



# New era, new responsibilities

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Thank you for that welcome. I very much appreciate the invitation by CERA to speak to you all here today. CERA has been a part of our industry for such a long time, and it is a privilege to be here.

Let me start by saying that no one is more conscious than I am, in some ways, of the unique responsibility I bring to this podium today on behalf of my company - BP.

Last year, our company was involved in an accident that triggered a major spill, led the U.S. government to shut down the deepwater drilling in the Gulf of Mexico, and most importantly, cost the lives of 11 men.

No matter what else we recall about this accident, that will always remain our most grievous loss, the lives of friends and family members we will never get back.

Since that accident, this is the first chance I have had to address such a large gathering of industry colleagues and the first thing I want to say is that I am sorry for what happened last year.

Everyone at BP deeply regrets the loss of life, as well as the impact on our Gulf Coast neighbours and the environment. And that of course includes the disruption of offshore activity in the Gulf.

I also want to say thank you to all the companies here in Houston and elsewhere that offered their help and support to us last year. And I'd also like to thank everyone who has given me and my BP colleagues such a warm welcome here today.

We need to earn back your trust, along with that of state and federal leaders and the trust of Gulf Coast residents and customers. We are determined we will once again restore that trust and I realize this requires action, not words.

So today, I want to outline to you the actions we are taking, and the actions we think our industry needs to take based what we have learned since the accident.

Last month, after we announced our results, one magazine ran a headline saying "BP wraps up year to forget" That's not how we see it at all. Let me assure you - we will never forget 2010.

Often the response to a tragedy defines the character of an organization. And I am determined that we will emerge from this accident as a company that is safer, stronger, more sustainable, more trusted and, in time, more valuable.

As well as meeting our commitments in the US, we have a duty to take what we have learned deeply into the fabric of our organization. It means strengthening the way we manage our operations and concentrating on the things that drive long-term value – safety, capability, technology, portfolio choices and relationships.

I want to start today by talking about how we are meeting our responsibilities. Then I will ask how we as an industry can respond to this unprecedented event and the larger implications that it raises.



## BP – our company's responsibilities

We have a number of responsibilities.

- We have a responsibility to the people of the Gulf Coast states who are still feeling the after-effects of the spill.
- We have a responsibility to the US, and we are under no illusions about the task involved in rebuilding trust.
- We have a responsibility to our employees, giving them reasons to believe in BP.
- We have a responsibility to you, our industry colleagues, so you can have confidence in BP as a partner going forward.
- We have a responsibility to share what we have learned, to demand more of ourselves and from our industry overall.
- And we have a responsibility to our shareholders - to renew their faith in the value of our company and its ability to operate safely.

So how are we meeting these responsibilities?

Last year's crisis response involved 48,000 people, 6,500 vessels and 125 aircraft. That phase is over but we are still very much in action in the Gulf, where we are going beyond our legal obligations to do what is right.

The joint Incident Management Team is completing its response activities and our Gulf Coast Restoration Organisation is working towards the longer-term environmental and economic restoration of the affected areas.

We continue to plan for the transition of day-to-day management of further activities from the existing Gulf Coast Incident Management Team. We have paid over \$5 billion to meet claims by individuals, businesses and governments, and the Natural Resources Damages Assessment process is underway.

We continue to have a local presence through our state offices and staff. We are supporting initiatives to promote tourism, as well as seafood testing and marketing.

We have also voluntarily funded independent research to help restore the unique environment of the Gulf, including an investment of \$500 million in the Gulf of Mexico Research Initiative.

We have taken a charge of nearly \$41bn against income in expectation of potential liabilities. We believe that the \$20billion Trust Fund, within the overall provision, positions us to meet individual, business, and government claims, as well as the cost of the Natural Resource Damages.

Our internal investigation into the causes of the accident was completed and made public in early September of last year, and we continue to co-operate with the other inquiries that are in progress.

But our responsibilities stretch further than the Gulf of Mexico. We have a responsibility to embed the learning from this accident across BP's business, worldwide. And we are taking a series of steps to this end.

