

Partnering to meet the challenges of the future



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It is fitting that this 20th World Petroleum Congress is being hosted in the Middle East. It recognises the region's importance for energy in the past and the present, but, more important – it signals just how significant the Middle East will be for the future.

The Middle East has been central to the world's energy supplies since the time of the first Congress in London in 1933. That was a time when the foundations of the oil and gas industry in this region were being established – with major discoveries in Iraq, Iran, Bahrain, Kuwait and Saudi Arabia.

Indeed, in that same year, the forerunner of BP, the Anglo-Persian Oil Company, formed a joint venture called the Kuwait Oil Company, which a few years later discovered the Burgan anticline structure – one of the largest oil fields in the Middle East.

As we all know, such discoveries continued – and today the Middle East accounts for over half of the world's oil reserves and almost half of its gas.

However, this event is primarily a time to look ahead – and projections show that this region is likely to become even more important for energy supply in the future.

For example, our own analysis in BP suggests the region's share of oil production will grow from around 30 per cent today to 37 per cent by 2030.

What's more, the Middle East is becoming very important in terms of consumption as well as production. Energy demand

in this region is expected to increase by nearly 80 per cent by 2030, twice the rate projected for the world as a whole.

Meeting the rapidly increasing demand for energy – here and around the world – is a huge challenge that will require all of our capabilities as an industry. It is therefore appropriate that the Congress theme is *Energy Solutions for All – Promoting Cooperation, Innovation and Investment*.

Global Energy Outlook

In BP's recent analysis of the future energy landscape – our Energy Outlook 2030 – we painted a picture of great opportunity but unprecedented challenge. The headlines indicate that in the most likely scenario, 40 per cent more energy will be required globally within the next 20 years, with over 90 per cent of this growth expected to come from emerging economies.

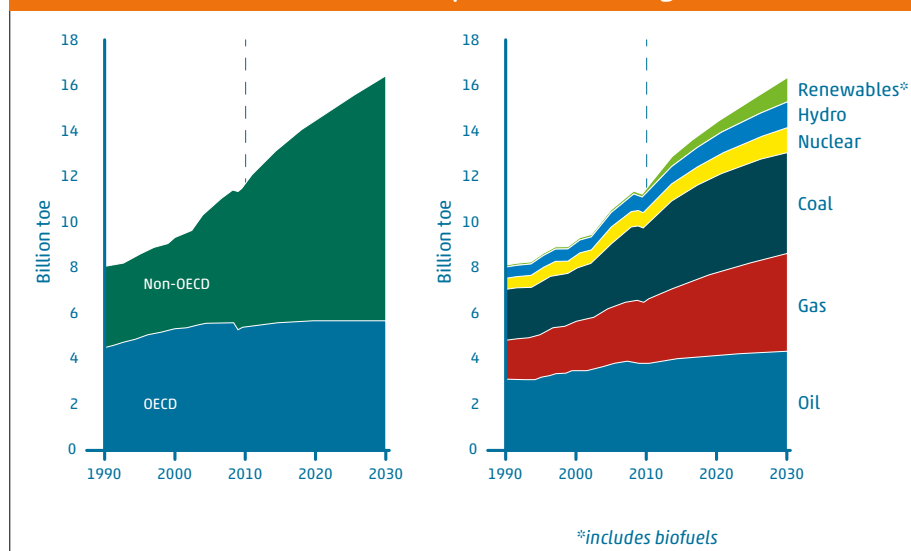
In terms of sufficiency, the industry has to go to new frontiers – in deeper water, in unconventional gas, in heavy oil, and in remote areas like the Arctic Circle in order to meet the growing demand. This brings a new scale of risks for our collective industry to manage.

In terms of energy security, we see a growing disparity between producer and consumer countries. History tells us that the pursuit of so-called 'energy independence' is often impractical, whereas greater co-operation combined with energy diversity offer the greatest benefit.

In terms of sustainability, whether or not there is a major international agreement on greenhouse gas emissions, we must press on with actions that are good for all seasons – not only to address climate change but also energy security. Among these are energy efficiency, renewable energy sources, technological innovation, open markets and an economy-wide price for carbon.

These three sets of challenges – sufficiency, security and sustainability – are ones that are beyond any one company or government's capacity to resolve. All three challenges

World energy demand 1990-2030 – emerging economies account for over 90 per cent of the growth





ask big questions about trust: trust that industry can deliver sufficient supplies; trust that governments will support the market in delivering security; and trust that industry and governments can together find ways to limit greenhouse gas emissions without damaging economies.

Trust and co-operation are two sides of the same coin. And it is by finding new and deeper forms of co-operation built on trust that we will meet these challenges.

Let us look at two areas of co-operation which I think are fundamental to the way we need to operate going forward – first, partnership in managing risk and, second, partnership between International Oil Companies (IOCs), National Oil Companies (NOCs) and governments.

Managing Risk

One of the most fundamental areas for potential co-operation in our industry is safety and risk management. The Gulf of Mexico oil spill in which 11 colleagues lost their lives was a tragic accident. We are grateful for the way in which many industry partners worked with us to solve the unprecedented challenges of sealing a well a mile below sea level, containing oil and responding on the shore.

Over one year later, we are still working hard to meet our commitments. On the ground, our focus has shifted from response to recovery. Across BP, we are resetting the company as we make progress against the three priorities we laid out earlier this year. These are: putting safety and operational risk management at the heart of the company; rebuilding trust with those around us; and taking steps to deliver value for our shareholders.

Starting with safety, we have created a powerful new safety and operational risk organisation (S&OR) which sets requirements and provide deep technical expertise to our operating businesses. This team of professionals, with experience in high-hazard industries, from nuclear power to chemicals as well as energy, has the authority to stop operations and drive corrective actions. We have many examples now where line managers, working with S&OR, have decided to halt activity to ensure safe operations.

