Sustainable Investments Institute

Special Report

Action Report Supplement

Chevron and Investor Pressures on Sustainability Issues

May 4, 2011

This special supplement to Si2's Action Reports on the pending shareholder resolutions on sustainability issues at Chevron provides an overview of the company's board oversight and management structures, policies, management systems and reporting on environmental and social issues relevant to this year's crop of proposals. In addition, it offers pertinent information on Chevron's operations and financial results. This information will not be repeated in individual Action Reports on each of the resolutions, which instead will focus on remaining information directly related to the particular issues raised by the proposals, tailored analyses and voting guidelines. (Links to individual Action Reports on each proposal and corresponding Briefing Papers appear in the table below, along with the support level for the proposal in 2010, if applicable.)

2011 Annual Meeting Agenda Excerpts			
Item	**Proposal**	**2010 Vote**	**Si2 Briefing Papers**
5	SH: Nominate independent env. expert to board	26.7%	Environment: Natural Resource Management
6	SH: Establish board committee on human rights	-	Human Rights
7	SH: Include sustainability as executive performance measure	-	Sustainability Reporting
8	SH: Report on host country selection criteria	23.9%	Human Rights
9	SH: Report on climate change risks	8.5%	Environment: Climate Change
10	SH: Report on hydraulic fracturing	-	Environment: Natural Resource Management
11	SH: Report on offshore oil well risks	-	
Source: Chevron's 2011 proxy statement			

This year, four of the resolutions coming to votes at Chevron grapple with environmental issues. One asks for Chevron to nominate an environmental expert to its board, while the others focus on reports on various environmental risks: climate change, hydraulic fracturing and offshore drilling. Two other proposals raise with human rights issues, with one asking Chevron for a board human rights committee and the other requesting a report on country selection criteria. A final proposal requests that Chevron link executive pay to sustainability criteria.

Following a description of the company and its financial performance for 2010, this report reviews general information and policies and statements related to Chevron's record on the environment, with a focus on energy, and human rights issues. It then examines an ongoing environmental and human rights lawsuit in Ecuador regarding former operations Chevron inherited from its acquisition of Texaco, a primary concern raised by several of the proposals this year.

I. Company Description

According to its 2010 10-K filing with the Securities and Exchange Commission (SEC), Chevron is an integrated petroleum company with chemicals, mining power generation and energy services operations. It is the second largest U.S. integrated oil and gas company based on revenues, behind ExxonMobil and ahead of ConocoPhillips.

Its upstream operations consist primarily of exploring for, developing and producing crude oil and natural gas; processing, liquefaction, transportation and regasification associated with liquefied natural gas; transporting crude oil by major international oil export pipelines; transporting, storage and marketing of natural gas; and a gas-to-liquids project.

Its downstream operations are mainly comprised of refining of crude oil into petroleum products; marketing of crude oil and refined products; transporting of crude oil and refined products by pipeline, marine vessel, motor equipment and rail car; and manufacturing and marketing of commodity petrochemicals, plastics for industrial uses and fuel and lubricant additives.

Chevron conducts upstream and downstream activities on every continent except Antarctica, and it has proved reserves of 10.5 billion barrels of oil equivalent and a daily production of 2.8 million barrels of oil equivalent. Like the other major U.S. oil and gas companies, Chevron is active in deepwater drilling in the Gulf of Mexico, although it did not have an interest in the Transocean Deepwater Horizon rig that exploded in April 2010.

Net Production of Crude Oil, Natural Gas Liquids and Natural Gas (2010)

Country/Region	Oil Equivalent (100s of Barrels Per Day)	% Total
United States	**708**	**25.6**
Other Americas (total)	**189**	**6.8**
• Canada	54	2.0
• Colombia	41	1.5
• Trinidad and Tobago	38	1.4
• Argentina	32	1.2
• Brazil	24	0.9
Africa (total)	**469**	**17.0**
• Nigeria	253	9.2
• Angola	161	5.8
• Chad	28	1.0
• Republic of the Congo	25	0.9
• Democratic Republic of the Congo	2	0.1
Asia (total)	**761**	**27.5**
• Indonesia	226	8.2
• Thailand	216	7.8
• Partitioned Zone	98	3.5
• Bangladesh	69	2.5
• Kazakhstan	64	2.3
• Azerbaijan	30	1.1
• Philippines	25	0.9
• China	20	0.7
• Myanmar (Burma)	13	0.5
Australia	**111**	**4.0**
Europe (total)	**159**	**5.8**
• United Kingdom	97	3.5
• Denmark	51	1.8
• The Netherlands	8	0.3
• Norway	3	0.1
Other Equity Affiliates	**366**	**13.2**
Total	**2,763**	**100.0**

Source: Chevron's 2010 10-K filing

Atlas Energy acquisition: In February 2011, Chevron acquired Atlas Energy for an undisclosed sum. Atlas brought with it natural gas assets in the Appalachian basin, primarily in southwestern Pennsylvania, including approximately 850,000 total acres of Marcellus Shale and Utica Shale. The acquisition also includes a 49 percent interest in Laurel Mountain Midstream, an affiliate that owns more than 1,000 miles of natural gas gathering lines servicing the Marcellus, as well as assets in Michigan, which include Antrim Shale producing assets and approximately 380,000 total acres in the Antrim and Collingwood/Utica Shale. These newly acquired operations hold special importance to the pending hydraulic fracturing resolution (**item 10**).

Refining: At the end of 2010, Chevron had a refining network capable of processing more than two million barrels of crude oil per day. Its principal owned and operated refineries were in El Segundo and Richmond, California; Kapolei, Hawaii; Pascagoula, Mississippi; Perth Amboy, New Jersey; Salt Lake City, Utah; Burnaby, British Columbia, Canada; Cape Town, South Africa; and Pembroke, United Kingdom. Many of these refineries are located in populated areas that might raise community concerns beyond the health and safety issues related to workers at the refineries.

Retail: Chevron continued to divest of retail interests and terminal operations in 2010 in a move to concentrate "on downstream resources and capital on strategic assets." In the United States, the company markets directly and through third-party retailers and marketers at approximately 8,250 Chevron- and Texaco-branded motor vehicle service stations. About 500 of these outlets are company-owned or leased stations. In 2010, it discontinued sales of Chevron- and Texaco-branded motor fuels in the District of Columbia, Delaware, Indiana, Kentucky, North Carolina, New Jersey, Maryland, Ohio, Pennsylvania, South Carolina, Virginia, West Virginia and parts of Tennessee, which represented approximately 8 percent of its total U.S. retail fuels sales volumes in 2009. In addition, Chevron has completed six of 13 planned U.S. terminal divestitures as of the end of 2010. Outside the United States, Chevron supplied approximately 11,300 branded service stations, including affiliates. In British Columbia, Canada, the company markets under the Chevron brand, while in the United Kingdom, Ireland, Latin America and the Caribbean it sells under the Texaco brand. In the Asia-Pacific region, southern Africa, Egypt and Pakistan, the company markets under Caltex. In South Korea, it operates through its 50 percent-owned affiliate, GS Caltex, and in Australia through its 50 percent-owned affiliate, Caltex Australia Limited.

Employees: At the end of 2010, Chevron had approximately 62,000 employees, including about 3,900 service station employees. Approximately 30,000 employees, including about 3,600 service station employees, or 48 percent, were employed in the United States.

