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Cold shoulder

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Tobacco Divestment Weighed

By EMILY M. BERNSTEIN

In a precedent-setting move, Harvard is considering divesting its stock holdings in two major U.S. tobacco companies.

The University wrote to both RJR-Nabisco and Philip Morris in July asking them to respond to charges that promotional techniques in Latin American, African and Asian

News Feature

nations are often heavyhanded. Harvard also asked the companies to explain why they do not place warning labels on cigarette packs, as is required in this country.

The Corporation Committee on Shareholder Responsibility (CCSR), which formulates Harvard's investment policy, sent the letters after the issue was raised by an advisory panel last spring. So far, the committee has received no response from the two multinational corporations.

"Some members of our committee...believe that Harvard, which refuses to own stock in some companies because it does not wish to be associated with particular economic activities (gambling; prostitution), should seriously consider placing the production and sale of cigarettes in that category," according to an internal memo written by the Advisory Committee on Shareholder Responsibility (ACSR). The ACSR is a panel of faculty, students and administrators which advises the Corporation on ethical investing.

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Experts across the country said this week that if Harvard were to decide to divest from tobacco companies it would be the first institution in the country to do so.

This latest move toward divestment comes after a decade of pressure on the University to divest of stock from compnaies doing business in South Africa, which led to a policy of selective divestment. Harvard in 1986 divested about $157 million in South Africa-related stocks—about a third of its holdings at the time. That total has since fallen to about $200 million, in part because of the October stock market crash.

The drive to divest from tobacco companies seems likely to rekindle the debate about the benefits of divestment. Harvard and other critics of divestment have argued that in most cases, a better alternative is constructive engagement, by which the University deliberately maintains its stock to put pressure on companies.

Proxy Battle

The ACSR raised the possibility of divestment after a shareholder-sponsored resolution this spring called for the two companies to report on their advertising and promotion campaigns in developing nations. The proxy fight, which was sponsored by an activist Jesuit order in Milwaukee, was not targeted against the companies' domestic business.

The ACSR said it is concerned about high profile advertising campaigns in overseas nations that do not require health warnings on cigarettes. The dangers of smoking, which have been widely publicized by the U.S. Surgeon General, are less well known in developing countries.

Although health warnings are now required on cigarette packaging in the U.S. and in Europe, most other nations lack such requirements. Last year, overseas sales by RJR increased about 10 percent, although U.S. sales have remained flat.

"We believe that companies seeking to expand sales in the third world should...tell stockholders their reasons" for not using health warnings, the ACSR said in a May memo.

But RJR and Philip Morris have denied charges that their marketing techniques are too aggressive. They also contend that voluntary warning labels are unnecessary since smoking has not been demonstrably linked to lung disease.

"There is no conclusive proof of a cause-and-*effect relationship* between cigarette smoking and chronic diseases, and the Company will continue to challenge allegations to the contrary," Philip Morris said in a report released in response to the proxy resolution.

But the ACSR has challenged that account. In its report to the CCSR, it cited World Health Organization statistics that attribute 2.5 million deaths each year worldwide to tobacco use.

"We do not believe that Harvard, committed to the scientific method and to the work being done in its hospitals, laboratories, and classrooms, can accept this response as serious and ethical," the ACSR said.

President Bok said last week that it was "unacceptable" to deny a link between smoking and cancer, but he declined to say whether he would support a move to divest from tobacco companies.

Officials at Philip Morris could not be reached for comment this week. RJR spokesmen did not return repeated phone calls.

Next Stage

ACSR officials say they are currently awai formal responses to the letters sent by the CC But it may be months before Harvard again ta up the issue, since the next scheduled meeting of ACSR is in January.

"Once we receive the answers to those questi it will be appropriate this year to consider question of whether we are prepared to recomm selling the University's stock in tobacco com nies," said Law Professor Lance M. Liebm chairman of the ACSR.

