



Chevron Corporation (CVX)

Vote Yes: Item #7 – Petrochemical Risk Proposal

Annual Meeting: May 27, 2020

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THE RESOLUTION

Shareholders request that Chevron, with board oversight, publish a report, omitting proprietary information and prepared at reasonable cost, assessing the public health risks of expanding petrochemical operations and investments in areas increasingly prone to climate change-induced storms, flooding, and sea level rise.

Investors request the company assess, among other related issues at management and Board discretion: The adequacy of measures the company is employing to prevent public health impacts from associated chemical releases.

SUMMARY

Due to the COVID-19 pandemic, 2020 has seen unprecedented economic disruption. With lives at stake, government action has been insufficient to avert massive loss of life and economic devastation. This shock demonstrates just how critical early action and planning is to mitigate known and likely global catastrophes. Even as the energy sector grapples with the impacts of COVID-19, it must not put aside preparation and action to stem the risks presented by the climate crisis.

Physical risks associated with climate change are increasing faster than previously predicted, as demonstrated by heightened storm intensity and frequency, as well as rising sea levels in regions like the Gulf Coast. Chevron Phillips Chemical Company (CPCChem), jointly owned by Phillips 66 and Chevron, has announced plans to significantly expand new petrochemical infrastructure in Gulf Coast areas that are already being affected by climate impacts.

Investors are concerned about the financial, health, environmental, and reputational risks associated with operating and building-out new chemical plants and related infrastructure in Gulf Coast locations that are increasingly prone to catastrophic storms and flooding associated with climate change. Given the highly toxic chemicals involved in petrochemical operations (including benzene, volatile organic compounds, and sulfur dioxide), the location of these investments in the Gulf Coast poses significant risks to the company, local communities, and the environment. Disruptions in plant operations, such as those experienced by CPCChem during Hurricane Harvey, frequently result in upsets and equipment malfunctions and release of toxic chemicals beyond permitted levels. CPCChem was noted as being the source of some of the largest pollution leaks during Hurricane Harvey.

While the Company rapidly expands its petrochemical assets in climate-impacted areas, investors seek specific information to assess whether Chevron is sufficiently prepared to mitigate public health risks associated with climate-related impacts and the dangerous chemicals it uses.



CONTEXT – CLIMATE RISK AND DENIAL OF ACCOUNTABILITY

While climate impacts pose clear risks to Chevron's petrochemical operations and surrounding communities, Chevron continues to irresponsibly contribute to that same climate risk through its greenhouse gas-intensive operations. Chevron fails to clarify for investors if it intends to align its emissions with the Paris Agreement goals – while citing the Paris Agreement goal in its reports, it has continued to invest heavily in oil and gas growth, locking in emissions and potential stranded assets. This is at odds with major European peers that are outlining ambitious policies to decarbonize their full scope of emissions by 2050, in line with the science as described by the IPCC and in recognition of the value destruction to the economy from a warming climate. Chevron's actions are exacerbating the climate crisis and are in turn putting its own operations, communities, and investors' portfolios at risk.

In recent years, investors have sought to appropriately raise these concerns to the Company Board and management through the resolution process by asking the simple question of “*if and how*” Chevron plans to align with the vital goal of the Paris Climate Agreement.^{1,2} Rather than allow this productive, good faith process to proceed with its shareholders, the Company has chosen to instead deny shareholders a say on this pressing topic by omitting the resolution from its proxy statement and annual shareholder meeting this year. A similar proposal had received the support of 33% of shareholders in 2019, demonstrating the significant concern investors share on this topic. This evasion of responsibility regarding the increasingly important topic of climate risk is extremely concerning to the investor community. The significance of climate change's impact to shareholders is evidenced by Climate Action 100+, an investor coalition representing more than \$40 trillion in AUM, a group recently joined by BlackRock and JPMorgan Chase. The Climate 100+ commitment states:

“We believe that engaging and working with the companies in which we invest – to communicate the need for greater disclosure around climate change risk and company strategies aligned with the Paris Agreement – is consistent with our fiduciary duty and will contribute to achieving the goals of the Paris Agreement.”³

In the face of catastrophic climate change, Chevron has consistently denied shareholders the basic right to raise the issue of Paris Alignment, while simultaneously increasing its own and investor exposure to climate impacts by continuing to expand in high-risk areas

RATIONALE FOR A “YES” VOTE: PETROCHEMICAL RISK PROPOSAL

- 1) Chevron's increasing investments in petrochemical infrastructure projects expose the company to growing climate risks.** These risks could lead to harms to human health and the environment and associated litigation, financial penalties, regulatory action, reputational damage, loss of social license to operate, and significant repair and clean-up costs that adversely impact shareholder value.

