Investing for a Better World

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INSIDE

Will Chevron Be Held Accountable for Rainforest Damage?

By Shelley Alpern

Last year, I joined a small group of **Chevron** investors in Ecuador to see firsthand the impact of oil drilling in the fragile rainforest area of eastern Ecuador, known as the *Oriente*. The advocacy group Amazon Watch was our tour guide, leading us through proverbially steamy jungles dotted by numerous pits filled with crude oil byproducts.[1] We met with tribal people and settlers forced to bathe and drink from contaminated rivers and streams, their only sources of water. We visited a tiny, desperately under-funded rural clinic, which saw abnormally large numbers of patients suffering from cancers, miscarriages, birth defects, skin rashes, and persistent headaches and intestinal problems. In our Quito visits with congressional representatives, government officials and human rights workers, we learned that Chevron is company *non grata* in the eyes of many Ecuadorians, because of the role

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A Capitalist Manifesto

By Farnum Brown

Andy Rappaport and his chief lieutenant, Jamie Daves, were sitting in a midtown Manhattan office one rainy morning last July. Around the table were representatives of Link TV, the Guerrilla Radio Network, a progressive book club, a funder of public radio stations, a producer of socially responsible films and Trillium Asset Management. Rappaport had called the meeting as part of his long-range plan to build a network of progressive media outlets. His intention is to create a liberal media machine to counter the influence of Fox News and its kindred right-wing media franchises. He also plans to make some money doing it.

Rappaport can afford to dream big. Like

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Dear Reader

Joan Bavaria

Recently I was privileged to participate in a packed five day gathering of people from business, civil society and government, listening, talking and working under the name "How on Earth Can We Live Together?" People from all over the world, from many walks of life, conversed, debated, ate and enjoyed music from around the world set in the spectacular landscape of Tallberg, Sweden. I was able to meet people like Paolo (Bam) Benigno A. Aquino IV, 28-year-old nephew of Benigno Aquino (the assassinated political foe of the dictator Marcos) and the Chairman of the National Youth Commission in the Philippines. Bam is a personable, intelligent, articulate and energetic young man reaching out to youth in his often troubled country through a radio show and through youth programs. I often talked with Professor Jaap Spier, a Supreme Court Justice of The Netherlands and Kanayo Kingsley, a Nigerian working with DAI (Development Alternatives Inc.) to help USAID and other support programs in the Nigerian economy. I met Edite Kalnina, director of a business communications consultancy based in Latvia, and Talia Aharoni, President of BSR of Israel, who described how **Teva Pharmaceuticals** had helped her organize. My husband and I walked with Hans Blix and discussed nuclear proliferation, somewhat awe-struck at the personal risks the man is willing to

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CNOOC to the Left of Me, Chevron to the Right: Stuck in the Middle with Fu

By Blaine Townsend

When President Richard Nixon visited Beijing in 1972, he could never have dreamed the Communists would one day bid against **Chevron Corporation** for **Unocal**. It just goes to show that if you gather enough capital today (even at the expense of human rights, American national security and the environment) you can be a player in the energy business. At least that's how Chevron and Unocal did it. The trick now is to get Fu Chengyu's Chinese National Offshore Oil Corp. (CNOOC) to buy Chevron. Then shareholders could take the money and invest in companies that will actually help this country.

After all, what would America be losing if CNOOC succeeds in acquiring Chevron (or succeeded in buying Unocal)? It wouldn't mean a less secure oil supply for America. CNOOC's bid for Unocal doesn't necessarily pass the free market sniff test, but Chevron's bid is not about securing oil for America either. If the market for oil is better in Shanghai than Cheyenne, the oil is going to Shanghai.

In fact, a Sino-mega merger might actually hasten the end to America's dependence on oil. Chevron and Unocal are no more interested in ending this quagmire than is CNOOC. With two fewer American oil companies to stifle policy, the markets would reach oil independence more rapidly.

It's also not as if these companies are buffeting America's national security efforts. Quite the contrary. From Burma to Africa to South America, Chevron and Unocal have built empires by rushing into unstable regions and getting oil or gas out as quickly as possible. This has enabled the companies to stockpile cash, but as we are finding out in these first fitful years of the 21st century, it may be at the expense of America's national security.

In Nigeria, Chevron has relied on a partnership with a violent, undemocratic regime to derive a significant share of its crude oil supply. Chevron got its oil, but it left behind no lasting democratic institutions in the county. So now, after more than a decade of producing oil, Nigeria has social unrest in the South and Sharia (the imposition of Islamic Law) in the North. This is a poisonous combination for American national security because thugs in Nigeria hijack an estimated $3 billion to $15 billion of oil each year. To Chevron, this is just the cost of doing business in Nigeria. But with the proceeds from the stolen oil almost certainly falling into the hands of anti-American interests in the region, it may be America that pays the price.

