

Remarks  
of  
Tony Hayward  
Chief Executive Officer, BP p.l.c.  
CERA Week 2009 Opening Address  
Houston, Texas  
February 10, 2009

Ladies and gentleman it's a pleasure and an honour to be with you today. We meet at an incredibly volatile time. It's not so long ago that we were all talking about high oil prices.

Today, across the world, the economic outlook has changed dramatically. In the developed nations, governments have had to take major stakes in the banking system.

The OECD countries are in a recession that continues to deepen. In the non OECD world growth has slowed significantly.

The impact on our industry has been sudden and severe. Six months ago, oil prices were approaching \$150 a barrel. They haven't topped \$50 a barrel since late November.

Big change has also come to the United States.

After one of the great political campaigns of modern times, America has elected a new President who has promised to repair the economy and to diversify this nation's energy supply.

A large fiscal stimulus which includes major investment in infrastructure and “green” jobs is before the US Congress.

The question of energy independence has shot up the political agenda and President Obama comes to office with a strong commitment to tackle climate change.

Suddenly, the challenges many of us have been wrestling with for a long time - the importance of energy security in providing economic security and tackling the issue of climate change in a way that is commercially viable - are centre stage.

Today I’d like to address the challenges head on. But I don’t just want to pose the tough questions. That’s the easy bit. Instead, I want to talk about what we can do to achieve our common goals.

When every day brings news of job losses and businesses going to the wall, it can be hard to see beyond the headlines. But in the energy industry it’s our responsibility to look through the here-and-now to the longer term.

And the long term trend is this: the world economy will recover.

The future is not cancelled.

And the balance of energy supply versus demand will continue to change in a fundamental way.

In my lifetime the world’s population has doubled to more than 6 billion people. At the current rate, it will exceed 9 billion by the year 2050.

The current maelstrom may interrupt but will not stop the movement of one third of the world’s population from a rural way of life to an urban one.

Over the next decade around 500 million households will join the \$5,000 income band; half of these in just two countries - China & India.

With this growth and improvement in living standards comes increasing demand for energy. Energy is fundamental to life. Energy underpins every modern, prosperous and growing society.

Let me be clear about the scale of the change we are talking about. According to IEA projections, we will need about 40% more energy in 2030 than we consume today. And, if current trends continue, we will double today's demand by the middle of the century.

That means we will have to invest more than \$26 trillion between now and 2030 to meet future demand. It is an immense sum that is more than eight times the total US federal budget of last year. The fact is, energy producers must invest more than 1 trillion dollars every year.

So we need to think about how the world is going to respond to this step change. The first thing to say is that, although it's a big issue, it is not an insurmountable one.

We have the natural, human and financial resources to meet the world's growing need for energy.

It's not true to say, for example, that we are running out of hydrocarbons. There are nearly 42 years of proved oil reserves left in the ground and 60 years of natural gas.

Put another way, as of today, the world has produced around 1 trillion barrels of oil. We're sitting on another 1 trillion barrels of proven reserves - with another trillion barrels which we know to exist but which are not yet commercially viable.

On top of that, there are vast quantities of unconventional hydrocarbons including oil sands, heavy oil and unconventional gas.

So when it comes to producing more oil to meet demand, the problems are not below ground, they're above ground. They are human, not geological.

Here we come to an important reality about future supply and demand which, although unpalatable to some, must be sensibly and honestly faced. Around 80% of all energy is provided by fossil fuels and, by most forecasts, fossil fuels will still provide the majority share of primary energy in 2030.

It has to be said that the supply response to recent growth in demand has been weak. About 80% of the world's oil resources are off limits to some of the best technology and know-how. Access to resources remains restricted and resource nationalism is on the rise.

The United States is one of the world's largest oil and gas producers, but production has declined 40 percent since 1985 as prospective areas remain closed to industry.

Satisfying future demand will require partnerships between National Oil Companies and International Oil Companies, between governments and corporations, and between academia and industry.

Yet just at the moment we need to confront these long-term trends, we find ourselves in the midst of the biggest slowdown in economic growth for many decades.

After twenty years during which we've seen global prosperity rise on an unprecedented scale the bubble has burst, as bubbles always do. Optimism has given way to pessimism.

And yet, there is reason for hope.

Governments around the world are working together in an unprecedented way to protect the savings of individuals, restore liquidity, stimulate economic activity and restore trust in our financial institutions.

I believe over the next few years we will see global economic growth recover - driven by continued industrialisation in China and India and the emergence, first of America and then of Europe.

The challenge for all of us is to not allow this cyclical fall to pitch us into a structural loss in capacity.

We must continue to invest in technology to achieve greater energy efficiency across the board and to bring new sources of energy to market.

In recent years we have pushed technical frontiers by exploring under the ice in the Arctic, drilling in the ultra deep-water of the Gulf of Mexico and Angola, extracting heavy oil and tight gas, investing in advanced conversion and the next generation of biofuels and in Carbon Capture and Storage.

Over the last 5 years, BP has invested over \$30 billion in the United States, to find and develop new sources of oil and gas, extend production from existing fields, improve the reliability of our US refineries, expand our wind and solar businesses, create better biofuels and develop new, low carbon technologies. And, over the next decade, we expect to continue investing an average of \$6 billion a year in this country.

In an uncertain world, our aim is to build a balanced and diverse energy portfolio, both geographically and through the primary energy mix.

