



Remarks for launch of BP Statistical Review of World Energy 2012

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Good morning everyone and welcome to the launch of the 61st BP Statistical Review of World Energy.

A couple of housekeeping points to begin with.

We have no fire drills scheduled today so if the alarm sounds we will have to evacuate the building.

The exits are clearly marked and the emergency route is shown in the details on your seats.

Also please can I ask you to turn off or your phones or keep them silent if you haven't already. Thank you for that.

Christof Ruehl, our Chief Economist, is going to take us through the detail of the review so I will just make a few initial observations.

As ever, this review is based on many months of work gathering, collating and analysing the data and I want to thank our economics team for the great job they do in pulling it together.

Let me start this off by looking at three questions:

What story does this review tell?

What is its message for our industry and for policy-makers?

And what is its message for BP?

1. What's the story?

The data for 2011 paints an intriguing picture. There is one story in the foreground and another in the background.

In the foreground, we see the impact of a series of disruptions to supply.

The Arab Spring affected production of oil and gas in Libya and elsewhere.

And the Fukushima accident had knock-on effects around the world for nuclear and other fuels

These shocks helped to push some prices up to record levels, with the annual average oil price exceeding \$100 for the first time in history.

Others, such as the price for natural gas in the US, moved in the opposite direction. As Christof will demonstrate, price changes were a critical part of the ability of global markets to redirect energy flows and literally to 'keep the lights on' in the face of such large disruptions.



These price changes are happening at a time when the global economy remains under huge pressure.

With so many economies dependent on imported oil and gas, the risk of high prices is that, rather than economic factors driving energy prices, energy prices could drive economies downward.

Meanwhile in the background, we see the big long-term trends in energy continuing to unfold.

In particular we continue to see consumption shifting towards the emerging economies.

In the OECD countries, energy demand fell by 0.8% last year.

But in the emerging economies, it grew by 5.3%.

And no less than 71% of the growth came from China alone.

The overall increase in demand was 2.5% - broadly in line with the recent average.

We are also seeing long-term trends playing out in the energy mix.

Demand for oil is growing at well below 1% while gas demand grew by 2.2% last year.

Coal was the only fossil fuel to record above average growth, with demand increasing by 5.4%.

By contrast, the fastest growing form of energy overall was renewable energy – with production rising around 13%. But renewables only represent around 2% of total energy consumption.

Coming back to changing energy prices, there is one interesting area in the data where once-familiar trends have been turned on their heads. This is the market in the US where the shale gas revolution has meant that natural gas prices went down instead of up and reached record discounts to oil.

In addition, the production of shale liquids gave the US the largest increase in oil production outside OPEC for the third year running, helping to reduce US imports sharply. The advent of shale production on this scale – driven by advances in technology - is one of the biggest developments in the industry in several decades.

2. What's the message for industry and policy-makers?

So what are the questions we should ask as we examine this review?

One perennial question is whether there are enough energy resources for our needs? And the answer from this review is certainly 'yes': At today's consumption rates, the world has proved reserves sufficient to meet current production for 54 years for oil and 64 years for gas.

As we have often said, the challenges lie more above the ground than beneath it - and I think there are three further questions we need to address.

Firstly there is a question about the ability of the market to respond to short term shocks.

Then there is a longer-term question about the ability of the system to meet the world's growing energy needs.

There is also the carbon question. What can be done to accelerate the long-wavelength transition to a lower carbon economy?



I think the first two questions have the same underlying answer – which is that the ability of supply to meet demand at an affordable price depends on two things – markets and infrastructure.

We need open markets to channel supplies to where they are needed. And we need the infrastructure to ensure sufficient supplies are available.

The open market is something that governments provide – while the infrastructure is largely something industry provides.

Both matter: Where competition flourishes, suppliers build infrastructure, develop technology and pursue innovation to gain competitive edge. There is a chain reaction from competition to innovation and increased supply and affordability.

This is where the example of the US is very relevant. It shows how an open and competitive environment drives technological innovation and unlocks resources.

We saw a similar story in the North Sea, where the Clair field lay undeveloped for several decades until supportive policies led to the application of technology to bring the field to commercial viability. I think the message for policy makers is to follow this model and to encourage competition wherever possible.

The good news today is that we're seeing a whole range of areas where this process of competition, innovation and growth is generating results. These include shale gas; deepwater oil and gas; heavy oil; and, potentially, advanced biofuels.

These results also support energy security, by enabling countries to develop their domestic resources and by underpinning a dynamic global market.

This review also clearly demonstrates the interdependence of the global energy market - through the scale and complexity of trade flows. It shows for example how rapidly cargoes of LNG flowed to Japan following the Fukushima accident.

The key to energy security is diversity of supply and policies that encourage new supplies and infrastructure. For example, it is good to see progress being made in bringing gas from the Caspian to Europe.

In terms of the carbon question, the review offers positive signals even as overall emissions continue to rise. For example, declining energy use in the OECD reflects progress in energy efficiency and demonstrates what it can achieve.

3. What's the message for BP?

Let me end with a few comments about BP. We are not simply the author of the review but a keen reader of it. It helps us determine whether we are making the right investments for the long term. And I believe we are:

- We are investing in exploration to uncover new sources of energy, from Brazil to China and Australia to Angola.
- We are investing in new projects to increase supply. We expect to bring 15 new projects onstream in the next three years.
- We are investing to underpin energy security – from a series of operations that boost US domestic production to the southern corridor project now being planned to bring gas from the Caspian to Europe.
- We are investing in our downstream – for example modernizing the Whiting refinery in the US and deploying a new generation of petro-chemical technology in China.



- And we are investing to make energy affordable and sustainable – from importing gas for power in China and India to developing advanced biofuels.

So we are playing to the trends we see in this review as well as playing to our own strengths. We are very much in an investment phase today, but as we have set out in our strategic 10 point plan, we expect these investments to translate into higher margin production and increasing cash flow by 2014.

In conclusion, this review shows how supply disruptions in 2011 drove price changes and a range of supply and demand responses, against a backdrop of a continuing increase in energy demand led by emerging economies.

It also shows how the US enjoyed increasing supply and low gas prices as a result of its open and competitive market.

As we seek to manage short-term disruptions and meet long-term demand, we should remember that open markets can be a powerful ally.

They provided the flexibility that was crucial to the world's ability to cope with last year's disruptions.

And over time, markets lead to the chain reaction of competition, innovation and growth which creates the secure and affordable energy supplies which governments and consumers are looking for.

I am sure you will find this a useful publication – and now I'll hand over to Christof to go through the numbers.

Disclaimer:

The data series for proved oil and gas reserves in BP Statistical Review of World Energy June 2012 and referenced in this speech does not necessarily meet the definitions, guidelines and practices used for determining proved reserves at company level, for instance, under UK accounting rules contained in the Statement of Recommended Practice, 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' (UK SORP) or as published by the US Securities and Exchange Commission, nor does it necessarily represent BP's view of proved reserves by country. Rather, the data series has been compiled using a combination of primary official sources and third-party data.