

**DRAFT 8/14/19**

**Talking points for Doug Sparkman**

**AFPM September 8 Executive Committee meeting**

**Advancing the Energy Transition**

***The business case for climate action***

- Thank you for the opportunity to discuss BP's perspective on how AFPM must evolve to stay relevant in a rapidly shifting environment..
- The energy transition will not be easy, but the world has changed and so must our industry or risk being left in the dustbin of history. The political and legislative environments will never go back to the way they have been in the past.
- We must lead on climate-related issues to protect the life of liquid fuels and petrochemicals—or others will choose our path for us with an aim of putting us out of business and compromising consumer and national security.
- BP is not saying that we should support anything with “climate” in the title or headline. Rather, BP believes that we—and the entire industry—can further our business interests by actively engaging the policy-making process to shape an outcome that is inevitable.
- There is urgency because this is a cumulative problem. Today, there are large, cost effective levers available to society to mitigate emissions. The longer we wait to start, the more we risk a costly and disruptive transition which will disproportionately harm the downstream.
- In the past we've relied on political stability and common sense to protect our interests. That is no longer an option. Moderate Republicans like those who support the Climate Leadership Council and its fee and dividend plan (James Baker, George Shultz, Janet Yellen and so on) are beginning to take up this issue. And the movement, which includes institutional investors, will not rest if the Republicans retain the White House think it will only become more vocal and more adamant about eliminating fossil fuels from the energy mix and their state and local efforts will multiply.
- We've also seen a big shift in sentiment from shareholders. We've long been in dialog with shareholders on climate, but we are seeing greater consensus on the need to align our strategy to align with the Paris goals, and our board choose to support the passage of a resolution saying that at our last annual meeting. Some shareholders view our industry like tobacco. We need to shift this perception by talking about the essential role our products play in society and the economy. We also need to remind them of how well we innovate and adapt to anticipate and respond to changing consumer needs, technology, and regulations.
- Hope is not a strategy, AFPM must engage from the business perspective, wholly apart from your views on climate science and policy. We have a lot more to offer and we need all stakeholders to

see us as the leaders in delivering the dual challenge, not as a dying industry trying to slow down society's progress.

#### What is BP doing?

##### The dual challenge

At BP, we are addressing the energy transition through the concept of the dual challenge— the need to provide more energy with fewer emissions.

We have developed a framework to help us address the dual challenge that applies right across the organization. We call it Reduce Improve-Create, or 'RIC':

- We're reducing greenhouse gas emissions from our operations, which includes both methane and carbon dioxide. For example, BP has achieved 2.5 million tons of sustainable greenhouse gas emissions reductions since 2016 across our operations.
- We're improving our products to help our customers lower their carbon footprint. For example, our petrochemicals business has developed an industry-leading product, PTAir, which is a chemical feedstock for polyester with reduced carbon footprint 30% and PTAir Neutral – carbon neutral chemical feedstock.
- And we're creating new low-carbon businesses, while expanding existing ones. Recent examples include Lightsource BP, which focusses on solar, and BP's purchase of Chargemaster, the largest electric vehicle charging company in the UK.

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## **What is BP downstream doing?**

Overall, we allocate at least \$500 million a year specifically to low-carbon activities—this year it's likely to be in the region of \$750 million, based on current forecasts. Increasingly, we're seeing opportunities that are good environmentally and financially.

In the early 2000s we invested \$8 billion in renewables and have roughly a quarter of that value left today.

Downstream has an important part to play in delivering BP's commitment to advancing the energy transition.<sup>1</sup> We must keep advancing what we offer to keep the world moving towards a lower carbon future to meet our customers' needs and strengthen our business for the future.

In our downstream business, we are reducing emissions, improving products, and creating low carbon businesses by:

- Supporting engine/vehicle efficiency
- Advantaged bio-based feedstocks
- Employing digital for customer and consumer experience and intelligent manufacturing operations
- Cleaner fuels/additives
- Advanced biofuels (Fulcrum BioEnergy, Butamax, co-processing at Cherry Point)
- Lightsource BP (grid decarbonization)
- Advanced mobility (fast charging)

*IF ASKED:*

*Question: Are you saying we should be accountable for our customers' emissions?*

*Answer: We should work with our customers to help them reduce their emissions by making our products lower in carbon. But we can't control how our products are used. People use energy in different ways – for people sharing a ride in a hybrid is different to one person behind the wheel of an SUV. That's a very different carbon footprint associated with the same gallon of our fuel.*

#### **What now? Where should we go?**

- Our industry knows how to innovate.
- We need to get our message out -- advances in cleaner fuels and engine efficiency need to be a part of the discussion.
- We support current CAFE standards; our industry should not promote messages or policies that counter increased efficiency.
- **Given the importance of this issue to our industry and the threat a lack of engagement poses, BP recommends the Executive Committee appoint a work group to address how AFPM will address the climate issue. BP is willing to work with others to provide a draft statement on climate and a work group terms of reference for this group to consider at its next quarterly meeting.**

- A well-designed price on carbon – either a tax or a cap-and-trade system – is the most efficient way to reduce greenhouse gas (GHG) emissions
- Economy-wide: It should apply to all quantifiable GHG emissions in all sectors of the economy on a CO<sub>2</sub> equivalent basis.
- Single policy: It should pre-empt future and replace existing regulations that overlap or duplicate the carbon price.
- Leakage: It should prevent the shifting of emissions and jobs from one country or subnational jurisdiction to another, ideally through measures ensuring the continued competitiveness of energy-intensive, trade-exposed domestic industries.
- Point of regulation: It should be applied and collected as close as administratively feasible to the point of emissions, providing transparency to emitters and helping them make economic choices to reduce emissions.
- Pricing and escalation: Subject to periodic review, the price should be ramped up gradually before accelerating and levelling off.
- Program assurance: Alongside periodic review, it should include flexible and dynamic adjustment mechanisms to assure that its emissions and economic goals are achieved.
- Offsets: It should give credit to companies in sectors exposed to the price for investing in accredited emissions reductions from sectors not exposed to the price (e.g. agriculture, forestry and other land use industries).
- Additional policies: These should be limited in number, tightly focused on correcting market failures (e.g. energy efficiency standards), filling temporary gaps in carbon pricing coverage (e.g. regulations for hard-to-quantify GHG emissions like methane) and transitional support for promising but emerging low-carbon technologies (e.g. CCUS and renewables).
- Use of revenues: It is for governments to determine the use of revenues but they could be returned to the economy in beneficial ways, e.g. through income or payroll tax reductions or investment in programs related to carbon reduction (e.g., sector retraining, low carbon R&D).

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<sup>1</sup>BP.com. “Advancing the Energy Transition in the Downstream”