



Interfaith Center on
Corporate Responsibility

Inspired by faith, committed to action

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To: Public Pension Fund Trustees
Mutual Fund Managers
Proxy Voting Services

From: Margaret Weber, Dominican Sisters of Adrian Michigan and Co-Chair, Access to
Health Care Working Group, Interfaith Center on Corporate Responsibility

Sister Vicki Bergkamp, Adorers of the Blood of Christ of Wichita Kansas and Co-Chair,
Access to Health Care Working Group, Interfaith Center on Corporate
Responsibility

Re: 2005 Pharmaceutical Industry Shareholder Resolutions

Date: 1 March 2005

The Interfaith Center on Corporate Responsibility (ICCR) is a coalition of faith-based institutional investors working for peace, justice, and stewardship of the earth since 1971. Faith-based institutional investors have been working for over a decade to increase access to medicines and to protect shareholder value by encouraging reform in the pharmaceutical industry. To that end, members of ICCR are proposing a series of steps to increase accountability and transparency, to be voted on at the 2005 annual shareholders' meetings of U.S.-based pharmaceutical companies.

On behalf of the Access to Health Care Working Group, we write today to ask for your support for these resolutions:

- **Corporate Governance Reform:** Separation, whenever possible, of the roles of Chair and Chief Executive Officer.
- **HIV Reporting:** Analysis by each pharmaceutical company of the impact of HIV/AIDS on that company, as well as their response to the HIV/AIDS crisis.
- **Political Contribution Disclosure:** Public reporting of corporate political contributions, including state and local contributions, soft money, and contributions to so-called '527' organizations.

The resolutions are attached to this memo.

The Problem

The pharmaceutical industry’s long-term business model is under considerable stress.

The current business model of the industry assumes a small number of very profitable drugs – blockbusters – will generate shareholder value. These drugs are sold at high prices in the United States, where health care purchasers pay more than in other industrialized countries.

Yet millions of Americans can not access affordable prescription drugs.

Simultaneously, literally millions of people are consigned to premature deaths from the HIV/AIDS – Tuberculosis – Malaria pandemics. These diseases are threatening growth prospects in emerging markets.

This business model provides neither medicines to those in need nor consistent protection of shareholder value. We believe that it is not sustainable, and that the industry must reform itself. This slate of shareholder resolutions can begin the reforms necessary to put the industry on surer long-term footing, thereby protecting our and your investments, and your beneficiaries.

<i>2005 ICCR Drug Company Resolutions</i>			
(Filed resolutions that we expect to appear on the final proxy statement).			
	Separate Chair & CEO	Political Disclosure	HIV Reporting
Abbott Laboratories	Filed	Filed	Filed
Bristol-Myers Squibb	Filed	W/D	Filed
Gilead Sciences	N/A	N/A	Filed
Johnson & Johnson	W/D	W/D	Filed
Eli Lilly & Co.	Filed	Filed	N/A
Merck	Filed	Filed	Filed
Pfizer	Filed	N/A	W/D
Schering-Plough	N/A	W/D	N/A
Wyeth	Filed	Filed	N/A

Source: ICCR
 Key: W/D – withdrawn due to compliance by the company.
 N/A – no filing because not applicable to company.

Corporate Governance Reform

Attentive corporate governance is essential for companies to serve all stakeholders. One basic element of good governance is the separation of the roles of Chair and Chief Executive Officer (CEO). CEOs are under the unrelenting pressures of running global enterprises – something most do very well. Yet responding to these day to day pressures may leave little room for evaluating the long-term risk implications of the industry’s course.

Corporate management argues that combining the distinct roles of Chair and CEO enables the company to execute strategy better and thereby to maximize shareholder value. But At these pharmaceutical companies, we believe that separating these roles will result in improved performance from a social responsibility perspective, and for some companies, from a financial perspective as well.

In addition, an independent board chair would help address complex issues, foremost among them the lack of access to affordable prescription drugs.

Many companies have appointed 'lead directors' to chair the Board in executive session. This has value, but is not sufficient to create true independent leadership which is necessary to meet the policy challenges facing these companies.

