BP CEO Bernard Looney on Creating a “Lighter, More Agile, More Focused” Organization; Energy Transition and Net Zero Carbon Emissions by 2050; Operating in Today’s Oil Market and Why Shale is Really a “Tech Business”

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

WASHINGTON, D.C. (June 11, 2020) – BP CEO Bernard Looney talks about assuming leadership of the company amid a global pandemic; navigating “brutal” oil market conditions brought on by COVID-19; “taking costs out of the system” and getting to a $35 per barrel “balance point” by next year in the latest edition of the CERAWeek Conversations series.

In a new conversation with Daniel Yergin, vice chairman, IHS Markit (NYSE: INFO), Looney says that BP will produce less oil and gas over time; that oil demand is probably slowing (though one does not know when so-called “peak oil” would occur); how focusing on “value” rather than “volume” makes it possible to meet carbon goals and satisfy investors’ expectations, 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 BP’s COVID-19 response and the transition to CEO amidst a global pandemic:

“It’s been an incredible time and we’ve tried to anchor very quickly on three things that we felt were really important, and it has been helpful. Number one was we wanted to
protect the health of our people. Secondly, we wanted to support our communities where we work. Thirdly, we want to strengthen our finances.

“There are a lot of people in this world who are having it more difficult than us: people have lost loved ones; people that are on the front lines that are protecting us. In many ways we have the privilege of working from home because many people don't. And indeed, many people inside BP [don't]—people who are working our retail stations, who are providing fuel and food, people who are working in our facilities offshore and refineries providing the energy and the fuel that the world needs.

“People have been going to extraordinary lengths and I’m sure it’s true in every company, but it's certainly true inside BP.”

- **On BP’s new executive management structure:**

“Not only am I new in my job, but we have a new team that's just been announced on the 12th of February. There’s 12 of us and we're basically all new to our roles in one form or another. A third of them are women. It’s a very diverse team and we're coming together virtually because we're not able to have those getaways that you would have when you bring a team together.

“We’ve just announced what we call the “Next Level Tier Two Leadership” where we've gone from 240 leaders down to 120, halving the size of the leadership at the top. Thankfully, we've got 40% women in there and almost a third ethnic diversity. They are selecting new people, they're developing their strategies—all while dealing with negative oil prices, a pandemic, and trying to do it all virtually. I’m really proud of my team and I think it's an extraordinary confluence of events that has come together.”

- **On the thinking behind BP’s aim to achieve net zero carbon emissions by 2050:**

“Bob [Dudley] laid a great groundwork here. My role was to come on and take that to the next level. I went out after I was announced, and I've been going around and listening. I went on the road and I met with investors, I met with members of civil society, I met with NGOs, I met with academics, I met with the United Nations, I met with activists, and of course I listened to our own staff. It became clear to me that this is what all those constituents at some level wanted.

“In many ways we say: how do you make tradeoffs between what society wants and what shareholders want? I believe that there is much more of a confluence of what they want. Investors of course want a financial return, but they also want to invest in companies that are having a positive impact on our world.”

- **On concrete steps to achieve net zero by 2050:**

“We came out with 10 aims. There were five to help the company get to net zero and five to help the world get to net zero. Aim one is about our scope one and two
emissions. We have things that are ongoing inside the company to improve that around efficiency and power usage and leaks.

“The second aim said that if we look at the carbon content of the oil and gas that we as BP are uniquely responsible for introducing into the world, we have an ambition to take that to net zero, which is an incredible thing for what is predominantly an oil and gas company to say. We will get there through our portfolio. We will produce less oil and gas over time. That was a big statement that we made on February the 12th. It took a little bit of courage to get over the line on that. But I believe it's the right thing.

“We're not about volume. We're about value, we're about cash flow, and I believe that we can satisfy our carbon expectations and satisfy our investors’ expectations around value better this way. At some stage, we will have, towards the back end, some natural climate solutions and carbon capture and storage. But it'll be predominantly delivered by volume.

“Aim three is about the intensity of our products and how we reduce that. Aim four was around methane—we will measure our methane at all of our existing facilities worldwide by 2023 and once we have that measured basis, we will then set a target to halve it.

- **On potential new growth areas for BP:**

  “Without question low carbon electricity will be a big part of that. We already own 50% of Europe's largest solar developer. We're in 13 countries around the world now. Unquestionably wind will be part of that, and we'll be talking about what we're doing in that space.

  “Bioenergy is an area that I think has great potential and electrification of mobility and mobility services, I think you will see us talk a lot about. Today we have a partnership with DiDi (largest ride sharing firm in the world) in China. Didi owns 20% of China's electric vehicles. They have 30 million rides a day and almost 500 million customers. We’re their charging partner. We are going to help them build their fleet charging network in China.”

- **On how BP can be an asset in the energy transition:**

  “We've got about 6,000 engineers in our company. We've got two and a half thousand scientists. We're one of the world's largest trading organizations. We build very big projects. We operate very large plants. We're truly global. We're in 78 countries.

  “I think the real thing that we have to add is integration. If you take a Microsoft or an Amazon and their big data centers and they want power for those—what do they want? They want power that is clean, it's reliable and it's cheap. It's very hard for them to go to a solar company or a wind company and get that because, while they might get clean and cheap, they may not get reliable.
“That's where we come along—a company like ours that might be in wind and solar; we'll obviously be in gas; we'll have a trading entity that can manage the shorts and the long and balance the markets so that they can get that reliability, maybe on a digital platform. That's a unique offering.”

