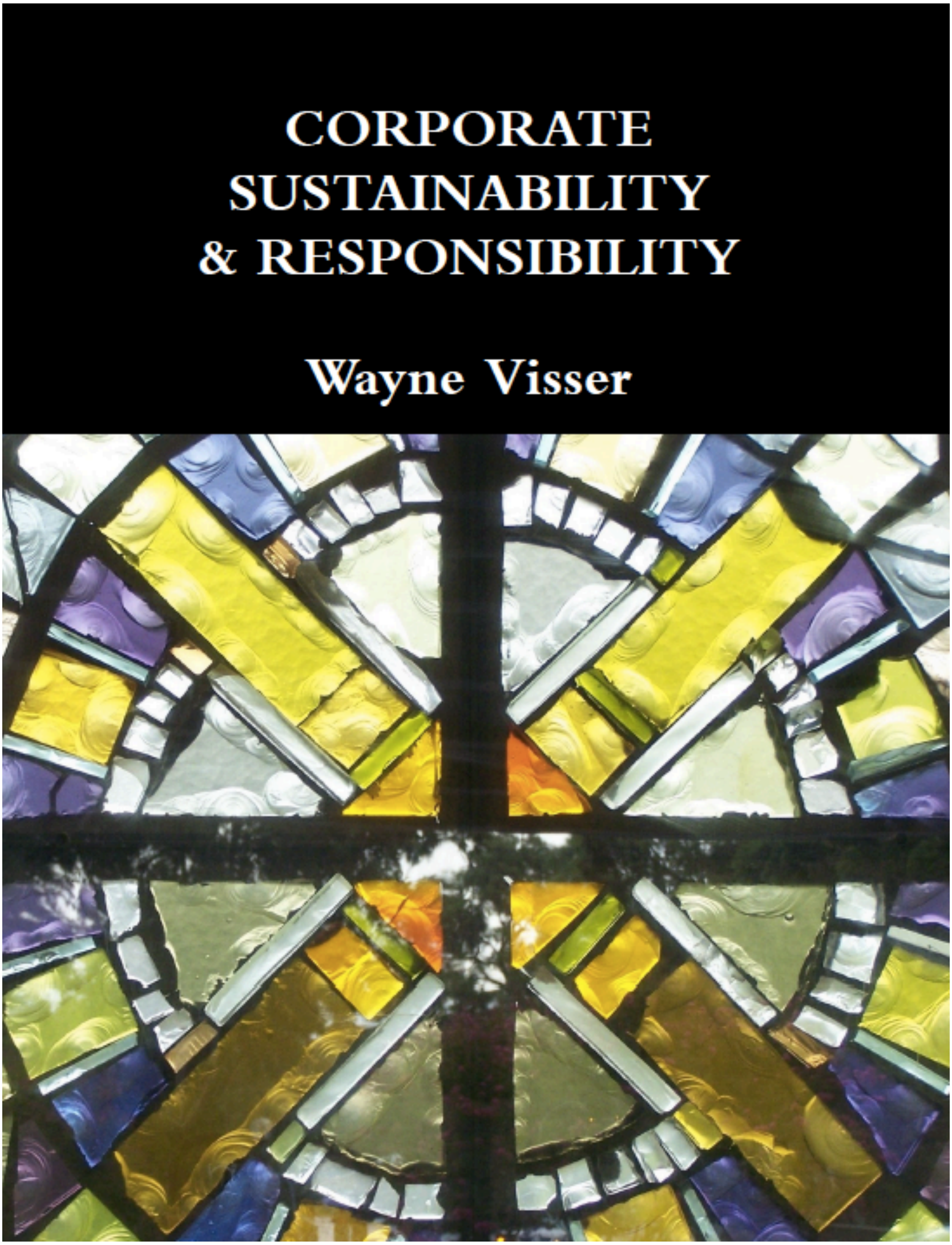
CORPORATE
SUSTAINABILITY
& RESPONSIBILITY
Wayne Visser

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An Introductory Text on CSR Theory & Practice – Past, Present & Future

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KALEIDOSCOPE Futures

CHAPTER 7: CASES IN CSR

7.5 BP

When John Browne took over as Group CEO of BP in 1995, it was the same year that Shell was being heavily criticised for its proposed sinking of the Brent Spar oil platform in north Atlantic, as well as its alleged complicity with the Nigerian government in the execution of human rights activist, Ken Saro Wiwa. Browne would have taken special note of former Shell UK Chairman Malcolm Brinded's warning that 'the days when companies were judged solely in terms of economic performance and wealth creation have disappeared. For us, Brent Spar was the key turning point. It was a wakeup call, not only to Shell, but to the entire oil and gas industry, and to industry in general.'

