Institute of Americas Speech

Title:

Global Challenges; Latin American Opportunities

Good morning ladies and gentlemen.

It's an honour to be with you today and to be the first ever recipient of the Institute's Energy Innovator Award. It is particularly special to receive it at this conference as I spent some of the most formative and enjoyable years of my career in Latin America – so thank you. I very much appreciate this award.

Innovation - not just new technologies, but also new approaches and thinking - have been vital in the petroleum industry; an industry pivotal to the industrial revolution of the 20th century. Today, modern life is inconceivable without affordable energy for heat, light and transport.

BP has played, and continues to play, a leading role in the energy industry. Throughout my 27 years in the company, I have observed the ingenuity and passion of our people in pushing frontiers and drawing on this pioneering spirit to confront and overcome challenges. And this is still true today.

What's also true is that in the energy industry we're never short of challenges.

One of the most immediate is the extreme volatility in oil prices and its impact on future supply. It is not so long ago that we were all talking about record high oil prices – since the peak 10 months ago the price has fallen by about 2/3 and is currently hovering around $50/bbl.

Around the world, the economic outlook has also changed dramatically. Recession has spread across Europe, North America and parts of Asia. And in Latin America too, economic growth has slowed, with some countries hit very hard.

The impact on our industry has been sudden and severe. Demand and prices have both fallen sharply. And the issues many of us in the industry have been wrestling with for some time – the importance of energy security in providing economic security and tackling climate change in a way that is commercially viable – have shot up the political agenda.

Although at the moment it may be hard to see beyond the immediate economic downturn, it's our responsibility in the energy industry to look through the here-and-now to the longer term.

And the long term trend is this: the world economy will recover. The future has not been cancelled.

My optimism is based on some very significant long term trends that can not be reversed, not even by a deep recession.

In my lifetime the world's population has doubled to more than 6 billion people. At the current rate, it will exceed 9 billion by the year 2050.

The current maelstrom may slow down, but it won't stop the movement of one third of the world's population from a rural way of life to an urban one. Already today, some 50% of the world's population live in cities, and some of the biggest ones are in Latin America.

With this population growth and a shift to urban living, the demand for energy will continue to grow and we need to be prepared to respond effectively.

Let me be clear about the scale of what we are talking about here. According to IEA projections, primary energy demand will grow on average by about 1.5% every year to 2030. Oil demand is expected to grow at about 1.3% and gas demand by some 3% a year. And what this ultimately means is that we'll need around 40% more energy in 2030 than we consume today.

Most of this growth will come from the non-OECD area; and in particular from China, India and the Latin American countries.

And, if these trends continue as predicted, the energy industry will have to invest more than $26 trillion between now and 2030 to meet this future demand – that's more than 1 trillion dollars every year.

So we need to think about how the world is going to respond to this step change in demand.

And, although it's a major issue, it is not an insurmountable one.

It's not true to say, for example, that we are running out of hydrocarbons. There are nearly 42 years of proved oil reserves left in the ground and 60 years of natural gas. Put another way, as of today, the world has produced around one trillion barrels of oil. We're sitting on another trillion barrels of proven reserves; and there is another trillion barrels which we know to exist but which are not yet commercially viable. Beyond that there are significant quantities of unconventional oil and gas resources which will require new technology and innovation to exploit.

Today, we do have the natural, human and financial resources to meet the world's growing need for energy.

And Latin America has a significant role to play in this. The region has been and will continue to be a big producer as well as a major consumer of energy of all types. Last year, Latin America contributed 12% of the world's oil production and 7% of the world's gas production and for the past decade has been a net exporter of oil and gas.

However, the share of world oil production from the region has been decreasing. This is a trend that is likely to be reversed over the medium term.

The last few years have seen some very successful subsalt oil exploration in Brazil, enabled by changes in seismic imaging and drilling technology. Venezuela also boasts significant unconventional oil resources that can now be developed thanks to today's technology.

