October 25, 2005

Mr. Edward B. Scott
Vice President and General Counsel
Chevron International Exploration and Petroleum Company
6001 Bollinger Canyon Road
San Ramon, CA 94583

Dear Mr. Scott:

We write to provide an update on Amazon Watch's assessment of the ongoing litigation against your company in Ecuador, in which Chevron faces legal charges that it is responsible for what experts consider the worst oil-related contamination on the planet. This will also serve as a reply to your letter dated May 18, 2005, which was a response to Amazon Watch's letter to you of April 26, 2005. We would consider it productive to have an ongoing dialogue, and invite you to meet with our team in person to fully vet these issues. Our points are as follows:

Your response ignores the extensive evidence at trial pointing to Chevron's liability, gathered by Chevron's own scientists. An analysis of the evidence adduced at trial by your own scientists can only be seen as a devastating critique of the claims in your letter and of Chevron's claim that is a "responsible environmental steward." Of 104 water samples taken by Chevron at 18 of Texaco's former well sites, 102 of them – or 98 percent-- contain toxins at high levels that violate Ecuadorian law.[1] In total, Chevron has presented to the court 312 water and soil samples in violation of Ecuadorian law covering each of the 18 sites. Dozens of these samples contain levels of toxic contamination that also exceed the contractually-negotiated (and legally questionable, according to plaintiffs) standards that you claim were applicable during Texaco's so-called remediation. This calls into question the validity of Texaco's entire "remediation" – not only by Ecuadorian and international standards, but under your own contractual standards. Worse for Chevron, we note again that the Ecuadorian law is far more permissive than that of the United States, but even under these more permissive standards, your company has committed legal violations in 100 percent of the inspected sites reported to the court.[2]

You ignore the fundamental problem – that Chevron violated customary industry standards by failing to re-inject formation waters. Chevron's fundamental problem is that the system Texaco designed, installed, and operated in Ecuador dumped 18.5 billion gallons of toxic water of formation into the rainforest. This amounts to roughly 30 times the quantity of pure crude spilled in the Exxon Valdez disaster and arguably has created the worst oil-related contamination on the planet. The obsolete equipment Texaco installed is still in operation in many parts of Ecuador and continues to pollute and cause harm. Yet you totally ignore this fundamental issue and its disastrous consequences, which can clearly be seen in the laboratory results that Chevron's own

[1] The 18 sites inspected and reported to the Court as of September 2005 include the wells Sacha 6, 10, 14, 18, 21, 48, 51, 52, 57, 65, and 94; Shushufindi 8, 48, and 67; and the separation stations SSF-SUR, SSF-SW, SSF Norte, and Lago Norte.

[2] Ecuadorian law allows TPHs at 1,000 parts per million. Most U.S. states allow TPHs at only 100 ppm, and some have a standard as low as 10 ppm (such as California,). Texas permits TPHs at only 230 ppm.

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scientists are reporting to the Court. We might also add that dumping of formation waters was outlawed in 1919 in Texas, a full half-century before Texaco started drilling in Ecuador. This dumping also violates industry norms cited by Chevron itself in "Oil Industry Operating Guideline For Tropical Rainforests," a document produced by the E&P Forum, an oil industry trade association of which Texaco was a leading member.[3] This guideline was cited in the remediation agreement to determine Texaco's obligations during the clean-up. It contains an entire section devoted to "Waste Handling" that adheres to the norm that waste water "should be re-injected into either the producing formation" or some other cavity where it will not contaminate water sources – the exact industry practice that Texaco violated in Ecuador and failed to address in its so-called remediation.

