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# The Cost of Corporate Carelessness

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# THE COST OF CORPORATE CARELESSNESS

Written for Partial Fulfillment for Graduation from the  
Honors College

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# Table of Contents

Abstract .....	2
Acknowledgements.....	3
Introduction .....	4
The Spill.....	5
BP’s Shareholders.....	8
Decline in Stock Price.....	8
Ceased Dividend Payout.....	10
Company Performance .....	12
Net Income .....	12
Executive Compensation.....	14
The Community .....	16
Businesses in the Gulf Coast.....	16
Overall effects.....	18
Other Culprits.....	20
At It Again .....	21
Conclusion .....	21
Works Cited.....	23
Exhibits.....	25

## ABSTRACT

In this thesis, I will be discussing the financial ramifications of the parties affected by BP's carelessness in the days preceding the Deepwater Horizon oil spill in the Gulf of Mexico on April 20, 2010. Before the Deepwater Horizon oil spill occurred, there were a series of strategic decisions that BP and its executives made that caused the Macondo well to explode approximately 48 miles off the coast of Louisiana at 9:56 pm on April 20, 2010.

After the explosion of the well and the subsequent 5 million gallons of oil that spilled into the Gulf of Mexico, there were a number of parties that were forced to bear the brunt of the damage, both physical and financial. In addition to the wildlife of the Gulf that witnessed the destruction of their habitat by the oil, BP's shareholders, the performance of the company and the community were also forced to pay for BP's carelessness. Focusing on these three main parties, we will be able to put a number on the financial impact of the oil spill and attempt to put a price tag on the ever-growing cost of BP's carelessness.

## ACKNOWLEDGEMENTS

I would like to thank my research mentor: Dr. Raymond VanNess for his help in completing this thesis and making sure that it was the best it could be. Without him, this thesis would not be a reality.

I would also like to thank my mom for her support throughout these four years of college, I do not know what I would have done without you.

## INTRODUCTION

In recent times, the American public has been forced to pay the cost of corporate carelessness numerous times. Corporate carelessness can be best described as the effects of selfish corporate policies on parties outside the company's main interests. Corporate carelessness has a very serious effect on the market, corporate stakeholders, the community, the environment and even the performance of the company itself. This point was exemplified during the 2008 financial crisis where the whole world was forced to pay the price of corporate carelessness by financial institutions and major corporate players. The American public and even citizens of other affected countries did not play any decisive roles in the events that led to the crisis; however, they felt the ramifications firsthand. Another major example of corporate carelessness was the Deepwater Horizon oil spill, the biggest oil spill in American history. The cost of this act of corporate carelessness resonated across the nation and affected numerous parties who were forced to pay the price of BP's negligence.

On April 20, 2010 the Deepwater Horizon oil spill claimed eleven lives and spilled about 5 million gallons of oil into the Gulf of Mexico. Deemed the worst oil spill in U.S. history, BP a multinational oil and gas company, took the brunt of the blame for what happened at the Macondo exploration well, 48 miles off the coast of Louisiana. The ramifications of the spill impacted parties ranging from wildlife to businesses in the affected region and all fingers were pointed at BP. The extent of the company's liability is yet to be determined but the impact of the spill on the company, its shareholders and the community can be quantified by several distinct measures. In addition to the financial ramifications, BP was also plagued with image and legal ramifications that would haunt them for years to come. Analyzing just how big of an impact the spill had on the company is important because it allows the general public to see more than what is portrayed by the media.

## THE SPILL

As aforementioned, the Deepwater Horizon oil spill happened on April 20, 2010 when it claimed eleven lives and spilled about 5 million gallons of oil into the Gulf of Mexico. The actual cause of the spill is a widely disputed issue since some claim it was negligence on BP's part and BP claims that it was an unfortunate accident. However, the events that occurred before, during and immediately after the spill cannot be disputed. The primary goal of deepwater drilling operations in the Gulf of Mexico and other locations is to find and extract oil and gas from reservoirs located beneath the sea floor (BOEM Report 2011). In the case of the Macondo well, BP was working in conjunction with Transocean, the world's largest offshore drilling contractor (who was in charge of the drilling, providing the Deepwater Horizon mobile offshore drilling unit and the drilling personnel) in order to extract hydrocarbons from this specific location in the Gulf of Mexico.

In the days preceding the spill, rig workers in conjunction with BP engineers in Houston, were preparing the well for temporary abandonment since it was approximately 38 days behind schedule and \$58 million over the original budget (BOEM Report 19). During the process of preparing the well for this event, there were five ways in which BP attempted to cut costs contributing to their carelessness and ultimately leading to a much greater cost than what they were attempting to avoid. These five incidents of neglect included (Plungis 2010):

