BlackRock

Investment Stewardship

Vote Bulletin: Chevron Corporation

Company	**Chevron Corporation (NYSE: CVX)**
Market and Sector	United States/Energy
Meeting Date	26 May 2021
Key Resolutions[1]	**Item 4**: Reduce Scope 3 Emissions (Shareholder proposal) **Item 5**: Report on Impacts of Net Zero 2050 Scenario (Shareholder proposal) **Item 6**: Amend Certificate of Incorporation to Become a Public Benefit Corporation (Shareholder proposal) **Item 7**: Report on Lobbying Payments and Policy (Shareholder proposal) **Item 8**: Require Independent Board Chair (Shareholder proposal) **Item 9**: Reduce Ownership Threshold for Shareholders to Call Special Meeting (Shareholder proposal)
Key Topics	Climate risk, board quality and effectiveness, corporate political activities
Board Recommendation	The Board recommended voting AGAINST the shareholder proposals listed above (Items 4-9)
BlackRock Vote	BlackRock voted FOR the shareholder proposal on scope 3 emissions targets (Item 4), and AGAINST all other shareholder proposals. Because we did not have material governance or oversight concerns, BlackRock voted FOR all management proposals (Items 1-3), including the re-election of all directors.

Overview

Chevron Corporation (Chevron) is a global integrated energy, chemicals, and petroleum company, operating through the upstream and downstream segments.

BlackRock Investment Stewardship (BIS) has a long history of constructive engagement with Chevron where we discuss corporate governance and sustainability topics that we believe drive long-term shareholder value. This has included climate risk, corporate strategy, and human capital management, among others. We have found Chevron to be receptive and open to shareholder feedback and BIS has had regular engagement with independent members of Chevron's Board. We therefore do not currently have concerns about the company's governance and oversight practices.

We welcome the steps that the company has taken to enhance the oversight, management, and disclosure of climate-related risks and opportunities. In March, Chevron published its third Climate Change Resilience Report that is aligned with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD).[2] The report outlines the company's approach to the global energy transition, including testing the resiliency of

[1] Chevron, "2021 proxy statement".

[2] Chevron, "climate change resilience".

its portfolio against the International Energy Agency's (IEA) Sustainable Development Scenario (SDS) with assumptions to anticipate a Net Zero Scenario.[3]

During its annual investor day earlier this year, Chevron announced that it had surpassed its 2023 upstream carbon intensity reduction targets, three years ahead of schedule.[4] The company announced new 2028 greenhouse gas (GHG) reduction targets, including specific methane targets, as well as a goal to eliminate routine flaring by 2030.[5] The setting of new targets aligns with the second stock-take period under the Paris Agreement and includes all of Chevron's production on an equity-basis.[6]

The company also updated plans to increase investments in renewable energy, carbon offsets, and in low-carbon technologies such as hydrogen and carbon capture utilization and storage (CCUS) to enable commercial solutions to climate change.[7] It also launched its second Future Energy Fund with an initial $300 million commitment.[8]

Rationale for BlackRock's Vote

Item 4: Reduce Scope 3 Emissions (FOR)

BIS supported this shareholder proposal, while recognizing the company's efforts to date, because it is consistent with what we expect of large companies like Chevron and its peers.

The shareholder proposal requested that Chevron "substantially reduce the greenhouse gas (GHG) emissions of their energy products (scope 3) in the medium- and long- term future."[9] Importantly, the proposal states that "[t]o allow maximum flexibility, nothing in this resolution shall serve to micromanage the Company by seeking to impose methods for implementing complex policies in place of the ongoing judgement of management as overseen by its board of directors."[10]

Currently, Chevron discloses the scope 3 emissions from the use of its products.[11] It supports a price on carbon and aims to increase its renewable products offerings in order to help customers lower their carbon footprints.

BIS believes that companies in carbon intensive industries should aim to set scope 3 emissions reduction targets. It is particularly important to assume responsibility, where reasonable, for the complete emissions profile of the company as the world transitions to a low carbon economy. We understand that this is still a relatively nascent practice, especially in the U.S.

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[3] See previous footnote.

[4] Chevron, "Chevron Reinforces Plan to Deliver Higher Returns, Lower Carbon".

[5] See previous footnote.

