Dear Friend,

In asking for your help in the boycott of Nestlé products, I speak for myself and for the Infant Formula Action Coalition (INFACT). Nestlé, the largest food processor in the world, is actively encouraging mothers in the developing countries in Africa, Asia, and South America to give up breast feeding and turn to powdered milk formula instead. But in such countries water is contaminated, sterilization procedures are unknown, illiteracy makes proper preparation impossible, and poor people try to stretch the powdered milk supply by over diluting their baby's formula. The tragic results are widespread malnutrition and severe infant diarrhea that often ends in death. Despite worldwide protest, Nestlé continues to put profits first and refuses to halt this traffic with death. So we are trying, by boycott, to compel Nestlé to do what they won't do out of decency. INFACT and I ask you to do two things: Boycott all Nestlé products, and send a generous contribution to help us spread the word.

Most sincerely,

Benjamin Spock, M.D.

Dr. Spock's letter supporting the boycott of Nestlé's products was one of several tactics used to get producers of infant formula to change their marketing practices in developing nations. In addition to Nestlé, four other companies have come under fire for their marketing of infant formula in Third World countries: Bristol-Myers, Abbott Laboratories, American Home Products, and Borden's.

Infant formula was developed in the 1920s to provide a medically acceptable alternative to breast milk for mothers who were not able to breast-feed their babies. By the 1960s, 75 percent of all American babies were being fed infant formula, and two kinds of companies were producing and marketing the formulas: drug companies and food companies. The three main American drug companies producing infant formula (Bristol-Myers, Abbott Laboratories, and American Home Products) tended to emphasize dietary research in the development of their formulas and tended to market their formulas through medical channels: physicians, nurses, hospitals, clinics, professional health journals, and medical detail staff. The two main food companies (Nestlé—a Swiss company—and Borden's), on the other hand, entered the infant formula business as a way of diversifying the canned milk products they were already producing and they tended to market their product through conventional consumer-oriented mass advertising.

During the 1960s birth rates in the United States and Europe began to level off, and infant formula producers turned to marketing their products in Third World countries where birth rates were still high and where a trend toward urbanization was making large populations accessible to modern mass-marketing techniques. Bristol-Myers pushed hard to extend its
marketing into the Caribbean, Central America, and the Philippines; Abbott Laboratories moved into Africa and Southeast Asia; American Home Products expanded into Southeast Asia, Latin America, and Africa; Borden's went into Latin America, the Caribbean, and Southeast Asia; and Nestlé attempted to build up a significant presence in every national market. By the late 1970s Abbott Laboratories' infant formula sales in developing nations totaled about $20 million annually; American Home Products had sales of about $50 million worth of infant formula in developing nations; and Nestlé held about a 50 percent share of the entire infant formula world market estimated to total $1.5 billion in 1978. Borden's succeeded in developing only a narrow share of the infant formula market.

Many medical personnel in Third World countries were happy to see the appearance of the infant formulas. Prior to the introduction of the formulas, infants were regularly weaned from breast-feeding with rice water, sweetened cow's milk, and other supplemental foods, so the formulas provided a preferable method of weaning. Undernourished or sickly mothers, too, had not had a readily available alternative to supplement their breast milk until the formulas appeared. In addition, understaffed hospitals welcomed the appearance of the "mothercraft nurses" whom the formula manufacturers provided and who instructed new mothers on all aspects of hygienic child care and feeding. The nurses, dressed in white uniforms, provided the mothers with free samples (as hospitals do in the United States), and were often paid on a commission basis to promote the formulas. While the drug companies (Bristol-Myers, Abbott Laboratories, and American Home Products) promoted their formulas primarily through these medical avenues, Nestlé and the other food companies tended to rely primarily on intensive mass-media advertising, including sound trucks, newspapers, television, radio, popular magazines, and billboards.

As infant formula manufacturers expanded their marketing into the developing countries in the early 1970s, health officials began to voice a concern that the incidence of malnutrition and diarrhea were rising among Third World babies due to an increasing reliance on infant formulas and a concomitant decline of breast-feeding. In a series of studies, Dr. Derrick B. Jelliffe and other nutrition experts claimed that the trend toward infant formulas was dangerous, and that breast milk was the only ideal food for growing infants because it contains both the nutrients essential to a child's health and the antibodies that protect the child against disease. If a mother is unable to nurse her child, they argued, then commercial formulas would provide a safe substitute only if they could be used under sanitary conditions and according to the instructions provided with the formulas. In underdeveloped countries, they claimed, these conditions were not available: Hygiene was lacking, sterilization procedures were not employed, and mothers lacked the education to read written instructions. These and other difficulties involved in the use of infant formula by third-world mothers were summarized in 1973 by Dr. Roy E. Brown:

