

Del Regno U.S.-China Oil & Gas Industry Forum  
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Draft 3

**“China and Regional Oil & Gas Trends”**

**U.S.-China Oil & Gas Industry Forum  
Monday, September 11, 2006**

**Hangzhou Hyatt Hotel  
Hangzhou, People’s Republic of China**

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Thank you, Ann, for that kind introduction. I'm very happy to be here today.

On behalf of Chevron Corporation, I would like to extend our warmest greetings to all of you here today.

And I would like to give a special thank-you to our hosts here in the People's Republic of China.

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

It is most appropriate that this year's Forum is being held in Hangzhou.

As one of China's most renowned and prosperous cities for much of the last 1,000 years, Hangzhou is well-known for its beautiful natural scenery.

Last night and today we heard several speakers quote the old Chinese saying: "In heaven, there is paradise. On earth, there are Suzhou and Hangzhou." On the boat on West Lake yesterday I really understood the meaning of this saying.

And, since ancient times, the Yangtze River Delta has been a main center of commerce in China.

The great Venetian merchant and explorer Marco Polo visited Hangzhou in the late 13<sup>th</sup> Century and made this observation:

"The number and wealth of the merchants . . . and the amount of goods that passed through their hands . . . was so enormous that no man could form a just estimate thereof."

Marco Polo's observations of economic vitality from long ago describe China in the 21<sup>st</sup> century.

Sustaining this economic growth and vitality will take unprecedented amounts of energy, which is a major reason why we have this important meeting every year.

There are a number of Chinese and regional oil and gas trends in play today.

I'm going to focus on the most powerful of those trends, the growing demand for energy . . . and how it relates to the issue of energy security.

Global energy demand grows larger every day, and the booming economies in the Asia Pacific region, including China, are driving much of this growth.

The Asia Pacific region has accounted for nearly 67% of the world's growth in energy demand over the past five years<sup>1</sup> . . . and the region is expected to account for nearly 40% of the world's growth in energy demand over the next 25 years.<sup>2</sup>

At the same time that global demand is growing, constrained supplies and increasingly complex operating environments are making the delivery of reliable, affordable energy one of the biggest challenges of our time.

And that demand will likely continue.

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<sup>1</sup> BP Statistical Review 2006

<sup>2</sup> EIA/DOE International Energy Annual 2006

The global population is expected to grow by 1.4 billion people over the next 20 years.<sup>3</sup> This fast-rising tide of population will expect a range of reliable and affordable energy-related products, whether it is a simple gas burner . . . a light switch . . . a computer . . . a refrigerator . . . or a car.

Energy security, and the solutions we develop to achieve it, will determine, in part, whether the Asia Pacific region's booming economic growth can be sustained.

It will also help determine the quality of life for hundreds of millions of human beings in China . . . the Asia Pacific Region . . . the U.S . . . and the rest of the world.

Of course, everyone agrees that we need energy security. But what, exactly, is energy security? And how, exactly, do we achieve it?

Clearly, energy security means different things to different people. Energy consumers define it as security of supply. Energy producers see it as security of demand.

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<sup>3</sup> Source: United Nations Population Database 2006

The answer, of course, is that energy security is both, with stability and reliability as common denominators in a world that is more interconnected than it has ever been.

Both producers and consumers alike want stability in prices. And both want reliability -- consumers need reliability of supplies . . . and producers need reliability of markets.

In fact, balancing the needs of producers and consumers is at the heart of global energy security -- and it is one of the great challenges of our time.

So how do we make it happen?

At Chevron, we believe that energy security can be achieved with a framework composed of five elements. They are open markets . . . sound policies . . . robust technology . . . energy efficiency . . . and responsible leadership.

Let's take a brief look at each one.

First, open markets. To drive development of more energy supplies, we need to encourage the free flow of capital and investment, and the sharing of transparent, detailed data on supply and demand.

Transparency and predictability must guide the global investment environment if we are to achieve true energy security. To make big decisions and commitments, investors must have confidence in the rules of the game.

The second element in the energy security framework is sound government policies.

Governments around the world should provide predictable, secure fiscal and regulatory regimes . . . balance supply security with demand security . . . and energetically enforce the sanctity of contracts and the rule of law.

At the same time, governments must develop policies that recognize the interdependence of global energy markets.

China is to be complimented, for example, for its announcement last December of movement toward more market-based natural gas pricing in China.<sup>4</sup>

These two elements – open markets and sound policies – will create the right kind of environment to invest the \$17 trillion in new infrastructure the IEA estimates is needed to meet global energy demand in the next 20 years.<sup>5</sup>

That investment, in turn, will drive the third element of energy security: robust, innovative technology.

Throughout history, technology has shaped the way people produce and deliver energy.

2,000 years ago, people in China piped natural gas through bamboo poles from shallow wells. Three months ago, we had the honor of being present when an LNG tanker operated by Chevron delivered the first commissioned cargo of LNG to China's new state-of-the-art Dapung LNG terminal in Guangdong.

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<sup>4</sup> China to Increase Natural Gas Prices, China Daily, 12/26/2005

<sup>5</sup> IEA World Outlook, October 2005

And just last week Chevron announced a record-setting well, called Jack 2, which was drilled 7,000 feet (2,135 meters) of water and extending more than 20,000 feet (6,100 meters) beneath the sea floor in ultradeep" waters of the U.S. Gulf of Mexico.

In the future, meeting global energy demand will require these kinds of advances in technology to help find and produce a diverse mix of energy sources and we believe these can be beneficial to China.

