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BP: Putting Profits Before Safety?

BECG071

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BECG/071

BP: Putting Profits Before Safety?

"What BP experienced was a perfect storm, where aging infrastructure, overzealous cost-cutting, inadequate design and risk-blindness, all converged."[1]

– Carolyn Merritt, Chairman of the U.S. Chemical Safety and Hazard Investigation Board,[2] **in 2006.**

"Based on its review, the Panel believes 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. While BP has an aspirational goal of "no accidents, no harm to people," BP has not provided effective leadership in making certain its management and U.S. refining workforce understand what is expected of them regarding process safety performance."[3]

– The Report of the BP US Refineries Independent Safety Review Panel, January 2007.

"We will use this report to enhance and continue the substantial effort already underway to improve safety culture and process safety management at our facilities… I intend to ensure BP becomes an industry leader in process safety management and performance."[4,5,6]

– Lord John Browne, CEO, BP Plc., in January 2007.

BP – GREEN OR MEAN?

On January 16, 2007, the BP US Refineries Independent Safety Review Panel issued its report (popularly known as the Baker report) on its review of safety issues in BP Plc.'s (BP) refineries in the US. BP, the world's third-largest oil and gas producer after Exxon Mobil Corp.[7] (ExxonMobil) and Royal Dutch Shell[8] (Shell), had been plagued by safety lapses in its facilities in the last couple of years.[9] The panel was formed in October 2005, after The US Chemical Safety and Hazard Investigation Board (CSB) had uncovered many safety lapses at BP's Texas City refinery during the investigation of an explosion that occurred on March 23, 2005, which had resulted in 15 deaths and 170 people being injured.[10] CSB said that BP might have endangered its workers by

1 "Cost-cutting led to BP Refinery Fire, Report Concludes," www.pbs.org, November 01, 2006.

2 The US Chemical Safety and Hazard Investigation Board, headquartered in Washington, USA, is a federal agency that is responsible for conducting investigations of industrial chemical accidents in the US.

3 "The Report of the BP US Refineries Independent Safety Review Panel," www.bp.com, January, 2007.

4 The UK Health and Safety Commission defines safety culture as "the product of individual and group values, attitudes, perceptions, competencies, and patterns of behaviour that determine the commitment to, and the style and proficiency of, an organisation's health and safety management." (Source: www.en.wikipedia.org)

5 To help assure safe and healthful workplaces, US Occupational Safety and Health Administration (OSHA) has issued the Process Safety Management of Highly Hazardous Chemicals regulations which contain requirements for the management of hazards associated with processes using highly hazardous chemicals.

6 "BP Safety Standards 'Wholly Inadequate'," www.inthenews.co.uk, January 16, 2007.

7 Exxon Mobil Corporation, headquartered in Irving, Texas, USA, is the largest publicly traded integrated oil and gas company in the world.

8 Royal Dutch Shell Plc., headquartered at The Hague, The Netherlands, is the world's second largest oil company.

9 "BP Surprises by Naming Successor for CEO Early," www.taipeitimes.com, January 14, 2007.

10 "Safety at Oregon's BP Plant," www.13abc.com, January 17, 2007.

compromising on process safety and because of its emphasis on cost cutting. Calling into question BP's safety culture, CSB recommended that BP should form an independent review panel to review the safety of its five refineries in the US.

The 11-member panel, which was headed by former US secretary of state, James A Baker III (Baker), was critical of BP's safety culture and the leadership demonstrated by BP's top management with regard to safety issues. The chairman of CSB, Carolyn W. Merritt (Merritt) agreed with this finding when she said, "Safety culture is created at the top, and when it fails there, it fails workers far down the line. That is what happened at BP."[11]

The panel decried a sense of complacency regarding safety issues at BP's refineries and BP's emphasis on personal safety but lack of leadership on process safety issues. The panel lauded BP for co-operating with the review process and said that it did not find sufficient evidence that BP might have intentionally jeopardized the safety of its employees through its cost cutting measures. The panel outlined ten recommendations to BP and urged it to take this opportunity to become a leader in safety issues.

The Texas accident was not the only safety lapse at BP. In March 2006, a huge oil spill was discovered in BP's pipeline at Prudhoe Bay, Alaska, USA. The spillage was due to a corroded transit pipeline. Investigations found that BP had not been maintaining the pipeline properly. The Pipeline and Hazardous Materials Safety Administration[12] ordered BP to review the leak detection system on the affected line as well as two other crude transit pipelines in Prudhoe. Critics were incensed by the fact that BP had last used a pipeline inspection gauge[13] (pig) on the pipeline in 1998.[14] This led to a criminal investigation by the US Attorney's Office (in Anchorage, Alaska) into the leaks. On August 6, 2006, BP announced that it had discovered severe corrosion in its pipe and had decided to shut down the oil field indefinitely. This led to an outcry against BP by the public and some policy makers in the US. Safety measures at this oilfield had been neglected despite it accounting for 8 percent of the oil produced by BP. Critics alleged that BP had put profits before safety.

On January 12, 2007, BP surprised analysts by announcing that BP's CEO Lord Robert Browne (Browne) would relinquish his position at the end of July 2007. It announced that the head of BP's exploration and production, Tony Hayward (Hayward), would succeed him. The growth of BP under Browne since the mid-1990s had been phenomenal. So experts were surprised by the move as Browne was expected to retire by the end of 2008. Analysts felt that the safety issues coupled with other problems, such as the investigation against BP's US trading unit for market manipulation, declining production and share prices, were some of the factors that had contributed to Browne's early departure.

Still more damaging for the company was the fact that many critics had started questioning BP's environment-friendly stance and its corporate culture. Under Browne's leadership, BP had re-branded itself as an environment-friendly oil company. It had increased its investments in non-petroleum alternative sources of energy. Unlike some of the other big oil companies, BP had acknowledged the problems of global warming. An advertising blitz that projected its new "green" image was also launched. The company renamed itself BP from its original British Petroleum and adopted a new logo and tag line "Beyond Petroleum". Though the initiative earned BP a lot of

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11 Sonja Franklin, "BP's Browne Failed on Refinery Safety, Panel Reports (Update 5)," www.bloomberg.com, January 16, 2007.

12 The Pipeline and Hazardous Materials Safety Administration is an agency under the US Department of transportation.

13 In the pipeline industry, a pipeline inspection gauge (or pig) is a tool that is sent down a pipeline and propelled by the pressure of the product in the pipeline itself. It is the chief device used in pigging (maintenance of pipelines using pigs to perform various operations on a pipeline without stopping the flow of the product in the pipeline).

14 "Oil Giant Told to Fix Pipelines after Alaska Spill," www.msnbc.msn.com, March 23, 2006.

accolades at the time, the incidents at Texas and Prudhoe Bay tarnished its reputation. Critics raised doubts about BP's environment-friendly image and wondered how a company with such major safety lapses could make such a claim. They felt that BP's drive for cost cutting were in conflict with its efforts to protect the environment.

With the announcement of Browne's early departure, some analysts hinted that BP might have developed an "unhealthy corporate culture" where cost cutting was given more priority than safety of the workers. The problems of BP were compounded when some whistleblowers[15] provided information to the media which indicated that while the senior management was aware of safety lapses, they still chose to do nothing about them so as to keep costs under control.

