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BRITISH PETROLEUM:

From Texas City to the Gulf of Mexico and Beyond

This case was prepared by research assistant Christine Bang Andersen under the supervision of professor Torben Juul Andersen[1] at the Copenhagen Business School with the purpose of providing material for class discussion and was not developed to illustrate effective or ineffective handling of managerial situations.

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FROM TEXAS CITY TO THE GULF OF MEXICO AND BEYOND

The board members of British Petroleum (BP) had many reasons to reflect upon the state of affairs in the company. BP had experienced dramatic executive changes in recent years and was now headed by Bob Dudley, the third Group Chief Executive in less than a decade. In April 2010 the oil rig *Deepwater Horizon* exploded and killed 11 men under their stewardship, putting BP on the headlines of global news as a villain responsible for the largest environmental disaster in US history. The BP stock price plunged in the aftermath and had only recently begun to regain earlier momentum. Tony Hayward, the CEO then, had done well after replacing John Browne in early 2007 in the wake of the Texas City refinery explosion that killed 15 employees and injured another 170. The verdict by the Baker review panel investigating the circumstances around the incident concluded that "BP has not provided effective process safety leadership and has not adequately established process safety as a core value".1 They also uncovered "instances of a lack of operating discipline, toleration of serious deviations from safe operating practices, and apparent complacency toward serious process safety risks". These were serious allegations that a responsible board was obliged to take at heart.

Under Tony Hayward's leadership, the company imposed new policies to safeguard personal safety and implemented an official Code of Conduct to emphasize the key areas of running the business highlighting health, safety and the environment. The bar was set high arguing that as a leading global firm "we have a responsibility to set high standards to be, and be seen to be, a business which is committed to integrity".[2] The company did well in the competitive energy industry with players constantly on the lookout for new sources of hydrocarbon to satisfy the needs of an expanding global economy. They had also managed their way through the 'great financial crisis' of 2008 with its rollercoaster ride in the stock markets, producing earnings comparable to their peers in the industry. So BP condoned sensible principles of employee safety and environmental concerns in pursuit of sustainable corporate developments. But in spite of the good intensions and efforts the company faced environmental incidents that had severe impacts on the wealth of company stockholders.

It seemed obvious that sound management practices and values imposed by top management would influence corporate outcomes and the way the organization deals with risky situations and unforeseeable events. To accomplish this, corporate leadership imposed formal guidelines with stringent policies on corporate practices expressed in an official code of conduct sending a clear message to employees and external stakeholders.

BACKGROUND

The company was founded in 1908 as the Anglo-Persian Oil Company when it struck an oil well after eight years of search in a remote area of Persia and it was the first company to extract oil in Iran. In 1935 it was renamed the Anglo-Iranian Oil Company and eventually became the British

[1] The Report of the BP U.S. Refineries Independent Safety Review Panel, 2007.

[2] The BP Code of Conduct.

Petroleum Company in 1954. The company developed from these modest but venturous beginnings and continued to grow through exploration and development of new oil fields under demanding geopolitical and physical conditions. After the 1973 oil crisis where the Organization of Arab Petroleum Exporting Countries[3] imposed an oil embargo, BP started exploration in new locations, such as, Prudhoe Bay in Alaska and the North Sea off of Scotland. This reduced dependency on the Middle East but also represented technical challenges to rein in the crude oil from remote regions. Being short of facilities in North America, BP worked with Standard Oil of Ohio (Sohio) to refine the Alaska oil and the company was subsequently acquired to become part of BP. This was followed by mergers with US-based Amoco and ARCO and acquisition of the Castrol brand to steadily increase the size of the company. In less than half a century it managed to grow into one of the largest global corporations with over 100,000 people employed in more than 100 countries around the world.[4]

BP had become a truly multinational oil and gas company headquartered in London, England, with worldwide operations and employees in different parts of the organization refining around 2,345 thousand barrels of oil per day. BP America was the largest corporate division and the second largest producer of oil and gas in the United States. BP also owned a 19.75% stake in the Russian oil giant Rosneft. In 2005 the company could boast at being the largest energy company in the world measured by revenues ahead of Exxon and Shell.[5] It remained a member of the so-called 'Big Five' of the largest global oil and gas companies: BP, Chevron, Conoco Philips, Exxon Mobil and Shell. The firm had assembled operations in all parts of the energy value-chain in the oil and gas industry including exploration, production, refining, petrochemicals, power generation, distribution, marketing and trading.

A refocused strategy promoted in recent years was aiming to direct corporate operations towards renewable energy in bio-fuels, wind and solar power. The move was promoted by John Brown, who in a speech in 1997 called for "a balance between the needs of development and the need for environmental protection".[5] Moving into the new millennium BP was considering alternative sustainable low-carbon energy sources to address climate change. However, being mindful of the continued dependence on oil as a key source for the increasing global energy needs, the company was also engaging in major long-term oil exploration projects in Alaska, the Gulf of Mexico, Russia, Azerbaijan, Indonesia, and elsewhere.[6]

THE SHIFTS IN LEADERSHIP

The company had experienced significant changes in top management and leadership over the past decade with two shifts in the fronting position as CEO. Tony Hayward took over from John Browne during spring 2007, and the eventual replacement of Tony Hayward by Bob Dudley took place in the fall of 2010. The two executive changes were instigated by two different chairmen indicating interim changes in the board composition. Peter Sutherland was appointed chairman of BP in 1997, after

[3] This comprised the Arab members of OPEC by then counting Saudi Arabia, Kuwait, Libya, Algeria, Bahrain, United Arab Emirates, Qatar, Iraq, Syria and Egypt.

[4] BP Corporate Website.

[5] CNNMoney: Fortune Global 500 Annual Ranking, July 25, 2005.

[6] History of BP, BP Corporate Website.

serving as non-executive director 1990-93 and 1995-97, so he was instrumental in the first executive switch. Sutherland retired as chairman in December 2009 after thirteen years of service. Carl-Henric Svanberg, who joined the board as non-executive director in September 2009 from a prior position as president and CEO of Ericsson, subsequently took over as chairman of BP in January 2010. That is, Svanberg was at the helm of the board during the second executive switch (See timeline in Appendix 1).

GROWING ENVIRONMENTAL CONCERNS

After occupying a seat on the board as Managing Director since 1991, John Browne was appointed Group Chief Executive of BP in 1995 at the age of 45. In addition to this he could boast of being knighted in 1998 and becoming a life peer in the British House of Lords in 2001. Considered one of the most successful CEOs in the firm's history, Browne was given substantial credit for turning it into one of the world's most successful energy companies.

Not only recognized for his tremendous efforts to grow the company, Browne could also take the honor for introducing the slogan "Beyond Petroleum", 'BP' for short, a slogan suggesting that BP was serious when they talked about becoming an energy company rather than a petroleum company. Browne shifted towards a more "green" strategic profile, emphasizing care for the environment and employee safety more than oil and profits. This not only refocused the corporate strategy of BP, but also reflected Browne's personal engagement. As a consequence, he was appointed by then Prime Minister Tony Blair as a key member of the British Sustainability Development Commission.

Similarly, BP went far under Browne's leadership to give evidence of this change towards environmental concerns and safety became a focal issue in corporate reports and advertising, while the company undertook green investments and supported environmental NGOs financially. The firm also restructured the board to form new subcommittees monitoring projects on employee security and environmental awareness.

