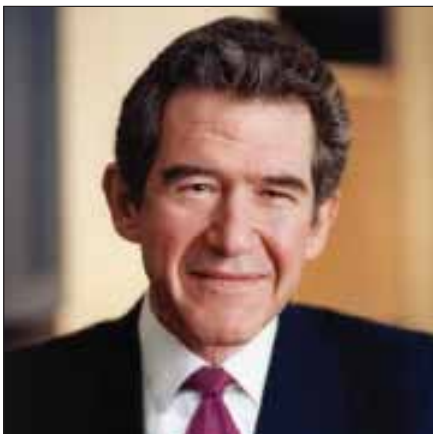


Interview

Enough Oil?

An Interview with Lord E. John P. Browne,
Group Chief Executive, BP p.l.c., London



Lord E. John P. Browne

EDITORS' NOTE In both his personal and business life, Lord E. John Browne subscribes to a particular motto: "The best is yet to come." Upon mandatory retirement from BP in four years, after some four decades with the corporation, he optimistically looks forward to "plenty of exciting things to do" – none of which includes retiring from the business world. Even when his highly revered mother died, he "decided that, if the best is yet to come, then I should make sure that my closest friendships were secured to serve as a surrogate family." Lord Browne "took as firm and positive approach to meet the future as I was able," rather than wail, "Woe is me."

That "the best is yet to come" can likewise be said of BP. The oil-and-gas behemoth is "growing faster than the other majors in our industry," reports its group chief executive, "and we intend to keep up the pace." After all, Lord Browne reasons: "We have the expertise. We also have special knowledge, special technology, a deep well of investment funds, and an excellent track record." Additionally, "we have many, many things going on in this company at the moment, which we've spent many years planning and implementing, and which will improve its performance and, therefore, its value."

As such, he speaks of "plenty of opportunities now," which "we intend to

act on." And, by extension, there is good news for the investor and even the consumer. Lord Browne forecasts: "Performance should continue to rise, and that means, very simply, that we're efficiently generating more free cash flow. This obviously benefits investors in dividends." Whatever the global environment, within the company "we're well prepared to come through the next few years quite successfully." And finally, he cautiously predicts that oil prices might "not be as stratospheric as they are currently." Yes, it does seem that "the best is yet to come."

A graduate in physics of Cambridge University with an M.S. in business from Stanford University, Lord Browne initially joined British Petroleum in 1966 as an apprentice, proceeding to hold a variety of positions in North America and London between 1969 and 1983. The following year, he was promoted to group treasurer and chief executive of BP Finance International, and in 1986 he became executive vice president and chief financial officer of the Standard Oil Company in Cleveland. In 1987, upon the BP/Standard Oil merger, in addition to his positions as executive VP and CFO of BP America, he was appointed chief executive officer of the Standard Oil Production Company. Two years thereafter, he became managing director and CEO of BP Exploration, and in 1991 he joined the BP board as a managing director. Lord Browne was appointed group chief executive of British Petroleum in 1995, and following its merger with Amoco, he assumed the same post at BP p.l.c.

COMPANY BRIEF The world's largest integrated oil enterprise as well as the biggest oil and gas producer in the United States, London-based BP p.l.c. was formed in 1998 upon the merger of British Petroleum and Amoco. A leading refiner (3.4 million barrels of oil each day) with almost 28,000 gas stations worldwide, it is also a petrochemicals and specialty chemicals manufacturer. Listed on the New York and London Stock Exchanges as BP, the corporation reported 2003 rev-

enues of \$232.6 billion and net income of \$10.3 billion.

One would assume that there are enough energy resources in the world to last for quite a while, but at what price?

From the geologic point of view, there really is a tremendous amount of oil in the world, and there's even more natural gas. However, there are several challenges. Foremost is how to get oil and gas from where they are to where they're consumed, and at the right price. It's almost impossible to forecast price because there are two very important variables to consider. One is the world economy. Every time the price of oil has been relatively weak, the world economy has been slowing down. Quite simply, at such times people don't need as much oil. For instance, in 1999 the Asian economic slowdown affected prices. In 2003 SARS reduced the demand.

