

REPRISK CASE STUDY

British Petroleum

The Deepwater Horizon oil spill – the largest environmental disaster in US history

What happened

On April 20, 2010, the Deepwater Horizon oil rig, operated by British Petroleum Plc (BP) in the Gulf of Mexico, exploded and killed 11 workers. Around 3.2 million barrels of oil spilled into the ocean – polluting water, destroying beaches, and killing wildlife. The Deepwater Horizon explosion became the worst environmental disaster in US history. Related costs for BP had amounted to over USD 60 billion by mid-2016. This amount far exceeds the costs of the 1989 Exxon-Valdez spill, which had been considered one of the worst environmental disasters in US history, and had cost Exxon around USD 4.3 billion.

Consequences for BP

This environmental catastrophe turned out to have extensive consequences for BP's business and shareholders. Within months of the disaster, BP's stock had plummeted nearly 50 percent, and six years after the disaster, the share price has not substantially recovered. Record costs for BP accumulated to an estimated USD 24 billion in spill-related expenses and an additional USD 20.8 billion fine for the 2015 settlement with the US Department of Justice. In the major lawsuits that followed, BP was found guilty of gross negligence.

Was it predictable?

Prior to the Deepwater Horizon disaster, investors had expressed confidence in BP's long-term growth prospects. In 2009, BP announced an increase in oil and gas production and more than 200 percent

Case Study Timeline

2010

April 20

Massive explosion on the Deepwater Horizon. Eleven workers killed in worst environmental disaster in US history.

June 10

BP agrees to put USD 20 billion into an escrow fund to settle economic injury claims. More than 225 lawsuits are filed in 11 US states.

2012

March

BP reaches USD 7.8 billion settlement with businesses and individuals harmed by the spill.

2013

January

BP pleads guilty to manslaughter and other criminal charges and receives a USD 4 billion fine. By 2013, BP has dropped from the second to the fourth-largest of the four major oil companies.

2014

September

A US District Court finds BP guilty of gross negligence and willful misconduct under the Clean Water Act.

2015

October

BP agrees to pay 20.8 billion to settle the lawsuit with the US Department of Justice.

2016

March

BP's share price has still not returned to pre-spill levels. Civil suits are pending against the company, including a fraud lawsuit filed by investors who allege that BP downplayed the extent of the oil spill.

RepRisk has published a series of Case Studies that demonstrate the materiality of environmental, social, and governance (ESG) issues – and how RepRisk can serve as an early warning system before these issues translate into reputational, compliance, and financial risks. For more Cases, please visit www.reprisk.com/publications or contact us at media@reprisk.com.

reserves replacement for the 17th consecutive year, and reported larger than expected cost cuts. In addition, BP was often championed as a role model for its reportedly exemplary environmental, social, and governance (ESG) practices. The company was not only a constituent of the FTSE4Good and Dow Jones Sustainability Indexes, but was also ranked the “most accountable large company” by Fortune, AccountAbility, and CSRNnetwork.

However, RepRisk’s data painted a very different story. Prior to Deepwater Horizon, RepRisk had captured almost as much criticism related to occupational health and safety (OHS) issues at BP – one of the key issues linked to the Deepwater Horizon oil spill – as at five of its major competitors *combined*¹ (see table 1).

Since March 2008, RepRisk had highlighted significant risk exposure for BP, and in the two years prior to Deepwater Horizon, BP received frequent and severe criticism from media, stakeholders, and other third parties external to the company on ESG issues beyond occupational health and safety

| Companies | No. of OHS* incidents (March 2008 - March 2010) |
|---|---|
| BP PLC (British Petroleum) | 18 |
| Chevron Corp (Chevron) | 3 |
| China National Petroleum Corporation (CNPC) | 2 |
| China Petrochemical Corp SINOPEC Group | 2 |
| Exxon Mobil Corp (ExxonMobil) | 8 |
| Royal Dutch Shell PLC (Shell) | 5 |

Table 1: * Number of Occupational health and safety (OHS) risk incidents identified by RepRisk for BP and its peers, March 2008 to March 2010.

issues, including environmental pollution, negative impacts on local communities, and labor issues.

Company Description

BP PLC (British Petroleum) is an international oil and gas company based in the UK. Through its subsidiaries, it operates in two business segments: exploration and production, and refining and marketing.

