

Supporting Statement

In December 2007, BP p.l.c. (the “Company”) announced a reversal in its oil sands policy by entering into a \$5 billion asset swap with Husky Energy whereby the Company will exchange 50% of its Toledo refinery for 50% of Husky’s sunrise project (the “Sunrise Project”). Given that the Company disposed of all of its oil sands assets in 1999 believing as Regional President Joseph Bryant said at the time that “(t)he growth potential of these properties in Canada did not compete with the potential of some of our other oil operations worldwide”¹ and as CEO John Browne stated that “(t)hey are much higher cost (...) (i)t must be a straight judgment about costs and returns”², this reversal was likely motivated by the significantly more bullish market for oil since 2004.

Concerns regarding: (i) the carbon intensity of the Sunrise Project at a time of anticipated regulation and pricing of greenhouse gas (GHG) emissions; (ii) forecasted carbon prices; (iii) the limitations and cost of emissions mitigation; and (iv) local environmental and livelihoods issues, mean that shareholders require assurances regarding the assumptions made by the Company in deciding to proceed with the Sunrise Project about: (i) future carbon prices; (ii) oil price volatility; (iii) demand for oil; (iv) anticipated regulation of GHG emissions; and (v) other legal and reputational issues.

Operational Risks

At a time of growing international consensus regarding the need to regulate and price GHG emissions, there is a risk of significant costs arising from the Sunrise Project. It involves a method of oil production³ that is among the most energy and carbon intensive of any used in the oil industry producing on average 3 times the GHG emissions of conventional production.⁴

The International Energy Agency has suggested the price of carbon emissions in industrialised countries will need to be \$50 per tonne in 2020 rising to \$110 by 2030 adding \$5 and \$11 respectively to the cost of producing a barrel of average oil sands.⁵ As the Sunrise Project is likely to be at the high end of the carbon intensity scale among oil sands projects the added cost is likely to be higher than the average.

A recent report raises concerns regarding the effectiveness of Carbon Capture and Storage (CCS) to address the GHG emissions of oil sands operations stating that, “the overall reductions from upstream operations could be in the 10% to 30% range at the best process locations by 2020 and the 30% to 50% range industry wide by 2050.”⁶

¹ Dow Jones News Service, 10 June 1999. *Proposed BP Amoco Asset Sale Involves All Cdn Oil Assets.*

² International Petroleum Finance, 8 November 2004. *BP Chief Confident Best Is Yet To Come.*

³ Steam Assisted Gravity Drainage (SAGD).

⁴ Charpentier, A.D., Bergerson, J.A., and MacLean, H.L. “Understanding the Canadian oil sands industry’s greenhouse gas emissions” in *Environ. Res. Lett.* January-March 2009.

⁵ International Energy Agency, *World Energy Outlook 2009.*

⁶ WWF-UK and The Co-operative Financial Services, October 2009. *Carbon Capture and Storage in the Albertan Oil Sands: A Dangerous Myth.*

The cost of these marginal reductions for SAGD projects is estimated at \$200-290 per tonne. This compares unfavourably with estimates for CCS for coal-fired generation at \$60 to \$150 per tonne.⁷

There are also potential costs from land reclamation and costs and delays from potential litigation brought by local communities, increasingly affected by pollution, deforestation and wildlife disturbance, claiming breaches of the treaty rights protecting their traditional livelihoods.⁸

Market Risks

Given its high capital intensity, the profitability of the Sunrise Project depends on sustained high oil prices. Independent studies have cast doubt on the reliability of such market conditions suggesting that high oil prices constrain oil demand through economic contraction and consumer behaviour change.

Cambridge Energy Research Associates suggest that when oil prices rise above \$100/bbl GDP is constrained and alternatives gain increasing market share.⁹ Douglas Westwood analysing recessions since 1973 observed that when oil consumption breaches 4% of US GDP the US enters recession. They calculated that the oil price at which that happens is \$80/bbl at 2008 prices.¹⁰

Deutsche Bank suggests that over the next five years, increasingly tight supply will push oil prices higher triggering a move to much more efficient oil use through technology switching. This may reach a point at which efficiency gains overtake demand growth and a peak in global oil demand is reached. In their opinion, “*The value of high capex intensity, long lead time, currently un-developed oil, such as undeveloped Canadian heavy oil sands, oil shales, and Brazilian pre-salt and other ultra-deepwater plays could be far lower than the market currently expects.*”¹¹

Long-term demand forecasts made by the IEA, OPEC and the US government have fallen by some 20% since 2006.¹² The IEA’s most recent demand forecast for 2030 has been revised down from 116mb/d in its 2007 report to 105mb/d under its current reference scenario (in which climate change continues unchecked). Its more realistic 450ppm scenario puts 2030 demand at 89mb/d.¹³

⁷ Ibid.

⁸ Alphonse Lameman and the Beaver Lake Cree Nation v Her Majesty the Queen Right of the Province of Alberta and the Attorney General of Canada.

⁹ *Dawn of a New Age: Global Energy Scenarios for Strategic Decision Making-The Energy Future to 2030*; Cambridge Energy Research Associates 2006 Multi-client Study. Cited in *Macro-Economic Limits to Oil Price and ‘non-conventional’ Oil*. Innovest Strategic Value Advisors. February 2009.

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¹⁰ Douglas Westwood Energy Business Analysts, 22 June 2009. *Oil: What price can America afford?* Available at: <http://www.dw-1.com/files/files/438-06-09 - Research Note - Oil - What Price can America Afford - DWL website version.pdf>

¹¹ Deutsche Bank Global Market Research, 04 October 2009. *The Peak Oil Market: Price Dynamics at the end of the oil age*. P.5

¹² See OPEC World Oil Outlook, July 2009, p.74

¹³ International Energy Agency, World Energy Outlook 2009.

Oil price volatility, resulting from both the economy's low tolerance to high oil prices and the drive to constrain oil demand to prevent climate change and enhance energy security, threatens the profitability of the Sunrise Project. Shareholders require assurances regarding the assumptions underpinning the Sunrise Project.

Signature of shareholder/indirect investor:
