



**BOSTON COMMON**  
ASSET MANAGEMENT, LLC

## Memorandum

To: Proxy Advisory Services  
From: Joan Bavaria, Trillium Asset Management Corporation  
Alan Hevesi, Comptroller, New York State  
Mila Rosenthal, Amnesty International USA  
Geeta Aiyer, Boston Common Asset Management  
Re: **Proxy Solicitation – Item No. 8 on Chevron’s Proxy Ballot**

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Trillium Asset Management, the New York State Common Retirement Fund, Amnesty International USA and Boston Common Asset Management are the sponsors of a shareholder resolution at ChevronTexaco that asks the Board of Directors to:

*Report by 10/01/06, at reasonable cost and excluding confidential information, the company’s (a) annual expenditures by category for each year from 1993 to 2005, for attorneys’ fees, expert fees, lobbying, and public relations/media expenses, relating in any way to the health and environmental consequences of hydrocarbon exposures and Chevron’s remediation of Texaco drilling sites in Ecuador and (b) expenditures on the remediation of the Ecuador sites.*

A copy of the resolution is attached.

**We are seeking your support for this resolution.** As long-term investors in CVX, we have grown increasingly uncomfortable with the company’s handling of its legacy in Ecuador. Even after considerable dialogue with Chevron management, our concerns persist. After twelve years in the courts, and the expenditure of millions of dollars in litigation-related expenses, the Ecuadorian lawsuit case could drag on for many more years.

A “yes” vote will send a message to the company that it is time for new thinking about Ecuador.

If you have any questions, please contact Shelley Alpern at Trillium Asset Management, at (617) 423-6655, x 248.

### **Background**

Between 1964 and 1992, Texaco Petroleum (TexPet), a joint venture between Texaco and Petroecuador in which Texaco was the operating partner, discharged 18.5 billion gallons of petroleum waste and waste waters into 627 open, unlined pits and directly into rivers, streams and swamps. Most U.S. states had banned the discharge of “produced” water into freshwater streams in the 1940s and 1950s. Most large operators had also stopped using unlined pits to deposit petroleum solid wastes by the 1980s. Between 1971 and 1991, the operation also spilled 16.8 million gallons of oil from the trans-Ecuadorian pipeline – 50% greater than that spilled by the *Exxon Valdez*.

In 1998, TexPet completed a limited cleanup at a cost of \$40 million as part of an agreement with Petroecuador and the government of Ecuador. The completion of the remediation released Texaco from any further obligations or liabilities in settlement agreements reached with Ecuadorian government authorities. The agreement, however, did not address groundwater contamination, nor did it shield Texaco from lawsuits by private parties – hence the current class action, which dates from 1993. For many years, Texaco tried unsuccessfully to have the lawsuit dismissed. Finally it ended up in the Ecuadorian courts, and in a precedent-setting decision, the U.S. Second Circuit Court of Appeals declared that it reserved the right to intervene to ensure that ChevronTexaco respects the ruling of the Ecuadorian court. A subsequent attempt by ChevronTexaco to have the case arbitrated in the United States was dismissed last year by a New York federal court, which resulted in considerable negative publicity in both Ecuador and the United States.

This civil class action lawsuit (*Aguinda v. Texaco*) now represents 30,000 residents of the Ecuadorian Amazon. Judicial inspections are currently taking place and are expected to continue for many months. The plaintiffs are seeking a judgment that would compel Chevron to remediate hundreds of sites where it operated and left toxic waste. The plaintiffs believe that the contaminated land and waters are responsible for outbreaks of cancer, miscarriages and reproductive disorders, skin diseases and other serious ailments. If found liable, Chevron could be held accountable for billions of dollars of remediation costs.

## **Risks to Shareholders**

As shareholders, we share an obvious financial risk from this litigation, beyond the \$40 million that Texaco spent in the 1990s on its remediation of 167 sites. Already in the courts for 12 years, this lawsuit has cost shareholders untold millions in fees for lawyers, public relations and technical experts, and the litigation could continue for many more years. Ultimately, if the plaintiffs prevail, CVX may have to pay to clean up one of the world's largest terrestrial oil spills.

Chevron has not disclosed this potentially material litigation anywhere in its SEC filings, in possible violation of Item 103 of Regulations S-K, which requires disclosure of "any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the registrant or any of its subsidiaries is a party or of which any of their property is the subject."<sup>1</sup>

Chevron's reputation, brand, and social license to operate in developing countries has also been badly tarnished by lingering pollution and the ongoing litigation. Chevron operates in more than 35 countries in Latin America and the Caribbean. The legacy of Texaco's involvement in Ecuador is that in some parts of the world, the Chevron brand is now synonymous with the deforestation of once-pristine rainforest and water pollution that has injured the health of its inhabitants, despite the dropping of "Texaco" from the corporate name. The following quotes are excerpts from some of the many articles that have appeared in the popular news media:

*...According to nearly all accounts, neither Texaco nor its primary partner in the consortium, Ecuador's state oil company - Petroecuador - paid much attention to the effects of the venture on the surrounding environment and its people. Tremendous amounts of waste generated from the drilling, extraction, processing and transportation operations - billions upon billions of gallons - were dumped into unlined pits in the ground or poured into freshwater streams.*

*...Officials at Chevron do not see any of this as their problem. They will tell you that they've cleaned up any mess they might have made, and then some. And they will deny to their dying breath that they have harmed anyone.*

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<sup>1</sup> For a comprehensive analysis of why the Ecuador litigation should be reported in Chevron's SEC filings, see "Memorandum of Law: Amazon Watch Request For Investigation of Chevron Corporation, January 30, 2006 at [http://www.amazonwatch.org/amazon/EC/toxico/view\\_news.php?id=1032](http://www.amazonwatch.org/amazon/EC/toxico/view_news.php?id=1032).

*After all, they're champions of the environment.*

“Rain Forest Jekyll and Hyde?”, columnist  
Bob Herbert, New York Times, October  
20th, 2005

*Texaco's legacy in the Amazon oozes from an oil pit near Ruperto Narvaez's shack like pus from a sore.*

“Oil Rich, Dirt Poor: Tribes Seek Billions to Clean  
Up Environmental Waste Left Behind After Years of  
Drilling,” Newsday, May 22, 2005

*Headline: “The Hunt for Black Gold Leaves a Stain in Ecuador; As ChevronTexaco Faces a Major Lawsuit, Evidence Portrays a Company and a Nation That for Years Showed Little Concern for the Environment.”*

Los Angeles Times, November 30, 2003

Environmentalists and indigenous rights advocates are promoting a boycott of ChevronTexaco products in Ecuador and elsewhere. They have mobilized large-scale marches and demonstrations that have been covered in numerous publications including the *New York Times*, *Sacramento Bee*, *Wall Street Journal*, *Miami Herald*, and the leading Ecuadorian papers *El Comercio* and *El Universo*.

## **Governance issues**

- Chevron has failed to report on the Ecuador litigation anywhere in its Securities and Exchange Commission filings. Chevron's web site does share considerable information on the judicial inspections, but nowhere reports on the potential size of the liability (the plaintiffs are suing for billions in additional remediation).
- Although widely unknown in the U.S., allegations of corrupting the military and harassing the plaintiffs have been directed at Chevron in Ecuador. In December, the Inter-American Commission on Human Rights demanded that the Ecuadorian government take precautionary measures to protect plaintiffs' representatives.
- Chevron has reportedly lobbied members of Congress and the office of the U.S. Trade Representative to use the leverage of the Andean Free Trade Agreement to pressure the government of Ecuador to dismiss the litigation, according to a February 2 letter signed by Senators Barack Obama and Patrick Leahy. The senators urged the U.S. Trade Rep., Ambassador Rob Portman, not to intervene in the case: “While we are not prejudging the outcome of the case, we do believe the 30,000 indigenous residents of Ecuador deserve their day in court.”
- In March 2005, a delegation of American investment advisors met with the Ecuadorian attorney general of Ecuador. He informed them that the 1998 remediation agreement on which Chevron bases its defense was signed in violation of the Ecuadorian Constitution, which requires prior review and acceptance by the Controller of any agreement that would result in the state assuming liability. The remediation agreement allegedly was not shown to the Controller until long after it had been executed.
- Our resolution states: “In numerous press releases, Chevron has categorically denied that contamination that remains from Texaco's drilling poses any risk to human health or the environment. In the shareholders opinion, Chevron is addressing these issues as a public relations problem rather than a serious health and environmental problem, which damages the company's reputation and

credibility as an environmentally responsible corporate citizen, jeopardizes our ability to compete in the global marketplace, and may lead to significant financial costs.”

As an example, consider the following statement by Dr. Alvaro Felipe Dávalos Pérez, identified on Texaco’s web site as an Ecuadorian expert in tropical medicine:

*There is no clear evidence that proves oil and its derivatives are a direct cause of risk of cancer. Until now, all the studies that have been conducted only generate hypotheses without presenting clear statistical and unbiased data.<sup>2</sup>*

This assertion is flatly contradicted by the Agency for Toxic Substances and Disease Registry ([www.atsdr.cdc.gov](http://www.atsdr.cdc.gov)) in toxicological profiles of oil derivatives that are still present at the remediated sites, such as the carcinogens chromium VI, cadmium, benzopyrene, phenol and lead.

### **Chevron’s opposition statement**

You will find enclosed an insert that responds to the arguments presented by Chevron in its opposition statement to our proposal.

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<sup>2</sup> [http://www.texaco.com/sitelets/ecuador/en/response\\_to\\_claims/health\\_claims.asp](http://www.texaco.com/sitelets/ecuador/en/response_to_claims/health_claims.asp)