



Obtaining a social licence to operate – a challenge for the industry

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Good morning and thank you for inviting me to take part in this discussion on behalf of BP. As a company that began because British explorers persisted in their search for oil over a century ago, we feel a great affinity with the Petroleum Exploration Society of Great Britain.

Exploration remains one of our fundamental strengths and the exploration licences we have been granted since 2010 cover an area which is around twice the size of the UK. Indeed, last week we announced new access in Nova Scotia and this week a new discovery in Trinidad - so there is plenty of exploration still going on in BP.

Those exploration licenses are of course literal, tangible ones – pieces of paper with signatures. The same is true of the licences to operate that we sign to produce oil and gas.

By contrast, the ‘social licence to operate’ is a metaphorical concept. It indicates that companies cannot operate sustainably without the support of society.

That licence depends on trust. That is what makes people buy our products, apply for our vacancies, invest in our shares or accept our presence in their communities.

Around 70 years ago, the psychologist Abraham Maslow famously drew up a hierarchy of individual needs, starting with basic needs for food and warmth and working up to more complex psychological needs, such as fulfilling one’s potential.

We can apply a similar principle to the areas where our industry requires the trust of society - starting with basic needs and progressing to sophisticated ones. Our company has many different impacts - from products to jobs to taxes to an environmental footprint. Our social licence depends on people being able to judge us openly and trust us in relation to all these impacts.

For simplicity, I will group these different aspects of trust into four areas:

- Being trusted to provide energy
- Being trusted to do so safely
- Being trusted to do so with care for the environment
- And being trusted to be a force for good in the communities where we operate.

Being trusted on energy

The foundation of trust for our industry is meeting basic human needs – heat, light, and mobility. We provide the capacity to heat and light homes, to irrigate farmland, to refrigerate medicines, to travel to work, to bring power to workplaces, hospitals and schools.

Energy has played a major part in lifting millions out of poverty. The UN’s Millennium target of reducing the number of people living in extreme poverty by half has been achieved three years early - and energy has played a major part.



As an Indian citizen working in a global company who often returns home I see the difference this can make.

When we look into the future, our projections are for a world where we expect GDP to grow by 100% or more over the next two decades while energy demand grows by almost 40% and CO2 emissions grow by over 25%.

I hasten to add that this is a projection - not a proposition. It is not what we want to happen, but what we believe is most likely to happen in the light of expected trends in demand, supply, policy and technology. If these trends change, the outcome will change.

We also live in a world where a handful of countries hold over half the oil reserves and four hold over half the gas reserves. Therefore governments are naturally concerned about security of supply.

Several challenges emerge from these projections. Will there be enough energy? Can we produce it safely? Will it be affordable? Is supply reliable? And can it be produced sustainably?

Our analysis shows that sufficient resources are available. The data indicates that the world has at least 40 years of oil, 60 years of gas and 100 years of coal reserves at today's consumption rates, plus immense renewable resources.

In terms of affordability and energy security, our experience has been that these depend on open, competitive markets.

When governments promote competition, a dynamic market evolves to provide the diverse sources of supply that underpin energy security.

When governments promote competition, innovation flourishes, countries expand domestic production - and demand and supply meet at an affordable price. The most recent example being the American shale revolution.

These are issues for both policy-makers and industry - but together we can build trust that energy will be available, affordable and reliable. I will return to the question of sustainability.

Being trusted on safety

Let me now turn to the question of being trusted to produce energy safely. Clearly this is fundamental to BP. As you know, we experienced a terrible incident in 2010 in which eleven people died. All of us at BP deeply regret the tragic loss of life, as well as the resulting oil spill, and we have apologized for our role in the incident.

There have been other incidents in our sector over the last few years and we are deeply conscious of the need to apply lessons and continuously improve risk management. This is why we have been sharing the lessons learned, as well as paying legitimate claims, helping to fund restoration efforts and meeting our commitments.

Meanwhile, we have taken action to continue building a safer and stronger company. We have a safety and risk organization with hundreds of experts deployed in our businesses to advise, inspect and, if necessary, intervene. We have new standards, such as having two or more sets of blind shear rams on blow out preventers used by floating rigs.

We have new people, recruited from other high hazard sectors - from space to the nuclear industries.



More broadly, we are building our competitiveness as a company around sustainable quality – high quality operations, high quality capabilities, high quality assets. We are divesting non-strategic assets and investing in areas of real strength - such as exploration.

Being trusted on the environment

These are steps we are taking to make our company sustainable. But what about the sustainability of the environment? This is a tougher question than those of availability, affordability and security - because it cannot be resolved through the operation of markets alone.

If governments want business to rise to a particular challenge and there is no obvious business case, they need to set conditions to make it happen through policy frameworks.

In BP we are in favour of this process. We recognise the risk of climate change and we support action by governments to limit emissions.

