

“From Energy Crisis to Energy Security”

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INTRODUCTION

Good afternoon everyone. I hope you have had a good day.

What better subject to end the day than energy! I will try to keep the energy levels up for this final half hour.

I will try to keep you awake by first debunking a few myths about energy, then by making a few predictions - and finally by explaining why the company that invests more than any other in American energy wants to carry on doing just that for many years to come. (No prizes for guessing which company that is.)

But let me start with the bigger picture.

I believe energy is a factor that will affect the well-being of more people in more countries in coming years than any other I can think of.

And I say that because we can already see what access to energy can achieve.

For example, the United Nations reports that the goal of halving the number of people living on less than \$1.25 per day by 2015 has already been reached. Since 1990, an estimated 700 million people have been lifted out of extreme poverty.

Plus, millions are eager to join them. There is another US-size economy emerging in China. Countries in Asia, South America and Africa are growing and demanding prosperity.

So in my brief time with you today, I want to discuss three questions:

Is there enough energy available to meet this demand?

What does it take to make sure energy resources actually get converted into supplies?

And what role is BP playing, particularly here in the US?

GLOBAL ENERGY TRENDS

Starting then with demand, the trend in global energy consumption is clear: it is going up.

Our projection is that world energy demand is likely to increase by 36 percent between 2011 and 2030. That's very roughly the equivalent of adding another US and another China to current requirements.

Oil will still be the fuel of choice in the transport sector. We expect that 90 percent of our cars and trucks in 2030 will still run on gasoline or diesel. And we expect demand for oil to grow at about 0.8% a year. That may not sound a lot but it translates into an extra 16 million barrels a day worldwide - more than the current daily production of Russia or Saudi Arabia.

The fastest-growing fossil fuel will be natural gas, with demand increasing at around two percent annually.

So the demand curve is steep – and many have asked whether we can meet it?

A few years ago, the hot topic in the energy conversation was around 'peak oil' – the idea that world oil production was headed toward inevitable decline.

That fear is now receding – and if you take a long term view, you can see why. The history of our industry is one in which increasing demand breeds increasing innovation.

The world's major source of oil in the 1850s was the whale. But as many species were hunted to near-extinction, Colonel Edwin Drake decided to look for a new source His success in drilling a well in Titusville, Pennsylvania gave birth to the modern energy industry.

And the last two decades have seen the opening of several energy frontiers that are at least as revolutionary as Col. Drake's well: shale gas, tight oil, heavy oil and the deepwater.

Proved reserves alone – those we are confident in producing – now amount to more than 50 years' worth of oil and gas.

Of course, shale gas is nothing new. Amoco – one of BP's heritage companies – pioneered hydraulic fracturing in Kansas in the 1940s. But in the last five years, it has really come into its own.

Last year the US recorded the largest oil and gas production increases in the world – as well as the largest in the country's history.

Just five years ago, North Dakota's Bakken Formation was producing 100,000 barrels of oil per day. Today, it's over one million bpd. This is extraordinary.

For gas, the story is similar. A decade ago, energy companies were building plants to handle imports of liquefied natural gas to the US. Today, we are selecting sites for export terminals. Who would have thought that a decade ago?

Then there's the deepwater. In 1993, deepwater exploration scarcely existed. One thousand feet was considered deep. Today it is four thousand feet – nearly a mile below the waves. Today, more than a quarter of a billion barrels of oil equivalent have been discovered in the deepwater around the world.

And because of these and other developments, this year the US is on track to surpass Russia as the world's largest combined producer of oil and gas.

So all in all, the debate about 'peak oil' appears to have itself, well... peaked. There's still lots of oil in the world.

But what about renewable energies – wind, solar and so on? They are discussed a lot and you could be forgiven for assuming they account for some 10 or 20% of the world's energy. However, today, renewables other than hydro-electricity comprise just 2% of the total and by 2030 we expect they will grow fast – to around 6% by 2030.

I do believe the world is on a long wavelength transition to lower carbon energy, but if we want to reduce emissions in the shorter term, we need to look at what works best.

Since the Kyoto Treaty was adopted in 1997 the world's carbon dioxide emissions have actually risen from 24 billion tonnes a year to 34 billion.

However in the US – which ironically didn't ratify the treaty – emissions have fallen – from 6.5 billion tonnes in 2007 to 5.8 today, which is below levels 20 years ago. How did that happen? It happened first through energy efficiency – lighter vehicles and smarter buildings – and second, through gas displacing coal in power plants due to the shale revolution.

