



# Mexican Energy Reform Summit 2015

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Thank you Charez.

Baroness Verma, Minister, distinguished guests, ladies and gentlemen – good morning and buenas dias – to those of you who have travelled here from Mexico, welcome to the UK and to London.

It is a pleasure to be part of today's event, particularly for BP as we have a long-standing relationship with Mexico.

Some years ago, I spent time living and studying in Mexico and enjoyed that time enormously. It is a beautiful country and a vibrant place.

It is a country with a great history and a great future.

Energy is a big part of that picture – and the story of the energy business in Mexico is really a story of managing change – past, present and future.

And the same is true globally, of course.

As a global industry we have been constantly adapting and changing to meet the rising demand for energy.

Energy consumption is around 50% greater today than 20 years ago, and we expect it will be around 40% greater again in another 20 years' time.

But there are more than enough resources to meet that demand. When I joined the industry it had about 700 billion barrels of reserves. Today it has 1.7 trillion barrels.

Thanks to advancing capability and technology, our industry now operates onshore and offshore, in shallow water and deep water, in conventional and unconventional plays.

And these are all areas where Mexico offers opportunities.

A century ago, Mexico was among only a handful of the world's original oil producing nations.

Today, it has been an oil exporter for over 100 years and it remains one of the world's top 10 oil producing nations.



I believe Mexico has a very important part to play in the energy world. Its evolution and growth as an energy producer and energy consumer will be the source of new jobs, new growth and new security – as well as benefiting many millions of energy consumers in Mexico and around the world.

So Mexico's energy industry is rich both in its history and its potential.

Today our focus is on the potential.

Mexico is embracing a major transformation in its energy sector, to renew its standing as a force in the global energy world.

It is a bold change and one that we applaud and welcome.

But it also comes at a time when the whole energy world is also undergoing a massive change.

We have just seen the oil price halved in a matter of weeks after 3 years of unusual stability around \$100 a barrel.

The dynamics of the industry have changed, and the industry is changing to meet the new realities of the market.

If the global energy environment was highly competitive before – at \$100 a barrel – it just got ultra-competitive at \$50 to \$60 a barrel.

Strong long-term demand and abundant supply do not by themselves bring energy to market. That requires investments that make sense for investors, operators and host governments.

And in today's world, instead of money chasing opportunities, we have opportunities chasing money.

In this climate, we are particularly reminded that we are stewards of the business on behalf of our shareholders and we have to look to their long-term interests.

The question for today is this. What is the formula to enable Mexico to attract investment as it opens up its energy market?

I think there are five key factors that apply for all seasons regardless of the oil price.



Those factors are Safe, reliable operations

- Capital efficiency and project execution
- Capability
- Technology, and
- Partnerships

Together these can create an environment that I would describe as ultra-competitive, but also highly collaborative.

And I'd like to briefly take a look at each one in turn.

## Safe and Reliable Operations

Safety always comes first, so let me start with safe and reliable operations.

Experience tells us that safety and reliability are highly compatible.

The two things go hand in hand. Improve one and you improve the other.

Improve both and you generate greater value.

We believe our own recent experience in BP bears that out.

Four years ago we began resetting BP to build a safer, stronger, better performing business. We began in response to the tragic Deepwater Horizon accident in the Gulf of Mexico. We have reshaped BP and stayed in the deepwaters of the world because we believe we can safely operate in a way that is good for all market conditions.

We have focused on both processes and behaviours. At the heart of the operating business is a single operating management system for hundreds of individual BP operations across 80 different countries.

This operating management system helps us be more systematic, which leads to more simplicity, consistency, and compliance.

And as simplicity, consistency and compliance go up, so do performance on safety, reliability and operating efficiency.



Compared with 2010, the number of major process safety incidents has fallen. The number of even small leaks and spills has fallen. And the recordable injury rate has fallen. And we have seen the trends in our reliability indicators going up – as we want them to do.

The result is a safer business and a business that is better able to generate value.

## Capital Efficiency and Project Execution

That links directly to my second factor – capital efficiency and project execution.