Second, a vast bulk of the oil market – well over 40 percent – is held by OPEC, which definitely controls the production level. OPEC doesn't necessarily produce everything available because it wants to get the highest price. These countries need vast amounts of money. They have huge populations, and their economies have very little to offer other than oil. Therefore, they need to use their oil revenues to support their social and political structures. As such, OPEC is even more determined to keep prices high than it used to be.

Fortunately for the consumers, cartels have a habit of occasionally making mistakes. In addition, demand is unpredictable. I can't forecast prices, but I can offer an opinion: It seems to me that oil prices will vary. While many think that the low prices of the '90s may not reappear, prices may not be as stratospheric as they are currently.

Energy companies and governments are very closely tied. When there are problems in the energy field, governments suffer. Do they try to help each other?

A company like BP circles the world,

and so I believe we have great relationships with many governments. However, we have different issues to tackle with each one. For example, in Trinidad, Azerbaijan, Georgia, and Turkey, we're trying to solve the problems of effective production of oil and gas, and to assist the governments in finding ways to use the revenues to benefit their people on a sustainable basis. In the case of several other countries – China, the U.K., and the U.S., for instance – we're trying to underpin energy security – sometimes with domestic production and sometimes with imports. This benefits both BP and the nation we're resident in.

All we ask of host countries – the U.K. and the U.S. primarily – at the very least, is to speak on behalf of our industry to those countries that supply the natural resources. We ask them to smooth the path for our activities in nations such as those in the Middle East and thereby ensure a sense of stability for our industry.

Speaking of stability, there's a question of just how stable the Saudi Arabian government is – of whether it will be able to remain in power. Should there be more terrorism or a coup in Saudi Arabia, how will that affect the global energy picture?

I think that almost any regime in charge of a country whose entire existence is based upon its natural resources will covet the available revenues. Any government will want to continue to produce oil and gas, and to find markets for them. It would be a very rare occurrence indeed for a government to make the determination to go backward economically.

For a long time there has been what I might call an "anti-oil" feeling. We all know we need it, but we'd rather not be dependent upon it because consumers don't like the people and countries from where it comes. And I think this is a very popular view. People don't like what's happening to the world climate; people don't like the eco-political situation in places like Iraq and Saudi Arabia. A certain sentiment says that, because oil largely comes from places people don't like, oil is bad. This is an important consideration when you run a big oil or gas company. How can we turn around or at least moderate this feeling?

Have you come up with a possible solution?

No one solution, just understanding and cooperation. All I can repeat again and again is that globalization and world trade are good. They bring peoples together in a sensible way. They moderate bad tempers and promote economic development. Sometimes things go right, sometimes they go wrong, but in the end, it's probably better to deal with adverse situations than to cut off global trade altogether.

Russia and China, of course, have enormous economies. How would you assess the energy situation in those countries?

Russia's entire economic growth is dependent upon the oil-and-gas sector. The country is one of the most vital providers of oil and gas to the world. However, many investors worry about instability and whether supplies to Europe, America, and China will continue uninterrupted.

As for China, I'm curious to know where it plans to get its energy resources from in the future. As of now, the country is very intent upon building relationships with Russia, the Middle East, and Africa. How does China intend to strengthen those relationships? And what impact will those relationships have on the energy

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industry and even the political environment around the world?

Is BP heavily involved in both countries?

We are.

Is there anything that should be changed to better your working relationships?

There are always challenges. In Russia we work as a Russian company. Our subsidiary there is half owned by our Russian partners. Now, even though we have a generally great relationship, there are constant surprises, and there are the unintended consequences of certain actions. Just a bit of moderation would reduce that sense of instability felt by investors. But as I said, we have a generally great relationship, and I think that's because we're working for the benefit of Russia. We're bringing in new technology, new management techniques, and things like that. We're helping to modernize the industry there.

