Chevron Human Energy

A New Blueprint

1980-2001

As Standard Oil Co. of California (Socal) began its second century, it had become a major company in the United States and the Chevron brand was becoming familiar around the world. The company had ownership in 50 refineries, with a production capacity of almost 3 million barrels per day and featured the third-largest fleet among oil companies worldwide.

In 1993, Chevron became the first major Western oil company to enter the newly independent Kazakhstan. Chevron CEO Ken Derr and Kazakhstan President Nursultan Nazarbayev signed an agreement creating the Tengizchevroil joint venture to develop the giant Tengiz Field. (Chevron Photo)

The company experienced strong results during the early 1980s, such as major discoveries and large acquisitions of offshore acreage in the U.S. Gulf of Mexico, a $1 billion modernization of its Pascagoula Refinery and the introduction of new Chevron Supreme Unleaded Gasoline with Techroline.

And yet the larger picture was unsettling, prompting the company to conclude that its normal business strategies simply wouldn't be enough. Chairman of the Board George Keller expressed this view when he said, "Over the next decade, the oil business will become increasingly competitive." He added, "Flexibility in swiftly adapting to change will be mandatory for success - and possibly survival."

Merging With Gulf

The company's chance came virtually overnight. Gulf Oil Corp., the nation's fifth-largest petroleum company, had been under siege from an investor group seeking to gain control of the company and sell it piecemeal for a quick profit. After warding off a takeover bid, Gulf's board of directors chose to offer the company up for sale.

On March 5, 1984, Keller made a bid of $80 per share, roughly $13.3 billion, and hours later received a phone call from Gulf Chairman James Lee, telling him that Socal had won the bidding.

With a price tag of $13.3 billion, it was the largest merger in corporate history at the time - and a strong marriage of assets, corporate philosophy and the varied talents of two organizations' employees. By acquiring Gulf, Socal nearly doubled its worldwide proved oil and gas reserves overnight.

Through the merger, Socal added major exploration and production operations in areas where it was already strong, such as the U.S. Gulf of Mexico, Canada, and the North Sea. In West Africa, Gulf's foreign reserves suddenly lifted the company to a leading position.

Gulf's assets included a solid marketing and refining system, the Pittsburg & Midway Coal Mining Co. and Warren Petroleum, a successful

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manufacturer and seller of natural gas liquids.

With the merger came a new name for the company: Chevron Corporation - the name by which gasoline and other products had been known for decades in the United States and under which the company operated in many non-U.S. locations.

A Smooth Integration

The melding of Chevron and Gulf was impressively quick and smooth. Assets of both companies were sold or streamlined. By late 1985, the merger was complete.

Signifying the integration of the two companies, some 3,000 Gulf stations in Arkansas, Louisiana and Texas adopted Chevron's name and products beginning in 1988. Concurrently, Chevron continued its long-term program to build or modernize stations at key locations and sell less-competitive facilities.

Chevron also modernized the Richmond and El Segundo refineries to enable them to convert more low-value fuel oils into high-value gasoline and other products, while streamlining the newly acquired Port Arthur plant to reduce operating costs.

Through the Gulf merger, Chevron became the No. 1 U.S. refiner and marketer as well as the nation's market leader in gas liquids. By 1988, when the company acquired $2.5 billion in properties from Tenneco, Chevron became the leading oil and gas producer in the U.S. Gulf of Mexico.

With these strengths came a companywide enthusiasm to fulfill a corporate mission of being "better than the best." To achieve this mission, Chevron stressed operational excellence and environmental responsibility.

Chevron's revised environmental policy added an important new mandate: risk management, which involved identifying potential problems and solving them before they became real problems. It also expanded a far-sighted program, Save Money and Reduce Toxics, which had already cut hazardous waste disposal by 60 percent since 1986.

A key part of Chevron's mission was to increase worldwide production. Through acquisition of Gulf properties, Chevron made major discoveries from the Alba Field in the North Sea to the Kutubu and Iagifu fields in Papua New Guinea.

Shifting Priorities

In the early 1990s, with the industry confronted by oversupply and a global recession, Chevron achieved major cost savings through the sale of its Philadelphia and Port Arthur refineries, its retail gasoline network in Central America and its Ortho lawn and garden consumer-products business.

As U.S. exploration opportunities shrank, Chevron shifted its emphasis increasingly toward international projects, such as the development of the huge Tengiz Field in Kazakhstan after forming a partnership with that country's government in 1993.

Other major opportunities included the Escravos natural gas project in Nigeria, the giant Hibernia Field offshore Newfoundland, the Kokongo Field in Angola and the Britannia project in the North Sea.

The company's strategies clearly were paying off. In 1996, earnings hit an all-time high of $2.6 billion, and production of more than 1 million barrels a day was the highest in 11 years, driven by record volumes in Angola, Kazakhstan and Nigeria.

Chevron's ability to grow through alliances was an important factor in its success - and an acknowledgement that the industry's best opportunities often involved mega-projects that required the resources of more than a single corporation. This awareness continued to resonate as the face of the industry changed through mergers and acquisitions, which fundamentally altered the energy business - and the competitive stakes.

A Long Affiliation

After forming a corporate Mergers and Acquisitions group in January 1998, Chevron began evaluating other companies that might best complement its own. Based on a long affiliation with Texaco dating back to the 1936 formation of a joint-venture company, Caltex, Chevron rated Texaco high as a potential merger partner.

In addition to its world-class assets and strong corporate culture, Texaco had the experience of integrating Getty Oil Co.'s operations and people following the 1984 acquisition of Getty. In 1999, Chevron initiated a series of talks with Texaco, which proved unsuccessful.

The following year, Chevron renewed talks with Texaco. On Oct. 16, 2000, the two companies announced that they had reached an agreement to merge. Nearly one year later, on Oct. 9, 2001, the shareholders of Chevron and Texaco voted to approve the merger, and ChevronTexaco Corp. began doing business that same day.

The company became the second largest U.S.-based energy company, with more than 11 billion barrels of oil and equivalent gas reserves and 2.4

million barrels per day of refining capacity.