Financials					
Revenue	$204,928.0 million	**Net Income**	$19,024 million	**Reporting Year**	2010

II. Sustainability Oversight and Reporting

As noted earlier, one of the pending resolutions asks Chevron to link executive pay to sustainability criteria (**item 7**). This section will review Chevron's executive compensation guidelines, as well as board oversight of sustainability issues, and the company's sustainability policies and reporting practices. Shareholders also will want to read this section before voting on proposals requesting that Chevron nominate an environmental expert to its board (**item 5**) and establish a board committee on human rights (**item 6**), as Chevron's governance guidelines and structure, including board committees and responsibilities, are reviewed here.

Corporate Governance

Board oversight of sustainability issues: Chevron's board has a Public Policy Committee charged with oversight of sustainability issues, according to its charter. In particular, its mandate states that the committee is to assist the board in:

- "Identifying, evaluating and monitoring social, political and environmental trends, issues and concerns;"
- "Analyzing how public policy trends could impact the corporation's business activities and performance;"
- "Determining how the corporation can anticipate and adjust to public policy trends in order to more effectively achieve its business goals or to be an important contributor to the policy dialogue;"

- "Analyzing the company's global reputation and developing recommendations to strategically position the company to support its business objectives;" and
- "Formulating and adopting basic policies, programs and practices concerning broad public policy issues."

The committee's charter dictates that it is comprised of not fewer than three members of the board at large. The board's nominating and governance committee recommends committee members, who are appointed by the board at large. The board also has the option of appointing a committee chairperson. The committee has the authority to retain independent advisors it deems necessary to execute its duties, at the company's expense. The committee does not have member independence standards, but all of its members in 2010 were classified independent. Former Senator Sam Nunn (D-Ga., 1972-1996) chairs the committee. He is joined by Samuel H. Armacost, retired chairman of the board of SRI International, an independent research, technology development and commercialization organization; Linnet F. Deily, former Deputy U.S. Trade Representative and U.S. Ambassador to the World Trade Organization (2001-2005); Robert J. Eaton, retired chairman of the board of management of DaimlerChrysler; former Senator Chuck Hagel (R-Neb., 1997-2009); and Dr. Franklyn G. Jenifer, president emeritus at the University of Texas at Dallas.

Board membership qualification standards: Chevron's 2011 proxy statement and Corporate Governance Guidelines describe its board nominee qualification standards. The board's membership criteria say that board members "should have broad experience or expertise at the policy-making level in business, governmental, educational, technological, environmental, or public interest issues."

Pay practices: According to its 2011 proxy statement, the core principles guiding Chevron's executive officer compensation are to:

- "Reward creation of long-term stockholder value through increased stockholder returns."
- "Support our career employment model."
- "Maintain an appropriate balance between base salary and short-term and long-term incentive opportunities, with a distinct emphasis on compensation that is 'at risk.'"
- "Be externally competitive and internally equitable."
- "Give us the flexibility to attract and retain talented senior leaders in a very competitive industry…"
- "Reinforce the values we express in The Chevron Way and our Operational Excellence Management System."

The final factor holds the most relevance to shareholders voting on the executive pay links proposal. The Chevron Way contains the company's vision and values statements and includes statement on integrity and diversity, as well as "protecting people and the environment." Meanwhile, Chevron's Operational Excellence and Management System addresses environmental health and safety issues. (Both are summarized below.)

Like most of its competitors, Chevron's pay practices rely heavily on peer review analyses conducted by its compensation committee and outside consultants. Also like its competitors, Chevron's compensation packages count four basic elements: base salary, annual cash incentives, long-term equity incentives, and broad-based benefit and retirement programs. In 2010, about 85 percent of its CEO and senior executive officer pay was incentive-based, and Chevron has stock ownership guidelines based on a multiple of each executive officer's base salary: five times for the CEO and four times for the vice chairman, executive vice presidents and chief financial officer.

Chevron says that it "generally does not maintain" employment, severance or change-in-control agreements or so-called golden parachute provisions with its executive officers, but it did relating to two officers in 2010. Another point of interest is that Chevron's long-term incentive and deferred compensation plans contain provisions permitting its board to "claw back" certain amounts of compensation awarded to any executive officers found later to have committed "acts of embezzlement, fraud or theft or other acts that harm our business, reputation or other employees…" The clawback policy also applies to accounting restatements and in cases where executive officers were found to disclose confidential information or failed to abide by "the terms of any confidentiality, noncompetition or nonsolicitation agreements" with the company following termination.

Management: Chevron employs several corporate officers who have sustainability issues as a substantial portion of their portfolio, including Vice President, Policy, Government and Public Affairs Stephen W. Green; Vice President Human Resources, Medical and Security Joe W. Laymon; and Vice President, Health, Environment and Safety Wesley E. Lohec. Chevron also says in its proxy statement that 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 its human rights policy.

Sustainability Policies

The Chevron Way: As noted earlier, The Chevron Way contains the company's vision statement and core operating values, and the board's compensation committee links executive pay in part to implementation of these standards. Three particular values speak directly to sustainability issues:

- **Integrity—**Chevron says it is "honest with others and ourselves" and meets "the highest ethical standards in all business dealings."
- **Diversity—**Chevron says it learns "from and respect the cultures in which" it works and values and demonstrates "respect for the uniqueness of individuals and the varied perspectives and talents they provide." It notes that it has "inclusive work environment and actively embrace a diversity of people, ideas, talents and experiences."
- **Protecting People and the Environment—**Chevron says it places "the highest priority on the health and safety" of its employees, as well as protection of its "assets and the environment."

Management system: The board also ties compensation, in part, to achievement of Chevron's Operational Excellence and Management System, which has five basic tenets:

- "Achieve an incident- and injury-free workplace.
- "Promote a healthy workforce and mitigate significant workplace health risks.
- "Identify and mitigate environmental and process safety risks.
- "Operate with industry-leading asset integrity and reliability.
- "Efficiently use natural resources and assets."

The system itself is compliant with the International Organization for Standardization's ISO 14001 environmental and OHSAS 18001 occupational health and safety standards and contains 13 elements, including security, facilities design and management, safety, change management, reliability and efficiency, contractor services, environmental stewardship, product stewardship, incident investigation, community awareness and outreach, emergency management, compliance assurance, and legislative and regulatory advocacy.

On safety, the management system says that Chevron must "operate and maintain facilities to prevent injuries, illnesses and incidents," while on the environment, it says Chevron strives "to continually improve environmental performance and reduce impacts from our operations." The system also incorporates environmental, health and safety standards in product design with the goal of mitigating "integrity risks" and to "investigate and identify root causes of incidents to reduce or eliminate systemic causes and to prevent future incidents," as well as to ensure legal compliance. In addition, the system commits Chevron to "reach out to the community and workforce to engage in open dialogue to build trust and long-term positive relationships." It also calls on Chevron to monitor and to be ready to respond to emergencies at its operations, as well as those of significant contractors.

Verification—Chevron says it has engaged an independent organization, Lloyd's Registry Quality Assurance, since 2005 to verify that our Operational Excellence Management System meets the requirements of internationally-recognized environmental and safety standards for major industrial companies. In 2010, it says, Lloyd's further concluded that "the Chevron Operational Excellence Management System meets all requirements of ISO 14001 and OHSAS 18001 and is implemented throughout the Corporation."

Code of conduct: Chevron also has a Business Code of Conduct and Ethics, which can be found on its website. The code contains the company's diversity and EEO policies, as well as those on bribery and other anti-corruption issues. It also contains the company's human rights policy, which it adopted in April 2010. These policies are reviewed below in the section on human rights.

