BP STATISTICAL REVIEW OF WORLD ENERGY 2006

Remarks by BP CEO Lord Browne at the launch of the BP Statistical Review in Washington at the National Press Club and in New York at the Council on Foreign Relations

Thursday 15 June

Ladies and Gentlemen, good morning and welcome. It's a great pleasure to see you all here. Thank you for joining us.

Today we are launching the latest edition of the BP Statistical Review of world energy. The Review was first published in 1948 – so it's as old as I am – but it gets better every year.

The Review is a considerable piece of work involving not just the BP team, but also hundreds of people in different countries around the world who provide us with accurate and timely data.

That help is indispensable and I'd like to express our thanks to all of them.

Professor Peter Davies, our Chief Economist, is going to take you through the detail of the Review in a moment. I don't want to steal his thunder, but let me give you a few of the headlines.

World energy demand last year grew by 2.7 per cent, and here in the US, it fell by 0.1 per cent. The energy mix shifted slightly in favour of coal, as gas lost market share globally in 2005, and is no longer the fastest growing fuel.

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One barrel in three of world oil demand is now accounted for by consumers in Asia, Coal demand worldwide rose by 5 per cent, and Natural gas by 2.3 per cent.

Oil demand here in the US fell by 0.2% or 75,000 b/d – worldwide oil use increased by 1.3% or 1 million barrels a day.

And, of course, as you all know too well, oil prices rose last year by 36 per cent to an annual average of $ 57 a barrel for WTI making oil more expensive in real terms than at any time since 1983.
Peter will give you all the details behind those headlines in a moment.

People sometimes ask why we go to the trouble of producing a Statistical Review every year.

The answer is that good decisions – good investment decisions and good policy – depend on good information. Without facts you can easily be overtaken by rhetoric or loose analysis, which owes more to what people want to believe, than to real data.

As an engineer I believe the only solid foundation for any decision is the data. So let me take a few minutes to look at the data, and to think about its implications for action here in the US, and worldwide.

BP is the largest supplier of oil and gas in the US, and we talk to a lot of customers – individuals and businesses.

We are very conscious that people here are nervous about the energy market, they want to understand why prices have moved as they have, and most of all they want to know what we are doing about it.

The first question is why prices are today at $68 a barrel WTI.
The basic answer is the price has been driven by anxiety about the reliability of supply.

There has been no physical shortage, and even the destruction of Hurricanes Katrina and Rita, which cut supplies from some fields in the Gulf of Mexico was soon balanced by new supplies, which we and others brought in from Europe.

Prices are high because spare capacity is low, and because too many of the key suppliers seem at risk.

The estimated amount of spare capacity in the market is around 1.8 million barrels a day, which is not only lower than normal, but also less than the production from Iran, Iraq, Venezuela, and of course Nigeria which has been the main source of the market uncertainty over the last six months, because violence has reduced supply by some 500,000 barrels a day.

That is why the world crude price is so high.

Why then are gasoline prices so high? Is there a shortage of refining capacity?

The basic answer is that gasoline prices have been driven by the price of crude, not by any shortage of refining capacity.

The challenge for the industry, however, is to ensure that our refineries match the product needs of consumers here and elsewhere in the world, and that they are up and running safely and efficiently.

I am delighted to say that after the tragic events of last year, the Texas City refinery is coming back onstream, and that we have learnt, and are building into our systems all the lessons from what happened last March.

We're also investing there, and elsewhere across our refining base to meet the changing patterns of demand. That includes plans for around $ 3 bn of investment to upgrade our refineries so that they can process secure supplies of heavy oil from Canada.

Prices are the immediate concern, but of course there are longer term worries about climate change and energy security, which are feeding anxiety here in the US and elsewhere.

I don't believe that major companies can stand aside from those issues. We can't deny the reality of the concerns. We can't just say that these are not our problems. We can't say that someone else will solve them while we just take profits.

That would be an expression of arrogance towards ordinary Americans who expect great companies to come up with answers.

So what is BP doing?

First we are investing in the next generation of energy supplies in the US and internationally.

In the last five years we have invested about $20 bn in developing oil and gas fields in the deep water Gulf of Mexico, in Alaska, and in the lower 48. We've also invested around the world another $ 27 bn over the last five years in areas which are crucial suppliers to this country, and to the world market as a whole, in Canada, in Trinidad, in Angola in Algeria, and in the Caspian.

Two weeks ago the first oil was delivered through the Baku Tbilisi Ceyhan pipeline. That line will bring a million barrels a day of new oil to the world market.

And then perhaps most important of all we've invested in Russia.

The world needs Russian oil and gas, and with all the problems in the Middle East and Africa, Russia has become in the last five years one of the more secure suppliers to America, Europe and the world.

In 2003 we created a new company TNK BP which is based in Moscow. We've invested $8 bn to acquire our interest. Production by 39% and reserves by 32% (580 mmboe). In 2006 TNK BP is investing $2.5bn to continue its growth.

