



# Getting back to growth

Bernard Looney  
Chief executive, Upstream

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Good afternoon. Thank you to IHS and Atul for the invitation.

Our industry owes a lot to your company and to Dan Yergin.

We all remember how Dan responded to the theory of peak oil in his book *The Quest* by observing that this was the *fifth* time the world had run out of oil.

He pointed out the how innovation and economics can work to unlock supply and meet demand.

He's since been proved right of course, on both counts.

So, what is growth going to look like in our industry over the next period?

I would like to discuss three things:

- the changing context;
- the implications for our future;
- and priorities for modernisation.

## 1. Context

In terms of context, our industry has spent over a century at the centre of the global Industrial Revolution, delivering heat, power and mobility for billions. We can be extremely proud of what we have accomplished.

But our world is changing. In the OECD, oil consumption has been falling. Growth is slowing in many emerging economies.

We expect global demand for energy to grow 30% to 2035 – and while that's still a lot and means our industry has purpose for many decades to come – it compares against 50% since 1995.<sup>1</sup>

And while demand growth slows, what is happening to supply? The opposite. There is **abundance**.

There is half a century's worth of oil and gas in proved reserves and much more beyond. The EIA calculates there is more shale gas in each of Algeria, Argentina and China than the US.<sup>2</sup>

In addition, **renewables** are coming of age.

Renewables, nuclear and hydro are expected to provide around half of the increase in energy to 2035.



That's good for the environment, but it's new competition for oil and gas.

Other aspects of the effort to tackle **climate change** will also have an impact. In BP, we support carbon pricing as the most efficient approach – and it is growing. China will launch the world's biggest emissions trading system this year.<sup>3</sup>

And consumers are likely to make more low-carbon choices. That could mean a lot more electric cars.

## 2. What does it mean for us as an industry?

So, we face the possibility of slowing demand growth, growing supply, competition from renewables, carbon pricing, changing consumer preferences and new government policies.

But remember what Winston Churchill said: “Never let a good crisis go to waste.”

We believe this is the opportunity to build a modern, competitive industry.

It's like we've been running a track race that turned into the hurdles.

It's different. But those who can adapt will win. And adaptation means two big things.

First, it means lowering the **cost of supply** – on a structural, not cyclical, basis.

And second, it means more investment in **gas**.

Why gas?

Because gas is expected to grow by 40% to 2035.<sup>4</sup>

Because it's economical, plentiful and transportable.

And because it is a cleaner alternative to coal and enables our industry to be part of the transition to a lower-carbon future.

## 3. What we are doing

So, what does modernization look like?



We are all working on improving our capital productivity and operational efficiency. We each have great stories to tell of what we have done over the past few years. At BP – we have taken \$9bn of costs out of our system one year ahead of plan. We are delivering projects – like Thunder Horse South Expansion here in the GoM – ahead of schedule and ahead of budget. But the key question is whether we can make it sustainable. Can we prevent old habits from re-emerging?

At BP – we are committed to – in our language to – “*making it stick*”. We have a three pronged approach.

Step one is **digitization**. GE believes digitization could ultimately deflate costs up to 50% industry-wide.<sup>5</sup> In BP, we have a cloud-hosted data lake with more than a petabyte of data including over 2,450 wells. That’s equivalent to five years of NASA earth observation systems data<sup>6</sup>. Another tool is a system to optimise production using real-time data feeds. Each well on that system streams more data per second than Twitter.

But this is about brains as well as bytes. Step two is about the right mind-set. As George Bernard Shaw, said: “*Those who cannot change their minds cannot change anything.*” That’s why we’ve been talking to companies from other sectors to freshen our thinking, such as Google, GE, Toyota and Philips.

And step three is **agility** - making decisions with the new tools of data and advanced analytics. We’re working on this in many ways including a partnership with McLaren.<sup>7</sup>

That’s our plan – you all no doubt have your own.

## Conclusion

So in conclusion - the world is changing and we must change with it.

We must lower the cost of supply.

We must invest more in gas, as part of a competitive portfolio along with long-term, high-margin oil projects.

And we must modernise.

Let me end with a thought from Alexander Graham Bell, the inventor of the telephone. He said: “*When one door closes, another door opens, but we so often look so long and regretfully upon the closed door that we do not see the ones that open for us.*”

Ladies and gentlemen. The door is wide open. I am energised by the challenge and am very much looking forward to our discussion.

<sup>1</sup> BP Energy Outlook 2035

<sup>2</sup> <https://www.eia.gov/analysis/studies/worldshalegas/>

<sup>3</sup> <http://www.climatechangenews.com/2016/01/29/low-prices-raise-concerns-for-china-carbon-market/>

<sup>4</sup> BP Energy Outlook 2035

<sup>5</sup> Redburn, December 2016 (via Competitive Intelligence team)

<sup>6</sup> <http://highscalability.com/blog/2012/9/11/how-big-is-a-petabyte-exabyte-zettabyte-or-a-yottabyte.html>

<sup>7</sup> <http://www.mclaren.com/formula1/partners/castrol/mclaren-bp-castrol-confirm-technical-collaboration/>