

CORPORATE RESPONSIBILITY AT CHEVRON

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Chevron is very grateful to the University of Utah for giving us the opportunity to address why it is important for companies to play a role in helping build a more sustainable society. One of the best examples of partnerships for sustainability, which I will discuss later, lies right here on campus.

We were asked to address three questions:

1. Why is it important, or necessary, for corporations to play a role in helping build a more sustainable society?
2. In what ways does promoting sustainability and sustainable practices fit, or not fit, with your company's objectives? Do you see sustainability as furthering, or cutting against, shareholder returns / profits, and why?
3. Can you give specific examples of how your company has strived to become more sustainable?

I. CORPORATIONS' ROLE IN SUSTAINABLE SOCIETIES

In the 1980s, the Norwegian Prime Minister, Gro Harlem Brundtland defined sustainability as "Meeting the needs of the present without compromising the ability of future generations to meet their own needs. . . ."¹ Chevron has long held this to be true.

A decade into the twenty-first century, what does this mean for Chevron? The world is today consuming some of our natural resources at a rate that is greater than our human or natural potential to restore them. As we look at the wide range of industries that have developed in our modern world, it is apparent that there is an equally wide range of social or environmental issues to manage. There is a legitimate expectation for companies to avoid or mitigate any harm associated with their operations and to align their policies and practices with universally accepted best practices concerning social and environmental responsibility.

II. SUSTAINABILITY AT CHEVRON

As part of its approach to corporate responsibility, Chevron strives to focus on societal and environmental issues that have both a direct impact on society and

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¹ Rep. of World Comm'n on Env't & Dev., Our Common Future, U.N. Doc. A/RES/42/187 (Dec. 11, 1987).

direct relevance to our business. This focus serves our business objectives and creates shareholder value. This may sound self-serving. It is. But it is not *only* self-serving.

Chevron's approach to sustainability recognizes that our company's success and the sustainable development of the communities where we operate are inextricably linked. Indeed, the business investments, which help our company grow and prosper, are also designed to help build and maintain sustainable communities where we operate.

With a 130 year operating history, our company has seen stakeholder expectations, technology, and operational practices change dramatically. Today, society and host governments expect more from business. It is a given that a good corporate citizen should strive to maintain or improve people's standard of living by creating a healthy workforce and paying taxes to provide needed infrastructure, education and social programs. Chevron's approach to sustainability however, is built on two concepts: managing our impacts and creating shared progress.

To manage our impacts, we start with our company's footprint—the environmental and social issues that are directly attributable to our operations. Later in this Article, I will discuss Chevron's Environmental, Social and Health Impact Assessment (ESHIA) process, which is designed to identify and manage our impacts. Managing these issues is at the core of our corporate responsibility and central to our relationships with the communities in and around our operations. Then we look beyond our fence-line and recognize that there are certain issues that are good for society, good for the environment and good for business. Our role in social issues is defined by some basic assumptions:

- First, the stronger the link between a company's business and the social or environmental issue, the greater the opportunity to capitalize the company's resources, innovation and organizational capability to maximize our positive impact or mitigate any potential harm.
- Second, profits and corporate responsibility are not mutually exclusive. There are many causes that are worthy of attention. But a company must choose those that benefit the business as well as society so that both business and society can thrive.
- And third, business cannot, and indeed should not, be solely responsible for all causes. Sustainable and responsible development and respect for social and environment issues is a shared responsibility of host governments, business, and civil society.

Michael Porter, a Harvard professor who is a thoughtful leader in corporate responsibility, often advocates that "CSR [corporate social responsibility] is not whether a cause is worthy or not, but rather it presents an opportunity to create shared value—that is, a meaningful benefit for society that is also valuable to business."² At Chevron, we believe that shared responsibility and effective multi-

² Michael E. Porter & Mark R. Kramer, *The Link Between Competitive Advantage and Corporate Social Responsibility*, HARV. BUS. REV., Dec. 2006, at 84.

sectoral partnerships create shared progress, and that shared progress helps build and maintain sustainable businesses and societies.

III. OPERATIONALIZING SUSTAINABILITY IN THE ENVIRONMENT

Chevron has a wide array of policies and processes, all based on decades of valuable experience on the ground and informed by extensive engagement with individuals and organizations who share expertise on the challenges and opportunities of the environment in which we, and others in the industry, operate. These processes—operational, environmental, social—work in tandem to manage Chevron’s reputation as a partner of choice and strengthen its license to operate, all of which contribute to the creation of business value for shareholders.

Chevron’s Environmental, Social and Health Impact Assessment (ESHIA) process integrates the assessment of project-related environmental, social and health impacts and has been applied to more than 450 capital projects worldwide. One significant goal of ESHIA is to establish and maintain dialogues with stakeholders throughout the lifetime of a project, to solicit views and ideas to improve benefits or mitigate potential adverse impacts, and to consider stakeholder input in our assessments and planning. Applied enterprise-wide as a corporate standard, ESHIA strives to balance our impacts and business needs with those of society, local communities, and natural ecosystems.

A best-in-class example can be found on an oil field on Barrow Island, a Class A nature preserve off the coast of Northwestern Australia. It is one of the Australia’s largest islands and supports some species now extinct on the mainland. Barrow Island is recognized as an industry benchmark for the coexistence of petroleum development and biodiversity protection. It is proof that both Chevron’s operations and delicate ecosystems can not only co-exist, but thrive.

