

III. Report with Recommendation

(Item # to be inserted by OGA)

The General Assembly Mission Council, upon recommendation from Mission Responsibility Through Investment, recommends that the 220th General Assembly (2012) do the following:

1. Receive the report of the Committee on Mission Responsibility Through Investment (MRTI) of its engagement with corporations involved in Israel, Gaza, East Jerusalem, and the West Bank.
2. Renew the call of previous General Assemblies to all corporations doing business in the region to confine their business activity solely to peaceful pursuits, and refrain from allowing their products or services to support or facilitate violent acts by Israelis or Palestinians against innocent civilians, construction and maintenance of settlements or Israeli-only roads in East Jerusalem and the West Bank, the Israeli military occupation of Palestinian territory, and construction of the Separation Barrier as it extends beyond the 1967 “Green Line” into Palestinian territories.
3. Continue to urge all corporations doing business in the region to seek proactive ways to promote respect for human rights, peacebuilding, and equal employment opportunity.
4. Direct the General Assembly Mission Council, through its Committee on Mission Responsibility Through Investment (MRTI), to conclude the corporate engagement process with ITT, since the company now appears on the General Assembly divestment list as a large military contractor; and with Motorola Mobility, as it appears that its business no longer includes profiting from non-peaceful pursuits.
5. Direct the General Assembly Mission Council, through its Committee on Mission Responsibility Through Investment (MRTI), to continue the corporate engagement process with United Technologies, together with ecumenical partners, as part of MRTI’s regular work plan, in accordance with the previously identified positions and priorities of the General Assembly, and subject to ordinary reporting to the next General Assembly.
6. Approve the following resolution:

The Committee on Mission Responsibility Through Investment has been seeking to engage companies profiting from non-peaceful pursuits in Israel-Palestine since the directive of the 216th General Assembly (2004) and the reaffirmations and actions of each subsequent Assembly. This process of engagement has, in the case of three companies, produced no substantive change and, in the judgment of this Assembly, is likely not to do so in the future. Under the church’s regular process of corporate engagement (approved by the 116th General Assembly of the PCUS (1976) and reaffirmed as policy after reunion), the final step is to recommend divestment from companies where engagement is not resulting in any change. Therefore, in accordance with the actions of prior Assemblies, we direct that Caterpillar, Hewlett-Packard, and Motorola Solutions be placed on the General Assembly Divestment List until such time as they have ceased profiting from non-peaceful pursuits in Israel-Palestine, as defined by prior General Assembly actions.

Rationale:

These recommendations are in response to the following referrals:

2008 Referral: Alternate Resolution to Item 11-01. On Peace and Justice in Palestine and Israel, Recommendation 6. Instruct the Committee on Mission Responsibility Through Investment (MRTI) to Report Regularly to the General Assembly Mission Council on Its Communication and the Compliance, or Lack Thereof, by Caterpillar, Motorola, and Other Corporations Involved with Regard to General Assembly Guidelines and Concerns for Justice and Human Rights—From the 218th General Assembly (2008) (Minutes, 2008, Part I, pp. 45, 46, 1137–39).

2008 Referral: Item 11-27. Report of the Committee on Mission Responsibility Through Investment of Its Engagement with Corporations Involved in Israel, Gaza, East Jerusalem, and the West Bank. Recommendation 4.

GENERAL ASSEMBLY MISSION COUNCIL

February 15-16, 2012

Compassion, Peace & Justice Ministry Area

Item B.102

Direct the General Assembly Mission Council, Through Its Committee on Mission Responsibility Through Investment, to Continue the Corporate Engagement Process, and Report on Its Status with Any Recommendations to the 219th General Assembly (2010)—From the Committee on Mission Responsibility Through Investment (Minutes, 2008, Part I, pp. 46, 47, 1223–25).

2010 Referral: Item 14-03. MRTI Report of Its Engagement with Corporations Involved in Israel, Gaza, East Jerusalem, and the West Bank. Recommendation 3. Direct the General Assembly Mission Council, Through Its Committee on Mission Responsibility Through Investment (MRTI), to Continue the Corporate Engagement Process with Identified Companies Doing Business in the Region, as Follows: (a) That the Engagement with Motorola, ITT, United Technologies, and Hewlett-Packard Be Continued, Together with Ecumenical Partners, as Part of MRTI's Regular Work Plan, in Accordance with the Previously Identified Positions and Priorities of the General Assembly, and Subject to Ordinary Reporting to Each General Assembly and Report to the 220th General Assembly (2012) on Its Work Including Appropriate Recommendations (Minutes, 2010, Part I, pp. 50, 52, 985–93).

Historical Background: 2004-2006

The 2004 General Assembly instructed the Committee on Mission Responsibility Through Investment (MRTI) to begin a process of “phased, selective divestment” related to corporations doing business in Israel. Following the assembly, MRTI initiated a process consistent with General Assembly (GA) policy. First, MRTI reviewed the 1984 GA policy on the use of divestment as a strategy for socially responsible investing, and the criteria for consideration of any recommendation for divestment. Also reviewed was the 1985 GA policy describing the process of phased, selective divestment.