[6] Chevron, "climate change resilience". "Chevron believes that the most appropriate approach for measuring the emissions performance of an Upstream asset is greenhouse gas ("GHG") intensity by commodity on an equity basis. This approach ensures Chevron is accountable for all Upstream GHG emissions, irrespective of who is the operator, unlike many others who account only for emissions from a subset of assets in which they have invested. Consistent with the timing of the global stock-takes under the Paris Agreement, Chevron has set metrics for 2023 and 2028 and intends to do so every five years thereafter."

[7] Chevron has committed $2 billion by 2028 in carbon-reduction projects and $750M by 2028 in investments in renewables and offsets. "Climate Change Resilience at 41, 44-46.

[8] Chevron, "climate change resilience".

[9] Chevron, "2021 proxy statement".

[10] See previous footnote.

[11] Chevron, "climate change resilience".

Currently the Science Based Target Initiative (SBTi) is working on guidance for the energy sector on scope 3 emissions, which will have an important role to play in defining the 'right' transition pathways for large energy companies. Regardless, it is increasingly clear that companies will need to take action to reduce their scope 3 emissions and that targets will need to be clear and achievable, not just aspirational. Chevron's European peers such as Equinor, BP and Shell have already begun to undertake this endeavor.

As discussed in our commentary *Climate Risk and the Transition to a Low-Carbon Economy*, we believe that the companies that critically evaluate their current baseline, set rigorous GHG emissions reduction targets, and act on an accelerated timeline are those most likely to avoid operational disruption in the future. For some companies, a careful consideration of the evolving market and changing global economy may dictate the need for a shift in business plan and strategic direction. In our assessment, Chevron is on the right path and we have confidence in management and the Board in their intention to continue to critically assess these issues. Nonetheless, BIS supported the proposal, which is clear and not prescriptive, to reflect our desire to see the company continue to evolve its approach and demonstrate progress on these challenging topics.

Item 5: Report on Impacts of Net Zero 2050 Scenario (AGAINST)

BIS voted against this proposal as the company has already committed to fulfilling its ask and has demonstrated meaningful progress on climate action to date.

The shareholder proposal requested that the Board "issue an audited report to shareholders on whether and how a significant reduction in fossil fuel demand, envisioned in the IEA Net Zero 2050 scenario, would affect its financial position and underlying assumptions. The Board should summarize its findings to shareholders by January 31, 2022, and the report should be completed at reasonable cost and omitting proprietary information."[12]

Chevron has committed to updating its disclosures following the release of the IEA's report, which was published on 18 May 2021.[13] It will need time to analyze and compare it to the company's existing assumptions reflected in its Climate Change Resilience report.

We believe that the company is taking meaningful steps as it works towards a net zero future. This includes changes in capital allocation, execution of projects identified through marginal abatement cost curves, and a focus and investments in innovation necessary to achieve net zero. Due to our confidence that the company will deliver on its commitment to update its IEA-related disclosures, we do not consider that support for the resolution is warranted.

Item 6: Amend Certificate of Incorporation to Become a Public Benefit Corporation (AGAINST)

BIS voted against this proposal because we believe it is the domain of the Board and management to determine the appropriate corporate structure for the company.

The shareholder proposal requested that the Board approve an amendment "to become a Public Benefit Corporation (PBC) pursuant to Delaware law, and to submit the proposed amendment to shareholders for approval."[14]

A PBC is a for-profit corporation that is intended to produce a public benefit and to operate in a responsible and sustainable manner.[15] An existing Delaware corporation can elect to become a PBC pursuant to an amendment

[12] Chevron, "2021 proxy statement".

[13] International Energy Agency, "Net Zero by 2050".

[14] Chevron, "2021 proxy statement".

[15] The Delaware Code Online, "Title 8".

to its certificate of incorporation, which must, among other things, identify specific public benefits that have a positive effect (or reduction in negative effects) that would be promoted by the corporation.

Unlike directors of a traditional corporation, directors of a PBC have a statutory duty to balance the interests of its stockholders with the best interests of those stakeholders materially affected by the PBC's conduct and the specific public benefits identified in its charter.

BIS believes that making changes to the corporate structure of a company is a clearly defined management action and therefore, such a proposal is overly prescriptive and would constrain the business decision-making of management.

Item 7: Report on Lobbying Payments and Policy (AGAINST)

Chevron meets our expectations of companies regarding their activities and disclosures related to political spending and lobbying and has reflected our feedback in its recently updated climate lobbying report. As a result, we voted against this shareholder proposal.

