

# Competitiveness, growth and technology

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Good afternoon everyone, it's great to be here. I'd like to thank IHS for the opportunity.

I've got three issues I'd like to talk about – I expect there are probably similar issues on every Upstream leader's desk right now.

First, of course, is the response to the very difficult current environment: how do we get ourselves really competitive at lower prices?

Second is the question of growth: where is the growth going to come from to meet the rising demand for energy – much of which will be from hydrocarbons?

Third – how do we harness technology and new ways of working to help us compete today and grow tomorrow?

I'd like to say a little more about each of those things, starting with the current environment.

## Responding to the current environment

Looking at oil price forward curves, people often talk about a V or a W or an L...but actually we might need another word for the current price fall.

It's definitely not a V or a W and it's not looking much like a typical U just yet – although it still looks to us as if supply and demand may start coming back into balance towards the back end of this year, based on projections and assumptions.

It is certainly proving to be both a deep and prolonged downturn.

It's among the worst in my 35 years in the industry.

We still have a lot of adapting to do.

In BP, as in other businesses, we are pursuing strict operating cost and capital discipline and looking to simplify the organization and processes every way we can.

That is paying off – as just one example, our capex was over four billion dollars down year on year in 2015.

And controllable cash costs were down almost three and a half billion dollars.

That is a very tough adjustment – it is meaning significant staff reductions, as it is for many companies.

We understand the human impact this has.

But to maintain a competitive business, we need to take this action.

And it's not just inside the company that we need to be in action – it's all along the supply chain.

One way is on contracts – where we need to renegotiate to bring costs down – but we are trying to do that in an appropriate way, a way that offers longer term stability.

The so-called “blend and extend” approach.

Another way is cooperation on efficiency. Easier, simpler, faster should be our goals.

Working with our suppliers – and in some cases other operators – we've identified many areas where we can do things differently, saving millions of dollars from better scaffolding management to the sharing of vessels and helicopter services.

And a third way is cooperation on standardization.

As an industry, we're playing catch-up with the aviation and auto industries on this issue.

There is huge scope for standardizing equipment across our industry by harmonizing our procurement specifications. By using things that have already been built, by not choosing the first, the biggest, the shiniest.

This will take us a step forward towards the standardization of entire projects that will potentially save billions of dollars.

Together those are three powerful forces. Our industry is seeing real change here.

In the Gulf of Mexico back in 2012 we costed our Mad Dog Phase 2 project at \$20 billion.

We're now costing it at less than \$10 billion on the basis of new project phasing, simpler design and by using repeat solutions instead of bespoke ones.

And we expect it to deliver better returns now at \$60/bbl than we originally expected at \$100/bbl.

### Where is growth going to come from?

Let me turn to that second question now, of where the growth is going to come from. First and foremost is growth in demand.

In BP, we expect demand for primary energy to grow by about a third over the next 20 years in the most likely case, with 60% of that growth being met by hydrocarbons.

For oil and gas, that's an incremental 35 million barrels of oil equivalent per day in 2035 compared to 2015 – as much as the entirety of North America oil and gas production today.

Or five times all of the L48's current oil production.

Oil demand is set to grow steadily at just under 1% per year, with gas growing twice as fast – and that growth is evenly split between conventional gas and shale.

That level of demand means there are many options for supply growth – more options than we have capex for. Conventional, unconventionals, deepwater and EOR.

It's an environment that is going to see only the most competitive projects getting sanctioned, however.

But that is a healthy situation. It drives innovation and cost efficiency.

Our own positioning in BP has been to create a balanced portfolio with a range of competitive options.

We have options geographically –

- onshore and offshore
- oil and gas
- conventional and unconventional
- and across different contractual arrangements.

We're around 50 – 50 oil and gas at the moment but with an increasing bias towards gas as a lower carbon fuel, and with substantial growth potential.

We're moving towards 60% gas over the next decade as a number of mega-projects come on stream, such as:

- those in the West Nile Delta in Egypt,
- at Khazzan in Oman
- and in Azerbaijan with the Shah Deniz 2 project that will feed into the Southern Gas Corridor to Europe.

Each of those mega-projects will come on line between now and 2020 and they will be providing a backbone of growth in the near to medium term, and generating value for many decades to come.

### New technology and new ways of working

As well as growth, those projects also illustrate my third point – which was about new technology and new ways of working.

If you take Khazzan as an example, that involves the transfer of tight gas technology from the US to Oman – from the mid-West to the Middle East if you like.

And, by the way, last week we announced an expansion of that project that will take plateau production from 1 billion cubic feet of gas per day to 1.5 or roughly the same level of capital expenditure we initially expected.

Another example of where we are driving value into our project portfolio.

I believe the unconventional revolution will spread internationally, albeit slower than in the US. We're also now looking at some really exciting opportunities for using the technology in many other places around the world.

And finally in Egypt we have seen a great example of combining new technology and new depths of co-operation.

We have been working with Maersk, who have some of the world's most advanced drilling simulators in Denmark and also here in Houston, and we got together to recreate the conditions the drilling teams would come up against offshore in the Nile Delta.

And it's not just digitally recreating conditions through the screens and the instruments, but physically as well – this simulator moves like it's on the ocean.

We got the rig crews from BP and the contractors together, executing and practicing plans as an integrated unit.

What they learned in the simulator led to improved procedures and got everyone working together as one team.

And the real wells were not only drilled safely. They were highly efficient.

In fact the team safely completed six of the most rapidly drilled wells ever in the Nile Delta...

## Conclusion

What I see is a level of commitment and performance that says we can come through this period as an industry and continue to be safe and competitive.

We are showing again that we are an industry with a truly remarkable capacity to change and adapt. In the early part of the last century, we figured out how to produce oil from deep below the desert.

A few decades on we developed technology to produce oil from deepwater.

More recently we've made advances to technologies to produce from oil sands and tight rocks.

And now all of us are finding ways to deploy our technologies and capabilities with maximum efficiency.

So times are tough right now – but we will come up with the answers. We've done it before many times over...and we will do so again. Thank you.