

# INTERVIEW WITH BRENDAN NELSON



*Brendan Nelson, a member of the BP board and the Chairman of its audit committee, knows a thing or two about dealing with crises from a board position. He was a partner at KPMG in the U.K., a member of the U.K. board and Vice Chairman until his retirement in 2010. At KPMG International, he was a Global Chairman, banking, and Global Chairman, financial services, sector not known for their tranquility.*

*After retiring from KPMG, he joined the board of Royal Bank of Scotland (“RBS”) in April 2010 as Chairman of the Audit Committee, shortly after the world’s largest bank failure led to the nationalization of the banking group by the U.K. Government, a position he held until December 2018. In September 2010, he joined the board of BP, also as Chairman of the Audit Committee, six months after the “Deepwater Horizon” industrial disaster. Both at RBS and at BP, he has had to deal with the aftermath of these crises, which took many years to resolve, and left a lasting impact.*

*Mr. Nelson talks to Frank Dageard about the way BP and the BP board has dealt with the Covid-19 crisis. Mr. Nelson is speaking in his personal capacity.*

## **Q: How did BP react to the Covid-19 crisis?**

There was an interesting juxtaposition between the pandemic and the strategic journey BP was on. This double challenge meant that the executives and indeed the board and its committees had an enormous amount of work in order to respond to the pandemic and continue to develop the strategy. Indeed we had a Capital Markets event planned for September, and whilst the direction of travel towards net zero by 2050 had been clearly stated before the start of the

pandemic, the details of the strategy still needed to be fleshed out.

This period has been an extraordinary reflection on how organization like BP, that puts safety front and central of everything they do, has been able to respond. At BP, safety is paramount and that includes, of course, the safety of our people. So the first challenge was a people challenge: our installations across the world needed to continue to operate, but in doing so the safety of our people was paramount. This is what BP does. It

can face many challenges, and the organization has an exceptional ability to respond to the unexpected. Our people are trained and our processes are well developed to deal with those when they arise.

The pandemic restricted access to a large number of our office based workers, with different locations having to respond to different local rules and on-the-ground realities. Overall, the adaptation was very seamless. The board was meeting on a weekly basis during that period, to review our response to the pandemic, the issues arising and management's plans to deal with them. There were really no serious operational issues, our critical operational centers were functioning, and payments were made and collections continued. We sent internal audit in, to check that key controls were in place, for example in our large energy trading operations. Trading from home worked really well, as it did in most banks with large capital market businesses, thanks to technology, with appropriate oversight being maintained.

**Q: So what comes next? Has BP defined its post-Covid way of working?**

This crisis is a remarkable experience in terms of understanding how an organization can continue to function when very severe limitations are imposed on conventional ways of working. BP is not unique in that case, but has managed well. Indeed this poses the question of what we return to, what is the new norm. A hybrid model? Is the office, as we knew it a thing of the past? I don't think BP – or for that matter anybody – has yet determined what it might be but it would appear that some consensus is building around a hybrid model. Whilst we all recognize that remote working has enabled us to maintain our operational capabilities, it is also clear that we are losing out in not having people get together. But it is difficult to measure exactly what we are missing out on and by how much. We also know that the longer the health crisis is with us, this will require continuing support for the health and

wellbeing of our staff.

**Q: BP has in its DNA the ability to face up to challenges. But nobody was truly prepared for Covid-19. What was different in this crisis and what lessons is BP drawing from its response to the pandemic?**

These are great questions, but I don't think we have the answers yet. However, it is clear to me that the constant testing of business continuity procedures and crisis management processes helped us enormously. One example that comes to mind is the hurricane that swept through Houston a few years ago. We have a large campus in Houston and a number of buildings were flooded. We had to immediately engage our disaster recovery and business continuity plans. Remote working was implemented as well as alternative sites and back-up facilities went live. Covid-19 is a different crisis, but the plans that had been implemented in Houston were immediately applicable.

But we don't know yet what the learnings will be from the pandemic. BP is good at looking back and asking itself if everything worked as it should have worked, if there wasn't anything that emerged that it didn't have a plan for, and if the procedures it had in place were capable of dealing with the challenges. Nothing at this stage has come up that could lead us to think that there was anything of any significance that wasn't capable of being addressed with our existing plans and procedures. But there will undoubtedly be areas where the pandemic will lead us to revise our plans and improve our procedures. In addition, whilst the next crisis will not be the same, that's for sure, responding to a pandemic scenario will certainly be at the forefront of our minds.

