



Carl-Henric Svanberg: Tal på International Association for Energy Economics

Talare
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Good afternoon and thank you Lars for the invitation to join you at this event today.

BP has a long-standing relationship with the IAEE and we have a great respect for the work that you do.

So it is a privilege to come here and to offer you a corporate perspective on world energy.

What is distinctive about a corporate perspective? Quite simply, it is our job to deliver. We turn plans into products. Capital into value.

We invest billions to build projects that last for decades.

And the returns provide savings and pensions for millions of people as well as tax revenues for governments.

So we have two roles; to produce the energy which the world wants, safely and to provide long term returns for our owners.

But doing this involves working with risks – financial risks, environmental risks and the safety and operational risks associated with discovering, producing and processing hydrocarbons.

So when I bring you a corporate perspective as a chairman, it is also the perspective of the people who have to manage those risks every day at the frontline throughout the company's global operations.

We are all part of one team. And together we are very aware of our

responsibilities.

And of course in BP, that awareness has deepened after the tragedy in the Gulf of Mexico last year.

We will never forget that event and our chief executive, Bob Dudley, is taking a large number of new steps to further reinforce safety and risk management in BP.

These changes include creating a central Safety & Operational Risk organisation; and a single group responsible for drilling wells worldwide.

We are committed to sharing the lessons learned from the Gulf with our colleagues in the industry and with regulators around the world.

These included lessons for the Board – and I will return to these later on. The Board will also be keeping a close eye on ensuring that we deliver on our commitments in the US.

So when I think about the corporate perspective, I believe the fundamental role of a company is to create value for shareholders by delivering what society needs – and we must carry out our work in a responsible way worldwide.

How do we do that?

First we make some judgements about the future of energy – and then we choose where and how to participate, all the time assessing and managing the risks.

So I will divide my remarks into two sections: first, the energy challenge – and then the corporate response.

The energy challenge

Let me spend just a little time on the energy challenge as it is set out by economic analysis, highlighting what I see as the most important trends.

In BP we base our plans on many sources of data. And we summarise these in

two main documents – first our own Energy Outlook 2030 – which obviously looks ahead to 2030...

– and second, our Statistical Review of World Energy. This looks back on the previous year – and we have just published the 2010 review.

The 2030 Outlook contains what we call a 'base case', looking at what we believe is most likely to happen, based on the drivers of demand and supply including economic, policy and technology trends.

This is not 'business as usual'. It is more optimistic than that because we factor in policy decisions which have a good chance of being taken.

We also present what we call a 'policy case', based on what could happen with even tougher environmental policies.

The striking data point is that in the most likely scenario we believe the world will require 40% more energy in 20 years' time than it consumes today. That's equivalent to adding two times the consumption of the United States to today's total.

Over 90% of this growth is expected to come from emerging economies as they transform their economies from agriculture to industry.

Living standards grow – but so does the use of energy – and its impact.

I have just one slide I want to share with you from the Outlook.

Enlarge image This slide shows the sharp contrast between the expected growth of energy consumption in North America, Europe and China.

On one hand we can be pleased that in North America and Europe we have stabilized energy consumption despite economic growth.

But on the other hand, the projected growth in Chinese demand is staggering, although I should add that per capita emissions in China in 2030 are still likely to be well below OECD levels.

The same explosion in demand can be seen in India and other emerging markets.

Looking at the global picture – fuel by fuel – demand for oil is set to rise by around 0.7% per year.

This does not sound dramatic, but production in existing basins shows a natural decline of some 4% per year and to fill the gap to the increase in demand,

the world needs to add a Saudi Arabia's worth of production capacity every two years through enhanced recovery in existing basins and the development of new fields.

A positive point is that the cleanest hydrocarbon, natural gas, is expected to grow by 2.1% a year.

But the more disappointing news is that coal is also expected to keep on growing – at around 1.2% annually.

We published those projections in January so 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% last year – the highest rate since 1973 – and well above the anticipated long run trend of 1.7% per annum.

A large part of this can be attributed to a cyclical economic rebound in the OECD world after the downturn.

But it is also reflecting the continuing structural growth in the emerging economies and people may ask if the demand could grow faster than expected.

The second headline was that China had overtaken the US as the world's largest energy user. It was already the largest energy producer and the largest emitter of carbon dioxide.

And as we know China is on track to become the world's largest economy in the next decade.

This is a phenomenon we all need to understand and address in business and international relations. China alone will have a profound influence on the future of energy.

China is well aware of its challenge and makes big strides in energy efficiency and energy mix towards a higher proportion of gas and non-fossil fuels.

But the challenge is vast.

