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**Company report review**

**British Petroleum**

**Sustainability Review 2004**

**Presented by: Maplecroft**

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**Note**

This review is based on information contained in the hard copy version of BP's Sustainability Review 2004. An electronic version of this document is available online at: <http://www.bp.com>. This review is intended as a summary only and does not provide full and complete discussion of all the issues contained in the report.

## 1 Background

The BP Sustainability Review begins with an introduction from John Browne. In this statement he talks about how the road to sustainability begins with the company's fundamental purpose as an organisation – “to provide better goods and services in the form of light, heat, power and mobility to increasing numbers of people and thereby deliver shareholder value on a long-term basis”. BP recognise that in order to achieve this aim it will need to be profitable, consistent and sustainable – in terms of its investments, attracting and maintaining the best employees and contributing towards a sustainable environment. The introduction talks specifically about BP's business strategy, the need to act responsibly and build trust through relationships based on mutual advantage.

The introduction focuses in particular on the theme of responsibility, and how BP is seeking to embed responsible action as an integral part of its strategy. For BP this includes compliance with legal frameworks in the countries in which it operates. But the report also talks about how responsibility means going beyond compliance and doing more than is required by local law. It also talks about responsibility for issues that extend beyond BP's own operations – the most notable being the climate change impacts of greenhouse gas emissions and BP's role as a “powerful force for (education) development and awareness”. The introduction specifically notes BP's ongoing commitment to other fuel sources/technologies, such as natural gas, and community investment. The latter commitment in particular is substantiated by a pledge to spend around \$500 million on enterprise (local and regional economic development), education and energy.

In his opening statement John Browne also talks about how BP's key objective for the future is “to be there for the long term and to be a positive influence”. And this sentiment is continued in each of the sections of the report. The report continues this discussion in a relatively open and transparent manner, talking about both positive and negative incidents – and acknowledging the future/forward trajectory of BP's ongoing learning and management of sustainability issues.

## 2 Achievements and challenges

The report presents a clear list of key achievements and challenges for 2004.

### 2.1 Achievements

- **Transparency** – A Memorandum of Understanding was signed in Azerbaijan in 2004 by the government, the state oil company and foreign oil companies, including BP, under the Extractive Industries Transparency Initiative (EITI). This sets out the process under which revenues to the government from energy companies will be disclosed.
- **Carbon capture** – BP launched a CO<sub>2</sub> capture and storage project at the In Salah gas field in the Algerian desert, believed to be one of the largest of its type yet undertaken.
- **Employee satisfaction** – The company's annual survey of employees, completed by 74% of those eligible, showed a significant increase in satisfaction about working for BP.

### 2.2 Challenges

- **Russia** – In Russia, TNK-BP is working with a legacy of environmental challenges. TNK-BP plans to spend more than \$1 billion over 10 years to improve health, safety and environmental performance and address legacy sites. More than \$100 million was spent in 2004 in these areas.
- **Air-quality case** – Lawsuits in 2003 and in January 2005 have been filed, alleging multiple air-quality violations at the Carson refinery in California. In March 2005, BP, without admitting liability, agreed to settle all outstanding claims, including \$25 million in cash penalties and approximately \$6 million in past emissions fees.
- **Sensitive areas** – BP continues to face concerns over whether it should access sensitive or protected areas to meet the global demand for energy.

### 3 Key themes

The main body of the report is split into three sections.

#### 3.1 Business

The section on entitled “BP – our business” begins with further discussion of what responsibility means for BP. In doing so it expands on the introduction provided by John Browne. Of particular note is the discussion on global leadership, where BP elaborates on its role in solving global challenges directly relevant to its long term business strategy. It seeks to do this by working within its sphere of influence, where it does not control outcomes because responsibilities are seen as being shared. Instead BP seeks to work with governments, business partners and civil society, using its skills and resources in an effort to deliver better outcomes relating to enterprise, energy, education, environment and governance.

This section of the report also introduces BP's code of conduct and values:

- **Code of conduct** – BP's code of conduct was developed in 2004 and is set to be launched to every BP employee in 2005. The code sets out a set of company-wide rules to be observed by all employees. It provides the cornerstone of BP's commitment to compliance and ethics and gives examples of how the group values need to be applied to specific situations that people encounter in their work.<sup>1</sup> The code of conduct stresses fundamental health, safety and environmental rules such as the need to report any hydrocarbon or chemical spills. It covers fair treatment and equal opportunity for employees, and provides detailed guidance on receipt of gifts and entertainment, conflicts of interest, competition, trade restrictions, money laundering and working with suppliers.
- **Values** – The report also provides a copy of the group values that represent the unchanging, fundamental qualities important to BP – integrity, honest dealing, treating everyone with respect and dignity, striving for mutual advantage and contributing to human progress. The values are grouped in accordance with four main areas: performance (continuous improvement), people and capability, health, safety and environment and external relationships (including a commitment to deal openly and transparently with shareholder and third parties and to adhere to the principles of the EITI).

This section of the report also provides information on BP's stakeholder engagement and health and safety.

- **Stakeholder engagement** – This section of the report also provides a review of the mechanisms BP uses to maintain dialogue with its stakeholders – including customers, shareholders, employees, communities, opinion leaders, suppliers and joint initiatives. In the latter section it talks about ongoing work with governments, Non Governmental Organisations (NGOs) and international agencies. It also noted the continued implementation of the Voluntary Principles on Security and Human Rights and BP's involvement in the sustainable mobility project of the World Business Council for Sustainable Development (WBCSD).
- **Personal safety** – In 2004, BP recorded improvements in workforce safety, achieving a reduction of more than 10% in its Days Away From Work Case Frequency (DAFWCF). Nonetheless, despite the progress made in reducing injury rates, serious incidents continue to occur. Among the most notable of such incidents was an explosion and fire at BP's Texas City Refinery (United States) that killed 15 people (provided as an addendum message to the hard copy report).

