

## Spring 2014 Energy Policy Conference

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Keynote remarks, by Helge Lund, President and CEO, Statoil ASA

Thank you Jason, and good afternoon ladies and gentlemen.

First of all it is very inspiring for all of us to see what you have achieved during the course of the last year, and already established the institution as a credible, objective, and respected voice in the energy debate, not only in the US, but also broader. And we already benefit a lot from what you're doing at the Center.

Your mission statement talks about how you want to *"improve the quality of energy policy and energy dialogue through objective, balanced and rigorous analysis"*.

And that is something I think we need now more than ever.

For Statoil, and I think for the rest of the oil and gas industry, a policy framework supporting a sustainable future for our industry is of great importance.

Energy issues, in our view, are more complex and also connected than ever before.

As our program here today reflects, energy is front and centre in many debates.

First, energy policy is economic policy.

In his state of the union speech, President Obama talked about energy as one of the biggest factors in bringing jobs back to America.

At the same time, International Energy Agency has warned that Europe could lose a third of its global share of energy intensive export due to high energy prices.

These are illustrations of why no politician can avoid having energy policy high on their agenda today.

Energy policy is also environmental policy.

And 25 years ago, here in New York City, former Norwegian prime minister Gro Harlem Brundtland, presented the UN commissioned report “Our Common Future”.

It established an unbreakable link between energy and development.

And it is still recognized for having defined the term Sustainable Development as *“meeting the needs of today without compromising the ability for future generations to meet their own needs.”*

At the time, this was a thought-provoking concept.

Today, no responsible politician can ignore the importance of those words, and it’s no longer a thought-provoking concept.

Energy policy is also security policy.

From the Arab spring to the tensions between Russia and Ukraine, energy is an integrated part of those conflicts.

In Statoil, we just over a year ago experienced the tragedy of a terrorist attack. 40 people killed, five from Statoil, at the gas-plant in In Amenas in Algeria.

And climate change and natural disasters are also now among the non-traditional security challenges with potential to create social unrest and conflict.

On that basis our view is that security policy is not only a political or military issue, it’s also very definitely on the corporate agenda.

President Lincoln once said that “I never had a policy: I have just tried to do my very best each and every day”.

Today, many are questioning the choices of both the industry and policy-makers when it comes to production and consumption of energy.

And many quite understandably ask if we are doing our very best each and every day?

The mission statement for the Center addresses the need of policymakers for *“high quality information to drive concrete and practical solutions to the challenges and opportunities in today’s changing energy landscape”*. And of course extremely important perspective

I’m going to talk about some of these challenges and opportunities as we see them in Statoil.

And I’ll try to relate it to some of the issues prominent also on the US energy policy agenda.

Each of my topics come in the form of a C.

**My first C is for Competitiveness.**

Within our industry we’re all used to competing – for capital, for resources and for talent.

What I now say is that the competitiveness of our industry must improve.

Why?

The last decade, the oil price has almost tripled, from around \$40 to around \$110 per barrel. But due to escalating investments, increased costs, more complexity and higher risk, return on capital from companies in Statoil’s peer group has decreased by a third in the same period

And last year it was at or below 10% for over half the companies in the same group of companies.

In a highly risk-based industry, that is not sustainable. We have to absorb resource risks, reservoir risks, market risks, political risks, security risks, and we definitely have to return more than 10% of the capital invested with that perspective.

Capital intensity and cost intensity are issues the industry, in my opinion, needs to tackle itself.

We’re not asking for political support in this perspective

These are challenge that we must meet face and solve alone.

We need to build balance sheets that are robust in volatile markets.

Be more disciplined in the way we use capital.

Introduce more standardization and industrialization that other industries are doing.

And work in partnerships as operators – and across the supply chain – to find more efficient, and also smarter ways of working.

Either we change our model of value creation to become substantially more efficient in how we use our resources.

Or we will as an industry, in my opinion, over the long-term not be competitive in the race for capital and talent.

And worse: we cannot deliver on our mission of bringing light, heating and also transportation to the world.

**My second C is for Carbon or maybe more precisely for carbon efficiency.**

As we speak, sustainable energy for all is moving up on the political agenda.

And rightly so.

1.3 billion people still lack access to electricity.

And the global CO2 level continues to climb to new all-time highs.

The latest reports from the UN's climate panel (Intergovernmental Panel on Climate Change) confirms that climate change is real and that it is happening now.