- **On organizational restructuring and implementing the “Reinventing BP” strategy:**

  “There is no more upstream and downstream. What we had was two very large segments and they were colossal segments inside the company, and they sort of dominated—you're either an ‘upstreamer’ or a ‘downstreamer.’ At some stage we felt that, actually, what we don't want are two big segments; we want one segment and that one segment is called BP.

  “The second thing was obviously a focus on customers. Customers and what we can do for customers in the future, particularly in the world of electrification and mobility, is huge. We created an entity around that.

  “Then we have low carbon and we felt that it was important to bring gas and low carbon together. We wanted to focus on low carbon electricity and energy.

  “Finally, innovation. Innovation is absolutely at the core of a company—being able to reinvent itself. We've done that. We have tried to create them and are trying to create a lighter, more agile, more focused and more integrated company.”

- **On operating in the current oil market environment:**

  “It's tough. It's a brutal environment that we face at the moment. It has recovered a little bit over the recent weeks, but as I would remind our own organization, it's a recovery from a very low point. While we may have a recovery in crude prices, gas prices are still quite depressed and refining margins are still very depressed. The crude market is recovering far ahead of the product market.

  “We can't predict the price of oil you. Therefore, we concentrate on what we control. We've taken our capital down. We're taking costs out of the system; we're going to take about two and a half billion [dollars] out by the end of next year and we're going to get what we call our ‘balance point’ down to around $35 a barrel next year.

  “We used to call it ‘breakeven,’ but ‘balance point’ is the language that we want to use because it's not just the oil price that you break even on, but what's your gas price assumption? And what's your refining margin assumption? With some reduced assumptions on both gas and refining to reflect a more difficult environment, we think we can balance the books next year at around $35 [per barrel]. That means that we can invest about $12 billion into the business to do the things that we need to do; we can pay a dividend and we can do that at $35 which is a pretty healthy oil price to do that. But we're not there today and we're on our way there.”
Managing costs through innovation, digitalization, centralization and “agility”:

“We have really taken costs out of the system. I remember in 2016 we said that we would bring on a million barrels a day in production by 2021—that was about 35 major projects. We thought at the time it would cost us about $50 billion. We’re going to do it for between $35 and $40 billion. We used to have 30,000 people in the upstream. Today we have about 17,000 so we’re doing it with a lot less people.

“I’ve always been a believer that the numbers are so big in the upstream that there remains enormous opportunity for improvement. We’re going to go digital. We absolutely believe in it and we’re going to take it to the next level. We’ve done a good job on our back office. We’re now bringing it into our operation system. We want to be able to get to a place where you can raise a work order, order a part, get it delivered, install it, be invoiced, [and] pay for it. We want that chain to be touchless. If we can do that will take out 30% to 40% of our cost.

“We’re going to go agile. [Agile] is about delayering—it’s taking the layers out of the organization. It's multi-disciplinary teams working together. It's about a singular focus. A big thing in agile is we’re much better when we work on one problem at a time.

“Finally, and I think the most important, it turns the job of leadership on its head. All too often, people in organizations look up—they wait to get into the diary to get a decision made. We're changing that. The job of a leader is to support their organization. The job of a leader is to go to the work site. Meet with the team, they tell you what problems they have, you sort their problems, you make decisions right there and then. It's changing the clock speed of decision making inside our company by between 60% and 70%.”

On the role of shale in BP’s portfolio:

“Shale is an extraordinary resource. We did the BHP transaction in the lower 48 a couple years ago. We're really pleased with what we got. We're surprised on the upside, particularly in the Eagle Ford; we like that a lot, but the Permian is very good. We look at the cost to run the business and the synergies we think that we could get out. We promised $350 million by 2021. We promised $80 million in the first year. We delivered $270 [million] in year one. We’ll accelerate that $350 [million] and we think we will go beyond $400 million in total synergy savings.”

“I think [costs for shale] will continue to go down and I know that people say it's beginning to plateau out. But I am a believer. David Lawler, who runs that business for us is a massive believer. He believes this is a tech business. The things that we've been able to do with taking people out of harm's way and taking people out of the field and getting costs down and the improvements we can make are exceptional.”

On future demand for hydrocarbons:
“A lot of people ask about peak oil. The answer is we don’t know. I think that's the reality. As you look out in the future, is oil demand going to grow at 3-5% per annum for the next 20 or 30 years? No.

“What is going to happen? Oil demand growth is probably slowing. Gas has a stronger future if we look at it in terms of demand growth. We see gas growing over the coming decades. With the advent of hydrogen and the potential for blue hydrogen and how gas can play a role in there, it may be more than a transition fuel. It will have to be decarbonized. That's absolutely essential. We have got to take that carbon out of hydrocarbons, and we have to stop comparing gas to coal and start comparing gas to zero.”

Watch the complete video at: www.ceraweek.com/conversations

About CERAWeek Conversations:

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.

New installments will be added weekly at www.ceraweek.com/conversations.

Recent segments also include:

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- **Leadership Dialogue with David Solomon** – Chairman and CEO of Goldman Sachs interviewed by IHS Markit chairman and CEO Lance Uggla
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