Other committee members said after the pan last meeting in the spring that unsatisfact answers to this new set of inquries could prompt committee to recommend divestment. "There certainly been the sense that we would be v cautious about anything that would extend the s of tobacco products," said ACSR member Carol Weiss, a professor at the School of Educatio

But some members of the Harvard commur who are active in anti-smoking campaigns h expressed doubt that divesting from toba companies would produce any tangible result

Tom Schelling, director of the Kennedy Scho Institute for Smoking Policy and Behavior, said promotion and sale in developing countries definitely an important issue but that divestm would serve only as a press event and would no very effective.

"I don't think it will make any difference cigarette companies. It would be a nice symb gesture if it doesn't cost too much," said Schell who is Littauer Professor of Political Economy. it's a lot of money, it would be more cost effec to put the equivalent money into an anti-smok campaign."

School of Public Health Dean Harvey Fineberg, an outspoken opponent of smoking, s he thought divestiture from tobacco companie not necessary since no one is pushing for it. "Th has been very little clamor from faculty members students to have available to them a portfolio t

Tobacco Stocks: The New Divestment Push

Harvard Weighs Selling Stock in RJR and Philip Morris

would not include tobacco companies," he said. "I'm not sure it would make very much difference."

Fineberg also said that while the University might well decide that it does not want to be involved in an industry that promotes the only product known to cause death when used properly, sales in developing nations were only one small aspect of a larger problem.

Overseas Markets

Nonetheless, international tobacco sales are becoming an increasingly important issue and a rallying cause for health organizations both here and in East Asia, the most recent target for sophisticated marketing strategies.

In the wake of national and municipal legislation in the U.S. banning smoking in public places and on airplanes, opponents of smoking have begun to wage their battle on the international trade front.

Greg Connolly, analyst and adviser for the Massachusetts Public Health Department and for the World Health Organization, said that tobacco companies in the 1960s began sales campaigns in Latin America, opening closed markets and slowly increasing cigarette consumption. The sales push occurred in spite of growing domestic awareness of smoking hazards, he says.

Since then, multinationals have opened markets in Africa and most recently Asia, sparking a major furor in some of the target market countries.

The latest assault by the tobacco companies—including Philip Morris and RJR—has been on formerly closed markets in Japan, Korea, Taiwan and China. In all these countries tobacco imports were prohibited or severely restricted in recent years. In Korea, for example, it was a criminal offense to carry an imported pack of cigarettes.

Many restrictions were lifted after bargaining efforts by the office of the U.S. Trade Representative, which threatened to impose economic sanctions if tobacco compnaies were not allowed to trade on equal footing with domestic producers.

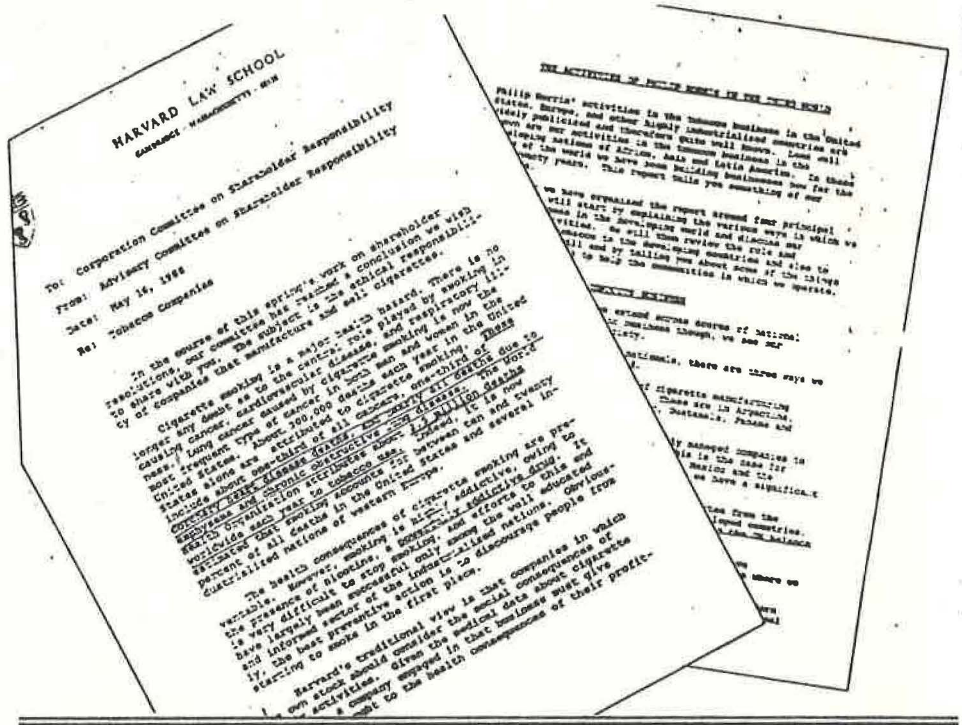
But critics charge that the American companies are moving beyond parity with Asian tobacco companies. The multinationals are spending huge amounts of money on advertising, some in countries where cigarette advertising was recently legalized. They are also distributing free samples and using other promotional techniques now banned in most Western nations.