BP denied that it had put profits before safety. It said that it would implement the recommendations of the Baker panel and said that it had earmarked billions of dollars to improve the safety of its refineries and oilfields. However, some analysts still felt that much more was required. The *Wall Street Journal* noted, "Throwing money at the problem probably won't be enough. BP's culture needs to change, too. The oil giant became increasingly dominated by a "Yes, Lord Browne" culture."[16]

Some analysts opined that BP would likely face significant challenges to gain back its reputation. They said that Hayward would need to focus on resolving safety issues as his top priority. In February 2007, Hayward announced that safety worries could hamper the growth of BP and it would give top priority to safety, even at the cost of growth. Some industry experts believed that BP might take this opportunity to become an industry leader in process safety management and performance. But others felt that BP should return to being an oil company rather than trying to go "Beyond Petroleum". They felt that the prime duty of an oil company was to run its core business to a high standard. So, rather than "pretending" to stand for something other that petroleum, BP would be well served if it focused on improving its operational efficiencies.

BACKGROUND NOTE

BP was formed in 1998 as a result of the merger between British Petroleum and Amoco Oil Corporation[17] (Amoco). However, the origin of BP can be traced back to 1901, when William Knox D'Arcy (D'Arcy), an Englishman, obtained a concession from the Shah of Persia to explore for oil in the Middle East. When D'Arcy failed to locate any oil deposits despite having incurred huge costs on his explorations, the Burmah Oil Company[18] came to his rescue in 1905. In 1909, oil deposits were discovered in South West Persia, which marked the founding of the Anglo-Persian Oil Company (APOC). During that time, Burmah Oil Company held 97 percent of the company's ordinary shares. That changed in 1914, when the British government acquired a majority shareholding in APOC. In 1917, APOC acquired a division of the German-based Europaische Union which was under the control of the British government. From that time on, APOC started using 'British Petroleum' as its trade name.

15 A whistleblower is someone (most often an employee, former employee, etc.,) who provides information about an employer's supposed misconduct.

16 "As BP's Hayward Takes Helm, His Priorities Should be Clear," www.wsj.com, January, 2007.

17 Amoco Oil Corporation was a global oil and gasoline conglomerate founded in 1889 by John Rockefeller. The company was initially incorporated as Standard Oil of Indiana which was formed from the break-up of Standard Oil Co.

18 Burmah Oil Company was a British oil company which was founded in Glasgow, Scotland, in 1886. The company acquired the Castrol Company in 1966. After this acquisition, the company was called Burmah Castrol Plc.

By the mid-1900s, the company had explorations in Africa, Canada, Europe, South America, and Indonesia/Papua New Guinea, and refineries in Europe and Australia. British Petroleum forayed into the US in the 1960s, after finding oilfields in Prudhoe Bay in Alaska, and the North Sea. In 1969, it acquired the Valdez oil terminal[19] in Alaska and also acquired a 25 percent stake in the Standard Oil Company[20] of Ohio (Sohio).

In the 1970s, British Petroleum, like other oil firms was affected by the Middle East oil crisis[21]. But, the company survived the crisis due to its investments outside the Middle East countries and its diversification into other businesses such as minerals, nutrition, and petrochemicals. In 1980, British Petroleum acquired Lucas Energy Systems, which manufactured solar panels. This deal marked the company's foray into the solar industry. A subsidiary was formed which later came to be called BP Solar. It also diversified further into minerals by acquiring Selection Trust[22], a UK-based mining operations company.

In the late 1980s, the company expanded into Colombia, the former Soviet Union, the Gulf of Mexico, Asia, and Africa. It also diversified into gas, power, and solar energy. In 1987, British Petroleum acquired Britoil, a UK-based oil exploration and production company. In the same year, the UK government sold off 31.5 percent of its shares in British Petroleum. The huge investments and accumulated debt resulted in losses for the company. In 1989, the company felt the need to change its image. Its 'Shield' logo was modified and changed to green. It adopted a new slogan "Now We're Greener Than Ever" and painted all its assets green.

Despite these measures, the company's share price had declined during the early 1990s. It also faced pressure from external agencies to stop polluting the environment. In 1995, Browne became the CEO of the company. He realized that the company needed to change its policies and re-brand itself if it had to survive in the industry. In 1998, British Petroleum merged with Amoco. In 1999, BP adopted a new set of business policies based upon the best practices followed by both the companies. The company borrowed liberally from the environment-friendly policies framed by the erstwhile Amoco. In doing so, BP became the first company in the oil industry to emphasize the need for Health, Safety, and Environmental (HSE) performance.

On March 11 2002, while giving a speech at Stanford University on climate change, Browne said it would be necessary to take preventive measures to face climate change. He also said BP would reinvent its energy business and would go 'Beyond Petroleum'.[23] BP believed that its HSE performance would be vital to its success in the countries where it operated. In 2002, BP underwent significant changes to project itself as a 'green' company. It changed its logo from a green shield to the white, green, and yellow sunburst logo of Helios[24] (Refer to Exhibit I for the old and new logos of BP). The company also changed its name to 'bp', without any meaning being attached to the letters.[25] It also adopted a new motto - "Beyond Petroleum". Through these changes, BP strove to project its concern for the environment and its entry into renewable sources of energy.

[19] Valdez oil terminal, an oil port in Valdez, Alaska, was acquired by the British Petroleum Company from Chugach (it was the name of a native culture and group of people in the Kenai Peninsula and Prince William Sound regions of Alaska).

[20] Standard Oil was an American oil company also called Sohio. It was one of the successor companies to Standard Oil founded by John Rockefeller. BP took up a 25 percent stake in the company in 1969 and the remaining in 1987.

[21] In October 1973, members of the Organization of Arab Petroleum Exporting Countries including Egypt and Syria decided not to export petroleum to countries (like the US and other West European countries) that had supported Israel in its conflict with Syria and Egypt (Source: www.en.wikipedia.org).

[22] Selection Trust, a British based mining finance house, was formed in 1913 by Chester Beatty. The company mainly financed and developed mining operations worldwide. The company's team of geologists and mining engineers were sent across the world to discover areas that could be explored for minerals.

[23] Atle Christer Christiansen, "Beyond Petroleum: Can BP Deliver," www.fni.no, June 2002.

[24] Helios is the sun god in Greek mythology.

[25] The company thought that the upper case BP gave an imperialist impression. By shifting to 'bp' which was in lower case, the company wanted to project itself as a friendly company.

The apparent change in image and its business practices earned rich accolades for BP. But some of its critics remained unconvinced. They felt that it was hypocritical of an oil company like BP to project itself as 'green'. Its promotional efforts to project its new image were also dismissed as "greenwashing"[26] by some critics.

As of 2006, the company operated in 100 countries with three major business segments: Exploration and Production; Refining and Marketing; and Gas, Power and Renewables. The company marketed its products under five brands: BP, Castrol, Arco, Aral, and AMPM. In 2005, BP's revenues were US$245.48 billion with a net income of US$19.64 billion. (Refer Exhibit II for BP's financial summary).