BP rolled out the "Beyond Petroleum" campaign that was widely praised in the press and it was awarded a Gold Effie from the American Marketing Association (AMA) in 2007. The AMA referred to the campaign as "a landmark platform for a company trying to change the way the world uses, and thinks about, the fuels that are vital to human progress."[7] Hence, BP was the first oil major to acknowledge a link between the use of oil and the phenomenon of global warming. This market positioning seemed to work well as total sales went from $192 billion in 2004 to $266 billion in 2006. At the same time a Landor Associates survey found that 21% of consumers perceived BP as the greenest among the oil companies.[8]

However, Lord Browne was also known for his willingness to take risks in the pursuit of big transactions. Hence, it was under his leadership the Amoco merger went through in 1998, as one of

[7] Gregory Solman, BP: Coloring Public Opinion? Adweek, January 14, 2008.

[8] Environmental Leader. Environmental and energy management news, 'Beyond Petroleum' pays off for BP, January 15, 2008.

the largest industry mergers ever.[9] The deal was valued at US $48.2 billion and propelled BP Amoco to be among the largest multinational oil companies. The merger combined different industry skills as BP was good at exploring for oil reserves, whereas Amoco had a more substantial business in oil refining and chemicals. These complementary activities provided a basis for more consolidated spending on oil exploration projects that could help extend their essential upstream business activities in the energy industry. Although the transaction was announced as a merger among equals, analysts tended to see it as an acquisition by BP, who controlled 60 percent of the new company.

The merger moved the company into the top of the industry with substantial business synergies and administrative savings. Amoco's President William Lowrie argued for operational synergies with cost savings of at least $2 billion annually and benefits from a streamlined corporate staffing with potential savings of $1 billion.[10] The BP Amoco merger was followed rapidly by acquisitions of ARCO and Burmah Castrol with the possibility to gain further scale economies through the daunting task of consolidating 100,000 people into one single organization within a lean and efficient corporate infrastructure.

TEXAS CITY REFINERY

On March 23, 2005 a hydrocarbon vapor cloud exploded at the ISOM isomerization process unit at BP's Texas City refinery in Texas City, Texas, killing 15 workers and injuring more than 170 others. The Texas City Refinery was the third-largest oil refinery in the United States and became part of BP in connection with the Amoco merger.

The hydrocarbon cloud was formed by liquid overflow from the F-20 blowdown stack where the raffinate splitter pressure protection system overfilled and overheated the tower contents. The incidence was caused by numerous technical and organizational shortcomings at the refinery and within BP. These comprised the continued use of an insufficiently dimensioned and outdated blowdown drum, lack of maintenance on safety critical systems, inoperative alarms, etc. It also included corporate cost-cutting, inadequate training, poor communications between operators and department managers, failure to invest in plant safety measures and a wanting corporate safety culture. The US Chemical Safety and Hazard Investigation Board looked into the circumstances around the incident (led by former US Secretary of State James Baker III) and was scheduled to release its report in July, 2007.[11]

The report turned out to provide less than flattering evidence of the practices procured by BP. The review panel expressed its belief "that BP has not provided effective process safety leadership and has not adequately established process safety as a core value across all its five U.S. refineries." In addition: "The panel found instances of a lack of operating discipline, tolerance of serious deviations

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[9] Youssef M. Ibrahimy, British Petroleum is buying Amoco in $48.2 billion deal, New York Times, August 12, 1998.
[10] Oil & Gas Journal. BP/Amoco merger creates third 'supermajor', August 17, 1998.

[11] Investigation Report. Refinery Explosion and Fire, U.S. Chemical Safety and Hazard Investigation Board, Report No. 2005-04-I-TX, March 2007.

from safe operating practices, and apparent complacency toward serious process safety risks at each refinery."

As a consequence of the explosion, BP was afterwards charged with criminal violation of federal environmental laws and faced numerous lawsuits requesting compensation to the victims' families. Hence, the US District Court was trying BP on a fine around $50 million charged for environmental violations with BP making prior payments of more than $1.6 billion to compensate the victims and their families.

Despite the impressive corporate growth strategy along with the successful Amoco merger, Lord Browne stepped down as CEO on May 1st 2007, somewhat earlier than his originally planned retirement. The reasons behind his resignation were intricate and abrupt and the New York Times referred to it as "one of the most dramatic falls in British business in memory".[12] In fact, it was already announced on January 12, 2007 that Tony Hayward would replace John Browne as BP's Chief Executive in July well ahead of time. The process to replace Lord Browne had been accelerated by fast-forwarding his resignation by 18 months from the end of 2008 to the middle of 2007, even though he would not reach the official executive retirement age of 60 until 2008. At the occasion Peter Sutherland, the BP chairman, referred to John Brown as "the greatest British businessman of his generation".[13] Yet, the creeping safety and environmental issues related to the Alaska pipeline, start-up delays at the Thunder Horse project in the Gulf of Mexico, and not least the pending report on the Texas City explosion seemed to urge his premature retirement. But, what really prompted his abrupt resignation was the fact that he was caught lying in court about an intricate partnership with another man while losing a four-month battle to suppress newspaper reports about the relationship.[14]

John Browne had asked the High Court to prevent the Mail on Sunday from reporting on his partnership and took the legal battle all the way to the House of Lords, which eventually refused him permission to appeal. The judges said the newspaper could write about the alleged misuse of BP resources in support of his partner, which "included his 'personal use, with the claimant's knowledge and permission, of BP's computers, and of its support staff; the involvement of BP personnel in setting up and eventually winding up a company created by the claimant for [Mr. Chevalier] to run'; and 'the use of a senior BP employee to run a personal errand for the claimant by delivering cash' to Mr. Chevalier."[15]

The unfortunate situation was followed by crisis meetings at the London headquarters, which caused John Browne to resign with immediate effect. BP said "it accepted Lord Browne's resignation with the 'deepest regret'" and announced that "the chief executive would lose his entitlement to a leaving package worth £3.5 million and a potential £12 million in shares." Allegations from Lord Browne's ex-boyfriend Jeff Chevalier suggested he had acted against BP's official code of conduct for employees. Brown denied the allegations, but found it necessary to withdraw from his position. He

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[12] Alan Cowell, John Browne steps down abruptly from BP, The New York Times, May 1, 2007.
[13] BBC News. BP's Browne to stand down in July, January 12, 2007.

[14] Ian Cobain and Clare Dyer, BP's Browne quits over lie to court about private life, The Guardian, May 1, 2007.
[15] Joshua Rozenberg, Lord Browne resigns after revelations he lied in court about gay lover, The Telegraph, May 1, 2007.

resigned from BP and the Head of Exploration and Production, Tony Hayward, became the new Group Chief Executive.

THE SHIFT AT THE HELM

Hayward joined BP in 1982, taking his first job as a rig geologist in Aberdeen. From there he quickly rose through a series of technical and commercial roles in BP Exploration in London, Aberdeen, France, China and Glasgow and ended as John Browne's Executive Assistant in 1990. Rotating through a series of positions within BP Exploration in various parts of the world, Hayward became BP Group Treasurer in 2000, an Executive Vice President in April 2002 and Chief Executive of Exploration and Production in 2003.

