THE BHP DAM DISASTER

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Introduction

The BHP dam disaster is one of the worst environmental disasters that destroyed many homes and taken lives of some Mariana population. The iron ore tailing dam collapsed as a result of an unknown catastrophic failure that killed over nineteen people and injured sixteen people due to the flooding the dam caused (Szoke, 2015 ). The dam was constructed by a joint venture between vile and BHP Billiton, which was named Samarco.

Based on the report of the Brazilian authorities in 2013, the construction of the dam was reported to be weak, which was heavily denied by the BHP Billiton officials (Gilroy, 2015). However, the collapse of the dam is currently unknown, as the investigation has taken root to find out the main problem that caused the collapse of the dam.

The failure of the dam had some significant environmental impact on the region of Marian as approximately sixty million cubic metrics of iron ore waste was believed to have flooded the area and some flowing into river Doce, which is known to have connected to the Atlantic Ocean (Gilroy, 2015). The brown mud of toxic waste entered the Atlantic Ocean two weeks later, the Brazilian authorities reported.

The toxic waste was believed to have covered a small part of the Brazilian beaches, which threatened tourism in the world's most famous city, Rio. However, the total environmental impact of the collapse of the dam and the widespread of the toxic iron ore is unknown (Gilroy, 2015). However, the toxic iron ore was believed to contain high levels of toxic heavy metals and other unknown toxic chemicals as a result. According to the United Nations report, the collapse of the dam has been described as the worst environmental disaster in the history of Brazil.

Recognition and evaluation of the mining operation as an asset

The failure of the dam has caused BHP Billiton’s shares to drop rapidly since the announcement of the accident. The financial implication of the financial statement is devastating for Vale and BHP Billiton (Hoyle, 2015). These because the mining operations in the region have been brought to halt as the Brazilian government investigates the actual cause of the collapse. These means BHP Billiton and Vale will not resume operations anytime soon, as some experts believe the process can take into effect on 2019 (Hoyle, 2015).

The cost to the companies, which includes cleaning up and rebuilding, is estimated to be over $1 billion. This is a catastrophe to the companies’ financial statement. For BHP Billiton in Australia, the company faced a fall in its share price as investors started dumping shares on the market immediately as the accident was announced.

The insurance company is unclear whether they would meet part of the cost of Samarco, which is acting as an independent company. Samarco was holding over $700 million of cash and $4.7 billion of debt before the accident took place (Hoyle, 2015). The companies also face regulatory, legal and environmental penalties if the cause of the crash was a result of technical errors. The Brazilian government has begun filing for a lawsuit over the two companies’ actions regarding the collapse of the dam.

State officials also ordered the closure of the dam and mining operations due to the seriousness of the incident to the region and investigation on the risk to the population and the environment are being investigated (Gilroy, 2015). Samarco also had to participate in the compensation of the victims of the incident and to repair the damages caused to the regions. These will have significant implications for the financial statement of the company. Some experts have estimated the cost to the company to be over $1 billion in compensation only (Gilroy, 2015).

Samarco’s financial future is uncertain as all its equity value erodes. Since the financial position of Samarco is at $700 million, the company has agreed to fund part of the emergency with $260 million to the contingency fund (Szoke, 2015 ). The company also holds the debt of $200 million in which is shared by the fifty-fifty joint venture of Vale and BHP Billiton (Szoke, 2015 ). For the legal purpose, the Brazilian prosecution office stated that it would treat the two separate companies as a single entity because the shareholders have direct responsibilities to the Samarco Company.

The operations of the mine and the dam have been suspended indefinitely, and many experts have brought up different estimates as to when the company will be brought back to operation. The estimation has determined the activities could take more than a year before Vale and BHP Billiton are allowed to resume operations (Hoyle, 2015). Also, BHP Billiton has been known to have a good reputation in the market, but the emergence of the dam collapse have hurt the reputation of BHP Billiton. BHP Billiton will also have to pay its share of 50% to the legal liabilities arising out of Samarco (Szoke, 2015 ). The mining industry has also felt the impact of the incident as commodity prices are taking a toll on the industry.

Potential liabilities arising from the dam collapse

Based on BHP Billiton's latest half-year financial report, the company has recorded an after tax of $58 million in its investment in the Samarco mineral ore, which is co-owned by Vale in Brazil. BHP Billiton has also lost over $655 million of the shares since the failure of the Samarco Dam in November 2015. BHP Billiton has also incurred losses of $525 million on carrying the value of the investment $200 million in which BHP Billiton has directly paid for the emergency of the dam collapse (BHP Billiton, 2015). BHP Billiton also faces legal action from the Brazilian government over the failure to prevent the fall after it was warned of structural weakness. The court battle is set to cost BHP Billiton over $5.1 billion from the prosecution by the government (BHP Billiton, 2015).

The Brazilian government also states that additional lawsuit will bring against BHP Billiton if further findings link the two company to the collapse of the dam. Since the investigation into the failure of the dam is still in progress, BHP Billiton expects more lawsuits to be brought on to other BHP Billiton entities in Brazil and other jurisdiction. BHP Billiton will wait for a higher bill on lawsuits because of the stiff investigations (Escobar, 2015). However, these will have a significant impact on the company's business, competitive advantage, cash flows, liquidity and shareholder returns.