The very simple lesson is that emissions are reduced when the low carbon option is also the low cost option. The market is the most effective way to deliver a solution.

THE RIGHT CONDITIONS ABOVE GROUND

And that principle holds good in terms of delivering energy generally.

Bringing the demand curve together with the supply curve requires more than having the resources below the ground. It also requires certain activities above the ground.

In brief, governments have to provide the right conditions and businesses need to make the right decisions.

Events here in the US 40 years ago illustrate what happens when government fails to maintain an attractive environment.

Price controls on oil and gas distorted the marketplace in 1973, contributing to the gasoline lines. Government efforts to alleviate the situation – limiting fuel sales and the prospect of rationing – contributed to the crisis atmosphere. The situation was transformed by the lifting of price controls, providing the freedom for the market to work.

That marketplace – within the framework of a steady, predictable tax and regulatory structure – is the foundation of the energy renaissance we are seeing today.

BP's own experience in the Gulf of Mexico is a similar example.

In the early 1990s, most operators believed the Gulf was played out. They were frustrated by a thick canopy of salt underneath the seabed that obscured the sub-sea landscape, and potentially additional oil and gas accumulations below the salt.

BP did not join the exodus. We were convinced of the Gulf's potential – and ultimately, our engineers cracked the code from seismic imaging to see beneath the salt. A combination of seismic technology and advanced supercomputing turned the Gulf of Mexico from a 'has-been' into one of the world's great energy centers.

And we are now going to the next level. BP has eight rigs operating today in the Gulf of Mexico, with another undergoing acceptance testing. That's the most since 2010.

A few weeks ago, we dedicated a new, \$100 million High Performance Computing Center on our Houston campus – the largest supercomputer for commercial research in the world. It can handle two million billion calculations per second. Frankly speaking, I can't imagine this. But this will help us to process our seismic data and create more accurate images of the rocks miles down to see the oil and gas potential below the earth's surface.

Advances like these are echoing beyond the energy sector, to have impacts in the economy at large.

IHS-CERA, the respected energy research firm, estimates the shale industry alone contributes roughly \$280 billion to the GDP of the United States and supports as many as 1.2 million jobs.

With the right policies and incentives, we see no reason why the US energy revival cannot go on well into the future.

BP'S ROLE AND CHALLENGES

A positive investment environment is only one half of the equation, however. The other half requires that we do our part by choosing the right projects to pursue.

The global energy boom presents us with a world of opportunities.

But investors will only entrust us with their capital if they think we're making the right investment choices. So at BP, we have a clear plan. We have divested non-strategic assets and we are focusing on high-value, high-quality projects - ones that play to our distinctive strengths. These include exploration, managing giant fields, the deepwater, something we call the gas value chains, and building world-class downstream businesses.

We have launched eight major oil and gas production projects in the last two years, with several more to come by the end of 2014. We have also roughly doubled our exploration budget.

And many of those high value, high quality, assets and activities are here in the US.

BP and its heritage companies of Amoco and Arco have been leaders in American energy for nearly a century and a half, and we are now investing more than ever.

In fact we have invested \$55 billion of capital here over the past five years, more than any other energy company. We have invested more in the US than in any of the other 80 countries we work in.

We are also the largest non-US-based investor in the country – something for which the Progressive Policy Institute recently named us as an “Investment Hero.”

And today I am pleased to announce that we are marking our commitment to America by publishing our first *BP US Economic Impact Report*.

This report shows the depth and breadth of BP’s commitment to the United States.

It provides a breakdown of the \$25 billion of procurement that we spent last year with more than 15,000 vendors across the US.

It shows where we employ our 20,000 US-based employees. And it shows how our business activities support around a quarter of a million more US jobs – equivalent to the population of Buffalo, New York.

It provides details of how we contribute state by state, from the \$1 billion spent with vendors in California to the 43,000 jobs supported in Indiana, from our 350 supplier companies in Alaska to our 300 retail stations in Florida. It’s all here, including the \$35 million we spent last year supporting local community projects.

In fact it shows that BP’s business activities in the US generated a total of \$147 billion in economic value in 2012.

And in the past couple of days, we have brought many of our staff, contractors, suppliers and partners from around the US to Washington. They have been meeting with their senators and representatives to underline the contribution we make.

One of the messages is the need to create a stable environment for investment. A big energy project can take the equivalent of two presidential terms to be built – and then operate for the equivalent of another 10 terms.

