

# American Federation of Labor and Congress of Industrial Organizations



815 Sixteenth Street, N.W.  
Washington, D.C. 20006  
(202) 637-5000  
www.aflcio.org

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July 22, 2005

*VIA FACSIMILE AND OVERNIGHT*

Mr. David J. O'Reilly  
Chairman of the Board and Chief Executive Officer  
Chevron Corporation  
6001 Bollinger Canyon Road  
San Ramon, CA 94583-2324

Dear Mr. O'Reilly:

I am writing you in your capacity as member of Chevron Corporation's Board of Directors. Unocal Corporation's Board of Directors accepted Chevron's increased offer to acquire Unocal for an estimated \$17.4 billion in cash and stock earlier this week. CNOOC Limited has offered to acquire Unocal for \$18.5 billion in cash and announced it would stay in the bidding contest despite the Unocal Board's decision. These competing proposals raise economic, social and political questions that are of particular concern to workers, their unions and their pension fund fiduciaries.

The Chevron Board of Directors has a duty to oversee the acquisition and ensure it is in the long-term interest of the Company and its shareholders. I am therefore writing on behalf of the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) to request information necessary to enable us to evaluate the Chevron offer on behalf of our membership.

Specifically, we would like to arrange a meeting to review:

- a) Chevron's intentions regarding Unocal's Burmese assets;
- b) Chevron's approach to the use of security forces, particularly in the light of recent litigation related to human rights abuses by Nigerian military security forces hired by the Company;
- c) Chevron's timeline for publishing its human rights policy, its implementation, monitoring and enforcement as well as the Company's intentions regarding the integration of Unocal's existing human and labor rights policies and guidelines.

The AFL-CIO is the federation of America's labor unions, representing 56 national and international unions and their membership of more than 13 million working women and men. The AFL-CIO represents the interests of working families on a broad range of economic and social issues that encompass the workplace, the political process, the global economy and the global capital markets.

Union members' benefit funds, including both private and public employee plans, are substantial shareholders of Unocal with responsibility for casting proxy votes on the Chevron offer at a special meeting of shareholders on August 10, 2005. Several of these funds, including the California Public Employees' Retirement System, the New York State Common Retirement Fund, and the AFL-CIO, raised concerns about the risks associated with Unocal's Burmese operations both in writing and meetings with Unocal's Board and senior executives. Chevron has a particular obligation to respond to concerns of Unocal shareholder, in particular because its offer is partly a stock for stock transaction while CNOOC's offer is all cash.

As you know, the takeover battle for control of Unocal has prompted a heated political debate, much of it focused on public policy concerns with the offer from China's state-owned CNOOC. Chevron Chairman and CEO David O'Reilly has argued these concerns support Chevron's lower bid by framing the choice for Unocal shareholders as between a definitive merger agreement with Chevron versus an uncertain and highly contingent proposal from CNOOC. In a recent *Wall Street Journal* commentary, he specifically noted that any agreement with CNOOC would "face a complex and uncertain government review process, including congressional hearings and inquiries by four state attorneys general that will focus on antitrust, national security, pension, environmental and fair-trade issues."

To alleviate some of these concerns, CNOOC has announced that it would retain substantially all Unocal employees, including those in the U.S. Chevron has said it would look for cost cuts after its merger with Unocal, possibly including layoffs.

While the public policy issues raised by the CNOOC offer are legitimate, the Chevron proposal similarly raises a number of important questions of particular concern to workers and their unions.

*The Unocal Takeover Would Increase Chevron's Country Risk Exposure.*

Chevron has operations in 180 countries around the world, several of which do not adequately protect labor or human rights in law or practice. Now Chevron is seeking to acquire the only U.S.-based company with significant direct investments in Burma, a country with an extremely poor human rights record. Unocal recently settled a U.S. lawsuit with victims of human rights violations perpetrated by military forces. Chevron itself has been sued by Nigerian human rights victims related to the Company's use of military security forces. Both Unocal and Chevron were sued under the Alien Tort Claims Act (ATCA) that permits suits in U.S. courts against individuals or corporations that commit international human rights violations anywhere in the world, if that person or corporation resides in the U.S., as Chevron does.

*Unocal's Burma Operation Continues to Be Potential Significant Legal and Reputational Risk.*

Unocal is a participant in the \$1.2 billion Yadana gas development joint venture with the Burmese government. Burmese human rights victims filed the ATCA suit alleging that the company knew or should have known about the abuses perpetrated by the Burmese military during the construction of the Yadana pipeline. For years, the lawsuit left legal uncertainty hanging over the company and its market valuation, deterring potential suitors. In fact, Chevron announced its offer to acquire Unocal two days after Unocal announced the final settlement.