In December 2006 shortly before Lord Browne resigned, Hayward criticized BP's management at an internal management meeting stating that: "We have a leadership style that is too directive and doesn't listen sufficiently well. The top of the organisation doesn't listen sufficiently to what the bottom is saying."[16] After Tony Hayward replaced John Browne he shifted the corporate emphasis from alternative energy to a focus on safety, which henceforth became the company's first priority. This answered the criticism after the Texas City refinery accident as well as it acted on Hayward's own critique of the prior leadership.

Despite the new emphasis on safety, the company's record proved difficult to change. Hence, BP eventually had to pay $13 million in fines for over 400 safety violations at the Texas City refinery identified during an inspection in 2009 by the Occupational Safety and Health Administration (OSHA) to see if safety issues that caused the 2005 blast had been rectified.[17] So, the environmental status of the refinery remained pretty bleak and according to the Centre for Public Integrity, the Texas City refinery together with another BP facility in Toledo, Ohio accounted for the vast majority "of all flagrant violations found in the US refining industry by inspectors" over the three years after the explosion.[18]

At the same time, BP was challenged in its aim to stay ahead of the game by tougher competition for the global sourcing of crude oil. It was argued that the emergence of new players in the energy industry increased the competitive pressures on the traditional oil conglomerates from industrialized nations. According to the UN Conference on Trade and Development (UNCTAD) the traditional transnational corporations were losing bargaining power "eager to use climbing demand to capture a larger share of the rents".[19] Competition was influenced by new ambitious entrants from various developing and transition economies, such as, Kuwait Petroleum, Lukoil (Russia), Petrobras (Brazil) and Petronas (Malaysia) operating alongside the global oil companies like BP, Shell and Chevron.

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[16] Sheila McNulty, BP memo criticizes company leadership, FT.com/The Financial Times, December 17, 2006.
[17] The Center for Public Integrity. BP to pay $13 million for safety violations at Texas refinery, Washington DC, July 12, 2012.

[18] AFP (Agence France-Presse). Texas sues BP over air pollution from refinery, August 9, 2010.

[19] UN News Centre. Competition for oil and gas reserves heating up, says UN trade body, September 27, 2007.

DEEPWATER HORIZON

The Thunder Horse oil field was developed by BP with ExxonMobil as 25% partner from 1999 onwards. It was the largest offshore platform in the Mexican Gulf located off the Louisiana coast southeast of New Orleans, with production of up to 250,000 barrels of oil a day and with reserves believed to be in excess of 1 billion barrels.[20] Due to its size, the field was an important part of BP's global oil exploration strategy. However, the development of the field was also a technological challenge because the drilling took place on the seabed under 1,500 meters of water and almost 4,000 meters under the seafloor.

Oil had not previously been extracted from such extreme depths anywhere in the world where oil formations have pressures above 1,200 bars and temperatures of around 135°C.[21] In many ways the ensuing exploration projects were on virgin ground experimenting under conditions of high uncertainty with many unknown factors. Furthermore, the location in the Mexican Gulf exposed the seaborne oil rigs to tropical hurricanes. For example, BP's drilling platform on the deepwater Mississippi Canyon Block 778 needed urgent repairs in 2005 when it tilted 30 degrees after Hurricane Dennis swept through Thunder Horse.[22]

BP started drilling the Macondo oil and gas prospect, Mississippi Canyon Block 252, or MC252 for short on October 21, 2009. The initial work was carried out by a semi-submersible drilling unit, the *Marianas* leased from the Swiss-based offshore drilling company Transocean. This rig was able to operate on water depths of up to 2,000 meters. However, the oil rig was damaged by Hurricane Ida, one of the strongest tropical cyclones in the 2009 hurricane season that caused widespread damages and passed through the northern Gulf of Mexico as an extra-tropical cyclone.[23] As a consequence, drilling was halted on November 28, 2009 as the *Marianas* had to undergo repairs. Then BP leased another rig from Transocean, the *Deepwater Horizon*, to continue the work in February 2010.[24]

Before the drilling could commence a number of precautions had to be taken to safeguard the security of operations conducted under the uncertain conditions. The first task was to install a so-called blowout preventer (BOP) to circumvent uncontrolled release of oil and gas in case the normal mud control should fail under the extreme pressures. The BOP is typically a specialized mechanical valve installed to cope with erratic pressures and uncontrolled flows during the drilling. As the drilling proceeded deeper, casing strings were to be set up gradually and cemented along the way as enforcement (see Appendix 7). The development drilling was challenged as mud started to enter through cracks in the casings but was resolved by pumping spacer fluid down the drill string to plug the fractures.

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[20] Reuters. BP's Thunder Horse starts oil and gas production, June 17, 2008

[21] Ray Tyson, BP's Thunder Horse oil field goes online, Petroleum News, June 22, 2008.

[22] Oil & Gas Journal. BP's Thunder Horse platform listing in Gulf of Mexico, July 18, 2005.

[23] Lixion A. Avila and John Cangialosi, Hurricane Ida Tropical Cyclone Report, National Hurricane Center, Miami, Florida, January 14, 2010.

[24] Harry Weber and Dina Cappiello, Transocean's Marianas oil rig off Africa taking on water, 108 workers evacuated, The Huffington Post, July 6, 2011.

While the mud issue was resolved, BP had encountered earlier problems during the initial formation of the well. For this reason, BP made some final alterations to the well abandonment procedure on April 19 that included installing so-called centralizers to stabilize and hold the installation intact. However, only 6 centralizers were installed to keep the cement in place even though computer simulations suggested that 21 centralizers should be installed. This was pinpointed before a congressional hearing: "A BP plan review prepared in mid-April recommended against the full string of casing" and "despite … warnings, BP chose the more risky casing option, apparently because the liner option would have cost $7 to $10 million more and taken longer."[25] It was further revealed that "Halliburton, the contractor hired by BP to cement the well, warned BP that the well could have a 'SEVERE gas flow problem' if BP lowered the final string of casing with only six centralizers'."

According to the investigation there were ongoing discussions among BP managers about these matters. The Drilling Engineering Team Leader at BP, Gregory Walz brought the issue to the attention of John Guide, BP's Well Team Leader. The hearing report stated: "Mr. Walz informed Mr. Guide: 'We have located 15 Weatherford centralizers with stop collars ... in Houston and worked things out with the rig to be able to fly them out in the morning'… In his response, Mr. Guide raised objections to the use of the additional centralizers, writing: 'it will take 10 hrs to install them ... I do not like this.'"

The congressional hearing blamed the company for misguided decision making. "In spite of the well's difficulties, BP appears to have made multiple decisions for economic reasons that increased the danger of a catastrophic well failure. In several instances, these decisions appear to violate industry guidelines and were made despite warnings from BP's own personnel and its contractors. In effect, it appears that BP repeatedly chose risky procedures in order to reduce costs and save time and made minimal efforts to contain the added risk."

On April 20, 2010 BP was almost a full six weeks behind schedule and more than $58 million over budget on this project.[26] On that day the project continued to the next phase where cement was pumped into the well, which went fine as it satisfied the first criterion that no returns were lost. At this point the abandonment process was almost done, but before being completed, they had to ensure that the cement could hold the oil and gas down. The pressure readings in two consecutive tests proved too high, but the BP site leaders concluded along with the crew that the second test was satisfactory. Then only the final steps of the process remained. While these were conducted no one noticed that the pressure continued to rise so the pumps were kept shut in the belief that the pressure would remain constant.

