



# Bob Dudley speech to the World National Oil Companies Congress

**Speaker:** Bob Dudley

**Title:** group chief executive

**Speech date:** 22 June 2011

**Venue:** World National Oil Companies Congress

The new energy order – new partnerships for new times

Good morning everyone. This is a great event in the industry calendar and it is a privilege to be here.

When I look around this room I see many familiar faces – people we have worked with for many years – from governments; from national oil companies and from the service industry.

In fact quite a number of you here today have welcomed me to your countries over the past year. It's good to see you all here in London. Welcome.

I think it is very useful to have this time when people from the global industry can come together for a time of reflection and talk about the big issues that we all face.

And I want to take this opportunity to be very direct with you about what BP has experienced over the past year.

As you would expect, the Gulf of Mexico accident has caused us to think afresh about everything we do.

So first today, I want to tell you about the changes we have made in BP since the accident.

Second, I want to explain how we are looking at the future of energy.

And third I want to share some thoughts about partnership and what it means to us today.

The main point I want to make is a simple but challenging one.

If our industry is going to keep the wheels of society turning over the coming decades, then we will need to manage challenges we have never faced before.

That means we need to collaborate as we have never done before. The future of energy will be an exercise in collective problem-solving.

The opportunities are of a new order. The challenges are of a new order. And the partnerships also need to be of a new order.



## 1. Gulf of Mexico – accident and response

But first let me focus on our response to last year's accident. This was a tragedy that we deeply regret and one we will never, ever forget.

You can see the character of an organization or a community in the way that it responds to a tragedy.

And I am determined that we will emerge as a company that is safer, stronger, more sustainable, more trusted, and, in time, more valuable.

We now have three clear strategic priorities: We now have three clear strategic priorities:

- First, to reinforce safety and risk management at the heart of everything we do
- Second, to earn back the trust that is so important for a global company
- And third, to build long term value for our shareholders – in a safe and sustainable way

### 1a Gulf of Mexico action

So let me summarise how we have responded to what occurred last year.

First, we are continuing to meet our commitments to the Gulf region.

Last year's response involved 48,000 people and 6,500 vessels.

We still have over 1400 people and over 130 vessels deployed.

However, our focus has moved from response to recovery.

We have paid over \$6 billion to meet claims by individuals, businesses and governments.

We are continuing to help local businesses. And we're investing in scientific research – that includes a \$500 million investment in the independent Gulf of Mexico Research Initiative.

### 1b Safety and risk action

However, our responsibilities stretch much further than restoring the Gulf of Mexico's environment and economy.

We have a responsibility to embed the lessons in every team that works for BP - wherever they are in the world.

I want to be clear about this. BP gets it. And BP is changing the way it operates.

The first big change we have made is to enhance our capability in safety and risk.

We have created a powerful new safety and operational risk organization headed by Mark Bly, who led our internal investigation of the accident.



Mark reports to me and is a peer with the leaders of our operating businesses who sit at the executive team table.

His organization has a central team of experts including people with decades of process safety experience - in BP and other organizations - such as DuPont, Lockheed Martin and the UK Atomic Authority.

It also has hundreds of specialist personnel who are deployed across our operating businesses to guide, advise, and if necessary, to intervene.

The organization sets our requirements for safe, compliant and reliable operations.

It provides deep technical expertise to our operating businesses.

It helps the businesses manage risk in a disciplined and systematic way.

But - if necessary - it also has the authority to stop operations and drive corrective actions.

Let me give you a few recent examples of decisions we have made to stop or delay operations.

In Trinidad, we removed a rig when we believed that it could not comply with our new assurance around blow-out preventers.

In Egypt, we sent a rig away and required changes to the control system on the blow-out preventer.

In Alaska, we temporarily shut down two rigs that were operating on the North Slope to make sure we responded properly to audit findings. These are examples of the kinds of actions we must sometimes take in the short term in order to make sure we deliver value in the long term.

I am sure you will endorse that approach because we all know that world-class safety and risk management underpin the licence to operate for BP and the rest of the industry.

In many areas we have developed new and more rigorous standards which we recognize exceed the industry norm.