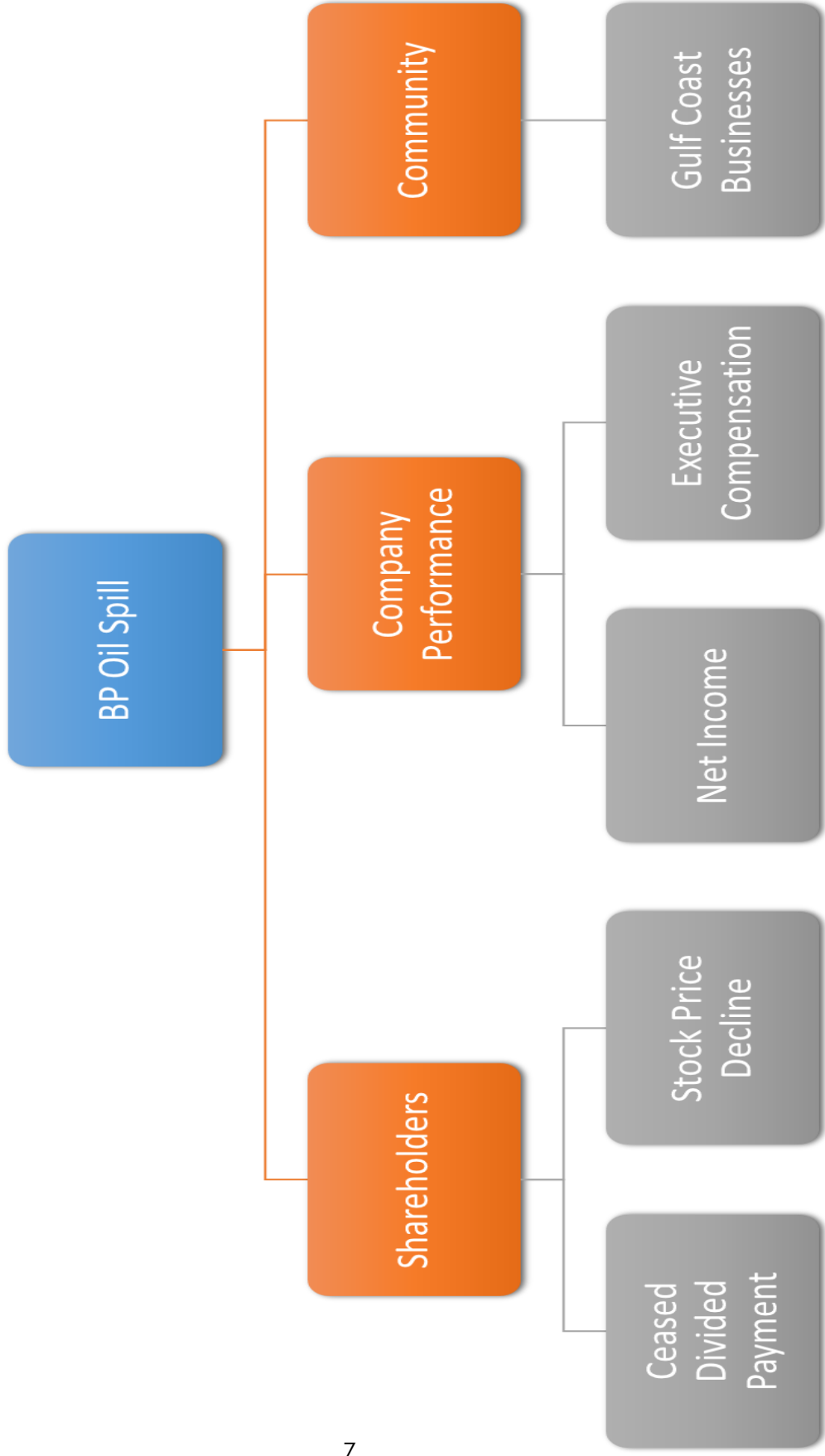
1. Well Design
2. Centering the Casing
3. Cement Bond
4. Mud Circulation
5. Lockdown Sleeve

With the intent of cutting costs on the temporary abandonment of the well, BP engineers disregarded the Minerals Management Service's (MMS) approved method of a linear/tieback well design in order to temporarily seal the well (Plungis 2010). In fact, the engineers changed the order of the mandated steps several times in the days prior to temporary abandonment (BOEM Report 21). In addition to this blatant disregard of the MMS' recommended procedures for temporary abandonment in regard to the well design, BP also ignored the standard industry practice of centering the casing to reduce the risk of gas flowing up the well (Plungis 2010). Instead of using the twenty-one devices needed to center the casing, BP decided to use just six (Plungis 2010). Moreover, BP also decided to skip the cement bond log test, which is used to assess the integrity of the seal used for temporary abandonment, saving them \$126,000 an amount trivial in comparison to what BP ultimately had to pay (Plungis 2010). Another way in which BP exhibited great carelessness was in its attempt to speed up the abandonment process by skipping the necessary step of using weighted mud during the drilling process which could take as long as twelve hours (Plungis 2010). Lastly, BP made the strategic decision of refusing to place a final piece of equipment, known as a lockdown sleeve, to hold the well's casing in place, which prevents the casing from floating above the well and allowing gases to build up (Plungis 2010). Critics have affirmed that this was the main procedural mistake made by BP ultimately leading to the eruption of the Macondo well.

Although many other parties were involved in the events that occurred on April 20, 2010, BP has been widely accepted as the main culprit for the Deepwater Horizon spill for the aforementioned reasons. The aftermath of the Deepwater Horizon oil spill affected three main parties who were forced to bear the brunt of the ramifications of BP's transgression. These groups included: BP's shareholders, the performance of BP itself and primarily the community (including the environment). The main focus however, is to analyze and evaluate the financial extent of this act of corporate carelessness on these three parties.



# Financial Ramifications of Oil Spill



## BP'S SHAREHOLDERS

In the aftermath of the worst oil spill in American history, the most visible victim was the environment who felt the ripples of BP's carelessness firsthand in the minutes following the spill. However, in monetary terms, BP's shareholders were the first group of affected parties forced to pay the initial costs of BP's corporate carelessness.

## DECLINE IN STOCK PRICE

Like most global corporations, BP felt the effects of the global financial crisis of 2008. During and after the financial crisis, BP's stock, like the stocks of many of the affected corporations, took a serious hit. After hitting a peak stock price of \$75.07 on May 19, 2008 the stock continuously declined until it hit a ten year-low of \$34.14 on March 3, 2009.



