

Investment Stewardship Group

Voting Bulletin: Chevron Corporation

As part of our fiduciary duty, BlackRock’s Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our [engagement priorities](#) based on our observation of market developments and emerging governance themes and evolve them year over year as necessary. The BIS team’s key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted on select resolutions, and (where relevant) provide information around our engagement with the issuer.

Company	Chevron Corporation
Market	United States
Meeting Date	27 th May 2020
Key Resolutions ¹	Item 6: Report on Climate Lobbying Aligned with Paris Agreement Goals
Board Recommendation	The company recommends shareholders vote AGAINST this shareholder proposal.
BlackRock Vote	BIS voted FOR this proposal, as greater transparency into the company’s approach to political spending and lobbying as aligned with their stated support for the Paris Agreement will help articulate consistency between private and public messaging in the context of managing climate risk and the transition to a lower-carbon economy.

¹ The full meeting resolutions and agenda can be accessed at: <https://www.chevron.com/investors/events-presentations>.

Overview

Chevron Corporation (Chevron) is an American multinational oil and gas corporation headquartered in San Ramon, CA. Chevron engages in integrated energy, chemicals, and petroleum operations worldwide and operates in two segments, Upstream and Downstream.

We have a long and constructive history of engagement with Chevron. In our direct dialogue with corporate leadership we have discussed a range of topics, including corporate governance generally as well as climate reporting, greenhouse gas (GHG) and methane emissions reductions, human capital management, and risk oversight processes, among other topics.

While Chevron has not made the commitments of some of its European peers towards Scope 3 emissions reductions or business model shifts towards lower carbon alternatives,² the company has been consistently open to evolving its reporting processes in response to feedback from investors. In particular, Chevron provides reporting aligned with the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB), which articulates its governance, strategy, risk oversight, and metrics and targets in line with a two-degree scenario.³

Item 6: Report on Climate Lobbying Aligned with Paris Agreement Goals (FOR)

Shareholders filed a non-binding proposal requesting that Chevron report on how the company's direct and indirect lobbying align with the Paris Climate Agreement goals.

Resolved: "Shareholders request that the Board of Directors conduct an evaluation and issue a report within the next year (at reasonable cost, omitting proprietary information) describing if, and how, Chevron's lobbying activities (direct and through trade associations) align with the goal of limiting average global warming to well below 2 degrees Celsius (the Paris Climate Agreement's goal). The report should also address the risks presented by any misaligned lobbying and the company's plans, if any, to mitigate these risks."

Rationale for BlackRock vote

We acknowledge that Chevron has been responsive to investors and transparent in their detailed TCFD and SASB-aligned reporting. BIS considers Chevron a leader among US peers with regard to board oversight of climate risk, strong corporate governance practices, and reporting in line with SASB and the TCFD. We expect that Chevron will continue to iterate on its climate risk approach, including considering future GHG emissions reduction targets, the degree of warming the company anticipates under its currently articulated strategy, and its views regarding how this is aligned with long-term shareholders' interests. One additional area that we believe would strengthen the company's disclosure is additional transparency around political spending and lobbying related to climate risk and the low carbon transition.

In our view, the company could provide investors with a more detailed explanation of the alignment between Chevron's political activities and the goal of the Paris Agreement to limit global warming to no more than two degrees Celsius, which the company supports.

While we recognize and applaud Chevron's current TCFD and SASB-aligned reporting, BIS believes that greater transparency into the company's approach to political spending as aligned with its stated support for the Paris

² BIS does not involve itself in matters of corporate discretion in determining its own strategy, however, we note the alternate approaches to managing the risks of a low carbon transition as conveyed by European oil and gas peers.

³ The company describes its governance framework and board and management oversight of climate risk; reports on the company's resilience under various IEA scenarios including the Sustainable Development Scenario; and set emissions reduction targets on GHG emissions intensity for gas production; oil production; net reduction in methane emissions intensity; and net reduction in flaring intensity by 2023 all off a 2016 baseline. These targets apply to both the company's owned and operated businesses and are linked to the company's executive compensation program. Chevron reports information related to two types of Scope 3 emissions: emissions associated with electricity and steam that Chevron exports to third parties and emissions from third-party use of its products.

Agreement will help articulate consistency between private and public messaging for managing climate risk and transition to a lower-carbon economy.

Based on recent engagements with the company leading up to the annual meeting, we believe Chevron is aligned with the spirit of this proposal, as it has articulated a desire to provide more clarity for investors on its internal climate considerations and associated political spending and lobbying contributions. We appreciate the company's willingness to consider investor feedback and look forward to forthcoming reporting.

We believe enhanced disclosure will help investors better understand the company's political activities in the context of policy that supports the transition to a lower carbon economy.