We're likewise a heavy investor in China, but we recognize that you're not handed your profits or even answers immediately there. We also have to compete with some very, very good domestic companies, which are gaining strength. China is a highly competitive country. At the moment the question concerning us is whether these Chinese companies intend to compete overseas, particularly in the quest for oil and gas.

But you have the expertise.

True, we have the expertise. We also

have special knowledge, special technology, a deep well of investment funds, and an excellent track record, which is as important as anything else.

BP is known for its ability to merge energy powerhouses successfully, as it did with Standard Oil and Amoco. Some analysts are suggesting that you'll merge with Shell. Will you?

The BP of today is a company that has been built over the years via a series of acquisitions and mergers. It's growing faster than the other majors in our industry, and we intend to keep up the pace. We have plenty of opportunities now, and we intend to act on them. But you never know what's going to happen to the industry in the future. Time has yet to tell.

Worldwide – not only in the United States – how do you think BP stock is going to fare in the near future?

Performance should continue to rise, and that means, very simply, that we're efficiently generating more free cash flow. This obviously benefits investors in dividends and us in buybacks.

We have many, many things going on in this company at the moment, which we've spent many years planning and implementing, and which will improve its performance and, therefore, its value. As regards our shares, a lot will depend upon the state of the market, of course, and a lot will depend upon people's perception of future oil prices. Inside BP, however, we're well prepared to come through the next few years quite successfully.

What advice would you give to aspiring young people, who'd like to succeed in business as you have?

My first advice to anyone is to become really good at one thing. Don't try to ascend to generality before you've become fabulously successful at one undertaking. Build a strong core, whatever you're doing. And in doing so, make sure to establish principles against which to measure yourself.

Mastering one thing seems to me to be the single most important career move, yet it's very difficult to persuade people to do so. I continuously look at people at BP and say, for example: "Become a great petroleum engineer first, and don't give up halfway through. After you've done that, do something else." Or: "You've joined us as a comptroller. Become a great comptroller first. Then, after you've done that, you can apply your expertise in other directions." You can't build on nothing; you need a core. That's the bit of career advice I give absolutely everybody.

What about overcoming hardships and learning from them?

Whether a situation is personal or business related, you have to recognize the need for inner confidence. You have to have certain standards and values you believe in, which you can rely upon when

everything around you isn't going well. Personally, I have the determined belief that the best is yet to come. I believe very firmly in that. If I didn't believe it, I'd have to stop going forward.

In the case of failure, what do you do to make things better? The answer isn't to go backward and perhaps avoid all risk in the future. Rather, the answer is to say: "Okay. This is the situation. I'm going to figure out how to remedy matters because the best is yet to come." I was very close to my late mother, who died four years ago and was my best friend. Her death affected me greatly. But I decided that, if the best is yet to come, then I should make sure that my closest friendships were secured to serve as a surrogate family. And that's just what I did. I didn't say: "Woe is me. What am I going to do?" I took as firm and positive approach to meet the future as I was able.

The mandatory retirement age at BP is 60, and you're now 56. Technically, you have only a few years left. There are those in many companies who never want to leave. Are you going to go, or are you going to fight the rule?

I'm certainly not going to fight the rule.

And what are you planning to do afterward, so your brain doesn't fossilize?

Well, what motivates me when I get up in the morning is knowing that there are problems to solve, people to take care of, and new business to attend to. They all combine. This makes life exciting for me: The more complicated the better. So, whatever I do when I leave BP – and I haven't decided what that will be yet – it won't be to retire. I'm not someone who can sit and meditate on a beach. I have to do things, and it's my view that there are plenty of exciting things to do.

When it's your time to leave a company, I believe some younger person deserves your job. I've spent a lot of time developing a cadre of people, one of whom will be ready and able to succeed me. How wrong it would be not to give someone else the opportunity!