[As] with other so-called convenience foods, the general public must pay the commercial companies for that convenience. In a newly urbanized [third-world] family, the financial pressures may be extreme, and it is not uncommon for a well-meaning mother to be forced to cut her food costs by over-diluting or "stretching" the infant's formula . . . Added to this are several other related problems in formula preparation. The uneducated mother may
easily misread or misunderstand the directions and incorrectly reconstitute the formula. In many new urban centers, the contaminated water supply will contaminate the formula. There is an associated problem with the cleansing of feeding bottles and nipples, and with refrigeration of the prepared formulas . . . The end result is not only poor nutrition but also recurrent bouts of diarrhea that will cause further dietary restriction, modification, and dilution and that will increase the likelihood of malnutrition and possible death.  

Dr. Jelliffe estimated that infant deaths in the Third World directly or indirectly attributable to the use of infant formula might be as high as ten million per year. Consequently steps should be taken to encourage breast-feeding among mothers in developing countries and to discourage the use of infant formula preparations.

Critics of the infant formula companies alleged that it was the aggressive marketing practices that the companies were using in the Third World that were encouraging mothers to use infant formula even when it endangered the life and health of their infants. Two kinds of practices drew special criticism: intensive consumer advertising that implied that the use of infant formula was nutritionally or socially superior to breast-feeding, and the use of medical personnel to endorse or promote the infant formulas directly to new mothers. Doug Clement, for example, an organizer of the Infant Formula Coalition that sponsored the Nestlé boycott, argued:

Mass-media advertising is one way that these formula producers create a market for infant formula in the developing countries. Huge advertisements appear on the sides of panel trucks in Nigeria or stationwagons in Thailand. In Barbados, advertisements for Bristol-Myers "Enfamil" were on the back covers of the 1975 and 1976 telephone books . . . In the maternity ward of Philippine hospitals there are full-color calendars and posters depicting bright, healthy babies next to large cans of Nestlé's "Lactogen" and "Pelargon" formulas. And in Uruguay newspaper ads display a new Nestlé formula: "Eledon" . . . [Radio] has become an extensive advertising medium for formula marketers in the third-world. In Kenya, for example, infant formula ads made up almost 13 percent of all Swahili radio advertising in 1973; nine-tenths of this advertising was for Nestlé's Lactogen. In Malaysia, where the poor and rural tend to listen to the radio while the relatively rich and urban watch television, Nestlé ran three and a half times as many formula ads on radio as on TV in 1976. "Mothercraft nurses," hired by the companies to talk to new mothers about infant care and feeding . . . bring cans of their company's formula when they visit mothers on the maternity wards or in their homes, and often leave [free] samples behind. In their crisp white uniforms, the nurses are seen as medical authorities, and their explicit endorsement of bottle-feeding is a powerful reinforcement of the media message. Such advertising persuades third-world women that formula is the modern, healthy, and Western way to feed babies. Bottle-feeding becomes a status symbol; breast-feeding, a vulgar tradition. [Statement of Doug Clement] 

All infant formula promotions in the Third World, these critics argued, should unequivocally emphasize the superiority of breast-feeding over bottle-feeding. None should encourage bottle-feeding.
In February 1978, a researcher for the Interfaith Center for Corporate Responsibility (a critic of the infant formula companies) analyzed the labels on several cans of infant formula available in stores in Guatemala. According to the researchers, the Spanish labels read as follows when translated into English:6

**SIMILAC--American Home Products (no mention of breast-feeding):**
There is no food equivalent that more closely resembles the milk of healthy well-fed mothers.

SIMILAC With Iron
Similar to Mother's Milk

**WYETH S-26--American Home Products (no mention of breast-feeding):**
Nourishes the baby like the mother's breast.
S-6
A superior food for the infant offers the baby all the formula he wants, just as if you were giving him the breast.

**NAN--Nestlé:**
Maternal lactation is the most adequate for the baby but in case of its total or partial absence, or if for other reasons it is necessary to replace or complement it, you can use NAN with total confidence, a powdered food quantitatively and qualitatively similar to mother's milk, for use right from the infant's birth.

**ENFAMIL--BRISTOL MYERS:**
Breast milk is best for your infant and is the preferred feeding whenever possible. ENFAMIL is a sound nutritious substitute or supplement for breast milk to be used when breast-feeding is unsuccessful, inappropriate, or stopped early.