(Source: Yahoo! Finance)

Being such a large corporation, however, BP exhibited great resilience by quickly bouncing back and reaching a stock price of \$62.32 on January 19, 2010, when all seemed great for the company and analysts were recommending BP as a buy especially since BP had recently become the largest oil company in Europe by market share with a market capitalization of £119.2bn over Royal Dutch Shell's £118.2bn (Harrington 2010). All seemed great for BP until the Deepwater Horizon

oil spill occurred on April 20, 2010. The immediate effects of the spill on the corporation were effectively displayed by the drop in stock price as a result of the increased distrust and apprehension on behalf of shareholders and other stakeholders. Thus, in the days immediately following the spill, the stock price began to steadily decline. At the time the market closed on April 20, 2010, BP's stock price was valued at \$60.48 and it continued to gradually decrease until it finally reached a low of \$27.02 on June 25, 2010 (Yahoo! Finance). The following graph shows that this stock price of \$27.02 was even lower than the price BP's stock reached after the global financial crisis in 2008.



(Source: Yahoo! Finance)

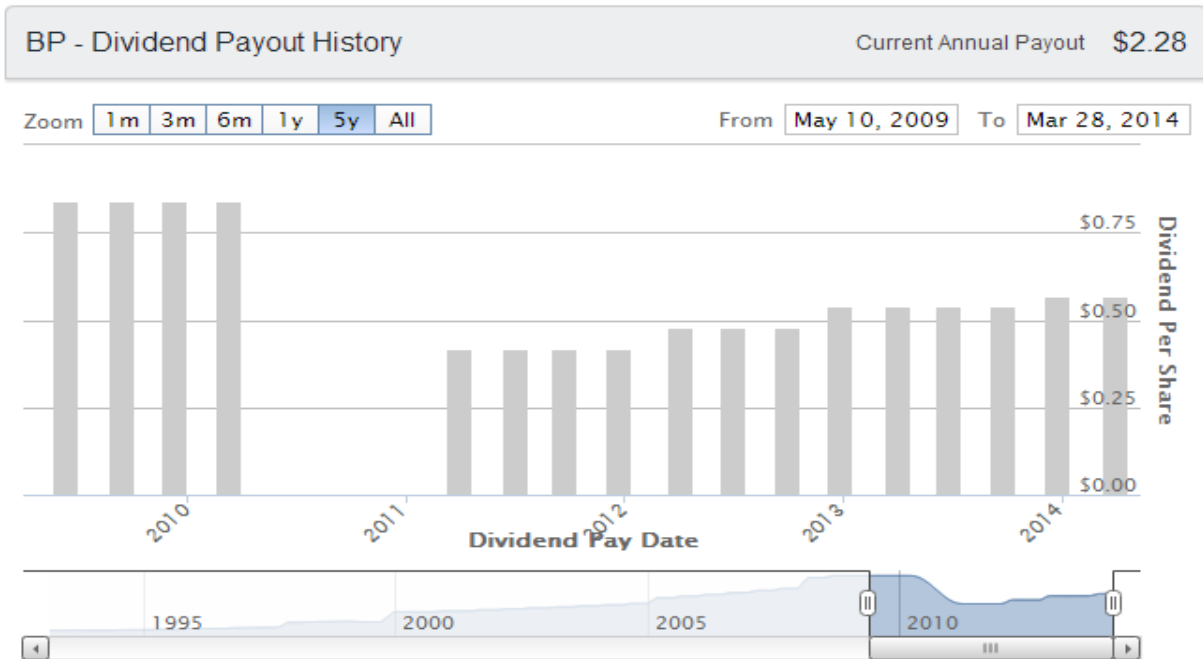
As noted in the above chart, BP's stock price took a serious hit after the events that transpired on the evening of April 20, 2010. In fact, shares of BP's stock fell nearly 22 percent over the course of nine trading days after the accident, which consequently stripped approximately \$40 billion off of BP's market value (Aenlle 2010). About two months after the spill, BP and its shareholders had seen an over 50 percent drop in share price and fueling the fire was talk of BP's possible bankruptcy filing as a result of political pressure stemming from the U.S. government (Blake 2010). BP's largest shareholder: BlackRock (and Barclays Global Investors, which is owned by BlackRock), which held approximately 1.1 billion shares or 6% of BP's aggregate shares at the

end of 2009 had an investment worth \$14.57 billion on April 20, 2010 (Dealbook 2010). Less than two months later, on June 17, 2010 however, BlackRock's investment was unfortunately worth about \$7.5 billion. Although this constitutes a very substantial loss for this company, in 2010, BlackRock had a market capitalization of approximately \$40 billion and thus, they could theoretically survive after such a hit. Additionally, BP had many other large-scale investors weighing in heavily on BP's corporate carelessness (See Exhibit 1 for BP's largest shareholders).

However, the greatest impact was felt amongst BP's small-scale investors. In fact, about 18 million British citizens were invested in BP during the time of the spill, most of them through pension funds. In the months following the spill, analysts predicted that if BP's market value halved in value, it would lead to the value of these British pension values to decrease by as much as 1-2% (Gardner 2010). They also stipulated that a £15,000-a-year pension could see a decrease of up to £400-a-year (Gardner 2010). Considering the fact that the market value of BP did manage to decrease by over 50%, it is safe to assume that these pension funds suffered dramatically. Thus, the impact of BP's steep drop in stock price could be best seen amongst its variety of shareholders.

## CEASED DIVIDEND PAYOUT

After the oil spill, BP had a dividend payout scheduled for June 21, 2010 however, as a result of the pending initial \$20 billion contribution to the oil spill fund in order to pay for damages, the company made the executive decision to suspend its dividend in the first quarter and subsequently in the second and third quarters as well (CBS News 2010). According to financial analysts, the suspension of BP's dividend payout would put the company in a better position to withstand the financial impact of the oil spill (Gutierrez 2010). Its cancelled dividend payout in June was scheduled to total about \$2.6 billion and its annual payout was expected to reach \$10.5 billion (CBS News 2010). This proved to be especially significant since BP had never ceased its dividend payments since the company established dividend payments in 1917.



