Adjusting to change

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The recent sharp fall in oil prices has clearly had an impact on BP — as it has for the entire industry.

Delivering energy safely in a changing and complex world will continue to challenge us. But meeting those challenges is when we are at our best as an industry.

At BP, we have a distinctive track record of understanding and adjusting to change quickly and effectively, and we have moved decisively to reset BP for what could be a sustained period of low oil prices.

Ours is a long-term business, and we need to respond to today's challenges in a very thoughtful way so as not to compromise safety or the growth plans that are essential for the future.

BP's Energy Outlook was released a few weeks ago, and we continue to see oil and gas as a strong part of the world's energy mix to support future demand.

As we all know, our industry has a central role to play in meeting the world's energy challenge for decades to come.

Looking beyond 2020 in the Upstream, we have the options, discovered resources and acreage to sustain long-term growth. There's an exciting future ahead for us as Explorers, as a company, and as an industry.

How are we responding?

In this tough climate, our company has a clear plan to weather the storm and emerge from it in good shape to grow.

We have not lost sight of the enduring principles that guide our business in any environment.

Our approach begins with a relentless focus on safe and reliable operations.

We continue to deliver on our Upstream cost agenda - right-sizing our organisation, reducing our third-party spend and influencing our partners where we are not the operator.

- Upstream workforce is now 20% smaller than in 2013

- A significant focus on capturing deflation has achieved average cost reductions of around 15% in our third party spend
- We continue to challenge our teams and partners, and our focus on costs has already resulted in unit production costs 20% lower than 2013.

And in Exploration we are focusing on the best opportunities in the portfolio.

In some cases, we will seek to defer activity, with the expectation that the cost to test will come down as cost deflation continues to impact our industry.

In a low-commodity price world, we will also see an increased focus on commercial viability and a need to drive down costs to improve efficiency to create value from successful exploration.

We believe a balanced exploration portfolio will contain a mix of opportunities such as:

- infrastructure-led prospects,
- new plays and new basins tests,
- deepwater, and unconventionals.

Each of these opportunities potentially has a different risk profile and a different returns profile - the question for industry is, "what is the right portfolio balance?"

One of the most important things we can do as an industry is to challenge and continually question our assumptions. Concepts and designs that might have seemed sensible in $70, $80 and even $100 oil can become ingrained, and we must be wary of becoming dogmatic about what's required and what might be possible.

One of the most important things we can do in exploration is to challenge and re-think our work using first principles:

- play concepts,
- prospects,

- access

Question and ask why, why, why on every aspect and cost. We guarantee you'll find and break down some long held beliefs.

Mad Dog Phase 2

I'd like to share a great dogma-busting story from BP and our partners in the Gulf of Mexico. You may have heard about this from Lamar McKay yesterday.

This has been demonstrated in our Mad Dog Phase 2 project in the Gulf of Mexico.

Mad Dog is a BP-operated Miocene field in the deepwater, with first oil produced in 2005.

BP's Mad Dog platform as you know is one of our 4 key production hubs in the Gulf.

There is a strong business case for a second facility at Mad Dog, so we began work on a "Mad Dog Phase 2." A few years ago, the project looked like it was economic at $100 a barrel and a cost of $20 billion.

BP made the decision to re-evaluate the project in 2013 and we worked hard with our partners to simplify and standardize our approach, replacing complex, bespoke systems with common industry solutions.

We now look at that project, and it's very likely to cost less than $10 billion, around half the original estimate.

Although no final investment decisions have been made (Clearly this is just a rendition of the facility), we feel confident even in a lower price environment about the project, creating an incredibly important opportunity in the Gulf of Mexico.

Building a strong platform for growth

As we are currently seeing, 2016 is looking like it will be every bit as tough as 2015.

Our plans set out a clear course for BP in the medium term and will allow us to deliver growth in the longer term.

We believe we have the right portfolio, the right projects and the right investment frame to do this.

Now is a great time to question, to think deeply about prioritizing the best opportunities in our portfolio and to dream of new possibilities.

It is important to maintain not only a pipeline of opportunities and projects, but also strong focus on technology and talent.

The energy industry must continue to attract and retain top talent, particularly those with science, technology, engineering and math, or STEM, backgrounds — a long-term goal to keep in mind even in today's market.

Indeed, it will take the collective action of industry, schools and parents to ensure every student has access to a strong STEM education. The future of our industry depends on it.

We don't want to forget that that we are a high-tech industry. Continued innovation and breakthrough technologies need to be progressed to bring down cost and increase efficiency.

Most important, we must remain dedicated to conducting safe and reliable operations.

While they are undoubtedly painful, tough times improve us all; they make us harder and leaner, sharper and more focused.