Evidence adduced at trial has severely damaged Chevron's primary defense – that Texaco engaged in an adequate remediation. Of the 18 sites inspected and reported to the Court as of September, 15 had been included in Texaco's remediation plan. All of these sites contain soil and water samples in violation of Ecuadorian law today, and Ecuadorian law that existed at the time of the contamination, as follows:[4]

> ***Violations of Ecuadorian law***: In the well site Sacha 6, for example, 14 of 14 water samples taken by Chevron violate Ecuadorian law. Ten out of 31 soil samples contain levels of toxins that violate Ecuadorian law. In Sacha 18, all 12 of your water samples and 14 of your 28 soil samples contain illegal levels of toxins. The same pattern holds true for Sacha 21 (where 6 of Chevron's 6 water samples and 17 of its 30 soil samples violate Ecuadorian norms), Sacha 10, Sacha 14, Sacha 65, Sacha 51, Sacha 57, Sacha 53, and Sacha 94 (detailed results for each of these and other sites are available in the latest press kit on www.chevrontoxico.com). I emphasize that these results are from Chevron's so-called *remediated* sites, using Chevron's *own* evidence. It does not include the plaintiff's evidence, which corroborates your own evidence and actually shows even more extensive contamination caused by Texaco's former operations.
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> ***Violations of contractually-negotiated standards***: You claim that the contractually-negotiated standard for "remediation" is 5,000 ppm for TPHs, or about 50 times higher

[3] The document was prepared for the E&P Forum by its Environmental Quality Committee, which counted a certain M.T. Stephenson of Texaco as one of seven members. See E&P Forum, *Oil Industry Operating Guideline for Tropical Rainforests*, Report No. 2.49/170, April 1991 (hereafter "Rainforest Guidelines"). See Remediation Agreement, Provision 3.1.

[4] Your assertion that Ecuadorian norms created after the so-called remediation do not apply in the current trial is questionable at best. The primary issue at trial is whether contamination left by Texaco exists *today* and is harmful. Therefore, it is only appropriate that current laws apply to contamination that exists today. As you are no doubt aware, there is ample legal basis for this position in a whole body of statutory environmental law and in the common law which govern Chevron's behavior in the United States. See, e.g., Superfund Statute, Comprehensive Environmental Response, Compensation, and Liability Act [CERCLA] of 1980, 42 U.S.C. §§ 9601-9675; Landgraf v. USI Film Products, Inc., 511 U.S. 244 (1994); Plater et al., ENVIRONMENTAL LAW AND POLICY: NATURE, LAW AND SOCIETY 304-06 (1992). Further, any side agreement Chevron has with the Ecuadorian government might at best (assuming this agreement is valid) release Chevron from claims from the government, but it is of little relevance to claims brought by private citizens. You fail to acknowledge in your letter that Chevron's contractually-negotiated, extrajudicial standards have not been accepted as governing law in the current trial by either the plaintiffs, the court, or the government. Chevron seems to rest so much of its defense on this narrow and questionable point yet this has gained virtually no traction in the trial and certainly contradicts the tone of your letter.

than the standard used for a typical U.S. state in the mid-1990s. Yet evidence is being reported to the Court from remediated sites that even this lenient standard is being exceeded, again calling into question whether a remediation by any standard actually took place. One sample, from SSF-SUR, was reported with 262,582 ppm of TPHs. Another sample, from Sacha 57,[5] showed levels of TPHs at 27,450 ppm, or more than five times higher than the standard you claim governed Texaco's remediation, and 26 times higher than the norm governing Ecuador today. Samples higher than the 5,000 ppm standard have been reported in Sacha 51 (68,430 ppm), Sacha 65 (37,158 ppm), Sacha 51 (29,657 ppm), Sacha 21 (28,000 ppm), Sacha 67 (20,344 ppm), Sacha 65 (12,256 ppm), Sacha 18 (8,886 ppm), Sacha 48 (7,800 ppm), Sacha 85 (7,570 ppm), and Sacha 53 (5,600 ppm). Your remediation results, as reported also violated other provisions of the remediation agreement. For example, in Sacha 10 you report results for Nickel, Cadmium, and Lead that exceed Decree 2144 (which governed permissible levels of these metals at the time and which is cited as part of the regulatory framework of the remediation agreement) by anywhere from 200 percent to 1000 percent.

