility. (The Sullivan criteria for exemption from signing is set at less than 20% interest or fewer than 10 employees.)

Although a minority shareholder, for its part, Owens-Corning Fiberglass contributes unique technology (i.e. spun fiberglass) which should allow it to exert more influence in labor practices if it so chose.

A resolution drawn up by Oberlin College for the 1980 proxy season was omitted by the SEC because it was not filed with the company on time.

The only information available on the activities of Fibreglass South Africa has been compiled by IRRC by virtue of discussions with Owens-Corning management and a visit to the operation in South Africa last year.

IRRC describes Fibreglass South Africa's efforts to improve labor practices as "only minimal".

As of mid-1979, Fibreglass South Africa employed a total of 664 workers (216 white, 445 black, 2 colored and 1 asian).

The minimum entry level wage ranges from 7 to 38 per cent below the various minimum living levels established by the UNISA and the University of Port Elizabeth. A separate wage curve is used for low-skilled African workers, leaving them with considerably lower pay.

Hourly workers of which 86% are black receive less with respect to annual bonuses and fringe benefits than do salaried employees.

Last year, Fibreglass South Africa began a 2-year job evaluation program in an effort to implement equal pay for equal work.

In October 1979, the South African concern completed a training center at which it will train African artisans as soon as government restrictions are lifted, according to the company officials. Since 1974, most of the blacks who advanced in the company moved into clerical or machine operator slots previously held by whites. One African was promoted in 1974 to a personnel officer. Currently, no blacks supervise whites. An issue of controversy has been Fibreglass South Africa's use of migrant workers which numbered 40 as of 6/79.

Discriminatory signs were removed from employee facilities in 1977 but all areas (medical, dining and locker) remain segregated.

Management has not as a matter of policy provided assistance to workers outside of the workplace. The company has recently, however, contributed $178,500 to the Urban Foundation, the South African business backed organization which was established in 1976 to help improve the living conditions of blacks in urban areas. The firm has expressed some interest in setting up a housing assistance program, according to IRRC. No plans are in the offing to provide educational fellowships although it complains it cannot promote blacks to higher level positions because of the lack of qualified candidates.

Source: IRRC South African Review Service Material, 1979 and 1980.