And Unocal? When Chevron CEO David Reilly wrote in a *Wall Street Journal* editorial on July 12th that Chevron and Unocal shared "a strong cultural affinity", he wasn't kidding. In the late 1990s, Unocal tried desperately to go into the oil pipeline business with the Taliban in Afghanistan, hoping to put $250 million into the hands of the Taliban pre-9/11. Now it is Unocal's stake in pipelines just north of Iran that has attracted suitors. Protecting these assets from militants in the region won't come cheap. With Chevron getting Unocal, this is how it will work: American taxpayers will be stuck paying to protect pipelines in the heartland of America's enemies (diverting resources from schools, emergency services or the development of alternative energy); Chevron will get the profits (which are then lightly taxed); and China will most likely get the oil anyway.

So letting CNOOC have Unocal (and maybe Chevron too) might have been good for shareholders and America. Shareholders would have rid themselves of considerable human rights and environmental liabilities and with the subsequent recovery of billions of dollars in direct and indirect oil subsidies, America could have put real resources into developing cleaner, stable sources of energy. Plenty of wealth would be created; it would just be spread among hundreds of smaller innovative companies (many in new industries) and among many more Americans.

Of course, when that happens, we won't have Big Oil to push around any more.

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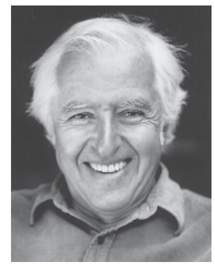
How's the World Doing? It's Funny You Asked

It Seems to Me

Milt Moskowitz



As I write this, I am approaching my 78th birthday, and at the risk of sounding like an even crankier Andy Rooney, I have to say: The world is getting more absurd all the time.

We have a president who likens the Iraqi constitutional process to the constitutional process we had in the United States in the 1780s, thereby earning a flunk in history.

We have American corporations lining up to buy stakes in Chinese companies left and right, yet politicians in Washington decry the attempt by a Chinese company to acquire a retrograde U.S. oil producer.

We have a president and Senate majority leader declaring that the concept of "intelligent design" ought to be taught in schools along with evolution theory, thereby undermining hundreds of years of scientific inquiry.

More and more of the items you buy in stores like **Home Depot**, **Ikea**, **Circuit City** and **Best Buy** need to be assembled after you bring them home.

High officials of the French government warned non-French companies that France would not welcome a takeover of the yogurt and bottled water company **Danone**. French Prime Minister Dominique de Villepin described Danone as one of France's industrial "jewels."

When the European Union and China reached an agreement this year to limit textile exports from China to a 10% annual increase, it was too late to intercept millions of garments already on their way to European stores. Stacked up in European warehouses were 3.5 million bras and 58 million sweaters.

Speaking to security analysts in London, **Volkswagen CEO** Bernd Pischetsrieder dismissed cars made by Audi as a "complete waste of money." Audi is VW's most profitable division.

The Ave Maria Catholic Values Fund, launched in 2001, reports a return of 18% a year during the past three years, easily beating the 12% return of the S&P 500. The fund, whose assets have reached $400 million, invests according to the teachings of the Catholic Church. It has four criteria for exclusion: Abortion, pornography, contributions to Planned Parenthood, benefits for same-sex partners (or opposite-sex partners in a non-marital relationship). Those criteria eliminate 200 of the 500 companies in the S&P index. The fund's portfolio includes **ExxonMobil**, **General Dynamics** and **Dollar Tree Stores**. Tobacco and alcohol companies are okay for investment.

Unhappy with a biography of him – *iCon: Steve Jobs, The Greatest Second Act in the History of Business* — **Apple Computer** CEO Steve Jobs banned all books published by **John Wiley** from the company's 105 stores including such titles as *Macs for Dummies*, *Dr. Mac: The OS X Files* and *GarageBand for Dummies*.

Kimberly-Clark, one of the 11 companies saluted by Jim Collins in his best-selling book, *Good to Great*, announced that it would fire 6,000 employees – one-tenth of its workforce – and close or sell 20 factories. Amy Low Chasen, a security analyst at **Goldman Sachs**, praised the action: "This shows management is aggressively taking action to fix its business. This is a major and welcome change from recent years."

This past summer, 32 years after the end of the Vietnam War, the Vietnamese prime minister, Phan Van Khai, came to New York to ring the opening bell at the New York Stock Exchange.

A public opinion poll conducted in Italy found that 35% of Italians believe that Jews secretly control finance and the media, and more than 11% believe the number of Jews killed in the Holocaust was exaggerated.

I rest my case.

Milt Moskowitz is a journalist and author who has been writing about corporate social responsibility since 1968. He is co-author of the annual *Fortune Magazine* survey, The 100 Best Companies to Work for in America.

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its Texaco subsidiary played in polluting this fragile ecosystem in the 1970s and 1980s.

