



Action Report Human Rights

Chevron
May 5, 2011

Ticker	Exchange	Meeting Date	Record Date	Annual Meeting Location
CVX	NYSE	5-25-11	4-1-11	San Ramon, California

Agenda	
Item	Proposal
1	MGT: Elect directors
2	MGT: Ratify selection of auditors
3	MGT: Advisory vote on executive compensation
4	MGT: Advisory vote on frequency of future advisory vote on executive compensation
5	SH: Nominate independent environmental expert to board
6	SH: Establish board committee on human rights
7	SH: Include sustainability as executive performance measure
8	SH: Report on host country selection criteria
9	SH: Report on climate change risks
10	SH: Report on hydraulic fracturing
11	SH: Report on offshore oil well risks

Si2 Briefing

[Human Rights](#)

Si2 Special Report

[Chevron and Investor Pressures on Sustainability Issues](#)

Report Author

[Peter DeSimone](#)

Links

[Proxy Statement](#)

Resolved Clause

RESOLVED: To amend Article I of the By-Laws, by inserting after Section 5, a new Section 6.

SECTION 6. Board Committee on Human Rights. There is established a Board Committee on Human Rights, to review the implications of company policies, above and beyond matters of legal compliance, for the human rights of individuals in the US and worldwide, including assessing the impacts of company operations on resources and public welfare in host communities and the relationship of company operations and resources to any government security forces that secure company operations in those communities.

The Board of Directors is authorized, by resolution, in its discretion and consistent with these By-Laws, the Articles of Incorporation and applicable law to: (1) select the members of the Board Committee on Human Rights, (2) provide said committee with funds for operating expenses, (3) adopt a charter to govern said Committee's operations, (4) empower said Committee to solicit public input and to issue periodic reports to shareholders and the public, at reasonable expense and excluding confidential information, including but not limited to an annual report on the findings

of the Board Committee, and (5) any other measures within the Board’s discretion consistent with these By-Laws and applicable law. Nothing herein shall restrict the power of the Board of Directors to manage the business and affairs of the company. The Board Committee on Human Rights shall not incur any costs to the company except as authorized by the Board of Directors.

Lead Proponent	Harrington Investments
Vote History	A somewhat similar proposal from a different proponent, Jing Zhao, won 6.9 percent support last year. It asked for a corporate committee on human rights, not a board-level committee, and it was not a binding by-law resolution.
Summary	Given the human rights risks confronting the company and its shareholders from Chevron’s far flung operations around the globe and the allegations of human rights abuses raised in litigation pending against the company, the proponent is suggesting to shareholders, in a binding bylaw resolution, that the company create a standalone human rights committee to its board. Chevron says this step is not necessary, as it already has a board committee, its Public Policy Committee, that oversees human rights issues, as well as a complementary executive committee charged with the same task. It also points out that it has adopted a robust human rights policy that it is in the process of implementing throughout its operations. It is asking shareholders to vote against this proposal.

I. Chevron and Board Oversight of Human Rights

For a summary of the company’s operations and financials, see Si2’s special supplement to this report: [Chevron and Investor Pressures on Sustainability Issues](#). Key takeaways from the supplement readers should note are:

- Chevron’s board Public Policy Committee, which includes oversight of human rights issues, among others, and the members of this committee.
- Executive pay links to several broad policies related to management of sustainability issues.
- The risks related to political instability Chevron lists in its 10-K statement.
- Chevron’s newly adopted human rights policy and implementation timeline.
- Si2’s review of the trial in Ecuador, cited in the proponent’s supporting statement.
- Si2’s overview of Chevron’s operations and human rights risks in Angola, Azerbaijan, Chad, China, Democratic Republic of the Congo (DRC), Kazakhstan, Myanmar (Burma) and Nigeria.

II. Proponent Position

Harrington Investments has submitted a binding by-law resolution to other shareholders that would establish a board committee on human rights, tasked with reviewing “the implications of company policies, above and beyond matters of legal compliance, for the human rights of individuals in the [United States] and worldwide” and “assessing the impacts of company operations on resources and public welfare in host communities and the relationship of company operations and resources to any government security forces that secure company operations in those communities.” The proposal tasks the board with selecting members for the committee, providing the committee with funds to operate, and creating a committee charter that would empower the committee “to solicit public input and to issue periodic reports to shareholders and the public, at reasonable expense and excluding confidential information, including but not limited to an annual report on the findings of the board committee...”