The fourth element of the framework is energy efficiency. This is the cheapest form of new energy we have . . . and I know that there is a great deal of emphasis on energy efficiency in China today.

All of us must focus on ways we can capture new energy savings . . . in transportation . . . power generation . . . and facilities management . . . as well as individual consumer behavior.

For example, reducing global energy by just 5 percent would be enough to power Australia, Mexico and the entire United Kingdom, or save us the equivalent of over 10 million barrels of oil a day.

However, achieving these kinds of energy savings will take leadership, which brings me to my final point.

Putting this framework for energy security into place will require strong leadership – responsible, accountable leadership from all participants in the global energy value chain.

The kind of leadership I am referring to can be found here in the Asia Pacific region today, with multilateral organizations like Asia Pacific Economic Cooperation (APEC) . . . the Shanghai Cooperation Organization . . . and the Asia Pacific Partnership on Clean Development and Climate.

These organizations demonstrate responsible leadership when they help shape and facilitate regional energy cooperation, and China plays a major role in each.

Open markets, sound government policies, robust technology, energy efficiency and responsible leadership. Taken together, they form a pragmatic and powerful framework for global energy security.

As Chevron's Managing Director of LNG Marketing & Trading in Asia, I believe that the global gas market also has an important role to play in creating true global energy security.

Natural gas is clean-burning. There's a lot of it. And the emerging global gas business is moving steadily toward open markets.

We see this in the LNG industry, which is expanding rapidly and evolving from several long-established markets, such as Japan, Korea and Europe . . . . to a truly global marketplace, much like the one that currently exists for oil.

Today, advances in technology and the emergence of both China and the U.S. as major LNG importers are helping us break out of a world where the flow of natural gas stops at the end of a pipe, or is subject to a strict point-to-point LNG contract.

In particular, LNG's increasing diversity of suppliers and customers provides a flexibility that ensures that natural gas gets to where it is needed, when it is needed.

This kind of flexibility is redefining relationships between natural gas customers and suppliers, replacing a straight line with a global web that links buyers and sellers anywhere and everywhere.

Once completed, a global network for natural gas will allow for the most economic distribution of this energy resource – delivering the most affordable natural gas to customers in China . . . the Asia Pacific region . . . and all over the world.

This evolution to larger, more liquid markets helps to increase the confidence necessary to make the multi-billion dollar investments needed to build a global gas infrastructure.

Today, unprecedented investment in natural gas is flowing to projects in Africa, Australia, Qatar and Russia. Today, some 13 countries around the world export LNG. In the next 10 years, that number is forecast to grow to 22.<sup>6</sup> Countries like the U.S. and China are working hard to build an LNG infrastructure as part of their strategy to increase the contribution of natural gas to their overall energy portfolio.

Further reflecting the growth of the global LNG market is the increasing size of oceangoing LNG tankers, designed and built to carry more supply than ever before.

China is participating in this area as well.

In April, we had the pleasure of visiting the Hudong Zhonghua ship yard in Shanghai, where the first two LNG carriers to be built in China are under construction.

When completed, the two LNG carriers will be used for transporting LNG from the North West Shelf Venture in Australia, of which Chevron is a partner.

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<sup>6</sup> CERA Global Liquefaction Capacity Inventory, October 25, 2005

I have reviewed growing energy demand, the most powerful oil and gas trend in China and the Asia Pacific region.

Meeting this demand – and achieving energy security – can be accomplished by a pragmatic framework that includes open markets . . . sound government policies . . . robust technology . . . energy efficiency . . . and responsible leadership.

And I have talked about how the emerging global gas business can help the world achieve energy security.

Finally, I'd like to mention the catalyst for meeting energy demand and achieving energy security in an interdependent world. That catalyst is building strong partnerships.

This brings me to Chevron and China . . . a partnership that is almost 100 years old.

As one of the early partners in China's energy industry, Chevron is very fortunate to have witnessed first-hand China's amazing economic growth 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. Our predecessor companies, Texaco and Caltex, have long, collaborative and productive histories with China.

Over the years, we have sometimes been competitors. But let me say as directly as I can – Chevron's commitment to maintaining our long and successful partnership with China is as strong as ever.

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

Chevron views China as an important market for LNG in the future, and we want to remain engaged with potential customers and trading partners here.

We have a 20 year relationship with CNOOC in China and we recently commenced a 25 year LNG trade relationship as part of our involvement with the North West Shelf venture. We value this relationship and hope it continues to grow.

We're also pleased to be in discussions with CNOOC, PetroChina and Sinopec to explore more partnership opportunities – both inside and outside of China.

Earlier this year, to reinforce our long-term commitment to China, we opened our Chevron Global Gas Representative office in Beijing. It reflects our commitment to grow strong, enduring relationships with China and with Chinese companies.

In closing, I would like to emphasize Chevron's firm belief that natural gas will play a major role in supplying the world the energy it needs for economic and human progress.

In other words, energy security.

But the gathering momentum toward the creation of a global gas market doesn't guarantee success.

There is still much to be done.

Stakeholders in the energy value chain must take action today to ensure a robust, efficient and secure market tomorrow.

We must work to open energy markets worldwide.

We must continue to invest in new technologies that make our industry more efficient, more cost-effective and more environmentally sound.

And we must generate leadership that is guided by mutual interests, common sense and the realities of global energy markets.

I'm confident that we'll meet these challenges . . . and that we'll continue to build strong and lasting partnerships to connect our regions, our countries and our companies . . . partnerships that will deliver true energy security to all of us.

Thank you.

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