Indeed, Browne would have been all too aware of a few skeletons in BP's own closet at that time. Most notably, the fact that between 1993 and 1995, BP's contractor Doyon Drilling was engaged in illegally dumping of hazardous wastes on Endicott Island, Alaska, injecting it down the outer rim of the oil wells. When BP learned of the practice and failed to report it to the authorities, it contravened the so-called U.S. Superfund legislation (the Comprehensive Environmental Response, Compensation and Liability Act). After a few years of legal wrangling, in 1999, BP agreed to a settlement of $22 million, which included a criminal fine of $500,000 (the maximum), $6.5 million in civil penalties, and BP's establishment of a $15 million environmental management system at all BP facilities in the U.S. and Gulf of Mexico engaged in oil exploration, drilling or production.

Another 'skeleton' was the allegations in 1996 of complicity in human rights abuses in Colombia. It was a seminal lesson for Browne, as he later recalled at an EIB Seminar on Business and Human Rights in London (4 June 2010): 'BP entered that country ... seeking a tantalising prize of rich resources amidst violent insurrection, a polarised society and dark undercurrents in politics ... Clearly, security was a challenge but we assumed we had the answer – a thick barbed wire fence with security personnel and, if necessary, the help of the Colombian Army. What we hadn't realised was that a fence keeps you in as well as others out ... BP's presence – in particular, the payment of an unfortunately named dollar-per-barrel 'war tax' – was viewed as giving tacit support to a brutal military regime in which human rights were being trampled underfoot ... For the first time I realised that the company's brand, its reputation, and ultimately its value, had been laid on the line because of our failure to fully appreciate our human rights responsibilities.'

Browne also inherited BP's membership of the Global Climate Coalition (GCC), a powerful lobby group created in 1989 shortly after the UN created the Intergovernmental Panel on Climate Change (IPCC). The GCC actively attempted to undermine emerging climate science and to derail international policy development. To his credit, Browne withdrew BP's membership in 1997. In a ground breaking speech at Stanford University, he stated that 'the time to consider the policy dimensions of climate change is not when the link between greenhouse gases and climate change is conclusively proven, but when the possibility cannot be discounted and is taken seriously by the society of which we are part. We in BP have reached that point.' As *Petroleum Economist* put it, 'BP had left the church.'

Within the space of a few years, step by step, Browne began to transform the image of BP. One of the great watershed moments was in 1998 when Browne threw down the gauntlet to BP and the oil industry, promising to cut emissions from its own operations by 10% from 1990 levels by 2010, which was more than the average Kyoto Protocol country targets and certainly more than any other major oil company had committed to up until that time. In fact, they achieved the target four years later, eight years ahead of the target and at no net cost to the company.

Browne seemed to doing and saying everything right and was slowly but surely becoming the darling of environmentalists that were desperate for signs of reform among the big brands. One crucial tool was public reporting. BP, having merged with Amoco at the end of 1998, issued their first Environmental and Social Report in 1999. In his CEO statement, Browne made encouraging statements like 'the environment is the primary challenge facing the industry' and 'there is no trade-off between our commercial and financial performance and our standards of care'.

To reassure the market analysts, he promised 'to apply to our performance in these areas with the same rigour we apply to the delivery and reporting of our financial performance – measuring, setting targets as part of an overall performance contract and reporting openly on how we have done, using independent, external auditing and verification processes wherever possible.' I can, to a certain extent, attest that these were not just flowery words, as KPMG had, during the time I was working for them, been helping BP to design an internal carbon emissions trading scheme – a progressive step for *any* company, let alone an oil major.

By 2000, Browne felt the company had earned enough public kudos to risk a major rebranding of BP. The company reportedly spent $7 million in researching the new 'Beyond Petroleum' Helios brand and $25 million on a campaign to support the brand change. When Browne justified the exercise by saying 'it's all about increasing sales, increasing margins and reducing costs at the retail sites', perhaps more people should have tempered their expectations. Certainly Greenpeace wasn't duped, concluding at the time that 'this is a triumph of style over substance. BP spent more on their logo this year than they did on renewable energy last year.'

