Playing to our strengths – Bob Dudley speech to International Petroleum Week

Speaker: Bob Dudley
Title: group chief executive
Speech date: 22 February 2012
Venue: International Petroleum Week, London, UK

Good evening, Ministers, Lords, Ladies and Gentlemen. Thank you very much for inviting me along tonight. This is my first time at IP week, and it's a great pleasure to be here tonight, and to see so many good friends.

Events like these are one way for business leaders like you all to stay in touch. Another way is for us to get out to the front line as much as possible.

Last month, for instance, I visited a range of our operations in the United States. I spent some time in the Gulf of Mexico and Alaska. I also went to our refinery at Whiting near Chicago which is one of the oldest energy facilities in the world, founded in 1889.

The modernization now taking place there is the largest single economic investment ever made in the US state of Indiana. When it is complete next year, Whiting is expected to run heavier crude oils from Canada, boost fuel output, and operate more efficiently. That is critical for the three million American consumers who rely on it for fuel.

Seeing that massive project, with more than 8,000 contractors at work, reminded me how our industry is able to evolve rapidly to meet demand and bring prosperity.

When I started in the industry back in 1979, we were in the midst of the decade’s second energy crisis. An era of permanent energy conflict was widely predicted.

But it didn’t happen. Consumers learned to use energy more efficiently and suppliers proved adept at finding new reserves.

The numbers are remarkable. In that same year of 1979, the world’s proven oil reserves amounted to 667 billion barrels. Since then, we have produced around 780 billion barrels - yet proved reserves have grown to 1.38 trillion barrels.

It’s an extraordinary thought for our generation – and I don’t think I’m the only one of that generation here – that around two-thirds of the oil that has ever been produced has been produced since we started work. We have been to new places. We have found new supplies. And we have met demand. And the next generation will do the same.

And they will need to – because the world is not standing still. Tonight I want to focus on three things:

- First I want to note some of the more intriguing facts from the latest projections on the future of energy
- Second I want to give you a sense of how BP is approaching that future.
- And finally I want to say something about the industry and its relationship with society.
1. The future of energy

The future of energy is a much-debated subject and I just want to focus on a few headlines tonight.

According to our analysis (in the BP Energy Outlook 2030) – and that of the IEA – world energy demand will increase by up to 40 per cent in the next two decades.

That is like adding another China and another US to existing world’s energy use in only 18 years.

Trading patterns will change as well. By 2030 we expect the Americas will be self-sufficient in energy. We expect Eurasia – Europe plus the former Soviet Union – to be self-sufficient as well. And that will leave the Middle East and Africa with a surplus to meet Asia’s deficit.

What we see here is a series of realities and opportunities.

One reality is about 96 per cent of demand growth will come from the emerging economies – half from China and India alone.

Another reality, whether we like it or not, is that fossil fuels will still be providing most of the world’s energy in 2030 – whatever the total volume of consumption.

Renewables will grow more than any single fossil fuel. But they start from a low base of around 1.8% – and are only expected to account for around 6 per cent of energy by 2030.

Oil will still provide roughly 87 per cent of transport fuel. But the efficiency of internal combustion engines will double and so we anticipate that demand for oil will rise less than 1 per cent annually. Nonetheless, that still adds up to an additional 6 million barrels per day by 2030.

To satisfy this demand, we will have to both ramp up recovery rates and go to new frontiers.

Looking to those frontiers, the deep water is expected to provide 10 per cent of global oil consumption by 2030.

Other sources will also play their part, such as heavy oil and sustainably produced biofuels.

Demand for gas – the cleanest hydrocarbon – is growing even faster than for oil, but supply is also accelerating, especially at the new frontier of unconventional gas. The US now enjoys a 50-100 year supply.

Energy intensity – the amount of energy needed to produce one unit of GDP – has been pushed down to its lowest recorded level since the beginning of the Industrial Revolution. And there is scope for more progress still in energy efficiency.

Technology underpins many of the report’s conclusions. It has accelerated the supply of oil and gas. It has increased the efficiency of vehicles. It thrives at the points of competition in open markets.

So what are the implications of this for the industry?

My view is that they fall under the three broad headings – of safety, trust and value. We need to take risk management to new levels to operate safely at new frontiers.

We need to win the trust of society – and this has been the case as long as I have been in the industry.

And then we can move forward to grow value for shareholders.
2. BP’s approach – playing to our strengths

For BP, these three themes have become our touchstones over the past 18 months.

Safety and trust have obviously been major concerns.

After the Deepwater Horizon accident and oil spill, our corporate situation became precarious. Banks wouldn’t extend us credit. Many shareholders fled. Our stock price dropped more than 50 per cent.

The first priority was to reinforce our risk management processes and structures – not only engineering risk but fraud risk. We set up a new safety and operational risk organization, which includes people with decades of process safety experience; not only in BP, but in organizations such as NASA, DuPont, the UK Atomic Authority and the US military.