In November 2004, at its first meeting following the General Assembly, MRTI identified GA policy positions on the obstacles to a just peace in Israel and Palestine. These included the ongoing violence perpetrated by Israelis and Palestinians against innocent people; the Israeli occupation of the West Bank, Gaza and East Jerusalem in violation of the Fourth Geneva Convention and United Nations resolutions; the presence of Israeli settlements in the occupied territories; the construction of the separation barrier; and the need for a viable Palestinian economy to enhance the possibility of a successful Palestinian state. These GA policies were incorporated into criteria to focus the research into corporations that may be profiting from involvement in any of the obstacles to a just peace. MRTI also adopted a clear statement on the process of progressive engagement of any such companies that affirmed the cycle of dialogue, shareholder resolutions and proxy voting and more dialogue before MRTI would be in any position to consider recommending possible divestment action to the General Assembly. This was reported to the General Assembly Mission Council (GAMC) in 2005, and publicized widely through the PCUSA web site.

MRTI conducted research to determine which corporations, if any, met the criteria. In August 2005, MRTI reviewed the research to select from among the identified companies an initial group to engage. These were Caterpillar, Citigroup, ITT Industries, Motorola and United Technologies. MRTI also maintained contact with various ecumenical partners that were committed to engaging companies on the issue of their involvement in Israel and Palestine. These included the Episcopal Church, the Evangelical Lutheran Church in America, the United Methodist Church, the United Church of Christ, and several Roman Catholic religious orders.

MRTI began the process of contacting and meeting with the five companies (meetings were held with Citigroup on February 2, 2006, ITT Industries on February 3, 2006 and Motorola on November 10, 2005), communication with the presbyteries where the companies are headquartered, and continued interpretation of the process to the church and the general public. MRTI also worked ecumenically on strategies for pro-active investment in Israel and Palestine by churches and corporations in consultation with Mr. James Wolfensohn, Special Envoy for the Quartet (the United States, the European Union, the United Kingdom and Russia), whose charge included helping to rebuild the Palestinian economy.

GENERAL ASSEMBLY MISSION COUNCIL

February 15-16, 2012

Compassion, Peace & Justice Ministry Area

Item B.102

2006-2008:

In 2006, the General Assembly responded to numerous overtures regarding corporate engagement on Israel-Palestine issues, and adopted a statement urging that "... financial investments of the Presbyterian Church (U.S.A.), as they pertain to Israel, Gaza, East Jerusalem, and the West Bank, be invested in only peaceful pursuits, and affirm that the customary corporate engagement process of the Committee on Mission Responsibility Through Investment of our denomination is the proper vehicle for achieving this goal." [Minutes, 217th General Assembly (2006), p. 944.]

ECUMENICAL ACTIVITIES

MRTI continued its work with considerable time devoted to fostering ecumenical cooperation on engagement. To that end, an informal table called the Ecumenical Action Group: Investment for a Just Peace in Israel-Palestine (EAG) was created. As a result, corporate dialogues were expanded to include participation by representatives of other Protestant denominations and Roman Catholic religious orders. These have included the Episcopal Church, Evangelical Lutheran Church in America, United Church of Christ, United Methodist Church (General Board of Global Ministries, General Board of Church and Society, General Board of Pensions and Benefits and the New England Conference), United Church of Canada, Mercy Asset Management, the Passionists, Ursuline Sisters, and the Dominican Sisters. Also participating has been KAIROS Canada and the World Council of Churches.

In October 2007, the World Council of Churches convened a meeting of U.S., Canadian and European churches working on corporate engagement. As a result, there has been increased sharing of research, and broader participation in dialogues and shareholder resolutions. U.S. and Canadian churches continue to cooperate in the EAG.

In Europe, churches in the Netherlands have reported on engagements with Heineken. The Dutch company owned 40 percent of Tempo Beer Industry whose Israeli subsidiary subsequently moved its facilities out of the Barkan Industrial Zone in the occupied West Bank, and back into Israel proper. Swedish churches were instrumental in convincing Assa Abloy, a locksmithing company, to move its facility out of the Barkan settlement in the West Bank to the other side of the Green Line. This ecumenical cooperation has helped identify several European and other companies with extensive ties to the Occupation including Veolia, AIG, Ahava and Alstom.

CORPORATE ENGAGEMENT

During 2006 to 2008, dialogues were held with the five companies (described below). These dialogues were the first step of the corporate engagement mandated by the 216th and 217th General Assemblies. Corporate engagement is a deliberate process outlined in the basic policies of the General Assembly on socially responsible investment, dating to 1971, 1976 and 1984. Elements of this process include research, correspondence, dialogue, proxy voting, and the possible filing of shareholder resolutions. Only after all other options fail to achieve the desired results, the committee on MRTI, through the GAMC, may recommend to the GA divestment from particular corporations.

Citigroup: The Citigroup dialogue of February 2, 2006, was highly productive. The primary concern with Citigroup involved an allegation that Citigroup had provided insufficient controls to prevent the transfer of funds to Palestinian organizations supporting violence. In conversation with MRTI representatives, the company provided assurance that the bank had robust controls in place to monitor and prevent questionable money transfers. There have been no subsequent reports alleging inappropriate funds transfers by Citigroup. In addition, Citigroup expressed willingness to assist the religious community with exploring how to increase microcredit lending in the region to address the

lack of adequate investment opportunities in Palestine. Therefore, in June 2007, MRTI removed Citigroup from its focus list of companies for corporate engagement.

