BP Energy Outlook 2035

St James's Square, London
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Chief Executive’s opening remarks

Hello everyone and welcome to the launch of the BP Energy Outlook 2035. Welcome everyone here in London and everyone joining us online from around the world.

We’ve been spending a lot of time talking about the oil price in recent weeks, focusing on the here and now. So today is a good opportunity to lift our gaze and look further ahead.

The Outlook is based on detailed analysis by our economics team. It traces the most likely course for the world’s energy system over the next 20 years and therefore helps to guide the choices we make today.

And what we see over the longer term is a pattern of continuous change played out over a long wavelength. The volatility we are experiencing now is not some aberration, it is more the norm.

Indeed, the period of stable high prices we’ve recently come out of was more the exception than the rule.

We know in this industry that price shocks happen; we’re familiar with that. This is my fourth since I started out in 1979 and this one looks quite a lot like 1986 to me.

Energy companies need to respond to these near-term movements and BP is doing that at the moment.

We also need to plan for the long term at the same time.

We need to respond to the changing needs of the world economy.

We need to remain competitive and innovative.

And we need to be ready to rise to the challenge of sustainability within the frameworks set out by policy-makers.

This is where you need a good understanding of the long wavelength changes and that’s what we look to the Energy Outlook to provide.

Let me just highlight three trends that have struck me from this edition.

Shifting trade patterns

One is the shifting patterns of global trade in oil and gas.

For oil, historically trade flows have been east to west – big oil producers in the east supplying big oil consumers in the west.

But the strong growth in US tight oil over recent years is having a dramatic impact. The flow is swinging around to go more from west to east and that swing is likely to get stronger driven by demand growth from China and India.

For gas the market is shifting from regional to global, particularly with the growth in LNG.

Shifting energy mix

The second big theme is the shifting energy mix.

Our updated Outlook still sees an increase of around 40% in energy demand by 2035, with fossil fuels meeting about two-thirds of that increase.

But within that big picture, non-fossil fuels are growing fast from a small base, particularly renewables.

Oil continues to grow steadily, if slowly, as the dominant transport fuel.

Gas is likely to be the fastest growing fossil fuel over the next two decades, as well as the cleanest. We expect it will meet as much of the increase in energy demand as oil and coal combined

In contrast, coal is projected to be the slowest.

Coal's slowdown is driven by the gradual slowing of industrialization in emerging Asian nations, together with the effects of environmental policies.

Shifting response to sustainability

That takes me to the third big theme, which is sustainability

The base case in the Outlook – based on our interpretation of current policies and intentions – is for carbon emissions to rise by 25% by 2035. Such a path would be materially higher than one which would be generally regarded as consistent with limiting the rise in global mean temperatures to 2 degrees.

The options considered in this year's Outlook highlight that no single change or improvement is likely to be sufficient on its own. And picking winners in advance is fraught with difficulties. This underpins the importance of policymakers taking steps that lead to a meaningful global price for carbon.

History has shown the power of market forces in making economies less energy intensive as people have found more efficient ways to use energy. A global carbon price would help to unleash market forces and provide the right incentives for everyone to play their part.

Conclusion

The overall conclusions we draw as a business from the latest Outlook is that the fundamentals remain in place.

While the next few years will be a challenge, demand remains strong in the long term and supply remains plentiful. Resources are not an issue, particularly in areas where BP has distinctive capabilities, in deepwater, in giant fields and in gas value chains.

The challenges come in connecting resources to demand. As an industry we all need to ensure we are making the right choices with limited investment dollars.

For BP specifically I would pull out a few simple messages.

First we need a business that is storm proof – that can create value through volatile cycles. We have done a lot to build such a business and we are doing more.

We need a business that reflects the changing energy mix, with a continuing future for oil and a growing future for gas. I look at projects like our new gas projects which will delivery needed energy over many decades and I see real alignment with the trends set out here.

And we need a business that can be responsive to a lower carbon world. This is why we test our projects at a $40 carbon price to ensure they are viable in a carbon constrained world as well as an economically volatile one.

As always, our Economics team have done an outstanding job in identifying the patterns in the data that will guide the paths we take in the future.

And finally from me for now, there is one further change of significance this year to report.

It is, of course, that we have a new chief economist in charge of the Energy Outlook, and it's my great pleasure to introduce Spencer Dale.

I'm sure many of you already know Spencer from his time at the Bank of England. We are delighted to have him join us at BP.

Over to you Spencer, to take us through the report in more detail.