During the early 1970s, Borden's was advertising "KLIM," its principal powdered milk product, in the Caribbean and other developing areas. Magazine and newspaper advertisements showed a picture of a smiling plump baby drinking from a bottle; below the picture of the baby was a slightly smaller picture of a can of Klim and the text: "Give him Klim and watch him grow! Klim is full of goodness to build strong bodies, bones, and teeth. Give your baby the best full cream powdered milk--give him Klim. KLIM IS GOOD FOR YOUR BABY AND YOUR GROWING CHILDREN TOO." The ad contained no mention of breast-feeding nor did it mention that Klim was not an infant formula but was simply a form of powdered milk. In Singapore radio ads often repeated the slogan: "Help your baby grow healthy and happy. Give him [Nestlé's] Lactogen with Honey." Newspaper advertisements carried the same slogan in large type beneath a picture of a plump smiling baby surrounded by a well-dressed family and a picture of a can of Lactogen infant formula; beneath the slogan in much smaller type was the text: "Mother's milk is always best for your baby but when breast-feeding is no longer possible, or when your breast-fed baby is growing so fast that he needs extra feeds, give him Lactogen with Honey and help him grow healthy and happy."
The infant formula companies also promoted their products through the use of "baby booklets" which were distributed to new mothers free of charge. Nestlé, for example, distributed booklets entitled A Life Begins and Your Baby and You that urged the mother to use "an occasional bottle-feed" when she could not breast-feed her baby "entirely" by herself. The pamphlets also drew attention to various reasons for discontinuing breast-feeding and for substituting formula.

Critics of the infant formula industry employed several strategies as they attempted to pressure the companies into changing their marketing practices. In England, the War On Want, a charity organization, published The Baby Killer, an exposé of the infant formula issue and a severe criticism of Nestlé. When a German translation appeared within a year retitled Nestle Kills Babies, Nestlé sued the publishers for defamation and libel. Although Nestlé won the suit in 1976, the lawsuit drew substantial media coverage and focused attention on Nestlé's marketing practices. The following year, in the United States several consumer advocacy groups joined together to form INFACT (Infant Formula Action), a coalition that launched a national boycott of all Nestlé products.

Through 1975, 1976, and 1977, members of the Interfaith Center for Corporate Responsibility (an agency that tries to promote social responsibility in corporations) who held stock in Bristol-Myers, Borden's, Abbott, and American Home Products joined together to sponsor shareholders' resolutions requesting that these companies release information on their infant formula promotion policies. Although these resolutions were all voted down, the companies nonetheless eventually agreed to release the information requested. Subsequently, the Interfaith Center submitted resolutions to American Home Products and Abbott Laboratories asking that these companies cease advertising infant formula to Third World consumers, discontinue using medical personnel and free samples, and include clear instructions and warnings on all infant formula products. Although these resolutions were voted down, they generated substantial publicity for the Interfaith Center and the infant formula issue.

The companies producing infant formula responded to the criticisms in several ways. One response was to argue that withdrawing infant formulas from the Third World would create even greater problems. Abbott Laboratories, for example, argued that the availability of infant formula was a health necessity in Third World countries, and the critical problem was that of developing safe methods of making it available.

Few would debate that breast-milk alternatives have been necessary . . . [in cases] related to maternal disease, infant deformities, serious illness, prematurity, and inadequacy of breast-milk. In these cases, a formula may be necessary to complement or replace breast-milk if the child is to progress normally. . . . [Another] problem is that women of low socioeconomic status in developing countries are often malnourished . . . they produce an at-risk newborn of low birth weight in up to 50 percent of the cases . . . If fed solely at the breast, low birth weight infants begin to exhibit signs of growth retardation, reduced activity and other symptoms of serious malnutrition at about three months . . . The infant's poor state of malnutrition is associated with higher susceptibility to infection and disease . . . Over time we believe it will become increasingly clear that a high-quality infant formula, closely
patterned after breast-milk and fed with breast-milk may be nutritionally preferable for many infants, if the intergenerational cycle of malnourished mothers, malnourished infant is to broken. . . . So that this point of view is not misinterpreted, we reaffirm that every mother who can, should breast-feed. Even if the breast-milk eventually becomes inadequate, the mother should breast-feed so that the baby receives colostrum and as much benefit as possible from her natural milk . . . [However] in the case of significantly malnourished mothers with low birth weight infants, the advice that nothing but breast-feeding should be offered to a malnourished child for four to six months may prove to be too conservative. Without nutritional intervention and breast-fed only, the infant may be safer but stunted, inactive, and perhaps mentally affected, and the infant's future outcome bleak. A well-nourished infant is less susceptible to infection, so the dangers of early nutritional supplementation need to be weighed against the benefit of resistance to disease.7