And there is more to do. In Russia, and around the world, and here in the United States.

Over the next five years we expect to invest over $50 bn worldwide for exploration and production. Gas from Indonesia, and Egypt, and the Caspian, and we hope from East Siberia. Oil from Angola, Russia, and the Gulf of Mexico.

And we will be investing here too. We, along with our partners are now ready to proceed with a $25 bn investment in Alaska to produce and transport natural gas to the US market.
We are attempting to reach agreement with the State of Alaska in order to allow this to get underway as soon as possible.

That will be one of the largest energy projects ever undertaken in this country, and will provide a new source of secure supply to the American market.

In the deep water of the Gulf of Mexico we plan to invest another $ 16 bn over the next decade in new oil and gas developments. And we are also devoting some $ 17 bn over the next ten years to a programme of onshore development in the Rockies and elsewhere, and we are preparing to invest, if the approvals are given, in a new LNG terminal at a cost of around $700 m.

And of course we are engaged in securing access rights to some of the other terminals that are either under construction, or being proposed. Those terminals will make a crucial contribution to US energy security.

BP is investing in oil and gas, but we are also looking further ahead to the development of alternative fuels which can provide secure, local supplies of energy to reduce the dependence on imports, and which can also provide the means of reducing the emissions of carbon to the atmosphere.
The current concentration of carbon dioxide in the atmosphere is around 380 ppm.
That figure has risen over the last twenty years by about 10 per cent. Last year carbon emissions increased by 2.9%. The level of emissions worldwide is now about 20 per cent higher than it was when the Kyoto protocol was signed in 1997.

Of course, the detailed science of climate change continues to evolve. There are many things we don't yet know. But we in BP don't believe that we can ignore the mounting evidence, the weight of scientific opinion, and the risks of a fundamental shift in the earth's climate.
Climate change is, of course, a matter of public policy. Technology is important but it is the framework of rules which will determine the pace at which technology is developed and applied.

Governments have the power to create an energy market in which the externalities such as carbon emissions, and indeed the value of energy security are properly priced, for example through trading systems. That will take bold leadership starting at the national and regional level. We won't move instantly to a global solution, but the individual steps are important, as steps towards a long term answer.
Only Governments can set the rules in that way. But business has a crucial role to play as well.

The role of business is not to engage in politics, or propaganda. Equally the role is not to deny reality. The role of business is to offer solutions.

That is what BP is trying to do by investing in alternative sources of energy including wind, photovoltaics for solar, and the new technology of carbon capture and storage. We will invest at least $ 8 bn in this new business over the next ten years.

And today we want to announce a new step in addition to that programme.

We are already one of the largest marketers of biofuels, which is a rapidly developing market capable of both improving energy security, and producing fuels with lower emissions

BP has been selling biofuels in the U.S. for over 25 years. Today, they're available in more than 20 states across the country. Last year, BP fuels contained more than 575 million gallons of biofuels in the US, eliminating about one million tons of carbon dioxide.

In addition we are currently finalizing plans to make an E85 fuel available, in one or more US markets, towards the end of this year.

Now we want to do more, beginning with a ten year investment of $ 500m to create a dedicated biosciences energy research laboratory, attached to a major academic centre. This will be the first facility of its kind in the world.

We have already started discussions with several leading universities to identify which could host the BP Energy Biosciences Institute (EBI), with the aim of launching the first research programmes by the end of 2007.

Bioscience is already transforming modern medicine, and we believe it can bring immense benefits to the energy sector.

The new institute will focus initially on three key areas of energy bioscience:

- developing new biofuel components, and improving the efficiency and flexibility of those currently blended with transport fuels;
- devising new technologies to enhance, and accelerate the conversion of organic matter to biofuel molecules, with the aim of increasing the proportion of a crop which can be used to produce feedstocks for fuel;

- using modern plant science to develop species that produce a higher yield of energy molecules and can be grown on land not suitable for food production.

In addition to its focus on advanced biofuels, the Institute will also look at broader applications of bioscience to energy, including improved recovery of oil, coal bed methane and carbon sequestration.

We believe that the demand for biofuels will rise significantly through the next decade. Consumers want energy which is clean and local, and biofuels are one very attractive means of meeting that demand.

Ladies and Gentlemen BP's belief is that if we are going to maintain our position as America's leading energy supplier, we have to listen to what is worrying people. And then we have to do something about those worries.

This country has not been built into a great nation by those who deny reality, who claim they can do nothing, and who simply exploited weakness. That approach gives business a bad name.

Energy security and climate change are serious issues but they are not insoluble problems.

If you have the will and the means, the issues can be tackled. And that is what we are determined to do.

Now my colleague Peter Davies will introduce the Review and its findings and then we'd both be delighted to answer questions.

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