Other policies: Chevron dedicates a portion of its website to "global issues" that address its policies and positions on several of the issues raised in the proponents' proposals. These are discussed in the appropriate environment and human rights sections later in this report.

Sustainability Reporting

Chevron last issued a sustainability report in 2010, covering its 2009 performance. *The Value of Partnership, 2009 Corporate Responsibility Report* is the eighth annual sustainability report it has produced. The report has sections dedicated to climate change, renewable energy, environmental management, community engagement, workforce health and safety, human rights, governance and ethics and revenue transparency, among other topics. (Relevant data on these topics are included in individual Action Reports.)

Reporting frameworks: Chevron says that the Global Reporting Initiative (GRI) G3 Guidelines and the International Petroleum Industry Environmental Conservation Association (IPIECA) and the American Petroleum Institute (API) Oil and Gas Industry Guidance on Voluntary Sustainability Reporting helped shape its reporting metrics and disclosures. Chevron's sustainability report offers an index that maps both standards to its own report. While GRI informed its reporting, Chevron did not declare a GRI reporting level or make reference to the GRI's oil and gas sector supplement, although it registered its report with the GRI website. Chevron also has responded to every questionnaire of the Carbon Disclosure Project (CDP) and made its responses public since 2006.

Third-party assurance: As with its management systems, Chevron tapped Lloyd's Register Quality Assurance to validate the integrity of its reporting processes and to evaluate consistency with the IPIECA/API Oil and Gas Industry Guidance on Voluntary Sustainability Reporting. However, Lloyd's did not verify the accuracy of the data Chevron supplied. Nonetheless, Lloyd's took a risk-based approach to interviewing key Chevron personnel, internal data and internal reporting systems and requirements to arrive at its conclusions. It found that the methods Chevron used for calculating each performance metric were clearly defined and communicated and adhered to the standards Chevron cited.

(See Si2's background report on Sustainability Reporting for more information on reporting initiatives.)

III. Energy and the Environment

Chevron offers policy statements and examples of implementation of its standards in the Global Issues portion of its website, as well as reporting on metrics in its annual sustainability report. These materials address aspects of its overall business strategy as it tries to position itself for a sustainable future in energy markets. This section reviews broader policies pertinent to shareholders voting on the board environmental expert proposal (**item 5**) and the climate change risks resolution (**item 9**), as well as the proposals on hydraulic fracturing (**item 10**) and offshore oil well risks (**item 11**).

Energy Strategy

Central to Chevron's sustainability dilemma is how it will address growing demands for energy while meeting environmental challenges. It notes on its website that worldwide energy consumption is projected to rise by about 33 percent by 2030, driven by two key factors: population and economic growth. It notes that the global population is expect to increase by "20 percent in the next 20 years…with most of that growth in countries with emerging economies, such as China and India," where "rising energy demand from economic output and improved standards of living will put added pressure on energy supplies." To meet the challenge, Chevron says it is taking a three-pronged approach:

- **Finding more oil and gas—**Chevron says that even if the use of renewables were to double or triple over the next 25 years, "the world is likely to still depend on fossil fuels for at least 80 percent of its energy needs." Therefore, it says, it has invested and will continue to invest in oil and gas exploration. It notes it invested $22.2 billion in exploration and production of oil and gas in 2009 alone, and it is leveraging new technologies to better detect energy resources beneath the earth's surface. Natural gas, and the hydraulic fracturing practices under scrutiny in **item 10** on its proxy ballot, will play a key role here.
- **Using energy wisely—**Chevron says, "Energy efficiency is the cheapest and most plentiful form of new energy the world has." It highlights its Chevron Energy Solutions, which "is devoted to helping schools, government agencies and businesses use energy more efficiently and reduce energy use." The company is applying lessons learned by its energy solutions division to its own business. (These programs are discussed further in the section on climate change below.)
- **Developing alternative energy—**Chevron says it also is investing heavily in renewable and alternative energy "to modify our energy portfolio over the long term." It notes its major renewable businesses include "cellulosic biofuels, which do not undermine the food supply," and geothermal energy. (These investments also are reviewed in the section on climate change below.)

Environmental Management Systems

Chevron says that it "develops energy with a commitment to protecting the environment," and that its "workforce embodies this commitment by developing new projects in an environmentally sound manner and continually improving the environmental performance of existing operations." As evidence, it points to its Operational Excellence Management System, reviewed above, which includes life-cycle impact assessments, as well as environmental, health and safety management systems.

Impact assessments: Chevron says it "performs a risk-based Environmental, Social and Health Impact Assessment (ESHIA) on all major capital projects to identify potentially significant project-related impacts," including "impacts to surrounding communities, natural resources, biodiversity, air quality, land use, waste management, noise and public health." In addition, it says, its ESHIA program "also identifies opportunities for avoiding, reducing and mitigating potentially negative impacts and for enhancing project benefits." The process incorporates stakeholder engagement and life cycle assessments of projects and products. Chevron says it has applied the ESHIA process to more than 690 capital projects worldwide since its inception.

Management: As noted earlier, Chevron also has an Operational Excellence Management System that meets the requirements of both the International Organization for Standardization's environmental management systems standard (ISO 14001) and the Occupational Health and Safety Assessment Series requirements for occupational health and safety management systems (OHSAS 18001). It hired an outside firm, Lloyd's Register Quality Assurance, to verify its compliance with both management systems and says it has trained thousands of employees on the system.

Site remediation: Chevron underscores that it has been in business for more than a century and that "in that time, best practices and technologies have evolved to better protect people and the environment." Consequently, it says some of its older sites have legacy environmental contamination that it has remediated or is in the process of addressing. It has a division dedicated to these tasks, Chevron Environmental Management Co. (CEMC), which manages most of the company's portfolio of environmental remediation, abandonment and decommissioning projects. It says CEMC strives "to develop the best end-of-life solutions for assets and to prioritize the timing appropriately."

Water: Chevron says it began to deploy guidance on water use and related reporting in 2009 and has continued implementation in 2010. The guidance is intended to identify areas of potential supply risk, as well as water conservation, reuse and other efficiency strategies. It says it already has embarked on several water conservation projects in the past two years.

Oil spills: In response to the April 20, 2010, BP Deepwater Horizon disaster, which spilled more than 170 million gallons of toxic crude oil into the Gulf of Mexico, Chevron, along with **ConocoPhillips, ExxonMobil** and **Shell**, announced a plan in July 2010 to build and deploy a rapid response system that will be available to capture and contain oil in the event of a potential future underwater well blowout in the deepwater Gulf of Mexico. The Marine Well Containment Company (MWCC), a nonprofit organization, will operate and maintain the system. The companies are committing $1 billion ($250 million each) to the creation of the system and additional funds for maintenance and upgrades. The partners say that "the new system will be flexible, adaptable and able to begin mobilization within 24 hours and can be used on a wide range of well designs and equipment, oil and natural gas flow rates and weather conditions" and "will be engineered to be used in deepwater depths up to 10,000 feet and have initial capacity to contain 100,000 barrels per day with potential for expansion." The system also will include "specially designed subsea containment equipment connected by manifolds, jumpers and risers to capture vessels that will store and offload the oil."

In the statement announcing the partnership, John Watson, chairman and chief executive officer of Chevron, said, "Chevron knows that it can only operate with the public's confidence that the energy we need will be produced safely and reliably." He added, "We are committed to advancing safe operations through enhanced prevention, better well containment and intervention and improved spill response. This new system significantly enhances the industry's ability to effectively respond to any unforeseen incidents."

Gulf of Mexico interests: According to its 2010 10-K filing, Chevron was engaged in several exploration and development activities in the deepwater Gulf of Mexico during 2010. These included its:

- Perdido Regional Development, which produced its first oil in the first quarter of 2010 and includes a 37.5 percent non-operated working interest in a producing host facility in Alaminos Canyon designed to service multiple fields, including Chevron's 33.3 percent-owned Great White, 60 percent-owned Silvertip and 57.5 percent-owned Tobago. The development has an expected production life of approximately 25 years.

- Tahiti 2, the second development phase for the 58 percent-owned and operated Tahiti Field. The second phase aims to increase recovery and maintain production of 125,000 barrels of oil per day and includes three water injection wells, two additional production wells and the facilities required to deliver water to the injection wells.
- Big Foot discovery, in which Chevron owns a 60 percent stake, which is expected to reach a maximum total production of 79,000 barrels of oil-equivalent per day and have a life of 20 years.
- The Caesar/Tonga Project, in which Chevron holds a 20.3 percent non-operated working interest, includes four wells and a subsea tieback to a nearby third-party production facility.
- The Jack field, in which Chevron holds a 50 percent working interest, and St. Malo field, in which Chevron holds a 51 percent working interest—located within 25 miles of each other. The project is expected to produce 177,000 barrels of oil-equivalent per day and have a life of 30 years.
- The Mad Dog II Development Project, in which the company has a 15.6 percent non-operated working interest, and the Tubular Bells unitized area, in which it owns a 30 percent non-operated working interest, which are still under preliminary development.
- The Buckskin discovery, in which Chevron holds a 55 percent interest, and Knotty Head discovery, in which Chevron owns a 25 percent non-operated interest—where drilling of exploratory wells was halted as a result of the drilling moratorium in the Gulf of Mexico.
- 15 additional leases in deepwater interests.

Nigeria: Chevron holds a 40 percent interest in 13 concessions predominantly in the onshore and near-offshore region of the Niger Delta, where it operates under a joint-venture arrangement with the Nigerian National Petroleum Corporation, which holds a 60 percent interest in these operations. Chevron also owns varying interests in 10 deepwater offshore blocks. In 2010, the company's net oil-equivalent production in Nigeria accounted for 9.2 percent of its total daily production. These interests hold concerns for proponents because of a long legacy of oil spills dating back to the 1970s that has caused massive environmental degradation throughout the Niger Delta region.

A report compiled by WWF UK, the World Conservation Union (IUCN), Nigeria's Federal Ministry of Environment and the Nigerian Conservation Foundation, calculated in 2006 that up to 1.5 million tons of oil—about 50 times the pollution unleashed in the *Exxon Valdez* tanker disaster in Alaska and close to twice as much released in the BP Deepwater Horizon spill in the Gulf of Mexico—has been spilled in the Niger Delta since the 1970s. Chevron is not alone as a major operator in the Niger Delta, and it and other oil companies have pointed to a long list of mitigating circumstances in the spills, including theft and sabotage. Still, the legacy could hold liabilities for Chevron and its shareholders down the road, although Chevron does not note risks to investors on this issue in its 2010 10-K filing.

Climate Change Strategies

Chevron notes that it began to adopt an action plan to address climate change risks in 2001 aimed at managing and reducing its greenhouse gas emissions. "The plan calls for reducing emissions and increasing energy efficiency; investing in research, development and improved technology; pursuing business opportunities in promising, innovative energy technologies; and supporting flexible and economically sound policies and mechanisms that protect the environment," it says. As noted earlier, Chevron has responded to every questionnaire of the Carbon Disclosure Project (CDP) and made its responses public since 2006. (See Si2's Briefing Paper on Climate Change for more information.

Energy efficiency: Chevron notes that “energy efficiency is one of our most economical sources of new energy” and one of the most financially responsible ways it can reduce its carbon footprint. However, it underscores that its efforts on energy efficiency extend well beyond its operations. It highlights its Chevron Energy Solutions division, which works with clients to reduce energy use at their facilities. It also notes that it created the Chevron Energy Index in 1992 to help measure its progress in this area, and it says that it improved the energy efficiency of its global operations by 30 percent between 1992 and 2009.

Renewable energy: Chevron says that it “is taking a pragmatic approach to renewable energy” by “pursuing and focusing on those technologies that leverage our core competencies, assets or competitive advantage.” Its renewable businesses include geothermal, advanced biofuels, solar and energy efficiency technologies.

Geothermal—The company is the largest producer of geothermal energy worldwide, supplying 1,273 megawatts of installed electricity generating capacity in Indonesia and the Philippines.

Solar—In early 2011, Chevron Technology Ventures (CTV) began operations at what is likely the largest concentrating solar photovoltaic power plant in the United States. The demonstration plant in New Mexico uses lenses to focus sunlight onto three-layer solar cells, which is anticipated to be twice as efficient as traditional solar panels and generate about 1 megawatt of power.

Biofuels—The company is investing in research into biofuels made from feedstocks that do not materially affect food or feed supplies. For example, it formed a 50-50 joint venture, Catchlight Energy, with forestry company Weyerhaeuser, focused on developing transportation fuels from forest-based sources.

Hydrogen—In December 2009 it concluded a five-year study with the U.S. Department of Energy on the feasibility of deploying hydrogen fueling stations.

Risk Assessment

In its 2010 10-K filing Chevron, as required by the SEC, reviews the material, inherent risks confronting its business. Among the risks it lists, Chevron cites several environmental issues:

- **Operational hazards—**Chevron says these are “inherent” to the oil and gas industry and require “significant and continuous” oversight. Among them, it lists “releases, explosions or mechanical failures resulting in personal injury, loss of life, environmental damage, loss of revenues, legal liability and/or disruption to operations.” To mitigate these risks, Chevron says it has implemented, among other steps, “policies, behaviors and compliance mechanisms to manage safety, health, environmental, reliability and efficiency risks…”
- **Environmental and human health litigation—**Chevron notes that it “produces, transports, refines and markets materials with potential toxicity, and it purchases, handles and disposes of other potentially toxic materials in the course of the company’s business.” In addition, its “operations also produce byproducts, which may be considered pollutants,” and many of the operations are joint ventures over which it “may have limited influence and control.” It notes that “liability arising from private litigation or government action, either as a result of an accidental, unlawful discharge or as a result of new conclusions on the effects of the company’s operations on human health or the environment.”
- **Regulation of greenhouse gas emissions—**Chevron acknowledges that present and further regulation of greenhouse gas emissions could increase its operational costs and reduce demand for its products. It highlights existing greenhouse gas emissions limits in jurisdictions where it

does business, including the European Union and New Zealand, and it points to moves by the U.S. Environmental Protection Agency (EPA) to implement two additional regulations under the Clean Air Act for new light-duty vehicles and new or modified stationary source facilities with greenhouse gas emissions that exceed 75,000 tons per year of carbon dioxide equivalent. In addition, it notes the EPA plans to implement additional regulations on greenhouse gases for utilities in May 2012 and for refineries in November 2012. It also points out that California adopted regulations implementing the cap and trade program requirements of the state's Global Warming Solutions Act (AB32), in December 2010, and the first compliance period of the cap-and-trade program begins in 2012 and ends in December 2014. It says:

> These and other greenhouse gas emissions-related laws, policies and regulations may result in substantial capital, compliance, operating and maintenance costs. The level of expenditure required to comply with these laws and regulations is uncertain and is expected to vary by jurisdiction depending on the laws enacted in each jurisdiction, the company's activities in it and market conditions. The company's exploration and production of crude oil, natural gas and various minerals such as coal; the upgrading of production from oil sands into synthetic oil; power generation; the conversion of crude oil and natural gas into refined products; the processing, liquefaction and regasification of natural gas; the transportation of crude oil, natural gas and related products and consumers' or customers' use of the company's products result in greenhouse gas emissions that could well be regulated. Some of these activities, such as consumers' and customers' use of the company's products, as well as actions taken by the company's competitors in response to such laws and regulations, are beyond the company's control.
>
> The effect of regulation on the company's financial performance will depend on a number of factors including, among others, the sectors covered, the greenhouse gas emissions reductions required by law, the extent to which Chevron would be entitled to receive emission allowance allocations or would need to purchase compliance instruments on the open market or through auctions, the price and availability of emission allowances and credits, and the impact of legislation or other regulation on the company's ability to recover the costs incurred through the pricing of the company's products. Material price increases or incentives to conserve or use alternative energy sources could reduce demand for products the company currently sells and adversely affect the company's sales volumes, revenues and margins.

IV. Human Rights

This section identifies Chevron's policies on human rights, as well as the multi-stakeholder initiatives Chevron has engaged to grapple with these issues. It also looks at Chevron's operations in countries with endemic human rights abuses and concerns related to Chevron specifically in these markets. Therefore, this section is pertinent to readers voting on the board committee on human rights proposal (**item 6**), as well as the resolution on host country selection criteria (**item 8**).

Chevron adopted a human rights policy in December 2009, after nearly five years of shareholder proposals on the topic. (See box.) The policy is incorporated into the company's Business Code of Conduct and Ethics and makes reference to human rights norms contained in the Universal Declaration of Human Rights, the International Labor Organization Declaration on Fundamental Principles and Rights to Work and the Voluntary Principles on Security and Human Rights. It addresses human rights issues affecting its employees, as well as concerns surrounding the use of security forces and its interactions with communities around the globe. It also says it encourages its suppliers to follow similar principles in doing business. In a letter announcing the adoption of the policy in April 2010, Chevron says that it will begin to implement the policy in 2010 and fully integrate it into operations by 2013.

EEO: Chevron's Business Code of Conduct and Ethics also contains its EEO policy, which states its commitment to workplace diversity and to being and equal opportunity employer. The policy also bars discrimination in hiring, rate of pay, promotion, demotion, transfer, layoff or termination on the basis of race, religion, color, national origin, age, sex, gender identity, disability, veteran status, political preference and sexual orientation.

Harassment and coercion: The code also includes an anti-harassment statement and "prohibits actual or threatened violence against co-workers, visitors or anyone else that is either on our premises or has contact with employees in the course of their duties." The policy instructs personnel to report instances of harassment or coercion to their appropriate supervisor, more senior management, human resources or through the company's dedicated ethics hotline.

Chevron's Human Rights Policy

Chevron's values are the foundation of our business. The Human Rights Policy ensures that we will be especially aware of potential human rights issues in sensitive operating environments. We condemn human rights abuses. Although governments have the primary duty to protect and ensure fulfillment of human rights, Chevron recognizes that companies have a responsibility to respect human rights, and can also play a positive role in the communities where we operate. We conduct our global operations consistent with the spirit and intent of the United Nations Universal Declaration of Human Rights, the International Labor Organization (ILO) Declaration on Fundamental Principles and Rights at Work that are applicable to business, and other applicable international principles, including the Voluntary Principles on Security and Human Rights. All employees are required to comply with Chevron's Human Rights Policy. The key elements of the policy are as follows:

- **Employees:** We treat all of our employees with respect and dignity and promote diversity in the workplace. Our company policies and procedures adhere to all applicable domestic laws and are consistent with the ILO's core labor principles concerning freedom of association and collective bargaining, nondiscrimination, forced labor, and underage workers in the workplace.
- **Security:** We protect personnel and assets and provide a secure environment in which business operations may be successfully conducted. Our guidelines and management processes on security in our areas of operations are consistent with the Voluntary Principles on Security and Human Rights.
- **Community:** We respect human rights (i) through our contributions to socio-economic development in the communities where we operate; (ii) by fostering ongoing, proactive two-way communication with communities and with other knowledgeable stakeholders; (iii) through our corporate Environment, Social, and Health Impact Assessment (ESHIA) process in all major capital projects, as well as existing operations in sensitive operating environments; and (iv) through our corporate practices, which are consistent with external guidelines such as World Bank Standards on interactions with indigenous peoples and free prior informed consultation.
- **Suppliers:** We encourage our suppliers to treat their employees, and to interact with communities, in a manner that respects human rights consistent with the spirit and intent of this policy. We require that our key suppliers adhere to all applicable domestic laws and encourage them to be consistent with ILO core labor principles. We also engage with our key suppliers to reinforce awareness of potential human rights issues.

Line management has the primary responsibility for complying with this policy within their respective functions and authority limits. Line management will communicate this policy to their respective employees, and will establish processes and programs that are consistent with this policy.

Involvement in Human Rights Initiatives

Chevron is party to several multi-stakeholder initiatives, including two in particular that address human rights issues.

Voluntary Principles: Chevron is a signatory to the Voluntary Principles on Security and Human Rights (VPs), a set of voluntary principles established in 2000 to help companies navigate security and human rights risks in countries with poor track records in this area. Several other companies in the extractives industry joined the U.S. and U.K. governments and civil society groups to develop the principles, which are the only guidelines on human rights that specifically address oil, gas and mining companies' particular challenges. The multi-stakeholder group says that businesses "have a moral responsibility to act in a way that does not negatively impact the enjoyment of human rights, particularly of those people directly affected by their operations." In a recent VPs working group assessment of the effort, companies commonly reported the most striking impact of the principles is a shift in the culture of their firms. "Many have noticed a greater awareness among staff of the human rights risks faced by their companies and their operations, and an understanding of the need for improved management of these risks," the group reported.

Extractives Industries Transparency Initiative: Chevron also supports another multi-stakeholder effort aimed at reducing corruption related to the extractives industry. The Extractives Industries Transparency Initiative (EITI), founded in 2002, brings together countries, companies and civil society organizations to improve sector-related natural resource and public financial management. EITI receives reports from extractives companies and host governments on private payments to governments and reconciles the records to determine if there is a discrepancy. The initiative aims to end bribery and corruption and is also working on ending trade in conflict minerals from the Democratic Republic of the Congo.

For more information on these initiatives, See Si2's Briefing Paper on Human Rights.

Operations in Countries with Human Rights Concerns

Chevron has operations in numerous countries with human rights concerns. The summaries below highlight countries with the most pervasive human rights abuses where Chevron has some of its highest levels of oil and gas production.

Angola: Angola accounted for 9.2 percent of Chevron's daily production of oil and gas in 2010. In Angola, Chevron holds operating interests in offshore Blocks 0 and 14 and non-operated working interests in offshore Block 2 and the onshore Fina Sonangol Texaco (FST) area. By accounts of the U.S. Department of State in its 2010 human rights report on Angola, the country is cited for "unlawful killings…arbitrary arrest and detention…impunity for human rights abusers" among other human rights issues, including violations of freedom of association and child and forced labor.