Your company has not fully disclosed to shareholders the potential liability facing Chevron in Ecuador. In light of the above evidence, it is not accurate for Chevron to post press releases claiming levels of contamination found at the Ecuador trial pose no threat to human health and the environment. Amazon Watch already cited examples of this in our earlier letter of April 26, 2005. Since then, the pattern of posting misleading press releases has continued this year with those dated July 27, August 20, and September 20. To provide a vivid but not atypical example, Chevron's press release of August 20 asserts that "*laboratory results from testing conducted at the Sacha 57 judicial site inspection reveal that there is no risk to human health or the environment…*" Yet laboratory reports submitted to the Court for this site, but ignored in Chevron's press release, show shockingly high levels of TPHs that clearly pose a grave danger to the environment and to human health by any reasonable standard. One sample[6] reports TPHs at 262,581 parts per million – an amount 261 times higher than Ecuadorian law, 2,600 times higher than the typical EPA standard of 100 ppm, and still a shocking 52 times higher than the 5,000 ppm standard you claim governed the remediation contract with the Ecuadorian government.[7] And this is a site Chevron claims to have *remediated*. Given these facts, it is false and misleading that a Chevron scientist, Sara McMillen, is quoted in the press release of August 20 as saying Sacha 57 "met the closure requirements" set out in the remediation agreement. It is also improper for your office to approve the release of misleading statements by Chevron scientists concerning an ongoing litigation.[8]

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[5] SA 57 NE 4; 0.20-0.80

[6] SA 57 D1; 0.15-0.30

[7] These results suggest that Texaco's remediation was so inadequate that it did not even adhere to the almost-farcical 5,000 ppm standard for TPHs. In Texas, an oil-producing state where Texaco was founded, the standard for TPH is 230 ppm. Several other states, such as Georgia and Nevada, have a 100 ppm standard. The standard in Washington is 25 ppm. Using a 5,000 ppm standard in a populated area shows a profound lack of respect for human life. Chevron has not and would never adhere to such a standard in San Ramon, where most of its employees live, in California, its home state, or anywhere in the United States.

[8] Another one of your many conclusory statements is that "there is absolutely no reason to believe" that the high levels of TPHs "results in any risk to human health…" This statement is absurd on its face. The reason standards exist for TPHs is to *protect* human health. Yet you seem to be claiming soil with more than 250,000 ppm of TPH

You fail to acknowledge clear indicia of fraud in Texaco's remediation: Not only does Chevron's scientific evidence from the trial cast a disturbing light on the remediation, but it suggests that the Ecuadorian government may have been misled into certifying these sites in 1998. Significantly, the person responsible for Texaco's so-called remediation in the mid 1990s (Ricardo Reis Veiga) is today the same Chevron vice president overseeing the litigation where that remediation is in dispute – a clear conflict of interest, as mentioned in our previous letter. Given what appears to be credible indicia of fraud regarding the Texaco remediation, one certainly would hope your office would conduct its own investigation rather than relying on second and third-hand information from the very person responsible for the possible fraud. Your conclusory statements in response to this concern are further evidence of your failure to independently examine the facts which have been brought to your attention by numerous outside parties.[9]

Chevron has corporate governance issues with regard to its handling of the Ecuador litigation. In an age of increased scrutiny of corporate governance issues, it is troubling that you, as General Counsel for Chevron and the key person responsible for ensuring that the company adheres to corporate governance requirements, respond so glibly to the concerns raised in our previous letter. It is our belief that there is ample basis to conclude that Chevron is failing to fulfill its responsibilities to disclose this multi-billion liability to its shareholders. It has not reported this potential liability in its most recent 10-K filing though, as you know, Sarbanes-Oxley raises the stakes for executives who do not properly disclose material liabilities to shareholders. Chevron also has issued misleading press releases to shareholders intended to downplay the potential liability, per the facts outlined above. Its lawyers and scientists have made misleading statements in these press releases and to the public. And, per Amazon Watch's previous letter, Chevron has a major conflict of interest in its handling of the litigation. This issue has been raised frequently by various institutional shareholders, yet you appear to have taken no corrective action.

