

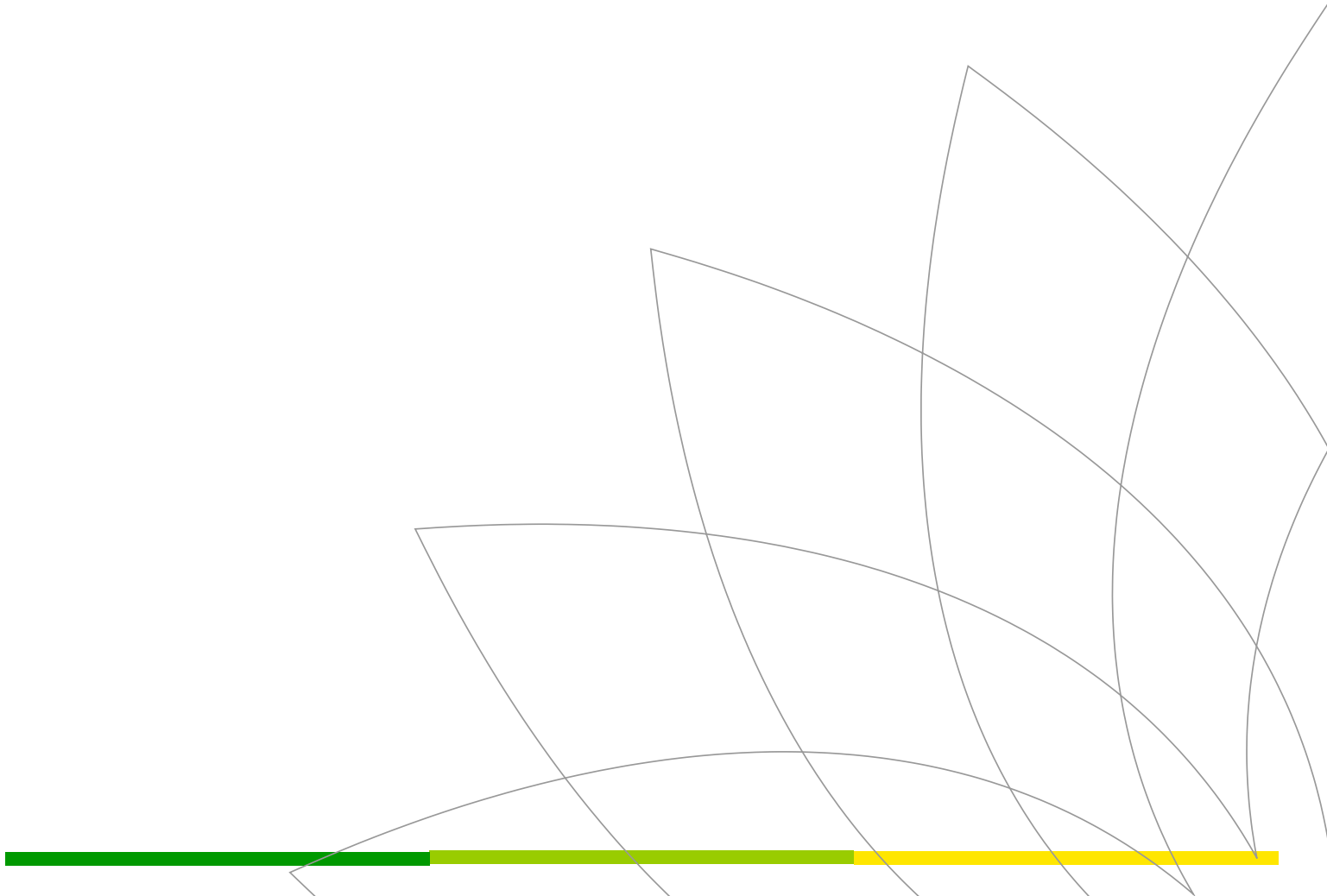


A maritime strategy for the UK – by default or design?

Brian Gilvary

Chief financial officer

15 May 2019



Good afternoon everyone it's a huge privilege to be asked to speak here today.

I see that the question before us is whether the UK should pursue a maritime strategy.

I also note that our host is the First Sea Lord. And the title of the event is 'Sea Power'.

I think there may be some small clues as to what the answer might be.

But as with all questions, it's important to layout the case.

I would like to build on some of the megatrends James highlighted in the context of the past, present and future.