Motorola: The dialogue on June 18, 2007, focused on human rights standards and conventions, and explored the company's involvement in the occupation through sales of military communications products, fuses for bombs, security technology for Jewish Israeli settlements on the West Bank, and operating a cell phone business in the West Bank. Motorola denied that any of its activities implicate it in the Israeli occupation, or raise human rights concerns. A shareholder resolution addressing broader human rights issues was filed by several religious shareholders in the

GENERAL ASSEMBLY MISSION COUNCIL

February 15-16, 2012

Compassion, Peace & Justice Ministry Area

Item B.102

fall of 2007. In response, Motorola requested a follow-up meeting, which occurred on January 7, 2008. The company indicated its intent to review and amend its policies but would not specify the particular changes under consideration and made clear that its human rights policies would not be applied to their business relationships with foreign governments. This lack of clarity and limited scope led the religious investors, including MRTI representatives, to decline to withdraw their resolution, which went to a vote at the annual shareholders meeting on May 5, 2008. It received over 12 percent of the shareholder vote, enough to be resubmitted in 2009. Although the conversation with Motorola has been less productive than hoped, religious shareholders agree that more in-depth dialogue on corporate social responsibility and human rights might potentially create a more productive arena for analyzing the Israel-Palestine conflict and other world situations and ought to be continued.

Caterpillar: The shareholder resolution at Caterpillar was submitted in the fall of 2007 for consideration at the 2008 annual meeting. It requested the Board of Directors to review the company's human rights policies and amend them where applicable. Caterpillar also received a resolution on foreign military sales from a coalition of shareholders including several Roman Catholic religious orders and Jewish Voice for Peace.

There were two developments at Caterpillar. First, several religious shareholders sent a letter to the company requesting a meeting to discuss non-military sales of company products in Israel and Palestine. The company replied by letter on December 13, 2007. While not responding to the request for a meeting, the company said for the first time that "As an industry leader, Caterpillar advocates responsible use of our equipment. We expect our customers to use the products they purchase from us in environmentally responsible ways and consistent with human rights and requirements of international humanitarian law."

Secondly, the resolution submitted by the Presbyterian Church (USA) and the Dominican Sisters produced a dialogue on January 30, 2008. Caterpillar representatives reviewed their Worldwide Code of Business Conduct. Discussion focused on the human rights dimensions of the Code, what it included or omitted, and who beyond the company's employees it affected or not. Religious shareholders, including MRTI representatives, raised the need to address the end-use of company products, particularly in countries with human rights challenges. After further discussions, the shareholders agreed to withdraw the resolution from consideration at the 2008 annual meeting in exchange for an ecumenical dialogue with the company on human rights and the end use of Caterpillar products.

The dialogue was held in July 18, 2008 on the subject of the end-use of Caterpillar products in light of the company's statement on its expectations for the use of its products. The dialogue included the Episcopal Church, Mercy Asset Management, United Church of Christ, Evangelical Lutheran Church in America, and three Boards of the United Methodist Church. The discussion focused on human rights and humanitarian law and conventions, and the company's expectation that its customers would abide by these standards. The company considers its dealers as its customers. While it meets with its dealers regularly, and would terminate this relationship if it learned that a dealer was offering bribes, it has no mechanism for enforcement of its human rights expectations. The church representatives also requested information from Caterpillar on the customers of its Israeli dealer, particularly major construction companies that are involved in building the illegal settlements and roads which Palestinians are prohibited from using in the Occupied Territories, the construction of the separation barrier on Palestinian land and the demolition of Palestinian homes.

ITT Industries: The resolution at ITT Industries requested a report on foreign military sales. On March 4, 2008, religious shareholders, including MRTI representatives, met with ITT Industries. The company wanted to discuss its new corporate ethics program rather than foreign military sales. ITT's position is that it will not disclose its foreign military sales claiming that all the information is publicly available. ITT had challenged the resolution at the

Securities and Exchange Commission. The SEC's decision upholding the shareholders was announced later in March. Sister Valerie Heinonen of the Ursuline Sisters of Tildonk presented the resolution when it was voted on at the ITT Industries annual meeting on May 13, 2008, receiving over 7 percent of the proxy vote.

United Technologies: The resolution to United Technologies requested that ethical criteria be applied to foreign military contracts, and, with the Episcopal Church as the primary filer, was supported by 23.8 percent of shareholders voting at the annual meeting; a very strong showing, considering resolutions of this nature submitted to major defense contractors routinely receive 3 to 5 percent of the shareholder vote. The vote was sufficient to qualify

GENERAL ASSEMBLY MISSION COUNCIL

February 15-16, 2012

Compassion, Peace & Justice Ministry Area

Item B.102

the resolution for automatic reconsideration at next year's annual meeting. The Episcopal Church had a brief phone conversation with company officials, and received a commitment to a dialogue on developing a human rights policy.

2008 GENERAL ASSEMBLY

Regular reports on the corporate engagement process were made to the GAMC from 2005 to 2008. The 2008 General Assembly received a comprehensive report on MRTI work that included the committee's belief that more engagement was the appropriate course of action at that time. The General Assembly also called upon corporations doing business in Israel, Gaza, East Jerusalem and the West Bank "... to confine their business activity solely to peaceful pursuits, and refrain from allowing their products or services to support or facilitate violent acts by Israelis or Palestinians against innocent civilians, construction and maintenance of settlements or Israeli-only roads in East Jerusalem and the West Bank, the Israeli military occupation of Palestinian territory, and construction of the Separation Barrier as it extends beyond the 1967 "Green Line" into Palestinian territories." [Minutes, 218th General Assembly (2008), p. 1223.]

