BP Deals With Environmental, Financial Issues After Spill

Chris Kahn, AP Business Writer

NEW YORK (AP) — The oil spill spreading across the Gulf of Mexico has drained $32 billion from BP's stock market value. Lawsuits, fines, cleanup and reputation-repair are certain to cost the company billions more and could tie up BP for many years to come.

Yet the still-unfolding environmental disaster isn't likely to put one of the world's largest oil companies out of business.

BP PLC earned close to $40 billion in 2008 and 2009 combined, and more than $6 billion in the first three months of 2010.

Exxon Mobil — which shelled out more than $4 billion in cleanup costs and legal payouts after the Exxon Valdez spill in Alaska 21 years ago — managed to pull through the disaster just fine. Today it is the world's largest publicly traded oil company.

In the long run, BP will be fine too, said Mark Gilman, an analyst at The Benchmark Co.

"Let's not get hysterical here," he said. "They're going to survive this."

Still, London-based BP will face a litany of challenges as a result of last month's accident, not the least of which will be scrutiny from politicians and regulators in Washington. BP could find itself at a competitive disadvantage when vying for offshore drilling permits if the Obama administration moves ahead with plans to open vast swaths of the U.S. coast to oil exploration.

How much the disaster costs depends on how much worse the spill becomes, and how much fault is ultimately assigned to BP for the oil-rig explosion and fire that caused the spill. The oil company leased the offshore platform from Transocean Ltd. and hired subcontractors, including Halliburton Co., to help drill the well that is now spewing an estimated 200,000 gallons a day.

On Monday, BP gave assurances to shrimpers, oil workers and scores of others that they will be compensated for any "legitimate and objectively verifiable" claims.

BP is spending $6 million a day to contain the oil spill; the federal Oil Pollution Act requires BP to pay the cost of any cleanup work done by government agencies such as the Coast Guard and Homeland Security. But the real costs will come later, when BP starts paying for damage to wildlife, coastal businesses and tourism.

"The worst-case scenario is enormous," said Keith Hall, a New Orleans lawyer who represents oil and gas companies. "There are already a number of wrongful-death and personal injury cases out there. There will be no doubt more."

Fadel Gheit, a market analyst with Oppenheimer & Co., estimated that every day that oil seeps into the gulf, BP loses hundreds of millions of dollars in liability claims. Overall, Gheit estimated BP could pay anywhere between $5 billion and $15 billion for the cleanup, damage claims and lawsuits.

Federal law sets a $75 million limit how much an oil company has to pay for damages such as lost wages and economic suffering. But lawyers said the cap can be lifted if BP is found to have failed to meet federal safeguards or was otherwise grossly negligent.

People can also pursue claims in state court and file for damages through the Oil Spill Liability Trust Fund, which was established after the Exxon Valdez. The fund, which collects 8 cents from the industry for every barrel of oil produced or imported to the U.S., has about $1.6 billion available to cover damages.

BP, the largest oil and gas producer in the U.S., has been blamed for a number of big accidents in the past decade.

— An explosion at a BP refinery in Texas City, Texas, in 2005 killed 15 people and injured 170. Regulators in October hit BP with a record $87 million fine for failing to correct safety hazards at the plant. BP is contesting the fine.

— More than 200,000 gallons of oil spilled from a BP pipeline in Alaska in March 2006, the largest-ever spill on Alaska's North Slope. BP paid about $20 million in fines.

Now, a class-action lawsuit filed in federal court in New Orleans blames BP, Transocean, Halliburton and Cameron International Corp. — a maker of rig equipment — for faulty behavior before and after the April 20 accident.

BP has pointed the finger at its partners. CEO Tony Hayward — who took over BP after the Texas City blast — said Monday on ABC's "Good Morning America" that a failure of Transocean's equipment led to the spill.

David Kotok, chief investment officer of the Sarasota, Fla., money-management firm Cumberland Advisors, said early predictions are likely to understate the fallout from the disaster. Neither the 1969 Santa Barbara, Calif., offshore oil spill nor the Exxon Valdez is a useful comparison because the current slick could be much bigger and harder to contain.

"We're looking at maybe two to three months" of oil flowing into the gulf, he said. "The devastation is huge. This is like Three Mile Island."

Experts say the green image the company cultivated in its advertisements is

vulnerable. Market researcher Eileen Campbell valued BP's brand at $17.3 billion, mostly because of its interest in the environment. BP invests in biofuels, wind and solar energy, and it supports capping carbon emissions.

The spill will probably make it tougher for BP to expand in U.S. waters, analysts say.

"BP is under watch now," Gheit said. "They may not be welcome in the area. So if I'm going to issue a permit for BP to drill a well, I'm going to take a much closer look at them."

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