During the early 1970s, Abbott Laboratories, American Home Products, and Nestlé participated in conferences on infant nutrition that were sponsored by the World Health Organization, UNICEF, and the Protein Advisory Calories Group of the United Nations. Neither Borden’s nor Bristol-Myers took an active part in these conferences. In November 1975, several infant formula manufacturers formed the International Council of Infant Food Industries (ICIFI) and adopted a code of marketing ethics. Steven Bauer, president of ICIFI, described the code as a "minimum standard" that "addresses itself to matters of ethics and professional standards but not to commercial matters [advertising or marketing policy], which remain the duties and obligations of individual member companies."8 The ICIFI Code recognized the principle "that breast-milk is the preferred form of nutrition for infants not needing special diets" and that "breast-milk substitutes are intended to supplement breast-milk and [are] for use when mothers cannot, or elect not to, breast-feed for medical or other reasons." The code stated in part:

1. The members of ICIFI accept responsibility for the diffusion of information that supports sound infant feeding practices. . . .
2. Product information for the public will always recognize that breast-milk is the feeding of choice with the recommendation to seek professional advice when a supplement or alternative may be required.
3. Product labeling will affirm breast-feeding as the first choice for the nutrition of infants.
4. Product claims will reflect scientific integrity without implication that any product is superior to breast-milk.
5. Explicitly worded instructions and demonstrations for product use will be provided . . .
6. In cooperation with health authorities, professional communications and educational materials will be provided to caution against misuse . . .
7. Members’ personnel will observe professional ethics . . . in medical/nursing centers, maternities, and physician’s offices and all contacts.
8. Members will employ nurses, nutritionists, and midwives whenever possible to perform mothercraft services . . .
9. Individual contacts by mothercraft personnel and issuance of complimentary supplies of breast-milk substitutes will be in consultation with medical or nursing personnel . . .
10. Mothercraft personnel will support doctors . . . and will not discourage mothers from . . . breast-feeding.

11. Nurses’ uniforms will be worn only by persons who are professionally entitled to their use . . .

12. Compensation of mothercraft personnel will be on a basis of quality and level of services performed and without relationship to sales.

13. Adherence to this code will be obligatory on all members of ICIFI . . .

Both Nestlé and American Home Products adopted the code. Abbott Laboratories, however, criticized the marketing code as too weak and subsequently withdrew from the ICIFI:

Although supportive of the concept, [we] decided not to join the International Council of Infant Food Industries (ICIFI) because we felt that the use of mass-media campaigns for infant formula were inappropriate in third-world settings, and the ICIFI code did not specifically exclude these practices. We subsequently published a printed code outlining our marketing policies. [Statement of Abbott Laboratories spokesperson]

Unlike the ICIFI code, the Abbott Laboratories’ own marketing code prohibited advertising directly to consumers. The Abbott Laboratories’ code stated in part:

1. We believe that unsupervised, direct promotion of infant feeding products to mothers can unjustly impel them to make decisions concerning the care and nutrition of their babies for which they may lack adequate medical or nutritional knowledge. Therefore, we do not advertise our products through general circulation magazines, directories, newspapers, radio, television, billboards, and other public mass media.

2. We do not encourage use of our products where private purchase would impose a financial hardship on the family, or where inadequate facilities for preparation constitute a hazard to infant health.

3. If any contact with mothers is made . . . it must be with the explicit agreement of a health care professional. Samples are supplied only to professional health care personnel at their request.

4. Company representatives . . . are thoroughly taught the preference and value of breast-feeding . . . Deception and other unethical practices are expressly forbidden. Specifically, any inference that our employees are members of a hospital, clinic, or maternity center staff is contrary to company policy. Even in the case of female employees who are qualified nurses, nurses uniforms are not to be worn. Nurses are reimbursed through adequate salary, not sales commission.

5. Our product label and printed instruction, in addition to stressing the importance of breast-feeding, will emphasize the need for accurate, proper proportions in preparing the formula. Pictographs as well as the written word will be included in appropriate language.

6. We will direct additional company resources to: (a) encourage breast-feeding, (b) promote good overall nutritional practices, (c) improve infant and child care, (d) improve sanitation.
7. Unless proscribed by law, we will terminate any distributor who does not follow the code. The company has devised internal procedures and policy to maintain ongoing surveillance of our marketing practices.11

The surveillance system used by Abbott Laboratories consisted of asking all field managers to state in writing twice a year whether they were following the code, and of discussing the code with managers in different countries. Bristol-Myers and other drug companies in the infant formula industry also adopted codes similar to Abbott’s.