A class-action lawsuit against Texaco — pending since 1993 — is one of the most significant and closely watched international cases in years, and the reason is this: After years of legal limbo in which venue was the key issue, a breakthrough ruling by a U.S. circuit court judge determined that the case should be heard in Ecuador, *and* that any damages imposed in that country would be honored in the U.S. This unprecedented arrangement promises to force U.S multinationals to think twice about which environmental standards they observe overseas when their host country's laws are lax.

In 1998, the government of Ecuador certified that Texaco had completed remediation at one-third of 627 identified oil pits that remained after the drilling ceased in the 1980s. Texaco spent $40 million completing the agreement. The plaintiffs say Texaco did a shoddy job and that the remaining contamination may be responsible for serious ailments and diseases plaguing the region's people, which have been linked with exposure to hydrocarbons.

The physical dimensions of the case are staggering. Texaco deposited 18.5 billion gallons of petroleum waste and wastewaters into waterways and waste pits, rather than re-injecting it deep into the ground as was standard practice in the U.S. at the time. Nearly 17 million gallons of oil were spilled from the pipeline (1.5 times that of the Exxon *Valdez*). Texaco does not dispute the spillage and dumping claims, but insists that it complied with Ecuador's environmental laws at the time (which barely existed, even on paper). The plaintiffs' lawyers say that Texaco took advantage of Ecuador's inexperience and should have implemented best practices, producing documents showing that Texaco chose not to reinject simply in order to save money.

In the trial's current phase, field samples are being collected from numerous sites to determine whether and how much damage can be traced to Texaco's activities. Twenty-two of 120 scheduled inspections have been completed, and both sides disagree on their implications as passionately as they do on every other question before the court. Chevron insists that Texaco completed its cleanup responsibilities adequately in 1998, and points the finger at other sources for any remaining land and water contamination. Texaco primarily casts doubt upon Petroecuador, its one-time partner in the venture (known as "TexPet"), which later took control of many of the disputed sites

This summer, Chevron launched an ad campaign and web site (www.willyoujoinus.com) focusing on the complexity involved in meeting the world's ever-rising demand for energy. The company acknowledges that oil reserves are getting "harder to reach," and touts the more than $100 million it has invested in renewables, alternative fuels, and efficiency improvements. Since Chevron's renewables investment equals only 0.06 percent of 2004 revenues, however, this will not permit the second largest U.S. oil company to kick the petroleum habit any time soon. In an interview earlier this year in *International Petroleum Finance,* Chevron CEO David O'Reilly said of the United States, "We are importing more and more of our oil and more and more of our natural gas. We can't behave as we have for much of our history when we were self-sufficient in oil and gas," and emphasized the need for strong diplomatic relationships with West Africa, Latin America and other oil-producing regions.

Add to these technical challenges the human and ecological complexities of oil extraction. The world's richest oil and

For more background on the case, see:

"ChevronTexaco Faces Toxic Legacy in Ecuador"

Investing For A Better World archives, December 2003 www.trilliuminvest.com.

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gas fields lie in remote areas, which are also biodiversity hotspots — *and* human hotspots. Indigenous peoples are fighting to keep their ancestral lands intact and developing-nation governments are bargaining harder than ever with foreign oil companies. In August, 420 of Petroecuador's 450 wells were shut down by insurgents who dynamited a pipeline and cut off electric power to most of Petroecuador's facilities.

Responsible corporate practices will increasingly determine which companies succeed in the competition for contracts. For this reason, corporations and their critics have been following the trial very closely as a possible bellwether.

As the lawsuit has dragged on, there have been several interesting developments:

Arbitration. Chevron has asked a U.S.-based arbitration panel to transfer any liability for further cleanup costs to Petroecuador. The Ecuadorian government obtained a temporary injunction blocking Chevron's request, and a New York judge is hearing testimony to determine whether the arbitration should proceed. It may be months before the matter is decided.

An unplayed card? This past spring, Amazon Watch led a second investor delegation to Ecuador. While visiting with the Ecuadorian attorney general, he casually dropped a bombshell on them: in his belief, he said, the remediation agreement between Texaco and Ecuador had been executed "in violation of the Constitution." An aide explained that because the required signature from the country's Controller General did not appear anywhere in the agreement. As the government is not party to the lawsuit, the validity of the agreement is irrelevant to the case – making the AG office's admissions to the investor delegation all the more intriguing. Speaking to SocialFunds.com, a Chevron spokesperson cast doubt on the legal validity of the AG's interpretation and whether statements had been made at all.

Scientists cry foul. In the Spring edition of the *International Journal of Occupational and Environmental Health,* 61 physicians and public health researchers from around the world signed a statement excoriating Chevron for buying full-page ads in Ecuador's major newspapers, in which paid scientific consultants cast doubts on studies linking oil development to adverse health effects in the Amazon. The scientists declared the ad "a blatant effort by the company to sway public opinion as the legal case was being heard," in which the consultants went to "great pains to find flaws....[some of which] are not even themselves of particular concern" within the field of epidemiology. The proper place to air such criticisms, wrote the scientists, is in the research literature, where the critiques can be properly debated.