TRAGEDY IN TEXAS

On March 23, 2005, there was a devastating explosion at BP's Texas City refinery, the third largest refinery in the US.[27] This accident was one of the most serious workplace disasters in the US as it had resulted in 15 deaths and more than 170 being injured. The accident occurred when the workers started the refinery's octane-boosting unit. Excess gasoline spilled into a vent system and ignited, setting off an explosion that was felt within a five-mile radius. The CSB sent an investigation team to the site on the day of the accident itself. The Texas City refinery blast was the biggest accident in BP's history. It was also a severe dent to the image of BP.

Under the US Occupational Safety and Health act of 1970, employers were responsible for providing a safe and healthy workplace for all their employees.[28] This accident had resulted in over 1,700 lawsuits being filed against BP.[29] A fine of US$21.3 million was imposed on BP by the US Occupational Safety and Health Administration[30] (OSHA) as its investigations indicated that BP had committed more than 300 willful violations of its rules.[31]

The most devastating for BP was the CSB finding that BP had endangered workers in its bid to cut costs. In late October 2006, CSB revealed that although BP had known about problems at its Texas refinery before the explosion, it did not fix them. Merritt said that though the company improved working conditions and paid heed to personal safety (such as slips, trips and falls), "unsafe and antiquated equipment designs were left in place, and unacceptable deficiencies in preventative maintenance were tolerated".

It was reported that the Texas City refinery had had 23 accidents in its 30-year history before the accident in 2005.[32] The report pointed out that between 1994 and 2005, there were eight incidents at the Texas City refinery (including two incidents of fire), which was a sign of severe problems.[33] In 2004, in the twenty-third accident, a worker was burnt alive. Daniel Horowitz of the CSB, said, "There's a lack of safety leadership in BP. There were inadequate resources for safety at their North American refineries. And there were broken safety systems."[34] It was reported that the site's director had admitted that the refinery was held together by 'Band Aid' and 'superglue' for years before the tragedy occurred in 2005.[35]

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26 Greenwashing is a term that environmentalists and other critics give to the activity of giving a positive public image to supposed environmentally unsound practices.

27 TJ Aulds, "BP Refinery Manager No Stranger to Challenges," www.galvestondailynews.com, January 30, 2007.

28 "Safety at Oregon's BP Plant," www.13abc.com, January 17, 2007.

29 Laurel Brubaker Calkins and Margaret Cronin Fisk, "BP Faces Growing Criminal Probe over Texas Refinery (Update 3)," www.bloomberg.com, January 29, 2007.

30 The US Occupational Safety and Health Administration (OSHA) is an agency of the US Department of Labor. OSHA's mission is to prevent work-related injuries, illnesses, and deaths by issuing and enforcing rules for workplace safety and health.

31 John Porretto, "Report: Deadly Fire Followed BP Safety Failure," www.jacksonholestartrib.com, January, 2007.

32 Micheal Harrison, "Texas Report to Maul BP Management," www.independent.co.uk, January 15, 2007.

33 Katy Byron, "BP Chided in Report on Fatal Texas Fire," www.money.cnn.com, October 31, 2006.

34 "Safety at Oregon's BP Plant," www.13abc.com, January 17, 2007.

35 Roger Shrives, "BP Condemned over Safety Standards," www.socialistparty.org.uk, February 1, 2007.

CSB said that a lot of blame for the accident should go to the cost cutting measures adopted by BP. BP's management had allegedly ordered a 25 percent saving on costs, and were frugal in sanctioning funds for the refinery. For these reasons, alarms and instruments were not replaced and leaking pipes were often patched up using temporary clamps and valves. On August 17, 2005, the CSB made a recommendation to BP requiring the company to set up an independent panel of experts to review safety at the company's five US refineries.[36]

Though BP co-operated with the authorities and took full responsibility for the accident, it denied any wrongdoing. Robert Malone (Malone), president, BP (America), said, "Texas City was a tragedy; a lot of lessons were learned. And when I listen to the trader tapes there is no doubt in my mind, what happened may not have broken the law, but it broke our values. In my visiting facilities across the country and talking to employees and management though I cannot draw a systemic problem in BP America."[37]

Following the recommendations of the CSB, BP formed an independent panel to review its corporate safety culture, safety management systems, and corporate safety oversight at its US refineries. On October 24, 2005, the formation of the BP US refineries independent safety review panel was announced.[38] The 11-member panel headed by former US secretary of state, James A. Baker III (Baker) began investigations into the matter. The panel visited all the five BP refineries in the US. It conducted various anonymous employee surveys and also conducted public hearings. In addition to this, it reviewed technical documents and also interviewed the management and employees of private contracting firms who worked at the refinery.

As many people awaited the panel's report ('the Baker Report'), BP settled more than 1,200 claims, including all the death related lawsuits. After Hurricane Rita in September 2005, BP closed the refinery for months to upgrade equipment and review safety practices.[39] It also moved to improve safety and bring in a new corporate culture in all its five refineries in the US. BP had set aside US$1.6 billion to resolve all the lawsuits related to the Texas City refinery incident.

ALARM IN ALASKA

BP's image was also affected in early 2006, when leaks were found in its oil pipelines at Prudhoe Bay, Alaska, the largest oil field in the US. On March 2, 2006, a BP worker discovered a large oil spill in western Prudhoe Bay. It was estimated that at least 267,000 gallons had spilled out, making it the largest oil spill on Alaska's North Slope.[40] The spillage was due to a corroded transit pipeline. The spillage brought back memories of the infamous Exxon Valdez Spill[41] in Alaska, and led to a public outcry against BP.

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36 Katherine Torres, "Panel Finds BP Lacking in Safety Leadership," www.occupationalhazards.com, January 17, 2007.

37 Abrahm Lustgarten, "What Went Wrong at Prudhoe Bay," www.money.cnn.com, August 21, 2006.

38 David Robertson, "BP Failed to Learn from Mistakes, Panel Says," www.business.timesonline.com, January 17, 2007.

39 Sonja Franklin, "BP's Browne Failed on Refinery Safety, panel Reports (Update 5)," www.bloomberg.com, January 16, 2007.

40 "Alaska Hit by 'Massive' Oil Spill," www.news.bbc.co.uk, March 11, 2006.

41 The Exxon Valdez oil spill was the most devastating environmental disaster to occur at sea. On March 24, 1989, the oil tanker Exxon Valdez spilled its contents into the sea affecting 1,900 km of the Alaskan coastline. About 30 million US gallons (1US gallon = 3.785 litres) of crude oil were spilled, affecting the marine ecology as well as the lives of Alaskan fishermen. Exxon spent some US$2 billion cleaning up the spill, and a further US$1 billion to settle civil and criminal charges related to the case. In 1994, an Anchorage jury awarded the fishermen and affected communities US$5 billion in punitive damages. Exxon appealed against the ruling, claiming that the amount was excessive and unjustified. On December 2002, the damages were reduced to US$4 billion. As of March, 2007, Exxon had avoided paying the fine.

The Pipeline and Hazardous Materials Safety Administration found that there was “ineffectiveness of the leak detection system to identify the leak” in the Prudhoe Bay transit line. The inspection team found that the pipeline had several defects, including an area of the 0.375 inch wall that was worn thin by internal corrosion. The team believed that the leak might have passed unnoticed for at least five days before it was discovered. The safety agency ordered BP to review the leak detection system on the affected line as well as two other crude transit pipelines in Prudhoe Bay. Critics took exception to the fact that pipeline inspection gauges (pig) had been last used on the pipeline in 1998.[42] Analysts felt that the incident would lead to more fines against BP.