The GA also directed MRTI "to continue the corporate engagement process, and report on its status with any recommendations to the 2010 General Assembly." [Minutes, 218th General Assembly (2008), p. 1223.] Similarly, the 2010 General Assembly received MRTI's report, and renewed the calls of previous General Assemblies to all corporations to cease any involvement in road blocks to a just peace in Israel and Palestine. It also continued to urge all corporations doing business in the region to seek proactive ways to promote respect for human rights, peacebuilding, and equal employment opportunity. The GA also called for continued corporate engagement with Hewlett Packard, ITT Industries, Motorola and United Technologies. With Caterpillar, the GA called for continued engagement in the context of statement of denunciation (see below).

2008-2011 Summary of Corporate Engagement:

In accordance with this directive, the corporate engagement process continued through late 2011.

Caterpillar: A second dialogue was held on September 10, 2009, to continue the discussion of the previous year. Additional information had become public that was added to the agenda for discussion. An article in Haaretz, an Israeli newspaper, dated March 11, 2009, reported on the close relationship between Caterpillar's Israeli dealership and the Israeli military. This includes selling the Caterpillar D-9 bulldozers to the Israeli Defense Forces (IDF) who has them weaponized by an Israeli company. The article notes that the IDF has used these bulldozers from the mid 1980's, and has hundreds of them in its arsenal. After that, the Caterpillar dealer provides maintenance work. The dealership's mechanics provided maintenance in the recent Gaza war (these dealership employees maintained and serviced Caterpillar equipment near the battlefield during the Gaza War of January 2009, when over 1300 civilians were killed and the entire civilian infrastructure of the territory was destroyed) and the Second Lebanon War. The dealership noted publicly its close working relationship with the IDF, according to Haaretz in an article dated March 17, 2009, the IDF also "is planning to draft civilian bulldozer-maintenance personnel for reserve duty, marking the first time the army will be conscripting the staff of a private firm in wartime." This would permit the IDF to use Caterpillar dealership employees on the battlefield in future operations.

The dialogue clarified several issues, but did not produce any progress. Company officials made it clear that the company took no responsibility for the use of its products even by its dealers (the only party considered to be a customer), had no procedure in place for monitoring or ensuring compliance with Caterpillar's stated expectations even in a situation with a documented historic pattern of the equipment being used in human rights violations, and

no desire to develop such a procedure. Further, they indicated that Caterpillar, although a global company doing business in virtually every country except where prohibited by U.S. law, had no capacity to evaluate whether particular actions are in accord with human rights conventions or international humanitarian law. Finally, Caterpillar did not provide information on whether its dealership was selling equipment to major construction companies building the illegal settlements, the separation barrier or the Jewish Israeli-only roads in the occupied territories as requested.

GENERAL ASSEMBLY MISSION COUNCIL
February 15-16, 2012
Compassion, Peace & Justice Ministry Area
Item B.102

Meanwhile, a shareholder resolution requesting a report on foreign military sales was refiled by Jewish Voice for Peace and several Roman Catholic religious orders for consideration at the 2009 stockholders meeting in June. The resolution garnered slightly less than 6 percent of the shareholder vote, and failed to requalify automatically for the 2010 meeting. Thus, the resolution for the 2010 shareholders meeting was altered to call for the company to review and amend its human rights policy to bring it into greater conformity with human rights and international humanitarian law. The company did not take advantage of this additional opportunity to discuss the resolution, and also declined to facilitate a requested meeting in February 2010 between church members of the Ecumenical Action Group and Caterpillar's dealer in Israel. When the annual meeting was held in June 2010, the resolution received 24.9 percent of the proxy vote.

Under pressure from non-shareholder interest groups, Caterpillar announced that it was instructing its European dealerships not to sell any Caterpillar products which might then be transshipped to Iran. This violated Caterpillar's previous statements to religious shareholders that the company did not have the authority to tell its dealers where and to whom they could sell Caterpillar products. A letter from the United Methodist Board of Church and Society on behalf of eight religious shareholders (including PCUSA) to the then-CEO James Owens was sent on June 8, 2010 seeking clarification of this contradiction. There was no response.

The 2010 General Assembly action called for continued engagement within the context of the following clear and public policy denouncing the company from profiting from involvement in serious human rights violations and obstacles to a just peace in Israel and Palestine: "... the [General Assembly] strongly denounces Caterpillar's continued profit-making from non-peaceful uses of a number of its products. We call upon Caterpillar to carefully review its involvement in obstacles to a just and lasting peace in Israel-Palestine, and to take affirmative steps to end complicity in the violation of human rights. We hope that, by God's grace, Caterpillar will come to exercise its considerable power and influence in the service of a just and lasting peace in Israel-Palestine." [Minutes, 219th General Assembly (2010), p. 363.]

While the action of the 2010 General Assembly denouncing the company's continued profiting from its involvement in human rights violations was designed in large measure to convince Caterpillar that the church was serious about the gravity of this complicity, the company remained unresponsive. On April 19, 2011, MRTI sent its own letter to new CEO Douglas Oberhelmer, expressing hope for a new spirit of conversation around these issues and requesting dialogue (see Appendix 1). There was no response. On July 26, 2011, the United Methodist Board of Church and Society retransmitted the 2010 letter (see above) from eight religious shareholders to the new CEO requesting a meeting to discuss the issues described in the correspondence. Again, there was no response.