**Q: In that context, how did the key players interact?**

Bear in mind that there was a new management team in place. They were faced shortly after

having been appointed with the need to handle a pandemic and at the same time to flesh out a strategy. We all quickly realized that we were dealing with a crisis on a global scale, and that a regular dialogue between the board and the executive was essential. So we moved almost immediately to weekly board meetings. These meetings added to the workload of management. They were well prepared and led to detailed discussions on our response, our priorities, but also for example the health of the ecosystem – how our supply chains of partners, suppliers and service providers was dealing with the crisis. It may sound boring, but no major disruptions were noted because of failures on the part of a critical supplier or partner. In addition, of course, the committees were meeting as needed. I had regular discussions with the CFO and the head of Internal Audit, for example. And of course the Chairman was in frequent contact with the management. Clearly an action packed few months!

**Q: Communication in a time of crisis is key. Internally, BP conducted, of course, regular “keeping connected” sessions with colleagues and the internal communications function was busy throughout. But what about external communications?**

As regards the external market we announced in June that we had revised our long-term price assumptions in response to, among other things, the energy transition and COVID-19. This would lead to impairments and write offs of our oil and gas properties and intangible assets, which we took at the half year. Both our half and third quarter announcement gave additional information about the impact of the pandemic on our business. In addition our half year announcement gave an update on our new strategy in advance of the capital markets event which was held in September where we set out a new investor proposition.

**Q: What did the pandemic change at BP?**

We had already decided to reduce our fossil fuels footprint and to invest more in low carbon businesses, so the pandemic didn't change our direction of travel. What it did do was to bring into sharper focus the speed of change. Our strong belief is that the world will move faster towards a net-zero environment. In a post-Covid world, we want BP to set a standard in that transition and actually be in a leading position to provide the world with low carbon energy options. We characterize this by saying BP has changed from an 'International Oil Company' to an 'Integrated Energy Company.'

**Q: Do you think boards should make it criteria for selection of directors that some of them have crisis management experience?**

Boards must have a mixture of talent. We have directors on the BP board who have gone through difficult and challenging times during their careers, and their experience is invaluable. So, expertise in crisis management is not the reason why I would select a board member, but a varied experience including handling crisis, yes, that is important for a board to have.

**Q: And to conclude, do you think there will be outcomes of the pandemic in terms of governance?**

Many companies have excellent risk management processes, but outside the financial sector the governance of risk is not necessarily as developed. However this is changing and the gap is narrowing. A different question is whether 'crisis committees' should be established also, say on an ad-hoc basis. This clearly will be dependent on the scale and impact of the crisis and also to some extent if it is idiosyncratic or existential. Both BP and RBS have used board crisis committees in the past and no doubt will continue to do so should the circumstances warrant it. The important issue is that the Board's responsibilities are not mitigated through the use of such a committee.

# ***FROM INTERNATIONAL OIL COMPANY TO INTEGRATED ENERGY COMPANY: BP SETS OUT STRATEGY FOR DECADE OF DELIVERY TOWARDS NET ZERO AMBITION***

**PRESS RELEASE - AUGUST 04, 2020**

bp today introduces a new strategy that will reshape its business as it pivots from being an international oil company focused on producing resources to an integrated energy company focused on delivering solutions for customers.

Within 10 years, bp aims to have increased its annual low carbon investment 10-fold to around \$5 billion a year, building out an integrated portfolio of low carbon technologies, including renewables, bioenergy and early positions in hydrogen and CCUS. By 2030, bp aims to have developed around 50GW of net renewable generating capacity – a 20-fold increase from 2019 – and to have doubled its consumer interactions to 20 million a day.

Over the same period, bp's oil and gas production is expected to reduce by at least one million barrels of oil equivalent a day, or 40%, from 2019 levels. Its remaining hydrocarbon portfolio is expected to be more cost and carbon resilient.

By 2030, bp aims for emissions from its operations and those associated with the carbon in its upstream oil and gas production (addressed by Aim 1 and Aim 2 of bp's net zero ambition) to be lower by 30-35% and 35-40% respectively.

bp also today sets out a new financial frame to support a fundamental shift in how it allocates capital, towards low carbon and other energy transition activities. The combination of strategy and financial frame is designed to provide a coherent and compelling investor proposition – introducing a balance between committed distributions, profitable growth and sustainable value – and create long-term value for bp's stakeholders.

As part of the investor proposition, bp's board has introduced a new distribution policy, with two elements:

- the dividend reset to a resilient level of 5.25 cents per share per quarter, and intended to remain fixed at this level, subject to the board's decision each quarter, supplemented by
- a commitment to return at least 60% of surplus cash to shareholders through share buybacks, once bp's balance sheet has been deleveraged and subject to maintaining a strong investment grade credit rating.

"Energy markets are fundamentally changing, shifting towards low carbon, driven by societal expectations, technology and changes in consumer preferences. And in these transforming markets, bp can compete and create value, based on our skills, experience and relationships. We are confident that the decisions we have taken and the strategy we are setting out today are right for bp, for our shareholders, and for wider society."

Helge Lund, chairman