These codes have not entirely satisfied critics. The ICIFI code, in particular, has been heavily criticized. The United Nations' Protein Advisory Group in a letter dated January 23, 1976, claimed that the ICIFI marketing code (1) implied that only "healthy" mothers should breast-feed their infants, (2) provided no way of ensuring that sales staffs in developing countries would communicate the superiority of breast milk, (3) allowed marketing of formula among illiterate mothers who could not read the instructions for preparing the formula, (4) allowed company sales staff to "be visible in medical wards and maternity institutions," (5) failed to regulate promotional material, and (6) was subject to "several weaknesses, inadequacy, and vagueness."12 In addition, INFACT critics claimed, the ICIFI code provided no surveillance or enforcement methods, it permitted mass advertising aimed at consumers to continue, it allowed nurses to promote the formula to mothers, and it allowed free samples for mothers of newborns. The code, they claimed, in effect "legitimized" these promotional practices. Doubts about the Abbott Laboratories code and others like it focused primarily on the effectiveness of the company's enforcement efforts, on the propriety of continuing to place their "nurses" in health and maternity institutions, and on doubts whether Abbott could control distribution of its products in the many Third World countries where even pharmaceutical drugs are legally sold over-the-counter without prescription.

1Undated letter printed and distributed by the Newman Center, 1701 University Ave., S. E., Minneapolis, MN 55414.
2The information in this and the following paragraph is drawn from James E. Post, "The International Infant Formula Industry," pp. 215-41, in Marketing and Promotion of Infant Formula in the Developing Nations, 1978: Hearing Before the Subcommittee on Health and Scientific Research of the Committee on Human Resources. U.S. Congress, Senate, 95th Congress. Hereinafter this publication is cited as "Hearings."
6Hearings, pp. 720-21.
7Ibid., pp. 263-68.
9Ibid., pp. 887-88.
10Ibid., p. 270.
11Ibid., p. 206-7.
Case Study 4: A South African Investment

In April 1977, the Interfaith Center on Corporate Responsibility announced that some of its subscribing members owned stock in Texaco, Inc. and in Standard Oil Co. of California (SoCal), and that these members would introduce shareholders' resolutions at the next annual stockholders' meeting of Texaco and SoCal that would require that these companies and their affiliates terminate their operations in South Africa. The effort to get Texaco and SoCal out of South Africa was primarily directed and coordinated by Tim Smith, project director of the Interfaith Center on Corporate Responsibility. The stockholders' resolution that Tim Smith would have the Interfaith shareholders introduce at the annual meetings of Texaco and SoCal read as follows:

Whereas in South Africa the black majority is controlled and oppressed by a white minority that comprises 18 percent of the population; Whereas South Africa's apartheid system legalizes racial discrimination in all aspects of life and deprives the black population of their most basic human rights, such as, Africans cannot vote, cannot collectively bargain, must live in racially segregated areas, are paid grossly discriminatory wages, are assigned 13 percent of the land while 87 percent of the land is reserved for the white population; Whereas black opposition to apartheid and black demands for full political, legal, and social rights in their country has risen dramatically within the last year; Whereas widespread killing, arrests, and repression have been the response of the white South African government to nationwide demonstrations for democratic rights; Whereas Prime Minister Vorster has openly declared his intention to maintain apartheid and deny political rights to South African blacks; Whereas we believe that U.S. business investments in the Republic of South Africa, including our company's operations, provide significant economic support and moral legitimacy to South Africa's apartheid government; Therefore be it resolved: that the shareholders request the Board of Directors to establish the following as corporate policy:

"Texaco [and Standard Oil of California] and any of its subsidiaries or affiliates shall terminate its present operations in the Republic of South Africa as expeditiously as possible unless and until the South African government has committed itself to ending the legally enforced form of racism called apartheid and has taken meaningful steps toward the achievement of full political, legal, and social rights for the majority population (African, Asian, colored)."

The resolution was occasioned by the fact that Texaco and SoCal were the joint owners of Caltex Petroleum Co. (each owns 50 percent of Caltex), an affiliate that operates oil refineries in South Africa and that in 1973 was worth about $100 million. In 1975 Caltex announced that it was planning to expand its refinery plant in Milnerto, South Africa, from a capacity of 58,000 barrels a day to an increased capacity of 108,000 barrels a day. The expansion would cost $135 million and would increase South Africa's total refining capacity by 11 percent. Caltex would be obliged by South African law to bring in at least $100 million of these investment funds from outside the country.
The management of Texaco and SoCal were both opposed to the resolution that would have required them to pull out of South Africa and to abandon their Caltex expansion plans, which, by some estimates, promised an annual return of 20 percent on the original investment. They therefore recommended that stockholders vote against the resolution. The managements of both Texaco and SoCal argued that Caltex was committed to improving the economic working conditions of its black employees and that their continued presence in South Africa did not constitute an "endorsement" of South Africa's "policies." The commitment of Caltex to improving the condition of its employees was evidenced, the companies claimed, by its adherence to the 1977 "Sullivan principles."

