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The role of networks in a global business

Introduction

Good morning and thank you for inviting me to take part in this conference. It is a great privilege to be here.

BSR seeks to create a bridge between business and civil society. This is very important because business and civil society are mutually dependent.

BP and BSR also have something else in common. It is respect. Respect is one of your values, with integrity and leadership. It is also one of our values, along with safety, excellence, courage and one team.

Respect is a good point of connection between business and civil society. It is through respect that we can advance mutual understanding and find common solutions.

I will take your theme – the power of networks – and will look at how a global business like BP depends on networks, chiefly in the form of human relationships.

I will begin by looking at the purpose of our industry and our company. I will then examine how that purpose is enacted through our strategy as well as reflecting on aspects of how we work – focusing on risk management and on relationships with a variety of stakeholders - partners, governments and civil society.

1. Purpose

Let me begin with our purpose, and the relationships associated with it.

1.1 Purpose of energy industry

James Rouse, the pioneer of urban renewal, was also a successful businessman. And he described the purpose of business in this way: “The legitimate purpose of business is to provide a product or service that people need and do it so well that it's profitable.”

That is what I believe about the energy business.

We provide a product that is fundamental to human progress and economic development. If we provide that product well, then we create value.

How then do we provide energy well?

In my view there are three factors involved:

First, sufficiency – will there be enough energy to drive human progress?

Second, security – will each country be able to count on its energy supplies, either through domestic production or robust trading links?

And third, sustainability – can we derive the benefits that we want from energy without causing unacceptable impacts to the environment?

I will return to each of these elements in the course of my remarks.

Many of us take access to energy – or sufficiency - for granted, but that is far from the case everywhere.

In the emerging economies of the non-OECD world, some 50 billion barrels of oil equivalent are consumed each year. This is a big and amorphous number. But in fact it represents millions of human beings whose lives are being transformed.

One clear bright spot in a turbulent world is that the UN's Millennium Development Goal of halving the number of people living on less than a dollar a day from the 1990 level has been achieved. 700 million fewer people lived in conditions of extreme poverty in 2010 than in 1990.

That is in part due to access to energy.

I come from India – and there, energy changes people's lives palpably. It releases people from energy poverty and into a new life of economic liberty. It can be as simple as the electricity that provides the lighting for a village to run a school. The fuel that enables someone to ride a scooter to work. The energy that fuels a business that provides jobs. The power for a refrigerator that stores medicines.

In other words, 'Big Oil' can be 'Good Oil'.

We expect global demand for energy to rise by around 30% between now and 2030, largely driven by non-OECD countries, as they continue down the path of industrialisation.

Resources exist to meet demand at this scale. The proved reserves available today are sufficient for over 50 years of consumption at today's rates. In addition, substantial new reserves of unconventional oil and gas are being opened up from shale and heavy oil deposits. The industry is also making rapid advances in enhanced oil recovery from mature basins.

And as we consider energy security, it is notable that many of these new sources of growth are helping countries to increase their domestic production and alleviating concerns over energy security.

Or in other words, the theory of peak oil has itself peaked.

However, connecting supply to demand is a massive undertaking and this is where the significance of networks in our industry is profound: The physical networks of infrastructure that produce, process and deliver energy to customers – as well as the multiple human networks of relationships that sustain the global energy industry.

There are global networks of capability and expertise – communities of geologists or engineers. There are commercial partnerships between operators. And there are complex partnerships of governments and business – such as those required to build a pipeline. For example, we are currently involved in plans to bring gas from the Caspian Sea to southern Europe – a major project involving multiple governments, many companies and numerous agreements and contracts.

1.2 Purpose of BP

Our purpose as an industry requires sophisticated networks to be created and fulfilled. And the same holds true for our own purpose as a company.

We define it in this way:

We find, develop and produce essential sources of energy. We turn these sources into products that people need everywhere.

We expect to be held to high standards in what we do. We strive to be a safety leader in our industry, a world-class operator, a good corporate citizen and a great employer.

You can see from these words that we see our mission very much in line with the idea that the purpose of business is to provide a product or service - and that profit is the outcome or reward for doing it well.