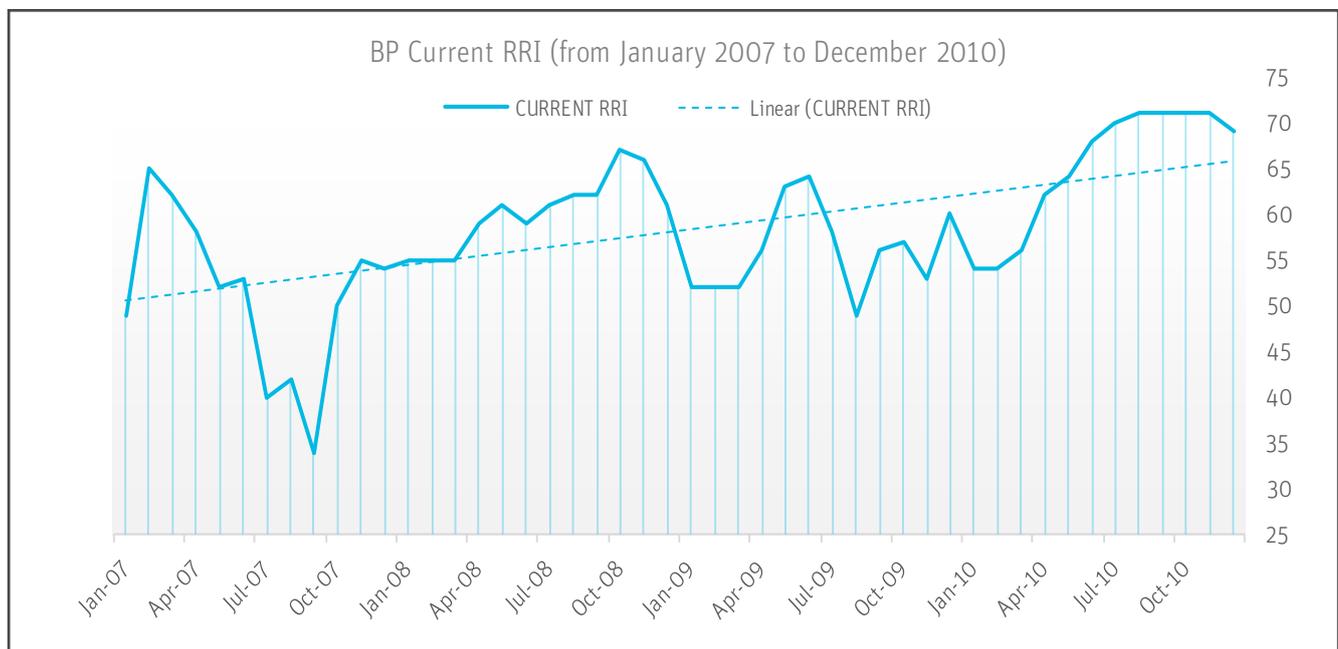


Figure 1: The RepRisk Index (RRI) – a RepRisk’s proprietary metric quantifying the reputational risk exposure related to ESG issues of a company – had been at a high risk level for BP long before the Deepwater Horizon oil spill took place in April 2010. Source: RepRisk www.reprisk.com

¹ Competitors referred to in this case study include Exxon Mobil Corp, Royal Dutch Shell Plc, Chevron Corp, China Petroleum & Chemical Corporation (Sinopec), and China National Petroleum Corporation (CNPC).

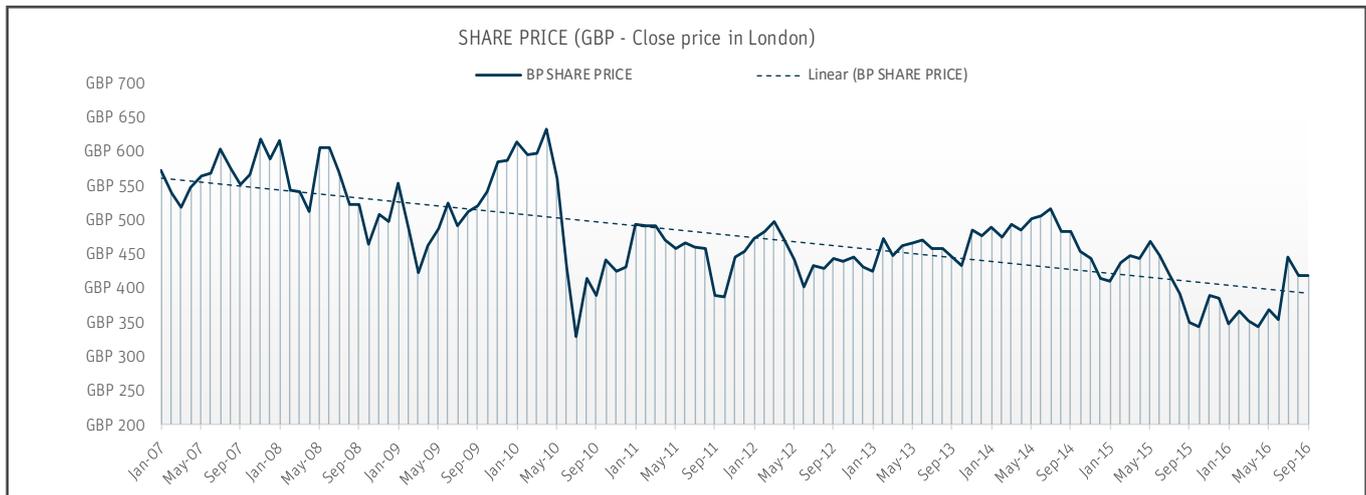


Figure 2: BP share price. Source: <http://www.bp.com/en/global/corporate/investors/investor-tools.html> (adapted)

What RepRisk data captured

March 2005 An accident at BP's Texas City Refinery kills 15 workers and injures 170 others. The explosion was allegedly caused by BP's neglect of basic safety rules that encouraged a culture of excessive risk-taking, and the company's failure to invest enough in critical infrastructure.

March 2006 Leak in a BP transit line for the trans-Alaska oil pipeline spilled about 212,000 gallons of oil.

July 2006 BP is investigated by the US Environmental Protection Agency (EPA) for violation of air pollution rules, by the US Labor Department for unsafe work practices, and by the federal Chemical Safety and Hazard Investigation Board for its industrial safety practices.

October 2007 BP agrees to a total fine of USD 373 million, stemming from various charges: an accusation that the company's traders manipulated propane prices in 2004, the 2005 explosion in Texas, and the 2006 oil spill in Alaska.

March 2008-March 2010 RepRisk detects almost as much criticism related to occupational health and safety issues at BP, as at five of its major competitors combined.

Since April 2010 RepRisk has identified over 50 companies – suppliers, business partners, and others – that have been criticized for their links to BP.²

² Other than BP, the top 10 companies criticized in relation to the Deepwater Horizon oil rig were Transocean Ltd, Halliburton Co, Anadarko Petroleum Corp, Cameron International Cop, Mitsui Oil Exploration Co Ltd, MOEX USA Corp, Mitusi & Co Ltd, MOEX Offshore 2007 LLC, Transocean Holdings LLC, Transocean Offshore Deepwater Drilling Inc, and Nalco Holding Co.