Perspectives for the Future

Bernard Looney
CEO Upstream

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Your Excellency, ladies and gentlemen, good morning and thank you for inviting me to participate in this discussion on behalf of BP.

We have a long-standing commitment to Brazil, where the energy industry is currently developing in such an exciting way. Our own business in the country goes back 60 years and now employs around 7,000 people across 15 states.

BP is extremely proud to work in partnership with Petrobras, which is not only the world’s leading deep-water operator, but, importantly, a company whose values we share, and it is a particular honour to speak alongside Pedro Parente and Solange Guedes.

It is also a privilege to share the platform with Décio Oddone, under whose leadership ANP has made such rapid and positive progress.

I would like to take the opportunity to pay tribute to Fernando Coelho Filho, who has done so much to renew the sector in recent years as Minister of Mines and Energy.

And on behalf of BP, I welcome Moreira Franco to the role of Minister and wish him every success.

In my remarks this morning, I would like to cover four areas:

1. First, a little about BP’s overall strategy so you can understand the broader context for our investment in Brazil;
2. Second, the opportunity presented by Brazil’s vast and diversified energy resources;
3. Third, the business environment – Brazil as a place to invest;
4. And fourth, the partnership element – our experience of working with Petrobras.

**Global context**

So, to start with BP’s global strategy, our aim is to safely deliver energy to our customers and to create value for our shareholders, all while adapting to a changing world.

That changing world includes the inexorable long-term transition to a lower carbon economy. This is a profound change that society is demanding and we are going to be part of it.
That transition involves many strands: a changing energy mix, with growth in renewable energy alongside conventional fuels; greater energy efficiency; replacement of coal with gas in power generation; and more electric vehicles and hybrids.

We have seen another major change recently. And that is the shift from the fear that oil would one day run out, to the knowledge that we have more than enough resources to meet demand for many decades.

And that is largely thanks to technology, including the shale revolution and increasing recovery rates.

With those changes as the global context, BP has four strategic priorities:

First, in the Upstream, we aim to grow our gas production and seek out highly competitive oil projects. This is because we still expect to see robust demand for oil and gas for decades to come within the energy transition. Oil will continue to be used in many forms of transport and in industry - and gas across power, heating and transport.

Second, in the Downstream, we look to achieve market-led growth, maximising value from manufacturing and marketing.

Third, as part of the transition, we invest in low-carbon businesses and high-tech ventures. This includes biofuels and wind businesses, a solar partnership and around 35 venturing investments in emerging companies.

And fourth, we are modernising our whole business.

Let me expand on that fourth priority a little as this is an area where change is particularly noticeable.

Just five years ago, our industry was used to $100 oil prices. Each project could be uniquely designed. Budget and schedule over-runs could be absorbed.

Today, everything has changed. Only the most competitive projects are sanctioned. Only the most efficient operations create value. Only the most adaptable companies succeed.

Fortunately, there are ways to adapt. One is to move away from designing every project and every component individually. We can save billions by standardizing the way we operate. And I know Petrobras share this view. Solange and I have been working together on standardization with others around the world and good progress is being made.

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Another tool – arriving just at the right time – is digitization. We are now used to the idea of digitally-enhanced cars, airplanes or supermarkets. But do we think of oil rigs as digital?

Well, today we need to. The digital revolution is now permeating the energy sector. We have been using this technology on a piecemeal basis for many years – for example using supercomputers to process seismic data. But large areas were untouched.

Now, everything is becoming digital. In BP, we are bringing all of our activities together into a unified cyber-physical network. This connects people with data, physical assets with digital assets and machine intelligence with human decision-making. We call it the Connected Upstream.

For example, we can combine the strength of supercomputing with the smartness of algorithms to discover new oil fields. We did that last year when we found a field within a field at Atlantis in the Gulf of Mexico. The data analysis took two weeks. Twenty years ago we calculate that it would have taken 1,000 years.

Modernizing our business means not only using these new tools but having a new mindset – seeing our industry as a high-tech, high-efficiency sector alongside manufacturing, aviation or automobiles.

The opportunity

So how does that strategy apply in Brazil? Well, in fact, all of the priorities I mentioned apply here.

We pursue market-led Downstream growth through lubricants and our Air BP aviation fuel business.

We run one of our largest low-carbon businesses in Brazil, producing around 750 million litres of sugarcane ethanol a year.