As evidenced by the above chart, even after BP resumed its dividend payout, it resumed at a level much lower than it had before the oil spill. In fact, in the 4<sup>th</sup> quarter of 2009, BP had a dividend payout of 8.679 pence/share and the first dividend payment after the spill in the 4<sup>th</sup> quarter of 2010, was of 4.3372 pence/share (“Dividend History”). Thus, for shareholders the ceased dividend payout was essentially a double blow because not only did they have to relinquish their dividend payments for three quarters, but even after the payments resumed, they did not resume at the same level at which they were prior to the spill.

Of BP’s shareholders, there were many groups affected by BP’s decision to cease dividend payments. One of these groups of affected shareholders were members of British pension funds whose funds stood to lose 1-2% of their value due to their substantial investments in BP’s stock. Most pension funds typically target stable dividend paying stocks and considering the fact that BP was amongst the top five best dividend payers in 2009, BP seemed to be a safe bet; however, it would have been very difficult to predict the events that occurred on April 20, 2010 and the events

that followed. In fact, British pension funds relied on BP's dividend income to deliver £1 in every £6 they receive each year (Gardner 2010). Thus, not only were these British pension funds affected by the decreased value of their investment but also the suspension of the dividend income that they so heavily relied on.

## COMPANY PERFORMANCE

In addition to the shareholders affected by the Deepwater Horizon oil spill, the BP Group as a whole also suffered substantial financial losses as a result of the spill and the aftermath. Two areas in which the company saw monetary losses was in its net income and the executive compensation paid to the corporation's top management.

## NET INCOME

After any corporation goes through a major occurrence such as the Deepwater Horizon oil spill, the first place investors, shareholders and any other stakeholders look at, is the company's "bottom line" or their net income. Like most prominent members of the oil and gas industry, BP has been fortunate enough to see long periods of significant profitability. In 2007 and 2008, BP saw a net income of about \$21 billion, in 2009, the company experienced a slight drop in profit to \$16 billion, a drop which could be attributed to the global financial crisis. However, in 2010, BP reported a loss of about \$3 billion. This marked the first time BP reported a net loss in its annual financial report in nearly 20 years. BP's income statement exemplifies that the main contributor to BP's net loss in 2010 was the \$40 billion increase in production and manufacturing expenses from 2009 and 2010. The asterisk in the income statement indicates that this was attributed to a significant accounting event.

## Group income statement

For the year ended 31 December		\$ million		
	Note	2010	2009	2008
Sales and other operating revenues	7	297,107	239,272	361,143
Earnings from jointly controlled entities – after interest and tax		1,175	1,286	3,023
Earnings from associates – after interest and tax		3,582	2,615	798
Interest and other income	8	681	792	736
Gains on sale of businesses and fixed assets	5	6,383	2,173	1,353
<b>Total revenues and other income</b>		<b>308,928</b>	<b>246,138</b>	<b>367,053</b>
Purchases		216,211	163,772	266,982
Production and manufacturing expenses*		64,615	23,202	26,756
Production and similar taxes	9	5,244	3,752	8,953
Depreciation, depletion and amortization	10	11,164	12,106	10,985
Impairment and losses on sale of businesses and fixed assets	5	1,689	2,333	1,733
Exploration expense	16	843	1,116	882
Distribution and administration expenses	12	12,555	14,038	15,412
Fair value (gain) loss on embedded derivatives	34	309	(607)	111
<b>Profit (loss) before interest and taxation</b>		<b>(3,702)</b>	<b>26,426</b>	<b>35,239</b>
Finance costs*	18	1,170	1,110	1,547
Net finance expense (income) relating to pensions and other post-retirement benefits	38	(47)	192	(591)
<b>Profit (loss) before taxation</b>		<b>(4,825)</b>	<b>25,124</b>	<b>34,283</b>
Taxation*	19	(1,501)	8,365	12,617
<b>Profit (loss) for the year</b>		<b>(3,324)</b>	<b>16,759</b>	<b>21,666</b>
Attributable to				
BP shareholders		(3,719)	16,578	21,157
Minority interest		395	181	509
		<b>(3,324)</b>	<b>16,759</b>	<b>21,666</b>
Earnings per share – cents				
Profit (loss) for the year attributable to BP shareholders				
Basic	21	(19.81)	88.49	112.59
Diluted	21	(19.81)	87.54	111.56

\* See Note 2 for information on the impact of the Gulf of Mexico oil spill on the income statement line items.

(Source: BP 2010 Annual Report)

Upon further review of the company's financial statements, one can see that BP carefully dissects the components of this significant increase in production and manufacturing expenses in the following chart.

	\$ million	
	2010	
	Of which: amount related	
	Total to the trust fund	
<b>Income statement</b>		
Production and manufacturing expenses	40,858	7,261
Profit (loss) before interest and taxation	(40,858)	(7,261)
Finance costs	77	73
Profit (loss) before taxation	(40,935)	(7,334)
Less: Taxation	12,894	–
<b>Profit (loss) for the period</b>	<b>(28,041)</b>	<b>(7,334)</b>

(Source: BP 2010 Annual Report)