We have created a powerful, central safety and operational risk organization headed by Mark Bly, who led our internal investigation of the accident. Mark reports directly to me and sits on our executive team.

His organization has the resources and the mandate to drive safe, reliable, and compliant operations, including intervention rights, in BP's exploration and production operations anywhere in the world.

The new organization is now in action across BP in four main areas:



- First, it is strengthening and clarifying requirements for safe, compliant and reliable operations.
- Second, it is deploying around 500 specialist personnel within our businesses to guide, advise, and if necessary, intervene.
- Third, it is providing deep technical expertise to our operating businesses.
- And fourth, it is intervening where needed to stop operations and bring about corrective actions.

We are already seeing results.

For example, we have shut in one production platform to repair the fire water pumps. Another platform was shut down after the discovery of incorrect specifications for some fasteners. And a producing field was shut down to enable pipeline integrity work to be carried out. Further, we have decided we will not take rigs that do not conform to our standards and there are a number of cases where we have either turned away rigs or are negotiating for modifications which could bring the rig up to our standards.

We have also made changes in our structure, introducing three divisions in the upstream: exploration, developments and production. This creates greater clarity and accountability as well as bringing specialists together into teams where they can build their capability.

For example, we now have a Global Wells Organization, responsible for the worldwide delivery of “safe and compliant” wells.

We are conducting a major review of our risk management systems to ensure we have consistent standards that are applied in a disciplined way across BP.

And in support of all of this, we are linking our performance management and reward system directly to safety and risk management - as well as to key behaviours – teamwork, capability-building, listening and compliance with standards.

When our employees set their objectives, we’re asking them to state explicitly how they will contribute to long-term goals as well as short term ones.

In short, we are taking what had been a fairly de-centralized 80,000-person global organization and making it into a more systematic and standardized one, where decisions are taken at the right levels and everyone understands exactly what standards apply to them.

In doing so, we are drawing not only on our own experiences and our own industry, but also lessons from other industries where safety and risk management have been developed to a world-class level.

One of these is the US nuclear navy, which was identified by the Presidential Commission on the Deepwater Horizon accident as a role model in safety. And I am very pleased that we now have as a board member Admiral Skip Bowman, who served as director of the US naval nuclear propulsion program.

Our upstream organisation is acting decisively to address many of the issues identified by our inquiry and others. For example, we now have a very strong emphasis on having independent third party verification of blowout preventers.

And we have obtained confirmation from our contractors that they have enhanced the processes they use to check that the maintenance of well control equipment is up to date and has been verified by a third party.



Strengthening safety and earning trust are the foundations on which we will build a new value proposition for BP, designed to create value for the long term, in a manner that is both safe and sustainable.

We will focus on the critical inputs that drive delivery, namely safety, capability, technology and relationships, rather than focussing primarily on outputs such as production barrels. If we get these right, then the outputs, including dollars, will follow. So we are emphasizing quality over quantity and value over volume.

We are resuming payment of a quarterly dividend. We are divesting non-strategic assets. We're investing in strategic projects with a rich upstream portfolio. We're increasing our investment in exploration.

We're also taking our strategic partnerships with national oil companies and major resource holders to a new level, going beyond the traditional IOC model. This has been demonstrated recently through our alliance with Rosneft in Russia and our partnership with Reliance in India.

In the downstream we are reshaping our portfolio in line with the changing patterns of demand and supply, acknowledging that there is flat-to-declining demand for fuel in the US and Europe.

That means we have taken the difficult but necessary decision to halve our US refining capacity. We are retaining the positions with the greatest competitive advantage and we are divesting those which offer more value to others, including the Texas City and Carson refineries.

We intend to upgrade our Fuels Value Chains in other geographies; explore opportunities in high-growth markets such as Asia; and continue to grow our high-quality lubricants and petrochemicals businesses.