We also believe that *how* we work is as important as what we do. This is why networks matter to BP. We believe in creating mutual advantage - for ourselves and those with whom we work.

2. Strategy and execution

And we translate this into practice through the implementation of our business strategy.

We are a focussed oil and gas company that plays to its strengths.

We have built our strategic priorities around doing the things we are good at, paring away non-strategic assets and activities and focusing on a quality portfolio and the distinctive capabilities that we have built up over many years. In short, these are exploration, high quality upstream operations – involving deepwater, giant fields and gas value chains - world-class downstream businesses, technology and relationships.

These strengths underpin a strategy which has three dimensions: those of priorities, portfolio and capabilities.

Our priorities are safe, reliable, compliant operations, disciplined financial choices and competitive project execution.

Our portfolio has been managed in line with objectives to grow our exploration position, focus on high value upstream assets and deliver world-class downstream businesses.

Our capabilities are the proven expertise of our people, the advanced technology we develop and the strong relationships we build.

And again, networks that foster relationships are very important. We have reshaped the company away from an organisation structured around assets to one based on global teams of people who have common functional expertise.

We have a global Safety & Operational Risk organisation with global processes and practices.

We have global teams of professionals who share and deepen their expertise – explorers, drillers, project managers, marketers and so on.

There are great examples of such networks in action.

Geologists are exchanging information between Brazil and West Africa as they explore offshore in areas that were once one basin.

A new supercomputing centre in Houston – the world's largest for commercial research – which has been developed by us will be used to process seismic data from around the world. It has two petaflops of capacity – which means the ability to make two million billion calculations per second.

Lessons learned in the tight gas developments of North America are being applied in Oman and other areas.

Here in the US, BP America is itself a vibrant network. We employ 20,000 people directly as staff but we estimate that a further 260,000 jobs in the supply chain depend on BP.

We have invested \$55 billion in the US over the past five years which makes us both the largest energy investor in the US and the largest non-US-based investor in the country.

Our investments include oil and gas production, from Alaska and the Rockies to the mid-West and the Gulf of Mexico. We have three refineries, petrochemical plants, a significant lubricants business under the Castrol brand, a wind business and a nationwide network of retail outlets.

This is part of a global network spanning 80 countries, with more than 80,000 staff, production of 3.2 million barrels a day and reserves of around 17.5 billion barrels of oil equivalent.

3. Risk Management

Companies such as BP operate on a global scale in many countries, with varying degrees of geopolitical stability, working at extreme temperatures, depths and pressures, in hostile environments with potentially hazardous products.

In other words, ours is not only the business of providing energy, but the business of managing risk. In our business, we face three specific types of risk.

First, geo-political risk. The history of our industry is one of dramatic shifts driven by geo-politics. BP started life by striking oil in what was once Persia. But after half a century, we had to leave that country – by then Iran – as the wave of Middle Eastern nationalisations began. As nationalisations continued, we were obliged to earn our living in the challenging new frontiers of the day – the UK North Sea, Alaska, the Gulf of Mexico. Today we operate in Egypt, Libya – countries still feeling the effects of the Arab Spring. We work in countries recovering from the ravages of war – Iraq and Angola. On a daily basis we manage relationships with governments of these and many other countries and seek to be a positive force.

Second, we face large-scale technical risks. The Deepwater Horizon accident of 2010 was a tragic illustration of some of the risks involved in our industry.

We have responded in several ways. We have strengthened our operations to make them even safer. We have embedded a safety and operational risk team and enhanced our global practices. We have hired people from other high hazard industries, such as aviation and the military, and benefited from their experiences.

This was also a driver for reshaping the company to focus on our core strengths. This process not only drove up quality but also drove out complexity. We have sold around half our upstream installations and pipelines, and one-third of our wells – while retaining roughly 90% of our proved reserves.

Third, we face commercial risks. We commit large sums of capital investment to projects that will take decades to pay back – and which are also subject to technical and geo-political risks.

These are very big calls.

How, then, do we go about the task of making choices and managing risk?

It starts with process – having the right framework or system. And this begins with our Operating Management System, or OMS, which is a common group-wide framework designed to provide a basis for managing our operations in a systematic way.

We have also introduced a common risk reporting system across our businesses and functions.

