



International Oil – An Industry Divided

**Remarks by Jim Mulva
International Petroleum Week**

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[INTRODUCTION]

Looking around, there are many old friends with whom I've done business. There are others with whom I'd like to do business. There are people from countries that some of us have been forced to exit. There are allies on some issues and implacable foes on others. There are rugged individualists and even a few mavericks. This is not surprising. Most of us joined the industry at a time when companies prided themselves on going it alone and on fighting the competition.

But times have changed. And so have society's expectations. We now must not only supply energy, but green energy. We must help solve global warming, while meeting social needs. Energy must remain affordable, despite cost inflation. These are some of the obstacles we face in making fossil fuels sustainable.

Here tonight, it's easy to identify us based on our company, our country or some other factor. But the public just sees "the industry." They don't distinguish between us. And in their eyes, we have not met expectations. That's point one.

Meanwhile, consider the world financial crisis. There are massive interventions by governments fighting to prevent economic collapse. These have set new precedents for government involvement – and for public acceptance of this intervention. In America, a standing joke has been, "I'm from the government, and I'm here to help." Almost everyone would laugh. But now, government help is what everyone wants. So esteem for government has risen, while business in general has lost credibility. That's point two.

We have also seen U.S. President Barack Obama's proposal for a Green Energy Economy. It would meet one-fourth of U.S. needs from renewable sources by 2025. There is great enthusiasm there and in other countries for government-mandated wind power, solar power, electric vehicles, renewable fuels, even nuclear power. The belief is that fossil fuels are passé. So government should step in with alternatives.

Nearly everyone agrees that renewable energy and lower carbon footprints are needed. But those here tonight realize that fossil fuels will remain essential for decades to come. Unfortunately, the public views oil companies as the people standing spread-eagled to cast shadows on solar panels. They don't want to hear what we have to say. So our ability to influence public opinion and government policy is declining. As a result, we risk greater restrictions on access. Higher government takes. And carbon policies that unduly target us. This overwhelming public desire for alternative sources, and its opposition to fossil fuels, is point three.

There is a fourth concern that can be illustrated with an analogy. President Obama is a student of history. He admires Abraham Lincoln – the president who held the U.S. together through a civil war. One of Lincoln's most famous speeches was based on the precept that, "A house divided against itself cannot stand." Our industry can rarely reach consensus, or cooperate to the fullest extent possible. We are a house divided. And this puts us in further danger of being marginalized. That is point four.

In order to achieve sustainability for fossil fuels considering these obstacles, we must first

address our own adaptability. And second, we must earn public acceptability for our products.

Adaptability

Let's begin with adaptability – accepting today's realities. We live in a world of inter-dependent countries that are now working together on economic recovery. They are also increasingly collaborating on climate change. So we can anticipate a time when nations will perhaps work more closely together on energy.

Our hope is that the resource-rich countries will recognize that the industry needs greater access to low-cost oil and natural gas. The world's conventional reservoirs are declining, forcing us to the more challenged and expensive resources. But reasonably priced energy is needed to drive economic growth. Granting broader resource access is one of the solutions.

We hope in turn that consuming countries realize that the producing nations are vital to their economic well-being. Remember Don Corleone's line in *The Godfather* movie? "Keep your friends close – and your enemies closer." We are not really enemies. We all need more friends.

At the industry level, today's mega-projects require larger, more expensive facilities. Longer supply chains. And the means to deliver to broader markets. Collaboration between companies can facilitate the process of obtaining financing. It can reduce costs by combining unique skill sets, standardization and best practices. Every company is an expert in some area.

Collaboration is not "getting everybody to agree with me." There is real give and take required. These relationships are like sharks. They either move forward, or they die. We don't want to end up as dead sharks.

Adaptability is also needed in other areas. Such as accepting the inevitability of renewable energy and action on climate change. We can waste our time charging the windmills like Don Quixote on horseback. Or we can adapt to the new energy landscape.

Acceptability

Now, consider what we face in earning public acceptance of fossil fuels as sustainable resources. Besides long-term economic viability, they must offer minimal environmental footprint – and beneficial social impact. Our industry has never been good at communicating.