The function has deployed hundreds of specialist personnel across our operating businesses to advise and if necessary, intervene. We are building capability all over BP – we hired over 2,000 technical people upstream last year, for example.

We’ve done this rebuilding while recovering our balance and delivering in our operations and I was pleased that we were able to report a solid set of results this month after a year of consolidation.

Let me take this opportunity to say that I recognize the impact that the accident had on our industry. I appreciate the support shown by many colleagues here. We’ll continue to be in the media spotlight as the legal proceedings unfold. But our surest path forward is to focus relentlessly on operating safely, compliantly and sustainably into the future.

It is against that backdrop that we look at ways to grow value.

Like all of you, we have thought hard about how to deliver real value for investors by operating safely and reliably in an increasingly challenging industry.

I believe firmly that the way to approach that task is by making choices and playing to your strengths. A super-major can’t be super at everything.

So we’re focusing on the strengths that will create value – and we put value before volume. Volume helps to drive value – but so do margins, capability and quality. And the focus of our portfolio is now on quality: the strongest assets and the strongest capabilities.

In BP’s case those strengths are exploration, deepwater production, giant fields, gas supply chains, and a world-class downstream business, all underpinned by technology and relationships.

We have had a record period for exploration access since October 2010, with the award of some 80 licences covering acreage the size of Italy.

We plan to more than double our exploration expenditure over the next few years.

We thought very carefully before re-committing the company to the deepwater following the 2010 accident. However, I thought we had a responsibility, BP has decades of experience in the deep water. That capability needs to be preserved and so we are going forward, but with a great sense of responsibility and care.

The ability to manage giant field developments will also be critical. And we are very much in the giant fields business – from Mad Dog in the Gulf of Mexico to Clair here in the UK or Rumaila in Iraq.
Gas supply chains are particularly important in emerging economies where demand is running at double digit figures. We supply gas from Indonesia to China and we are also now working at scale in India with Reliance Industries.

In the downstream, we have a world class set of assets where 2011 earnings were the highest we’ve ever achieved. The story is again about quality – such as best positioned refineries, premium lubricants, leading petrochemical processes.

In renewables, we are sharply focused only on areas where we can build value. For us this means sugarcane ethanol in Brazil and wind power in the US where we now have over 1,000 wind turbines in operation. We will soon also launch an ethanol plant in the UK. At the same time, we’re very much in the race to commercialise cellulosic ethanol in the US.

In technology as well, we don’t try to cover the entire waterfront, but we focus on selected flagship programs.

These range from our seismic capability to water-flooding and advanced lubricants. Our seismic work is assisted by some of the world’s most powerful supercomputers.

We’ve come a long way since 1967 when an article in BP’s magazine proudly announced that there were nearly 40 computers in use across the group. It continued ominously: “The time is fast approaching when it will be difficult to operate the company without them.”

We have also announced what we call Project 20k, a program to develop the equipment and capability to produce hydrocarbons safely at 20,000 psi in deeper waters, greater pressures and higher temperatures – working with partners and contractors.

All of this activity is underpinned by relationships – from the government relationships that provide access to resources to the customer relationships that provide access to markets and all the stages in-between, including with our contractor partners whose role in our industry is vital.

3. The industry and society

Important as these relationships are, I think that we as an industry also need to think urgently about how we can improve our overall relationship with society. We’re going to need society’s support over the coming decades and that means we need to build understanding.

It is right that we should face scrutiny. It is right that we should face regulation. But it is also right that we should explain our role robustly.

This an industry that creates jobs – one in five private sector jobs in the US in the last decade. In the UK we are pleased to have just announced a 50% increase in our 2012 graduate intake to around 250.

At a time when many are lamenting the decline of manufacturing jobs in the OECD countries, energy is contributing to the reindustrialization of those economies.

This is an industry that helps countries around the world develop their energy resources and increase their energy security.

This is an industry that is fuelling progress in developing countries – helping to lift millions out of poverty.

This is an industry that works 24/7 around the world in the most inhospitable places to bring energy to consumers and communities.
This is also an industry that is helping to lead its own transformation by tackling the massive challenge of making low-carbon energy profitable.

And this is an industry that invests in society – in education, local and social enterprise and in cultural activities.

Here in the UK, BP is looking forward to a great year as one the official oil and gas partner for the London 2012 Olympic and Paralympic Games – and I hope to see many of you there.

As we approach the challenges of the next decade we need to forge a new contract with society in which these vital roles are better understood.

Within the industry, we will each play to our own strengths – but together, we can demonstrate that our sector is a force for human progress.

A super major can’t be super at everything, as I said. But I do believe that, if we show enough drive, desire, and dedication, each of us can be superior at enough things that, together, we will meet the world’s energy challenge. It’s a big one.

Thank you.