Chief executives obviously have varied personalities. Some are dynamite-strong with terrible tempers, while others sit back and reign by being gentlemen. You've always had the reputation of being the latter, as well as a father figure to some. Have this attitude and manner worked well for the company?

I believe so. I like to think that I behave inside the company as I do outside the company. I don't believe that walking through the BP door should change your personality. I've always believed that courtesy, respect, politeness, a sense of understanding, and not demeaning people are the proper means to move forward. I also believe that hostile

damages a human being, which is just wrong. After all, if you damage someone within a company, you damage the company itself.

There's hardly a scrap of paper in your office. Your computer can barely be seen. Still, infinite facts and figures must be somewhere, apparently in your head. Is "clutter" a negative word to you?

"Clutter" is a negative word, yes. Anything that distracts you from your focus is negative. You have to deal with things cleanly and with intensity. As such, you can't have litter about.

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What do you do with all the papers you receive?

I have a team to help me, but nothing stays in this office very long. If someone writes, it's quite impolite not to reply within a couple of days, even if it's just to thank the person for the letter.

I absorb a large amount of written information, but I do so mostly outside office hours. For me, office hours are a time to talk to people. I'm ready for business, my door is open, I wander around, and, as I said, I spend most of my time talking to people. Then, outside the regular work period, I study, and I still have a pretty good memory.

So you take a lot of work home.

Yes, I take a lot of work home. I dedicate a good chunk of the weekend to this.

Do you get enough sleep?

Oh, yes, I get plenty of sleep. I tend to end meetings by five or six o'clock, and then I go home and don't do any more work unless something is incredibly pressing – an enormous deal or maybe some problem with a foreign government.

Are they paying you enough for all of this?

Adequately for me. Working in Europe, of course, is very different from working in America. And while I don't begrudge anybody being paid very, very large amounts of money, I do think it shouldn't create discomfort in society, as has happened in the U.S. in recent years. Clearly, the threshold for discomfort here, in Europe, is much lower than it is in the

United States, although I see that it's coming down in the States as well.

Is there some person in your life whom you've admired more than anyone else – who has been an inspiration to you?

My mother was a great inspiration to me. She had many chapters in her life, and each one was fulfilling, with the exception of one: being in Auschwitz. And I always found it tremendously inspiring that she never looked back: She didn't think of history as particularly important. She always looked forward. I, too, think this is very important. I'm always very leery of reading about history. It can be so badly misinterpreted. When my mother was 80, she said, "You know, I do find old people particularly boring." And she genuinely meant it. She said it was boring to talk about the past. I think that was a very appropriate statement.

In addition to my mother, two teachers in high school really instilled in me a deep appreciation of two diametrically opposed components of learning. One was an English teacher, who taught me how to read and comprehend literature. The other was a teacher of mathematics, who gave me such a thorough grounding in the subject that I really didn't have to study much math until my third year at Cambridge.

Then there are those people I work with. One very close to me now is Andy Grove [chairman of Intel Corporation]. I've sat on his board since 1995, and I think he's a truly great man. He and Gordon Moore [chairman emeritus, cofounder, and former CEO of Intel], who also sits on the board, did something pretty extraordinary: They invented a brand-new industry. Not many people get to do that, and they did it in a particularly human and pleasant way. Gordon is a great gentleman; Andy is a great thinker. They're both tremendous people.

It would appear that you are a very happy fellow.

I pretty much am. You know, we live in yet another age of anxiety, with 1,001 things going through your head, but in the end, you can't get hung up on life's details. So, I try to persuade myself – and I hope I succeed – that there are many things that are completely unimportant, and it's a very good idea to ignore them. You have to remind yourself of this every day, both in private life and in business.

I once had a very wise mentor, whose actual strength was his laziness. He really was that way. When I worked for him and would report some problem, he'd say, "Well, I'm sure it will sort itself out." And well over 50 percent of the time, it did, with no intervention.

In today's business environment, we're trained to solve problems. I believe you have to be careful. A lot of people try to solve problems when it actually would be a better idea to leave things alone. ●