For example, we have decided that a BP-contracted rig will not drill a deep water reservoir from a dynamically positioned drill ship unless it has two sets of blind shear rams. We believe that a second set of blind shear rams provide a level of redundancy which is crucial and we believe that is the right thing to do.

We are also making wider changes in BP. We are conducting in-depth reviews of the way we manage risk and the way we manage contractors.

Our technology team is creating new systems to monitor corrosion risks and to provide real time digital data from operating fields.

We have also changed our performance management system.

When our employees set their objectives this year, each individual was required to state explicitly how he or she would contribute to safety and risk management. And that will affect their bonuses. So we have made it very personal.



We have restructured the upstream into three divisions: exploration, developments and production. This creates greater clarity and accountability. It also brings specialists together in teams where they can build their capability.

We have created a new global wells organization in the developments division.

This means that every well that is drilled - wherever BP operates - anywhere in the world - is managed by the same team to the same high standards.

We also now have a very strong emphasis on independent third party verification of blowout preventers.

On the critical issue of cementing, we have issued new interim guidance that covers laboratory testing.

At the last count we had completed 12 capability assessments of our suppliers and 21 laboratory audits of our contractors.

Through these measures and others, we are steadily implementing the findings of our investigation into the accident, working through the 200 plus actions identified as necessary to deliver the 26 recommendations made.

And even as we take all these steps to prevent incidents, we are also investing in containment to implement what we have learned.

For example, we have recently entered a new deepwater reservoir in Angola.

So we built and tested a new capping stack as part of our preparations, just in case it is required.

### 1c Sharing the lessons

We are taking action at many levels within BP. And we are also active beyond BP.

We're sharing what we have learned with the industry, regulators and governments worldwide.

Without in any way minimising our own responsibilities in BP, we believe this was a defining event for the industry.

Past events such as the Exxon Valdez spill and the Piper Alpha disaster have led to major change and I believe this one will too. We need to learn from each other and find new solutions together.

So we are now continuing to work with regulators around the world to improve safety standards. We have visited 19 countries and held over 50 engagement events.

We are continuing to work productively with the US regulator, the Bureau of Ocean Energy Management – and we are also working closely with the relevant authorities in the UK and many other regulatory bodies worldwide.

And on containment, we're not only sharing lessons but also equipment.



We have provided two top hat systems to the UK North Sea. And as part of the Oil Spill Prevention and Response Advisory Group (OSPRAG), and on behalf of the industry, we are project managing the construction of a next-generation capping device.

Almost all of the containment equipment that was created during the response has now been made available to the Marine Well Containment Company in the Gulf of Mexico, of which BP is a permanent member.

And I am very pleased that in many countries represented here today, we have been granted new access to deepwater opportunities.

In Brazil for example, the regulator said BP has shown itself to be one of the most prepared companies in terms of operational security in deep waters. But we know we need to do more.

We fully understand the steps we must take to show that we are a safe, reliable, compliant operator – and earn back the trust of stakeholders around the world.

## 2. The energy future

The events of the last year have given us a new perspective on the future of energy and the future of our industry.

They have made us acutely aware of the way that the opportunities that lie ahead of us are accompanied by unprecedented challenges.

And both the opportunities and challenges are very clear when we look at the latest data on the industry's development.

### 2a Energy projections and data

As our contribution to this analysis, this year we have published two volumes of statistics:

first, our Energy Outlook 2030 with projections for the next 20 years;

and second, our annual Statistical Review of World Energy covering 2010.

On current trends, we believe the world will require around 40% more energy in 20 years' time than it consumes today. That's basically two more United States. Or two more Chinas worth of consumption.

Over 90% of this growth is expected to come from emerging economies, many of whom are represented here today.

And we expect that all forms of energy will be required to meet this growing demand.

Demand for oil is set to rise by less than one per cent per year. But because production from many basins is declining, we need to find new sources.

The cleanest hydrocarbon, natural gas, is expected to grow by over two per cent a year.

But coal is also expected to keep growing at over one per cent annually.



Non-fossil fuels are expected to account for a significant share of growth in the future - but from a very low base.

Having published those projections in January, it was interesting to see what actually happened in 2010 when we published our Statistical Review this month.