¹ <https://www.asyousow.org/resolutions/2019/12/18/chevron-climate-change-risk-reporting>

² <https://www.asyousow.org/resolutions/2018/12/18/chevron-corporation-paris-aligned-business-plan>

³ <https://climateaction100.wordpress.com/investors/>



- 2) **Chevron does not provide shareholders with sufficient analysis and disclosure on managing growing risks to its petrochemical operations.** The Company states it is aware of climate change and its risks, but it has not adequately described plans to address the increasing risks its operations face in sensitive areas. The Company's references to high-level and generalized risk management protocols are insufficient to assess if and how CPChem is preparing to adequately mitigate and prevent the growing risks that climate change poses to its current and planned petrochemical investments.

DISCUSSION

- 1) **Chevron's increasing investments in petrochemical infrastructure projects expose the company to growing climate risks.**

Chevron has announced major billion-dollar investments for Gulf Coast-based projects over the next number of years including a major petrochemical plant with an ethylene cracker and two high-density polyethylene units.⁴ Existing and proposed petrochemical projects have the potential to create major liability during extreme weather events. In fact, CPChem was noted as being the source of some of the largest pollution leaks during Hurricane Harvey indicating that the Company may be ill-prepared to manage the risks posed by climate change.⁵ Hurricane Harvey's impacts also contributed to a \$70 million decrease in earnings from Chevron's 50 percent stake in CPChem in 2017, which could burgeon if facilities are hit by worse and more frequent events in the future.⁶

Growing storms and the costs they bring our company are predicted to increase in frequency and intensity as global warming escalates. Flood-related damage is projected to be highest in Texas, where many of CPChem's petrochemical plants are concentrated, and Houston alone has seen three 500-year floods in a three-year span. Hazardous chemical releases, such as those experienced by CPChem's petrochemical facilities during Hurricane Harvey, put surrounding communities at risk and have eroded the Company's social license to operate. The Center for International Environmental Law (CIEL) published a report in 2019 noting the extent to which petrochemical refining operations use and produce hazardous pollutants that cause health impacts, including cancer, reproductive and birth defects, etc. The report emphasized that fenceline communities are especially vulnerable, and that the risk is exacerbated by extreme weather events. During Hurricane Harvey roughly one million pounds of dangerous air pollutants like benzene, 1,3-butadiene, sulfur dioxide, and toluene were released by local refineries and plants.⁷

Outside of more extreme events, leaks are an ongoing danger and liability for Chevron that can compound vulnerabilities and impacts. Its facilities have been listed as the 2nd and the 6th largest emitters for 'pounds of unpermitted "upset" emissions' in the Houston region.^{8,9} Peer companies

⁴ <http://www.cpchem.com/en-us/news/Pages/Chevron-Phillips-Chemical-and-Qatar-Petroleum-announce-plans-to-jointly-develop-U-S-Gulf-Coast-petrochemical-project.aspx>

⁵ <https://www.environmentalintegrity.org/wp-content/uploads/2018/08/Hurricane-Harvey-Report-8.16.18-final.pdf>, p.12

⁶ <https://www.sec.gov/Archives/edgar/data/93410/000009341018000010/cvx12312017-10kdoc.htm>

⁷ <https://www.ciel.org/wp-content/uploads/2019/02/Plastic-and-Health-The-Hidden-Costs-of-a-Plastic-Planet-February-2019.pdf>, p.17-22

⁸ <https://environmentalintegrity.org/wp-content/uploads/2020/02/Benzene-Report-2.6.20.pdf>

⁹ <https://www.environmentalintegrity.org/wp-content/uploads/2019/09/Plastics-Pollution-on-the-Rise-report-final.pdf>, p.21



are already facing civil legal action regarding the emerging issue of climate resiliency. In 2019, a judge in a Boston federal court allowed a lawsuit to move forward seeking \$110 million for Exxon's failure to fortify an oil storage facility to withstand the physical impacts of climate change.¹⁰

The financial sector, including insurance companies, are also becoming more acutely aware of climate-specific risks related to insuring companies, especially in areas subject to greater climate impacts such as hurricanes and flooding. Swiss Re has published a report on the rapidly growing costs of natural disasters, which reached \$337 billion in 2017; Lloyd's of London cited natural disasters for its first loss in six years; and AXA has spoken out saying that major global warming would make the world uninsurable this century.¹¹ BlackRock, the world's largest asset manager, with \$6 trillion in assets under management, released a report in April of 2019 on its assessment of physical climate risks, noting: "Our early findings suggest investors must rethink their assessment of vulnerabilities. Weather events such as hurricanes and wildfires are underpriced in financial assets."¹² Potential lack of insurance coverage may be a growing concern for the Company.

2) Chevron does not provide shareholders with sufficient analysis and disclosure on managing growing risks to its petrochemical operations.