Some tactics were never used in the United States. In February, for example, RJR-Nabisco planned three concerts by noted Hong Kong singer Hsow-Yu Chang in Taiwan. Fans could not pay for tickets with money, but were required instead to "pay" with empty cigarette packs. Five packs were redeemable for a ticket.

But after a public uproar, promoters were forced to cancel the performances, and promised to redeem empty cigarette packs for a cassette tape of the singer.

New Markets

The U.S. companies are aiming to tap new markets in East Asia, where a large percentage of adult males smoke, though consumption remains low. Traditionally, few women and adolescents have been smokers.



HARVARD LAW SCHOOL

To: Corporation Committee on Shareholder Responsibility

From: Advisory Committee on Shareholder Responsibility

Date: May 16, 1988

Re: Tobacco Companies

In the course of this spring's work on shareholder resolutions, our committee has reached a conclusion we wish to share with you. The subject is the ethical responsibility of companies that manufacture and sell cigarettes.

"There is no conclusive proof of a cause-and-effect relationship between smoking and chronic diseases, and the company will continue to challenge allegations to the contrary."

—Philip Morris Shareholder Report

In order to enlist new smokers, companies are airing commercials during music video programs. Virginia Slims cigarettes are currently marketed specifically for women in campaigns that attempt to link smoking with fashion.

In most developing nations there are no laws requiring health warning labels on cigarette packs. Cigarette warnings that do exist are often vague and much less strident than their American counterparts. In Taiwan, the government-owned cigarette company uses a label that reads: "Please Do Not Smoke Too Much For Your Health." American companies do not use any warnings for internationally sold packs.

In addition, anti-smoking groups have charged

American children have against exposure to TV smoking ads.

Health experts say that if the current increase in tobacco consumption in developing nations is not curbed quickly, it will result in the most serious disease epidemic ever known. World Health Organization expert Connolly estimates that by the year 2000, there will be 900,000 smoking-related deaths in China alone.

Shareholder Resolution

But most opposition in this country has been confined to the recent proxy battle. Michael Crosby, executive director of the Interfaith Center on Corporate Responsibility, which sponsored the recent shareholder resolution, said that his organization bought 10 shares several years ago in order to force a dialogue with the companies through shareholder resolutions and annual meetings.

Otherwise there have been no moves by shareholders to protest these companies' actions. Connolly said that of the 25 largest insurance companies doing business in Massachusetts, 19 own stock in tobacco companies.

The issue has not yet been discussed at other universities, officials said this week. But many experts say that investor responsibility questions will become more prevalent in the next few years.

"This will be a major issue in the next four years," Connolly said. "We need to get organizations to ask questions about their own investments."

It is possible that the international trade issue will serve as the rallying point for investors to consider the ethics of having tobacco companies included in their portfolios.

"The basic question is, 'Do we want to be associated with tobacco companies?'" Fineberg said. "To me, the harmful effect of tobacco is one of the clearest kinds of problems to face."