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Chevron cuts bonus for CEO, other execs

By David R. Baker

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CEO John Watson still has the board's backing, but he will get fewer stock options. Photo: Mark Wilson, Getty Images

(03-28) 08:56 PDT San Ramon -- Chevron Corp.'s board on Wednesday cut the annual bonus for CEO [John Watson](#) and several other top executives in response to a string of accidents at the oil company's facilities, including a refinery fire in Richmond that sent thousands of people to hospitals complaining of breathing problems.

The bonus cuts were in excess of 10 percent and follow the board's decision earlier this year to reduce the number of stock options Watson received for his 2012 performance. The company did not identify the other executives whose bonuses were cut. Based in San Ramon, Chevron last year scored its second-highest annual profit ever, making \$26.2 billion. But it also suffered several high-profile accidents in the past two years, as well as the Richmond blaze.

A blowout and fire at a natural gas exploration platform off the Nigerian coast in January 2012 killed two men and continued burning for 46 days. In 2011, Chevron lost four workers in a refinery explosion in Wales, and a small oil spill off the Brazilian coast led to fines and a criminal investigation.

"Despite the company's strong overall performance, we had some operating incidents during the year," company spokesman [Lloyd Avram](#) said Wednesday in an e-mail. "The board's compensation actions reflect the fact that Chevron takes management accountability seriously. Our leadership understands that there are consequences when it doesn't meet expectations, especially in areas as critical as process safety."

'Performance shares'

In January, the board trimmed the number of stock options awarded to Watson by 1.2 percent and cut his 2012 "performance shares" - shares given to managers based on meeting performance criteria - by 21.2 percent.

As with many executives, Watson's makes more in bonus, stock awards and options than salary. In 2011, the last year for which information is available, Watson made \$24.7 million, including \$1.57 million in salary. It was unclear Wednesday how much the reduced bonus, stock awards and option grants will lower Watson's total compensation.

The Richmond refinery fire on Aug. 6, which sent a plume of smoke drifting across the East Bay, strained an already tense relationship between Chevron and the city. Environmental groups had complained for years about pollution from the refinery, one of California's largest.

The fire erupted after a badly corroded pipe on the refinery's crude oil processing unit started leaking. As far back as 2002, Chevron's own reliability inspectors had recommended replacing the pipe, saying it was vulnerable to corrosion. Chevron faces almost \$1 million in potential fines for the incident.

Practical effect

Greg Karras, senior scientist for Communities for a Better Environment, said he welcomed the idea of linking executive pay to safety. But he questioned whether cutting Watson's bonus would have much practical effect in places like the Richmond refinery.

"It's worth asking whether this is symbolic," he said. "I'm not criticizing the board's action. Is it warranted? Yes. Does it give me any comfort? No."

Chevron's board stressed that it still has confidence in Watson, who has spent more than 32 years at the company. Watson also serves as the board's chairman, but he does not belong to the management compensation committee.

"By many measures, Chevron's performance was outstanding in 2012," said board member [Robert Denham](#), who is a partner at the [Munger, Tolles & Olsen](#) law firm. "The board of directors applauds this achievement and fully supports Mr. Watson and our other senior executives in their continued leadership in the corporation."

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