At this point, the system had reached overpressure and was now spewing mud across the rig floor. The safety system was no longer in place but it was not until the first explosion the crew thought of using the emergency disconnect system. Nonetheless, the crew and captain hesitated as they needed final permission from the offshore installation manager before anything could be done and by the

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[25] The excerpts are taken from a letter to Tony Hayward signed by Henry A. Waxman, Chairman of Energy and Commerce Committee and Bart Stupak, Chairman of Subcommittee on Oversight and Investigations in preparation for Tony Hayward's congressional testimony reported in The Oil Drum, BP Deepwater Oil Spill - Energy and Commerce Committee's Letter Outlining Risky Practices in Anticipation of Hayward's Thursday Testimony, June 15, 2010.

[26] Deep Water – The Gulf Disaster on the Future of Offshore Drilling, National Commission of the BP Deepwater Horizon Oil Spill and Offshore Drilling, Report to the President, January 2011.

time authorization was obtained, the system no longer worked because mud and gas continued to stream onto the rig causing several explosions and fires. After the initial explosion the wellhead continued to leak methane gas and mud onto the rig feeding the fire that finally caused the oil rig to collapse. Then a geyser of seawater shot 75 meters into the air onto the rig followed by a combined eruption of mud, gas and water. The evaporating methane gas ignited in a series of explosions causing a mere firestorm as various attempts to activate the installed blowout preventer failed.[22]

There were 126 people on board the rig when the explosion happened of which only 7 were official BP employees whereas another 79 crew members worked for Transocean. The remaining 40 people represented other companies engaged in the operations including Anadarko, an oil exploration company specialized in deepwater drilling, and Halliburton, a major oil field services company.[27] 11 people were killed in the explosion before the rig was evacuated and 18 injured crew members airlifted for medical treatment. *Deepwater Horizon* sank on April 22, 2010 after burning for almost 36 hours with the remains of the rig falling to the seafloor at a depth of 1,500 meters some 400 meters northwest of the initial well.

Even though the site was located far offshore, the oil leaking from the open drilling hole quickly spread and polluted miles of sensitive coastline. The sea-floor oil gusher flowed for days on end with a total estimated discharge of 4.9 million barrels. After several failed efforts, the well was eventually declared as sealed on September 19, 2010.[28] Due to the persistent leak over several months, the spill imposed extensive damage onto the marine and wildlife while causing major adverse economic effects on fishing and tourism.[29]

CONSEQUENCES FOR BRITISH PETROLEUM

At first when the disaster became known to the public, a number of industry analysts downplayed the consequences of the incident for BP. For example, Ian Armstrong an analyst at Brewin Dolphin in London reasoned that "it's not Thunder Horse, it's not going to set them back three years". Hence, he concluded that "BP Plc., the biggest oil producer in the Gulf of Mexico, is unlikely to see output suffer after the Deepwater Horizon rig it leased exploded and sank, because the deposit it was drilling was relatively small"[30]

Nonetheless, it seemed apparent that there had been tremendous pressure on everyone to advance the project development and thereby enhance production. In a contemporary article Glenn Morton, a

[27] Richard Pendlebury, Why is BP taking all the blame? Mail-on-line, June 18, 2010.

[28] On Scene Coordinator Report on Deepwater Horizon Oil Spill, Unites Sates Coast Guard, Department of Homeland Security. Washington DC, September 2011.

[29] Harry R. Weber, Blown-out BP well finally killed at bottom of Gulf, Associated Press, September 19, 2010.

[30] Brian Swint and Stanley Reed, BP's Gulf of Mexico production plans unlikely to be set back by rig blast, Bloomberg, April 23, 2010.

geophysical expert in oil exploration and consultant to the oil industry explained: ”My analysis suggests production is not going as well as planned at Thunder Horse … after nearly two years of production history on the field, it is becoming obvious to most outside observers that Thunder Horse is not performing as it was expected”.[31] As a consequence corporate leadership was under a lot of pressure to push exploration and live up to analyst expectations on oil production possibly at the expense of safety. In some ways the safety issue had been transposed to others hands, as BP subcontracted the offshore drilling activities to Transocean, Halliburton and other oil exploration outfits. Nevertheless, BP could suffer from substantial reputational damages. As Christine Tiscareno an analyst with Standard & Poor’s in London commented after the incident: “It’s probably nobody’s fault, but in the perception of the media, BP is going to be under pressure.”[32]

Different views prevailed at the time arguing that there seemed to be a clear retrospective behavioral pattern: ”Years before the Deepwater Horizon rig blew, BP was developing a reputation as an oil company that took safety risks to save money.”[33] While this might stem from an obsession with performance and profit, other more universal human factors could also be in play blurring the ability to assess the likelihood of major adverse events. Hence, it was argued that:”For all the criticism BP executives may deserve, they are far from the only people to struggle with such low-probability high-cost events.” As a psychological phenomenon, humans tend to make mistakes by underestimating the possibility that major improbable events may occur. “Most of the people running Deepwater Horizon probably had never had a rig explode on them. So they assumed it would not happen.”[34]

Eventually the pecuniary realities surfaced and it became clear that the rig explosion and the enormity of the related oil spill had implications of catastrophic proportions. BP faced the prospect of hundreds of lawsuits in federal court in New Orleans, which was the city closest to what became the largest offshore oil spill in U.S. history. The potential costs to BP were substantial and a survey of 11 analysts conducted by Bloomberg indicated that “the median estimate of the total cost of the disaster is $33 billion”.[34] It was reported that BP was preparing to set aside $32.2 billion to pay spill costs and legal claims with some oil analysts estimating the total damages from the disaster as high as $49 billion.

As a consequence of this disaster, Tony Hayward was finally discharged from his position as Group Chief Executive and replaced as company CEO by Bob Dudley on October 1, 2010. This change of leadership was used as yet another occasion to reiterate the corporate code of conduct for all employees, emphasizing safety and environmental care as central ethical priorities in the corporate strategy.

At the time of dismissing Tony Hayward, the BP chairman Carl-Henric Svanberg expressed his condolences and announced that ”the BP board is deeply saddened to lose a CEO whose success over some three years in driving the performance of the company was so widely and deservedly admired

[31] Gail (the Actuary) Tverberg, BP's Thunder Horse to under-perform in the wake of the Deepwater Horizon blowout? The Oil Drum, April 30, 2010.

[32] Bloomberg, April 23, 2010.

[33] David Leonhardt. Spillonomics: Underestimating risk, The New York Times, May 31, 2010.

[34] Mark Chediak, BP may seek to avoid full spill responsibility, Transocean says, Bloomberg, August 5, 2010.

… the tragedy of the Macondo well explosion and subsequent environmental damage has been a watershed incident."[35]

After the oil spill BP announced a divestment program to sell approximately $38 billion worth of non-core assets by 2013 in order to cover its expected liabilities related to the accident. Among many others, the sale of the Texas City Refinery and associated assets to Marathon Petroleum was agreed in October 2012 and was completed on February 1, 2013. Hence, by 2013 BP had fallen to a position in the lower top ranks among the global oil majors after selling off assets to cover claims related to the Deepwater Horizon oil spill.