The shareholder proposal requested that the company prepare an annual report disclosing the policies and procedures governing direct, indirect and grassroots lobbying, memberships and payments to any tax-exempt lobbying organization, as well as the Board's and management's oversight and decision-making processes to make such payments.[16]

BIS regularly engages with companies to understand how their activities and disclosures related to political spending and lobbying are consistent with a company's overall strategy and long-term shareholder value creation. Companies should provide accessible and transparent disclosure so that investors and other interested stakeholders can understand how a company's political contributions or affiliations are aligned with its public messaging on strategic policy positions. We expect companies to monitor the positions taken by trade associations of which they are active members for consistency on major policy positions and to provide an explanation where inconsistencies exist.

Currently, Chevron discloses its lobbying activities, political contributions, oversight mechanisms, memberships in U.S. trade associations, as well as federal and state lobbying reports and contributions.[17] It also provides a list of trade associations to which it pays more than $100,000 annually, where a portion of the dues may be used for lobbying. The company states that these represent approximately 94% of its annual trade association membership expenditures.[18]

In addition, in response to shareholder interest, Chevron published a special report in December 2020 on climate lobbying. The report includes information about how key trade associations to which it paid more than $100,000 in annual dues in 2019 (a portion of which may be used for general lobbying) contribute to and advance the dialogue regarding climate change, as well as examples of international trade association engagements on climate change issues.[19]

Accordingly, we voted against this proposal because Chevron has already improved the disclosure of its lobbying and political spending, explains the rationales for participating in trade associations, and provides further details on board oversight of these decisions.

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[16] Chevron, "2021 proxy statement".

[17] Chevron, "Political contributions and lobbying".

[18] Chevron, "Chevron 2020 trade association memberships with annual dues of $100,000+".

[19] Chevron, "Political contributions and lobbying".

Item 8: Require Independent Board Chair (AGAINST)

BIS voted against this proposal because Chevron already has a strong leadership structure.

The shareholder proposal requests that the Board adopt a policy to require an independent Chair.[20]

Based on our analysis of Chevron's governance practices and continued engagement with the Lead Independent Director, we believe the Board has an appropriate leadership structure in place and that the current Lead Independent Director has a robust and independent oversight role. For these reasons, we voted against the shareholder proposal.

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

BIS voted against this proposal as shareholders can call special meetings at a 15% ownership threshold.

The shareholder proposal requested that the Board "amend company bylaws and appropriate governing documents to give holders of 10% of outstanding common stock the power to call a special shareowners meeting."[21]

Chevron already provides shareholders the right to call a special meeting at a 15% threshold, which we believe offers shareholders a reasonable opportunity to raise issues of substantial importance without having to wait for management to schedule a meeting.

[20] Chevron, "2021 proxy statement".

[21] See previous footnote.

About BlackRock Investment Stewardship (BIS)

BlackRock Investment Stewardship (BIS) plays a key role in our fiduciary approach. As an essential component of our responsibility to our clients, we engage with companies to advocate for the sound corporate governance and business practices that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.

Our approach is from the perspective of long-term, minority shareholders in public companies on behalf of our clients. We look to boards and executive management to serve the interests of long-term shareholders and other stakeholders. Our active and ongoing dialogue with the leaders of these companies gives us a valuable perspective on their long-term strategies, financial performance, and the business challenges they face.

As stewards of our clients' assets we have a responsibility to make sure companies are adequately managing and disclosing environmental, social and governance (ESG) risks and opportunities that can impact their ability to generate long-term financial performance — and to hold them accountable if they are not. Engaging with companies is how BIS builds an understanding of a company's approach to governance and sustainable business practices, how we communicate our views, and how we ensure companies understand our expectations. If a company falls short of our expectations and we have been given the authority to vote the company's shares, we would hold them accountable by voting in the best long-term economic interests of those clients that have given us proxy voting authority. As detailed in our Global Principles, proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.

We are committed to transparency in our stewardship practices. Our vote bulletins provide detailed explanations of key votes relating to a range of business issues including ESG matters that we consider, based on our Global Principles, market-level voting guidelines, and engagement priorities, material to a company's sustainable long-term financial performance. We publish select vote bulletins after the shareholder meeting to provide transparency for clients and other stakeholders into our approach to the votes that we believe require more detailed explanation.