However, process by itself is not enough.

The second key element is capability – people with the experience and expertise to manage risk. We invest heavily in developing our people's capability. For example we have an Operations Academy which we run in conjunction with the Massachusetts Institute of Technology and an in-house Financial University which enables finance professionals to develop their own careers.

The third element of risk management – in keeping with my overall theme - is relationships. Good relationships are integral to success when times are good. Even more important, they are essential when things do not go to plan.

In BP, we knew relationships mattered before the accident in 2010 – we would not have survived 100 years without them. But the 2010 crisis reminded us how much they matter. In the financial area, for example, relationships built up over many years enabled us to mount one of the biggest corporate financial defences.

And the fourth and final element is Values. The values I mentioned earlier - safety, respect, excellence, courage and one team – these are qualities that we are embedding at the heart of the company. They provide a compass in good times but equally importantly, in challenging times.

4. Working with partners, governments and civil society

This brings me to the relationships that provide the frameworks within which we operate as a business. Business and policy-makers need to work co-operatively to deliver the best outcomes for citizens and consumers.

Our experience over many decades has been that citizens and consumers benefit the most when markets are open and investment can flow. Of course, this needs to be subject to constructive regulation on the part of government and responsible practice on the part of business.

In our industry, energy resources may exist “below the ground”, but factors “above the ground” determine whether they will be found and produced.

We see this working well in many places around the world. In the US, this has been brought into sharp focus with the shale oil and gas revolution. When the conditions are right, companies bring together the necessary finance, capabilities, technology and assets to create benefits for customers and value for shareholders.

Above ground factors have a part to play in many dimensions of our industry. Take the example of carbon and its implications for the sustainability of energy.

Carbon dioxide emissions in this country are now lower than they were in 1995. Since their peak in 2007 at 6.5 billion tonnes, emissions have fallen to 5.8 billion tonnes. Why has that happened? One major factor is the shift from coal towards gas

in the power sector, driven by the availability of gas because of the shale revolution. Another factor is increasing energy efficiency, as a result of, for example, more fuel efficient vehicles.

Meanwhile in Europe, the availability of cheap coal displaced from the US has driven up coal consumption and carbon emissions in many countries. This is despite the existence of mandates, subsidies and a carbon trading system.

Some simple lessons apply. The pathways that work in reducing emissions are the ones that also reduce costs and do so at scale. Energy efficiency is the best route – because it eliminates costs and emissions simultaneously. Substituting gas for coal has proved the second best.

Renewable energy other than hydro-electricity made up just 2% of the world's energy last year. It makes sense to keep working to commercialise renewable sources; but we should have a sense of perspective about their current potential.

Of course, the market may not deliver reductions in emissions by itself as it has in the US. But if it does not, then it makes sense to introduce the power of the market into the equation through a carbon price.

In some areas of activity, we have worked with other companies, governments and civil society to form networks or multi-stakeholder initiatives. In many cases such bodies create standards that are followed on a voluntary basis across the industry.

BP is active in many such partnerships, from the Global Gas Flaring Reduction Partnership to the Centre for Offshore Safety to the Extractive Industries Transparency Initiative. We are proud to have been a founder member of the EITI.

Conclusion

In conclusion, we live in a networked world – where people form webs of relationships - and that has many implications for companies such as BP.

We provide energy through physical networks that are made possible by networks of human relationships.

We operate within networks of stakeholders and we seek to create benefits for all of them as well as for ourselves.

Relationships are central to the way we pursue our strategy – particularly the relationships across the world forged by professionals with common functional expertise.

Relationships are instrumental in managing risk – and they are critical when things do not go according to plan.

And the relationship between policy-makers and business is extremely important in enabling the market to operate, whether to stimulate investment or to limit carbon emissions. Or as in the recent history of the US – both.

Our industry is bound up with many of the most significant issues that the world faces – sustainable development, economic growth and energy security. We have some very big choices to make – but they are not mutually exclusive.

Richard Feynman, the Nobel Prize winning physicist, observed: “To every man is given the key to the gates of heaven. The same key opens the gates of hell.”

Ladies and gentlemen, we must all seek wisdom in using that key.