STATUS AND PROSPECTS

As the global business activities continued to evolve, BP seemed able to restore some of its earnings capacity to former levels, which was comforting for the board members who had been through a rough period of public scrutiny. With the appointment of a new CEO dedicated to environmental safety, the earlier problems were expected to clear so corporate prosperity would rebound going forward. Everyone in the organization should know that safety was a high priority where increased consciousness makes a difference. This combined with the active oversight of a dedicated board committee, the safety, ethics and environment assurance committee (SEEAC) should go a long way to improve things.

As part of the public probe, prosecutors of the US Justice Department also secured indictments against three former BP employees of which two were the supervisors on *Deepwater Horizon* charging them with obstructing the federal probe. They were responsible for evaluating the pressure tests on the well where incorrect estimates put the rig at risk. While allegedly being aware of the flawed readings, they did not notify their superiors or halt the drilling. This made a clear case to all employees on oil rigs and elsewhere with a message that they are accountable for their decisions made on the job. However, it also exposed BP to a new role as a company that fails to support and protect its own people, but rather blames failures on them. Hence, the attorney for one of the defendants referred to BP as a disloyal employer that "succumbed to the pressure" and abandoned its men to their own fate.[36]

BP gradually saw the consequences of the public probes and paid $4.5 billion in fines pleading guilty to a number of charges in 2012 although these penalties were well within the financial means of the company. However, the company also tried to contain the payouts that at times seemed excessive. As a consequence BP announced a new hotline where people could report fraudulent claims from affected businesses and residents on the Gulf Coast. The effort was triggered by an increase in claims and "the announcement comes a week after attorneys for BP argued before a three-judge panel of the 5th U.S. Circuit Court of Appeals that the company has been forced to pay out 'fictitious, exaggerated, and excessive awards' to large businesses under the court-administered program."[37]

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[35] From public statement by Carl-Henric Svanberg, BP Chairman, July 27, 2010.

[36] Juliette Kayyem, BP lets employees take the fall, The Boston Globe, November 19, 2012.

[37] Richard Thompson, BP launches hotline for reporting allegations of fraudulent Gulf of Mexico oil spill claims, The Times-Picayune, July 15, 2013.

The new facility was communicated as a moral approach where "The hotline, 1-855-NO-2-FRAUD, offers 'a reliable resource for people who want to do the right thing and report fraud or corruption.'" However, such moral behavior could also be rewarded as "BP said calls to the hotline can be anonymous and could entitle a caller to a reward if a tip leads to an indictment, recovery of money or denial of a claim."[38]

According to Robert Dudley BP was doing the right thing and still honored its obligations: "It was a terrible accident. And from that time on, we said we would want to step up and make good. We are still committed to make sure that legitimate claimants and people who were true victims of the spill are paid."[39] However, he also argued that BP could become a victim itself in the claims process: "Quite frankly, the results have been really strange. The claims going through a claims facility have resulted in absurd results, and millions of dollars are going out to pay people who suffered, in many cases, no losses from the spill. And this is just not right. I don't think it's right for America. We're a big investor in the United States, and we've challenged this really strongly. It's just not right."

While the business conditions seemed to ease somewhat for BP, there were still difficult issues to consider and possibly more substantial challenges ahead that would require the attention of the executive leadership and the board of directors. The board members felt they had implemented many initiatives, such as, imposing a corporate code of conduct to increase a sense of responsibility across the company and reduce the likelihood of major incidents. However, it seemed as if things were not as much under their control as one could wish for.

Many aspects influenced the daily business operations and working together with different suppliers and partners, especially on oilrigs in exposed locations made the sustainability challenges very complex. They needed to find out, how the board should handle the situation and influence the corporate leadership in a positive way going forward.

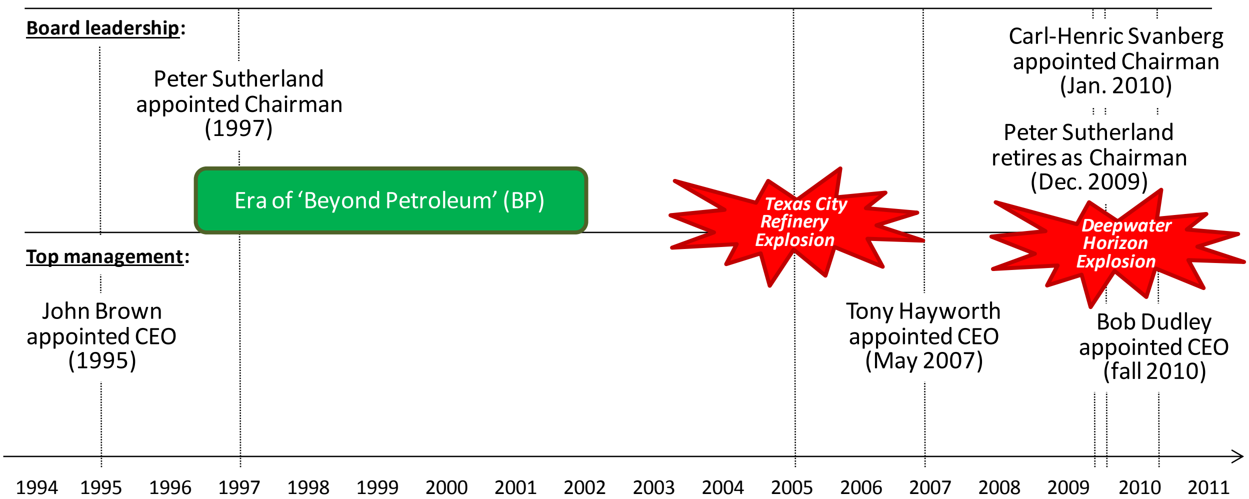
[38] Associated Press. BP launches anti-fraud hotline for claims arising from 2010 oil spill in Gulf of Mexico, July 15, 2013.

[39] Paul M. Barrett, BP's Robert Dudley on the Gulf Oil Spill's Legal Aftermath, Bloomberg Businessweek, August 8, 2013.

APPENDIX 1

Leadership Changes in BP 1995-2010

Time Line for Leadership Changes



APPENDIX 2

BP – Stock Price Development

Source: Yahoo Finance

APPENDIX 3

Comparative Data on the 'Big Five'

The Big Five made a profit of over nearly 1 trillion dollars over the past decade

Big five oil companies' nominal profits, 2001–2010 (all figures in billions, 2011 $)

	2001–2006	2007	2008	2009	2010	2001–2010
BP	80.39	22.2	21.68	17.14	-3.74	137.67
Chevron	77.39	19.86	24.45	10.78	19.29	151.77
Conoco Phillips	49.07	12.53	17.18	5.03	11.51	95.32
Exxon Mobil	169.42	43.12	46.23	19.81	30.9	309.48
Shell	116.93	33.24	26.9	12.01	18.28	207.36
Total	**493.2**	**130.95**	**136.44**	**64.77**	**76.24**	**901.6**

Note: Figures rounded to the nearest billion.
Sources: EIA and Google Finance.