We have developed new and more rigorous standards which exceed industry norms. 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. In the Gulf of Mexico, we are implementing a new set of voluntary deepwater oil and gas drilling standards which go beyond existing regulatory obligations and reflect our determination to apply the lessons learned from the incident.

We are conscious that others are interested in what we have experienced and learned and BP is working with others in the industry to help improve safety, better prevent accidents, and enhance the industry's response capabilities.

Without in any way minimising our own responsibilities, we believe it is important to share what we have learned in a spirit of partnership as the industry takes on the challenges of working at new frontiers such as ever deeper water and the Arctic Circle.

We have briefed governments, regulators and partners in 20 countries and held over 50 engagement events. We are continuing to work productively with the US regulator, the Bureau of Ocean Energy Management, Regulation & Enforcement and many other regulatory bodies worldwide. We have shared equipment and technology within the industry, for example with the Gulf of Mexico's Marine Well Containment Company. →

A process safety advisor at the Tangguh plant in Papua, Indonesia, discusses a permit to work with BP contactors





→ Our work also includes providing ‘top hat’ containment systems to the UK North Sea, managing the UK Oil Spill Prevention and Response Advisory Group (OSPRAG) project to construct the next-generation capping stack, and building a new BP global capping and containment system that is ready to be transported by air freight anywhere in the world in the event of a crisis.

Earning back trust takes time, but it is encouraging that during 2011 we have seen new acreage awards in Australia, Indonesia, Azerbaijan, the UK, the South China Sea and Trinidad, among others. A high-quality, material position in Brazil has been achieved with the completion of the acquisition of Devon Energy’s Brazilian assets, as well as a groundbreaking deal in India with Reliance Industries. In Brazil, the regulator said BP had shown itself to be one of the most prepared companies in terms of operational security in deep waters. It is now up to us to live up to this through our actions.

BP’s strategic priorities

Continuing to embed safety and restoring trust are the foundations for fulfilling our role of providing the energy that the world demands and rebuilding value for our shareholders.

A drilling team at the Southern Rumaila oilfield in Iraq



We plan to grow value in a safe and sustainable way, investing in the factors that drive successful performance over the long term – safety, capability, assets and of course, strong relationships.

We are reshaping our portfolio, divesting non-strategic assets worth more to others, investing in a series of new major projects and focusing on distinctive strengths such as exploration – in which we are on track to double investment.

We expect the momentum of our recovery to build into 2012 and 2013 as new projects come on stream, particularly in higher-margin areas; as we complete current turnaround activity; as uncertainties reduce; and as we resume drilling in the Gulf of Mexico, subject to the regulator’s permission.

We also continue to reposition our downstream segment, investing in businesses which underpin long-term growth and improved returns, and divesting others for value.

A common theme across all this activity is partnership. One of the primary skills of managing energy investment is that of bringing together the right blend of partners for each project – to complement our capabilities and experience and to share the risks as well as the rewards.

This process is now leading BP into some innovative new types of relationships – particularly with National Oil Companies and governments.

The role and relationship of IOCs, NOCs and governments

NOCs originated as state organisations, established to serve national interests; while IOCs have always been private companies, accountable to shareholders in many countries.

In very simple terms, the first chapter of the oil industry story was dominated by IOCs, while the second, starting in the 1970s was dominated by NOCs.

Whereas once IOCs controlled 80 per cent of the world’s oil and gas reserves, the figure is now closer to 8 per cent.

However I believe we are now entering a third chapter that will be characterised much more by partnership than rivalry.

The once clear divide between IOCs and NOCs is starting to blur. NOCs are rapidly expanding beyond their national borders – the ‘INOC’ has emerged – and



some are gaining new shareholders. At the same time, IOCs have recognised the importance of serving national interests where they operate.

Today we are privileged to work with many NOCs and governments worldwide, combining our capabilities to discover and develop resources. Each project has its own demands and therefore these partnerships all take different forms.

We believe it is important to share what we have learned in a spirit of partnership as the industry takes on the challenges of working at new frontiers

For example, Iraq is a country where investment and capability have been damaged by war. The task there is not only to produce reserves but to foster national recovery. In terms of BP's work, the commercial challenge is to increase production from the supergiant Rumaila field from one to nearly three million barrels per day. But the wider goal is to create wealth, to provide over 9,000 jobs and to build the capability of the workforce.

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. We added over 10 per cent to Rumaila production last year and one analyst called it an example of "seamless IOC/NOC co-operation."

We are working with governments and NOCs in many different ways in different countries – in Angola where we are building local capability, in Azerbaijan, where we are unlocking the energy resources of the Caspian, in Trinidad where we have helped create a national fabrication sector.

In Indonesia, we are working with the government, BPMIGAS and Pertamina at the Tangguh liquefied natural gas (LNG) plant in Papua which ships 7.6m tonnes of LNG each year to China, Korea,

Mexico and Japan – helping to provide energy security and supplying an alternative to coal.

We have set ourselves the challenge of making this operation a real force for sustainable development. We're employing local villagers. We're training local businesses. We're handling security with great care. We're supporting education and health programmes. And this careful approach has helped us create the foundations to expand our operations, with more LNG production and exploration now being planned.

Conclusion

I strongly believe that the safe and sustainable approach is also the successful approach – and it nearly always involves partnership.

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 solutions need to be of a new order. We can find them, but only if we are prepared to work together – not only to discover new resources – but new levels of partnership.

As the 2011 Congress explores ways to provide reliable, affordable and sustainable energy, I hope the issue of co-operation will never be far from the centre of discussion. ■

Operators on the Greater Plutonio FPSO unit, offshore Angola