And most relevant to today’s event, we see Brazil as a place where we can build a competitive Upstream oil and gas business, along with our partners.

Brazil is a very exciting place in the energy world at the moment. It has a long history of exploration and production, but it also has a lot of unexplored and undeveloped resource that is now being unlocked.

It reminds me of twenty years ago when the US Gulf of Mexico was opening up rapidly with a series of major deep-water fields. Many of them were pre-salt fields - oil or gas
fields lying below salt canopies. They were hard to find, but very high in quality when they were found.

Brazil is similar. It also has a lot of pre-salt fields. And in some ways it is even more promising because there are many very large fields that have seen little or no activity as yet. The potential is massive.

As well as the Gulf of Mexico, Brazil also reminds us of Angola because the basins are similar in character.

That is because West Africa and South America were part of one continent until 150 million years ago – which for a geologist is no time at all.

The business environment

However, geology alone does not create a competitive reservoir. What happens above the ground in terms of regulation matters at least as much as what exists below.

And with oil and gas resources being so plentiful worldwide, there is fierce competition for investment between countries, between resource types - and between different options within companies.

We look for the most competitive possibilities and the selection process is rigorous.

The fact that we now have interests in more than 20 blocks in Brazil, many in partnership with Petrobras, reflects our view of the potential that exists.

And we are now moving towards operational activity – with tests planned in the Santos basin this year.

Of course, we are not alone. Many other international operators have acquired acreage and formed partnerships in Brazil recently. And this has not happened by chance. It is the direct result of actions taken by people here today.

Indeed, we have seen a renaissance in Brazil’s energy industry in the last 18 months.

There has been an extraordinary effort by those represented here - the Government, ANP and Petrobras - to liberalise the industry and attract investment.

Director Oddone summed it up in a recent presentation when he said that the goal was “to create a regulatory environment that enables the establishment of a real oil industry in
Brazil.” That is certainly what it feels like. It is a fresh start and it is very exciting to be part of it.

It will come as no surprise that I am a supporter of opening up investment opportunities to international oil companies, but I would also say the same thing if I was an impartial observer.

The evidence from around the world is that the combination of national knowledge and international capability is a winning formula.

Other regulatory changes have also been very important in attracting bids and investment. This includes the extension of the Repetro tax provision that provides more certainty out to 2040 - and the clear calendar of licensing rounds.

We have also seen a simplification of local content requirements that has made Brazilian opportunities more competitive.

In BP, we work in many countries and wherever possible we want to work with high quality local suppliers who comply with international standards. However, that can be a challenge when the industry is expanding and projects need to be competitive at today’s oil prices.

As part of the recent reforms, the Brazilian government has set new local content levels that are very realistic. We very much welcome that change.

The partnership element

Finally let me say a few words about our partnership with Petrobras. I have enormous respect for Petrobras as a world-class business and a trusted partner.

Petrobras is globally recognized as the world’s leading deep-water company, producing in excess of 2.6 million barrels a day and setting new records each year.

The business has also been a pioneer in developing deep-water technologies, from 3D seismic imaging through to subsea collection systems.

And in the last two years under the leadership of Pedro Parente, Petrobras has seen its own renaissance in terms of strategy and performance. It has a very clear business plan with an emphasis on improving safety and reducing debt. The company has gained fresh momentum and around 20 new projects are due onstream in the next four years.
The company is full of highly skilled, highly dedicated professionals and they are now working in an environment where they can do a really great job.

BP and Petrobras have similar DNA. We are both deep-water specialists. But beyond technical matters, we both believe that our values and our behaviour are what really create long-term value. We spend a lot of time on these and recognise that they underpin everything we do.

We are both committed to play our part in the transition to a lower-carbon economy and to make the most of the opportunities presented by digital technology.

And we both strongly believe in working with partners whose expertise complements our own and that is exactly what we do together.

**Conclusion**

Let me conclude by saying that BP is not only a partner to Petrobras but to Brazil as a whole. And we are honoured to be part of Brazil’s story of growth and development as one of the world’s top ten economies and oil producers.

There is a Brazilian saying “A casa é sua” - literally “the house is yours” or “Make yourself at home.”

And we have felt very much at home in Brazil.

Brazil has welcomed BP and BP is committed to Brazil.

I am very glad that we are part of the Brazilian energy renaissance and we look forward to working with you for many years to come.