

JDG U.S.-China Oil & Gas Industry Forum
25 June 2005

Remarks

**U.S.-China Oil & Gas Industry Forum
Tuesday, June 28, 2005**

2:30 p.m. (Approximately)

**The Ritz-Carlton Hotel
New Orleans, LA**

**John D. Gass
President
Chevron Global Gas**

Thank you _____ for that kind introduction. I'm delighted to be here.

On behalf of Chevron Corporation, I'd like to welcome all of you here today, and extend a special welcome to our honored guests from China.

It's a pleasure to see so many familiar faces at this Forum, both from the U.S. and from China.

We're especially honored by the presence of Zhang Guobao, Vice Chairman of China's National Development and Reform Commission.

I was in Beijing last month and had the pleasure of meeting with Vice Chairman Zhang to discuss a range of topics of mutual interest.

It is nice to see you again, Vice Chairman Zhang. Welcome to New Orleans.

I'd also like to recognize U.S. Undersecretary of Energy Clay Sell. Thank-you, Undersecretary Sell, for joining us today.

As most of you know, Chevron is competing with CNOOC to acquire Unocal Corporation.

It is a paradox of the marketplace today – particularly in the energy industry – that some of our partners can also become some of our competitors.

We intend to compete vigorously with CNOOC on the Unocal deal. And no matter how it turns out, one thing is sure. We will continue to be partners with China on a variety of energy projects, just as we will continue to be honorable competitors.

But today I want to focus on our partnership with China . . . a partnership that dates back almost 100 years . . .

As one of the early partners in China's energy industry, Chevron is very fortunate to have witnessed first-hand China's economic miracle in recent years.

We're equally proud to have contributed to that history.

China has been a valued partner of Chevron's since the day almost 100 years ago when we began selling kerosene on Shanghai's Great White Way.

And let me say as directly as I can – our commitment to maintaining our long and successful partnership with China remains as strong as ever.

In fact, we think that our partnership with China has the potential to grow even stronger.

In particular, we're pleased to be in discussions with the China National Offshore Oil Corporation and the Zhejiang Provincial Government on imports of Liquefied Natural Gas to meet China's growing energy needs.

As those discussions progress, we look forward to building a mutually-beneficial, long-term relationship in Zhejiang Province that will strengthen the special partnership between China and Chevron.

As the growing number of energy partnerships between Chinese and U.S. companies demonstrate, we're all participating in the creation of a truly global gas market.

At the same time, all of us have a responsibility to help develop that market to reach its greatest potential.

With that in mind, I want to briefly address the global market for LNG and how it relates to China's future energy needs.

I think we all agree that reliable, abundant energy is absolutely imperative to the security and economic growth of both our countries . . . and the rest of the world as well.

LNG can provide much of that energy, and it can do so very reliably. That's why LNG is increasingly regarded as an important solution to the world's growing energy demands – not only here in North America, but in Asia and many other parts of the world as well.

And that is why China's planners and regulators regard LNG as critically important to China's gas development program.

Driven in large part by strong economic growth in China, the center of gravity in energy demand worldwide is shifting toward Asia.

China is emerging as a major global energy player with a growing need for LNG. And yet, even as China's influence on the global energy stage is growing, unstoppable forces are changing the world as we know it.

We have entered an era that is being shaped by rapid globalization in production and trade . . . by widespread economic growth . . . and by surging energy demand worldwide.

These forces have converged, propelling us into a global energy future based on increasingly complex relationships between energy producers and consumers.

We call these relationships interdependencies, and these interdependencies are generating new supply and demand dynamics, and increased competition for LNG.

One result of this is that, for many parts of the world where demand is great, such as China and the US, LNG will have to come from longer distances.

For China, that means competing for supply outside the region... competing with other consumers in Seoul and Singapore... Bangkok and Boston... for clean, efficient natural gas in the form of LNG.

Here's what I mean by that.

The LNG market today is a very different place than it was almost three years ago when the deals were made to supply the Guangdong and Fujian terminals.

Since then, prices for LNG have been rising as many countries, including the U.S. and China, move into the LNG market in a big way.

Asian demand is anticipated to grow at approximately 6 percent annually, largely driven by China and India. Demand from Japan and Korea is also influencing the LNG market.

It's forecasted that the LNG supply from Asian sources will be unable to meet the region's projected demand, prompting the need for additional non-Asian sources.

Then there is India. It is emerging as a potentially significant LNG buyer, having imported its first cargo of LNG last year.

Here in North America, LNG demand is forecast to grow sharply, driven by natural gas power generation.

So the demand is growing fast. And LNG prices, along with oil, are rising.

And yet, while the realities of supply and demand means that China will have to compete on the world market to get the LNG it needs, I have no doubt that China can compete – and will compete very effectively.

So, in the spirit of friendship and partnership, I offer the following suggestions on how we can successfully develop together in the evolving world LNG markets.

My first suggestion is from the viewpoint of the LNG seller. As a seller, I believe that we have to thoroughly understand our customer's concerns. We have to understand their growth drivers, investments, and their own customer's needs.

We also have to understand the rules and regulations affecting them and how key decisions are being made.

For example, let's look at the regasification terminals being proposed around China. Maps showing all of these terminals are beginning to look like the maps of proposed regasification terminals for North America.

In other words, there are 10 times as many terminals proposed as needed for the foreseeable future. As an LNG seller, it is crucial that we understand how this list of proposed terminals gets narrowed down to the ones that will truly proceed.

My second suggestion is from the viewpoint of the LNG buyer. As a buyer, I am sure that China recognizes the growing globalization of the LNG market.

Sellers have many markets into which they can sell. They will seek those markets that provide them with the most attractive balance of price, stability, security and opportunity for growth.

If you think about it, those characteristics are not that much different from what a buyer would look for.

I believe China will be most successful if it offers the most attractive balance of price, stability, security and opportunity for growth.

My final suggestion is for both of us. It is something our guests from China might recognize: “he xie fa zhan” (*Phonetic spelling here. Min will coach John on how to say this*) or, in English, “harmonious development.”

Let me explain.

As I mentioned at the beginning of my remarks, I had the pleasure of visiting Beijing last month.

Recently, Beijing began drafting its 11th Five-Year-Plan that will set out the city's social and economic development up until 2010.

I was struck by a phrase used by the Beijing Municipal Development and Reform Commission to describe the goals of the new Five-Year-Plan.

That phrase was the two words, “harmonious development.”

“Harmonious development” is an excellent description of what can be achieved if we all work together to provide the energy that drives economic growth and provides a better life for humankind.

“Harmonious development” also describes the LNG industry, which has long been considered a partnership between producers and consumers – a partnership that delivers the benefits of clean, abundant, reliable and affordable energy over many years.

Most importantly, “harmonious development” describes the strong and enduring relationships that connect our regions, our countries and our companies, and that will remain the foundation of our business.

I’m confident that all of us – in the U.S., in China and around the world -- can meet the challenge and achieve the promise of harmonious development.

Thank you.

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