Antonia Juhasz (2008), author of *The Tyranny of Oil*, is similarly sceptical, claiming that at its peak, BP was spending 4% of its total capital and exploratory budget on renewable energy and that this has since declined, despite Browne's announcement in 2005 of BP's plans to double its investment in alternative and renewable energies 'to create a new low-carbon power business with the growth potential to deliver revenues of around $6 billion a year within the next decade.'

Sceptics notwithstanding, Browne had earned his new title as the 'Sun King' and his reputation was not only being earned with green stripes. BP was also one of the first companies to declare their support for the Publish-What-You-Pay campaign. However, after BP decided unilaterally to publish the value of taxes paid to the Angolan government, the state-owned oil partner, Sonangol, accused the company of breaking confidentiality clauses in its agreements and threatened to terminate its contracts. As a result, under advice from Browne, the UK's Blaire government launched the Extractive Industries Transparency Initiative (EITI) in 2002 at the World Summit for Sustainable Development in Johannesburg to tackle the so-called 'resource curse' and ensure 'the verification and full publication of company payments and government revenues from oil, gas and mining.'

Success or failure is all about timing. If Browne had been a politician and had retired in 2003 after two four-year terms of office, he may still have been covered in glory, with his Sun King crown firmly in place. After all, he had turned BP into an oil major – perhaps even a competitor for Exxon Mobil – by creating a lean, mean, green machine. Instead, he hung onto power long enough to face the consequences of his own legacy of cost-cutting and rhetoric mongering. As a result, between 2004 and 2007, the proverbial chickens came home to roost. Browne was left tarred and feathered.

While Browne had clearly prioritised environmental issues from the start, he had reason to be less nervous about health and safety risks. The last really serious BP incident had been in 1965, when Britain's first offshore oil rig, the Sea Gem, had capsized, killing thirteen crew. But that complacency, if indeed it existed, all changed on 23 March 2005, when an explosion and fire at BP's Texas City refinery killed 15 workers and injured more than 170 others. An investigation into the accident by the Occupational Safety and Health Administration (OSHA) ultimately found over 300 safety violations and fined BP $21 million – the largest fine in OSHA history at the time.

The story did not end there. In 2007, in a separate settlement related to the explosion, BP pleaded guilty to a violation of the federal Clean Air Act and agreed to pay a $50 million fine and to make safety upgrades to the plant. Complying with the terms of the OSHA settlement was also a condition of the Justice Department agreement. Blast victims challenged the plea deal, arguing that the fine was 'trivial' in light of BP's $22 billion profits in 2006. Two years later, in 2009, OSHA imposed an additional $87 million in fines, claiming that the company had not completed all the safety upgrades required under the agreement and alleging 439 new 'wilful' safety violations. Predictably, BP announced its contestation of the fine.

A few months after the Texas City explosion, BP's Thunder Horse semi-submersible oil platform in the Gulf of Mexico almost became fully submersible after Hurricane Dennis hit. The rig had been evacuated before the storm, so no one was injured, and when the platform was re-stabilized, no serious damage had been incurred. However, during repairs, it was discovered by chance that the underwater manifold was severely cracked due to poorly welded pipes. While this was not the cause of the platform's instability, the rig's design engineer admitted that it could have caused a catastrophic oil spill.

In March 2006, BP was not so 'lucky', when it was found to be criminally liable for a corroded pipe on Alaska's North Slope that leaked 200,000 gallons of oil. In August of the same year, another leak appeared and the entire Prudhoe Bay operation had to be shut down. During the investigation, a federal grand jury subpoenaed records from a Seattle engineering firm that had been hired by Alaska to evaluate BP's pipeline-maintenance record and uncovered a draft report that was highly critical of BP, but somehow turned into a final report that was largely complimentary. Member of Congress, Rep. Jay Inslee, concluded that BP had made a 'wilful, conscious decision' to 'quash that information from the public.'

By the time of Browne's undignified exit into the wings of BP history in 2007, he was widely criticised for the dual crimes of 'greenwashing' and instilling a cost-cutting culture that was the root cause of BP's spate of safety and environmental incidents. Even the new CEO, Tony Hayward, a year before taking over, admitted that BP had 'a management style that has made a virtue of doing more for less.' In a twist of ironic fate, in June 2010 Browne was appointed efficiency czar by the new British coalition government and tasked with finding £6.2 billion ($9.9 billion) in spending cuts. Less than a month later, one of the first casualties was the government's Sustainable Development Commission (SDC), shut down on the same day that the agency released its annual report showing tens of millions of pounds worth of savings from cutting fuel, water, waste and other resources as a result of its actions in government.