The proponent suggests that in defining “human rights,” as part of the committee charter, the board should U.S. Bill of Rights and the Universal Declaration of Human Rights “as nonbinding benchmark or reference documents.”

The proponent argues that its proposal “would elevate board level oversight and governance regarding human rights issues raised by the company’s activities and policies.” Furthermore, it says the committee is much needed, as “human rights abuses have been alleged in association with Chevron operations in the [United States], Angola, Australia, Burma, Canada, Chad, Cameroon, Colombia, Venezuela, Ecuador, Indonesia, Iraq, Kazakhstan, Turkmenistan, Nigeria, the Philippines, Thailand, Azerbaijan, Georgia, Turkey, and Mexico.”

Harrington Investments acknowledges that Chevron has a human rights policy it is working on implementing and that it is a signatory to the Voluntary Principles on Security and Human Rights. “However,” it says, “the extent of board level oversight of continuing human rights challenges facing the company is considered inadequate by the proponent.” Harrington explains, “Although the board currently may address some human rights challenges facing our company through the public policy committee’s broader mandate to address social and environmental issues, the proponent believes the issues facing the company regarding human rights concerns in the communities in which it operates are so severe that they merit oversight of a separate board committee with a more specific fiduciary mandate on human rights.”

III. Management Position

Chevron recommends a vote against this resolution, “because establishing a human rights committee is duplicative of the company’s current governance framework and its efforts to monitor human rights issues and maintain its continued commitment to universal human rights.” Although protecting human rights is the primary duty of governments, Chevron says it recognizes that it also “plays an important role in respecting human rights in the communities where it operates.”

Chevron points out that it adopted a “comprehensive Human Rights Policy” in December 2009, “supported by an implementation plan, defined roles and responsibilities, and management oversight and guidance.” It underscores that it “works cooperatively and constructively with host governments, communities and nongovernmental organizations and engages with subject matter experts who help build on its understanding of human rights issues relevant to its business.”

Moreover, Chevron says its “existing governance framework includes board-level and executive-level committees that routinely focus on human rights as well as other social policy matters.” It points out that its Public Policy Committee “considers policies, programs and practices concerning a broad array of public policy issues, including human rights.” In addition, its Global Issues Committee, “which is a subcommittee of the Executive Committee, identifies and develops policies on global issues of significance to Chevron, such as the Human Rights Policy mentioned previously,” with assistance from outside experts when appropriate. Therefore, Chevron says, it views the proponent’s proposal as duplicative of these two committees’ work.

Chevron emphasizes that its “support for universal human rights has long been and will continue to be a core value and an important part of the way” it does business and is “consistent with the intent of widely recognized international human rights principles, including the United Nations Universal Declaration of Human Rights, the International Labor Organization Declaration on Fundamental Principles and Rights at Work, and the Voluntary Principles on Security and Human Rights.” It points to The Chevron Way, its Business Conduct and Ethics Code, participation in the Voluntary Principles on Security and Human Rights initiative, social and health impact assessment process, Operational

Excellence Management System, and community engagement programs as proof that it is acting in accordance with its stated principles on human rights.

In sum, Chevron says it “believes that the significant time and resources” it devotes to human rights issues under its current governance framework and through its various policies, programs and initiatives address the human rights concerns raised by the proponent. Therefore, it is asking shareholders to vote against this proposal.

IV. Analysis

Key Points at Issue

- Would Chevron benefit from a separate board committee on human rights?
- Do the human rights concerns the proponent notes raise serious questions about Chevron’s management practices and board oversight of human rights issues?

Governance framework: Chevron argues that its present governance framework includes board oversight of human rights issues. As reviewed in the Special Report supplement to this Action Report, Chevron has a Public Policy Committee of its board that is charged with monitoring and assessing social issues, including human rights, and determining how Chevron can best address existing and emerging issues—through policies, programs, practices or other means. However, this is not the stand-alone committee the proponent seeks with a tightly defined mission to oversee the company’s human rights practices as defined by the U.S. Bill of Rights and the UN Declaration on Human Rights.