*Public Pension Funds' Recent Support
For Pharmaceutical Industry Reforms*

California Public Employees Retirement System – voted for 2004 resolutions addressing HIV and AIDS; disclosure of political contributions; and affordability of prescription drugs.

California State Teachers Retirement System – voted for 2004 resolutions addressing HIV and AIDS; and affordability of prescription drugs.

State of Connecticut Retirement Plans and Trust Funds – voted for 2004 resolutions addressing HIV and AIDS; and disclosure of political contributions.

Minnesota State Board of Investment – votes for resolutions to address “unsustainable and disproportionate pricing in the United States,” or to disclose “the costs incurred by the company in relation to efforts to maintain the current pricing structures.”

New York State Common Retirement Fund – co-sponsored the 2005 resolution seeking disclosures of political contributions at Merck and Lilly.

Source: Websites of the pension funds.

Implementing this reform is not onerous, and, since it is a basic element of sound governance policy, it has the potential to be of immense benefit to both shareholders and patients.

HIV Reporting

We are requesting a review by the Board of the economic effects of the HIV/AIDS – Tuberculosis – Malaria pandemics on firms' business strategies, and their responses to the crisis.

We believe that company responses today are insufficient and do not address the danger pandemic diseases pose to the industry. The reporting process, with leadership from the Board of Directors, could lead to a clearer evaluation of the risks and opportunities the firms face.

The current lackluster response is doubly damaging to drug companies. First, harmonized global intellectual property (IP) protections are essential to the global expansion of the industry. But inflexibility on the generic production of one set of products – those few drugs which treat HIV/AIDS and other pandemic diseases – has created a public and political backlash against IP protections. More flexible approaches to patent enforcement and enhanced voluntary licensing in HIV-impacted markets could help mute this backlash.

Second, policymakers have reached a consensus that emerging markets are threatened by the impacts of HIV and other diseases. This damages all businesses counting on expansion in China and India. This harms not only the future growth prospects of the pharmaceutical firms themselves, but also of a great many other multinational companies which are undoubtedly in your portfolios.

We recognize corporate philanthropy on HIV, but our resolution does not address philanthropy. It focuses solely on gaining Board-level, strategic leadership to ensure that the company has properly evaluated the opportunities and challenges pandemic diseases create. Renewed leadership – and partnership with other key sectors of society, such as local generic drug companies and national governments – would benefit shareholders and save millions of productive lives.

Political Contribution Disclosure

Our final drug company reform proposal is in many ways the easiest for firms to comply with. We are requesting a twice-yearly web-based disclosure of the Company's policies and procedures for political contributions (both direct and indirect) made with corporate funds, as well as monetary and non-monetary contributions to political candidates, political parties, political committees and other political entities. This is a simple request because, presumably, companies already track such information.

Indeed, the number of companies which have complied with the proposal, and had it withdrawn, is ample evidence of the reasonableness of our approach.

This reform merely seeks disclosure. In no way does it implicitly or explicitly prohibit contributions. Surely shareholders and Boards have an obligation to monitor the use of corporate resources for partisan ends.

The Challenge of Universal Ownership

We believe these three resolutions are in the interests of all shareholders. Public pension fund trustees have two added reasons to support them: universal ownership and the impact on fund beneficiaries.

Because of the need for proper diversification, institutional shareholders today own a true cross-section of the American economy. Rising health care costs act as a drag on U.S. economic growth, and the lack of reform in the pharmaceutical industry is a significant cause of rising health care costs. Thus 'universal owners' have an added interest in encouraging pharmaceutical reform.

In addition, rising costs of prescription drugs clearly harm retirees – the beneficiaries of pension plans – because of higher costs, reduced access to prescription drugs, and poor health outcomes which result from lack of access.

Therefore, casting your proxy votes in favor of appropriate reforms means voting in the interests both of the fund as fiduciary and the fund as health care purchaser. It also supports the interests of the beneficial owners of your fund, retirees themselves.