On August 6, 2006, BP announced that it had started a phased shutdown of the Prudhoe Bay oil field after it discovered severe corrosion and an oil leak in an oil transit pipeline. BP had to replace 16 of 22 miles of pipeline. Malone said, “We have now taken the decision to replace the main oil transit lines at Prudhoe Bay. This will be accomplished as part of our overall plan for ensuring the integrity of the field.”[43] BP’s share price, already down because of the criminal investigation by the US Attorney’s Office (Anchorage, Alaska) into the leaks (of March 2006), was severely jolted by the company’s decision to shut down the oil fields. While BP’s production reduced on account of the closure, US production of oil experienced a decline of 8 percent. The economy of Alaska, which was dependent on taxes levied on the oil industry, was also expected to be impacted. BP said that it expected the oil fields to be reopened in January, 2007.

The oil spill also attracted the ire of the US Congress. Congressman John Dingell criticized BP for its poor maintenance of the pipelines and called for a congressional investigation. He said, “It is appalling that BP let this critical pipeline deteriorate to the point that a major production shutdown was necessary. BP must take all steps necessary to repair or replace problem pipelines quickly, so the American consumer does not pay for BP’s laxity.”[44]

As of February 2007, BP was faced with another investigation into this incident, as Federal criminal investigators began probing charges that BP had substituted water for corossion-inhibiting chemicals since 1998. It was also probing allegations that BP’s staff were given written instruction against replacing deficient systems, pipes and components due to cost considerations.

Replying to criticisms that BP was neglecting worker safety and maintenance to cut costs, Malone said, “I’ve visited a number of facilities and I not only test the management, I also get out on the shop floor. I have not had an employee tell me that they were concerned to raise a safety issue, or an employee tell me they would not hesitate to shut down an operation they thought was unsafe. On Prudhoe Bay; there has been an 80% increase on our spending on the corrosion management year over year since 2000. Our corrosion experts said they felt that they were spending the money that they needed.”[45] He explained that BP didn’t use pigging to identify corrosion in its pipes as it felt that UT technology was a better alternative. Since that practice had led to the spillage, BP would use pigging in the future. In a testimony before Congress on September 12, 2006, Malone admitted that BP had “fallen short of the high standards we hold for ourselves” but denied that it was putting profits before safety and maintenance. For instance, BP said that at Prudhoe Bay the corrosion spend had actually increased since 2001 despite the decline in production. (Refer to Exhibit III for Prudhoe Bay: Corrosion spend versus production).

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42 “Oil Giant Told to Fix Pipelines after Alaska Spill,” www.msnbc.msn.com, March 23, 2006.

43 “Prices Climbing after Oil Field Shutdown,” www.cnn.com, August 9, 2006.

44 Wesley Loy and Richard Richtmyer, “Massive Repairs on the Slope,” www.adn.com, August 8, 2006.

45 Abrahm Lustgarten, “What Went Wrong at Prudhoe Bay,” www.money.cnn.com, August 21, 2006.

OTHER PROBLEMS

Apart from the safety lapses, BP also had to deal with several other problems. Its US trading unit was accused of artificially driving up the prices of propane in 2003 and 2004.[46] In December 2006, US regulators threatened to press civil charges against BP after an investigation into allegations of market manipulation of the gasoline futures market.

BP was also struggling to increase its production levels. On January 09, 2007, BP said that oil production had reduced for the sixth consecutive quarter due to the shut down of its facility in Alaska and delay in opening of new fields in the Gulf of Mexico. In fourth quarter of 2006, BP's oil production had reduced by 5 percent over the same period of the previous year.[47] Analysts were disappointed by the production performance of BP. Mark Lovett, head of British and European equities for RCM,[48] said that though both Exxon and BP had the same production issues, ExxonMobil had "hugely outperformed" BP. The company's share price was also on the decline. (Refer to Exhibit IV for a Chart of BP's stock price movement). Analysts pointed out that in 2006, BP's shares had under-performed the global energy sector by 16 percent, ExxonMobil by 23 percent and Royal Dutch Shell by 5 percent.[49]

BP also said that the opening of BP's two production platforms, Atlantis and Thunder Horse, in the Gulf of Mexico had been put off until 2007 and 2008, respectively, due to equipment failure.[50] BP, which had a strong position (due to its 50 percent stake in TNK-BP[51]) in Russia was also likely to face potential trouble as Russia's president Vladimir Putin (Putin) pushed for nationalization of Russia's natural resources.

BP SPRINGS A SURPRISE AHEAD OF THE BAKER REPORT

On January 12, 2007, BP announced that Browne would step down in favor of Hayward by the end of July 2007. Browne had been expected to stay until the end of 2008. Browne's early departure came as a surprise as he had been credited with transforming BP into a major player in the industry with a series of M&A deals. He had also given BP a new image as a company that was concerned about the environment, long before any of its competitors had done so. During his tenure BP's profits and market capitalization had grown fivefold and its share price had increased by 250 percent.[52]

Many analysts felt that Browne's departure was brought forward to preempt the Baker panel report that was expected to be critical of BP's top management. BP's chairman, Peter Sutherland (Sutherland), was reported to be very concerned about the negative fallout of the report. In announcing that Browne was leaving before the report was announced, the notion that Browne's departure was a consequence of the negative external report could be avoided. Sutherland and other key officials were also concerned that some of BP's top managers would be named in the report. This might require them to depose before authorities or even go to jail for negligence. Browne himself was reportedly fed up with the spate of bad news over the past couple of years, and wanted a "dignified departure".

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46 Nelson Schwartz, "BP was Warned," www.money.cnn.com, October 2, 2006.

47 Stephen Voss, Bloomberg News, "BP Oil Production Declines for Sixth Consecutive Quarter," www.iht.com, January 10, 2007.

48 RCM is a division of Allianz Global Investors.

49 Nick Bevens, "Browne's Exit Expected to Boost Lagging BP," www.business.scotsman.com, January 16, 2007.

50 Stephen Voss, Bloomberg News, "BP Oil Production Declines for Sixth Consecutive Quarter," www.iht.com, January 10, 2007.

51 TNK-BP is a leading oil company in Russia. It was formed in 2003 as a result of a merger between BP's oil and gas assets in Russia and the oil and gas assets of the Alfa Access Renova group. (Source: www.tnk-bp.com).

52 "BP Surprises by Naming Successor for CEO Early," www.taipeitimes.com, January 14, 2007.

Sutherland, who had hailed Browne as "the greatest British businessman of his generation", said that since the decision regarding Browne's exit and Hayward's succession had already been made, it made better sense to opt for a handover in six months' time rather than over a longer period.[53] Robert Talbut, chief investment officer at Royal London Asset Management[54] said that it made sense for BP to clarify the succession issue quickly if the company was concerned about the findings of the Baker report so that Browne could be left to deal with the disclosures.