And I'd like to try and do both from a Royal Navy perspective and also from my day job at BP.

Our two organizations have a century of shared history. And we learn from each other, as partners do.

So let me start there with recent history – the last 100 years or so – and then go on to look at present challenges and then at future priorities.

I'll make a few points on each of these three areas

Past experience

The shared history of BP and the Royal Navy goes back over 100 years to 1913.

The company was then called Anglo-Persian because it was producing oil in what is now Iran.

And as of then, the company was struggling because the market for oil hadn't really developed. Cars were still a luxury - the first filling station had been commissioned, but people said motor transport would never take on due to lack of infrastructure and roads.

But the First Lord of the Admiralty, a certain Winston Churchill, made the decision – an inspired one - to fuel British warships with oil instead of coal, and acquiring a majority stake in BP at the same time to ensure security of supply.

In doing that, he was a catalyst for a technological mega-trend of the time – the shift from coal to oil as the world's dominant fuel, that would drive economic progress in the UK, Europe & USA over the 1950's and 1960's.

Churchill made that choice because oil's energy density enabled ships to go faster, they could be refuelled more easily, and also be less visible at sea without all the smoke from coal.

That's still the case, of course today.

Naturally Churchill was challenged. Britain had plenty of coal, people said, but oil depended on imports.

Churchill responded with the line that has been repeated at every energy conference ever since: "Safety and certainty in energy lie in variety and variety alone".

In other words, security depends on diversity. Don't put all your eggs in one basket. And that's even more relevant today as we face the dual challenge of more energy with less carbon intensity.

And that idea of variety as a strength is one I will return to.

Since 1913, BP and the Royal Navy have been through a lot together.

Anglo-Persian created its own shipping arm called the British Tanker Company, or BTC, with one ship in 1915. That company is now called BP Shipping and operates around 40 vessels with hundreds more under charter.

In the Second World War, BTC ships and Royal Navy vessels worked together on the Atlantic and Arctic convoys as well as Operation Overlord.

In peace time we have seen the North American and European economies consolidate and emerging economies grow.

And we have supported the rise of natural gas, which is now growing faster than oil or coal.

And we can see strong similarities between the challenges of the Royal Navy and an energy business like ours.

We are both international in scope.

We both rely on being at the forefront of technology.

We both have 24/7 operations.

And we both have investment cycles involving billions of pounds – that have to look to the long-term, including assets that can take a decade or so to build and then operate for up to half a century or more.

If you operate on that scale and those time-frames, then you need to understand the context you work in and particularly the immediate context of today and how it may evolve – agility is crucial in this respect.

Present challenges

This takes me to my second area – the challenges of the present.

The big strategic question posed for this session is about what is driving the UK's maritime strategy and policy choices?

Is it the UK's desire to reinvent itself as 'Global Britain', post-Brexit?

Or should a maritime strategy exploit the mega-trends at play in the world?

My response is that you can't simply choose to have a global role. You have to earn it through your track record, your capability and your products.

In my humble view, the UK absolutely merits such a role, because it has a great record and a massive contribution to make.

On the civilian side, we live by our trade. Nearly 30% of what the UK produces is sold abroad and we are one of the world's biggest importers.

Sea-power was crucial in enabling the UK to grow and become a successful trading nation...

...To become the centre of the maritime trading world – which today accounts for 90% of the world's trade...

...And to this day, we remain the home of the International Maritime Organisation.

And as the Government's Maritime 2050 strategy notes, the UK has a leading role in maritime areas such as services, technology, safety and environmental innovation.

On the military side, the Royal Navy is recognised as one of the world's great navies, indeed, a role model of how other Navies have developed over the last few centuries, and it is experiencing a resurgence in assets to match its experience and heritage.

While the Royal Navy may no longer be viewed as the world's policeman, soft power alone will not safeguard trading routes.

There has to be a willingness to deploy hard power, and particularly sea power – and that can be a factor in 'Global Britain' becoming a reality in an increasingly complex world.

And as we heard this morning, that complexity involves several mega-trends:

Development has turned countries like China, India, South Korea and Brazil into major economic forces. The major energy trade routes are now west to east rather than east to west.

Globalisation has created a more connected world, with the value of global trade rising from around £55 billion in 1950 to nearly £16 trillion in 2017.

Such rapid growth has increased demand for energy – but at a time when there is also an urgent and present need to reduce greenhouse gas emissions.