This section also contains a statement on BTC pipeline integrity ... as noted below.

“During 2004, the BTC Company resolved a problem identified in November 2003 when some hairline cracks appeared in the joint coating in Azerbaijan and Georgia. These were picked up during normal quality assurance testing procedures prior to putting the pipe into the ground ... Addressing the issue involved a simple remedy, with the correct application of heat before and after applying the coating to reduce the cure time, in accordance with the manufacturer's instructions. This procedure has worked well and a team of full-time coating inspectors has been ensuring that all coatings are applied correctly.”

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<sup>1</sup> The group chief executive has stressed that the code of conduct's provisions apply to all BP employees and that any employee who fails to observe them may be subject to disciplinary action, which could even include dismissal.

## 3.2 Environment

The section on environment begins with a discussion on climate change. It talks in particular about how BP believes a prudent strategy would be to stabilize carbon dioxide (CO<sub>2</sub>) concentrations at around 500-550 parts per million (ppm), consistent with limiting global temperature rise to around 2°C. One way of achieving this would be to ensure that global GHG emissions in 2050 are no higher than today's – around 25 billion tonnes of CO<sub>2</sub> a year.

BP is supporting research by Princeton University to explore options for reducing global CO<sub>2</sub> emissions. These include increasing the fuel economy in cars so that two billion cars run at 60 miles a gallon rather than today's average of 30; replacing coal with natural gas as feedstock at 1,400 one-gigawatt power stations; a 700-fold increase in solar panels; or cutting carbon emissions from buildings by a quarter by applying known approaches to energy efficiency. Although these options involve many players and will take years to implement, BP fully supports early action.

As part of its commitment to early action BP:

- Has reduced its operational emissions by 10% between 1998 and 2001, major contributions were made through efficiency measures. For example, BP cut flaring of unwanted gas at oil fields by around 850,000 tonnes of GHG equivalent in one year.
- Is seeking to provide the energy customers need through fuels that contain progressively less carbon, for example, by increasing the share of natural gas in the portfolio of energy its supplies. And is seeking to provide products that help customers use energy more efficiently. The methodology BP has developed for this forms part of its Product-Enabled Emissions Reductions programme (PEERs).
- Has grown its energy sales by 47% in clean natural gas and 5% in oil-based products, which are mainly transport fuels. As a result, natural gas now accounts for 61% of the energy supplied by the company. At the same time, sales of solar panels have grown by 78%.

The company also talks about its commitment to the EU Emissions Trading Scheme (ETS) – which it believes should be extended over time to become part of the wider global drive to reduce emissions. As a result BP have established a group to manage emissions trading in the company, bringing together environmental, technical and business professionals. Processes have also been devised to ensure company sites comply with the EU ETS – and the system provides added incentives for them to reduce emissions.

## 3.3 Society

BP acknowledge that to earn trust and credibility and to operate its business responsibly, it must also acknowledge and address the challenges that societies face in the places where it operates – many of which are directly associated with the oil and gas industry. These challenges can include corruption, difficulties in managing large inflows of wealth, rising exchange rates that depress non-energy sectors, and the 'honey pot' syndrome in which large numbers of people seeking employment and economic opportunity are drawn to project sites. BP has been working to address these issues, in partnership with others, in several ways.

Most of BP's community investments will flow to programmes and projects that support enterprise development and education and improve access to energy:

- In 2004, the company invested a total of \$87.7 million in community programmes and community-based organisations around the world, up 18% on 2003. \$73.6 million of this was invested in community development and education programmes, with arts and culture and environmental projects accounting for around \$11 million.
- Contained within this total is BP's \$6.6 million global Employee Matching Fund. In 2004, BP paid out \$4.3 million to match employee donations, \$0.6 million to match employee volunteer time and \$1.7 million to match employee fund-raising efforts.

The remainder of the report provides more detail on different social projects around the world – with a particular focus on education, development and progress. The latter including access to energy in developing countries and revenue management. BP also talks about its role in the global community, its commitment to the provision of humanitarian aid, raising HIV/AIDS awareness and contributing to the Millennium Development Goals.

## 4 Our comment

Rating: ★★★★★

The report is nicely presented, with neat and alluring graphics that interest and capture the reader. It is very well written and contains a fair and seemingly open discussion of issues – with both good and bad points being mentioned in an open and candid manner. The report shows BP have a willingness to talk about sometimes difficult and contentious issues – in particular those relating to the BTC pipeline and its operations in developing countries and sensitive areas. These issues are well addressed through the use of case studies, and also through a detailed discussion of the challenges and goals faced by both BP and the countries/communities in which it operates.

The report is not overly glossy, but is still pleasing to the eye and is printed on FSC certified recycled paper. It is well structured and seems to contain just the right amount of information to keep the reader interested. It presents and covers a diverse range of issues and does so in a credible and rigorous manner – with an air of objectivity. The report also contains a GRI index (cross-referenced to page numbers in the document) and an assurance statement from Ernst and Young. Together these features provide the reader with comfort in the rigour of the content and process by which BP are addressing sustainability in its operations.

But despite only being 36 pages, the document is both dense and a fairly intense read. Whilst this report is a good to strong performer in all areas, it is somehow not quite worthy of a five-star scoring – possibly because it's not spectacular or particularly groundbreaking in any area. As good as the content and document is, somehow the emotional connection with the reader is missing.



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