While some analysts saw the move to call forward the succession as a bold strategic move, others felt that market pressure was at the root of Browne's early exit. In January 2007, it was reported that BP had lost around US$39 billion in market capitalization since August 2006.[55] After the announcement of Browne's early exit, BP share prices rose by 1.8 percent.[56] Oppenheimer & Co., Inc.'s[57] oil and gas analyst in New York, Fadel Gheit (Gheit), said that Hayward's appointment boded well for BP. Jason Kenney (Kenny), oil analyst at ING[58] in Edinburgh, said, "I see it as positive news. They had a difficult choice because there were a number of positive people who could have taken over the role. The fact that Tony Hayward has got it will enable BP to move forward, put the succession behind them and get on with the job."[59]

Analysts expected a bigger shake up at the top management of BP after the Baker report came out, as there were indications that the report would be critical of BP's top management. They felt that, in particular, John Manzoni, the head of refining and marketing, who was ultimately responsible for the Texas City refinery could be part of the reshuffle. "If the report is bad, then more people might have to leave. There is no doubt that sentiment has taken a big kicking. The oil and gas industry is a hazardous business – your reputation is your license to operate,"[60] said Kenny.

THE BAKER REPORT

On January 16, 2007, the Baker report was released at Houston, Texas. As expected, the Baker report was very critical of BP's approach to process safety at its refineries in the US. The panel said that a lack of focus on manufacturing process safety on BP's part contributed to the March 2005 accident in Texas. It said that BP had failed to give process safety the same emphasis that it gave to personal safety and environmental initiatives. The report said that the management should have paid more attention to earlier incidents, such as product chemical releases and fires at the plant.

The Baker report also said that the top management at BP had failed, as they had apparently ignored concerns raised by lower-level employees. It noted that the role of top management in providing safety leadership was paramount, and BP's top management was found wanting in this regard. It further said that BP failed to devote adequate resources to keep its operations safe. The panel found that refineries in BP did not get the same importance at BP as exploration. It was more

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53 "BP Surprises by Naming Successor for CEO Early," www.taipeitimes.com, January 14, 2007.

54 Royal London Asset Management is the wholly owned asset management subsidiary of The Royal London Mutual Insurance Society (Royal London), the second largest mutual life insurer in the UK. (Source: www.scottishlife.co.uk)

55 "BP Surprises by Naming Successor for CEO Early," www.taipeitimes.com, January 14, 2007.

56 Simon Bowers, "BP Braced for Fallout as Safety Report Threatens to Implicate Board," www.business.guardian.co.uk, January 15, 2007.

57 Oppenheimer & Co. Inc., headquartered at New York, USA, is a leading investment boutique that provides financial services and advice to high net worth investors, individuals, businesses, and institutions.

58 ING Group, headquartered in Amsterdam, The Netherlands, is a financial institution that offers banking, insurance, and asset management services

59 Mike Elliott, "BP Chief's Early Exit Ends Uncertainty," www.stuff.co.nz, January 17, 2007.

60 Liz Chong and Robin Pagnamenta, "BP Told to Expect More Departures after Texas Blast Report," www.business.timesonline.co.uk, January 15, 2007.

of a "tolerated cousin" and was subjected to budget cuts.[61] The panel said, "BP tended to have a short-term focus, and its decentralized management system and entrepreneurial culture have delegated substantial discretion to US refinery plant managers without clearly defining process safety expectations, responsibilities or accountabilities."[62] The report said that BP should have learnt from three similar incidents in BP's Grangemouth refinery in Scotland in 2000.[63] In fact, it severely criticized BP's management for failing to learn from those past incidents.

The report revealed that BP's refinery at Toledo, Oregon, was actually worse than the Texas refinery with respect to safety. In 2006, the Toledo refinery was fined US$2.4 million for its unsafe operations, including the practice of keeping workers in vulnerable buildings near processing facilities and failing to prevent the use of non-approved electrical equipment.[64] The panel found that in the Toledo and Whiting plants, there was mistrust between employees and the management. Communication was also a problem. For instance, in the Whiting refinery many work orders to replace damaged parts had not been attended to for more than a year. There was also high tension between union and contract workers. The panel was critical of BP for using a large number of contract workers in its refineries. This problem of a large contract workforce was attributed in part to the high turnover of regular workers in its refineries.

BP's Cherry Point, North Carolina, refinery was rated the highest in safety among the company's five US refineries. Though there were some safety issues at this refinery too, overall, the report found a good safety culture at Cherry Point refinery, with a "very positive, open and trusting environment." The panel also endorsed the elevation of Cherry Point's former plant manager, Rick Porter, to the new position as vice president in charge of safety oversight. In his new role, Porter would look after the safety practices at BP's refineries worldwide.

The panel said that there were "instances of a lack of operating discipline, toleration of serious deviations from safe operating practices, and apparent complacency toward serious safety risks at each refinery" - but it could not find sufficient reason to believe that BP had intentionally endangered the life of its workers due to cost cutting measures.[65] The panel made ten recommendations (Refer to Exhibit V for the 10 recommendations of the Baker panel). The panel made it clear that these recommendations were not for BP alone, but for all other companies as well. The panel said, "We are under no illusion that deficiencies in process safety culture, management, or corporate oversight are limited to BP. Other companies and their stakeholders can benefit from our work. We urge these companies to regularly and thoroughly evaluate their safety culture, the performance of their process safety management systems, and their corporate safety oversight for possible improvements."[66]

The report also complimented BP for co-operating with the investigation and noted that many of its recommendations were already being implemented by BP. It also noted that safety culture at the Texas City refinery and the Whiting refinery were improving. After the accident in Texas, BP focused on bringing a new corporate culture to the refinery. Keith Casey, who was the head of the refinery in January 2007, said that he was in a position to call up Malone, Hayward or Browne, if he had any issues. The top management also called him up to know if any help was required.

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61 John M Biers, "Report Shows Downside of BP's Refinery-light Strategy," www.marketwatch.com, January 17, 2007.

62 Katherine Torres, "Panel Finds BP Lacking in Safety Leadership," www.occupationalhazards.com, January 17, 2007.

63 David Robertson, "BP Failed to Learn from Mistakes, Panel Says," www.business.timesonline.com, January 17, 2007.

64 "Safety at Oregon's BP Plant," www.13abc.com, January 17, 2007.

65 "BP Attacked over Plant Death Blast," www.icsouthlondon.co.uk, January 16, 2007.

66 "BP Safety Standards 'Wholly Inadequate'," www.inthenews.co.uk, January 16, 2007.

But problems seemed to be far from over. As of end-January 2007, BP was facing intense scrutiny from federal investigators for possible criminal environmental and safety violations at its Texas refinery. The lawyers suing BP said that the US Environmental Protection Agency[67] (EPA) had joined a federal investigation that had been started in October 2006 by the US attorney in Houston. It was reported that the federal investigators were looking for evidence that could be used to bring criminal charges against the higher levels of management at BP's refinery in Texas as well as the top management of BP.

CRITICS QUESTION BP'S "GREEN" IMAGE AND CULTURE

The Baker report was a big blow to BP's reputation and a major embarrassment for BP's top brass. The safety lapses at BP coupled with the findings of the Baker report led many to question BP's integrity as well as its corporate culture. Some wondered whether the oil and gas behemoth built by Browne was "fundamentally flawed". The announcement of Browne's early departure was viewed by some as an admission of its flawed practices. Investors and analysts started to question the underlying structure that gave rise to such business practices in BP. In hindsight, some analysts said the problem in the refineries stemmed from Browne's July, 1999, bold strategic decision to reduce refining capacity by a third to counter weak profit margins – a move that was widely appreciated by industry experts at the time.