Despite clear risks, Chevron provides investors with minimal discussion of how it is responding to growing physical risks from climate change. In Chevron's Climate Change Resilience report, the Company states that "climate change presents different potential risks to different segments of [its] business..." and that "potential climate change risks are considered when conducting risk assessments at the business unit, operating company, and enterprise levels."¹³ This high-level language says nothing about *how* the company is considering or managing climate risks facing its facilities. Similarly vague and non-descriptive language is offered in Chevron's latest annual report, where Chevron points to its website for the Climate Change Resilience report—a report that lacks the requested information on petrochemical risk.¹⁴

This lack of transparency is especially worrisome considering Chevron's large pollution leaks and loss of earnings during Hurricane Harvey, which underscore that its current risk management strategy is inadequate.¹⁵ For instance, the company does not: identify which of its current and planned facilities are in areas at high risk of experiencing climate-related severe weather events; provide assumptions made and describe measures used to evaluate how climate change will affect its Gulf Coast facilities and responding to increasing risk; report estimated emissions from unplanned upsets such as those that occur during hurricanes; outline strategies to communicate with key local stakeholders during emergency situations; or describe measures taken to minimize health impacts of associated chemical releases.

While some information on major spills must be reported to state and federal governments,

¹⁰ <https://www.wbur.org/news/2019/03/13/exxonmobil-conservation-law-foundation-lawsuit-moves-forward>

¹¹ <https://www.ft.com/content/0f530242-02c1-11e9-9d01-cd4d49afb3e3>

¹² <https://www.blackrock.com/us/individual/literature/whitepaper/bii-physical-climate-risks-april-2019.pdf>

¹³ <https://www.chevron.com/-/media/shared-media/documents/climate-change-resilience.pdf>, p.7

¹⁴ <https://www.chevron.com/annual-report/-/media/chevron/annual-report/2018/documents/2018-Annual-Report.pdf?l=1#page=19>, p.105

¹⁵ https://s22.q4cdn.com/128149789/files/doc_financials/annual_report/2018/PSX_2018_AnnualReport.pdf, p.41



companies are not required to report this to counties.¹⁶ Current reporting requirements can leave communities in the dark about the health risks they face; companies should therefore improve disclosures beyond what is required by law to retain and improve the goodwill and trust of local communities and governments and to demonstrate to shareholders the type of best management practices in place. As the risks of climate change become more apparent and urgent, shareholders require robust analysis and transparent disclosure of risks and company mitigation strategies in order to make appropriately informed investment decisions.

RESPONSE TO CHEVRON'S BOARD OF DIRECTORS' STATEMENT IN OPPOSITION

Chevron's Board of Directors ("the Board") argues against this shareholder proposal on the basis that the current "Chevron's actions and reporting are appropriate and demonstrate that Chevron manages that physical risks associated with climate change arising from its own operations and from its investment in the Chevron Phillips joint venture." It also states that its "processes and standards provide the business with the flexibility to focus on the risks and potential impacts to the environment most salient to the specific locations where the Company operates." However, the Company provides no insight into *how* it analyzes, weighs, and mitigates the risks raised in the Proposal. The Company does not explain how it determines what is or is not considered to be a safe and acceptable level of risk to public health, and past events indicate that such risk was not sufficiently considered. Furthermore, climate science makes clear that future weather patterns will be different from the past - moving into a paradigm that is more extreme and destructive, erratic and unpredictable. New weather paradigms necessitate new methods of analysis and approaches to minimize risks to companies' assets. The Board's Statement does not indicate what measures it is taking to factor future climate change impacts into its analysis or processes to protect community health.

While the Board's Statement claims that Chevron's "Operational Excellence Management System" Policy takes into consideration "risks associated with the impact of ambient conditions on [its] operations" among the many risks the Company might face, recent events call this assumption into question. As noted, alarming chemical releases that occurred during Hurricane Harvey demonstrate that Chevron's current risk management systems are not sufficient to responsibly manage extreme weather events, especially as these intensify in the future. The Company does state that its experiences and lessons from Hurricane Harvey are being "built into the design and operating procedures for existing facilities and new facilities." However, the Company only goes as far as saying that it has incorporated "weather-related scenarios" in new facility design. There is no support that resulting changes from such learnings are sufficient to withstand the heightened future risks climate change is bringing for vulnerable coastal infrastructure.

Climate-related risks are of significant concern to investors and require comprehensive disclosures to fully inform shareholders about Company management of these evolving risks. The high-level references in the Board's Statement are insufficient to assure investors that risks raised in the Proposal are being appropriately managed. As such, investors desire more clarity on Chevron's management of the new risks that climate change poses to local community safety.

¹⁶ <https://apnews.com/e0ceae76d5894734b0041210a902218d>



CONCLUSION

Vote “Yes” on this Shareholder Proposal regarding the Company’s efforts to limit publichealth and environmental impacts of building out hazardous petrochemical infrastructure in high-risk climate-affected areas.

Chevron is investing billions in the construction and expansion of petrochemical infrastructure projects in regions that are exposed to increasing climate risk such as destructive weather and flooding. Shareholders urge strong support for this proposal, which will bring increased transparency to shareholders on a significant and emerging business risk facing the company.

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