Appendix 4

The BP Code of Conduct[40]

Our values, the code of conduct under which we operate and the BP brand define what we stand for and how we run our business

Our commitment to integrity

As one of the world's leading companies, we have a responsibility to set high standards to be, and be seen to be, a business which is committed to integrity. In a complex global business environment like ours, that's not always easy. Our code of conduct is designed to help us achieve this.

Our code of conduct is the cornerstone of our commitment to integrity. As Tony Hayward, our former group chief executive affirmed: "Our reputation, and therefore, our future as a business, depends on each of us, everywhere, everyday, taking personal responsibility for the conduct of BP's business". The BP code of conduct is an essential tool to help our people meet this aspiration. The code summarizes our standards for the way we behave. All our employees must follow the code of conduct. It clearly defines what we expect of our business and our people, regardless of location and background. Ultimately it is about helping BP people to do the right thing.

The code includes many examples of how our group values should be applied in specific situations. The level of detail and practical approach signal our determination to embed our values and a culture of integrity more firmly in our group.

What does the code cover?

The code covers five key areas of our business operations:

- health, safety, security and the environment – fundamental rules and guidance to help us protect the natural environment, the safety of the communities in which we operate, and the health, safety and security of our people
- employees – covering fair treatment and equal opportunity, providing guidance for dealing with cases of harassment or abuse and for protecting privacy and employee confidence
- business partners – providing detailed guidance on giving and receiving gifts and entertainment, conflicts of interest, competition, trade restrictions, money laundering and working with suppliers
- governments and communities – covering such areas as bribery, dealing with governments, community engagement, external communications and political activity
- company assets and financial integrity – containing guidance about accurate and complete records and reporting, protecting company property, intellectual property, insider trading and digital systems

[40] From the BP Company website, 2010.

Appendix 5

World Energy Demand[41] (link)

In the IEO2011 Reference case, world energy consumption increases by 53 percent, from 505 quadrillion Btu in 2008 to 770 quadrillion Btu in 2035. In the near term, the effects of the global recession of 2008-2009 curtailed world energy consumption. As nations recover from the downturn, however, world energy demand rebounds in the Reference case and increases strongly as a result of robust economic growth and expanding populations in the world's developing countries (Figure 12).

Figure 12. World energy consumption, 1990-2035
(quadrillion Btu)

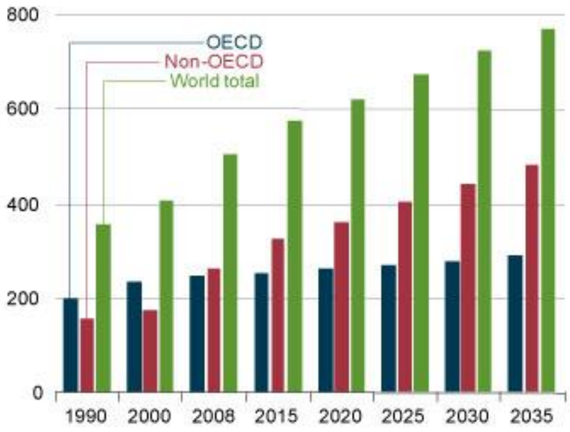
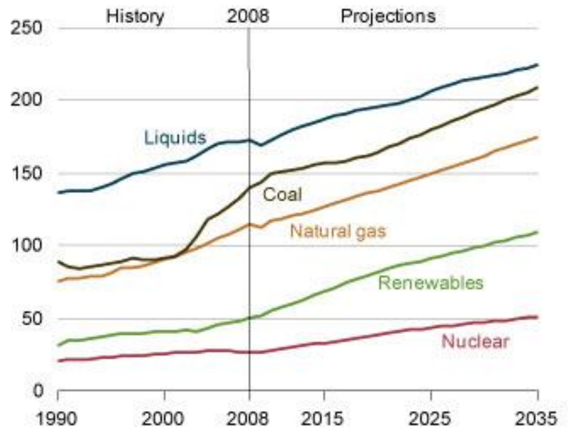


Figure 15. World energy consumption by fuel, 1990-2035
(quadrillion Btu)



Outlook for world energy consumption

The use of all energy sources increases over the time horizon of the IEO2011 Reference case (Figure 15). Given expectations that world oil prices will remain relatively high through most of the projection period, petroleum and other liquid fuels are the slowest-growing source of energy. Relatively high projected oil prices, as well as concern about the environmental impacts of fossil fuel use and strong government incentives for increasing the use of renewable energy in many countries around the world, improve the prospects for renewable energy sources.

[41] U.S. Energy Information Administration (EIA). International Energy Outlook 2011.

Appendix 6

Energy Outlook 1990-2030

Energy Consumption[42]

Energy Consumption (MTOE)							Energy Intensity (TOE/million $2010 PPP)						
Year	US	Brazil	Russia	China	India	World	Year	US	Brazil	Russia	China	India	World
1990	1968	124	862	681	181	8109	**1990**	222	103	374	298	142	197
1995	2122	153	664	913	236	8578	**1995**	213	111	485	248	151	187
2000	2314	185	620	1038	296	9382	**2000**	191	123	439	229	147	174
2005	2351	207	657	1691	364	10801	**2005**	170	119	339	227	119	165
2010	2286	254	691	2432	524	12002	**2010**	158	116	298	204	117	155
2015	2258	290	731	3118	676	13360	**2015**	139	109	260	175	107	142
2020	2270	333	766	3688	871	14627	**2020**	124	104	228	151	102	129
2025	2263	371	801	4091	1048	15635	**2025**	109	97	204	128	94	115
2030	2241	407	838	4431	1262	16632	**2030**	97	92	185	109	88	103