As oil prices fall the pressure goes up – pressure to generate maximum possible value from every dollar or peso that’s spent.

This is an area where the industry’s recent track record has not been the best.

Last year analysts at EY looked at current oil and gas mega-projects and found that two out of every three were facing cost overruns, and three out of four were behind schedule.

Faced with competition for investment from many other industries – as well as from within our sector – we need to make the best possible choices from among the many opportunities on offer, weighing the viability of every project against the new price environment.

We need to look at standardising equipment as much as possible.

We need to work with suppliers to make the deflationary environment mutually beneficial.

And we need to challenge every dollar we spend, drive efficiencies everywhere we can, and always strive for flawless execution on projects and day-to-day operations.

## Capability

This brings me to the third factor on my list – capability. This is the human factor – the individuals, teams and networks within businesses that turn strategies into realities.

This is the pool of knowledge, expertise and experience behind the technologies, the relationships and the systems and process that ensure safe, reliable and competitive operations.

As Emilio Lozoya has said recently, “engineering, operational and management talents are the decisive elements in the race to be competitive.”



I share Emilio's view about the value in building talent rather than buying talent and BP has been proud to support the building of talent in the Mexican energy sector over many decades.

We have welcomed the opportunity to offer joint training – which we have done on a non-commercial basis. Not just in classrooms, but getting people out into the field as well, developing the intuitive feel that is so important for the best engineers, geologists and technicians.

Having had a presence in the neighbouring US Gulf of Mexico for over 50 years now we have experience understanding the petroleum geology of the basin and its challenges.

That experience is one strong reason for BP's interest in the opportunities that may lie ahead in the Mexican waters of the Gulf. We have, I believe, great expertise to offer.

But my main point is a general one for the industry. A proven track record of capability in any oil province has to be seen as a strong positive. It is the difference between a standing start and being handed a baton when you are already up and running at speed.

As such, proven capability that closely matches the various opportunities has to be an important consideration for both countries and investors.

## Technology

That brings me to my fourth important factor, which is technology. In fact, I think our industry is in the middle of a technology revolution at the moment.

We are making great advances, and not just in the traditional areas of the physical sciences and engineering. We're also bringing in breakthroughs from outside – in digital and robotics particularly, but also in bioscience and nanoscience and elsewhere.

As has always been the case, advances in technology are central to the economics of our industry.

In some ways, the seeds of the current volatility in the oil price were sown by technology breakthroughs several decades ago.

The current resurgence in US production and supply is entirely down to fracking, using the technologies of directional drilling and hydraulic fracturing that were originally developed back in the 1940s by a BP heritage company.



Ever since then, technology has been giving us many new and more efficient options in the discovery, recovery and production of energy.

In terms of discovery, breakthroughs in seismic imaging in recent years have greatly increased the success rates of exploration.

In BP, we have specialised in sub-salt seismic imaging that allows you to see beneath deep salt canopies – in the US Gulf of Mexico and elsewhere around the world. Over the last decade, we have made over 15 discoveries in the US Gulf of Mexico which is because of this ability to image these sub-salt reservoirs. It's how we found some large fields, like Kaskida and Tiber in the US Gulf, and we are using this technology to unlock further potential in exploration plays around the globe.

And there are breakthroughs in enhanced oil recovery from older reservoirs that are transforming what we thought was possible with mature fields.

So much so, that we have probably reached a point globally when the potential for enhanced recovery from known hydrocarbon resources exceeds the potential from unknown resources from new discoveries.

The days of assuming two-thirds of any new discovery will be left in the ground are long gone.

In Prudhoe Bay in Alaska we are using enhanced oil recovery technologies to target recovery of around 60-per-cent-plus – which is 5 billion barrels more than was originally estimated. This is the equivalent of discovering a whole new supergiant field.

This is technology that could be very relevant for Mexico's mature giant fields.

And then the industry has had extraordinary breakthroughs in the application of digital technology.

The oil industry may have been a little slow off the mark compared with others, but we are making up ground fast.