Year after year, state by state, supplier by supplier, employee by employee, gas station by gas station, we are part of the fabric of America and we are committed to remaining a part of it.

That is why we hope to see a fair outcome of the remaining legal proceedings regarding the Deepwater Horizon accident of 2010, in Louisiana.

We stepped up from the outset following this terrible accident. We acknowledged our role and committed ourselves to economic and environmental restoration efforts.

Ken Feinberg, the expert who helped run the claims process shortly after the spill said many companies would have chosen to litigate from the outset, imposing long delays before claimants saw payment for their losses.

BP did not do that. We did what we believed was right – which was to compensate those individuals and businesses in the Gulf that were legitimately affected by this incident. This was quite personal for me, by the way, because I spent my childhood summers on that coast.

We have now spent more than \$26 billion on response, clean-up and claims. That is the GDP of many of the nations where we work and who want for our investment.

And the latest data on fishing and tourism is very encouraging. For example, many tourism records broken in 2011 were surpassed again in 2012, with local officials saying that new records are possible in 2013.

We have learned from the accident and shared the lessons around the world. We have also implemented them in BP, through changes in organization and enhancements to processes and training.

We have paid more than 300,000 claims and last year, we signed an agreement to compensate the vast majority of remaining individuals and businesses with legitimate claims relating to the spill.

Unfortunately, that agreement has been misinterpreted to allow many claims that can only be described as absurd. For example, as we have noted in our legal briefs, a rice mill in Louisiana – 40 miles from the coast – received \$21 million even though it earned more in the year of the spill than in any of the three preceding years.

And that isn't all. Some of those claiming to have been worst affected by the oil spill are law firms. In fact, law firms have received more in offers from the settlement program than restaurants, bars, hotels and seafood processors.

I just spent 10 days across the Middle-East. The world of global business is watching this very closely.

Millions of dollars are being paid to businesses where there is clear evidence showing that the oil spill was not the cause of any losses. For example, as we have noted in our legal papers, a wireless phone store in Louisiana that was closed for all of 2010 as a result of a fire predating the oil spill; a lawyer located approximately 200 miles from the Gulf who lost his license four months before the spill; and a wheat farm more than 200 miles from the Gulf that elected not to grow in 2010, all got paid by the claims program.

This is not what we agreed to and not what any company would ever agree to do. And in the same way that we have always tried to do the right thing, we have also stood up against what we believe to be wrong, as payments like these clearly are.

I'm glad to say a federal appeals court has ordered a halt to the questionable payments and we will see how the legal process unfolds.

Separately, a preliminary report by the former US FBI Director, from an investigation ordered by the District Court, has found evidence of misconduct in the claims process, and that investigation continues.

I believe these issues BP is facing and the revelations coming out of New Orleans may cause people in this country to question further the actions of trial lawyers, plaintiffs' attorneys, who seek enrichment opportunities in the mass tort arena.

Indeed, we have already seen a number of people question the linkage between the settlement and the trial bar's conduct. For example, the Times-Picayune of New Orleans said: "It's hard sometimes to see what's unfolded as anything more than another trial lawyer feeding frenzy."

As an American who meets with governments and companies around the globe, most find it curious, and off-putting - to put it politely - about our country.

I think there is a real danger that companies from around the world will start to think twice about doing the right thing in response to industrial accidents. I can tell you that it has caused companies to reconsider investing in the US when they witness this kind of behaviour.

But, I am heartened when our efforts are acknowledged by local communities. One example came from the Terrebonne Parish Economic Development Authority in Louisiana which issued a statement saying the community should reach out to BP again as full partners.

It concluded: “For those who place a premium on the quality of life in south Louisiana one can only imagine what we would be left with if BP and our other oil and gas companies would suddenly disappear. Certainly this is not a prospect worth considering.”

It is not a prospect we want to consider either.

The report we’re publishing today underlines our role as a company that seeks to prosper in a positive way, by providing goods, services, jobs and business for America.

CONCLUSION

To notch down my feelings for a moment, and to conclude, I am confident that the energy sector can meet the challenge of fueling the future generations of the globe.

And the reason I am confident is because we have already done it.

More oil has been produced since I joined the industry in 1979 than was known to exist at that time. And today’s oil reserves have grown to twice what they were then.

Our industry has never run from a challenge, and we’re not going to start now.

If government does its part – by encouraging the development of **all** forms of energy in an atmosphere of free markets and the free movement of resources – and if true justice prevails in our legal system – I see no limit to the prosperity energy can bring to the US and the world’s people.

Thank you very much for your time and attention.