The numerous financial implication of the failure of the dam has dried up the revenues from the mine. In addition to these, the mining operations of Samarco has been suspended which increases the impact of BHP Billiton’s global output of iron ore. Therefore, this means that BHP Billiton will have recorded a small iron ore production by the end of 2016 financial year by 4% lower (Hinman, 2015). To rebuild its reputation that has been affected by the collapse of the dam, BHP Billiton will also embark on rebuilding communities and restoring the environment impacted by the failure of the dam. This will also cost the company an enormous amount of money to regain the confidence of the public. BHP Billiton began its effort in restoring the communities by placing families from Bento Rodrigues and Berra Longa in rental houses. Those Families who did not feel comfortable in rental homes were given options to settle temporarily with relatives or hotels. Samarco and the authorities have also undertaken the responsibilities of continuing to ensure food, water, and emergency supplies are continuously available to the victims (Hinman, 2015).

Samarco has also incurred a huge amount of expenses in building dikes to prevent further tailings entering the rivers and monitoring the quality of water of River Doce and the planting trees to reduce erosion (Jacobi & Cibim, 2015). The national government of Brazil and state government of Minas Gerais is in discussion over the financial role of Samarco in the managing and funding long-term environmental and socio-economic rehabilitation plans. Therefore, the financial liabilities of Samarco is entirely unclear due to the continuing discussion.

Factors influencing the accounting policy decisions

To resume operations, Samarco Company will be facing billions of dollars in damages and debt obligations after the Samarco disaster. Samarco will have to continue funding for the cleanup and claims once the investigation over the dam failure is completed. There has been questionable integrity over the Samarco dam disaster, which has led to the accounting policy that has failed to protect the entire region from contamination. It is believed that BHP and Vale were ramping up production levels, which led to the rupture of the dam (Mac, 2015). To avoid the disaster, BHP and Vale would have played a much bigger role in the plant's operation and managing its financials. BHP and Vale accounting policies have been restraining production levels, which led to the disaster. The two companies show responsibilities that make made them irresponsible over the management of the dam resulting in a nationwide disaster (Tzovas, 2006).

According to the state environmental prosecutor, Vale and BHP have been motivated by financial involvement, which led to the increase in staffing. This is evident through the previous deal signed between Samarco and the Brazilian government. Also, the actions of Vale and BHP after the incident proved that the two companies strived to keep Samarco alive so that they would not be called upon to pay for the damages caused by the subsidiary (Neves, Nunes, Carvalho, & Fernandes, 2016).

The aftermath of the disaster also proves that Brazilian-based company, Vale and Australian based company, BHP were negotiating to quickly with the government for their interest and not to the people affected by the disaster. This is because Vale and BHP started negotiating with the government earlier before the size of the damage and actual cost of the environmental damage was to be assessed. These site for ethical issues between the two companies and the government, since they were not trying to protect the interest of the victims, but their own (Neves, Nunes, Carvalho, & Fernandes, 2016). The focus of Vale and BHP into their financial growth leading to a major disaster caused stiff accounting policies to bring forth. Vale and BHP efforts to avoid financial liabilities is another factor that influences accounting policy decision in the mining industry.

Social and environmental disclosures

Since in the mining industry, investment is made through joint ventures, which is evident with Brazilian giant Vale Company and Australian giant BHP Billiton, which is to share the risks and the rewards that result from the mining fields (Szoke, 2015 ). Therefore, BHP and Vale will support one another in the Samarco joint venture to meet its legal and financial implication because of the dam disaster. Besides, Vale BHP will also have to comply with its ethical obligations towards cleaning up and rebuilding the region, which has been devastated by the mud flood that has swept people’s home and spilt in the upper waters of Brazil.

Samarco's parent companies, Vale, and BHP will have to take responsibility based on ethical grounds to better improve their reputation in the industry (Gilroy, 2015). The people of Mariana has lost trust on the two company to protect their homes and environment from the destruction of toxic chemical waste from the dam. From a financial perspective, the creditors of the Samarco Company have suffered a double loss because they are the most affected by the dam disaster (Gilroy, 2015). The lenders lost a significant portion of their capital without having gained from the project. Therefore, to maintain the trust between the creditors and the Samarco Company, Vale and BHP will have to provide a rate of return that will meet lender's compensation for their obligation to Samarco Company (Gilroy, 2015).

To maintain a positive future relationship, BHP and Vale have to foot the damages and fund its dividend policy (Hoyle, 2015). In social and environmental disclosures, there is a big difference between accountability and responsibility. Since the company's management are accountable for everything that goes right and wrong in a company, the management team from both Vale and BHP will have to account for their actions in the failure of the dam by cooperating in the investigation of the disaster (Hoyle, 2015). Also, responsibilities must start at the top, with the management, which is a reflection of a positive corporate culture. BHP and Vale will have to apply a standard of accountability in respect to the Samarco disaster for the justice and fairness to the victims who lost their lives.

Conclusion

The BHP dam disaster is a major national disaster for Brazilian communities and especially for the victims of the mud flood that engulf the entire region of Mariana. The loss of life in the Bento Rodrigues and the destruction of houses in the area is sobering reminder that mineral extraction is dangerous business. Despite the numerous report that Brazilian researchers had reported the risk of Samarco, dam collapsing two years before the actual collapse of the dam (Escobar, 2015). Companies such as Vale and BHP claimed they did not receive such reports were malicious and inhuman. These means that Vale and BHP were able to prevent the disaster from happening by taking into account over the report done in 2013 (Hinman, 2015). There is no doubt that there must be accountability of the incident if human errors are involved in the failure of the dam. However, it is important first to consider the complexity of how such failures occurred based on the accounting principles and theories.

It is also important to consider that at the end of the day, companies such as BHP and Vale should approach the disaster issue with a significant concern with a matter of humility by taking responsibility. This means if there is blame on human error, the two companies should adopt on liability and learn from the lapses discovered (Szoke, 2015 ). Therefore, whether or not human error should be identified as the culprit over the BHP dam disaster incident, the two companies, and the government should take responsibility and ensure the public that such incident should never be repeated in the future.

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