Early in 1977, Caltex was one of several dozen corporations that had adopted a code of conduct drafted by the Reverend Dr. Leon Sullivan, a civil rights activist who is a minister of Philadelphia's large Zion Baptist Church. The Code was based on these six principles that the corporations affirmed for their plants:¹

I. Nonsegregation of the races in all eating, comfort, and work facilities.
II. Equal and fair employment practices for all employees.
III. Equal pay for all employees doing equal or comparable work for the same period of time.
IV. Initiation of and development of training programs that will prepare, in substantial numbers, blacks and other nonwhites for supervisory, administrative, clerical, and technical jobs.
V. Increasing the number of blacks and other nonwhites in management and supervisory positions.
VI. Improving the quality of employees' lives outside the work environment in such areas as housing, transportation, schooling, recreation, and health facilities.

These companies agree to further implement these principles. Where implementation requires a modification of existing South African working conditions, we will seek such modification through appropriate channels.

The code had been approved by the South African government since the principles were to operate within "existing South African working conditions," that is, within South African laws. South African laws requiring separate facilities and South African laws prohibiting blacks from becoming apprentices, for example, would continue to apply where in force.² Also, the principle of equal pay for equal work would probably require few changes where blacks and whites did not have equal work.

Caltex, however, was apparently committed to improving the economic position of its workers. It had moved 40 percent of its 742 black workers into refinery jobs formerly held by whites, although most blacks had remained in the lower six job categories (a total of 29 had moved into the top four white-collar and skilled categories).³ The company had also kept its wages well above the averages determined in studies conducted by the South African University of Port Elizabeth. A basic argument that Texaco and SoCal advanced in favor of remaining in South Africa, then, was that their continued presence in South Africa advanced the economic welfare of blacks.
Texaco believes that continuation of Caltex’s operations in South Africa is in the best interests of Caltex’s employees of all races in South Africa. . . . In management’s opinion, if Caltex were to withdraw from South Africa in an attempt to achieve political changes in that country, as the proposal directs, . . . such withdrawal would endanger prospects for the future of all Caltex employees in South Africa regardless of race. We are convinced that the resulting dislocation and hardship would fall most heavily on the nonwhite communities. In this regard, and contrary to the implications of the stockholders’ statement, Caltex employment policies include equal pay for equal work and the same level of benefit plans for all employees as well as a continuing and successful program to advance employees to positions of responsibility on the basis of ability, not race. [Statement of Texaco management]4

It is undeniable that the presence of foreign corporations in South Africa had helped to improve the real earnings of black industrial workers. Between 1970 and 1975, black incomes in Johannesburg rose 118 percent, while between 1975 and 1980 black per capita income was expected to rise 30 percent. In addition, the gap between black and white incomes in South Africa had narrowed. Between 1970 and 1976, the gap in industry narrowed from 1:5.8 to 1:4.4; in construction from 1:6.6 to 1:5.2; and in the mining sector from 1:19.8 to 1:7.7.5 If the flow of foreign investment came to a halt, however, the South African normal yearly growth rate of 6 percent would drop to about 3 percent and the results would undoubtedly hit blacks the hardest.6 Unemployment would rise (American companies employ 60,000 blacks), and whatever benefits blacks had gained would be lost.

Tim Smith and the Interfaith stockholders were aware of these facts. The basic issue for them, however, was not whether Caltex adhered to the six Sullivan principles or whether its presence in South Africa improved the economic position of blacks:

The issue in South Africa at this time is black political power; it is not slightly higher wages or better benefits or training programs, unless these lead to basic social change. As one South African church leader put it, “These [six] principles attempt to polish my chains and make them more comfortable. I want to cut my chains and cast them away.” . . . We must look not just at wages but at the transfer of technology, the taxes paid to South Africa, the effect of U.S. foreign policy, and the provision of strategic products to the racist government. If these criteria become part of the “principles” of U.S. investors, it should be clear that on balance many of the corporations strengthen and support white minority rule. This form of support should be challenged, and American economic complicity in apartheid ended. [Statement of Tim Smith]7

In short, the issue was one of human rights. The white South African government was committed to denying blacks their basic rights, and the continued presence of American companies supported this system of white rule.
Nonwhites in South Africa are right-less persons in the land of their birth. . . . [The black African] has no rights in "white areas." He cannot vote, cannot own land, and may not have his family with him unless he has government permission. . . . The two major black political parties have been banned and hundreds of persons detained for political offenses. . . . strikes by Africans are illegal, and meaningful collective bargaining is outlawed. . . . by investing in South Africa, American companies inevitably strengthen the status quo of [this] white supremacy. . . . The leasing of a computer, the establishment of a new plant, the selling of supplies to the military—all have political overtones. . . . And among the country's white community, the overriding goal of politics is maintenance of white control. In the words of Prime Minister John Vorster during the 1970 election campaign: "We are building a nation for whites only. Black people are entitled to political rights but only over their own people--not my people." [Statement of Tim Smith]

