ConocoPhillips Chairman and CEO on Bringing Production Back; Why US Oil Output is Unlikely to Return to Pre-COVID Highs; How Shale’s Era of “Growth for Growth’s Sake” Has Passed and Why More Industry Consolidation Could be On the Way

Ryan Lance speaks with IHS Markit Vice Chairman Daniel Yergin for the latest CERAWeek Conversations – available at www.ceraweek.com/conversations

WASHINGTON, D.C. (June 9, 2020) – ConocoPhillips Chairman and CEO Ryan Lance talks about how the company was able to weather the COVID-19 crisis without layoffs; current plans for bringing back shut-in production and the importance—now more than ever—of maintaining a strong value proposition “to bring investors back into the business” in the latest edition of the CERAWeek Conversations series.

In a new conversation with Daniel Yergin, vice chairman, IHS Markit (NYSE: INFO), Lance talks about how strategic reassessments coming out of the last oil price collapse enabled the company’s resilience during the pandemic; the importance of maintaining an investor’s perspective; why consolidation is needed to put assets in “more rational hands, and run them for returns,” and more.

The complete video is available at: www.ceraweek.com/conversations

Selected excerpts:
Interview Recorded Thursday, June 4, 2020

(Edited slightly for brevity only)

• On how early responses to COVID-19 in the company’s Chinese operations led to protocols and best practices globally:
“In China we have a large operation in Bohai Bay that is offshore. In working with our partner, CNOOC, [we] came up with a protocol that said there was about a 14-day incubation period for the virus, send people offshore and have them work for 14 days and then the next group coming in would have to self-quarantine and isolate for 14 days.

“It really helped us work through the operational protocol that then was applied to the North Slope of Alaska where we had 4,000 workers in our offshore operations, and in Norway, and elsewhere around the whole world.”

- **On bringing production back after COVID-induced curtailment:**

  “We made a decision pretty early on to start curtailing our production. We were getting single digit kinds of offers at the wellhead for some of the product that we were producing, and we just didn't feel like that was sufficient.

  “We've got about a third of our production shut-in as a company—400,000 barrels a day. But we see some strengthening in the market so we are in the process of thinking about under what circumstances should we start coming back into the market and then start selling our product.

  “We do have to be worried about a double bump in this process, depending on what the OPEC+ countries do. There's quite a bit of production shut-in right now to try to balance the market in the U.S. and keep inventories at a reasonable level. I would say we're probably thinking of slowly coming back into the market over the next few months and reducing the amount we've got curtailed because we're seeing some strengthening in the price.”

- **Whether the costs of shutting in horizontal wells are high:**

  “We don't think so. We've had some experience. You get pipe turnarounds that you have to do. Two years ago we had to shut in for about 20 days just due to Hurricane Harvey. Then, of course we do well maintenance. So, in our experience there's a little bit of extra costs associated with it, but not a lot.

  “The experience is that there is flush production when these unconventionals come back. If you have spare capacity at the surface to handle that flush production, then it is a very rational economic decision to do the kind of curtailment, as long as you have the balance sheet and the capacity to forego that cash flow. It’s a very rational decision when you have a declining profile like an unconventional well. When you open it back up you do see flush production come back. It takes a period of years to produce all of that volume, which is why it becomes a quasi-investment decision.”

- **On the virtues of a having a strong balance sheet heading into the market downturn:**
“We came into this downturn with a pretty significant comfort on the balance sheet. We had $8 billion in cash; we have a $6 billion revolver. So we've got a very strong relative competitive position and we're going to maintain that as we go through this. That has allowed us to make some decisions on curtailments that maybe others can't go do—if they're making $1 at the wellhead for their crude and they're willing to sell that, [it's] because they can't forgo that cash flow as easily as we can because of the strength of that balance sheet.”

“We haven't done layoffs inside our company. We've tried to hold the productive capacity of the company intact and we've been doing that on the back of our balance sheet, the strength of that balance sheet, because we want to come back into the next upturn, which we know is coming.”

• **On the outlook for U.S. shale and the new value proposition to E&P investors:**

  “I don't think shale's gone. I don't think anybody says that. There's going to be some very low-cost to supply shale resource and they still exist in the United States. We have a lot of that in our own company as well—reserves and resource that we will come back to, putting rigs back to work, putting frack spreads back to work and investing in growth again in shale. So, it will come back.

  “Shale is not broke; shale is not gone; shale will come back. But I do think it comes back slower because there's going to be pressure on companies to confine their capital program, maybe not grow dramatically as they were before, because I don't think the access to capital in the investor community, at least in the public side of the business, is going to be as robust as it was over the last decade.

  “That's just the value proposition conversation about how do we get value investors and energy investors back into this business. That's going to be a function of giving money back to the investor, modifying your growth so don't have to grow that fast, and a real heavy focus on return on capital employed. That what's going to get the investors back and excited about the E&P space.”