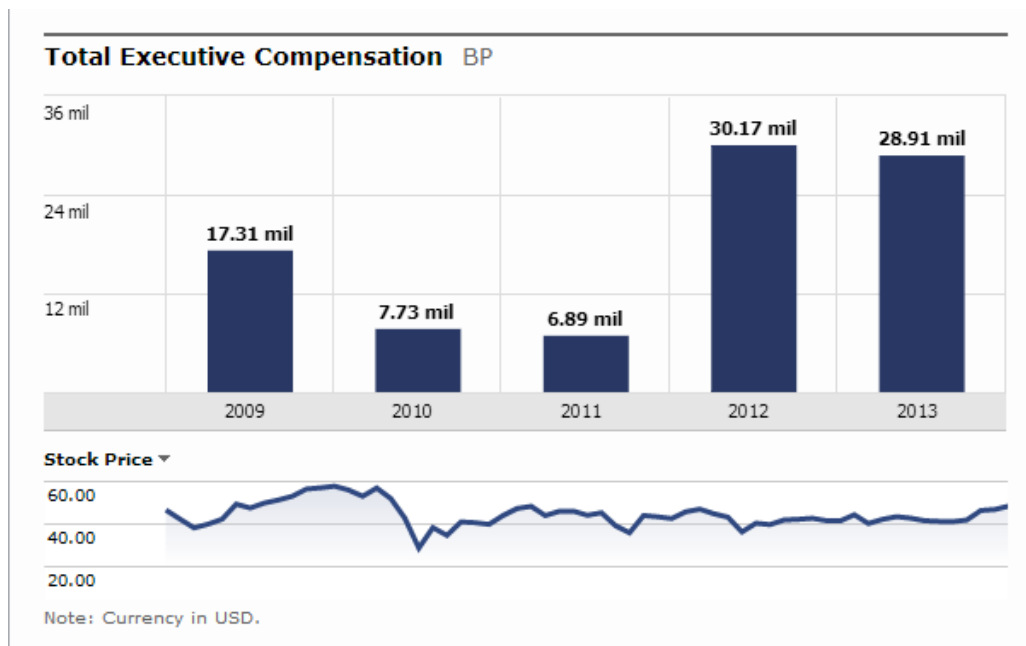
Evidently, this significant increase in production and manufacturing expenses is attributed to the Deepwater Horizon oil spill and the costs associated with the clean-up. Moreover, we can see that BP carefully denoted which costs were attributed to the trust fund that BP set up in order to fund the loss claims from parties affected by the spill and which costs were simply in relation to the oil spill. This \$40 billion increase in expenses caused BP to slip from a profitable position to that of unprofitability. Despite BP's decision to cancel its dividend payments for the year, it still put the company in a poor financial position and caused them to report a loss in 2010, stirring more distrust and apprehension amongst investors looking into BP. Moreover, looking at BP's net income we can see just how important it was for this company to cancel its dividend payout for three quarters. If it had chosen to simply continue to distribute dividends to its investors, the company's net loss would have been much larger than it was, stirring even more concern in the market.

## EXECUTIVE COMPENSATION

Another way in which BP as a company suffered from the corporate carelessness that caused the Macondo well to explode was in the compensation to its top management. In the days following the explosion, all heads were turned towards BP's executives and how they would be handling the situation. Unfortunately, the BP Group's chief executive officer, Tony Hayward made a series of public relations mistakes including calling the spill, "relatively tiny in comparison to the size of the ocean" and announcing that there was no one who wanted this thing (oil spill disputes) over more than he did. "I'd like my life back" (Walsh 2010). Consequently, Tony Hayward was officially replaced on October 1, 2010 by Bob Dudley, who continues to serve as BP's chief executive officer (Walsh 2010). Due to these major shifts in the company's top leadership, keeping the same levels of executive compensation would not have been advantageous for the company's public image. This was especially so considering the company's strategic decision to discontinue its dividend distribution for the year and also considering its payment to the Deepwater Horizon trust fund of



\$20 billion and the increasing price tag of the oil spill. Thus, it was only right for the company's top management to feel the same blow to their pockets that shareholders felt.



(Source: Morningstar.com)

As noted by the above chart, paralleling the rise and falls of BP's stock price, the total executive compensation followed suit. In 2010, we can see that executive compensation dropped drastically by \$10 million perhaps indicating the company's commitment to renovating the Gulf. In 2011, we see it drop even further as BP continued to battle the aggregate cost of the oil spill. However, what is noteworthy is that compensation to the company's top management increased so significantly in 2012. This shows that the decrease in executive compensation in the years following the spill was purely for image purposes and it is fairly obvious that the decreases in 2010 and 2011 were offset by the substantial increase in 2012. However, although we can see that the compensation quickly bounced back from its slum after the oil spill, it is evident that executive compensation was another aspect of BP that suffered a drastic financial blow after the blowout at the Macondo well.