The other responses in your letter make little logical sense and appear to be misleading. You cite no evidence for your claim that the Ecuadorian standard of 1,000 ppm for TPHs are for "underground storage tanks for gasoline"; we believe this claim is false. The standard, as codified in Decree 1215 of the environmental regulations of Ecuador's Ministry of Environment, is intended to govern surface *and* groundwater contamination where people live and where agricultural activity takes place – exactly the type of area where Texaco operated in Ecuador. You claim several states in the U.S. have a 10,000 ppm standard for TPH, without citing a single example or revealing that a typical standard for most states in the U.S. is 100 ppm, or 1 percent of the amount you claim.[10] With regard to the validity of the remediation agreement, past statements by Ecuadorian government officials are of little relevance in light of recently discovered evidence

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poses no risk to human health – an amount 2,500 times higher than the maximum allowable amount permitted in several U.S. states.

[9] An example of the many conclusory statements in your letter is the following: "All of the statements made by Chevron on this matter over the 12-year period since the lawsuit was first filed have been truthful and accurate, based on the facts known at the time." Given the evidence submitted to the Court regarding the Sacha 57 site, it is clear this statement is itself inaccurate.

[10] It appears to us that your claims might arise from mixing up industry-written guidelines for the closure of Exploration and Production pits with the actual legal norms governing environmental contamination for areas populated by human beings.

that the closed pits actually contain extensive contamination. You claim sampling by the plaintiffs has been error-filled, though the results from the plaintiffs are perfectly consistent with Chevron's own sampling results – strongly suggesting they are inherently credible. In fact, Chevron's own sampling is so extensive and damning that it appears the plaintiff's entire case could rely solely on your company's evidence.

Ultimately, we fear your position represents Chevron's own brand of doublespeak--a clear case of corporate cover up. It is similar to efforts at deception by the tobacco industry. For years, tobacco companies asserted that smoking did not cause cancer – false claims that ultimately cost the industry hundreds of billions of dollars and an untold number of needless deaths worldwide. You claim that sites in Ecuador that Texaco supposedly remediated present no danger to public health, yet Chevron's own sampling at these sites show levels of toxins far higher than levels permitted under Ecuadorian and American law which were established precisely to protect human health. The fact that residents of this region, including members of five indigenous tribes, rely on natural water sources for their survival and predated Texaco's arrival in Ecuador by centuries, makes your position even more untenable. You have claimed there is no problem with Texaco's contamination in Ecuador, yet Texaco has always admitted it had a major contamination problem or it never would have implemented a remediation program. The fact that the Court now has information from Chevron that Texaco's so-called "remediated" sites not only violates the law but also fails to adhere to standards set forth in the remediation contract, should serve as a wake-up call for Chevron – both in terms of its responsibility for the actual clean-up, and in terms of its duty to shareholders to fulfill its corporate governance responsibilities.

We await your response and clarifications of these issues.

Sincerely,

Atossa Soltani
Executive Director
Amazon Watch

Sarah C. Aird
Legal Counsel
Amazon Watch

Cc: Mr. David O'Reilly, CEO of Chevron Corporation
Chevron Board of Directors
Alan G. Hevesi, New York State Comptroller
Steve Westly, California State Controller
Shelley Alpern, Trillium Asset Management
Leslie Lowe, Interfaith Center on Corporate Responsibility
Mila Rosenthal, Director of Business and Human Rights Program,
Amnesty International USA
Richard Trumka, Secretary-Treasurer, AFL-CIO
Larry Fahn, President, Sierra Club
Mike Brune, Executive Director, Rainforest Action Network