Barrow Island is home to one of the world’s largest natural gas projects and will eventually produce liquefied natural gas (LNG) and domestic gas for Australia and the world: enough to power a city of one million people for 800 years. Along with its responsibility to produce safe and reliable energy, Chevron’s operations have been tailored to prevent the introduction of invasive mammal species and the spread of weeds on the island. Chevron is also planning to inject approximately three million tons of carbon dioxide per year into a deep reservoir beneath Barrow Island. The combined impact of using natural gas and carbon injection will result in about 45 million tons fewer greenhouse gas emissions when compared to coal—the equivalent of taking about two-thirds of all vehicles off Australian roads.

One area of critical importance to Chevron sustainability approach is climate change. Recognizing that our products are carbon intensive in a carbon constrained world, we are looking for ways to reduce our own footprint and help reduce the carbon content of our fuels.

Across our global operations, Chevron has integrated a corporate climate change strategy. We are:

- Investing in renewable sources of energy, including geothermal.
- Increasing energy efficiency.

- Investing in research, development and improved technology.
- Pursuing business opportunities in promising, innovative energy technologies.
- Supporting flexible and economically sound policies and mechanisms that protect the environment.

Our emphasis on energy efficiency throughout our operations is one way we can help to reduce our energy use and ultimately reduce our emissions. As of 2009, Chevron decreased the total energy the company needed to complete all of its business functions by 30 percent compared with the energy the company would have used in 1992 to complete equivalent functions.

Since 2000, Chevron's energy service company, Chevron Energy Solutions, has been implementing energy efficiency and conservation practices within the company and with external partners. The University of Utah has been home to one of CES's projects since 1998. This \$44 million project was one of the largest energy performance contracts ever undertaken by a university. Improvements ranged from equipment upgrades to the construction of a central chilled water/high-temperature water plant. Nearly 68,000 light fixtures were upgraded or replaced. Eighty-two variable-frequency drives for HVAC systems and 95 energy-efficient motors were installed. Four hundred fume hoods received energy upgrades. More than 600 low-flow toilets replaced older fixtures. Water savings from the improvements totaled 11.6 million cubic feet over two years. Since November 2000, the university has saved \$23.4 million in energy costs—\$5.3 million more than projected.

IV. OPERATIONALIZING SUSTAINABILITY THROUGH SOCIAL INVESTMENTS

The nature of Chevron's business dictates that Chevron work in operating environments that are often home to many social challenges, including endemic poverty and mixed human rights records.

Chevron invests—often tens of millions of dollars—in the communities in which it operates. As Angola emerged from thirty years of civil war, Chevron committed \$25 million over five years to the Angola Partnership Initiative (API), an amount later increased by \$31 million from donor agencies, including the U.S. Agency for International Development (USAID) and the United Nations Development Programme (UNDP). Working with development agencies, NGOs and the Angolan government, this investment helped rebuild the lives of millions of Angolans through the use of micro-credit loans, agricultural development, educational projects and assistance with resettlement and housing. NovoBanco, a micro-finance organization established in 2004, has made \$27 million in loans to over 5,000 micro and small enterprises and became profitable in 2006.

Chevron endeavors to serve as a positive force for change, even in the most sensitive operating environments. One of our most transformational programs is in the Niger Delta, a region in southern Nigeria that has long suffered from endemic poverty and been exacerbated by armed conflict. In 2005, Chevron Nigeria launched a model program known as the Global Memoranda of Understanding

(GMOU) that empower Delta communities to determine what they need to improve their quality of life. It is a collaborative process between Chevron, Delta communities, government and nongovernmental organizations, and one that allows Nigerians to decide where Chevron dedicates its investment.

It does so through eight Regional Development Councils, which today represent more than 425 communities and approximately 850,000 people in the Niger Delta. By the end of 2009, these councils were managing 192 infrastructure projects, of which 110 are complete, including solar water projects, housing and electrical expansion projects. Since 2005, Chevron has distributed more than \$46 million to the councils. This program has fostered peace and stability and provided Chevron with a new model for sustainable investment. Today, many citizens of the Niger Delta work together to build hospitals, introduce electricity to rural areas, and conduct job-training programs.

Chevron's social investment strategy is also rooted, in part, with "local content," an increasingly important concept for its global business. By local content, Chevron means the support of local economic growth and workforce development. In 2008, Chevron developed Local Content Guidelines to align business units along a set of common goals and actions to support the company's commercial interests and corporate responsibility commitments. The guidelines aim to promote sustainable, high-quality local capacity and capability. For example, in 2008 alone, Chevron spent approximately \$3 billion with small and medium-sized enterprises in the U.S., almost \$1 billion of which went to minority- and women-owned businesses.

In Indonesia, Chevron launched a Local Business Development program to provide practical training, mentoring, and business opportunities for local companies and cooperatives. Today, the program develops and enhances the capabilities of local entrepreneurs to become certified suppliers not only to Chevron but also to Indonesian companies. Since the program was launched, more than 700 small suppliers were certified, 2,400 contracts were awarded and approximately 6,000 jobs were created. In total, Chevron purchased \$31.5 million in goods and services. The annual purchases increased from \$1.5 million in 2001 to \$7.1 million in 2008.

V. CONCLUSION

The challenges Chevron faces, as well as the opportunities it pursues, speak volumes to the importance of integrating corporate responsibility throughout its global business. While Chevron strives to operate profitably and focusing on production and costs, it also places significant focus on implementing policies, processes and community programs that manage risks and build on the many positive attributes that exist in the countries where we operate. Guided by *The Chevron Way*, which is anchored in getting results the right way—ethically and with integrity—our unyielding goal is to show that we can lead in providing safe and reliable supplies of energy and providing tangible and sustainable benefits to the communities in which we operate.