



Russia and the energy world: challenges of the new decade

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Mr First Deputy Prime Minister, Madame Minister, ladies and gentlemen, thank you very much for inviting me to take part in this session on Russia's economic challenges in the new decade.

It's a great pleasure to be in Moscow again. I've spent a lot of time here over the years, mainly working with our partners in TNK-BP. Through TNK-BP and our other partnerships in Russia, BP is one of the biggest and most committed investors in the Russian Federation, and that is something we're very proud of.

We're also active across Europe and Asia and understand the importance of the links that exist between Russia and her neighbours. Indeed we contribute to those links in many ways through our production and trading of energy in Russia and other countries.

So when we look at Russia's role in the global economy we do so from the perspective of a business that is not only committed to Russia, but involved in the development of the energy industry worldwide.

With that in mind, I was very interested to read President Medvedev's speech to the Federal Assembly, where he referred to the need for today's generation of Russians to take the country to a new, higher level of civilisation.

Those are inspiring words and I think they apply not only to Russia, but to the world as a whole and certainly to the energy industry. They remind me of Einstein's famous remark "the significant problems we have can't be solved at the same level of thinking with which we created them."

Indeed, in the 20th century, the world made unprecedented progress economically, technologically and socially. But those advances have also opened up new questions around the sustainability of development – can we produce enough energy to fuel continuing economic growth? And, can we provide that energy in a way that is environmentally sustainable?

One of the biggest challenges we face in the 21st century is to provide energy that is available, affordable, secure and sustainable.

That's clearly a complex task, but one which I think is achievable.

As Einstein said, we need to think at a new level. But from my experience of what works in business, I don't think that means we all need to be Einsteins. We need to be very practical about the energy we need and how to get it. It's more about commonsense than genius.

So what happens if we apply a practical and pragmatic approach to some of the big energy challenges for the decades ahead?



A realistic/practical approach to the energy mix

Starting at the global level, we need to recognise that there is no single silver bullet that will solve the energy challenge the world faces. I believe that the answer lies in finding the right energy mix for each country or region.

Renewable energy will grow – but from a very small base. All of the world's wind, solar, wave, tide and geothermal energy accounts for only around 1% of total energy consumption today. That share will grow but even the most aggressive projections put it at no more than 5% or so by 2030.

Nuclear energy and biofuels will also have a role, as will carbon capture technology.

But if you look closely at the IEA's latest World Energy Outlook, even in the scenario for major carbon emissions reduction over the next 20 years, they still foresee – and I quote - that “fossil fuels remain the dominant energy sources in 2030”.

In particular, we see an increasingly important role for gas - gas is the cleanest burning fossil fuel and combined-cycle turbines, fuelled by natural gas, are quick and relatively cheap to build. Gas can also complement renewable energy very well because of the intermittency with which wind and solar power operate.

So Russia, as the largest source of conventional gas and oil outside the Middle East, will continue to have a unique and strategic role in the global economy.

A practical approach to Russia's economy and energy industry

That takes me to the role of energy in the Russian economy.

Firstly I agree with the President when he talks of the need to have a diverse economy which doesn't rely purely on oil and gas. This is both practical and progressive.

Dependence on oil and gas alone can damage economies because it can drain resources from other sectors. This is why we support efforts to diversify economies where we work, including helping to strengthen supply chains that can serve energy and other sectors.

Supporting higher education and research also helps the broader development of an economy. That is why we have established a global universities program – in Russia for example BP supports scholarships and fellowships at the Gubkin and Mendeleev universities and we've helped enable the SKOLKOVO Moscow School of Management to offer world class executive education in project management.

So I agree that Russia needs wide-ranging skills and should avoid what the President called a 'primitive raw materials economy'.

And I'd also add that the raw materials sector does not have to be primitive. On the contrary, the production of oil and gas can, and should, be efficient, innovative, sophisticated and modern – indeed Russia's oil and gas industry will need to be all of these things if it is to succeed in the coming decades.

And Russia will be able to use the development of the oil and gas industry to trigger technological modernisation in many related industries, both up and down the value chain.



Driven by technology

Indeed, energy is increasingly an industry in which competitive advantage comes from the deployment of advanced technology.

The Samotlor field is a good example. Over the last few years, TNK-BP has used advanced three dimensional seismic imaging to reveal seven new satellite structures and recovery rates from mature parts of the field are being improved through advanced waterflooding techniques – increasing the resources and lifetime of the field.

BP is also currently discussing with Rusnano how to apply cutting-edge “Brightwater” technology in Russia. This is an application of nanotechnology to waterflooding which directs the water towards the areas where it can sweep out the most oil.

In the last year, TNK-BP has started up three big new projects at Verkhnechonskoye, Uvat and Kamennoe. At Kamennoe, TNK-BP is implementing what we call the ‘field of the future’ technology where sensors in the reservoir send data to a remote control centre using wireless networks.