As such, support for this proposal is not meant to be punitive or suggest that we feel the board has failed to appropriately consider climate risk in the context of strategy. Rather, we believe this is a further point of refinement to solidify best in class reporting amongst US oil and gas peers. The proposal does not suggest or require Chevron to alter its current actions; instead, it affords an opportunity to provide greater context for investors. This is in line with our view that the risks of climate change and the transition to a lower carbon economy present material regulatory, reputational, and legal risks to companies. As a fiduciary for our clients, we see it as material to better understand how these risks are being adequately disclosed and overseen.

Additional Ballot Items

The company received six additional shareholder proposals for the 2020 AGM on a range of issues including climate change, lobbying, human rights, and governance provisions. BlackRock voted against all of the remaining shareholder proposals and supported management on the election of directors and on compensation.

A brief summary of the additional shareholder proposals and BIS rationale is as follows:

Item 4: Report on Lobbying Payments and Policy (AGAINST)

While we believe there is an opportunity for Chevron to refine its reporting on climate-related lobbying as detailed above, Chevron's current substantive disclosure specifically related to lobbying payments and policy is in line with BIS' recommendations as outlined in [BlackRock Investment Stewardship's perspective on corporate political activities](#). This includes a robust explanation of the Public Policy Committee's role in overseeing lobbying and political spending activities, the rationale for Chevron's engagement in the political process, access to the company's State and Federal lobbying disclosures, and a list of trade association memberships above a \$100,000 threshold. During our most recent engagement with the company, we discussed ways Chevron could enhance its future disclosures even further around political lobbying and spending, to which the company was open.

Item 5: Establish Board Committee on Climate Risk (AGAINST)

Chevron provides robust disclosure around its assertion that the responsibility for climate risk oversight rests with the full board. The company clearly delineates the various aspects of risk that each committee oversees and how those risks are communicated to the full board. This is consistent with BIS' stated approach that "[f]or companies in sectors that are significantly exposed to climate-related risk, we expect the whole board to have demonstrable fluency in how climate risk affects the business and how management approaches assessing, adapting to, and mitigating that risk."

Item 7: Report on Petrochemical Risk (AGAINST)

The proponent is asking the company to assess and report on the public health risks of expanding petrochemical operations in Gulf Coast locations that are increasingly prone to climate change-induced storms, flooding, and sea level rise. The proposal is aimed primarily at CPChem, a joint venture in which Chevron holds a 50% interest (the other 50% is held by Phillips 66).

In its Climate Resilience Report,⁴ Chevron discloses its experience managing risks associated with the impact of ambient conditions on its operations. The company goes on to describe its climate adaptation efforts and discloses details regarding the Operational Excellence Management System it has designed and deploys to assess risks prior to making investment decisions. Additionally, the board describes the oversight of CPChem, the primary target of the proposal.⁵ As a result of the robust board oversight and operational systems the company has put in place, BIS believes that Chevron demonstrates adequate management of the physical risks associated with climate change at this time.

Item 8: Report on Human Rights Practices (AGAINST)

Chevron's Human Rights Policy was adopted in 2009 and updated in 2019. The updated policy more clearly articulates the company's continuing support for international human rights, including its commitment to respect the principles set forth in the United Nations Universal Declaration of Human Rights, among other treaties.

The company articulates that human rights are included in its overall enterprise risk management approach and Chevron has stringent codes of conduct for its suppliers and contractors. As a result of Chevron's enhanced disclosures and detailed board oversight of corporate operations, BIS does not have concerns regarding Chevron's commitment to human rights.

Item 9: Reduce Ownership Threshold for Shareholders to Call Special Meeting (AGAINST)

We do not typically support shareholder proposals that request incremental adjustments to rights that the company already has in place that meet BIS' recommended guidelines for governance best-practices. As the company already has the right to call a special meeting at 15%, we do not feel that the current proposal requesting a reduction to 10% is warranted. We consider the existing threshold to adequately provide shareholders the right to call a meeting at a reasonable level of aggregate shareholder concern.

Item 10: Require Independent Board Chair (AGAINST)

Chevron clearly delineates the role of the Lead Independent Director and BIS does not have any concerns regarding the robustness of this position based on both the company's disclosure as well as direct conversations we have had with Dr. Ron Sugar, who holds this position. Furthermore, BIS does not have any significant corporate governance concerns at this time and is confident that Board members are engaged and exercising independent judgement. As such, we do not consider this proposal necessary or additive.

⁴ For more information, please see: <https://www.chevron.com/-/media/shared-media/documents/climate-change-resilience.pdf>.

⁵ For more information, please see: <https://www.chevron.com/about/operational-excellence/oems>.