It's like the executive who was walking down the street when he saw a small child being attacked by a Rottweiler. Without hesitating, he grabbed the dog with his bare hands and wrestled it to the ground. After a life-and-death struggle, he subdued it and rescued the child. As he lay there bleeding, a passing journalist ran over to ask what happened. "What a story!" he said when told the details. "Local hero saves child. By the way, what do you do?" "I'm an oil company CEO," was the answer. And the next day the headline read, "Corporate fat cat strangles family pet."

Like that fellow, we need to work harder at engaging with stakeholders. We must convey that fossil fuels are vitally needed as bridge the gap to the future. That every country needs them.

That enormous resources still await development. And that the environmental impact is manageable, with mitigation and technology.

We have a good story to tell. Our products are cleaner than ever before. We produce renewable fuels and biofuel. Our footprint is shrinking. We are using less land for facilities and are reducing emissions and energy consumption. Keep in mind that the public rightfully has great faith in science and technology. This is a key to earning acceptability.

We must convey our progress, our commitment to R&D, our support of university-level education, and our encouragement of government research. The sky is the limit when it comes to technology. For example, Canada's oil sands offer potential equivalent to that of Saudi Arabia.

But there is rising opposition to development, because of the high energy and carbon intensity.

The operators there may have to join in collaborations to demonstrate how new technology can reduce the environment impact.

Another key to earning acceptability is, quite simply, to stop saying "no." We must contribute earlier in the policy-making process and help shape policies that we can support. Otherwise, we waste our time and lose credibility by criticizing proposals that have already become popular.

And finally, another key to achieving acceptability for fossil fuels is ensuring that our social investments are strategic, not just philanthropic. The industry has a proud record of creating jobs worldwide. But we must also help communities build local capacity so they can improve their own well-being and self-reliance.

Sustainability

If we take all these steps, will we have made our case on sustainability? Not entirely. That will require yet other collaborations, with and between governments. John Updike, the famous novelist who died last month, once said, "I love my government not least for the extent to which it leaves me alone."

We can all relate. But there is much government must do. It must start by opening access to resources. It must educate itself on the enormous magnitude of investments needed, including for fossil fuels. It must also recognize that underinvestment would set the stage for future energy shortages and renewed price inflation.

So government should remove the barriers to investment that it has imposed. Specifically regulatory uncertainties, permitting roadblocks and unwarranted siting restrictions. Next, government should in fact encourage alternative energy. The world needs broad supply diversity in order to meet its future energy demand. But government must resist using our industry as a cash cow to pay for the alternatives. This would undermine our ability to develop both new technology and new supplies.

Government should encourage energy efficiency and conservation. This would help reduce

demand pressure, as well as carbon emissions.

This brings us to climate change. ConocoPhillips believes that regulation of greenhouse gas emissions is essential, and inevitable. It is needed to create price signals for carbon avoidance, and to make possible the investments required to reduce emissions. I can give you an example of what can be achieved through collaboration.

ConocoPhillips, BP and Shell belong to the U.S. Climate Action Partnership. Working in this group with other industries and NGOs, we found common ground. Together, we are calling for a mandatory national framework to slow, stop and then reverse the growth of carbon emissions. This includes principles for international action.

We believe that the oil industry's expertise actually will be essential to the search for solutions.

For example, in the development of carbon capture and storage technology.

Climate change is another case where we can waste our time resisting the inevitable, or join in the growing global movement.

Conclusion

In conclusion, consider how times have changed. In 1900, the world produced a few hundred million barrels of oil. Today, we supply 31 billion barrels a year. The strategies that drove this growth – a house divided, with everyone scrambling independently – worked well enough for its time.

The time for implacable opposition, for going it alone, has passed. We need new approaches and greater adaptability if we are to achieve acceptance of fossil fuels as sustainable resources.

Society no longer wants business as usual. There are powerful external constituencies demanding a voice in deciding how to confront our complex energy and climate challenges. We must collaborate to a greater degree than ever before. Both with these outside groups, with each other and with government.

We must join in the search for technological solutions. We must tell the public of our commitment and progress. To do this, we must accept today's realities. Otherwise, as our next speaker knows, it's hard to keep steering straight if the road curves in front of you. Not unless you don't mind the crash ahead.

Thank you.

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