In Conclusion

The reforms we seek – transparency on company responses to HIV and AIDS, separation of the roles of Chair and CEO, and disclosure of political contributions and rationales – are measured, appropriate responses to today's health care crisis. These steps are consistent both with protection of your beneficiaries and with the protection of shareholder value.

We would appreciate hearing from you as you decide on these matters. Also, feel free to use ICCR as a resource on these issues. Please direct correspondence to Daniel E. Rosan, Program Director for Public Health at ICCR, at 212-870-2317 or drosan@iccr.org.

Many of your colleagues around the country are supporting our efforts. Please join them, and us, by casting your valuable proxy votes in favor of these resolutions.

Separating the Roles of Chair and C.E.O. (Sample Resolution)

Resolved: The shareholders of Lilly (Eli) and Company (the “Company”) request the Board of Directors establish a policy of, whenever possible, separating the roles of Chairman and Chief Executive Officer, so that an independent director who has not served as an executive officer of the Company serves as Chair of the Board of Directors.

This proposal shall not apply to the extent that complying would necessarily breach any contractual obligations in effect at the time of the 2005 shareholder meeting.

Supporting Statement: We believe in the principle of the separation of the roles of Chairman and Chief Executive Officer. This is a basic element of sound corporate governance practice. In addition, the lack of access to medicines has created a leadership crisis at our company which a separation of the Chair and CEO would begin to address.

We believe an independent Board Chair – separated from the CEO – is the preferable form of corporate governance. The primary purpose of the Board of Directors is to protect shareholder’s interests by providing independent oversight of management and the CEO. The Board gives strategic direction and guidance to our Company.

The Board will likely accomplish both roles more effectively by separating the roles of Chair and CEO. An independent Chair will enhance investor confidence in our Company and strengthen the integrity of the Board of Directors.

A number of respected institutions recommend such separation. CalPER’s Corporate Core Principles and Guidelines state: “the independence of a majority of the Board is not enough” and that “the leadership of the board must embrace independence, and it must ultimately change the way in which directors interact with management.”

An independent board structure will also help the board address complex policy issues facing our company, foremost among them the crisis in access to pharmaceutical products.

Millions of Americans and others around the world have no access to our company’s life-saving medicines. This is an emergency, and our company’s charitable work, while laudable, is neither a sufficient nor strategic response. We believe an independent Chair and vigorous Board will bring greater focus to this ethical imperative, and be better able to forge solutions for shareholders and patients to address this crisis.

The current business model of the pharmaceutical sector is undergoing significant challenges. The industry has generated substantial revenue from American purchasers, who pay higher prices for medicines than people in other developed countries. Pressure on drug pricing and dependence on this business model may impact our company’s long-term value.

In order to ensure that our Board can provide the proper strategic direction for our Company with independence and accountability, we urge a vote FOR this resolution.

Report Related To Global HIV/AIDS-TB-Malaria Pandemics (Sample Resolution)

Resolved: Shareholders request that our Board review the economic effects of the HIV/AIDS, tuberculosis and malaria pandemics on the company's business strategy, and its initiatives to date, and report to shareholders within six (6) months following the 2005 annual meeting. This report, developed at reasonable costs and omitting proprietary information, will identify the impacts of these pandemics on the company.

Supporting Statement: We believe that HIV/AIDS, Tuberculosis (TB) and Malaria pose major risks to the long-term financial health of firms, like Gilead Sciences, that operate in emerging markets.

Our company is involved in the production of medicines to treat these pandemics, which can save and extend the lives of millions of people. Therefore our company can and should play a key role in addressing the economic, political, and moral emergencies of HIV-TB-Malaria in sub-Saharan Africa, India, China, southeast Asia, and Russia.

The crisis of HIV/AIDS in Africa, with half of all global HIV/AIDS cases, is well known. UNAIDS – the joint United Nations AIDS program – reports life expectancy in much of southern Africa has declined by over half, to barely thirty years.

New research also shows disturbing trends in Asian markets. 7.4 million people in Asia are living with HIV, says UNAIDS. India has the greatest number of people living with HIV in the world, says Richard Feachem, who runs the Global Fund to Fight AIDS-TB-Malaria. New infection rates in Asia are at all-time highs.