These technologies and others are allowing us to develop major fields which were otherwise considered non commercial. I believe that oil and gas should be seen as a cutting-edge industry – over the years, we have made extraordinary progress pushing back the physical and technical frontiers, whether into ultra deep water, complex gas reservoirs or generally the ice in the Arctic.

Russia presents a great opportunity for that kind of leading-edge, pioneering exploration and production. Developing the Russian Arctic, for example, requires an industry which can provide innovative solutions to manage risk and overcome technological challenges.

This is already happening in remote onshore Arctic areas such as the giant Russkoe oilfield which was discovered 40 years ago, but has not yet been developed as the oil is highly viscous, the geology complicated and the location remote. Drawing on expertise from BP, TNK-BP has now successfully drilled test wells. The plans are to employ a thermal recovery technique using hot water and steam, along with the construction of infrastructure that includes a gas-fired power plant and new access roads.

BP has also been very active in the offshore Arctic regions, which represent an important new frontier for the industry. We have worked for decades in areas such as the North Slope of Alaska, the Canadian Arctic and Northern Norway. Last year, we conducted a seismic survey in the Canadian Beaufort Sea, which was the most northerly ever carried out. Despite the challenging conditions, we carried out the operation without any injuries, accidents or harm to the environment.

Building on this expertise, we would certainly welcome the opportunity to deploy our technology and skills to explore and produce Arctic resources in Russia as well.

Driving energy efficiency

Alongside technology, efficiency in the production and use of energy is another good example of moving to a new level of performance in a very simple and practical way.

The IEA calculates that energy efficiency offers the greatest scope for cutting greenhouse gas emissions between now and 2030, more than renewables, nuclear, biofuels and carbon capture put together.



The Russian Energy Strategy published last year and the recently approved law on energy efficiency are right to put a strong emphasis on this area. The target of increasing energy efficiency by 40% by 2020 is a bold and impressive one. This is the main way in which Russia can contribute to a more sustainable global energy sector and address climate change – in the short to medium term.

To mention one example, there's great potential to increase the efficiency of the gas industry, especially the high incidence of flaring of associated gas. As President Medvedev said, this literally sends roubles up in smoke. That is why TNK-BP aims to reduce flaring and enhance associated gas utilisation up to 95% by 2012.

Developing alternative energy

The energy strategy also includes steps to build an alternative energy industry in Russia. The practical point here is that both alternative energy and energy efficiency offer opportunities to participate in high-tech, high-growth sectors in line with Russia's aspiration to modernise its economy.

So I believe Russia should see its energy industry as a flagship for modernisation and a focus for innovation at the same time as it seeks to diversify into areas such as nanotechnology, computing and pharmaceuticals.

I also believe that, for the decade ahead, the Russian oil and gas sector will remain the backbone of Russia's economy. And it will be easier for the Russian economy to modernise and diversify if it has an energy industry that is itself modern and diverse.

A practical approach to international co-operation

Before I close I want to mention another area where I believe the changes we need to see should be those driven by practical necessity and logic. And this is the area of international co-operation – both at an industry and a government level.

I think that an important positive trend is the one that is driving more collaboration between national oil companies and international oil companies. The practical reason for this is that many of today's projects need a formidable combination of physical and financial resources, technology and capability, which, to be achieved in the most efficient way, benefit from more cooperation.

Finally, there is the question of policy and particularly policies that relate to cross-border energy investments, such as those between Russia and her European neighbours. These are a complex issues and it is understandable that there is constant debates.

I would make just one point from a business perspective – and that is keep the customer in mind.

What customers want is access to affordable, sustainable energy. How do customers get that kind of energy? They get it when providers are as efficient as possible in their operations.

I believe that efficient, modern, innovative energy production is encouraged by free and open markets, where companies can bring together assets, resources and capabilities in different ways – in other words, a diversity of investment with different players bringing different capabilities to the industry.

The acid test of any policy is: Does it drive efficiency? Does it drive innovation? Does it drive modernisation? In other words, does it serve the customer?



I would judge for example that the Nordstream pipeline passes these tests. It makes practical and economic sense as an addition to the existing infrastructure and one that serves a specific and necessary purpose. It is also a good example of partnership and of an outbound investment – in this case by Gazprom – that will benefit many customers. I hope that inbound investments by international companies into Russia will be judged by the same criteria.

Conclusion

Let me draw some conclusions. At the global level, we are learning to overcome the challenges left by the 20th century through a new level of thinking that is less driven by politics and positioning and more by practical factors – by what works.

We're in the process of building a diverse global energy mix to which a more diverse Russian economy can make a major contribution. And the market in which we operate is also becoming more diverse and dynamic.

Finally BP remains committed to Russia and we look forward to working in Russia for many years to come to play our part in building a 21st-century energy industry and one that sets the pattern for a truly modern Russian economy and society.

Thank you.