Rising fuel consumption

Looking at particular fuels, gas consumption rose by over 7% globally last year – and over 20% in countries like China and India.

And coal consumption grew even faster and made up nearly 30% of all energy used.

As a result, worldwide carbon dioxide emissions from energy use went up by 5.8%.

Although this was partly the result of the economic rebound, it is nevertheless way above our base case long run trend projection of 1.2% per annum, which is itself a matter of concern.

I have to add that our projections are just that – projections – and not a proposition.

This is not what we want to happen, but what we regard as most likely to happen. In the next two decades, the most powerful way to reduce emissions will be to shift from coal to gas and to focus on energy efficiency.

Over time renewables will also play an important role.

They start from a low base. They are however the fastest growing source of energy and in some countries they are already a material part of the mix.

In Denmark, renewable energy meets more than 13% of the country's energy

needs.

And here, in Sweden, 30% of energy comes from renewables, largely because of our opportunities for hydro-electric generation.

Transitional incentives are needed to support renewables before they can compete at scale. This is a fine balance for policy makers.

So in summarising that data, the journey at the moment is one where we are seeing:

- strong growth in energy demand, driven by the emerging economies;
- a continuing dependence on fossil fuels;
- a need to find new sources of oil;
- encouraging growth in gas, which is critical as an alternative to coal;
- encouraging growth in renewables, albeit from a low base;
- but less encouraging, continuing heavy coal use;
- and largely as a result, continuing growth in greenhouse gas emissions.

This is the backdrop against which we must build our corporate response and our business strategy.

The Board's approach

So what is the approach that we take as a Board to represent the interests of shareholders – our owners – as well as meeting the expectations of society at large?

And how does that translate into a corporate strategy, executed by management and overseen by the Board?

I would characterize the approach as having three dimensions. First managing

risk – from establishing board governance processes through to understanding and monitoring specific operational risks;

Second, setting a strategy for value creation within the risk management framework and keeping that strategy under constant review;

And third building and maintaining relationships with different groups at different levels.

These are all interlinked and together they enable us to build and maintain the most valuable asset in business life – which is trust. The trust of our shareholders that we will create value. The trust of the financial markets in the stability of our business. The trust of governments in our ability to operate safely and reliably. And the trust of society in our capacity to provide the energy they need. I have led public corporations for two decades. Again and again I have found that trust is the critical underpinning of all achievements.

I believe the only approach for the company of the future will be to find the way to meet all of these expectations simultaneously.

If we can do that, the potential rewards are very significant.

So what function does the Board have in this context?

The Board does not manage the company. This is the role of the CEO and his team, but it does govern the company.

The Board is the long term steward of the company, responsible to the shareholders to make sure that the company is sustainable.

Managing risk

First let us look at risk. The scale of demand for energy clearly demonstrates the scale of the business opportunities that are ours to grasp.

But these opportunities come with huge risks attached.

Let us be clear.

In the business of working with hydrocarbons there will always be risk:

Risk from the products themselves; risk in the way they are produced and processed; and risk in working in the countries where they are found.

Operational risks arise from the need to go to new frontiers such as deepwater, shale gas and eventually the Arctic.

Last year's accident tragically demonstrated the risks that are inherent in that frontier activity.

The environmental challenges are also very clear and these are of a different order of magnitude.

Here it is not only individual lives but the global environment and civilization that are at risk.

Policy-makers hold the levers of change in this area. But we have a major role to play in delivering environmentally sustainable energy in a way that is also commercially sustainable. Our generation has to get this right. The challenges are clear and they won't go away. We must continue to take steps to better manage risks within our operations.

Beyond these risks there are financial risks, regulatory risks, political and security risks.

Companies have been assessing risk as long as there have been companies.

But today our shareholders and regulators are rightly demanding greater levels of transparency about how we manage them.

So the Board identifies the major areas of risk. Thus, it sets the 'risk appetite' for the company.

It sets the parameters within which risks are identified, assessed and managed.

Oversight of these risks is allocated between the Board and its main monitoring

Committees, which are the Audit committee and the Safety committee.

And last year we also created a Gulf of Mexico Committee to oversee the activities of our Gulf Coast Restoration Organisation and the risk associated with the clean up, claims, investigations and litigation from the Gulf of Mexico accident.

These structures provide a formal system for managing risk, but we also have to be agile in the day to day management of particular risks.

Last year that meant we were engaged in real-time risk management at Board level. Much of this work was not done in the public eye but it was an incredibly intense and critical period.