These attempts at correspondence were carried out against the backdrop of on-going submission of shareholder resolutions in 2010 and 2011, each of which presented an opportunity dialogue. There was no response; indeed, our shareholder resolution on human rights was challenged by company management with the Securities and Exchange Commission. Their challenge was rejected, and the resolution received another strong vote: 25.2 percent. However, despite the strong shareholder votes in 2010 and 2011, new CEO Oberhelmer reiterated to shareholders that Caterpillar has not changed its policies regarding involvement in Israel-Palestine. Because the number of votes significantly exceeded the required threshold, the resolution can be resubmitted for 2012.

Through this multi-year process, MRTI met several times with representatives of the Great Rivers Presbytery where Caterpillar is headquartered. A listening session was held in 2005 at the outset of the process, and presbytery staff and leadership have met with the full committee and separately with staff. Throughout, MRTI has kept the presbytery informed of the filing of resolutions and the status of communications with the company.

Motorola: A shareholder resolution similar to the one from 2008 was filed with Motorola requesting that the company amend its human rights policies "to conform more fully with international human rights and humanitarian standards..." The resolution was co-filed by the General Board of Pensions and Health Benefits of the United Methodist Church, Mercy Investment Program, and the Episcopal Church. The company did not respond to a request in the filing letter for a meeting to discuss the resolution. When the filers tried to set one up following the annual meeting, the company declined, but offered to answer written questions. The stockholder meeting was held on May 4, 2009. Speaking in support of the resolution, which received 9.7 percent of the vote, were representatives

GENERAL ASSEMBLY MISSION COUNCIL

February 15-16, 2012

Compassion, Peace & Justice Ministry Area

Item B.102

of the United Methodist Church and the Presbyterian Church (USA). Following the 2009 annual meeting, religious shareholders requested another dialogue, but on June 12, an email from Motorola's legal department refused to meet in person saying the company would only answer questions in writing. Questions were submitted, but answers did not adequately respond to the concerns expressed. In an email of January 13, 2010, the company also declined to facilitate a meeting with Motorola Israel during the February 2010 visit of religious shareholders to Israel and Palestine. The 2010 shareholders meeting was held on May 3 where the human rights resolution was voted on again. It received a vote of 11.8 percent. Motorola also announced that it would be splitting into two new companies by the end of 2010: Motorola Solutions and Motorola Mobility.

Meanwhile, the involvement of Motorola in the Occupation lessened in some important ways. The sale of armaments work by Motorola Israel meant that it no longer made bomb fuses for the Israeli military. Motorola also announced its intention to sell its Israeli cell phone company, and has sought bids from potential buyers. The company supplied cell phones to the Israeli soldiers operating in the Occupied Territories, and built cell towers in the illegal settlements. However, the company maintained its stance of no face-to-face dialogues, but would answer some written questions.

On November 4, 2010, in the filing of the shareholder resolution on human rights for the 2011 annual meeting, MRTI expressed its hope that the company would respond positively through constructive dialogue. The company did not respond. The corporate restructure was completed on schedule. The shareholder resolution was voted on at the annual meeting of Motorola Solutions on May 2, 2011. However, this time it received a lower vote total (5.4 percent), and could not be resubmitted for 2012. At the meeting, the CEO of Motorola Solutions announced that the company would be concentrating on the Middle East for its integrated communications products. Following the meeting, MRTI sought to determine how the restructure had affected the company's business in Israel-Palestine. Motorola Mobility confirmed that the Israeli cell phone company had been sold to a French company, and that its business was now limited to marketing cell phones in civilian markets. It also confirmed that the business lines with the Israeli government remained with Motorola Solutions. Motorola Solutions did not respond to MRTI's information request of July 11, 2011.

As noted, representatives of the Chicago Presbytery attended the first dialogue with Motorola, and have been kept apprised of subsequent engagement, filing of shareholder resolutions and MRTI decisions related to the company.

ITT Industries: The company has supplied the Israeli military with night-vision and communications equipment. Following up on the resolution from last year, an updated version was filed requesting a report on the company's foreign military sales (ITT Industries derived 46 percent of its fiscal 2007 revenue from military business). The resolution was co-filed by the Dominican Sisters of Hope, the Mercy Investment Program and the Episcopal Church. A meeting was held on March 4, 2009, at the company's offices. The company was represented by its senior corporate counsel, the counsel for its defense division, and its public affairs official. MRTI staff was joined by a representative of the Hudson River Presbytery, and Sr. Valerie Heinonen of the Mercy Investment Program. ITT Industries continues to maintain, however, that it cannot discuss specific sales, even in countries with serious human rights challenges. However, as the company is currently barred from military contracts unless a special exemption is given, there does not appear to be recent sales to the IDF. ITT Industries is interested in developing a more specific human rights policy, but has made clear it would not prohibit future sales to the IDF.

The resolution received nearly 7 percent of the shareholder vote at the May 2009 annual meeting where the Rev. Bruce Tischler representing the Hudson River Presbytery presented the resolution. In 2010, Ms. Elizabeth Letzler, a member of the MRTI Committee presented the resolution which received a similar 7 percent vote. On

April 8th, prior to the 2010 annual meeting, a dialogue was held with ITT about its emerging human rights policy and foreign military sales, but no progress was made. In 2011, MRTI member Noushin Framke presented the resolution at the annual meeting where it again received 7 percent of the proxy vote.