Foreign Affairs reported in December 2002 that even moderate HIV pandemics in India and China may reduce per capita GNP by 2025 to virtually 2000 levels – wiping out a generation's worth of economic growth.

In China, UNAIDS projects 10 million infections by 2010. Stephen Roach, Morgan Stanley's Chief Economist, wrote in June 2004 that "all the economic growth in the world cannot possibly compensate for the devastation China would face if [UNAIDS] projections were to come to pass."

Despite these warnings, a 2004 World Economic Forum report concluded "firms are not particularly active in combating HIV/AIDS" and "businesses appear to be making decisions based on a patchy assessment of the risks they face."

Unfortunately, "most companies do not yet report appropriate data for investors to make informed decisions about the impact of HIV/AIDS," says a 2003 survey of corporations by UNAIDS. We believe, to date, our company's reporting has also been inadequate.

In contrast to our company's performance, several large-cap firms make reporting on infectious diseases best practice. In 2004, Coca-Cola shareholders approved a resolution seeking such a report with 98% support. Coca-Cola's subsequent report notes "the moral and business imperatives are of equal importance" in responding to HIV/AIDS.

Our experience with Coca-Cola and other leading companies demonstrates that these reports need not be onerous. In our opinion, shareholders must fully understand the threats posed by these diseases in order to make informed assessments of our company's value.

We urge shareholders to vote FOR this resolution.

Shareholder Resources Used For Political Purposes
(Sample Resolution)

Resolved, that the shareholders of Merck ("Company") hereby request that the Company provide a report updated semi-annually, disclosing the Company's:

1. Policies and procedures for political contributions (both direct and indirect) made with corporate funds.
2. Monetary and non-monetary contributions to political candidates, political parties, political committees and other political entities organized and operating under 26 USC Sec. 527 of the Internal Revenue Code including the following:
 - a. An accounting of the Company's funds contributed to any of the persons described above;
 - b. The business rationale for each of the Company's political contributions; and
 - c. Identification of the person or persons in the Company who participated in making the decisions to contribute.

This report shall be posted on the company's website to reduce costs to shareholders.

Statement of Support: As long-term shareholders of Merck, we support policies that apply transparency and accountability to corporate political giving. In our view, such disclosure is consistent with public policy in regard to public company disclosure.

There are various disclosure requirements for political contributions, but they are difficult for shareholders to access and are not complete. Although the Bi-Partisan Campaign Reform Act enacted in 2002 prohibits corporate contributions to political parties at the federal level, corporate soft money state-level contributions are legal in 49 states, and disclosure standards vary widely.

Corporations can also make unlimited contributions to "Section 527" organizations, political committees formed for the purpose of influencing elections, but not supporting or opposing specific candidates. These do not have to be reported.

Between January 1, 1991 and December 31, 2002 the Pharmaceutical Research and Manufacturers Association (PhRMA) – of which the company is a dues-paying member – gave \$35.5 million in soft money political contributions. (*Follow the Dollar Report*, July 1, 2003, Common Cause).

Company executives exercise wide discretion over the use of corporate resources for political purposes. They make decisions without a stated business rationale for such donations. In 2001-02, the last fully reported election cycle, Merck contributed at least \$85,900. (The Center for Responsive Politics, Soft Money Donors).

Relying only on the limited data available from Federal Election Commission and the Internal Revenue Service, the Center for Responsive Politics, a leading campaign finance watchdog organization, provides an incomplete picture of the Company's political donations.

Proponents believe our company should be using its resources to win in the marketplace through superior products and services to its customers, not because it has superior access to political leaders. Political power can change, leaving companies relying on this strategy vulnerable.

Finally, the requested report represents a minimal cost to the company, as presumably management already monitors corporate resources used for such purposes. Although lacking a business rationale for such contributions, our peer company Pfizer discloses these contributions on an annual basis.

There is currently no single source of information that provides the information sought by this resolution. That is why we urge your support for this critical governance reform.