## The industry – our collective responsibilities

I now want to turn to the role of the industry as a whole. We acknowledge fully the findings of the Presidential Commission regarding the immediate causes of the Deepwater Horizon accident which were largely consistent with those of BP's internal investigation – that the accident was the result of multiple causes, involving multiple parties, including BP and our contractors Halliburton and Transocean.

As I have indicated, we in BP are addressing these issues. So are Transocean and Halliburton. But there are also, we believe, lessons for the industry as a whole.

Never before had anyone experienced a blown-out well at a depth of more than 5,000 feet, more than 50 miles out to sea, at a subsea pressure of 2,240 psi and a water temperature of 39 degrees Fahrenheit.

As the Presidential Commission has said: "Deepwater energy exploration and production, particularly at the frontiers of experience, involve risks for which neither industry nor government has been adequately prepared, but for which they can and must be prepared in the future."

Anyone who does not believe there will be industry-level changes after the Deepwater Horizon accident is, I think, being unrealistic.

After major industrial accidents, there are always lessons to learn and changes to make. Sometimes these are chiefly made by governments and regulators.

After the Exxon Valdez spill, the Oil Pollution Act of 1990 was introduced.



The Piper Alpha disaster led to changes in regulatory oversight in the UK.

Other events have led to major changes in the voluntary action taken within industries.

The USS Thresher submarine disaster led to the nuclear navy's SUBSAFE system.

Bhopal led to the chemical industry's Responsible Care initiative.

Three Mile Island – and this is the example on which the Presidential Commission focused – led to the establishment of the Institute of Nuclear Power Operations or INPO.

I think our industry, operators and contractors alike, needs to take seriously the Commission's challenge to work together more effectively.

Of course, we have already formed the Marine Well Containment Company and this is a beginning. BP is part of this and wants to do everything it can to contribute to its work.

Regulators, of course, need to find the right balance – ensuring safety without placing unnecessary constraints on operators.

But ensuring that outcome means the industry has to go further than ever before to ensure safe operations – wider than the upstream, wider than the U.S. And that is because the industry faces an unprecedented risk profile in the coming decades.

Back in January, we published our Energy Outlook 2030, looking at likely world energy trends. We estimate that by 2030 the world could be consuming as much as 40 percent more energy than it does today. That is the equivalent of adding today's United States' energy consumption to world demand nearly twice over again.

But the growth won't be coming from the US. Almost all of it – we estimate 93% – will come from the emerging economies, particularly China, India, Brazil and Russia.

Virtually all forms of energy will be needed. Most of the demand will be for power and the share of total energy made up by oil will decline. But given overall demand growth for energy, the absolute volume of oil consumed is likely to rise as well.

So paradoxically, even as we become less dependent on oil, we will still need to find more of it.

With many of the world's major basins in decline, our industry will thus have no choice but to look to new and increasingly challenging frontiers. These include the Arctic, unconventional sources, and yes, the deep water.

Blazing new trails always carries risk. At BP, we believe that our capability and our experience in operating at the frontiers gives us a continuing role in helping to meet this emerging world energy demand. We will be doing this with a sense of great care and responsibility.

But we won't be doing it alone. Most of you will be right there alongside us.

And, as the Presidential Commission has recognized, I think it would be a mistake to dismiss our experience of the last year simply as a "Black Swan," a one-in-a-million occurrence that carries no wider application for our industry as a whole. As we have learned in the past eleven months, one company's calamity quickly becomes every company's concern.

We have had a challenging and difficult year. There has been a lot of trauma and grief. But people have also shown great determination in the way they responded. And we have learned important lessons.



We learned as a result of our own innovation. We learned from expert contractors and colleagues. We learned about new technologies, systems and equipment.

And this has given us a new responsibility. We believe we have a responsibility to share our learning with those who can benefit from it – including our competitors, partners, governments, regulators. Indeed we have been asked by people around the world to explain what we have learned. BP executives have travelled to Angola, Russia, Australia, Brazil and elsewhere in recent months, bringing our learnings to stakeholders, industry partners, academia and governments.

And those learnings also highlight some important questions we need to ask as an industry.