BP like many of its competitors, is doing all it can to continue investing for growth.

But we don't and we can't do that in a vacuum. The context in which companies operate - the background to investment decisions - is determined both by the markets we sell into and governments that set the rules.

As I said, I am optimistic about the future.

I think we have a great moment here, a real opportunity to work with President Obama and the Congress to craft a comprehensive national energy policy - one that creates jobs, expands and diversifies energy production, generates new government revenues and reduces the impact of energy use on the environment.

The key is to frame regulation so the incentives encourage the outcomes we all want.

I'm not someone who thinks regulation must always be bad for business. Of course, poor regulation can destroy good business practice but good regulation is the framework that helps a market function.

In that spirit I have seven policy suggestions.

First, energy companies and governments must have confidence in each other if we are to invest the \$26 trillion needed to meet expected growth in energy demand over the next twenty years.

Fiscal and regulatory policies must be stable and enduring so industry can invest with confidence. And we must make the right policy choices, because inappropriate and ineffective regulation can discourage investment.

Second, a free and open energy market is our best guarantee of energy security. That's true whether you live in Beijing, Brussels, or Baltimore.

Over the last 30 years the energy world has become far more interconnected. Almost two thirds of the world's oil is traded across international boundaries.

This huge and agile market makes it possible to respond quickly to major supply disruptions - whether it's a hurricane in the Gulf of Mexico or political unrest in an energy producing nation.

Increased global integration in energy trade is an essential response to the growing imbalance between energy supply and energy demand. We need genuine cooperation to lower trade barriers and tariffs on all forms of energy.

But trade growth is a fragile process. Open markets require constant support and appropriate oversight; they are not just a fact of life.

Third, we must make energy efficiency and energy conservation a priority.

The prize is huge.

Some believe greater use of mass transit, high mileage cars, and green building standards could save enough energy to offset growth in US energy demand for the next decade.

Every BTU and every dollar saved are a contribution to global energy security and an investment in the health of our economy and our planet.

Fourth, we must begin to address the challenge of climate change. Until energy producers and consumers know and pay the cost of carbon, the uncertainty associated with planning and investing in the transition to a low carbon economy will remain high.

Pricing carbon could make energy conservation far more attractive and wind, nuclear and solar power more cost competitive.

It will also allow informed investment in fossil fuels and in the technology necessary to reduce the carbon emissions associated with their use.

In my view, Cap and Trade is the best option because it gives environmental certainty based on an absolute emissions cap. The ultimate objective is a global Cap and Trade system but that is probably a little way off. The best place to start is at the national level.

Fifth, we must support the development of hydrocarbon resources here in the US and around the world.

Even with the rapid growth of biofuels, solar and wind -- fossil fuels will continue to provide most of the energy we consume for the foreseeable future.

Our industry must continue to find and develop new sources of oil and gas, and it is important that governments across the world encourage that effort.

President Obama -- like his predecessors -- has made reducing US dependence on oil imports a central pillar of his energy policy.

In the last thirty years, oil imports have increased from 36 to 65 percent of US consumption as the search for new sources of domestic crude has been constrained by lack of access to promising areas.

The resource estimates for the places now off limits exceed 100 billion barrels of oil in place, with 30 billion recoverable.

Today, a fourth of US oil production comes from the 15 percent of the US outer continental shelf that is available to our industry.

We have the know-how and technology to tap these resources safely and with minimal impact to the environment.

Sixth, we need transitional incentives to make low carbon energy competitive with other energy sources; and to kick start technologies for large scale carbon abatement such as CCS.

These incentives should reward cost reduction and deployment at scale, with the purpose of making new technology commercially competitive in a well defined time frame.

And finally, we need a step change in investments in energy technology research, development and deployment.

At BP we will spend more than \$500 million over the next ten years to develop better energy crops, better biofuels and better processes for producing them.

Much of this ground breaking research is taking place in partnership with the University of California at Berkeley, the Lawrence Berkeley National Laboratory and the University of Illinois at Champaign.

We designed the program in consultation with Dr. Steven Chu, the Nobel laureate who now serves as Secretary of Energy in President Obama's cabinet.

Creating the energy future we all want will require co-operation among many partners and conversations with and among national governments.

We must liberate the ingenuity and intelligence of industry, academia, and government.

It is almost always through human ingenuity and cooperation that we crack problems. The same will be true in this case.

I believe this is a crucial moment.

We are living through a fundamental shift in the balance between supply and demand. This powerful trend will not be stopped by the turmoil we are now experiencing.

Energy demand is increasing and despite the rapid growth of alternatives and renewables, fossil fuels will continue to play a major role in our future energy mix.

There is no shortage of hydrocarbons. The problems are not below ground, but above it.

The evidence is irrefutable that where markets are allowed to operate freely, they work. Producers and consumers should be encouraged to respond to the market signals.

If we want more investment, then businesses and governments must act together. We need fiscal, regulatory and climate change regimes that are stable and enduring.

We know the aims - a stable energy supply and a sustainable planet - and we are all signed up to them.

Let's create a framework that allows the industry to get on and work at it, as I know we all want to.

In years to come, when we gather for this and similar conventions, I hope we will look back on this one as a turning point.

I think we in this room are ready to play our part. I am optimistic that governments across the world have come to a point where they see that inaction is riskier than action.

Of course it will be difficult. Of course there will be twists and turns. But we have a moment and we must seize it.

Ladies and gentlemen thank you for your time.