

Summary of speech by Peter Sutherland, Chairman, BP and Goldman Sachs International, at Wirtschaftsrat 2007 Economic Conference, Hotel InterContinental, Berlin, 13 June 2007

In his speech to the Wirtschaftstag conference, Peter Sutherland, Chairman of BP and Goldman Sachs, advocated the increased use of emissions trading alongside some transitional incentives for new technologies to shape a future in which energy is provided in a way that is sustainable, affordable and reliable.

He said: “To serve economic purposes, we want energy that is affordable. To address climate change, we want energy that is sustainable. And to guarantee energy supply, we want energy that is reliable. The big question is how we can all work together - government, industry and civil society - to create a future in which energy is all of those things.”

Speaking on ‘Economy, Climate Change and Energy Supply’, Mr Sutherland reviewed key trends in each area, discussing how the energy industry was responding to rising demand from a growing world economy, the challenge of the environment and concern over energy security. Such business responses included:

- investing in the technologies needed to produce oil and gas from increasingly challenging conditions;
- investing in low carbon technologies, for example through BP’s Alternative Energy business which is developing solar, wind, gas and hydrogen power capacity and Goldman Sachs’s investment of over \$1.5 billion in alternative energy and clean technology during 2006;
- undertaking energy efficiency programmes such as those which have delivered around \$2bn of estimated value for BP.

Mr Sutherland said that energy efficiency had a major role as it created benefits in economic and environmental terms as well as easing pressures on energy supply.

He noted that power generation accounts for around 40% of all greenhouse gas emissions worldwide, almost twice as much as transport. With around 60% of the power capacity needed by 2030 still to be built, he said there was a “golden window of opportunity” to invest in low-carbon power. He noted that coal would be increasingly used in major consuming countries as it was currently affordable as well as plentiful. He said this highlighted the importance of developing clean coal technologies such as carbon capture and storage if coal use was also to be sustainable.

Renewable fuel and power currently amount to a small proportion of the total of world energy, but needed to be supported in order to achieve scale, said Mr Sutherland. He also said that new generations of biofuels needed to be developed with high energy content and greater environmental benefits than those in use today.

Looking to the energy industry of the future, Mr Sutherland said: “It’s an industry in which energy efficiency has reached a new level, where there is widespread use of clean coal and CCS (carbon capture and storage), more use of gas and renewables, and some nuclear power. It’s an industry in which hybrid or advanced vehicles are

powered by new generations of biofuels and perhaps hydrogen, and where there is continuing – but much more efficient - use of oil and gas.”

Discussing how such a new industry could be developed, Mr Sutherland welcomed recent progress was being made, including the EU’s agreement on energy. He said: “The agreement reached on emissions reduction by the EU earlier this year was a landmark. It was a great achievement for the German presidency, working with Commissioner Piebalgs.”

Supporting the increased use of emissions trading as already established in the EU, Mr Sutherland said: “The market economy has delivered growth, innovation and employment. It has lifted billions out of poverty. And it will also help to deliver the energy future that we need.”

Contrasting the use of emissions trading with that of taxation to set a price on carbon, he said: “We prefer the market mechanism of trading as this imposes a definite ceiling on emissions and releases the power of the market to drive efficiency.”

He added that in the absence of a long-term global trading system, some specific incentives were needed to encourage new technologies: “Such incentives need to be specifically designed to kick start the growth of new technologies, to encourage efficiency and bring down costs, and to be phased out over time as these objectives are achieved. Such transitional incentives are very different to ongoing subsidies which tend to encourage *inefficiency* and drive *up* costs.”

Mr Sutherland summarised his conclusions as follows:

“We must continue to produce oil and gas to meet the demand for growth and development, but recognise that fossil fuels will be used in new ways. We must prioritise energy efficiency because it not only reduces costs but limits carbon emissions and eases pressure on supply. We must make progress with technologies that enable coal to be used sustainably, particularly carbon dioxide capture and storage. We should seek out new generations of biofuels because they will provide both greater security and sustainability. We should use the power of the market to deliver the most efficient solutions, particularly through emissions trading. We should also accept that transitional incentives are needed to encourage the introduction of new technologies and to drive down their cost.”

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