

**Remarks to COSAC (Conference of Community and European Affairs
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European Energy Policy

Mr Chairman, Ladies and Gentlemen

Thank you for inviting me to speak this afternoon. I appreciate very much the generous invitation to speak from a business perspective to this important gathering.

I trust that I can add something useful to your debate.

High energy prices and concerns about availability and security of supply have pushed energy policy back to the top of the policy agenda.

Energy of course is fundamental to modern life and to economic development. Indeed it is largely the surging demand for energy from China - and the other rapidly growing economies of Asia and Latin America - which has driven energy prices sharply upwards since the end of the 1990s.

At the same time, political instability in the Middle East and interruptions to production in Venezuela, Nigeria and elsewhere, have contributed to a sense of vulnerability in terms of energy supply.

This sense of vulnerability is understandable.

However, it does not mean that the world is running out of oil and gas.

The good news is that existing reserves are more than adequate for decades to come – while we are confident that advances in technology will continue to bring new sources of oil and gas onto the world markets.

Where there may be greater reason for concern is the increasing concentration of demand and supply in different geographic regions.

In future demand for oil and gas will be concentrated in three main economic areas – the United States, Europe and the giant Asian economies.

Meanwhile the oil and gas available on world markets will increasingly come from three different geographic locations – the Middle East, Russia and West and North Africa.

The implications for international energy investment and trade are considerable.

However, in strategic terms it is important to note that Europe is well positioned in terms of energy and this should be reflected in our international policy thinking.

Around our immediate borders we are fortunate to have access to a multitude of proven and reliable energy sources including Norway, Russia, the Caspian and Central Asia and North Africa.

Russia in particular has the world's largest natural gas reserves and will remain probably Europe's most important single energy partner.

My company BP is the largest single foreign investor in Russia - through our 50/50 joint venture TNK-BP – and also in many other parts of the 'European neighbourhood' including in Azerbaijan, Georgia, Turkey, Egypt and Algeria.

All of these investments are playing an important role in building the longer term fabric of European energy security.

How can European policymakers best respond to the challenges of higher prices and security of supply?

The first point is to have confidence in the ability of the markets to adapt and respond to changing circumstances.

Through the major disruption of the US hurricanes last year, the markets worked very effectively to redirect crude and product flows and ensure that no customer went short anywhere in the world, except where infrastructure had been lost to storm damage.

In global terms the markets have responded quickly to high prices and supply uncertainties to bring new production on-stream, with the result that global supply is now running ahead of demand and stocks have returned to normal levels.

In Europe we believe that the single market in energy is fundamental to security of supply across the continent. Where this market is not yet fully operational – as in the internal market for gas and electricity – this process needs to be completed as soon as possible.

The second point is to ensure that Europe can take a more coordinated approach to relationships with our major energy suppliers. It does not make sense to bring twenty-five different positions to the table when we all share the same basic interests and concerns.

In our view it is important that the current energy policy debate in Brussels does lead to a more coordinated European approach to external energy relations.

We also see real scope to engage the major global consumers such as China and India much more closely in the International Energy Agency, the Energy Charter Treaty and other international energy structures.

There is another important factor that should influence all our thinking on energy policy. This is of course the interaction between energy and the environment and – in particular – the challenge posed by climate change.

In our view there is little doubt about the reality of climate change or the need for precautionary action.

By around 2050 – in order to stabilise atmospheric CO₂ content - we need to add an amount of low or zero-carbon energy to global energy production roughly equal to the total energy already produced in the world today.

It is a huge challenge but not impossible. Many of the technologies already exist to make a contribution. This afternoon I would like to focus briefly on two of the most promising.

The first is biofuels.

It is well known that ethanol produced from traditional agricultural operations can be used as a fuel in vehicle engines. Under the impetus of high gasoline prices and EU legislation, the use of agricultural ethanol in the European fuel pool is growing steadily.

However, ethanol also has a number of drawbacks as a transport fuel including lower efficiency, limited CO₂ savings, logistical problems in the supply chain and competition with food crops for land and water.

For these reasons we see the longer term future lying in the development and use of so-called second generation biofuels.

These will use the emerging potential of biotechnology to look for more efficient fuel molecules, more efficient conversion processes and more efficient non-food crop raw materials.

Within BP we have recently announced our first major investments in an advanced biofuel - known as biobutanol – as well as a \$500 million investment in the world's first 'Energy Biotechnology Institute' to carry out long-term research in this area.

We are very excited by these possibilities

A second technology of great potential importance is CCS or carbon capture and storage.

In principle this is the reverse of oil or gas production and consists of the re-injection of carbon dioxide back into exhausted oil and gas fields rather than emitting to atmosphere.

There is already considerable global experience in this area and we are confident that CCS can make a valuable contribution to stabilising the concentration of CO₂ in the atmosphere.

The key requirement now is to establish an appropriate legal and policy framework that will allow this technology to move towards large scale implementation.

The European Commission has clearly identified the potential and we look forward to their forthcoming communications on this important subject.

Advanced biofuels and carbon capture and storage are just two examples of what companies are doing to help address the issues of energy security and climate change.

What role can regulators play to encourage and support these developments?

In conclusion I would like to propose three main areas for public policy focus.

The first is to *encourage new technologies* based on their carbon saving potential and cost effectiveness - without discriminating in favour of one particular technology or another.

Transition incentives - where needed - should allow the 'scaling up' of new technologies to the point where they can compete on a level playing field with all other forms of low-carbon energy.

Regulators should be careful not to 'pick winners' but to create a framework where all the available technologies can compete on an equal basis.

The second is to *allow the market* to find the most effective solutions.

The European Emissions Trading Scheme (ETS) is a very important first step in this direction. We believe that emissions trading can do much to promote greater efficiency and carbon savings in electrical power generation and other large industrial installations. In due course we anticipate that the ETS could readily become the 'hub' of a linked system of regional and global carbon markets.

And finally we believe it is important to *engage the general public* in the policy debate. In our experience there is a wide level of awareness and concern on these issues. This can provide a firm basis of public support for measures to promote both energy efficiency and new forms of energy supply.

Ladies and gentlemen – energy security and climate change are legitimate concerns for all of us whether in business or government or as members of the general public.

We believe that the most productive way forward is through market solutions combined with careful public policy aimed at encouraging new technologies, effective market mechanisms and strengthened public awareness and support for good policy choices.

I hope my remarks have been of interest.

Thank you for listening.

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