Competitive comparisons: Chevron’s principal competitors in the United States are **ConocoPhillips** and **ExxonMobil**. ConocoPhillips’s board has a Public Policy Committee with the mandate, according to its [charter](#), to “assist the board in identifying, evaluating and reviewing social, political and environmental trends and related risks that could affect the company’s business activities and performance...reviewing management’s proposed actions to anticipate and adjust to such trends so as to more effectively achieve the company’s long-term business goals...” and regularly assessing the company’s “global reputation...” Similarly, ExxonMobil’s board has a Public Issues and Contributions Committee charged with reviewing and providing advice regarding the company’s “policies, programs and practices on public issues of significance including their effects on safety, health and the environment...” (See [charter](#).) Chevron’s board committee appears to be very similar to its competitors in this regard, which is not to say that all couldn’t benefit from a separate human rights committee.

Human rights concerns: Among the most serious of allegations confronting Chevron is the pending lawsuit related to allegations and potential liabilities from Texaco’s legacy operations in Ecuador. It is important to point out that the environmental damage and allegedly insufficient remediation all occurred before Chevron purchased Texaco. Nonetheless, the potential penalties are substantial. The plaintiffs are asking for damages ranging from \$21 billion to in excess of \$100 billion, and a recent judgment by an Ecuadorian court has levied damages of more than \$18 billion. Still, other factors are at play. First, Chevron has been successful in U.S. courts to win a ruling that it cannot be forced to pay a judgment from a court in Ecuador. Chevron no longer has assets in Ecuador, so the plaintiffs need to seek relief in other jurisdictions where Chevron holds assets. The case also is still on appeal, and Chevron is defending itself vigorously. The company contends in its 2010 10-K filing that the lawsuit is without merit, and it offers shareholders no clear guidance on potential liabilities given the high stakes and uncertainties in the case. At the same time, Chevron has argued in U.S. courts that enforcement of the Ecuadorian judgment would cause “irreparable injury to the Company’s business reputation and business relationships.” If the \$18 billion judgment were to be enforced, it would be equal to almost 95

percent of Chevron's total net income for 2010. In addition, as noted in the supplement to this report, stock analysts have pegged the potential downside on Chevron's stock price at 5 percent.

Beyond Ecuador, concerns surrounding the company's use of security forces in the Niger Delta and other countries may raise the hackles of some investors. In the Niger Delta alone, the use of security forces by Chevron and its competitors have long been a source of controversy. As noted in Si2's Special Report on Chevron, victims of alleged human rights abuses associated with Chevron's operations in the Niger Delta filed suit against Chevron in May 1999 in federal court in San Francisco. While Chevron has so far prevailed on appeal, it is a development worth noting. The proponent raises similar concerns about other countries with endemic human rights abuses where Chevron does business, where numerous human rights concerns exist for the company and any multinational firm with operations in countries like Angola, Azerbaijan, Chad, China, Kazakhstan and Myanmar (Burma). Kazakhstan should be of particular concern to shareholders, given that 25 percent of Chevron's net proved reserves were in the country as of the end of 2010. However, Chevron maintains that its policies and implementation strategies, as well as its present board oversight of human rights issues, are monitoring these and other sustainability risks closely.

Voting Considerations

A key consideration for shareholders voting on this proposal will be whether they believe Chevron needs a stand-alone board committee on human rights. However, shareholders also should weigh how Chevron stacks up to its competitors in this area, as well as the human rights issues at stake.

Voting in favor: Shareholders seeking greater scrutiny by the board of Chevron's management practices with regard to further development and implementation of its human rights policy and to the risks around the world confronting the company will want to vote for this proposal. Given the lawsuits that have been filed against Chevron and other allegations of human rights abuses surrounding oil and gas companies in general, some shareholders might feel a separate board committee might be warranted; they will consequently vote for this resolution.

Voting against: Other stockholders who believe Chevron's present board is in the best position to decide on changes to its committee structure will vote against this proposal. The proponent's resolution is a binding by-law proposal, so a majority vote by shareholders would tie the hands of the board on this matter. In addition, shareholders may believe that Chevron's present board committee on public policy issues, and complementary senior management committee, offer plenty of oversight of human rights issues; these investors will vote against this proposal. In addition, Chevron's board structure on this issue is almost identical to its competitors, so some shareholders may believe that the present framework is competitive and see no need to support a change such as that Harrington proposes.