Growing investor awareness. While support for the Trillium-sponsored shareholder resolution on Ecuador remained flat at 9 percent between 2004 and 2005, the risk to the Chevron brand did not escape the notice of California State Controller Steve Westly, a board member of the massive California Public Employees Retirement System (CalPERS). This spring, Westly declared his support for the resolution and called upon its board to undertake an independent review of the situation. The New York Common-Retirement Fund was a cosponsor of last year's resolution.

Ecuador was a dominant issue at Chevron's annual meeting in April and it will continue to haunt Chevron until the damage is addressed adequately, with or without a court edict. In our view, gambling on full exoneration by the Ecuadorian courts sends the wrong message at the wrong time to future host countries of the company's operations.

[1]For comparison's sake, we also enjoyed a day and a half of relaxation inside a national rainforest reserve Yasuní National Park, where this intrepid reporter was pleased to survive encounters with languid alligators, a napping boa constrictor and a grasshopper-like thing in the shower the size of an iPod (later seized excitedly by fellow lodgers, a small group of British entomologists who joyously declared it to be exactly what they were looking for). Despite these harrowing distractions, however, the stark and depressing contrast between undeveloped and developed rainforest could not fail to impress. Some habitats are simply too fragile to drill in – period.

A Capitalist Manifesto

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'90s he made his fortune developing technology start-ups, a talent he now plies at his venture firm in Silicon Valley. An avid capitalist, Rappaport is also an ardent progressive and world-class philanthropist. His New Politics Institute (www.ndnpac.org/npi/) is a think tank devoted to charting a new course for progressive politics in the 21st century. Putting his money where his mouth is, Rappaport was the third largest contributor to Democratic candidates in the 2004 elections (*that's* got to hurt).

Despite – or perhaps because of – that epic loss, Rappaport is convinced he's seen the future of progressive politics in America, if there is to be one. And that future is in business.

Rappaport is convinced he's seen the future of progressive politics in America, if there is to be one. And that future is in business.

Conservatives have done a masterful job, Rappaport argues, of creating a mutually supportive relationship among their commercial, ideological and political interests. Through their ownership of mainstream media outlets like Fox News, the *Washington Times*, the *New York Post* and a metastatic proliferation of talk show franchises, the Right has both monetized its political base and energized it ideologically. In this reciprocal action of profitable media and ideological message Rappaport sees a powerful engine for political leverage.

It would be a mistake, however, to limit the scope of Rappaport's insight to the political dimension of media. His most fundamental point, which was the bottom-line "bullet" in his presentation, is that "we must realize commercial success to create social change."

This is a deceptively simple prescription. It's also a more urgent expression of the guiding concept of socially responsible investing in general. SRI has always been based on the radical notion that the profit-driven perspective of commerce and the value-driven perspective of non-profits *can be* successfully focused into a single, stereoscopic view. Rappaport's point is that they also *must be* if the progressive political project is to be salvaged.

This is no mean feat. For it requires the progressive community to relinquish one of its most firmly held prejudices: namely, that profits are the enemy of progress, and *vice versa*. This entrenched if largely unexamined view pits social progress and financial profit in a zero-sum contest where gains for one are losses for the other. This means, of course, that you can't pursue both. You have to choose.

And so the entire realm of commerce is cast as inherently irremediable except from the outside – i.e., by the coercive forces of government or the gentler meliorations of non-profits. This stark, manichean outlook has led progressives to position themselves largely on the sidelines of the economy, ceding its tremendous energies to the Right while looking solely to government and noncommercial entities for solutions.

In his book, *Achieving Our Country*, the philosopher Richard Rorty traces this marginalization of the American Left to its shift in focus from the economic issues of the 1930s to the cultural concerns of the 1960s. While Rorty's analysis has been reviled by many progressives, it's hard to fault his conclusion that the Left in American politics has become "spectatorial and retrospective," a form of nostalgia.

Last October a now-famous article, "The Death of Environmentalism," levied a similar charge against the world of institutional greens (www.grist.org/news/maindish/2005/01/13/doe-reprint/). Authored by career environmentalists Michael Shellenberger and Ted Norhaus, the article accuses the environmental movement of acute nostalgia and a cavalier disregard for the economic con-

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authors write. "The problem is that all liberal politics have become special interests."

These are harsh words that no doubt overstate the case. But when you look at the near-total domination of electoral politics in the U.S. by the Right, it's hard not to wonder if these green Jeremiahs aren't closer to the truth than we'd like to admit.

Shellenberger and Norhaus hold up a "New Apollo Project" as a model for a reconsidered environmentalism (www.apolloalliance.org). Inspired by President Kennedy's Apollo Project to put a man on the Moon, the Apollo Alliance seeks to marshal the nation's resources to achieve energy independence. A public/private plan for long-term investment in clean energy and efficient transportation, Apollo takes a new tack on environmental goals. From the Apollo Alliance website: "What inspires our mission is the conviction that working Americans do not have to choose between the economic well-being of their families, the environmental health of their communities, and the security of their country."

