

NATURAL GAS: A KEY TO GLOBAL ENERGY SECURITY

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Good afternoon. I'm delighted to join you today, and I want to thank the International Gas Union and the Royal Dutch Gas Association for inviting me to participate in this important conference.

I am particularly honored to be sharing this afternoon's keynote session with my good friend Tan Sri Dato Sri Mohd Hassan Marican, President and CEO of Petronas.

It's appropriate to hold a conference on global energy issues in this great city.

In the 18th Century, Holland was the world's undisputed leader in wind power. Today, more than two centuries later, we're seeing venture capital flow back into the development of wind power and other renewables.

Creating a future where renewable energy will play a meaningful role in meeting global energy demand will, of course, take decades or longer. For the next generation, most of the world's demand for energy will continue to be met by hydrocarbons – particularly by natural gas, which is why we are here today.

The theme for this second day of the conference is, “Sustainable Development – It’s Up to Gas.” We agree with that premise – and we are making major investments in an energy future that will be increasingly focused on natural gas, and additional emerging energy sources.

Although oil has dominated the world's energy portfolio for the past 125 years, natural gas has clearly emerged as a new centerpiece of the global energy industry.

While overall global energy demand is expected to increase by 50 percent over the next 20 years demand for natural gas is projected to increase nearly 70 percent.

The long distance pipeline, gas-to-liquids and LNG projects now underway globally will deliver the promise of natural gas to a world that needs all the energy it can get to fuel economic growth and human progress.

It is that aspiration – having the energy we need to fuel economic growth and human progress – that underscores one of the most critical issues we are facing today.

That issue is energy security. Sustainable development is a long-term imperative. But energy security is a near-term necessity.

The debate about energy security – and the solutions that we come up with – will help determine the quality of life for millions of human beings . . . and it will determine, in part, whether the global economic expansion we are experiencing can be sustained.

So today, I'd like to share some ideas on how we can achieve true energy security, and the vital role that natural gas will play in that effort.

But first, some context.

With global population expected to grow by 1.4 billion people over the next 20 years, delivering reliable and affordable supplies of energy is one of the biggest challenges we face as an industry and as a global community.

Meeting this demand will take a strong, coordinated response from all parties in the energy value chain – producers, consumers and policy-makers.

It will not be easy. It must take place not only in the face of increasing demand, but also in challenging new frontiers . . . such as deepwater and the Arctic . . . and a geopolitical environment that is increasingly complex.

Taken together, these challenges have focused the world's attention squarely on the need for energy security.

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

Energy security means different things to different people. Consumers define it as security of supply. Producers see it as security of demand.

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?

Energy security can be achieved, I believe, 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 enhance the development of energy, 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 Joint Oil Data Initiative, an integrated database of oil data from six international organizations with a common interest in quality oil statistics, is a step in the right direction.

The second element is sound government policies.

Governments should provide predictable, secure fiscal and regulatory regimes. They should balance supply security with demand security. And they should 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. They must recognize that nationalistic energy policies, as appealing as they might be in a high-price environment, will ultimately undermine global energy security.

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

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

Throughout our industry's history, technology has shaped how we produce and deliver energy. Meeting global energy demand will require unprecedented advances in technology to help find and produce a diverse mix of energy sources.

The fourth element of the framework is energy efficiency. This is the cheapest form of new energy we have. We should continue to focus on ways we can capture new energy savings -- in transportation, power generation and facilities management, as well as individual consumer behavior.

Finally, putting this framework into place will require leadership – responsible, accountable leadership from key players throughout the energy chain.

Our responses to the energy challenges we face as an industry, and as a global community, must be multilateral. They must be collaborative. And they must recognize that true leadership often requires tough decisions and trade-offs.

If we are going to effectively meet demand for natural gas in the U.S., for example, the government should open areas currently off-limits and allow environmentally responsible exploration and development of oil and natural gas.

The fact is, we now have the technology and operating expertise to go into such areas as the Arctic, the Rocky Mountains or offshore, and develop energy with very minimal environmental impacts. While a growing number of Americans favor increased production of U.S. oil and gas resources, it will never happen without appropriate government policies.

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.

And the development of a global market for natural gas is one of the primary catalysts for this framework.

Building a global gas market is one of the most effective ways we can create true global energy security.

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 North America as a potential major LNG importer 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 strict point-to-point LNG contracts.

In particular, LNG's increasing diversity of suppliers and customers provides a flexibility that ensures 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.

A global network for natural gas, once completed, will allow for the most economic distribution of this natural resource – delivering the most affordable natural gas to customers 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 for global gas infrastructure.

Today, unprecedented investment in natural gas is flowing to projects in Africa, Australia, Qatar, Russia, the U.S. and elsewhere. Some 13 countries around the world today export LNG. In the next 10 years, that number is forecast to grow to 22. 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.

An example of Chevron's contribution to the growth of global LNG markets is our Gorgon project on Western Australia's Barrow Island.

Gorgon -- our joint venture with ExxonMobil and Shell -- is undergoing environmental review at the moment. We are confident that the outcome will balance economic benefits and environmental impact to allow full development of this key resource.

Our confidence is based on Chevron's involvement in operating the Barrow Island oilfield for 40 years and the high quality work we have done in preparing Gorgon's Environmental Review and Management Program.

We have also signed three Heads of Agreements with Japanese utility companies for LNG from Gorgon, which will move Chevron and our partners closer to commercializing Gorgon's gas resources.

In technology, we're making tremendous strides in the development of the global gas business -- from finding it and producing it in challenging locations . . . to transporting it in secure tankers and pipelines . . . and extending its uses through GTL technology.

Yesterday in Qatar, for example, Sasol Synfuels and Qatar Petroleum dedicated Oryx, the world's first commercial gas-to-liquids plant.

Our own Sasol Chevron joint venture, which will market the GTL produced by the Oryx plant, has high hopes for GTL technology.

We believe it will dramatically impact the natural gas industry, and our ability to meet a growing need for clean transportation fuels, by converting diverse and challenging feedstocks into super-clean fuels for the future.

Through our Sasol Chevron joint venture, we are engaged in discussions with Qatar Petroleum on a number of projects, including the design, construction and operation of a lubricating base oil production facility downstream of the Oryx GTL plant.

And in Escravos, Nigeria, a partnership between Chevron Nigeria Limited and Nigerian National Petroleum Limited is building a 34,000 barrel-per-day GTL plant that is scheduled to come onstream in 2009.

The groundbreaking for the Escravos GTL plant last year was one of a number of important business milestones we achieved that significantly advanced Chevron's natural gas business.

And in 2005 we acquired Unocal, which propelled Chevron into the top tier of natural gas producers in the Asia-Pacific region.

I mention these achievements because they demonstrate Chevron's commitment to natural gas. It is our 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 gas value chain must take action today, and be accountable today, to ensure a robust, efficient and secure market tomorrow.

We must work to open energy markets worldwide.

We must create sound policies – policies that provide predictable fiscal regimes, contract sanctity and the rule of law.

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

And we must summon the courage, the political will and the leadership to make tough policy choices . . . leadership that reflects the current realities of global energy markets . . . leadership that rejects overly simplistic solutions . . . leadership guided by mutual interests, common sense and long-term sustainability.

I'm confident that we'll meet this leadership challenge. And I believe that decades from now, we'll look back on the development of the global natural gas industry as one of the cornerstones of a reliable, robust and sustainable global energy market.

Thank you.

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