After taking over, Hayward quickly showed that he was not one for green rhetoric. Less than six months into the job, he announced BP's plans to invest nearly £1.5 billion ($2.3 billion) to extract oil from the Canadian wilderness – the so-called Alberta tar sands. In fact, Browne had sold BP's interests in the tar sands in 1999, but claims that the tar sands represent the biggest stock of oil outside Saudi Arabia obviously proved irresistible to Hayward. This action earned it a *Guardian* newspaper headline as 'the biggest environmental crime in history'. In hindsight, they might have reserved that headline for the Deepwater Horizon spill a few years later. Greenpeace claims that it takes about 29 kg of CO_2 to produce a barrel of oil conventionally, but as much as 125 kg for tar sands oil. It also believes the production threatens a vast forest wilderness, greater than the size of England and Wales, which forms part of one of the world's biggest carbon sinks.

Two years later, Hayward's 'back to the petroleum' strategy gained momentum when BP announced that it had shut down its alternative energy headquarters in London, accepted the resignation of its clean energy boss and imposed cuts in the alternative energy budget – from $1.4 billion (£850 million) in 2008 to between $500 million and $1 billion in 2009. Bizarrely, Hayward used this occasion to stress that BP remained as committed as ever to exploring new energy sources. No wonder *Grist* journalist Joseph Romm responded with an incredulous rant: 'Seriously, they gut the program and claim it is "reinforcement" of their commitment. Perhaps BP stands for "Beyond Prevarication" or "Beyond Pinocchio".'

Today, all of this history – the story of Browne, of Hayward and of BP – appears like a dress rehearsal for the main event. I am referring of course to the catastrophic 2010 Gulf of Mexico oil spill. On 20 April, an explosion and fire on the Deepwater Horizon drilling rig killed 11 workers and injured 17 others. The rig sank and the incident caused the wellhead on the ocean floor to start gushing oil. After numerous failed attempts, the oil flow was stopped for the first time with a temporary cap 87 days and 184 million gallons later. Time will tell whether this temporary fix – and the proposed permanent 'solution' in the form of relief wells – will prove conclusive.

Understandably, at the time of writing, estimates of the scale and consequences of the disaster still vary considerably, and will continue to change over time. However, on 17 July, the *Guardian* newspaper gathered the following numbers from the Associated Press and Friends of the Earth: $30 billion cost to BP (including a $20 billion damages fund); 444 sea turtles and 1,387 birds found dead; 572 miles of shoreline oiled; 2,700 square miles of visible slick; 83,927 square miles closed to fishing; 1.82 million gallons of dispersant chemicals applied; and a $336 million market value of the spilled oil. One number that is hard to forget is that BP's share price lost 50% of its value in 50 days. Not surprisingly, speculation was rife about whether the company would survive intact, or whether it would be taken over, merged or disaggregated.

The lawsuits also started coming thick and fast. By 16 June, it faced more than 225 lawsuits in 11 U.S. states. According to *Bloomberg*, investors in three states, including Louisiana and Alaska, sued BP's board of directors for allegedly causing more than $50 billion in shareholder losses by failing to implement safety policies that would have prevented the spill. In a separate class-action lawsuit in Florida, the company was accused of 'a pattern' of criminal acts including fraud. A month later, on 16 July, BP announced that it had already paid $201 million to more than 32,000 claimants, including fishermen, who received $32 million, and shrimpers, who received $18 million. In addition, about $77 million was paid for loss of income to a variety of occupations including deckhands and employees of seafood processing plants and other businesses.

At one point during the crisis it emerged that BP admitted using Photoshop to exaggerate oil spill command centre activity. The oil spill had become a story that will run and run, like a snowball changing shape, gathering weight and increasing destruction as it goes. Many questions for remain unanswered: Will BP's reputation recover? Will the sacrifice of Hayward be enough? Will this be the worst environmental disaster in history? Will we look back on the Macondo blowout as the inadvertent tipping point that ushers in a new low-carbon future?

Discussion 7.5: BP

1. What lessons about sustainability leadership can we learn from John Browne's story?
2. How do you think Hayward handled the Deepwater crisis better? Did he deserve to get fired?
3. Do you think the oil companies will help or hinder the transition to a low-carbon economy? Will they survive?