Apart from the specific merits of Apollo, Shellenberger and Norhaus think it offers a valuable new template for imagining environmental problems and their solutions. Rather than viewing the environment, jobs and national security as separate or even competing interests, Apollo casts them as mutually supportive elements in a web of desirable outcomes. In a word, it offers a progressive vision of a future that works.

This is what Andy Rappaport understands. So long as progressive concerns compete with economic prospects they will come out the loser. The challenge for progressives then is to re-imagine commerce in our own image, rather than disdain it. As my colleague Adam Seitchik writes in his column, progressives have to identify opportunities for "good growth." We have to learn that profits and progress can be allies, not only enemies.

The secondary gain from this joining of profits and progress is political clout. If you set a larger table, more people will join you. And when more people join you, political power follows. Until progressives can imagine a world where our social and environmental concerns create rather than limit economic opportunity, we will lack the political power necessary to fully achieve our goals.

Fortunately this re-imagination is moving forward under many banners. "Social entrepreneurship" and "natural capitalism" are two of the more recent expressions of the project. And, of course, "socially responsible investing" has been re-visioning business for over two decades. But the central insight shared by all these approaches is expressed most elegantly in the concept of sustainability.

Economic vitality, environmental responsibility and social equity are three reciprocally linked aspects of a truly sustainable society. They are separate only to the shortsighted. And they are competing only in the short-term. The challenge for progressives is to imagine a future where this is true.

The challenge for progressives is to re-imagine commerce in our own image, rather than disdain it.

Responding to Hurricane Katrina

What Trillium and its Portfolio Companies are Doing

By Lisa Leff and Steve Lippman

We are deeply saddened by the devastation of Hurricane Katrina. Our hearts go out to all those who are suffering such tremendous loss of home, livelihood, community and loved ones. Trillium Asset Management joins those supporting relief and recovery efforts, and we are committed to supporting redevelopment efforts in the region over the long-term. As an immediate response, our company and our employees have chosen to donate funds to Second Harvest, which is providing food to hurricane victims. We are also following the lead of our friends at the Calvert Foundation in supporting two community development organizations in the affected Gulf Coast region: the Southern Mutual Help Association in New Iberia, LA, which is focused on helping rural communities in Louisiana and now specifically on those rural residents affected/devastated by Katrina, and the Enterprise Corporation of the Delta in Jackson, MS, whose overall mission is to help distressed communities throughout the mid-south, and which has set up a special fund to provide food, shelter, and clothing for those in Louisiana and Mississippi who were displaced by the storm.

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Southern Mutual Help Association
3602 Old Jeanerette Rd.
New Iberia, LA 70563
(337) 367-3277
www.southernmutualhelp.org

Enterprise Corporation of the Delta
ECD Hurricane Katrina Relief Fund
P.O. Box 22886
Jackson, MS 39225-2886
(601) 944-4175
www.ecd.org

Just as Trillium Asset Management is working to do what we can as a company to respond to this disaster, we're pleased that many of the companies we invest in are also displaying leadership. Among a few selected highlights, companies we invest in are helping hurricane relief efforts in the following ways.

Cash Donations: Many companies we invest in are making corporate contributions to the Red Cross, Second Harvest, and other organizations engaged in hurricane relief efforts. Many are also encouraging their employees and customers to donate and have established programs to match these donations. In the first week after Katrina struck, **Lowe's** donated $2 million in corporate funds and collected another $3 million in donations from its customers. **Johnson & Johnson** announced an initial $5 million cash contribution to the Red Cross and other organizations for relief efforts. **Target** is contributing $1.5 million to the Red Cross.

Donations of products, services, expertise, and other help: **Procter & Gamble** has donated Pampers and cleaning wipes and **PepsiCo** and **Danone** have donated bottled water and food for distribution to hurricane survivors. Cleaning company **Ecolab** has donated disinfection and other cleaning products and is making staff with expertise in disease prevention available to assist relief organizations. **Cisco** is deploying employee volunteers and Mobile Communication Kits to provide wireless phone and Internet access. The company is also working with the non-profit group Community Voicemail to provide those displaced by the hurricane with voicemail boxes. Target, Lowe's and other companies have also provided access to distribution centers and logistics expertise to government agencies and non-profits to help move supplies to affected areas.

Providing support for their affected employees: We're also pleased that companies we're invested in are among those demonstrating leadership in addressing needs of their employees affected by Hurricane Katrina. **BellSouth**, has approximately 6,500 employees in areas hardest hit by Katrina and has set up six of its own "tent cities" in Louisiana and Mississippi to provide BellSouth employees and their families with necessities such as food, shelter, clothing, financial support and employee assistance programs. The cities will also serve as deployment areas for BellSouth technicians and engineers that will be working to restore service for customers. **Starbucks** announced it will continue to pay employees who worked at locations closed by the storm damage; **Pfizer** has announced the same policy and **Best Buy** will pay employees at stores closed by the hurricane for at least the next month. Procter & Gamble is offering interest-free loans to affected employees, as well as creating an Employee Emergency Relief fund with both corporate and employee contributions to give grants to affected employees.