There were two big headlines. First global energy demand grew by 5.6%. That was the highest rate since 1973 and it reflects the cyclical economic rebound, as well as structural growth.

The second headline was that China overtook the US as the world's largest energy user. It was already the largest energy producer and it is on track to become the world's largest economy in the next decade.

China understands these issues. It has cut its energy intensity significantly in recent years and is planning to shift a lot of power generation from coal to gas and non-fossil fuels – but the challenge is vast.

Looking at each fuel, natural gas demand rose by over seven per cent globally last year – but coal also rose by a similar amount.

And partly as a result, worldwide carbon dioxide emissions from energy went up by almost six per cent. So looking to the sustainability challenge, it appears that the best ways to reduce emissions in the medium term include shifting from coal to gas in power generation, increasing energy efficiency and moving to lower carbon sources.

## 2b Energy risks

These numbers are simultaneously inspiring and sobering.

Last year the world used around 12 billion tonnes of oil equivalent. In 2030, it will need over 16 billion. That's a four billion tonne growth opportunity.

But that opportunity comes with significant challenges attached.

Tomorrow's oil and gas lie at new frontiers such as the deepwater, heavy oil, unconventional gas and the Arctic. The environmental risks are also clear. Policy-makers hold the levers of change here - but we can play our part as an industry by maximising efficiency, investing in natural gas and striving to make renewables commercially viable.

## 2b BP's approach

So how are we approaching these risks and opportunities in BP?

We're in business to create value in a safe, secure and sustainable way.

And that means investing in the things that deliver long term value – safety, risk management, capability, assets, technology and relationships. So we are investing in a rich portfolio of assets. We plan to start up more than 30 projects between now and the end of 2016, adding around a million barrels of oil equivalent per day to production.



We are investing heavily in emerging economies. Witness our recent new agreements in India and Brazil. We are increasing our investment in exploration. Every year, for the last 18 years, we have replaced more reserves than we have produced. So it makes sense to invest in this core strength.

In the past 12 months, we have signed agreements for new exploration blocks including those in Australia, China, Indonesia, Azerbaijan, the UK and Brazil.

And we intend to invest more like this at the start of the lifecycle, when the most value is created for ourselves and the host country.

### 3. Partnerships with NOCs

So we are very open to changing the way we work in order to create value more sustainably.

And this is why we are also exploring the new opportunities for partnership with NOCs and governments presented by the changing dynamics of the industry.

Look back over the story of the last century.

In Chapter One of the story, IOCs dominated the scene – for many decades.

In Chapter Two, governments and NOCs became more capable and confident and nationalisation changed the face of the industry.

But now I think Chapter Three is beginning. A new order is emerging as new challenges become more urgent.

The era of easy oil is drawing to a close.

Energy security is a growing concern.

Climate change is better understood.

The operational challenges of operating on the frontiers are all too clear.

The only way to address these challenges and risks is to work together – to achieve more collectively than we can individually - by bringing together assets, resources, experiences, capabilities and technologies.

As IOCs, our role is to help nations develop their natural resources, drawing on our distinctive capabilities. This will always be the case.

But every situation is different. And I think that what we're now seeing is a readiness in the part of governments and companies to be more innovative in creating the right formula for each partnership.

I've become very aware of this over the past year as I have visited our many different operations and met with our partners.

So let me conclude my remarks with four brief examples.



### 3a Iraq

First Iraq. Iraq is a country where investment and capability have suffered greatly as a result of war.

So when we talk about mutual advantage here, we are thinking not only of the companies involved, but the people of Iraq.

Commercially, the prize is to increase production from the supergiant Rumaila field from one to nearly 3 million barrels per day.

But the wider prize is to create wealth, to provide over 9,000 jobs and to build the capability of the workforce.

And to unlock these benefits we have formed a new kind of partnership, not only with an Iraqi NOC but with a Chinese NOC, PetroChina

We bring our experience in giant fields. PetroChina brings access to drilling, manufacturing and engineering resource.

And the Iraqi South Oil Company brings a 5,000 strong workforce, keen to develop its skills.