We met 28 times as a full Board with around 50 committee meetings as well. We spoke daily. We stayed united and resilient. We had to make a large number of big decisions: setting up the 20 billion dollar trust fund with its independent adjudicator; cutting the dividend; selling assets worth 30 billion dollars; changing the company's leadership reorganising the company; and agreeing on a new strategy. In fact, we probably undertook six years' work in six months. At least, that's how it felt. And when I represented the company and its Board in meeting President Obama at the critical moment in re-establishing trust with the American government and people, the crucial issue was establishing a trust fund for claims.

Our firm agreement to set aside the 20 billion dollars marked the turning point. It stabilized our relations with the administration – and it stabilized the company.

It also reinforced BP's ongoing commitment to meet our obligations.

Creating value

So let me now turn to how we create value.

Once we have established a framework for risk management the company can shape our strategy.

So what has that meant for BP? The last year has provided us with a unique opportunity to debate and agree our strategic direction.

What are our real strengths? How can we create value in a way that is safe and sustainable?

We have very clear strategic priorities.

First and foremost we are putting safety and operational risk management at the heart of everything we do. This has led to a chapter of change

a new safety and operational risk organisation; a restructuring of our upstream activities; a new performance management system; Second, we have developed a new value proposition, one that is focused on the drivers of long term sustainable value – safety, a rich portfolio of assets, deep capability and strong relationships.

Third, we are determined to earn back the trust that is indispensable by operating safely and building value.

Let me outline the key planks of the value proposition. They are also based on three pillars.

First, we are increasing our investment in exploration. Exploration is BP's core strength.

Every year, for the last 18 years, we have replaced more reserves than we have produced.

That is a unique record and it makes sense for us to play to this strength and invest more deeply in exploration.

Second, this increase in exploration activity should help us manage our portfolio more actively.

Think of the portfolio as a pipeline – if more discoveries are made at the start of the pipeline we can sell assets whenever they are worth more to others than they are to us. So this is an evolution of the classic international oil company model

where each field is typically managed from discovery through to decline.

Third, we are taking the opportunities for partnership presented by what I would call the end of the era of 'easy oil'.

Working in partnership

As you know, until the 70s, exploration and production in oil and gas was dominated by the international oil companies – the IOCs. At the time they held over 80% of global reserves.

Then came a phase when national oil companies – or NOCs – determined to exploit their own resources.

And as a result today international oil companies now hold less than 10% of the reserves. But now, NOCs are facing increasing challenges in finding and producing hydrocarbons.

And this provides us with opportunities to work more closely with them by deploying our distinctive capabilities in areas such as deepwater, unconventional gas and enhanced oil recovery.

These capabilities provide us with competitive edge and they are presently taking us into many new partnerships with NOCs and national champions – for example in Iraq, Angola, Brazil, India and China.

We are witnessing how relationships between IOCs and NOCs are entering a new phase.

Thus, at the Board level, our responsibility to shareholders means we must be capable of interrogating and challenging the strategy on a continuous basis.

The present development is proof of that.

This is about having not only the right processes but the right people – in the workforce, in management and on the Board.

BP is a global company and it needs a Board composed of individuals who can

play on that global stage – who can help us see change, understand change, and use it to our advantage.

This is a truly global company and it requires people with deep global experience to scrutinise its direction.

When I joined BP as chairman I joined a Board with great experience in many sectors and disciplines.

And in the last year we have made new appointments that add ever more relevant expertise. So we have added to our Board: a former admiral of the US nuclear navy a former chief executive of BHP Billiton a former head of McKinsey a former chief executive of one of Africa's largest corporations, with great understanding of emerging markets; and a former vice chairman of KPMG. And this is backed up with an International advisory Board that includes such people as Kofi Annan, Chris Patten and Javier Solana. So I believe that we now have the right mix of experience and skills to guide BP through the next stages of its evolution and the challenges that it faces – to make the right judgements and take the right decisions.

Enduring relationships

This takes me to the final point about the corporate response. Ultimately trust depends on strong and enduring relationships.

This is an industry with long lead times, long project lives and long memories.

From the Board through to the frontline, our ability to deliver depends upon the way in which we meet the expectations set by governments and regulators and the quality of the relationships we have – with investors, with communities and with national companies.

So we are determined that as a company we will build on these relationships.

That works all the way from high level engagement by the Board at the White House right through to the person who serves you in a retail station.

It means listening to people who may be affected by our decisions. As

chairman, my task is to maintain and build trust with major shareholders, with governments and business communities.

It will take time for us to earn back trust after what we have been through but I am inspired by the support for BP amongst shareholders, governments and business communities.

Conclusion

So that is my take on the energy future and the corporate perspective.

The challenge is to strike the right balance between risk and reward, to operate safely and reliably at the same time as playing to our strengths – and in doing so to unlock the opportunity to create sustainable value.

Thank you.

Taggar

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