In terms of security, we face a new range of threats – from terrorism, the rise of populism, from challenges to international rules, from cyber-attacks, and, with increasing prominence in recent years, from state-sponsored actors.

And we've seen this past week, with the US and China, the impact uncertainty on trade can have on global markets.

Future priorities

So, what are the priorities for the future as we face such challenges?

To echo Churchill again, the answers represent variety. There are few simple, linear solutions.

So briefly, let me outline some broader priorities for both our organizations.

Safety is always our top priority as a business. And we have learned a lot from many industries and the Navy since the Deepwater Horizon accident nearly a decade ago.

The number of process safety events at BP has fallen by around 40% in the last five years and among those we have to thank is Admiral Skip Bowman who led the US Nuclear Navy for many years and is just stepping down from the BP board after nearly 9 years. His advice on creating a process safety culture has been invaluable.

However, our goals stay the same - to have no accidents, no harm to people and no damage to the environment.

Another priority for us – and I'd suggest for any organisation - is to invest in strengths.

In BP we have divested many assets and we now invest in those we can operate at the highest quality – we call it value over volume – its not about the number of assets you have – but how well you can run them.

And for the UK, I'd suggest there are not many strengths greater than the Royal Navy with its experience and its deep expertise - from combat to crime-fighting and information warfare to humanitarian support.

That is why it is important to see the re-equipping of the service with the new carrier strike, frigates, submarines and other vessels.

It was a huge honour to support the Atlantic Future Forum held last October aboard the HMS Queen Elizabeth.

That carrier and its sister, the HMS Prince of Wales, epitomise the resurgence of the Navy and recognition of its role in allowing UK to project a maritime future – one that provides a platform to support business and promotes international trade. Do not underestimate the impact these vessels can have on both fronts.

A third priority for us is environmental sustainability – what we call the dual challenge.

In other words, how we meet the world's growing demand for energy...

...with energy that is much lower in greenhouse gas emissions.

Energy demand grew by around 50% over the last two decades and globally we're heading for growth of around 30% over the next two decades, on current trends.

That's been supported by open sea-lanes, the development of super-tankers and LNG carriers, and global markets in oil and increasingly in less carbon intensive gas.

The UK has been at the centre of the development of both the international oil and gas markets, with our expertise and belief in open trade.

The UK is also leading in efforts to address the challenge of climate change, which has the potential to threaten our oceans and create the impetus for mass migration and destabilisation of states.

We have already seen the Royal Navy called into action in the Mediterranean to address migration caused by other factors. It is in all our interests to ensure that climate change does not lead to an escalation of similar episodes in the future.

BP is committed to working with governments to deliver the cleaner energy the world needs.

Another linked priority for both of us is technology, particularly digital technology – where we are making significant investment.

The Navy uses sonar to detect vessels for example, while we use seismic to detect oil fields.

Our supercomputers recently found an oilfield in two weeks by processing seismic data using an algorithm developed by our technologists.

That may not sound very fast until you realise that with 20th century computers it would have taken well over 1,000 years to complete the same calculations. The digital world is moving at pace and the Navy will have to stay at the forefront.

Artificial Intelligence is a game-changer. A recent Royal Society report suggested 10-30% of UK jobs were highly automatable – although new ones would also emerge.

And we are using digital technology to transform our business. Attaching physical assets to digital networks is making us safer, quicker and smarter - and I know this is a priority for the Navy too.

And I also realise that the internet is in fact a maritime construct, with 99% of international data travelling via underwater cables – which, of course navies can protect, or disrupt.

I take comfort from the fact that countries have respected those cables, but I worry about what travels along them.

The larger the global network becomes, the more of a target it presents for cyber-crime. Large companies fight off thousands of cyber-attacks every day and every device and human is a potential entry point.

These attacks can be efforts to extract data for commercial espionage and criminal gain.

Or attacks to cause business disruption by compromising our information technology and industrial control systems, including our maritime fleet.

The Royal Navy is facing similar threats.

That is why we are both taking action, with the Royal Navy reporting that 1,000 personnel are engaged in information warfare – all trying to keep ahead of the bad guys.

For us, the employees are the frontline and they have been amazing in becoming cyber-aware, spotting threats and reporting attacks.

We repel attackers but we also need to do business with other parties. And another priority I would pick out is the need for engagement with the different players – on many levels.