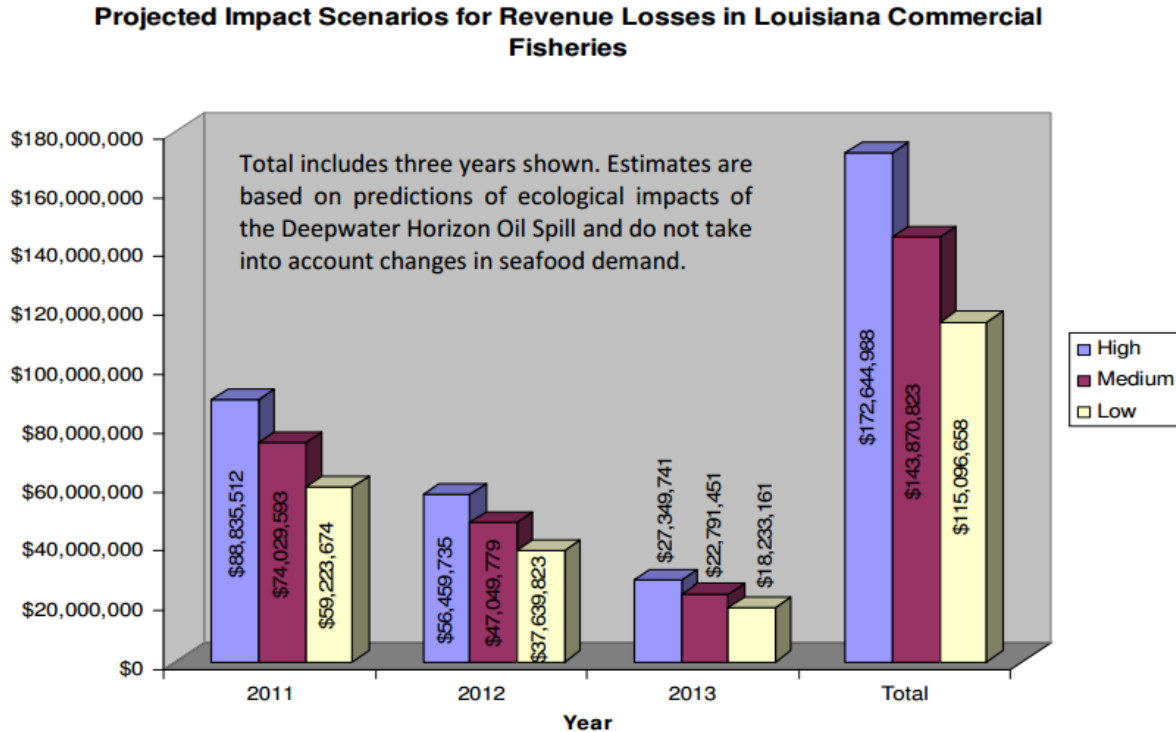
## THE COMMUNITY

In addition to the shareholders and the financial performance of BP, the largest group of people financially affected by the oil spill was the community. Within the community, the millions of local businesses and industries in the regions affected by the spill were forced to pay the cost of BP's carelessness. In response to its impact on the economy, BP was forced to initially set up a trust fund with \$20 billion that would be handled by a third party in order to compensate the community for BP's carelessness. Although this fund and the corresponding reimbursements that BP paid in response to the Deepwater Horizon certainly helped in ameliorating the financial burden placed on the community, much of the damage caused by the spill had already been done. Not only has the damage been done but it is also continuing to occur even four years later (See Exhibit 2 for the ongoing effects of the oil spill).

## BUSINESSES IN THE GULF COAST

Within the community in the region affected by the oil spill, the business and industries in the area seemed to have been the most affected by the spill. The main industry in the Gulf region is that of fishing and the oil spill hit this industry with full force. One of the main segments of the fishing industry in the Louisiana locality is the oyster market, which according to a Louisiana oysterman was "destroyed" because of contamination from the Gulf of Mexico oil spill (Johnson, Calkins & Fisk 2012). At the peak of the spill, the government implemented a moratorium on fishing due to the potential for contamination and during this time nearly 40 percent of Gulf waters were closed to commercial and recreational fishing (Johnson, Calkins & Fisk 2012). One Louisiana oysterman estimated that his losses may reach \$20 million by 2017 considering the high levels of oyster demand before the oil spill and the large decreases in demand after the spill due to the threat of contamination. In order to illustrate the economic impact of the spill on the fishing industry in

Louisiana, we can see the following chart illustrating the oil spill’s impact on the revenue of Louisiana commercial fisheries:



(Source: IEM Study of the Economic Impact of the Deepwater Horizon Oil Spill)

As we can see from the chart, the most modest projected impact on revenue losses in Louisiana commercial fisheries for the three years following the oil spill would amount to over \$115 million. The worst scenario would drive this figure up to over \$172 million. Moreover, these estimates are based on the ecological impacts of the oil spill and are not even taking into consideration the substantial decreases in seafood demand in the years following the spill due to consumer fear (See Exhibit 3 for the spill’s sales impact of the seafood industry).

Some may argue that the spill only impacted a small portion of the United States; however, the Deepwater Horizon oil spill had the potential to impact 7.3 million small businesses throughout the states of Alabama, Florida, Louisiana, Mississippi and Texas affecting 34.4 million employees

and \$5.2 trillion in sales volume (CRED). What makes this so threatening is the statistic that 25% of small businesses do not reopen after a major disaster, indicating that about one-fourth of the 7.3 million small businesses affected by the oil spill would not have the financial means to reopen, even after conditions improve (CRED). Thus, we can see and quantify just how big of an impact the oil spill and any other major disaster can significantly impact the businesses and industries in the affected region.

Another main industry affected by the Deepwater Horizon oil spill was the tourism industry in the Gulf States that took a great hit. The Gulf coast economy of Mississippi was directly impacted by the closing of “significant portions” of the state’s 62-mile beachfront, which was closed for several months in 2010 where the oil was drifting ashore (Johnson, Calkins & Fisk 2012). Although some of the decreases in resort, hotel and casino reservations were offset by the sudden influx of cleanup workers, insurance adjusters, engineers and other parties responding to the spill it was not nearly enough to improve the deteriorating tourism industry of the Gulf coast. In fact, 26% of people who had previously intended to visit Louisiana either postponed or cancelled their upcoming trips (CRED). This can be attributed to the fact that 25% of people believed that leisure activities such as swamp tours, boat trips and hiking, in the Gulf States were closed when in fact they were not (CRED). Fortunately, in an attempt to ameliorate the worsening tourism industry in the Gulf coast, BP committed \$179 million for tourism efforts in the Gulf States and another \$82 million for seafood testing and marketing. These efforts helped remedy the tourism industry by encouraging travelers to visit and stimulate the economies of the Gulf States.