Table 1: Energy consumption and energy intensity 1990-2030

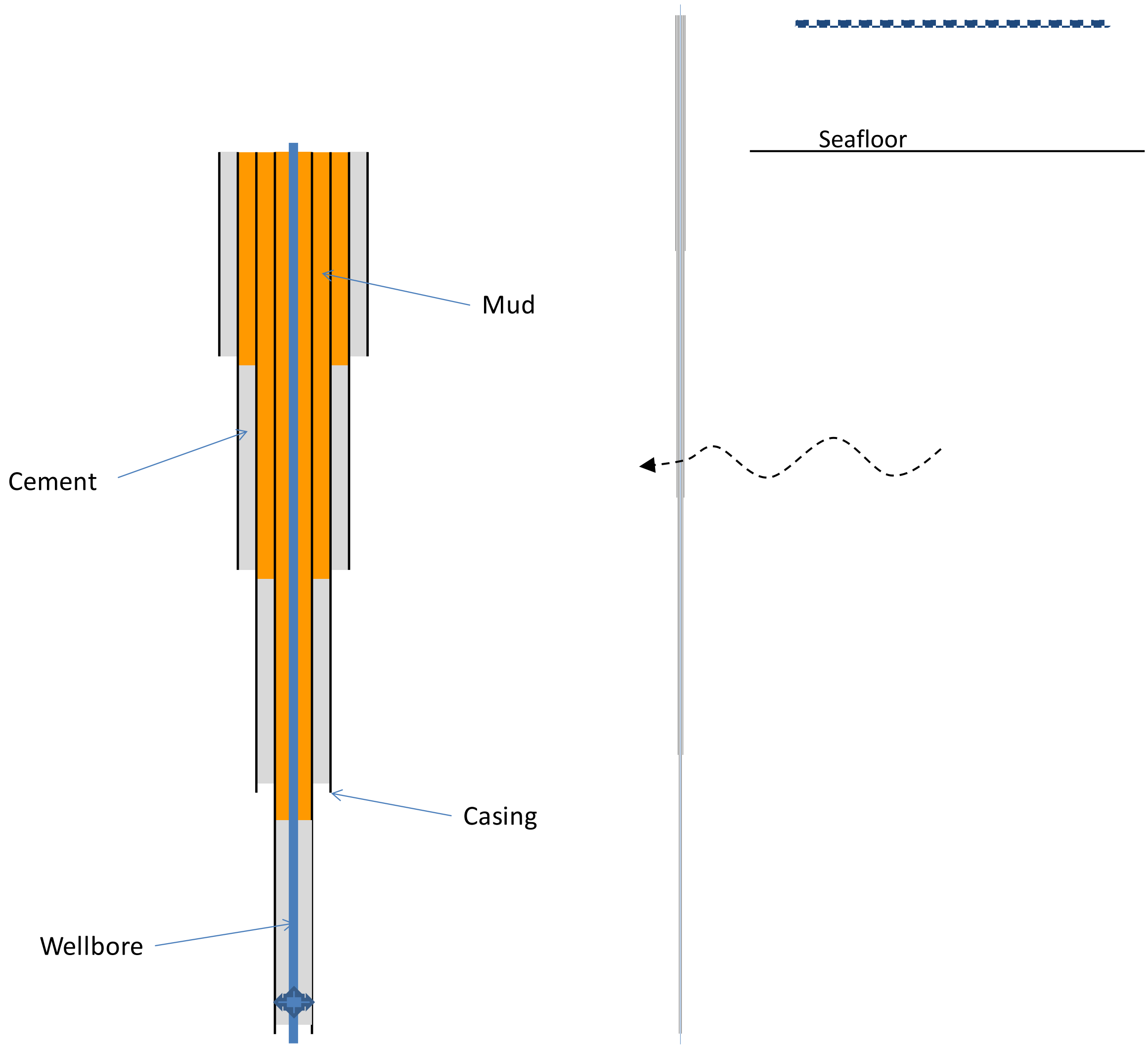
[42] BP Energy Outlook 2030.

APPENDIX 7

THE CASING DRILLING METHOD

The method of casing drilling is used on offshore wells where casing strings with a drill attached are extended into previously drilled portions of the well. The casings are used as protective pipes where the first casing is relatively wide and goes a certain depth before special cement is forced in place between the wellbore and the casing.

As the well is drilled deeper it will be cased and cemented with several casing strings put in place along the way. The casing strings are cemented at each step for stability and drilling mud is filled inside the hole to maintain the pressure. When the drill reaches the desired depth it should be below the position of the blowout preventer.[43]



[43] The graphic shows a simple stylized illustration based on various technical sources where the real drill in deep-sea exploration must be extremely long to reach all the way from the seafloor to the well.

APPENDIX 8

The BP Board of Directors in 2012[44] (link)

Carl-Henric Svanberg (Chairman) was appointed a *non-executive* director of BP on September 1, 2009 and became chairman on January 1, 2010. He is chairing the chairman's and nomination committees and is member of the remuneration committee. He is chairman of AB Volvo. He spent his early career at Asea Brown Boveri and the Securitas Group, before moving to the Assa Abloy Group as president and CEO. He was president and CEO of Ericsson from 2003 until December 31, 2009 and served as chairman of Sony Ericsson Mobile Communications AB. He was a non-executive director of Ericsson between 2009 and 2012. He was appointed chairman and a member of the board of AB Volvo on April 4, 2012.

Bob Dudley (Group Chief Executive) was appointed *executive* director of BP on April 6, 2009. He has no external appointments. He joined Amoco in 1979, working in various engineering and commercial posts. He worked on corporate development in Russia 1994-97, became general manager for strategy at Amoco in 1997, and assumed a similar role after the merger between BP and Amoco. He was executive assistant to the group chief executive 1999-2000 before becoming group vice president for the Renewables and Alternative Energy activities. In 2002, he became responsible for upstream business activities in Russia, the Caspian region, Angola, Algeria and Egypt. He was president and chief executive officer of TNK-BP from 2003-2008 and was appointed to the BP board overseeing the group's activities in the Americas and Asia upon his return to BP in 2009. He served as the president and chief executive officer of BP's Gulf Coast Restoration Organization in the US between June 23 and September 30, 2010 and became group chief executive on October 1, 2010.

Iain Conn (Chief Executive, Refining and Marketing) was appointed *executive* director of BP on July 1, 2004. He has regional responsibility for BP in Europe, Southern Africa and Asia and for the BP brand. He is non-executive director of Rolls-Royce Holdings plc. He joined BP Oil International in 1986, working in oil trading, commercial refining and exploration before becoming vice president of BP Amoco Exploration's mid-continent business unit in 1999. At the end of 2000, he returned to London as group vice president and a member of the executive committee for Refining and Marketing, taking over responsibility for BP's European marketing operations in 2001. He was appointed chief executive of BP Petrochemicals in 2002 and served as group executive officer for strategic resources 2004-07. He was appointed chief executive, Refining and Marketing on June 1, 2007.

[44] Extracted from the BP Corporate Website.

Brian Gilvary (Chief Financial Officer) was appointed *executive* director on January 1, 2012. He is responsible for BP's finance, planning, mergers and acquisitions, treasury and information technology activities. He has no external appointments. He joined BP in 1986 assuming a variety of jobs in upstream, downstream and trading activities across Europe and the US. He became downstream chief financial officer and commercial director in 2002. He was appointed director of TNK-BP from 2003-2005 and re-joined the board in 2010. He was chief executive of BP's integrated supply and trading activities from 2005-2010. In 2010 he was appointed deputy group chief financial officer with responsibility for the finance function before being appointed chief financial officer on January 1, 2012.

Paul Anderson was appointed a *non-executive* director of BP on February 1, 2010. He chairs the safety, ethics and environment assurance committee (SEEAC) and is a member of the chairman's and nomination committees. He is also a non-executive director of BAE Systems PLC. He was formerly the chief executive of BHP Billiton and Duke Energy, where he served as chairman of the board. He acted as non-executive director at BHP Billiton 2006-10. He has served as non-executive director on a number of boards in the US and Australia and as chief executive officer of Pan Energy Corp.

Frank Bowman was appointed *non-executive* director on November 8, 2010. He is a member of the safety, ethics and environment assurance committee (SEEAC). He is president of Strategic Decisions, LLC and a director of Morgan Stanley Mutual Funds, the American Shipbuilding Suppliers Association, and the Naval and Nuclear Technologies, LLP. He joined the United States Navy in 1966 and commanded the nuclear submarine USS City of Corpus Christi and the USS Holland. He served as the Navy's chief of personnel and as director of Political-Military Affairs in the Department of the Navy. After retiring as Admiral in 2004, he was president and CEO of the Nuclear Energy Institute until 2008.