The major development with ITT was the company's announcement that it would split into three separate companies at the end of 2011. These would be a company focused on its water related products and services, a company devoted to its manufacture of electronic components, and a company focused on its military-related

GENERAL ASSEMBLY MISSION COUNCIL

February 15-16, 2012

Compassion, Peace & Justice Ministry Area

Item B.102

business including its night vision and communications equipment. The size of ITT's military-related business already had found the company affected by the General Assembly's divestment criteria, and it was already on the one-year waiting period required by the GA divestment policy. When the corporate restructure occurs, the new military-related company will be on the 2012 General Assembly divestment list.

Throughout this multi-year process, representatives of the Hudson River Presbytery supported the work of MRTI by participating in the dialogues and shareholder meetings as their schedules permitted, and they were kept informed of resolution filings and communications with the company.

United Technologies: The Episcopal Church filed a resolution with United Technologies asking for a report on the ethical criteria for its foreign military sales. The company agreed to develop the report, and a meeting was held on August 17, 2009 to discuss how the report and a policy on sales would be implemented. This was the first meeting with company officials, and was a productive session according to the participants. Subsequently, the engagement with the company in 2010 has focused on the implementation of a policy and developing benchmarks for performance.

Hewlett-Packard: On March 5, 2009, several religious shareholders were scheduled to hold a conference call with Hewlett-Packard (HP), and had submitted a detailed list of questions for the discussion. The company then cancelled the call saying it would respond in writing, and only then consider a meeting. The shareholders reviewed the company's written answers, and noted that they were vague or incomplete. The General Board of Pensions and Health Benefits of the United Methodist Church contacted the company to renew the request for a dialogue. HP again declined saying they would only respond in writing. Two rounds of letters produced only vague answers to the shareholders' questions.

The company sells hardware to the Israeli Navy, and as a contractor manages all Information Technology (IT) including its operational communications, logistics and planning including the ongoing naval blockade of the Gaza Strip. This blockade has included interdicting humanitarian supplies by attacking or turning back international vessels carrying the supplies, and attacks on Palestinian fishermen.

The company also is involved through its ownership of Electronic Data Systems in providing electronic biometric identification scanning equipment to monitor only Palestinians at several checkpoints inside the West Bank, including as part of the separate road system, restricting Palestinian movement. At these checkpoints, the 2.4 million West Bank Palestinians are required to submit to lengthy waits as well as the mandatory biometric scanning, while Israelis and other passport holders transit without scanning or comparable delays.

HP also has extensive involvement with the Israeli Army. Soldiers in the IDF are issued a Tadiran Communications ruggedized personal digital assistant (RPDA) based on the Hewlett Packard IPAQ (handhelds and smart phones) as part of Israel's Anog soldier modernization program. This equipment is used to enforce the Occupation. In July, 2009, HP won a contract for the installation of software products in a three-year IDF virtualization tender worth an estimated \$15 million, with a two-year option to extend.

HP also has business relationships with the illegal settlements in the West Bank. A subsidiary, HP Invent, outsources information technology services to Matrix and to its subsidiary Talpiot, which has its main outsourcing center in the illegal West Bank settlement of Modi'in Illit. By using Talpiot's services, clients of the company are profiting from the company's relationship with an illegal settlement and are helping solidify the Occupation.

In addition, HP worked with the government of the illegal settlement of Ariel in the occupied West Bank to develop specialized solutions for government data storage, and used this project in marketing publicity. Despite the fact that Ariel is deep in the Occupied West Bank, the company's published description of this work claims that Ariel is within Israel, including the use of a map making no reference to the West Bank as a separate occupied territory.

In addition, as with Motorola Israel, its Israeli subsidiary does not disclose its equal employment opportunity record of its hiring practices.

GENERAL ASSEMBLY MISSION COUNCIL
February 15-16, 2012
Compassion, Peace & Justice Ministry Area
Item B.102

A shareholder resolution was developed requesting a review of HP's human rights policies, and a report on their implementation. It was filed by the PC(USA), United Methodist General Board of Pensions and Benefits and four Roman Catholic religious orders. The filing letters requested an opportunity for dialogue, and prompted a positive response by the company. On October 28, 2009, several religious participants met with company officials by conference call. The discussion reviewed HP's policies and procedures, and identified issues of concern for further discussion. Participants were grateful for the positive atmosphere, and willingness to cooperate. As the company agreed to initiate a Board of Directors level review of its human rights policy, and committed to positive follow-up to the issues identified in the dialogue, the shareholders decided to withdraw the resolution.

However, the follow-up was spotty in some areas, and non-existent in others. One positive aspect of the engagement though was meeting with a representative of HP Israel in Jerusalem in February 2010. The discussion was informative about the extent and variety of HP's businesses. Requested information on the company's employment practices and how the human rights policy influences the company's business with governments was not provided.