## OVERALL EFFECTS

As noted by the numerous parties that were forced to pay the price of BP’s carelessness, the price tag of the oil spill is utterly immeasurable. There still remain parties who are unaware of the

impact of the oil spill on their finances. In terms of the shareholders, their financial impact was twofold since not only were their dividend payments put to an abrupt halt, they also had to witness the value of their investment significantly decline in the days, months and years following the spill. Not even the company's performance was spared from the quantitative effects of the spill. Not only did the value of the company significantly decline partially due to the company's deteriorating public image but BP also experienced a net loss in 2010, marking the first time in over 20 years that the company failed to report a profit. This amount of the net loss was slightly diminished as result of the company's strategic decision to cease dividend payments for three quarters; however, this announcement in BP's 2010 annual report significantly worried investors and other stakeholders that were already apprehensive about the company's activities. In addition to BP's net income, the compensation of its key executives also took a significant hit in the months following the spill. BP's executives saw their benefits decrease substantially and even though they understood that the decision was necessary, their wallets did not feel the same way. Lastly, the community was also heavily impacted since the oil spill occurred right in their backyard. In addition to the environmental effects felt by the wildlife in the Gulf of Mexico, the industries heavily reliant on the business stemming from the gulf such as the fishing industry also felt and continue to feel the financial implications of the spill.

Although all these parties were significantly impacted in the years following the spill, the company, its executives and BP's major shareholders such as BlackRock, have managed to bounce back. However, what about the small-time investors and the community who did not have any influence on the decisions that preceded the events that transpired on April 20, 2010? Both the company and the executives played major roles in the execution of the abandonment of the Macondo well. Moreover, even BP's major shareholders are involved in the business of risk and know the costs of getting involved with an industry as volatile as the oil and gas industry. On the

other hand, small-time investors who were involved with BP as a result of third parties like pension funds, did not have a say in BP's decisions and were not actively seeking risky investments but rather stable ones. Even more so, what about the fishing industry who felt the ramifications firsthand and the wildlife who had their homes violated? The latter group has not yet been able to bounce back from the spill and probably will not be able to do so financially for many years to come, while the high men on the totem pole were able to rebound fairly quickly.

## OTHER CULPRITS

BP is widely recognized for being the main culprit in the Deepwater Horizon oil spill. However, many fail to acknowledge the other parties such as Transocean and Halliburton who were also heavily involved in the Macondo well (BOEM Report). Unfortunately, after the Deepwater Horizon explosion, there were 11 fatalities, 9 of which were Transocean employees. Nonetheless, Transocean has refused to accept any blame in the explosion and has not contributed any money to the fund established for those affected by the spill. In fact, Transocean has even filed papers in federal court to cap the company's liability for deaths and injuries at \$27 million (Barrett 2011). Transocean even went as far to declare in its annual report that despite the deaths in the Gulf, 2010 had been "the best year in safety performance in the company's history (qtd. in Barrett 2011). Thus, it is evident that Transocean has no intention of taking any blame for the oil spill despite its heavy involvement in the Deepwater Horizon offshore drilling unit.

Moreover, Halliburton, another main culprit in the events that caused the explosion of the Macondo well was not forced to incur financial damages as large as BP and was another contributor that left the spill essentially unscathed. Although it is slightly justified considering BP was the sole profit maker in drilling operations in the Gulf, it is still important to recognize these other parties who were involved but did not face the same financial implications as BP's shareholders, its financials and the community.

## AT IT AGAIN

One would think that a company as large and as old as BP would learn from its previous mistakes; however the company is resuming its drilling operations in the Gulf of Mexico in the upcoming year. Understandably, the Gulf of Mexico is one of BP's most profitable regions for drilling operations; however, considering the number of parties that continue to pay the costs of BP's carelessness in the Gulf, it can be considered a slap in the face. According to the ad (See Exhibit 4), BP has paid over \$27 billion in damages to the Gulf, which it is using to justify its upcoming presence in the region. However, compared to the amount that BP is expected to profit in renewing its operations in the Gulf, it is insignificant.

Although many may condemn BP for renewing its drilling operations and potentially putting the Gulf's wildlife at risk once again, it is ultimately the U.S. government who has granted BP with permission to resume its business in the affected area. BP made \$41.6 million in high bids in a federal oil lease sale for the central Gulf of Mexico (McConnaughey 2014). This substantial amount of money was used only to acquire the leasing rights to the drilling lease and does not include the millions and possibly billions that BP will have to spend for the installment, use and maintenance of an offshore drilling unit to extract oil from this piece of ocean they have leased. The amount to be spent will be quickly overshadowed by the amount they stand to make on their drilling operations in the Gulf. However, is the investment worthwhile considering the potential public outcry and the amount of money BP had to spend on the aftermath of the Deepwater Horizon oil spill? That is for BP to decide and evidently, they have decided to bear the risk and it is up to us to see how this will pan out.

## CONCLUSION

All in all, it is evident that there was much to lose in the months following the spill. The financial consequences spread beyond BP itself and permeated a wide range of parties including

shareholders and the community. The numbers truly speak for themselves and the losses continue to amass even four years after the spill occurred. When tragedies such as that at the Macondo well occur, people tend to console themselves by thinking that the world will learn from its experiences and that such a disaster will not occur again. However, most seem to forget that history always repeats itself and the fact that BP is resuming its operations in the Gulf of Mexico in the coming year is essentially foreshadowing yet another tragedy. The federal government is supposed to protect the interests of the common people; however, with regards to the oil and gas industry the interests of these companies and the accompanying capital they bring unfortunately take precedence over the apprehension of Americans.

However, although it may seem like an impossible battle against corporations who continue to engage in acts of carelessness, there is something that can be done. Collectively, all the groups forced to pay the costs of corporate carelessness, can together make a difference and change the current state of corporate America by engaging in grassroots efforts. These efforts can include: lobbying, writing letters to congressmen and women, rallies and even boycotts against companies that continue to disregard the third parties affected by their decisions. Thus, even though BP was not the first nor the last corporation to engage in corporate carelessness, we will not be forced to pay the costs of corporate America's carelessness in the future because we can change this ongoing trend by simply coming together and making a difference.



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## The Biggest Stakeholders

BP's largest shareholders, according to the latest available data.

