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In BP's Record, a History of Boldness and Costly Blunders

By SARAH LYALL

*This article was reported by **Sarah Lyall, Clifford Krauss** and **Jad Mouawad** and written by Ms. Lyall.*

Hurricane Dennis had already come and gone on July 11, 2005, when a passing ship spotted a shocking sight in the Gulf of Mexico: Thunder Horse, BP's hulking $1 billion oil platform, was listing precariously to one side, looking for all the world as if it were about to sink.

Towering 15 stories above the water's surface, Thunder Horse was meant to be the company's crowning glory, the embodiment of its bold gamble to outpace its competitors in finding and exploiting the vast reserves of oil beneath the waters of the gulf.

Instead, the rig, which was supposed to produce about 20 percent of the gulf's oil output, became a symbol of BP's hubris. A valve installed backward had caused the vessel to flood during the hurricane, jeopardizing the project before any oil had even been pumped. Other problems, discovered later, included a welding job so shoddy that it left underwater pipelines brittle and full of cracks.

"It could have been catastrophic," said Gordon A. Aaker Jr., a senior engineering consultant on the project. "You would have lost a lot of oil a mile down before you would have even known. It could have been a helluva spill — much like the Deepwater Horizon."

The problems at Thunder Horse were not an anomaly, but a warning that BP was taking too many risks and cutting corners in pursuit of growth and profits, according to analysts, competitors and former employees. Despite a catalog of crises and near misses in recent years, BP has been chronically unable or unwilling to learn from its mistakes, an examination of its record shows.

"They were very arrogant and proud and in denial," said Steve Arendt, a safety specialist who assisted the panel appointed by BP to investigate the company's refineries after a deadly 2005 explosion at its Texas City, Tex., facility. "It is possible they were fooled by their success."

Indeed, there was a great deal of success to admire. In little more than a decade, BP grew from a middleweight into the industry's second-largest company, behind only Exxon Mobil, with soaring profits, fat dividends and a share price to match.

From its base in London, the company struck bold deals in politically volatile areas like Angola and Azerbaijan and pushed technology to the limit in the remotest reaches of Alaska and the deepest waters of the Gulf of Mexico — "the tough stuff that others cannot or choose not to do," as its chief executive, Tony Hayward, once put it.

The company also led an industry wave of cost-cutting and consolidation. It took over American competitors like Amoco and Atlantic Richfield and eliminated tens of thousands of jobs in several rounds, streamlining management but forcing the company to rely more heavily on outside contractors.

For a long time, BP's strategy seemed to pay off. But on April 20, the nightmare situation occurred: the Deepwater Horizon drilling rig exploded, killing 11 workers and sending millions of gallons of oil gushing from BP's Macondo well like so much black poison.

Although the accident is still under investigation, preliminary findings by Congressional investigators indicate that BP made a series of decisions that compounded the chances of disaster.

BP declined to make Mr. Hayward or other executives available for this article. But in an interview last month, Robert Dudley, the BP board member now in charge of the gulf spill response, denied that the accident reflected a corporate disregard for safety.

"I think we will find that this was an incredibly complicated set of events with individual decisions and equipment failures that led to a very complicated industrial accident," he said.

BP is hardly the only oil company that has taken on difficult projects with a shaky safety net. But the company's attitude toward risk stands in contrast to that of its competitors, most notably Exxon Mobil, whose searing experience with the Exxon Valdez spill in 1989 spurred a wholesale change in its approach to safety.

"You can have the best intentions in the world, you can have the best equipment in the world, but it's a combination of intentions, equipment and judgment that keeps accidents out of the workplace," said Joseph H. Bryant, who ran BP's operations in Angola from 2000 to 2004 and who is now chief executive of Cobalt International Energy. "If you are going to ask people to innovate, you'd better make sure that they know that any risks they take are manageable."

A Focus on the Basics

When Tony Hayward became BP's chief executive in May 2007, he promised to get the company back to basics.

One of his first moves was to remove the modern art adorning the company's swanky London headquarters, including an endless video of gently waving corn projected onto one wall. In its place went prosaic photographs of BP service stations, platforms and pipelines.

A plain-spoken geologist and longtime company man, Mr. Hayward dispensed with the limousine used by his socially prominent predecessor, John Browne, and closed the concierge desk in the lobby that had helped employees with dry cleaning and theater tickets.

"BP makes its money by someone, somewhere, every day putting on boots, coveralls, a hard hat and glasses, and going out and turning valves," Mr. Hayward said in a speech at Stanford Business School last year. "And we'd sort of lost track of that."

Mr. Hayward also pledged to fix the safety problems that contributed to the downfall of his predecessor. Though the company would continue doing the "tough stuff," he declared, it would make safety its "No. 1 priority."

In the realm of personal safety, Mr. Hayward expanded on Mr. Browne's initiatives. Visitors today see signs at company offices exhorting workers not to walk and carry hot coffee at the same time, to stick to marked walkways in parking lots and to grasp banisters while climbing the stairs. Employees with company cars must take defensive driving courses.

