

Oil & Money Conference
Panel Discussion – CEO Forum: Global Upstream Challenges
The IOC Response to Turbulent Times and Challenges
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Well, we in the oil industry certainly know about turbulent times.

In discussing our upstream challenges, I'll start with the obvious – the world economic downturn. It has caused the largest decline in energy demand in 25 years. Oil prices that took eight years to reach \$147 per barrel – after stagnating for two decades – lost more than two-thirds of that value in eight months. Today, they are \$70 – but may not hold.

Compounding this are government fiscal takes. A number of countries raised their takes during the boom, assuming that prices would remain high. Now, most have not lowered them. Also, reserve replacement costs are more than double their 2003 levels. They are not falling as fast as prices did.

All these factors challenge the economics of new investments. Government seems to assume that we will invest anyway. But perhaps the screws have now been tightened too much. World upstream investments are down by \$100 billion this year, or 21%, according to the IEA.

There are other challenges, like restricted access. In many resource-rich countries, the best, if not all, opportunities go to NOCs. IOCs are left out, despite their expertise and access to capital and markets.

There is also climate change legislation pending in key countries. This creates uncertainty over what the rules and costs will be. Investment flees uncertainty. We need the world to decide what it will or will not do.

And finally, we face political hostility. Fossil fuels are unpopular because of their price volatility and perceived carbon impact. So governments are promoting renewable sources. At best, they are ignoring oil and gas policy – while overlooking how natural gas could ease the transition to a low-carbon economy. Since fossil fuels must provide 80% or more of world energy even by 2030, this is like Nero fiddling while Rome burns.

These challenges and flawed policies have serious implications. They could lead to new energy price spikes once the world economy recovers.

Further, today's energy downturn is not like the 1980s. We are unlikely to have a long production surplus and weak oil prices this time. The drop in oil demand then was three times today's decline. Conventional non-OPEC crude production was rising then, thanks to the North Sea and Mexico. Now, it is falling. And unlike then, world demand now is primarily driven by the rising prosperity of the developing world's 5.6 billion people.

They outnumber the population of the OECD countries by nearly five to one, and the margin is growing.

So demand growth will inevitably resume, and renewable energy cannot meet it alone. Unless our industry is ready, and governments have the right policies, supply could fall short. This would damage the world economy and undermine living standards.

At ConocoPhillips, we are dealing with these challenges today, while also anticipating tomorrow's needs.

- We have adjusted our operating and capital programs to live within our means. The best projects continue, while others have been deferred.
- We are working with suppliers to reduce costs.
- We are maintaining balance sheet strength by managing our debt.
- We are engaging in the public debate over climate change, energy security and taxation.
- But despite these immediate steps, we are maintaining our long-term strategy. We are funding our commitments and preserving optionality. We continue spending through the cycle in our resource-play drilling programs. And we are focusing on our core businesses, while continuing renewable energy R&D, but at a measured pace.

Obviously, there is much government must do.

- First is improving access. The world has ample oil and gas. We can produce it efficiently while protecting the environment. We just need access.
- Second, government must stop viewing our industry as a cash cow. Some \$12 trillion in global oil and gas investment is needed by 2030 to ensure adequate supply. These investments cannot occur if our funds are taxed away. Third, government must encourage development of all energy sources, and not pick "winning" technologies. The public, through the market, can determine the best sources far more efficiently than government.
- And finally, government must coordinate its policies on energy and climate. Otherwise, policy conflicts could undermine both.

So there are solutions to our challenges, provided that we, and most importantly government, take the right steps.

Thank you.

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