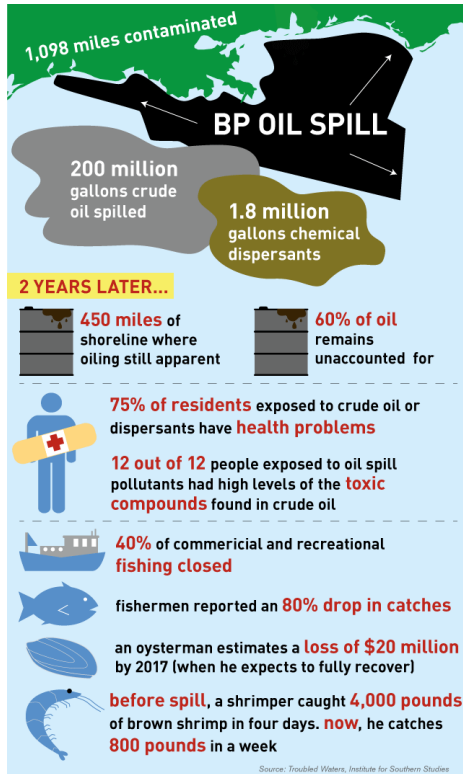
	SHARES HELD Millions	PERCENTAGE OF SHARES OUTSTANDING	
BlackRock	1,113	5.9%	
Legal & General Group	751	4.0	
Barclays Global Investors Ltd.	393	2.1	
Norges Bank Investment	337	1.8	
Kuwait Investment Authority	328	1.8	
Barclays Global Investors	326	1.7	
M&G Investment Management	314	1.7	
Standard Life Investments	281	1.5	
Capital Research and Management	242	1.3	
Insight Investment Management	213	1.1	
People's Republic of China	206	1.1	
Government of Singapore	200	1.1	

Source: Bloomberg

THE NEW YORK TIMES

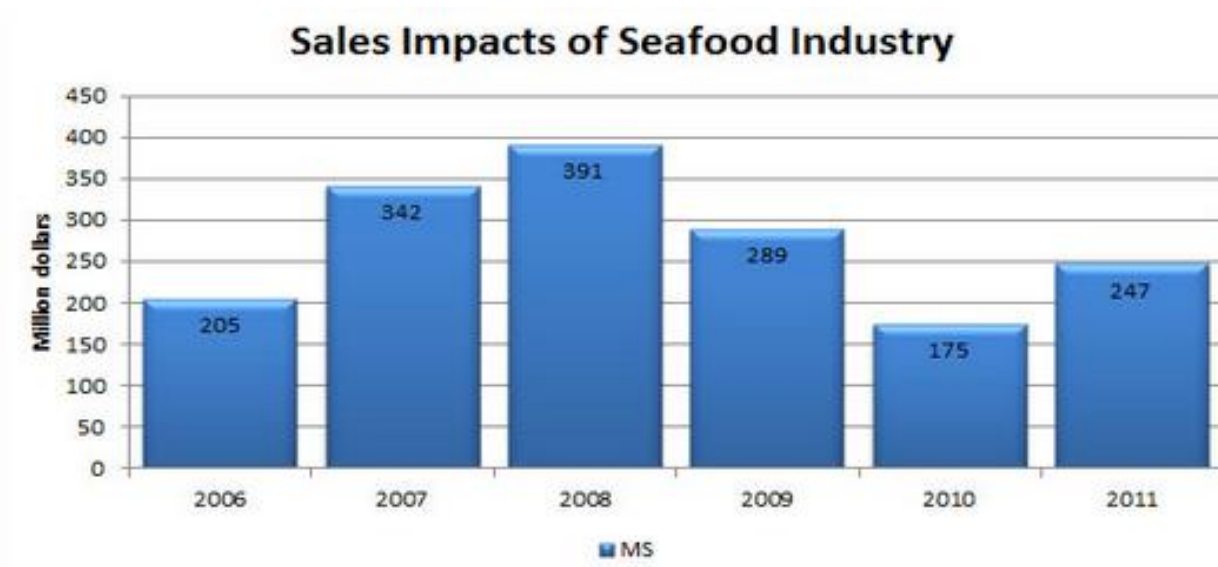
(<http://www.nytimes.com/2010/06/17/business/energy-environment/17investors.html>)

Exhibit 2 Ongoing Effects of the Oil Spill



(Source: Govbooktalk.gpo.gov)

Exhibit 3 Sales Impact of the Seafood Industry



(Source: MSSState.edu)

## The fight to restore the settlement **has not changed our commitment to the Gulf.**

We recently reached an agreement with the federal government that allows BP once again to obtain new deepwater exploration leases. Within days, BP bid on and won 24 new leases in the Gulf of Mexico, further expanding our position as a leader in exploration and production there:

- We are the largest investor and leaseholder in the Gulf of Mexico, with ownership in more than 600 leases.
- We operate 4 of the largest production hubs in the Gulf and currently have 11 rigs in the deepwater Gulf – more than any other company.
- BP employs more than 2,300 people in its Gulf of Mexico business and supports tens of thousands of additional jobs in the region.

Our resolution with the government clears the way for us to continue investing billions of dollars in the Gulf each year, bolstering employment in the region and advancing America's quest for energy self-sufficiency.

BP's fight to restore the settlement agreement to its intended purpose – paying the legitimate claims of those who suffered real financial losses from the spill – has caused some to say we no longer care about the Gulf. Nothing could be further from the truth.

Our continued Gulf investments – as well as the \$26 billion we've spent to date on the region's economic and environmental recovery – are proof of our commitment. We are proud to play a key role in the Gulf region, partnering with its workers, its businesses, and its communities. And we intend to play that role for years to come.

For more, go to [theStateoftheGulf.com](http://theStateoftheGulf.com) or follow [@StateoftheGulf](https://twitter.com/StateoftheGulf).