Azerbaijan: Chevron holds a non-operating working interest in the Azerbaijan International Operating Company (AIOC), which produces crude oil in the Caspian Sea from the Azeri-Chirag-Gunashli (ACG) project. In 2010, the company increased its working interest in AIOC from 10.3 percent to 11.3 percent, and the country accounted for 1.1 percent of Chevron's daily production of oil equivalent in 2010. According to the U.S. Department of State 2010 human rights report on Azerbaijan, "Restrictions on freedom of expression, assembly, and association impaired political party activities and significantly limited citizens' right to change their government through peaceful elections." The report notes, "There were reports that torture and beating of persons in police and military custody resulted in at least seven deaths, and law enforcement officials acted with impunity."

Chad: Chevron participates in a project to develop crude oil fields in southern Chad and transport oil by pipeline to the coast of Cameroon for export. Chevron has a 25 percent non-operating working interest in the producing operations and an approximate 21 percent interest in two affiliates that own the crude oil export pipeline. Average daily net production from the Chad fields in 2010 accounted for about 1 percent of Chevron's total production of oil equivalent. The U.S. Department of State reported in its 2010 human rights report on Chad that ethnic-based rebel groups and bandits committed human rights abuses, including killings, abductions, rape and injury of civilians. Some of the groups deployed child soldiers and attacked humanitarian workers, according to the report, although these abuses were on the decrease in 2010 as a result of government efforts. Still, the report found the government complicit in crackdowns on basic human rights freedoms, including arbitrary or unlawful killings and politically motivated killings, as well as restrictions on free speech.

China: China has long been on human rights' advocates list of countries with endemic human rights abuses, including retaliation against dissidents fighting for basic human rights freedoms such as free speech. It also has widely reported problems with forced labor and human trafficking, according to the U.S. Department of State's 2010 human rights report on China. It also was the origin for almost 1 percent of Chevron's oil and gas production in 2010. Chevron operates and holds a 49 percent interest in the Chuandongbei area in the onshore Sichuan Basin, and it acquired new operating interests in three deepwater exploration blocks in the South China Sea's Pearl River Mouth Basin in September 2010. It also holds interests in the Pearl River Mouth Basin and Bohai Bay.

Democratic Republic of the Congo (DRC): Chevron has a 17.7 percent non-operating working interest in an offshore concession in the DRC, which accounted for 0.1 percent of its daily production. Most human rights concerns surrounding the DRC have been related to the conflict taking place in the eastern portion of the country and to child and forced labor in the artisanal mining industry there, especially as these activities have provided funds to fuel the conflict there. Still, Chevron's presence in the country is a point of interest. (See Si2's Briefing Paper on Human Rights for more information on the DRC.)

Kazakhstan: Chevron participates in two major upstream developments in western Kazakhstan, including a 50 percent interest in the Tengizchevroil (TCO) affiliate, which is operating and developing the Tengiz and Korolev crude oil fields under a concession that expires in 2033. It also owns a 20 percent non-operated working interest in the Karachaganak project, which is being developed in phases. Its operations in Kazakhstan accounted for 2.3 percent of its daily production in 2010, but Chevron also highlights in its 2010 10-K filing that as of the end of 2010, 25 percent of its net proved reserves were in Kazakhstan, where political instability is a significant risk. At the same time, the U.S. Department of State's 2010 human rights report on the country highlights:

> limits on citizens' rights to change their government; military hazing that led to deaths; detainee and prisoner torture and other abuse; unhealthy prison conditions; arbitrary arrest and detention; lack of an independent judiciary; restrictions on freedom of speech, the press, assembly, and association; pervasive corruption, especially in law enforcement and the judicial system; prohibitive political party registration requirements; restrictions on the activities of nongovernmental organizations (NGOs); discrimination and violence against women; trafficking in persons; and societal discrimination against gays, lesbians, bisexuals, transgender persons, and those with HIV/AIDS.

Myanmar (Burma): Chevron holds a 28.3 percent non-operating working interest in a production sharing contract for the extraction of natural gas from the Yadana and Sein fields offshore in the Andaman Sea, as well as a 28.3 percent interest in a pipeline company that transports the natural gas from Yadana to the Myanmar-Thailand border for delivery to power plants in Thailand. The production accounted for 0.5 percent of its daily output in 2010. The fields and pipeline are an inherited asset from Chevron's purchase of **Unocal** in 2005 that came with much baggage related to human rights controversies. Unocal had been accused of being complicit in human rights abuses in connection with its dealings with the Burmese government over the construction of the pipeline from the gas fields to the border with Thailand. The controversy included a major lawsuit in the United States filed under the Alien Tort Claims Act that since has been dismissed. (See Si2's Briefing Paper on Human Rights for more information on the suit.)

Nigeria: Chevron holds a 40 percent interest in 13 concessions predominantly in the onshore and near-offshore region of the Niger Delta, where it operates under a joint-venture arrangement with the Nigerian National Petroleum Corporation, which owns a 60 percent interest in these operations. Chevron also owns varying interests in 10 deepwater offshore blocks. In 2010, the company's net oil-equivalent production in Nigeria accounted for 9.2 percent of its total daily production. Oil companies have long had human rights issues to contend with in the Niger Delta related to security forces there, used to fend off widespread violence, sabotage and instances of thieves tapping oil production. Chevron has not been immune to such controversies. In May 1999, victims of alleged human rights abuses associated with Chevron's operations in the Niger Delta filed suit against Chevron in federal court in San Francisco. The case, *Bowoto v. Chevron*, was based on allegations surrounding the shooting of protestors at Chevron's Parabe offshore platform and the destruction of two villages by soldiers allegedly hired by Chevron. Plaintiffs filed the suit under the Alien Tort Claims Act, the same law used by plaintiffs in the Unocal Burma case discussed earlier. In November 2008 a jury found in favor of the defendants on all charges, but the plaintiffs have filed a notice of appeal to the Ninth Circuit Court of Appeals and are seeking a new trial.

Nonetheless, problems persist in Nigeria. As the U.S. Department of State notes in its 2010 human rights report on Nigeria, the 2007 election there "was marred by what international and domestic observers characterized as massive fraud and serious irregularities, including vote rigging and political violence." Partly in connection, it says, human rights problems persisted during 2010 including:

> the abridgement of citizens' right to change their government; politically motivated and extrajudicial killings by security forces, including summary executions; torture, rape, and other cruel, inhuman or degrading treatment of prisoners, detainees, and criminal suspects; harsh and life-threatening prison and detention center conditions; arbitrary arrest and detention; prolonged pretrial detention; denial of fair public trial; executive influence on the judiciary and judicial corruption; infringement on citizens' privacy rights; restrictions on freedom of speech, press, assembly, religion, and movement; official corruption and impunity; violence and discrimination against women…

Risk Assessment

In its 2010 10-K filing Chevron, as required by the SEC, reviews the material, inherent risks confronting its business. Chevron lists political instability among the risks it mentions. It notes that in certain locations where it operates, "governments have imposed restrictions, controls and taxes, and in others, political conditions have existed that may threaten the safety of employees and the company's continued presence in those countries." It further warns, "Internal unrest, acts of violence or strained relations between a government and the company or other governments may affect the company's operations." As mentioned earlier, it highlights that as of the end of 2010, 25 percent of its net proved reserves were in Kazakhstan, where political instability is a significant risk. As reviewed in the environmental section of this report, Chevron also discusses risks related to environmental hazards and resulting environmental and human health litigation related to these issues.

