



Action Report Sustainability

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	Sustainability Reporting
Si2 Special Report	Chevron and Investor Pressures on Sustainability Issues
Report Author	Peter DeSimone
Links	Proxy Statement
Resolved Clause	RESOLVED: That the shareholders of Chevron Corporation (“Chevron” or “Company”) request the Board’s Compensation Committee, when setting senior executive compensation, include sustainability as one of the performance measures for senior executives under the Company’s annual and/or long-term incentive plans. Sustainability is defined as how environmental, social and financial considerations are integrated into corporate strategy over the long term.
Lead Proponent	Laborers’ International Union of North America (LiUNA)
Vote History	None.
Summary	The key divide here is largely over words. LiUNA states that Chevron’s proxy statement does not specifically mention environmental and social issues, and it does not. It links executive pay to implementation of the company’s vision and values statement, The Chevron Way, and execution of its Operational Excellence Management System, which in turn incorporate sustainability principles and specific environmental and social issues. Otherwise, the two appear in agreement.

I. Chevron and Sustainability (Pay Links)

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 and environmental issues, among others, and the members of this committee.
- The company's management oversight of sustainability issues.
- Executive pay links to several, broad policies related to management of sustainability issues.
- The company's stated sustainability risks and overall energy strategy.
- Chevron's eighth annual sustainability report.

II. Proponent Position

The Laborers' International Union of North America (LIUNA) says it believes that shareholders' and other important constituents' long-term interests are "best served by companies that operate their businesses in a sustainable manner focused on long-term value creation." The proponent highlights that the recent financial crisis is a perfect illustration of its point: "those boards of directors and management that operate their companies with integrity and a focus on the long term are much more likely to prosper than ones that are dominated by a short-term focus." And the best way for a company to demonstrate its "commitment to the concept of sustainability," the proponent says, "is through incorporating it as a performance measure in the Company's annual and/or long-term incentive plans."

The proponent acknowledges Chevron's many policies and commitments to sustainability issues, including its vision and values statement, The Chevron Way, and annual sustainability report, and it quotes the Chevron sustainability report's introduction in its resolution, including its reference to the company's "vision to be the global energy company most admired for its people, partnership and performance." While "laudable" words, the proponent says, "incorporating them into the company's senior executive compensation program would give them real impact."

Despite its pledges to operate a sustainable business, the proponent notes that Chevron's Compensation Discussion and Analysis (CD&A) in its proxy statement "contains no discussion of sustainability" or "specific performance measures related to sustainability" whatsoever. The proponent believes "that this represents a serious shortcoming," and a potential competitive disadvantage for Chevron. The proponent points out that other energy companies have a jumpstart on Chevron in linking executive pay to key sustainability metrics. For example, it says, **National Grid** in the United Kingdom partly bases executive compensation on meeting targets for reducing carbon emissions, and **Xcel Energy** links certain annual incentive payments to greenhouse gas emission reductions in proportion to meeting earnings per share targets. **Intel** too, the proponent notes, has similar compensation components, as it "calculates every employees annual bonus based on the firms performance on measures that include energy efficiency, completion of renewable energy and clean energy projects, and the company's reputation for environmental leadership."

Therefore, the proponent is asking that Chevron instruct its board compensation committee to "include sustainability as one of the performance measures for senior executives under the company's annual and/or long-term incentive plans." The proponent defines sustainability for these purposes "as how environmental, social and financial considerations are integrated into corporate strategy over the long term."

III. Management Position

Chevron is recommending a vote against this proposal, “because it believes that environmental, social, financial and operational elements are already incorporated into executive compensation in the evaluation of the performance of the company, its business units and individual executives.” Chevron notes that its CD&A section of its proxy statement indeed “guides the board to reward executives whose performance furthers the corporation’s environmental, social, financial and operational objectives.”

Chevron points to its values and vision statement, The Chevron Way, which it notes “guides executive performance in Chevron, places the highest priority on the health and safety of our workforce and the protection of the environment.” In addition, it says, “To ensure our operations are environmentally sound, Chevron has established rigorous standards for protecting the environment everywhere it operates. Chevron’s Operational Excellence Management System (OEMS) and Environmental, Social and Health Impact Assessment process help Chevron to identify, analyze and manage social, environmental, health and safety issues, including environmental stewardship.”

To reflect these guiding principles and ensure they are upheld, the company says its executive pay programs have been specifically designed to motivate “executives to manage Chevron’s business for long-term value creation in accordance with” these policies and “to reward executives who demonstrate the ability to execute Chevron’s business plans consistent” with them. It underscores, “Furthering the corporation’s environmental, social, financial and operational objectives is an important factor in the evaluation of the performance of the company and of senior executives.”

Chevron says its plans already are focused “on long-term value creation” and on “rewarding those employees who manage environmental, social, financial and operational issues in a way that creates measurable long-term stockholder value,” which it believes “is the key to sustainability.” Therefore, it says incorporating the proponent’s proposed performance measure “is unnecessary.”

IV. Analysis

Key Points at Issue

- Are Chevron’s pay plans already aligned with sustainability principles?
- Would Chevron and its shareholders benefit from the changes the proponent suggests?

Chevron’s pay practices appear aligned with the proponent’s request and remain unchanged from last year’s proxy statement. The key divide here is largely over words. LiUNA states that Chevron’s CD&A section of its proxy statement does not specifically mention environmental and social issues, and it does not. It links executive pay to implementation of the company’s vision and values statement, The Chevron Way, and execution of its Operational Excellence Management System, which in turn incorporate sustainability principles and specific environmental and social issues.

Voting Considerations

Voting in favor: Shareholders who feel that Chevron’s CD&A and corporate governance principles on executive pay need to be revised to specifically state links to sustainability issues or specific sustainability metrics, such as greenhouse gas emissions, will vote for the proposal.

Voting against: Others who believe Chevron has already implemented the proposal or who otherwise feel Chevron’s pay practices are aligned with sustainability principles (or who do not believe these links should be made) will vote against this proposal.