Antony Burgmans was appointed *non-executive* director of BP on February 5, 2004. He is chairman of the remuneration committee and is member of the safety, ethics and environment assurance committee (SEEAC) and member of the chairman's and nomination committees. He is also a member of the supervisory boards of Akzo Nobel N.V., AEGON N.V. and SHV Holdings N.V., and chairman of the supervisory board of TNT Express. He joined Unilever in 1972, holding a succession of marketing and sales posts from 1988 until 1991. He was appointed to the board of Unilever in 1991 and appointed group president for ice cream and frozen foods in Europe in 1994. In 1998, he became vice chairman of Unilever NV and in 1999, chairman of Unilever NV and vice chairman of Unilever PLC. In 2005, he became non-executive chairman of Unilever NV and Unilever PLC until retirement in 2007.

Cynthia Carroll was appointed *non-executive* director of BP on June 6, 2007. She is a member of the safety, ethics and environment assurance committee (SEEAC), the chairman's and the nomination committees. She is currently chief executive of Anglo American plc, chairman of Anglo Platinum Limited and of De Beers s.a. She started her career with Amoco as a petroleum geologist in oil exploration. She joined Alcan Inc in 1989 where she spent 18 years before joining Anglo American in January 2007. She became president and chief executive officer of the Primary Metal Group, responsible for operations in more than 20 countries and has been chief executive of Anglo American plc since March 2007.

George David became *non-executive* director of BP on February 11, 2008. He is member of the chairman's, the audit and the remuneration committees. He worked with Boston Consulting Group before joining Otis Elevator Company in 1975. He held various positions in Otis and later in United Technologies Corporation (UTC) following Otis's merger with UTC in 1976. He became chief operating officer of UTC in 1992 and served as chief executive officer 1994-2008 and as chairman from 1997 until retirement in 2009.

Ian Davis was appointed *non-executive* director on April 2, 2010. He is member of the chairman's, the nomination and the remuneration committees. He is also non-executive director of Johnson & Johnson, Inc. and senior adviser to Apax Partners LLP. He joined the Board of Rolls Royce Plc on March 1, 2013 and will become chairman on May 2, 2013. He initially worked with Bowater before moving to McKinsey & Company in 1979. He was appointed as chairman and worldwide managing director of McKinsey in 2003 and served in this capacity until 2009. He retired as senior partner of McKinsey & Company on July 30, 2010.

Ann Dowling was appointed *non-executive* director on February 3, 2012. She is a member of the safety, ethics and environment assurance committee (SEEAC), the chairman's and the remuneration committees. Dame Ann Dowling is Professor of Mechanical Engineering and Head of the Department of Engineering at the University of Cambridge. She was appointed a Professor at the University of Cambridge in 1993. Between 1999 and 2000 she was the Jerome C Hunsaker Visiting Professor at MIT. Returning to the University of Cambridge, she became head of the Division of Energy, Fluid Mechanics and Turbomachinery in the Department of Engineering in 2003 and head of the Department of Engineering in 2009. She was appointed director of the University Gas Turbine Partnership with Rolls-Royce in 2001 and chairman in 2009.

Brendan Nelson was appointed *non-executive* director of BP on November 8, 2010. He is chairman of the audit committee and member of the chairman's and nomination committees. He is also a non-executive director of The Royal Bank of Scotland Group plc where he is chairing the group audit committee. He is a director of the Financial Skills Partnership and is deputy president of the Institute of Chartered Accountants of Scotland. As a chartered accountant, he was made a partner of KPMG in 1984 and served as member of the UK Board of KPMG 2000-06 being appointed vice chairman until retiring in 2010.

Phuthuma Nhleko was appointed a *non-executive* director on February 1, 2011. He is member of the chairman's and the audit committees. He is also a non-executive director of Anglo American plc. He began as civil engineer in the US and as infrastructure project manager in Southern Africa. He became a senior executive of the Standard Corporate and Merchant Bank in South Africa and held a succession of directorships before joining MTN Group as group president and chief executive officer in 2002. He stepped down as group chief executive of MTN Group at the end of March 2011. He was formerly director of a number of listed South African companies, including Johnnic Holdings, Nedbank Group, Bidvest Group and Alexander Forbes.

Andrew Shilston was appointed *non-executive* director on January 1, 2012. He is member of the chairman's, the audit and the nomination committees. He is also a non-executive director of Circle Holdings plc and chairman of the Morgan Crucible Company plc. He trained as chartered accountant before joining BP as management accountant. He then joined Abbott Laboratories before moving to Enterprise Oil plc in 1984. In 1989 he became treasurer of Enterprise Oil and was appointed finance director in 1993. In 2003 he became finance director of Rolls-Royce plc until his retirement in 2011.

APPENDIX 9

Company men abandoned[45] (link)

"The off-shore oil rigs along the coast of the Gulf of Mexico are no place for the weak. Hundreds of men, a certain type of men, live and breathe the oil they drill from under the ocean floor. Sometimes 40 or 50 miles from land, the hardened and muscular workers, with hands so dark from grease that they have long ago given up trying to scrub it off, toil in these mini-cities to bring precious energy to the world's markets. The massive floating contraptions are their homes. These are the company men.

More than two years after the BP oil company's Deepwater Horizon rig blew up, killing 11 men and resulting in the largest oil spill in U.S. History, the Justice Department announced last Thursday that BP would pay $4.5 billion in fines and plead guilty to 14 felony charges.

The settlement isn't the big story; BP had a profit of $5.3 billion in this year's third quarter alone. And BP's admission of guilt of 14 felony charges is hardly unprecedented. The truly consequential aspect of this case is the concurrent criminal charges filed against three BP employees, two of them supervisors on the rig. The company's plea arrangement leaves the three defendants alone – as villains or perhaps as scapegoats – to fend for themselves."

[45] Extracts from The Boston Globe by Juliette Kayyem, Tuesday, November 19, 2012.

APPENDIX 10

Recent Financial Performance of BP[46] (link)

Income Statement	Annual Data	[All numbers in thousands]	
Period Ending	**Dec 31, 2012**	**Dec 31, 2011**	**Dec 31, 2010**
Total Revenue	**375,580,000**	**375,517,000**	**297,107,000**
Cost of Revenue	327,153,000	309,763,000	280,826,000
Gross Profit	**48,427,000**	**65,754,000**	**16,281,000**
Operating Expenses			
Research Development	-	-	-
Selling General and Administrative	21,515,000	22,238,000	17,799,000
Non Recurring	7,750,000	3,578,000	2,532,000
Others	12,481,000	11,135,000	11,164,000
Total Operating Expenses	-	-	-
Operating Income or Loss	**6,681,000**	**28,803,000**	**(15,214,000)**
Income from Continuing Operations:			
Total Other Income/Expenses Net	8,834,000	5,057,000	6,802,000
Earnings Before Interest And Taxes	19,934,000	40,080,000	(3,655,000)
Interest Expense	1,125,000	1,246,000	1,170,000
Income Before Tax	18,809,000	38,834,000	(4,825,000)
Income Tax Expense	6,993,000	12,737,000	(1,501,000)
Minority Interest	-	-	-
Net Income From Continuing Ops	16,235,000	32,317,000	1,433,000
Net Income	**11,816,000**	**26,097,000**	**(3,324,000)**

[46] **Yahoo Finance, Financials, Income Statement, BP plc (BP)**