And this new partnership is delivering. Well durations have been reduced by two thirds. We added over 10% to Rumaila production last year.

We took some analysts out to Iraq last week in fact and I was pleased that their independent view supported ours.

One analyst's report talked of "seamless IOC/NOC co-operation" and said that the Rumaila model could be the template for the future of the industry.

### 3b Oman

But it is not the only template. Look at what we are doing in Oman. Equally interesting - but very different.

In Iraq the challenge is to apply existing technologies at scale to increase production of oil.

In Oman the challenge is to apply new technologies in a very focused way to unlock resources of tight gas.

Minister Rumhy and his government have taken steps to bring new capability to Oman and we are very pleased to be working now on the giant Khazzan-Makarem tight gas resource.

We have applied techniques that we developed in North America and elsewhere and we have doubled flow rates.

Today we have just three wells - but the plan is to have 300. And this will be one of the largest projects in BP's portfolio.





So this is a different way of building a partnership – using technology as the lever to unlock new resources.

### 3c Indonesia

My third example is also a major gas operation – but a very different type of partnership.

This is in Indonesia where we are working with the government, BPMIGAS and Pertamina at the Tangguh LNG plant in the Papua province.

The plant ships 7.6 million tonnes of LNG each year to China, Korea, Mexico and Japan – helping to provide energy security and supplying an alternative to coal.

But the operation requires careful risk management. It lies in a remote area where people live from fishing and farming. The local ecosystem is both beautiful and fragile.

So we set ourselves a challenge of making this operation a positive force for sustainable development.

We're employing local villagers. We're training local businesses. We're training local government officials.

We're handling security with great care. We're supporting education. We're supporting health programmes. The malaria rate has been cut dramatically in the area surrounding the site.

And this careful approach has helped us create the foundations to expand our operations, with more LNG production and more exploration now being planned.

But this has only happened because we have partnered with local NGOs, local government and local villagers.

So the lesson is that we can make energy operations a force for good – but only if we develop a network of relationships and truly become part of the community.

And I could point to similar lessons that have been learned and applied elsewhere in the world.

In Trinidad, we have helped to create a local fabrication industry.

And in Angola, we have been part of the industry-wide drive to build up capabilities in the aftermath of the civil war.

### 3d Egypt

I'll end with the example of Egypt because I think it makes the most important point of all.

If you're in a partnership and you want to work together in a new way, it helps enormously if you have already built a long-standing relationship of trust.

This has been our experience in many places, including China and India.



Like trees, partnerships often need time to bear fruit, but once they do, they flourish.

We first worked in Egypt back in the 1960s, when we set up a JV called GUPCO, working with the Egyptian NOC.

GUPCO had a workforce composed 98% of Egyptians. That was unusual in its day.

In 1975 we took another step forward when we decided to merge all of our concessions into one Merged Concession Agreement (MCA). That was new in its time and it was a model followed by other operators.

More recently we have set up another new model for the Pharonic Petroleum JV and agreed terms for the West Nile Delta, the largest project in Egypt.

We've been able to do these new things because over the years, we have demonstrated that we trust each other.

For example, in 2000, when gas prices were very high, BP was the first company to come up with a formula that saved the country billions of dollars.

Conversely in the talks over the West Nile Delta agreement, the Egyptian partners showed a lot of flexibility. And this year the strength of the relationship was shown as it endured through the dramatic events of January and February.

I was there a few weeks ago and the business is now continuing to develop and grow.

## Conclusion

So these examples show how we have built relationships with governments and national companies to accomplish business objectives and build value throughout the world.

It's about collective problem solving to meet the world's growing energy needs when easy oil is a thing of the past and operational risks, environmental risks, and geopolitical risks are all around us.

This requires that all parties bring their best contributions to the table.

The challenges are different in different places. They require different solutions. But the common factor is the need to work together – and work together more closely.

Barriers are coming down. People are prepared to work together in new ways and look for new solutions.

A new order is emerging and it is a great privilege to be part of it.

So I look forward to working with you to create mutual benefit and deliver the sustainable energy that society will need in the future.

So thank you, everyone. Thank you also for your support for BP and I hope you will enjoy your visit to this great city of London.