Despite the settlement, Chevron will continue to face potential significant legal and reputational risk due to the Burmese operations. Unocal is the sole U.S. oil company remaining in a joint venture with the Burmese regime-controlled oil company, making the Company an obvious target for human rights organizations and additional lawsuits.

The U.S. government is also increasingly critical of the Burmese dictatorship. Earlier this month, the U.S. Secretary of State, Condoleezza Rice, called for greater international pressure on Burma, citing the military regime's failure to make any progress towards democracy and continued human rights abuses. President Bush renewed U.S. sanctions against Burma that ban new investment in the country and do not allow financial transactions with the country, hampering the business transactions of those companies still invested in Burma. AFL-CIO affiliated unions, such as the Paper, Allied-Industrial, Chemical and Energy Workers International Union, now part of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial & Service Workers International Union (United Steel Workers), were a leading voice in the call for sanctions.

Unocal's investment in Burma predates U.S. sanctions and is therefore grandfathered in. However, another company recently acquired by Chevron, Texaco, withdrew from Burma after the U.S. initially established the sanctions in 1997. Texaco sold its interest in a Burmese gas field to Premier Oil plc, which since left Burma.

Other companies have also refused to do business in Burma, including Reebok International Ltd., whose chairman and CEO Paul Fireman wrote about the Burmese regime's human rights atrocities in *The Wall Street Journal* on June 7, 2005, "It's impossible to conduct business in Burma without supporting this regime."

As of now, Chevron has not disclosed its intentions regarding Unocal's Burmese assets. For this reason, additional information about the Company's Burma plans would help us evaluate the Chevron offer. Does Chevron intend to divest from Burma? If so, what process and criteria would Chevron apply to identify a qualified buyer?

*Chevron Faces Contingent Liabilities associated with Human Rights abuses in Nigeria.*

Chevron itself is a defendant in an ATCA case related to alleged human rights abuses by Nigerian military security forces hired by the Company. In 1999, victims of human rights abuses associated with Chevron's oil production in the Niger Delta filed a suit against the Company in federal court, *Bowoto v. ChevronTexaco*. In 2003, the Nigerian plaintiffs filed a companion case in California state court. These cases pose contingent legal liabilities comparable to the Unocal ATCA case.

The case stems from the alleged shooting of protesters at Chevron's Parabe offshore platform in 1998 and the destruction of two villages by soldiers in helicopters and boats leased from Chevron in 1999. The platform was operated by Chevron's Nigerian subsidiary as part of a joint venture with Nigeria's national oil company. In 2004, a federal judge ruled that Chevron may be held liable for the acts of its Nigerian subsidiary, when Chevron allowed its Nigerian subsidiary to hire Nigerian military forces.

While it may be difficult for Chevron to comment on an ongoing lawsuit, the Company should explain its approach to the use of security forces and what measures it takes that those security forces adhere to international human rights principles. Chevron participated in the development of the U.S.-U.K. Voluntary Principles on Security and Human Rights (Voluntary Principles). Additional information about the Company's implementation of the Voluntary Principles should therefore be part of any further reporting.

*Chevron Needs to Clarify its Commitment to Human and Labor Rights.*

Chevron has taken a first step by stating its commitment to universal human rights in "The Chevron Way," the Company's summary of its core values. Chevron also published its first Corporate Responsibility Report in 2002, stating, "Building on our existing policy framework, we are developing a corporate Human Rights Statement to provide additional guidance on conducting our operations in a manner consistent with universal human rights principles."

In the report, Chevron said it was aiming to revise and finalize its human rights statement and begin company-wide implementation in 2004. The Company followed up with a shorter "update" in 2004 that is silent on the status of the Company's human rights policy and its implementation schedule. As of now, Chevron has not published its human rights statement nor disclosed its timeline for implementing a human rights policy. How would Chevron implement, monitor and enforce such a policy? In the case of Burma, we believe a human rights policy would not be enforceable. If Chevron thinks differently, please let us know.

Moreover, in the face of mounting shareholder demand, Unocal adopted a work place human rights policy based on the United Nations' International Labor Organization's 1998 Declaration on Fundamental Principles and Rights at Work. Is Chevron planning to integrate the Unocal's work place human rights policy in its own human rights policy framework and its operation management?

Taken together, the above concerns with Chevron's human and labor rights policies and practices call into question the Company's ability to manage the ethical, legal and reputational risks related to Unocal's operations in Burma that have been associated with egregious human rights violations.

We look forward to reviewing these issues in greater detail. I have asked Bill Patterson, the director of the AFL-CIO Office of Investment, to set up a meeting with the appropriate representative of the Board. Please contact Bill at your earliest convenience at (202) 637-3900.

Sincerely,



Richard L. Trumka

cc: Leo W. Gerard, International President, United Steel Workers  
James E. Pannell, Administrative Vice President, United Steel Workers