Oikocredit

Overview

Oikocredit: Ecumenical Development Cooperative Society is a worldwide cooperative society dedicated to promoting social and economic justice by challenging people, churches, nonprofit organizations, and others to share their resources through socially responsible investments and by empowering disadvantaged people with credit.

Program

Oikocredit's loans are channeled through a network of regional offices spread over Latin America, Asia, Africa, Central and Eastern Europe and managed by local professionals. Oikocredit loans are directed at cooperatives, microfinance institutions, and trade associations. Loans are made based on specific criteria:

- The enterprise must benefit groups of disadvantaged people and contribute to the social and economic advancement of the community.
- The cooperative structure is favored where applicable.
- Preference is given to enterprises in which women are direct beneficiaries.
- The enterprise must be economically viable, with appropriate management and technical leadership.
- There must be a clear need for foreign investment.

Client Population

Oikocredit serves rural, poor communities in 65 countries on five continents. Oikocredit's division of projects by region is as follows: South America (38%), Africa (19%), Central America and the Caribbean (17%), Central and Eastern Europe (14%), Asia (10%), Other (2%).

Impact

With 398 active lending projects as of December 31, 2004, Oikocredit is one of the largest financiers of the microfinance sector worldwide. Oikocredit borrowers are small and medium-sized enterprises involved in a wide variety of industries, including many forms of agriculture and animal husbandry, fishing, crafts and artisanry, textiles, mining and transportation. They also finance microfinance institutions that split up their loans into thousands of small loans to very poor people.

Impact Story

Opportunity Microcredit Romania (OMRO) started lending activities in December 2000 in the heart of Transylvania as a pioneer in the field of microlending in Romania. Oikocredit has disbursed two loans totaling 500,000 Euros to OMRO since 2002. Those loans were used to expand OMRO's loan portfolio and to open two branches.

OMRO now lends to about 960 clients including Juliana Lazco who owns a small business producing sports bags. When her husband left her, he also left numerous debts, almost causing the business to go bankrupt. With a loan for working capital, Juliana knew she could save the business. As no one would lend her the money she feared that she would no longer be able to support herself and her two children.

OMRO believed in Juliana's capacity to run the business. Juliana received a loan of 2,000 Euros, which enabled her to purchase raw materials and pay the salaries of her two employees. She was soon able to hire eight more employees and repay her loan with the income she generated. "OMRO means more to me than financial help alone," Juliana says. "The staff listened to my problems and provided me with good advice. Without their support, I would probably have failed."

Investing with Oikocredit

On behalf of our clients, TAMC has been investing in Oikocredit through Oikocredit USA for over ten years. TAMC makes investments in Oikocredit USA of at least $5,000 for a minimum term of two years.

Community Investment Profile™ *

Randy Rice

Geographic Impact:

International

Lending Focus:

Community Development: 65%
Microlending: 30%
Housing Lending: 5%

Financial Indicators

Finances as of 12/31/04 (in 000's, EU)

Current Assets:	20,528
L/T Assets	224,777
Total Assets	**245,305**
Issued Capital	203,520
General Reserve	6,458
Other Reserves	2,061
Undistributed Profit	6,687
Gen.Prov. for Loan Losses	3,911
Provision for Taxes	1,221
Current Liabilities	8,714
L/T Liabilities	12,733
Total Liabilities	**245,305**

***Based upon the Community Investment Profiles information service of Calvert Social Investment Foundation (not meant as investment advice).**

A Race to the Top? Banks Compete to Adopt Environmental Policies

Shareholder Activism

Steve Lippman

Critics of globalization often point out the dangers of a "race to the bottom," as companies and governments lower their environmental and social standards to stay competitive globally. Grocery chains try to cut worker health benefits to stay competitive with **Wal-Mart**. Companies outsource more and more production overseas until it seems that everything bears the label "Made in China." Movies, TVs, and music rely on violence and sex to appeal to a lowest common denominator global mass market.

It's true that in many ways, the global marketplace is eroding long-standing social programs and environmental protections. Yet there are some hopeful indications that the racecourse may run both directions. Our advocacy in the financial sector provides a welcome example of a "race to the top" emerging, as banks across the globe begin adopting best practice standards to reduce the harmful environmental and social impacts of their lending.

In the last month, I've met with senior executives at four of the largest U.S. banks about environmental and social issues associated with their lending. Their attitudes have shifted dramatically from five years ago, when Trillium Asset Management and other shareholder groups began raising these issues. At that time, few if any banks admitted they should be held accountable for the impacts of their investment decisions. A small number had environmental programs, but these were largely focused on paper recycling and energy conservation within the bank, and ignored the far greater impacts of the funding they were providing for large dams, mines, and oil drilling projects.