Browne's strategy of re-branding BP as a "green" company had earned the company a lot of laurels. Its advertising blitz in the 2002 had differentiated it from other oil and gas majors. In 2005, BP was named the *Financial Times'* "most respected energy company" and *Fortune's* "most admired company in Britain". *BusinessWeek* had ranked it in the second position in "the greenest company of the decade".[68] Analysts felt that BP did well to earn that image in an industry where corporate ethics were challenged by the very nature of the business – extracting crude oil, burning of fossil fuel, dealing with repressive regimes, etc. With the safety issues exposed since 2005, some critics raised doubts as to whether BP was indeed as environment-friendly as it had projected itself. They wondered how a supposedly environment-friendly company could allow accidents such as the Texas City refinery and Prudhoe Bay to occur. They noted that within the span of one year, BP had suffered both the worst refinery accident in the US and the worst oil spill in the history of the North Slope. Senator Dianne Feinstein, said, "I have always respected BP, and I met John Browne and respected him. I thought finally there was an oil company that has a sense of conscience. I no longer think that."[69]

Some critics felt that BP's projection of itself as a "green" company and its foray into renewable energies, backed by the ad campaigns were nothing more than a PR gimmick. They pointed out that its actual investment in alternative resources was very small when compared to its investment in exploration and refining, and also in relation to its profits. Moreover, it was BP that had aggressively lobbied for the opening up of the Arctic National Wildlife Refuge[70] to drilling. Critics contended that if BP had spent as much on maintenance of its facilities as it had on advertising and lobbying for tax cuts, it could have averted these major disasters. Some even said that 'BP' stood for a company with "bloated profits" that failed to fix "bad pipelines".[71]

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67 The US Environmental Protection Agency (EPA) is an agency of the federal government of the US. It is charged with protecting human health and with safeguarding the natural environment: air, water, and land.

68 Ciat Murphy, "Beyond Prudhoe: Why BP Should Go Back to Being an Oil Company," www.money.cnn.com, August 15, 2006.

69 Nelson Schwartz, "Can BP Bounce Back?" www.money.cnn.com, October 31, 2006.

70 Arctic National Wildlife Refuge (ANWR) covers 19,049,236 acres (79,318 km²) in northeastern Alaska, in the North Slope region. It is endowed with rich natural resources. There was a controversy as to whether to allow drilling in the ANWR. Drilling was finally allowed in 2006.

71 Aaron Smith, "BP 'Fell Short' on Pipeline, Execs Admit," www.money.cnn.com, September 7, 2006.

Critics said it was BP's excessive emphasis on cost control that had led to these environmental problems. An employee of BP, who had worked in both Prudhoe Bay and Texas, had said, "The mantra was, Can we cut costs 10 percent? There was an it-can't-happen-here mentality on the part of middle management. The values are real, but they haven't been aligned with our business practices in the field. A scream at our level is, if anything, a whisper at their level."[72] Amy Jaffe, associate director of William Marsh Rice University's[73] energy program, said that there was a "disconnect between the public emphasis on environmental sustainability" and actual practice at BP.[74] Analysts felt that BP had failed to communicate what was more important – cutting costs, or safety and protection of the environment. Since the company rewarded its employees for cutting costs rather than for steps to protect the environment, they clearly thought cost-cutting was more important.

BP workers and union representatives interviewed by *Fortune* in 2006 revealed that BP might have known about the problems in both Texas City refinery and Prudhoe Bay well in advance. *Fortune* also obtained a 2002 letter written by an employee to the management predicting the "catastrophe" waiting to happen at Prudhoe Bay. Some insiders had said that BP's culture was marked by extreme pressure to keep costs down, even if routine maintenance and safety were neglected in the process.[75] This made it more likely for mishaps to occur.

Some analysts also questioned the corporate culture of BP. Some critics felt that Browne's legacy, so effective for the 1990s, was no longer relevant. BP had to move beyond the "Yes, Lord Browne" culture that had developed internally. BP's organizational structure was decentralized - broken down on geographical lines. While this structure was good for cost cutting and mergers, some felt that BP had to change its organizational structure and opt for a structure on functional lines similar to that of ExxonMobil.

A few industry experts had also criticized BP for looking at non-oil alternatives, saying that it would distract BP from its core business. Some analysts felt that if it had concentrated on being an excellent oil company, the accidents might not have occurred. ExxonMobil was cited as an example of an oil company that despite all the criticisms levelled against its business practices, had a much better safety record.

DAMAGE CONTROL AT BP

Soon after the Baker report was released, BP said that it would implement its recommendations. Browne said that the findings of the report were consistent with its own findings and were in fact already being implemented in BP's refineries. Browne also said that it would take time to bring about big changes in a large organization and that still a lot needed to be done. Browne said, "Many of the panel's recommendations are consistent with the findings of our own internal reviews. As a result, we have been in action on many of their recommendations for a year or more. Our progress has been encouraging but there is much more to do."[76] He assured the panel that BP would use these insights to become an industry leader in process safety management and performance. He announced that BP planned to spend US$1.7 billion annually until the end of 2010 to improve the integrity and safety of its refineries.[77] Browne said that the company had

72 Nelson Schwartz, "BP was Warned," www.money.cnn.com, October 2, 2006.

73 William Marsh Rice University, located in Houston, Texas, USA, is a private, research university set up in 1912.

74 Heather Timmons, "Second-guessing of BP's Departing Chief Begins," www.iht.com, January 16, 2007.

75 Nelson Schwartz, "BP was Warned," www.money.cnn.com, October 2, 2006.

76 "BP Attacked over Plant Death Blast," www.icsouthlondon.co.uk, January 16, 2007.

77 Sonja Franklin, "BP's Browne Failed on Refinery Safety, Panel Reports (Update 5)," www.bloomberg.com, January 16, 2007.

earmarked US$200 million to pay for external audits from industry experts.[78] Even before the report was released, BP had announced that it would invest US$1 billion in the Texas City refinery.[79]

BP also entered into an agreement with United Steelworkers, the union which represents 4,300 BP employees in the US, to help improve the safety culture within the company. The union and the company would henceforth work together on a joint safety initiative focusing on the 10 recommendations made by the Baker report. Kim Nibarger, the union's safety and health representative, said that it would push for a voice about who could be appointed to supervisory roles in individual units. It intended to prevent the use of "step-up supervisors". "Step-up supervisors" were hourly employees who filled up for regular supervisors in their absence. It was found that during the blast in the Texas refinery, many of the supervisors were step-ups. The union alleged cost-saving measures were at the root of BP's practice of over-using and keeping "step-up supervisors" in place for years at a time. The union had for long argued that this was one of the reasons for the accident. However, with the settlement, the union felt that BP was finally moving away from a "blame-and-denial game" that it said BP had played for close to two years.[80]

Browne pointed out that the panel had concluded that the errors were made in good faith. He said that BP never put profits before safety. He felt that part of the BP's problem stemmed from its rapid growth, a series of mergers, and turnover among the management. He also denied that the report had anything to do with his decision to relinquish his position at the helm. BP also ruled out any reshuffle of its top management. Browne also declined from commenting on his legacy, which was at the threat of being tarnished due to the safety-related incidents. It was reported that Browne's pay in 2006, decreased by 28 percent despite of the BP posting a 15 percent rise in profits compared to 2005.[81] In 2005, too there was a decrease in his salary and bonus which was attributed to 'qualitative factors' such as the lack of safety leadership in light of the refinery accident.

