Lord Browne of Madingley
DEA Norge reception
Norwegian Petroleum Museum
14th January 2016

Ladies and gentlemen, good evening. It is a pleasure to be back in Norway, which is one of the most important parts of the world for the energy industry.

When I was CEO of BP, Norway was a key part of our business in the North Sea.

It is also a key part of DEA's business, and I am delighted that I will be spending more time and doing more business here in the future.

When I began my career in the oil business 50 years ago, I thought that if you took care of the quarterly performance, the years would take care of themselves.

But maximising shareholder value in the long-term is about more than chasing returns and growth rates. It is about how long a company can keep growing.

It seems to me that this 'how long' is largely dependent on the willingness of companies to invest in the societies from which they derive their profit.

It is about engaging radically with the world outside of the company.

That is the focus of my remarks this evening.

I want to make four points:

First, we are often irrationally optimistic when it comes to our ability to forecast the future.

Second, forecasts are usually wrong because new technology always changes the rules of the game.

Third, in today's business environment, companies need to meet new expectations by integrating society's concerns into everything they do.

And fourth, the future of the energy industry will depend on its ability to engage radically with the rest of society.

I want to begin with an observation made by many, but put most elegantly, by the German philosopher Georg Hegel. He said that what "history teaches us, is that people… have never learned anything from history."

When conducting research for my fourth book, *Connect*, I found that to be absolutely true.

The book explores business' relationship with society, which has been characterised by repeating cycles of distrust and suspicion for thousands of years.

In 2012, for example, when South African police used lethal force against striking mine workers, they were standing in the bloody footsteps of Andrew Carnegie, who used private security guards to quash rebellion during the Homestead Strike of the late 19th century.

The 2013 European horse-meat scare and the 2008 Chinese baby-milk scandal were borne of the same short-sighted greed that characterised Chicago's meatpacking district at the turn of the twentieth century.

And the anger directed at BP after the Macondo incident was reminiscent of the hatred faced by Chinese iron miners in the first century BCE for scarring rural mountaintops.

The modern study of behavioural economics has given us a better understanding of why history seems to repeat itself. Humans have an ingrained overconfidence, which means we are prone to repeating errors and irrationally believe that damaging events will never happen to us.

In my experience, this leads business leaders to spend too much time thinking about how to prepare for one kind of future – the kind of future they would hope to see, a future based on a little bit too much wishful thinking.

In the energy industry, this results in predictions about supply, demand and price that are almost always wrong. So it should have comes as no surprise when the price of oil fell below 35 dollars a barrel. 35 dollars was the average real price of oil for almost two decades of my career.

History suggests that it takes time for people to adjust to a new reality. The same is true of the energy industry, which should be prepared for prices to stay at around 30 to 40 dollars for a considerable period of time.

Low prices have a habit of separating good companies from bad. In the months and years ahead some companies will go to the wall while others will emerge stronger than before.

Markets today serve as an important reminder that our ability to forecast the future is very poor.

Forecasts are usually wrong because developments in technology keep changing the rules of the game. This is my second point this evening.

When I joined BP as an apprentice in the 1960s, King Hubbert's theory of peak oil was in fashion. He predicted a peak in US oil and gas production around 1970, with one important qualification: 'if current trends continue.'[1]

But those trends did not continue.

In the 1970s, major new discoveries were made in the challenging environments of Alaska and the North Sea.

My first posting as a petroleum engineer at BP was to Alaska, where we applied the latest computing technology to the mapping of oil reservoirs. We would travel to San Francisco to use a very large computer capable of running

[1] He calculated for future technological advances, but these were calculated as occurring at the same rate as past advances

programs for our models. It was probably less powerful than today's desktop computers.

By the 1990s, the development of new semi-submersible rigs enabled the industry to recover oil and gas reserves from beneath almost 2 miles of water.

This decade is being shaped by the combination of hydraulic fracturing and horizontal drilling technologies that allow oil and gas to be recovered from shale and tight rock.

And here in Norway, steps being taken across the industry to standardise technology are enabling companies to recover resources, cost-effectively, from mature fields on the continental shelf.

These technologies explain why we are now operating in a period of fossil fuel abundance. They explain how our industry has been able to achieve extraordinary things for humanity.

But new technology poses challenges as well as opportunities for the oil and gas industry.

The cost of renewable energy technology, for example, has already fallen significantly. Wind power is almost 50 per cent cheaper than it was five years ago, while the cost of solar power has fallen by almost 75 per cent over the same period.[2]

These technologies are likely to become even more cost competitive. At the Paris Climate Change Conference, 20 nations announced that they would double government funding for Research and Development into clean energy technology over the next 5 years.

This could transform the effectiveness of solar panels and wind turbines; improve the storage and transmission of renewable energy, and ultimately drive costs below those of some fossil fuels.