V. Ecuador Lawsuit

With its acquisition of Texaco in 2001, Chevron inherited potential liabilities associated with Texaco's former oil exploration and development in Ecuador. In 1964, Texaco's subsidiary, Texaco Petroleum or "Texpet", entered into a joint venture operating agreement with Gulf Ecuatoriana, a subsidiary of Gulf Oil, which owned a concession to explore for oil in the Amazon rainforest in the eastern part of the country. At the time, the area, known as *Oriente*, was inhabited only by indigenous tribes and missionaries. In 1967, Texpet struck oil in Lago Agrio, near Ecuador's border with Colombia, and proceeded to drill what would eventually amount to more than 350 wells. It also would spend five years building a 312-mile pipeline to bring the oil across the Andes Mountains to oil terminals along the Pacific Ocean. Once the pipeline was completed in 1972, revenues from the project came to represent half of Ecuador's gross national product.

However, as the consortium's operations began to generate profits, a military junta took over the government of Ecuador in 1972. When oil prices soared after the 1973 Arab oil embargo, the government pressured Texpet and Gulf Ecuatoriana to sell part of the concession with the threat of nationalizing the assets. Petroecuador, Ecuador's state-owned oil company, acquired a 25 percent share of the consortium in 1974, and Gulf Ecuatoriana sold its remaining share in 1976, making Petroecuador the majority owner, with a 62.5 percent ownership stake. Texpet retained a 37.5 percent share for the remainder of its time in Ecuador. However, Texpet continued to design, construct and operate the consortium's wells for the bulk of this period.

The relationship between Texpet and the Ecuadorian government remained combative, with Texpet fighting the government's moves repeatedly to raise income taxes, to transfer portions of the consortium's operating area to Petroecuador, and to keep profits in the country. Over the life of the partnership, Chevron estimates that 95 percent of the earnings generated by the operations stayed in the country, while Texaco's profits from its involvement in the consortium totaled approximately $500 million.[1]

In 1986, Petroecuador acquired full ownership of the Trans-Ecuadorian pipeline; it took over its operations in 1989. Petroecuador assumed full operation of all other consortium facilities in 1990. The consortium contract expired in June 1992, and Petroecuador acquired 100 percent ownership of the consortium's assets, ending Texaco's 28-year involvement in oil exploration and production in Ecuador. Petroecuador continues to pump more than 400,000 barrels of oil a day from the region.

Environmental legacy: Texpet's operations in Ecuador had a substantial impact on the environment. According to court documents, the consortium's operations released more than 18.5 billion gallons of toxic and highly saline "formation waters," a byproduct of the drilling process, into 627 unlined pits, as well as local rivers and streams.[2] Leaks, accidents and repeated acts of sabotage related to the consortium's trans-Ecuadorian pipeline compounded environmental damage. The resulting pollution from the consortium's operations and pipeline spills contaminated local water supplies, killed fish and livestock and posed a health threat to indigenous communities. Beyond the environmental degradation and health issues, the consortium's drilling and pipeline operations displaced thousands of indigenous peoples with no compensation.

The lawsuit: The lawsuit, *Elias Piaguaie-Aguinda, et al. v. Chevron*, focuses on environmental damage from the oil drilling operation, especially the drilling muds it produced, which can be highly toxic to the environment. A key point of contention in the lawsuit is whether Texpet should have taken greater care to dispose of these wastes by lining pits where the water was discharged and properly disposing of wastes from the pits once the water has evaporated or has been properly recycled. Texaco had long maintained that the disposal techniques were standard practice in most parts of the world at that time and met the Ecuadorean government's standards, as well as those of its parastatal, Petroecuador.

The Frente de Defensa de la Amazonía (Amazon Defense Coalition) filed the class-action lawsuit against Texaco on behalf Ecuadorian victims of Texaco's pollution, seeking between $21 billion and in excess of $100 billion in damages. The lawsuit, first filed in 1993 in New York and re-filed in May 2003 in local Ecuadorian court after a U.S. judge granted the company's request that the case be heard in Ecuador, is still on appeal. The plaintiffs want Chevron to clean up contamination and provide medical care for Amazon Indians and 30,000 jungle settlers who live in communities near the site of Texpet's former operations in the Ecuadorian rainforest.

Chevron maintains that, upon ending its partnership with Petroecuador in 1992, Texpet entered into an agreement with the Republic of Ecuador and Petroecuador for Texpet to remediate specific sites assigned by the government in proportion to Texpet's ownership share of the consortium. Pursuant to that agreement, Texpet conducted a three-year remediation program at a cost of $40 million, Chevron notes in its 2010 10-K filing. As part of the assessment of Texaco's liabilities, Chevron highlights that

[1] See http://www.chevron.com/ecuador/background/.
[2] See http://chevrontoxico.com/assets/docs/cabrera-english-2008.pdf.

Texaco paid for two independent audits from internationally recognized consulting firms—AGRA Earth & Environmental Ltd. and Fugro-McClelland. The results of the audits were used to direct remediation efforts to ensure there was no lasting environmental damage. After follow-up certifications from the firms that the sites were properly cleaned up, the government granted Texpet a full release from all environmental liability arising from the consortium's operations. However, the plaintiffs maintain that the third-party audits assessing Texpet's liabilities and cleanup efforts were sorely lacking and failed to cover the bulk of the environmental damage done by the consortium in the area.

The disagreement over Texpet's true liabilities remains the crux of the nearly 20-year legal battle between Texaco, the plaintiffs and now Chevron. The suit seemed to be coming to a close when a mining engineer, appointed by the Ecuadorian Provincial Court in Lago Agrio to identify and determine the cause of environmental damage and to specify steps needed to remediate it, issued a report recommending that the court assess Chevron $18.9 billion in damages. The engineer said this amount would provide fair compensation for the damages, including wrongful death claims, and pay for, among other items, environmental remediation, health care systems and additional infrastructure for Petroecuador in compensation for saddling the company with environmental cleanup responsibilities. The engineer's report also asserted that an additional $8.4 billion could be assessed against Chevron for "unjust enrichment."

At the same time, however, Chevron moved to strike the engineer's report from testimony in 2010 after it surfaced that evidence emerged that the report was prepared by consultants for the plaintiffs before being presented as the mining engineer's independent and impartial work, and showed further evidence of misconduct. In August 2010, the judge issued an order stating that he was not bound by the mining engineer's report and requiring the parties to provide their positions on damages within 45 days.

In September 2010, Chevron submitted its position, asserting that no amount should be assessed against it, while the plaintiffs asked for damages between $16 billion and $76 billion. The plaintiffs also requested that Chevron be assigned punitive damages of approximately $5 billion and $38 billion. However, as the judge was preparing his final ruling, Chevron filed a motion to recuse him because of unresolved procedural and evidentiary matters. Chevron was successful in removing the judge from the case in October 2010, and a new judge was later appointed.

On February 14, 2011, the new presiding judge from the Provincial Court of Justice of Sucumbíos, Nicolas Zambrano, issued his final judgment in which he found Chevron liable for $8.6 billion in damages, primarily for the remediation of contaminated soils, as well as 10 percent or $860,000 in damages owed directly to plaintiffs. The judge also added $8.6 billion in punitive damages for a total topping $18 billion.[3] Chevron, however, has appealed the judgment to the Superior Court of Nueva Loja in Lago Agrio, Ecuador, where it is still pending.