Regarding the spill at Prudhoe Bay, Malone said that BP's decision to shut down the facility was evidence of the fact that it had learnt from the Texas City refinery tragedy. "The reason we closed the field was to prevent something from happening. That's very important to remember,"[82] he said. After taking over as the president of BP, American operations, shortly after the spill, Malone had established an open line of communication with the top bosses in London. The company had earmarked an additional US$550 million to improve the integrity of its 1,500 miles of pipes, along with wells and gathering centers. The inspection team was also increased to more than 100 people - compared with less than 50 people deployed earlier. The company also planned to invest around US$195 million on maintenance of Prudhoe Bay by 2007.[83]

Reacting to the allegations that BP had substituted water for more expensive chemical agents used to prevent corrosion in BP's Prudhoe Bay pipelines, BP said that it had put a team in place to thoroughly investigate this allegation. In January 2007, Chuck Hamel, a long-time critic of the oil industry had levelled this allegation, which he said was based on the evidence provided by an oil-field employee. A BP spokesperson said, "Whenever issues are raised by employees or folks like Mr. Hamel, we always look into them. We take these issues very seriously."[84]

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78 "BP Safety Standards 'Wholly Inadequate'," www.inthenews.co.uk, January 16, 2007.

79 David Robertson, "BP Failed to Learn from Mistakes, Panel Says," www.business.timesonline.com, January 17, 2007.

80 TJ Aulds, "BP, Steelworkers Reach Agreement," www.galvestondailynews.com, January 17, 2007.

81 "BP CEO's Pay Fell in 2006 Despite Strong Profits," www.money.cnn.com, March 6, 2007.

82 Nelson Schwartz, "Can BP Bounce Back?" www.money.cnn.com, October 31, 2006.

83 "BP Seeks Part of Alaska Pipeline Reopened," www.money.cnn.com, September 15, 2006.

84 Jeannette J Lee, "BP Watchdog Check's Prudhoe Bay Claims," www.businessweek.com, February 7, 2007.

BP also clarified that its safety lapses in Texas City refinery and Prudhoe Bay should not be held against its efforts toward protecting the environment. Malone said, "I understand if people want to say, "How can you have something like this happen and you are supposedly a green company?" … But we're investing heavily in alternative energy, and we are putting our money where our mouth is."[85] Reacting to the critics' comment regarding BP's corporate culture, Browne said that the issues at Texas and Prudhoe Bay didn't reflect an unhealthy corporate culture; rather it was indicative of BP's "strength of character" as it had subjected itself to a meticulous review.

OUTLOOK

Analysts felt that BP was already on the "right track" as far as its safety culture was concerned. [86] They expected BP to spend generously on process safety experts, health and safety auditors, process engineers, etc.[87] Expenditure on equipment was also expected to rise. Some experts felt that the order from the top was to spend – and this time as before, the employees would fall in line and obey.

Some analysts felt that it would be a tough task for anyone to fit into Browne's shoes. But on the positive side, Browne was leaving behind a "strong and well-positioned" oil company. Bear Stearns & Co. Inc.,[88] analyst Nicole L. Decker, wrote, "Lord Browne hands over a company that is extremely well-positioned to compete in the future, in our opinion. Recent incidents aside, BP's performance under Lord Browne has been remarkable."[89] BP also had a strong and diversified energy portfolio. Though Hayward, the CEO-designate, had been shielded from dealing with the Baker report in the initial days, analysts felt that he would soon have to deal with the issues raised by the report.

Experts felt that Hayward would focus on improvement in safety as a top priority. Hayward was also reportedly in favor of keeping safety ahead of costs. In an email leaked from the company's intranet, in December 2006, he was critical of BP's cost cutting measures and reportedly questioned BP's emphasis on "more for less" and trying to do "100 percent of a job with 90 percent of the resources."[90] Analysts felt that a change in BP's corporate culture was another key priority. They also said that just spending money on this issue might not be sufficient. Another priority would be to ensure that BP's production increased. Some analysts felt that Hayward should continue to maintain BP's leadership in developing alternative energy resources. Hayward also needed to stand up strongly to Putin who wanted to nationalize the natural resources of Russia, a BP stronghold. Some analysts also did not rule out more extreme measures in the future, such as a merger with Shell, or BP breaking up into two smaller companies.

As BP worked toward restoring its reputation in the market, there were many challenges ahead of it. Investec[91] analyst Tony Eccles said, "BP's management must step up to the plate. We believe a 'business as usual' approach will not be acceptable to a skeptical market."[92] On February 7, 2007, BP modified its oil production forecasts downwards and said that safety worries would hit its growth prospects in the near future. Hayward said, "We have further increased our focus on safety and operational integrity and will in some cases deliberately slow the pace of our activity in order

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85 Abrahm Lustgarten, "What Went Wrong at Prudhoe Bay," www.money.cnn.com, August 21, 2006.

86 David Ellis, "Safety Panel Slams BP over Refinery Blast," www.money.cnn.com, January 17. 2007.

87 Carl Mortished, "Opportunity for BP to Lead Industry on Safety Practices," www.business.timesonline.com, January 18, 2007.

88 Bear, Stearns & Co. Inc., is a leading global investment banks, and, securities trading and brokerage firms in the world.

89 "Ahead of the Bell: BP" www.chron.com, January 16, 2007.

90 Ed Crooks and Carola Hoyos, "BP Faces Fight to Please Investors," www.ft.com, January 17, 2007.

91 Investec, is a Johanessburg, South Africa-based international specialist banking group.

92 Jane Wardell, "BP Looks to Restore Battered Reputation," www.forbes.com, February 5, 2007.

to improve safety and efficiency."[93] The company revealed that it was facing a shortage of skilled manpower. It also said that it would increase its capital expenditure in 2007 to US$18 billion from US$15.9 billion in 2006.[94]

While the debate regarding whether BP should be viewed as an environment-friendly company continued, some analysts opined that BP would be well served if it focused less on its supposedly "green" image and focused instead on what it was actually supposed to do – improve operational efficiency and create wealth for its shareholders. Ciat Murphy, assistant managing director, *Fortune*, wrote, "It's too soon to know what has been going wrong and why, but it's worth pointing out that when it comes to corporate social responsibility, the first duty of any oil company is to run its oil operations to a high standard … Instead of trying to be the non-oil oil major, BP would be better served by trading in the sunflower ethos for a steely-eyed rigor in running its core business. Because in the end, the best thing it can do for the environment is to be a good oil company, not to pretend it is something else."[95]

93 Carl Mortished, "BP Warns Safety Worries Will Hit Growth," www.business.timesonline.co.uk, February 7, 2007.

94 Jane Wardell, "BP 4th-quarter Earnings Fall 22 percent to 2-year Low; Cuts Growth Targets," www.examiner.com, February 06, 2007.

95 Ciat Murphy, "Beyond Prudhoe: Why BP Should Go Back to Being an Oil Company," www.money.cnn.com, August 15, 2006.

Exhibit I

The Old and New Logo of BP

The Green Shield Logo The Helios Logo

Source: www.answers.com.

