WHEREAS: As the window narrows to limit global warming to 1.5°C and avoid the most catastrophic impacts of climate change, experts and investors, including the Science Based Targets Initiative and CA100+, are clear that companies must achieve actual near-term emissions reductions, rather than relying on carbon offsets.[1] Many carbon offsetting projects do not produce additional and permanent real-world emissions reductions.[2] Public skepticism and increasing legal scrutiny make it imperative that companies ensure corporate reduction strategies result in actual emission reductions that align with 1.5°C.

Companies are facing public backlash from investigations into corporate offsetting projects,[3] resulting in multiple lawsuits alleging that offset use is misleading.[4] Emerging UK and US reporting requirements require companies to separately account emissions and offsetting, and more broadly, EU regulations prohibit companies from counting carbon credits toward meeting emissions reduction goals.[5] In addition to these legal and reputational risks, reliance on offsetting can result in misallocated decarbonization expenditures and missed opportunities to align with a decarbonizing economy.

To mitigate reputational, regulatory, and legal risk, it is in Valero's best interest to adopt an emission reduction plan that does not rely on carbon offsets. Valero has a goal to "reduce and offset" its global refining emissions 100% by 2035, including plans to "displace," or offset, emissions through "blending of and credits from low-carbon fuels."[6] Only 7% of this goal is achieved with absolution emissions reductions, while the rest of the near-term goal relies on displaced emissions, carbon credits, and carbon capture. Moreover, a large part of Valero's strategy appears to involve using avoided emissions from its value chain to "displace" operational emissions. It is unclear to investors how Valero is avoiding "double counting" in doing so, posing potential regulatory and legal issues. Such disclosure gaps hinder investors from accurately assessing Valero's exposure to climate-related financial risk. Additionally, by failing to

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[1] https://sciencebasedtargets.org/resources/files/SBTi-criteria.pdf , p. 10
[2] https://www.bloomberg.com/news/articles/2022-11-21/junk-carbon-offsets-allow-companies-to-claim-they-re-carbon-neutral
[3] https://www.bbc.com/news/science-environment-60248830
[4] https://www.clientearth.org/media/nq4jnyww/ce-offsets-legal-briefing.pdf , p.5
[5] https://www.ft.com/content/53f84f03-1f1c-4240-977f-9de0e4893377; https://www.gov.uk/government/news/uk-to-enshrine-mandatory-climate-disclosures-for-largest-companies-in-law; https://corpgov.law.harvard.edu/2023/10/22/california-enacts-major-climate-related-disclosure-laws/; https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf, p.62
[6] https://investorvalero.com/esg/default.aspx

achieve substantial emissions reductions, this goal does not align with limiting global warming to 1.5°C.

By adopting near-term reduction goals that do not rely on offsets and avoided emissions, Valero can ensure its decarbonization strategy aligns with the global 1.5°C goal, prepare for emerging regulation, and position itself to maximize long-term value in a transitioning economy.

BE IT RESOLVED: Shareholders request that Valero adopt a 1.5°C-aligned, near-term emissions reduction target that does not include the use of carbon offsets and avoided emissions.

SUPPORTING STATEMENT: Proponents suggest, at Board discretion, that the Company:

- Disclose a timeline for setting near-term 1.5°C-aligned emission reduction goals;
- Consider approaches used by advisory groups such as the Science Based Targets initiative; and
- Include an enterprise-wide climate transition plan to achieve 1.5°C-aligned emission reductions.