So this – along with future discoveries- can help reverse the recent decline in oil production in Latin America.

Looking at gas, over the past ten years production has almost doubled. This is an outstanding example of what can be achieved when technological innovation is combined with public private partnerships.

And Latin America is already well positioned in renewables and alternatives. It is one of the biggest producers of hydroelectric power, and bio-fuels are expected to see significant further growth.

Last year BP became a part of the sugar-cane ethanol industry in Brazil - the largest investment to date by an international oil company. Our goal is to expand production of sustainable biofuels by integrating Brazilian expertise with new technology being developed at BP's Energy Biosciences Institute based at the University of California, Berkeley.

So I believe that Latin America has significant assets in conventional and unconventional hydrocarbons, as well as a significant resource base for lower carbon alternatives.

Our challenge is to find the most innovative and economic ways to turn these assets into long term value for the resource holders.

There are actually few limits to technology and innovation to access available resources. So when it comes to producing more energy to meet demand, the problems are not below ground, they're above it. They are human, not geological.

It's no secret that resource nationalism and access restrictions have increased. Currently about 80% of the world's oil resources are off limits to some of the best technology and know-how. But these are all hurdles that can be overcome.

And here, I believe, lies the opportunity for Latin America. The region can differentiate itself and gain a competitive advantage by focussing on solving the challenges above ground.

To do this, there are numbers of issues that need to be addressed.

First, we need to create a stable and transparent business environment. To encourage the trillion dollar investments required to meet the demand challenge, businesses and governments around the world must trust each other and establish a mutually beneficial fiscal and regulatory policy. In my view, a good example is Brazil; it has a world class regulatory framework which is attractive to both domestic and foreign investors.

Second, we need a free and open energy market. An increased global integration in energy trade is an essential response to the growing imbalance between energy supply and demand. BP supports the elimination of tariffs, such as those imposed on ethanol imports. We need genuine cooperation to lower trade barriers and tariffs on all forms of energy.

Third, we need to be honest about the future of hydrocarbons. Around 80% of all energy is provided by fossil fuels and, by most forecasts, fossil fuels will still provide the majority share of primary energy in 2030. It is therefore important that we continue to support exploration and development of hydrocarbon resources across the world in a safe and responsible manner. Latin America can play a key role.

Fourth, we need an economy wide carbon price to promote energy efficiency and address climate change. Until energy producers and consumers know and pay the cost of carbon, the uncertainty associated with planning and investing in the transition to a low carbon economy will remain high. Climate change is a reality that we need to face.

In my view, we need to:

- Use less energy and use it more efficiently;
- Introduce a cap and trade scheme, providing environmental certainty based on an absolute emissions cap;
- And increase investment into research, development and deployment of new forms of energy, which are more sustainable over the longer term.

And finally, we must leverage expertise in win-win partnerships. In an uncertain world, our aim must be to build a balanced and diverse energy portfolio, both geographically and through the primary energy mix. New forms of collaboration are needed. NOCs and IOCs need to find ways to harness their strengths and create new forms of partnerships that unlock resources through more efficient capital and technology allocation – a good example of this is, I believe, our relationship with Ecopetrol in Columbia. It is only through this mix of expertise that we can generate new and innovative solutions to provide secure, low-cost and low-carbon energy to all nations.

To conclude, I believe this is a crucial moment.
We are living through a fundamental shift in the balance between supply and demand. This powerful trend will not be stopped by the downturn we are currently experiencing.

We know the aims – a stable energy supply and a sustainable planet – and at BP we are all signed up to them. We need to create a framework that allows the industry to get on and deliver them, as I believe we all want to. Latin America is well placed to do just this.

And I believe that the Institute of Americas is an organisation that can assist in solving the problems 'above the ground'.

It's been a real pleasure to come here and talk to you and an honour to have received the first Energy Innovator Award.

Thank You. I am happy to take your questions.