[2] https://www.lazard.com/media/2390/lazards-levelized-cost-of-energy-analysis-90.pdf

The agreement signed in Paris has also spurred debate about the future of the oil and gas industry. More and more people are discussing the idea of stranded assets as the industry's defining feature rather than focusing on the enormous contribution that it makes to the lives of billions of people around the world.

New technology, new agendas and new ways of thinking are all raising society's expectations of the way in which companies should behave.

This brings me to my third point. Companies seeking to meet these new expectations will need to work harder to integrate society's concerns into everything they do.

In my experience, Corporate Social Responsibility, or CSR, has become the primary way in which business has sought to manage its relationship with society.

It arose from largely good intentions as companies realised that they needed to think more carefully about what it meant to maximise shareholder value. And it has also done some good.

But CSR has failed because it is almost always detached from a company's core commercial activity.

It is the first budget cut when profits are squeezed because business executives regard it is a fluffy and largely irrelevant cost centre.

As a Chairman of one of the largest UK banks told me when we interviewed him for *Connect*, in his experience, CSR is something which companies focus on for half an hour on a Friday afternoon.

Even at its best, CSR implies that business needs to apologise for its day-to-day activity.

But at its worst, CSR represents a doomed endeavour to get away with irresponsible behaviour elsewhere. In this respect, Enron is a good example.

In the year's preceding its collapse, the company was lauded as a CSR champion. While executives were defrauding shareholders, the CSR team was winning awards for the company's excellent contribution to society.

The same is true of Volkswagen, which won plenty of CSR awards before it was engulfed in scandal last year.

History shows that a great CSR record does not prevent corporate misbehaviour, and it does not insulate a company from serious reputational challenges.

Most importantly, it fails to build greater bonds of trust between a company and society.

As an early proponent of CSR I feel well placed to say that CSR is dead.

Business needs a new model of engagement. Successful companies of the future must go beyond CSR, and engage radically with society. This is my final point this evening.

Research conducted for *Connect* suggests that a company's relationship with society is worth on average about 30 per cent of corporate earnings.

As fortune would have it, when the Volkswagen scandal broke just days after the publication of *Connect*, the company's shares fell by almost exactly 30 per cent.

People immediately thought that the book had all the answers to this complex problem of trust between business and society. Unfortunately for me – and for my publisher – it does not.

But it does draw attention to the significant value at stake, and calls on business leaders to think deeply about how they are manging their relationship with society.

The evidence shows that they are not doing a good job.

Surveys suggest that people believe companies are motivated by growth targets, greed and personal ambition. They do not think that the desire to ‘improve people’s lives’ or ‘make the world a better place’ has anything to do with business.

This is particularly problematic in the energy industry, which is reliant on the public’s trust for its license to operate.

When people believe that a company exists only to make itself rich, the company’s actions are viewed as a zero-sum game where a win for the company means a loss for society.

The first step to solving this problem is to acknowledge that it exists. But this is another area in which business leaders display significant optimism bias about the world in which they operate.

More than three-quarters of the executives we surveyed for *Connect* believe that their companies have a positive reputation in the eyes of regulators. But less than one quarter of them report successful engagement in the regulatory process.[3]

The most successful companies must overcome this misplaced optimism, and learn how to engage radically with society, not on their own terms, but on the terms of the people they exist to serve. This is what the book describes as ‘Connected Leadership’

It requires companies to avoid the sort of corporate spin that encourages suspicion and be uncompromising in their efforts to be inclusive. From staff to customers, and from government to campaigners, business leaders should seek to include every relevant part of society in their work.

That is certainly evident in Norway, where the oil and gas sector is renowned for its close and productive collaboration with government, universities and the rest of the public sector, for the benefit of society as a whole.

And it was evident in Paris when some oil and gas companies chose to ‘lean in’

[3] McKinsey survey in Connect “Why good companies create bad regulatory strategies”

to the challenge of climate change, expressing their deep concern at the challenge humanity faces and engaging in the debate about how they can help meet it.

Companies that continue to do this will be rewarded.

When I committed BP to taking action on climate change in 1997, our efforts won us respect, along with a seat at the negotiating table when new rules were being written.

They meant that our customers could see us planning for change, rather than seeking to preserve the status quo.

And they meant that we had the upper hand in the market for talented young people with a vision for the future.

Ladies and gentlemen, I am optimistic that companies will continue to be an enormous force for good in the future.

But the most successful companies will be those which understand that business exists to serve society, not the other way round.

My hope at L1 Energy is to create a responsible company which succeeds by connecting with the rest of society, and which puts DEA and Norway at the heart of that connection.

We want to leave no stone unturned in our quest to contribute to human progress.

Ladies and gentlemen, thank you very much.