There was no doubt that the continuing operations of Caltex provided some economic support for the South African government. South African law required oil refineries in South Africa to set aside a percentage of their oil for government purchase. In 1975, about 7 percent of Caltex's oil sales went to the government of South Africa. As a whole, the South African economy relied on oil for 25 percent of its energy needs. Moreover, Caltex represented almost 11 percent of the total U.S. investment in South Africa. If Caltex closed down its operations in South Africa, this would certainly have had great impact on the economy, especially if other companies then lost confidence in the South African economy and subsequently also withdrew from South Africa. Finally, Caltex also supported the South African government through corporate taxes.

At each of the Texaco and SoCal shareholders' meetings held in May, 1977, the resolutions of the Interfaith Center on Corporate Responsibility received less than 5 percent of the shares voted. The Caltex plant in South Africa completed its expansion as planned. But conditions in South Africa continued to deteriorate for the oil industry.

In 1978, the OPEC nations announced that all of their members had at last unanimously agreed to embargo oil shipments to South Africa. Concerned about the increasingly sensitive vulnerability of its strategic oil supplies, the South African government, now under the leadership of Prime Minister P. W. Botha, responded by tightening its regulation of the oil industry. The National Supplies Procurement Act was strengthened to give the government authority to force foreign-owned companies to produce strategically important petroleum products. The Act also prohibited oil companies from restricting sales of oil products to any credit-worthy customers, including any branch of government. And the Official Secrets Act made it a crime for anyone within South Africa to release any information whatsoever on the petroleum industry or the operations of any oil enterprise.

Because it was important that foreign companies remain in South Africa, however, the government became more receptive to the lobbying efforts of American companies. Business lobbying efforts were instrumental in the 1979 repeal of laws that had denied legal status to unions for Africans and of laws that hindered Africans from being trained or promoted
for skilled jobs. Starting in the early 1980s, American businesses began lobbying for the repeal of the hated “influx control laws” (laws requiring black Africans within white South Africa to carry a “pass book” detailing their residence and employer and prohibiting non-employed black Africans from remaining in white South Africa for longer than seventy-two hours) and for granting blacks some form of political representation in the South African government. Several of the social aspects of apartheid (such as the "Immorality Act" which made interracial sexual intercourse a criminal offense until 1985 and the "petty apartheid laws" which required enforced segregation of the races) were eventually lifted or attenuated.

Although the 1977 defeat of their resolution was disappointing, anti-apartheid activists determined to press on with their battle. In May 1983, activists introduced another shareholder resolution to be considered at the Texaco and SoCal shareholders’ meetings, this time asking that Caltex not sell petroleum products to the police or military of South Africa. The managers of both Texaco and SoCal objected to the resolution, claiming that this new resolution asked them to violate the laws of South Africa. According to the managers, South Africa's National Supplies Procurement Act gave the South African government the authority to require any business to supply it with goods. Moreover, the Price Control Act of 1964 also gave the government the authority to prohibit companies from placing restrictions on the sale of their goods. The South African government had exercised this authority, the managers said, when it earlier had "directed Caltex to refrain from imposing any conditions or reservations of whatever nature in respect to the use, resale, or further distribution of petroleum products and, also, from refusing to sell except subject to such conditions." Consequently, they held, the resolution in effect asked them to commit a serious crime: "It would be a crime under South Africa's law were Caltex-South Africa to undertake a commitment to not supply petroleum products for use by the South African military or any other branch of the South African government." The Securities and Exchange Commission (SEC), which regulates the submission of shareholders’ resolutions, agreed with the companies. The SEC therefore allowed SoCal to remove the resolution from its proxy ballots on the grounds that the resolution might be asking the company to do something illegal. Although Texaco was allowed to do the same, Texaco managers decided to let the resolution be voted upon by its shareholders.

At the May, 1983 shareholders’ meetings, the resolution received the support of 7.4 percent of the Texaco shares voted, an unusually high level of support, but not sufficient to require the company to implement the resolution.