• **On the evolution of ConocoPhillips’s new value proposition for shareholders:**

  “We did a lot to the company in terms of re-identifying the portfolio that we thought could exist and what we felt like was going to be a lower mid-cycle price with a lot of volatility, given the short-cycle nature of the shale. We saw that shale production coming—we referred to that a number of years ago as a “tidal wave scenario” we had in our planning. It just informed our view that we really had to rethink the whole value proposition associated with E&P companies.

  “We basically said you've got to give a fair amount back to the shareholder—in our case it’s greater than 30% of our cash. You want to do that in a variable way, through a dividend channel and we did it the variable way through buying some of our shares back. But more importantly grow our company on 70% of the cash. Both grow it modestly and a real hyper-focus on cost, low cost of supply, and really generating
competitive returns—not only in the E&P industry but into the broader S&P 500 or the industrial space."

“The ESG, the transition discussion, is not going away. The world needs to transition to lower carbon fuels over time. But even then, there's space for oil and gas because it's so important for cheap reliable energy in all four corners of the world. Against that backdrop, they also see that it's a rational decision to say, “you need to keep the shareholder.” You just can't go grow and spend 120% of your cash flow continuing to grow. That's not going to be a model that gets rewarded over time.”

- **On the viability of the U.S. recovering to pre-COVID-19 production levels of 13 million barrels per day:**

  “It's a longer road back to above 10 million a day or so, where we're at today. If I were a betting man, today I would say it would be pretty difficult for us to return to 13 million barrels a day. But we'll get back above 10 [MMb/d], back above 11 [MMb/d] maybe encroaching on 12 [MMb/d] as we go through. A lot of that depends on the shape of this recovery.”

- **On potential for consolidation in the industry:**

  “The fundamental point is we got to put these assets in less hands, more rational hands, and run them for returns, not necessarily growth for growth's sake. Doing that then cuts the fixed cost of the system, brings the cost of supply down, and makes the U.S. energy system and the global energy system more competitive with a lot of the NOCs and the other people that are competing in this business.

  “There has to be some rational conversation amongst boards and management [on] what's the right value proposition going forward for this business. And how do we participate with companies that can offer that kind of the value proposition. Those are important conversations that people need to have because that's how we're going to get more investors back into the business and that's how we're going to show good returns which is paramount to try and increase the valuation of your company.”

- **On market-driven sustainability models undertaken by ConocoPhillips and across industry:**

  “We're about trying to reduce the methane emissions. We don't need regulations to do it because companies are voluntarily doing it today. We're trying to reduce the fugitive emissions. We're trying to reduce flaring and get that down and the CO2 footprint has come down in the United States, despite the fact that we've seen this dramatic growth in oil and gas production over time.

  “Companies are trying to do the right thing and trying to manage through this transition and improve the sustainability of the product we have. We are going after our Scope One and Scope Two emissions. Our company alone has taken seven million tons of equivalent CO2 out of our business over the last five to six years. We're trying to
address the Scope Two emissions and as a company, we've joined the climate leadership council and support a tax on carbon as a means to address Scope Three emissions from the products out of the material we produce today. We are trying to be reasonable, trying to be good actors, but also trying to deliver that affordable and sustainable energy to all four corners of the world.”

• **On the challenges of political polarization vis-à-vis sustainability efforts:**

"It seems to be a conversation about all or nothing, and there's no reasonable conversations going down the middle that say we can have these kinds of jobs, this incredible industry that's creating the security for our country [and that] we can do that sustainably with the climate in mind, with the planet in mind so we avoid going through this huge experiment with our planet over the next 30-40 years, which I think we all agree we don't want to go through. There are middle grounds here."

• **Key leadership messages amid volatility in both energy markets and civil society:**

“We talk about consistency of purpose. Keep the long-term in mind. We've been preaching volatility in our company for the last five to six years and that we can't control a lot of what's going on around us. But we can focus on what's important to the company. And that's being safe, protecting the environment, being inclusive, being diverse, being collaborative and doing the things that we do: being low cost and delivering the returns that are important to the investor community and just differentiating our company in that sort of light.

“Business has to step up and be a voice and manage through the discrimination that exists in the United States today and that's a lot of stuff going on around us. We also need to focus on the business at hand and what we do really well as an industry and as a company.”

Watch the complete video at: [www.ceraweek.com/conversations](http://www.ceraweek.com/conversations)

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*CERAWeek Conversations* features original interviews and discussion with energy industry leaders, government officials and policymakers, leaders from the technology, financial and industrial communities—and energy technology innovators.

The series is produced by the team responsible for the world's preeminent energy conference, CERAWeek by IHS Markit.

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- **Global Gas: What Lies Ahead** – Hendrik Gordenker, director and senior advisor, JERA and Laurent Vivier, president, gas, Total interviewed by Michael Stoppard, chief strategist, global gas, IHS Markit

- **Oil & globalization: Impacts from COVID-19 and Future Possibilities** – Spencer Dale, chief economist, BP and Saad Rahim, chief economist, Trafigura interviewed by Jim Burkhard, vice president and head of oil markets, IHS Markit

- **Leadership Dialogue with Dr. Fatih Birol** – Executive director of the IEA interviewed by IHS Markit vice chairman Daniel Yergin

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