We believe the best route is to price carbon on as wide a scale as possible, because markets stimulate efficiency and innovation. We also support transitional incentives to help low-carbon options become commercial at scale.

And we are also in favour of policies that drive greater energy efficiency.

Such policies can promote the two changes needed to make energy more sustainable: saving energy through efficiency; and switching energy to lower carbon sources. That is both energy efficiency and carbon efficiency.

The potential for efficiency improvements is huge. Vast volumes of energy are lost during conversion and processing and as WWF point out, more than half the heat we use for our homes disappears through walls, windows and roofs.

When looking at how to switch energy, it makes sense to look at where the biggest issues are. A starting point is that power generates about 40% of emissions while transport generates around 20%.

Power generation is also where coal is mainly used - by far the world's largest source of emissions. Non-fossil energy - renewables, nuclear and hydro - is set to grow faster than any single fossil fuel, but from such a relatively low base that we expect it to reach no more than 20% of the mix by 2030.

Meanwhile, natural gas is the fastest-growing fossil fuel, and it has the lowest greenhouse gas emissions per unit of energy. This is why we believe greater efficiency and shifting from coal to gas are the most important actions to reduce emissions in the medium term.

Oil consumption has now peaked in the OECD world as a result of increasingly efficient vehicles and increased biofuels substitution. However, oil demand will continue to grow in emerging markets. And with existing fields declining, there is a constant need to increase yields and to find new reservoirs.

In our most likely scenario, fossil fuels will still account for some 80% of the total energy mix in 2030. And even in the most radical scenario from the International Energy Agency – the so-called 450 scenario - fossil fuels remain the major source of energy.

This is really important.

Hydrocarbons are not intrinsically evil or incompatible with a more sustainable energy mix. It is a question of the right mix. For the foreseeable future, there will be a need for some oil and gas. We will strive to provide it as efficiently as possible. And we have also invested in the growth of non-fossil fuels, particularly in sustainable, advanced biofuels.



Being trusted in society

Let me finally turn to relations with communities and the issues of trust that they raise.

Our industry's work involves a variety of risks, particularly in developing economies - related to security, human rights and transparency.

There are also many opportunities - job creation, training and capacity building in industry, government and civil society.

In the last few decades, expectations have changed. Companies have reassessed their role. And perhaps most important, we have recruited new generations of people who have a global perspective and want to work for a company that they can be proud of. Our people are not just interested in how it looks, but how it is.

We know that if our businesses are to be sustainable they need to make an appropriate contribution to sustainable economic development.

We do this as a natural part of our business – employing local people for example, or contributing taxes. Incidentally, we paid around \$16 billion globally in tax last year.

We also invest in the local community, but we do not see that as some separate thing called 'CSR', but as a seamless extension of the business into the community.

A good example is the work we do to bring individuals and suppliers up to the standards needed to work with companies such as ours. In Azerbaijan, for example, we have set up a Caspian Technician Training Centre, which has trained nearly 700 technicians in eight years.

In Angola, we supported an enterprise development centre in Luanda for five years before handing over its management to the local chamber of commerce last year. This led to more than 300 contracts between local enterprises and the oil and gas industry, creating an estimated 4,200 jobs.

Around 4 in 5 of our own staff in the country are now Angolan, including nearly two thirds of professional grade staff.

In West Papua, we have not only provided jobs for local people but supported developments in traditional occupations such as fishing and farming. We have also supported projects to improve education and health.

In such areas, our role has to be more one of capacity-building rather than the day-to-day provision of services. Capacity-building in the area of public governance is particularly crucial to our business. This is why we fund a centre for the study of resource-rich economies at Oxford University.

In the case of Indonesia, this includes supporting the training of local government staff to help them administer the increased revenues that will be flowing to the province from next year as a result of the plant.

Mentioning revenues, I should add that we are founder members and strong supporters of the Extractive Industries Transparency Initiative - or EITI - and we have been actively involved in implementing it in Indonesia, Azerbaijan and several other countries.

Finally let me add a word on human rights. We support the Universal Declaration of Human Rights and we have taken action over the last two decades in areas that pose particular risks. For example we were one of the companies that worked with civil society and governments to develop the Voluntary Principles on Security and Human Rights.



We have implemented these principles widely, for example providing specific human rights training for security staff in countries such as Indonesia and Angola.

Conclusion

So to summarise, I believe the social licence to operate broadly equates to trust. A company such as BP needs to be trusted in several ways – trusted to deliver the energy to drive economic growth and lift billions out of poverty; trusted to be safe; trusted on the environment; and trusted with regard to its impact on society.

We have come through a major crisis of trust and we are regaining our social licence to operate. But we will never take it for granted.

As Henry Ford said: “A business that makes nothing but money is a poor business.”

And I hope that we will be able to look back on our time in business and see that our companies did not only make money, but also made a difference.

Thank you.