Encouraged by the gradually increasing levels of shareholder support their resolutions were drawing, the anti-apartheid forces were more determined than ever to press on with their efforts. In June, 1983, Bishop Desmond Tutu, a moderate black South African religious leader, had outlined four principles that he urged foreign companies in South Africa to follow. Foreign companies, he said, should tell the government of South Africa that they would remain in the country only if they were permitted to (1) ensure their black workers could live with their families, (2) recognize black labor unions, (3) oppose influx control over labor, and (4) enforce fair labor practices and invest in black education. These four principles, activists felt, went beyond the Sullivan principles because they required companies to work for change outside the company.
Consequently, in 1984, and again in 1985, they brought a resolution before the shareholders of Texaco and SoCal (now renamed "Chevron") that read as follows:

WHEREAS, the system of apartheid assigns the non-white majority of South Africa to perpetual and enforced inferiority by excluding them from full participation in the social and economic system and political processes by which their lives are controlled, thus effectively denying them their economic and political rights;
WHEREAS, laws such as the Group Areas Act which assigns 87% of the land to 16% of the population and the various influx control laws which regulate the movement of blacks within the country form the basic legal structure of apartheid;
WHEREAS, Texaco Inc. [and Chevron], through Caltex, is one of the largest U.S. investors in South Africa, with assets of approximately 300 million;
WHEREAS, Caltex is engaged in South Africa, through subsidiaries in refining crude oil, manufacturing and blending lubricants, and marketing petroleum products, including retail gasoline sales. Caltex holds an estimated 20 percent share of the petroleum market in South Africa. The oil industry plays an extremely strategic role in South Africa today, and oil is deemed a "munition of war" under South African Law;
WHEREAS, the operations of Caltex in South Africa are subject to the National Supplies Procurement Act No. 89 of 1970, and the Price Control Act No. 25 of 1964. Caltex has been given a directive under these laws that it may not refuse to supply petroleum products to any credit-worthy South African citizen or organization, and the Government has power to demand the supply and delivery of such products. The South African Government has directed Caltex to refrain from imposing any conditions or reservations of whatever nature in respect of the use, resale or further distribution of petroleum products. Caltex cannot impose any restrictions on its sales to the military or police;
WHEREAS, the size of Texaco's investment, strategic role in the economy, and sales to the military and police in South Africa invest Texaco with special social responsibility for the impact of its operations in South Africa;
WHEREAS, Texaco has stated that "We believe our affiliate is making an important positive contribution to improving economic and social opportunities for its present and future employees";
WHEREAS, Bishop Tutu, General Secretary of the South African Council of Churches, recently outlined several conditions of the investment which would enable Caltex and other U.S. companies to make such a "positive contribution to improving economic and social opportunities," these conditions include:

1. House the workforce in family-type accommodations as family units near the place of work of the breadwinner.
2. Recognizing black trade unions as long as they are representative.
3. Recognizing the right of the worker to sell labor wherever the best price can be obtained, calling for labor mobility, and opposing any ultimate implementation of influx control, and
4. Enforcing fair labor practices and investing massively in black education and training.
RESOLVED, Shareholders request the Board of Directors to:

1. Implement and/or increase activity on each of the four Tutu conditions and report to shareholders annually how the Company's presence is, on balance, a positive influence for improving the quality of life for non-white South Africans; Or,

2. If the South African Government does not within 24 months take steps to rescind the Group Areas Act and the influx control laws as steps toward the dismantling of apartheid, begin the process of withdrawal from South Africa.

Although the resolutions failed in both years, they were again supported by a surprisingly large number of votes. By the end of 1985, it was clear that South Africa was at a crisis point and that the pressure on companies would continue.11 Hundreds of blacks had been killed in the unrest that had erupted in September 1984 when a new constitution had established a three-part government with representation for whites, Indians, and coloreds, but not for blacks. In 1985 martial law was imposed on the country. Freed from the fear of civil restraints, the police brutally abused blacks.

Thousands were imprisoned without charges, dozens were shot and killed in "incidents." Black townships assigned as living areas for blacks in white South Africa became dangerous "no go" areas for whites. The press and television were banned from photographing "any public disturbance." The economy was undergoing a severe recession. Sporadic black boycotts of white businesses broke out. Black unemployment climbed to 35 percent, while the costs of basic goods and services rose sharply. In an effort to show that black Africans were not completely disenfranchised, Prime Minister Botha had earlier established elected community councils to govern the black townships. But in most townships council members were forced to resign under pressure from other blacks who held that the councils were a cover for the basic fact that blacks still had no political rights in the three-part government that had been imposed on them.

Several major Western nations imposed economic sanctions against South Africa, and Western banks began to refuse to renew loans to private companies as they came due. The South African government responded by imposing a moratorium on the repayment of its foreign debt on September 1, 1985. The government also announced that foreign companies wishing to sell their assets in South Africa would have to be paid in "financial rands," special currency that could not be converted into a foreign currency unless another foreign investor wanted to buy the South African assets. It thus became more difficult for firms to leave South Africa.

4Texaco Proxy Statement, 1977, item 3.
5Nickel, "Doing Business in South Africa," p. 64.
6Ibid., p. 63.
7Timothy Smith, "Whitewash for Apartheid from Twelve U.S. Firms," Business and Society Review, Summer 1977, pp. 59,