In our own portfolio we are using digital sensors to improve safety at many plants and across thousands of miles of pipelines – and lowering costs at the same time.

We're using sensors deep in the wells to improve drilling safety and efficiency and find the sweet spots for production.



And we have recently built the world's largest supercomputer for commercial use in Houston.

It's currently capable of performing nearly four-thousand-trillion calculations per second, and it runs 24-hours per day.

When that level of power is coupled with the latest 3D and 4D seismic imaging data it means geophysicists – in a single day – can perform the sort of work that would have taken us four years just a decade ago.

That statistic alone gives you some idea of the potential of technology as a competitive force in tough economic conditions.

## Partnerships

My final factor is another revolution or at least a transformation.

If we go back to when this industry was taking shape, early last century, a handful of international companies dominated the production of most of the world's oil.

Then followed a time when national governments asserted their sovereignty.

Today nearly 90% of the world's oil resources are controlled by national oil companies.

Change continues, and we now have a new era taking shape – an age of partnership and collaboration between national and international oil companies.

Across the globe we see partnerships where national and international oil companies come together, sharing technical skills, sharing expertise, sharing the capability to produce national resources in mutually beneficial relationships.

The reason for these relationships is that they can achieve greater value than the sum of their parts.

Relationships like these are transforming the discovery, recovery and production of energy all over the world – in Azerbaijan, Angola, Indonesia, Iraq, Oman, Abu Dhabi, India, China and many other places. And we are confident the same will be true in Mexico in the near future.

The complexity of many of the world's great oil and gas mega-projects mean they are beyond the resources and capabilities of any single organisation.





The key is mutuality – each partner bringing their distinctive capabilities to achieve mutual benefits.

For International Oil Companies or IOCs, our strengths lie in our skills and expertise, our advanced technologies, and the rigid discipline expected by investors.

National Oil Companies bring their own knowledge, capability and local experience to bear.

Governments can help create the right conditions and environment for attracting investment, with terms that offer fair and reasonable returns for all parties.

## Conclusion – What should investors be looking for?

Maybe my five points weren't so brief, but let me finish then with a thought from the perspective of the investor – from the shareholder looking for long-term value in return for putting their trust in our judgement and capability.

Of primary concern is the need for projects to be internationally competitive.

The current lower price environment presents challenges. But it also gives us the impetus to do the things required for the industry to be competitive – not just with each other but with other businesses and other sectors.

We need to make good choices about the projects and activities we take on, excellent in our execution and highly disciplined with investors' capital.

We need to be rigorous on costs and more efficient as an industry, challenging every dollar we spend, and reducing costs across the supply chain whenever we can.

Simple practical things could be the difference between being able to create value and not being able to create value – for all parties involved.

It could come down to the cost-effectiveness of size and scale – being able to explore a large area rather than a small one.

It is also more cost-effective to be able to develop new resources using existing facilities whenever possible – for instance, if new deep water discoveries in one area could be tied back to a neighbouring facility in another, crossing international borders if necessary.



Contracts need to be as straightforward and simple as possible – drafted to offer value that is competitive and attractive to all sides, but also flexible, to accommodate changes in oil prices – good for low oil prices as well as high ones.

At this point in the industry cycle, with costs falling, the ability to act quickly is advantageous – which means having resources and infrastructure that can be deployed quickly by people with the capability available to do so.

Above all, generating value for investors has to come from saying what you'll do, and doing what you say.

A final thought.

We need to plan for the long-term; never losing sight that our industry works on a longer wavelength than most.

Protecting value long term means protecting important, mutually beneficial relationships – partnerships that stick together to weather the ups and downs of the market and geopolitics.

I see a great future for Mexico in the combined strengths of what both the IOCs and Pemex can offer.

In the strengthening of long-term relationships with Pemex and with the Mexican Government.

Mexico has taken bold steps to secure a new energy future.

And I see a global industry ready to work in close cooperation with Pemex and the Government of Mexico to maximize value and develop new resources for Mexico.

I thank you. Muchas gracias.