Enforcing the judgment—The Ecuadorian plaintiffs have stated that they will pursue enforcement of the judgment of more than $18 billion, when and if it is upheld by the appeals court. As Chevron no longer has assets in Ecuador, the plaintiffs will need to pursue enforcement proceedings in countries where Chevron still operates, including the United States. However, enforcement in the United States will prove tricky. It hit its first roadblock on March 7, 2011, when Judge Lewis Kaplan issued a preliminary injunction in U.S. District Court that bars the Ecuadorian plaintiffs and their legal representatives from pursuing enforcement of any Ecuadorian court judgment outside the country of Ecuador. Judge Kaplan issued this injunction in response to a Racketeer Influenced and Corrupt Organizations or

[3] "Summary of Judgment Entered in *Aguinda et al v. Chevron Corporation*" http://chevrontoxico.com/assets/docs/2011-02-14-summary-of-judgment-Aguinda-v-ChevronTexaco.pdf

"RICO" Act suit filed by Chevron against the plaintiffs and their lawyers.[4] Still, the injunction is likely to be appealed by the plaintiffs and it will not stop them for attempting to enforce payment of the damages in other countries where Chevron holds assets. While a reprieve for Chevron, it is likely to open up additional, costly litigation for the company.

Chevron's position: According to its 2010 10-K filing, Chevron states its firm belief that the "lawsuit lacks legal or factual merit." It says:

> As to matters of law, the company believes first, that the court lacks jurisdiction over Chevron; second, that the law under which plaintiffs bring the action, enacted in 1999, cannot be applied retroactively; third, that the claims are barred by the statute of limitations in Ecuador; and, fourth, that the lawsuit is also barred by the releases from liability previously given to Texpet by the Republic of Ecuador and Petroecuador and by the pertinent provincial and municipal governments. With regard to the facts, the company believes that the evidence confirms that Texpet's remediation was properly conducted and that the remaining environmental damage reflects Petroecuador's failure to timely fulfill its legal obligations and Petroecuador's further conduct since assuming full control over the operations.
>
> The ultimate outcome of the foregoing matters, including any financial effect on Chevron, remains uncertain. Management does not believe an estimate of a reasonably possible loss (or a range of loss) can be made in this case. Due to the defects associated with the judgment, the 2008 engineer's report and the September 2010 plaintiffs' submission, management does not believe these documents have any utility in calculating a reasonably possible loss (or a range of loss). Moreover, the highly uncertain legal environment surrounding the case provides no basis for management to estimate a reasonably possible loss (or a range of loss).

However, Chevron stockholders also should note that the company's lawyers made a strikingly different assessment of the liabilities in the suit in arguing for an injunction against enforcing the Ecuadorian settlement before Judge Lewis Kaplan in U.S. District Court. In its sworn legal statements, Chevron says that it is at risk of "irreparable injury to the Company's business reputation and business relationships" from potential enforcement of the Ecuadorian court judgment. It was this "irreparable injury" claim that Judge Kaplan used to enforce the injunction. In his ruling, Judge Kaplan says:

> Absent a preliminary injunction, Chevron would be forced to defend itself and litigate the enforceability of the Ecuadorian judgment in multiple proceedings. There is a significant risk that assets would be seized or attached, thus disrupting Chevron's supply chain, causing it to miss critical deliveries to business partners, damaging "Chevron's business reputation as a reliable supplier and harm the valuable customer goodwill Chevron has developed over the past 130 years," and causing injury to Chevron's "business reputation and business relationships."[5]

Potential liabilities: Both statements paint a dramatically different picture from the company's assessment of the potential liabilities in its discussion of the case for shareholders in its 2010 10-K statement. To place the present judgment in context, 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. On top of the potential judgment itself, shareholders must consider the lost time and money dedicated to defending Chevron in the suit.

At the same time, stock analysts are beginning to incorporate Chevron's legal liability into their investment analysis. According to a March 31, 2011, article by *The Street*, stock research company Trefis issued a report on March 31, 2011, which estimated the potential impact on its estimate of Chevron's stock valuation. Assuming a payout by Chevron of $9.5 billion, Trefis predicted a decline in its estimate of Chevron's stock valuation of approximately 5 percent.

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[4] See http://www.chevron.com/documents/pdf/ecuador/SDNYOrderPreliminaryInjunction.pdf.

[5] Preliminary Injunction of U.S. Federal District Judge Lewis A. Kaplan, p. 65. Case 1:11-cv-00691-LAK Document 181 Filed March 7, 2011

VI. Resources

Key Company Documents

- Chevron's 2010 10-K filing with the SEC
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- Chevron's Public Policy Committee board charter
  http://www.chevron.com/documents/pdf/publicpolicycommitteecharter.pdf
- Chevron's Corporate Governance Guidelines
  http://www.chevron.com/investors/corporategovernance/governanceguidelines/
- The Chevron Way, the company's vision and values statement
  http://www.chevron.com/about/chevronway/
- Operational Excellence and Management System, an overview of Chevron's policies and practices on environmental, health and safety management
  http://www.chevron.com/about/operationalexcellence
- Chevron's Business Code of Conduct and Ethics
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- *The Value of Partnership*, 2009 Corporate Responsibility Report
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  http://www.chevron.com/chevron/pressreleases/article/07212010_newoilspillcontainmentsystemtoprotectgulfofmexicoplannedbymajoroilcompanies.news

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- "Niger Delta Natural Resource Damage Assessment and Restoration Project Phase 1 Scoping Report." WWF UK, the World Conservation Union (IUCN), Nigeria's Federal Ministry of Environment and the Nigerian Conservation Foundation, 2006.
  http://cmsdata.iucn.org/downloads/niger_delta_natural_resource_damage_assessment_and_restoration_project_recommendation.doc
- Chevron's letter announcing its human rights policy
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- U.S. Department of State reports on human rights for 2010:
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  - Azerbaijan—http://www.state.gov/g/drl/rls/hrrpt/2010/eur/154413.htm
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  - Kazakhstan—http://www.state.gov/g/drl/rls/hrrpt/2010/sca/154481.htm
  - Nigeria—http://www.state.gov/g/drl/rls/hrrpt/2010/af/154363.htm

Ecuador Lawsuit

- Chevron’s background on the Ecuador lawsuit
http://www.chevron.com/ecuador/background/
- A technical report by Engineer Richard Stalin Cabrera Vega, expert for the Court of Nueva Loja
http://chevrontoxico.com/assets/docs/cabrera-english-2008.pdf
- Summary of Judgment Entered in *Aguinda et al v. Chevron Corporation*
http://chevrontoxico.com/assets/docs/2011-02-14-summary-of-judgment-Aguinda-v-ChevronTexaco.pdf
- Judge Lewis Kaplan’ preliminary injunction in U.S. District Court on enforcing Ecuadorean ruling
http://www.chevron.com/documents/pdf/ecuador/SDNYOrderPreliminaryInjunction.pdf
- Preliminary Injunction of U.S. Federal District Judge Lewis A. Kaplan, p. 65. Case 1:11-cv-00691-LAK Document 181 Filed March 7, 2011
- “Chevron Could Take Big Hit from Potential Payout in Ecuador.” *The Street*, March 31, 2011.
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