Our company started over 110 years ago by engaging with a ruler in Persia and since then we have worked in hundreds of countries, with major operations today in countries such as Azerbaijan, China, Indonesia, Iraq, Russia, Trinidad & Tobago, the UK and the US.

As a business, we engage with countries in a positive way. Our job is not to take political positions but to connect on a business level and a personal level – it's about relationships and technology – it's the same for a forward leaning Royal Navy.

And experience has taught us that trade and business tend to narrow divisions rather than widen them.

Likewise, the Navy is part of the UK's wider multi-level engagement that includes trade, diplomacy, travel, culture – and sometimes, when required, military activity.

This ability of the UK and the Navy to adopt a measured and proportionate response to geopolitical tensions is vitally important in an increasingly turbulent world.

We saw a very practical example recently that speaks to a wider maritime role for the Navy in ensuring that the common space of the oceans remains secure for all mariners – and particularly in protecting trade.

Sailors on board HMS Daring braved the threat of missile attacks to protect merchant ships at Bab al-Mandeb off Yemen.

Last year a new decoration called the Gulf of Aden clasp was created to honour them.

That attack in Yemen showed – as does the incident on Sunday in which four tankers were damaged near the Strait of Hormuz – that we cannot take the freedom of the seas for granted and a forward learning Navy is more important than ever.

Global trade is in the region of £16 trillion a year – so something we should value, strengthen and protect.

Our contribution in BP includes an investment of around £13 billion a year in producing energy and supplying it to customers.

As well as having our own fleet we have a major supply, refining, marketing and trading business with over 11 million customers per day.

So we and other energy suppliers totally rely on open markets and open seas. And we deeply appreciate the Royal Navy's role in helping to protect strategic sea lanes such as the Bab-el-Mandeb and the Strait of Hormuz, through which about a fifth of global oil production passes.

An uncertain world makes collaboration between trusted friends more necessary.

And it turns partnership, which has always been important, into an even greater priority.

Hence efforts to forge good relationships with suppliers, with business partners and with host governments.

And that is why I think it is important for the Royal Navy to maintain and enhance its partnerships in NATO – which keeps the UK Navy close to European peers; the 'Five Eyes' – of the UK, US, Australia, New Zealand and Canada; and the 'Five Powers' of UK, Australia, New Zealand, Malaysia and Singapore.

One last priority is that of diversity – tapping into the great variety of people who we can recruit and train.

Working for a business that has thousands of staff in countries like Australia, India and Trinidad, it is great to see the military stepping up recruitment from the Commonwealth.

But as someone from the great sea-faring port of Liverpool who was a product of the state education system, and the first of my family to go to university, I worry about the lack of social mobility in the UK today.

I was fortunate enough to find opportunities at school, university and in business.

But a report last month said that such mobility has stagnated and children from professional backgrounds were 80% more likely to go into a professional occupation than their less privileged counterparts.

The Navy has always been a route that youngsters from backgrounds like mine, could take to productive careers and I do urge you to keep the door wide open – you are an incredibly important source of social mobility for our nation.

At BP we recognise our future success depends on our ability to appeal to and attract the full diversity of talent from across all genders, ethnicities, sexual orientations and social groups.

Our industry has some ground to make up in this area. But we've been working hard on that and we're proud to be recognized by Stonewall as one of the top global employers on equality and by the Times as one of the Top 50 employers for women.

I know the Royal Navy is ranked highly on that Stonewall measure and is also on that current Times Top 50 list and shares the recognition of the value of equality, diversity and inclusion to future success.

The Royal Navy was rated as 'outstanding' by Ofsted last year for its apprenticeships, which are a hugely important vehicle for promoting social mobility.

And by the way, the investment the navy makes in recruitment is not just an investment in defence. People take their skills into civilian life after Navy service and the country should factor in that return on investment.

Interestingly, the US Naval Academy's mission statement explicitly talks about preparing people to "assume the highest responsibilities of command, citizenship and government".

Conclusion

So to sum up.

The question was whether a maritime strategy is appropriate for the UK.

My answer is yes. 100%. The UK is one of the world's leading traders and seafarers.

It has the capability and the experience to build on its great maritime heritage with merchant vessels and the Royal Navy working side-by-side.

In an uncertain world, our maritime capability can help us to preserve peace, maintain stability and advance prosperity. We should invest in it, use it – and celebrate it.