The 219th General Assembly (2010) directed MRTI to continue its efforts to engage Hewlett-Packard on these issues. Although efforts began to schedule dialogue with company management in November 2010, the company repeatedly deferred and postponed this meeting. Attempts to schedule conference calls met with delays, but one was finally held on April 19, 2011. Unfortunately, it was not a productive dialogue. While the religious shareholders had communicated clearly their desire for an in depth discussion of the biometric scanners at the checkpoints, HP's representatives, including its person in charge of implementing its human rights policy, said that they were not knowledgeable on the issue and could not discuss it. They also did not offer to set up a subsequent call with HP representatives who could. In addition, they announced that the human rights assessment they were conducting (which would include Israel-Palestine) would concentrate on systems evaluation, and any specifics would not be included in HP's public reporting. Indeed, HP's public report contained no reference to its business operations in Israel and the Occupied Palestinian Territories.

HP produced a Global Citizenship Report for 2010, its most recent one. It states in its Global Issues section: "At HP, we believe technology is a driver of social progress, environmental sustainability and economic opportunity. We're committed to helping individuals everywhere use technology to connect and create a better world." The company reviews its involvement in the United Nations Global Compact, and its support for the Universal Declaration on Human Rights. It notes that it is one of eight founding members of the Global Business Initiative on Human Rights (GBI). However, nowhere does HP discuss the relationship of its policy commitments to its involvements in non-peaceful pursuits in Israel-Palestine.

MRTI also kept the San Jose Presbytery, where HP is headquartered, informed about shareholder resolution filing, and the status of dialogue with HP.

Additional Companies: In the past two years, initial letters were sent to Microsoft regarding its human rights policy and the company's provision of specialized software to the Israeli Navy and the government of the illegal settlement of Ariel. In addition, the Israeli research organization, Who Profits, has released a detailed report on the important role Israeli banks and financial institutions, many of them publicly traded, play in the illegal settlement enterprise. The Ecumenical Action Group is researching whether international banks operating in Israel are similarly involved.

Summary: The roadblocks to a just peace in Israel-Palestine could not be sustained or be so effective without the complicity of private corporations and their involvement in the infrastructure of violence and occupation that violates human rights and degrades human dignity. Accordingly, the General Assembly has stated that the church's investments in companies doing business in Israel, Gaza, East Jerusalem and the West Bank be in companies involved in only peaceful pursuits. For eight years, the Presbyterian Church (USA) through its Committee on Mission Responsibility Through Investment (MRTI) and other ecumenical partners have worked diligently to engage several companies about their involvement and complicity in non-peaceful pursuits and human rights violations.

GENERAL ASSEMBLY MISSION COUNCIL

February 15-16, 2012

Compassion, Peace & Justice Ministry Area

Item B.102

While this corporate engagement has taken place, the situation in Israel and the Occupied Palestinian Territories has deteriorated. The obstacles to a just peace identified in 2004 remain, and have become more intractable. The continued building of Israeli settlements in the West Bank, illegal under international law, has picked up renewed speed leading to the number of Israeli settlers in the West Bank (excluding East Jerusalem) increasing 57 percent from 191,000 to 297,000 between 2000 to 2009 [Peace Now] while the Israeli population as a whole increased only 19 percent between 1999 to 2009 [Israel Central Bureau of Statistics]. The total number of Jewish settlers living on Palestinian land is nearly half a million, including 191,960 in East Jerusalem [Jerusalem Institute for Israel Studies]. With the illegal settlements comes the construction of Israeli only roads on Palestinian land, and continued construction of the Separation Barrier beyond the 1967 borders, known as the “Green Line.” This leads to a deterioration of Palestinian life as access to agricultural land is restricted, Palestinian land is confiscated, housing permits for Palestinians are denied while home demolitions increase, Palestinian movement on the West Bank is further limited through check points, barriers and prohibition of using some roads. Increased settler violence against Palestinians grows as settlements expand, and Israeli military and police action increases. Access to water is restricted as allocations to the illegal settlements far outstrips allocations for Palestinians. For example, the water allocation to the illegal settlements in the Jordan Valley and the Northern Dead Sea regions (for less than 10,000 illegal settlers) is almost one-third of the quantity of water that is accessible to the 2.5 million Palestinians living in the West Bank [B’Tselem: May 2011]. All of the companies being engaged continue to profit from their involvement in the occupation and the violation of human rights in the region.

The results of corporate engagement with the companies:

With Motorola’s separation into two companies, the problematic involvements in non-peaceful pursuits are now primarily confined to Motorola Solutions. These involvements remain significant. However, Motorola Solutions is unresponsive to all efforts by religious shareholders to engage in serious discussions about its involvement in non-peaceful pursuits. There is no indication that the company’s position will change through continued corporate engagement.

ITT’s restructuring into three separate companies has changed the situation significantly. All of the company’s involvements in non-peaceful pursuits will be confined to the new company that focuses on military-related contracts. Already, the sharp rise in military-related contracts has meant that ITT, even before the separation, receives over 50 percent of its revenue from military contracts, and is now affected by the General Assembly’s military-related investment guidelines. This will place the current company on the 2012 General Assembly Divestment List anyway, and certainly place the new company devoted to military-related products on the GA divestment list in future years.

United Technologies was always less involved in the region than some others, with most of their involvement coming as a subcontractor for companies with larger financial stakes. The company is open to further conversation.