Exhibit II

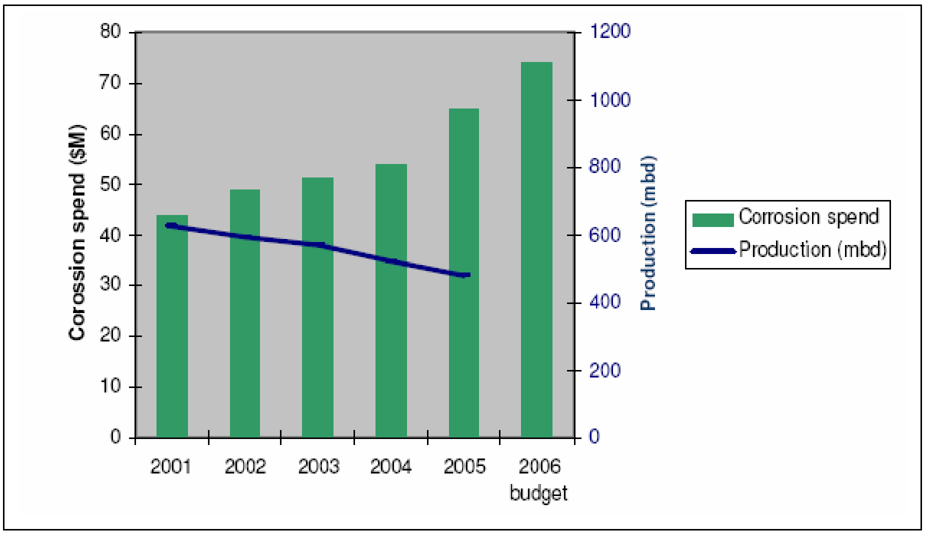
BP's Financial Summary (In US$ Billion)

	2005	2004	2003
Total Revenue	245.48	196.60	168.51
Gross Profit	57.24	48.45	40.72
Operating Income	32.18	25.75	18.78
Net Income	19.64	17.09	12.94

Source: www.finance.google.com.

Exhibit III

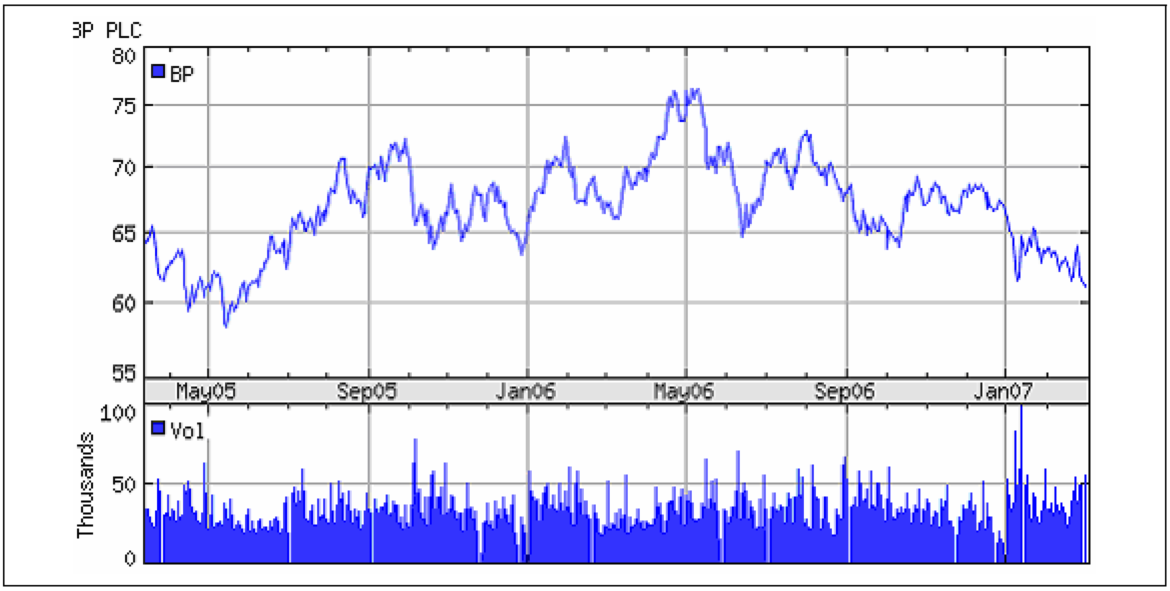
Prudhoe Bay: Corrosion Spend Versus Production



Source: www.bp.com.

Exhibit IV

Chart of BP's Stock Price at the New York Stock Exchange



Source: www.uk.finance.yahoo.com.

Note: Stock price is in US$.

Exhibit V

The 10 Recommendations of the Baker Panel

1. **Process Safety Leadership:** The Board of Directors of BP, BP's executive management (including its Group Chief Executive), and other members of BP's corporate management must provide effective leadership on and establish appropriate goals for process safety. Those individuals must demonstrate their commitment to process safety by articulating a clear message on the importance of process safety and matching that message both with the policies they adopt and the actions they take.
2. **Integrated and Comprehensive Process Safety Management System:** BP should establish and implement an integrated and comprehensive process safety management system that systematically and continuously identifies, reduces, and manages process safety risks at its US refineries.
3. **Process Safety Knowledge and Expertise:** BP should develop and implement a system to ensure that its executive management, its refining line management above the refinery level, and all US refining personnel, including managers, supervisors, workers, and contractors, possess an appropriate level of process safety knowledge and expertise.
4. **Process Safety Culture:** BP should involve the relevant stakeholders to develop a positive, trusting, and open process safety culture within each US refinery.
5. **Clearly Defined Expectations and Accountability for Process Safety:** BP should clearly define expectations and strengthen accountability for process safety performance at all levels in executive management and in the refining managerial and supervisory reporting line.
6. **Support for Line Management:** BP should provide more effective and better coordinated process safety support for the US refining line organization.
7. **Leading and Lagging Performance Indicators for Process Safety:** BP should develop, implement, maintain, and periodically update an integrated set of leading and lagging performance indicators for more effectively monitoring the process safety performance of the US refineries by BP's refining line management, executive management (including the Group Chief Executive), and Board of Directors. In addition, BP should work with the CSB and with industry, labor organizations, other governmental agencies, and other organizations to develop a consensus set of leading and lagging indicators for process safety performance for use in the refining and chemical processing industries.
8. **Process Safety Auditing:** BP should establish and implement an effective system to audit process safety performance at its US refineries.
9. **Board Monitoring:** BP's Board should monitor the implementation of the recommendations of the Panel (including the related commentary) and the ongoing process safety performance of BP's US refineries. The Board should, for a period of at least five calendar years, engage an independent monitor to report annually to the Board on BP's progress in implementing the Panel's recommendations (including the related commentary). The Board should also report publicly on the progress of such implementation and on BP's ongoing process safety performance.
10. **Industry Leader:** BP should use the lessons learned from the Texas City tragedy and from the Panel's report to transform the company into a recognized industry leader in process safety management. The Panel believes that these recommendations, together with the related commentary in Section VII, can help bring about sustainable improvements in process safety performance at all BP US refineries.

Source: "The Report of the BP US Refineries Independent Safety Review Panel," www.bp.com, January, 2007.

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