In the space of a few short years, banks have taken significantly more responsibility for their financing decisions. Over the last two years, 31 banks from the U.S., Europe, Japan, and Brazil have committed to the Equator Principles, a set of voluntary standards for banks to ensure that the large infrastructure projects they finance are subject to environmental reviews and have environmental management plans in place. The banks involved represent 80 percent of total project finance lending globally. **Citigroup**, **J.P. Morgan**, **Bank of America**, and **Wells Fargo** have announced new initiatives to increase their investments in renewable energy and environmental technologies. All these banks have pledged to reduce their own energy use, and Bank of America and J.P. Morgan have also pledged to work to encourage some of their large industrial customers to cut their own energy use and greenhouse gas emissions. European banks like **ABN AMRO** and **HSBC** have broken new ground by establishing their own environmental standards for financial clients in sensitive industries like forestry and the chemical sector. Among the largest global banks, those that aren't working to address environmental issues are becoming the exception rather than the rule. And some of those are now planning to announce their own environmental initiatives soon to catch up with the pack.

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This relatively quick turnaround in the conservative, slow-to-change banking industry reflects hard work and persistent negotiations by a coalition of shareholder groups that Trillium Asset Management helped organize, effective campaigning by groups like Rainforest Action Network, and leadership and vision from some key leaders within the banking industry. It also reflects the tendency for large companies facing tough questions to play "follow the leader" and quickly adopt good practices of their competitors. We saw similar developments after **Home Depot** and **Staples** adopted endangered forest policies that soon became standard for their industry sectors.

Of course, making these pledges is one thing, and effectively implementing them is another. There's still much work to be done with banks to make sure they are doing what they've promised. But we hope that as companies race for the top, they'll find it

Chalmette Then and Now

Shareholder Activism

Shelley Alpern

"I saw a couple of dead rats, and if it's killing rats, it's bad."

***—Jason Davis of New Orleans, on the floodwaters.* (New York Times, September 12, 2005)**

Believe it or not, I was planning to write about Chalmette, Louisiana, in this space well before Hurricane Katrina. Recently described in the *New York Times* as "a mostly white, working-class community where two oil refineries, a natural-gas processing plant and some fisheries make up most of the local economy," most of Chalmette's 68,000 residents are now "scattered to who knows where."

I had been trying to arrange a visit with the managers of Chalmette Refining LLC, a joint venture between **ExxonMobil** and the state oil company of Venezuela. Trillium and a number of religious shareholders affiliated with the Interfaith Center for Corporate Responsibility had been corresponding with the refinery's managers since January over issues raised in a community lawsuit arising from the plant's high toxic air emissions. Unsatisfied by the response to our questions, we finally requested a face-to-face meeting.

Now it's anyone's guess when Chalmette will return to "normal." (Normal, for the refinery, was being the #3 carcinogen emitter in the U.S., #5 in the release of developmental toxins, and #2 in the releases of reproductive toxins.) The refinery's managers are eager to restart operations, which they describe as contributing to the disrupted national energy supply, but which one activist read as proof that "they don't give a DAMN about people - they will crank it up and run as quickly as possible, especially without others around to complain or report." Now the Bush Administration is loosening Clean Air Act regulations to speed the Gulf's economic recovery.

Frighteningly toxic floodwaters have displaced and dispersed thousands of tons of heavy metals, hydrocarbons and other industrial waste in addition to sewage, bacterial contaminants and decaying bodies. After the pumping, the waters will eventually make their way to the Gulf of Mexico. Some "dead zones" have already been identified.

The extraordinary concentration of oil and petrochemical facilities makes this region one of the worst places in the world for flooding. Hugh Kaufman, a senior policy analyst at the Environmental Protection Agency, architect of the Superfund legislation, and a renowned whistleblower, called the situation "infinitely worse than Love Canal" and characterized New Orleans itself as the "largest Superfund site in U.S. history." "This is the worst case," he said.[1] Why is it that we concentrate refineries like that in a perpetual hurricane zone anyway?

The verdict on all 140 chemical plants operating between New Orleans and Baton Rouge is not yet in. We do know that two hazardous waste facilities sustained flooding, and ruptured oil tanks may have dumped as much as 3.7 million barrels of crude into the Lower Mississippi River. Initial testing has revealed high levels of *E. coli* and lead. Government officials are avoiding characterizations of the waters as "toxic" (relying on "bacterial" or even "septic," presumably preferred by focus groups), even as an advisory warns those still in the city to not even touch the water that is everywhere around them (good luck with that), and scrubbing them with bleach before they can reach for that first bottle of water.

On NPR, a Louisiana Department of Environmental Quality official carefully dodged the question of whether this disaster was on the scale of Love Canal and dismissed as unhelpful the observation that the oil and gas industry's environmental agenda dominates Louisianan politics.