Although, Hewlett-Packard (HP) has been open to meet with religious shareholders on an annual basis, but the discussions have been very disappointing. The company declines to engage the serious issues of its involvement in non-peaceful pursuits. It has never addressed the issue of how its human rights policy, about which the company is very proud, informs its decisions about its business with governments, especially governments involved in serious human rights violations. Without a major change in HP’s willingness to engage in serious discussions, corporate engagement is not likely to achieve positive results. Regrettably, there is no indication at present that HP will change its present course.

Caterpillar’s serious involvement in non-peaceful pursuits led the 2010 General Assembly to denounce the company’s profiting from involvement in human rights violations. Sadly, despite significant support for the shareholder resolution calling for a review of its human rights policy, Caterpillar has become even more intransigent. It has cut off all communication with the religious shareholders. Caterpillar continues to accept no responsibility for the end use of their products. Over many years, the company has not indicated a willingness to review its policies for distribution or sales in conflicted areas like Israel-Palestine, and does not acknowledge a responsibility for its dealers’ adherence to human rights law in these areas. Caterpillar’s stated commitment to global citizenship is being undermined by its unwillingness to critically self-assess its own conduct in Israel-Palestine. It is

GENERAL ASSEMBLY MISSION COUNCIL

February 15-16, 2012

Compassion, Peace & Justice Ministry Area

Item B.102

the conclusion of MRTI that further efforts to engage Caterpillar through ordinary means (including shareholder resolutions, and written and oral communications) will not be successful.

GENERAL ASSEMBLY MISSION COUNCIL

February 15-16, 2012

Compassion, Peace & Justice Ministry Area

Item B.102



APPENDIX 1

GENERAL ASSEMBLY MISSION COUNCIL

PRESBYTERIAN CHURCH (U.S.A.)

COMPASSION, PEACE AND JUSTICE

VIA OVERNIGHT DELIVERY

April 19, 2011

Mr. Douglas R. Oberhelman
Chairman and Chief Executive Officer
Caterpillar, Inc.
100 NE Adams Street
Peoria, IL 61629-1430

Dear Mr. Oberhelman:

Greetings to you. My name is Brian Ellison, I'm a pastor of a Presbyterian church in the Kansas City area. I've served for twelve years here and during that time have also served on a variety of committees at the national level of the Presbyterian Church (U.S.A.). I am serving currently as chair of the Committee on Mission Responsibility Through Investment (MRTI), and I am a director of the Board of Pensions of the Presbyterian Church (U.S.A.).

As you are probably aware, at the direction of our General Assembly, our committee has been working for the past seven years with several companies in whom we invest, including Caterpillar, Inc., to address a number of concerns about the ways those companies are profiting from certain pursuits in Israel and Palestine that we believe have contributed, directly or indirectly, to suffering in that troubled region. The conversations between CAT and our committee have not always been productive. Indeed, our representatives and predecessors—yours and mine—have made very little progress in finding common ground or achieving even modest agreement on ways the company's otherwise positive commitments to human rights could be lived out in this part of the world. The negative outcomes of past attempts at conversation (or, sometimes, the absence of conversation) have adversely affected both the company and the church, including the thousands of Presbyterians in the Peoria area whose families and congregations include Caterpillar employees at every level of the company.

I would like for us to try to change that, and I'm asking you for the opportunity to meet. I'd like to meet with you personally or with representatives at a high enough level of the company who have the ability to speak with authority on matters of company policy and, potentially, help bring about real change. Our committee is willing to have this conversation with a new openness to the company's efforts when they are undertaken sincerely and forthrightly.

This is not to diminish the depth or seriousness of our concerns. As you may know, last summer's General Assembly (our church's highest governing body) committed to continued dialogue with Caterpillar (rather than the divestment that some regional bodies within the church were calling for), but also denounced the company's "continued profit-making from non-peaceful uses of a number of its products." The Assembly called upon the company "to carefully

Letter to Mr. Douglas R. Oberhelman

April 19, 2011

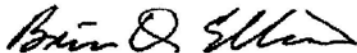
Page Two

review its involvement in obstacles to a just and lasting peace in Israel-Palestine, and to take affirmative steps to end its complicity in the violation of human rights." The Assembly's statement also lifted up Caterpillar's many examples of positive leadership in the community, state and nation, noting its donation of resources and equipment and its deserved recognition in the Dow Jones Sustainability World Index. The statement continued, "But these positive acts do not excuse the severity of the particular injustice that is being done to the Palestinian people through the use, in part, of certain Caterpillar products and from which Caterpillar profits directly or indirectly."

This contrast between, on the one hand, Caterpillar's stated commitments and historic record, and on the other, its present involvement in the region, is what we hope to discuss. And we hope to do so in a positive and productive way. Can we speak soon? Please feel free to contact me by telephone at 816-741-1641 or by email (PTSBrian@aol.com). I will make myself available (along with other staff and elected representatives from the PCUSA) to travel to Peoria, to Chicago (as in the past) or some other location as needed.

I'm grateful for the opportunity to be in dialogue, and I look forward to moving forward in this conversation.

Blessings,



The Rev. Brian D. Ellison
Chair, Mission Responsibility Through Investment
Presbyterian Church (U.S.A.)

Cc: The Rev. Gradye Parsons,
Stated Clerk of the General Assembly, Presbyterian Church (USA)

The Rev. Bill Somplatsky-Jarman,
Staff, Mission Responsibility Through Investment, Presbyterian Church (USA)

The Rev. Sue Krummel,
Executive Presbyter, Great Rivers Presbytery