The US Administration's National Climate Assessment that became public this week concluded, to my understanding, the same direction.

Extreme weather is estimated to have cost the American economy alone more than \$100 billion in 2012.

And globally, we are facing other issues as well:

- Severe health consequences
- Breakdown of infrastructure
- And more conflicts to name a few

To avoid a development where the 2 degrees scenario is an illusion, we need new policy measures.

Now is the time to strongly advocate for incentives that support investments in carbon efficient solutions.

It will, in our opinion, spur innovation and implementation of new technology that reduce CO2 emissions in the most efficient way. In that perspective, I and Statoil, are strong believers in a high global price on carbon.

It would lead to more natural gas replacing coal in power generation - reducing CO2 emissions by as much as 50 %, perhaps more.

I think you have already seen the impact and effect of this here in the US.

But at the same time, cheap coal is now finding its way to Europe, increasing emissions there.

Energy markets are global - and so are the impacts of energy decisions.

That's why efficient climate policies also need to be global.

A higher carbon price would also give incentives for reducing emissions from flaring and methane leakages, another goal of the administration's Climate Action Plan.

As a climate gas, methane is 20 times more potent than carbon dioxide.

That means even small cuts can have big impacts.

Through leakages and flaring, the oil and gas industry is responsible for roughly 20% of global methane emissions.

We need to take responsibility for this.

The industry must therefore work together and with regulators to make sure we get the right technology, frameworks and incentives in place to monitor and also manage these emissions.

One example of how we at Statoil are working can be found in the Bakken in North Dakota.

You might have seen the satellite images showing the fields there by night.

They are fairly very well lit up by the many flares still burning.

What you see are large emissions, but also great values going up in flames.

That is why Statoil is investing in infrastructure and processing capacity. That is why we have laid around 700 miles of pipeline in North Dakota to capture this gas, as well as carry water and produced oil.

We work closely with infrastructure providers and processors to assist with future planning. We prioritize the use of leading well-head technology and techniques to limit the impact of our operations.

And we continue to innovate.

One example is a project we have put together with GE and a local company called Farbus.

Through this partnership we capture gas that would otherwise have been flared, compress it and use it as fuel for drilling rigs.

That means that we are cutting emissions both from flaring, and also from operations of our drilling rigs.

All this is being done in collaboration with the government in North Dakota.

They have an effective regulatory regime in place and the value of the gas produced incentivizes constructing gathering systems as quickly as economically and technically feasible.

We are really proud of the progress being made.

But more is definitely needed.

**And that takes me to my third and last C – and that C is for Communities.**

Our industry needs access. I mean access to resources.  
But we also need acceptance.

According to the Wall Street Journal, at least 15.3 million Americans now live within one mile of an oil or gas well.<sup>1</sup> And millions more live along the rail lines that we depend on to transport crude oil from these fields.

Two examples of how our industry is entering new and more sensitive areas than we have been used to with different challenges.

When we look at polls saying that 50 percent of those surveyed oppose the increased use of fracking, we must ask ourselves if we have been able to build trust with the communities we depend on.

When questions are not answered, they grow to concerns.  
And when concerns are not addressed, they escalate to conflicts.

That is why my recipe for engaging is linked to **transparency**. This is really the new currency for trust; being open about what we're doing. **Dialogue**; we need to engage, and also **responsibility**; to take responsibility for our own operations.

People care about what we do because what we do really matters.  
Our products matters.  
How they impact society matters.  
So people should really care.

There you have my 3 C's.  
Each a challenge in itself  
All complex and connected.

To address them, we need technology, innovation and regulation to work together.

The onshore revolution right here in the US is a good example of how innovation can spur the competitiveness of a whole economy and at the same time reduce CO2 emissions.

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<sup>1</sup> <http://online.wsj.com/news/articles/SB10001424052702303672404579149432365326304>

I see a great future for our industry, also in a low carbon economy.

The world needs our products.

Even in the IEA's 2 degree scenario, before 2035 we must replace four times Saudi Arabia's production of oil today and 10 times Norway's production of gas, just to fight decline, i.e. to keep production at the level we see today.

And how we deal with competitiveness, carbon and communities can have a significant impact on our planet and our society, and these will help determine whether we are able to secure long-term legitimacy of our industry.

Securing legitimacy requires rising to society's expectations.

Or, in the words of Lincoln, doing the very best we can each and every day.

Thank you for your interest. I look forward to the conversation.