Wearing my shareholder hat, I can't help but wonder if the petrochemical industry will be sued for wastewater cleanup. The linkage is well known between the political contributions of the oil and gas industry and the legislative agendas of their recipients. Maybe this time the contaminants lapping up against homes in the more prosperous zip codes will finally open a few eyes to the fact that we all live downstream eventually, not just the folks in Chalmette.

[1] "Extraordinary Problems, Difficult Solutions," *Washington Post*, September 1, 2005, and NPR's *On Point*, September 8, 2005.

Strategic Outlook: Good versus Bad Growth

By Adam Seitchik, CFA

All too often there is dissonance between our roles as workers, family members and owners of capital on the one hand, and our responsibilities as global citizens on the other. This tension comes to a head around the issue of economic growth. Continuous growth maintains employment levels and creates jobs for new entrants into the work force. Growth is the rising tide that can lift all boats, avoiding painful tradeoffs. Growth puts money in investors' pockets and raises the overall standard of living.

Yet it is obvious to many of those that depend on growth for employment, wages, and investment income that the status quo is unsustainable. As China and India take baby steps toward a Western standard of living, energy prices are going through the roof and greenhouse gas emissions are rising every year. Beyond environmental risks, the constant drumbeat of economic growth crowds out other goods such as leisure, civic participation, personal development, health, sleep, hobbies and time with friends and family.

Some of the problems with growth are definitional. We manage what we measure, and GDP skews perceptions and policies by lumping together both good and bad growth. In order to isolate the positive side of growth, the non-profit group Redefining Progress estimates a "Genuine Progress Indicator," or GPI. This measure adjusts personal consumption expenditures for income inequality, and then adds or subtracts categories of spending based on their impact on the nation's well being, broadly defined. "Defensive household expenditures" in response to a declining quality of life are subtracted, such as money spent on pollution abatement and security systems, and adjustments are made for the depreciation of environmental assets. Time spent on parenting and volunteer work is added back in, as are the services provided by cars, refrigerators and other consumer durables previously manufactured. Not surprisingly, the GPI is rising much more slowly than the "all growth is good growth" GDP. We can only meaningfully accelerate *sustainable* growth if we develop widely accepted metrics that accurately track social and economic progress.

No doubt, many people in developing nations need to consume more and their economies must grow. All the more reason for us to rapidly change our measures of social success — to develop indicators that reward good growth while inhibiting harmful growth. Rather than accepting unhealthy growth as a necessary evil, investors can choose to put their money toward products and providers that support genuine progress and avoid those that generate high social costs. Since sustainable efficiency makes practical business sense, good growth can underwrite the double bottom line of financial and social return. A recent study evaluated the investment returns of companies based on their "eco-efficiency," defined as the ratio of the value a company adds with their products and services to the waste they generate. While industries with heavy environmental impact such as oil, gas, chemicals and utilities scored badly in general, the authors identified the best-of-sector performers in each part of the economy. The "eco-efficient" portfolio created substantially better investment returns than the companies with less eco-efficiency.[1]

Growth can be sustainable, healthy and profitable, or it can be dangerous, destructive and self-defeating. Getting the right kind of growth requires good metrics, as well as purposeful consistency in our varied roles as consumers, workers, employers, citizens and investors.

[1] Jeroen Derwall, et al., "The Eco-Efficiency Premium Puzzle," *Financial Analysts Journal*, March/April 2005, pp. 51-63.

***Dear Reader** (continued)*

take.

In the huge main tent we watched triumphant film clips of the Berlin Wall coming down, but later I listened to Hector Berthier, a specialist in urban problems from the University of Mexico as he described the steel wall being erected between Mexico and the United States – the antithesis of the collaborative spirit fostered in Tallberg. Hector's story and those of others were reminders that we have much to do.

The last evening of the forum an amazing concert was held in Dalhalla — an old limestone quarry that's been turned into a 4,000-seat amphitheater — the premier open-air stage in Scandinavia, celebrated for its magnificent acoustics. The theater is set deep in the woods in the Dalarna region of central Sweden in a giant crater — 400 meters long, 175 meters wide and 60 meters deep. The name, "Dalhalla," is a reference to Valhalla, the "Heaven of Heroes" in Nordic mythology (http://dalhalla.se/english/index.shtml). The concert ended well after midnight with choreographed fireworks imposed upon the Bolshoi Theatre Symphony and Chorus, 200 people strong.

On August 4, Jesse and I boarded a bus – the first leg of the long trip back home after five days of living and working with 450 delegates to the 25th Tallberg Forum. As I rode home, the quiet conversations in English, Chinese, Swedish and other languages I could not decipher formed a background "music." There are some committed and smart people all over the world who are working very hard to find ways to live together. I know I share with those delegates the hope that the spirit of Tallberg endures and grows.

Sincerely,

Joan L. Bavaria, President
Trillium Asset Management Corporation