It is not practical for me to make the entire technical presentation over lunch, but I'll pick out a few highlights.

We categorize what we learned under 5 headings: Prevention & Drilling Safety; Containment; Relief Wells; Spill Response; Crisis Management.

In terms of prevention, we are enhancing our own standards for blow-out preventer testing, cementing, well-integrity testing, rig audits and other well operations. Could industry-wide standards on these areas also be enhanced? We think we should look at this and indeed we're working on it with industry groups.

In ten years' time, I would expect that there will be a new generation of blow-out preventers that represent a major advance on the ones we use today. But will we have standards in place to make sure everyone has to use them?

As you might expect, we are enhancing cementing-services oversight through new standards, a new approval process and stringent contractor lab-quality audits.

In terms of containment, do we all have access to the right equipment at the right time at the right place?

In the North Sea, for example, we're now building a next-generation capping stack, based on what we learned from the one that shut in the Macondo well.

We are working to systematize what we learned in large-scale SimOps. If anyone ever has to manage a simultaneous operation involving 50 surface vessels and 16 subsea ROVs in a radius of one mile, then our experience from last year may be useful.

With respect of relief wells, we are continuing to enhance the real-time ranging technology we developed during the incident.

This cuts the time needed for logging from about 2 days to about 6 hours because the drill bit doesn't have to be removed.

We field tested this tool on a land rig in Wyoming before using it in the Gulf. However, more work is now needed to improve the tool's mechanical reliability for future wells.

We're also reviewing the physical clean up to see what worked well and what needs further development. One key innovation, for example, was the "Sand Shark", which "lifts and sifts" sand to remove oil.

In summary, we are implementing a number of new policies that will guide what we do. Specifically,

We will not drill a deepwater reservoir using a dynamically positioned vessel unless we know we can:



1. Shut the well in – with real plans and equipment on standby;
2. Drill a relief well – again with real plans and equipment identified; and finally
3. Launch an emergency response – which builds on lessons from the Gulf of Mexico incident.

We also learned a huge amount about crisis management. We got some things right and some things wrong. But we learned what corporate responsibility really means when the chips are down.

I hope no-one in this room ever has to do that again but if you ever need to know what we experienced, we're here – please ask.

We also learned a lot about what crisis management means in a world of 24 hour communications with massive social media coverage as well as conventional press and cable broadcasting. I saw how much pressure there is on everyone to take up polarized positions and over-simplify the issues.

I am sympathetic to politicians as well as companies who had to respond so quickly in a time of pressure and uncertainty.

The future will see new risks alongside new opportunities and I would invite anyone who shares our concern about managing those risks to join us in thinking, learning and talking about how we as an industry proceed from here.

For example, the Arctic is the next frontier. It has all the challenges of offshore operations, plus the challenge of ice for three-quarters of the year.

What should the industry do collectively here?

How can we prepare in advance for the next generation of major projects?

Some collaboration is taking place already but I am sure we can go further and do more.

More immediately, how are we as an industry going to respond to the crisis engulfing parts of the Middle East?

Energy security is at stake given the way events are moving. Production is down by more than half in Libya – a country which represents nearly 2% of global supply.

The Middle East and North Africa as a whole produce nearly 30 million barrels of oil daily - over a third of global production. Maintaining production is vital.

My question is whether we should be reacting in a more co-ordinated way as an industry.

Are there steps we should be taking collectively to address some aspects of the situation in the Middle East? Can we enhance our monitoring, our security systems, our planning or our understanding of the situation?

## Conclusion

So thank you again, Dan, and everyone, for the opportunity to participate in and contribute to this great event.

I hope that my messages today have been clear. BP is sorry. BP gets it. BP is changing.

We're strengthening safety, growing value and working to earn trust.

But I believe the industry also has a responsibility to change.



We will face new challenges that demand new ways of working in the future, and we need to think hard – each of us – about what that means.

One thing I can promise. BP plans to be part of that future and to work with all of you to bring energy to our customers and value to our shareholders - safely and sustainably.

Thank you.