Mr. Hayward also set up a new companywide management system to evaluate risks, standardize safety practices and improve decision-making.

In a memorandum to employees on Friday, he noted that before Deepwater Horizon, the company's safety record had been improving. "This accident has been a terrible exception to that trend and we must learn the lessons from it," he wrote. "But at the same time, it does not invalidate all the hard work you have put in to improve our safety standards around the world. Safety is our first priority. It will remain so."

But American regulators and some members of Congress say that despite such talk, the company continues its risky behavior.

"The way safety is measured is generally around worker injuries and days away from work, and that measure of safety is irrelevant when you are looking at the likelihood that a facility like an oil refinery could explode," said David Michaels, assistant secretary of labor for occupational safety and health. "This is comparable to saying that an airline is safe because the pilots and mechanics haven't been injured."

A Story Begun in Persia

BP was born in 1908 when a rich Englishman named William Knox D'Arcy struck oil in Iran and formed the Anglo-Persian Oil Company. Treating the locals as little more than imperial subjects, the company, partly owned by the British government, expanded across the region, its fortunes intertwined with those of the British Empire.

But as oil-rich countries around the world began nationalizing their oil fields, British Petroleum, as it later became known, was forced to retreat and find new strategies along with the rest of the industry.

In 1995, the British government sold the last of its stake in the company and the charismatic Mr. Browne took over.

A highly visible supporter of the Royal Opera House, the National Gallery and Prime Minister Tony Blair, Mr. Browne transformed the company into a global behemoth, boldly acquiring properties around the world and rechristening it BP.

Unlike some of his more cautious competitors, Mr. Browne ignored small projects and went after the riskiest, most expensive and potentially most lucrative ventures — "elephants," in industry jargon. Under him, BP's share price more than doubled and its cash dividend tripled, making it a darling of investors.

But even as he became the toast of Britain's business world and was made a knight and member of the House of Lords, Mr. Browne was ruthlessly slashing costs. He outsourced many operations and fired tens of thousands of employees, including many engineers.

Tom Kirchmaier, a lecturer in strategy at the Manchester Business School, said that Mr. Browne tried to run BP like a financial company, rotating managers into new jobs with tough profit targets and then moving them before they had to deal with the consequences. The troubled Texas City refinery, for example, had five managers in six years.

Mr. Browne, now advising Britain's coalition government on its cost-cutting campaign, declined to comment for this article. In his new autobiography, "Beyond Business," he said, "I transformed a company, challenged a sector, and prompted political and business leaders to change."

Mr. Browne resigned under pressure in 2007, his reputation tarnished by a lie he told in court papers about his relationship with a male companion.

However, Mr. Browne's fall from grace really began on March 23, 2005, when 15 people died and more than 170 were injured in America's worst industrial accident in a generation: a huge fire and explosion at Texas City.

A Troubled Workplace

Acquired by BP in the Amoco purchase, the Texas City plant was America's second-largest refinery, turning 460,000 barrels of crude oil a day into gasoline. But the facility, built in 1934, was poorly maintained and long starved of capital investment.

"We have never seen a site where the notion 'I could die today' was so real," the Telos Group, a consulting firm hired to examine conditions at the plant, said in a report two months before the accident.

The explosion occurred when a 170-foot tower was being filled with liquid hydrocarbons. Because of poor communication among several workers who had been on 12-hour shifts for more than a month straight, no one noticed that the tower was filled too high.

A 20-foot geyser of unstable chemicals shot into the sky, and the vapor ignited when a contractor, trying to get away, repeatedly tried to start the engine on his stalling pickup truck.

The subsequent investigations were scathing. The explosion was “caused by organizational and safety deficiencies at all levels of BP,” the United States Chemical Safety Board concluded in one report.

The government ultimately found more than 300 safety violations, and BP agreed to pay a then record $21 million in fines.

A year later, there was a new calamity: 267,000 gallons of oil leaked from BP’s network of pipelines in Prudhoe Bay, Alaska.

It was the worst spill ever on the North Slope, and once again, the cause was preventable. Investigators found widespread corrosion in several miles of under-maintained and poorly inspected pipes. BP eventually paid more than $20 million in fines and restitution.

While these two accidents drew most public attention, serious problems were also brewing offshore, at BP’s Thunder Horse platform.

Mr. Aaker, the engineering consultant who worked on it, said BP’s bosses rushed construction of the intricately designed vessel, moving it to the gulf before it was ready to “demonstrate to their shareholders that the project was on time and on schedule.”

Once the rig was at sea, several hundred people at a time frantically worked to complete it, sleeping in cramped, chaotic conditions on board a temporary encampment of ships.

“It was like having the plumbers, the electricians and the bricklayers come to a construction site at the same time as they are laying the concrete,” said Mr. Aaker, who is now assisting the House Energy and Commerce Committee in its investigation of Deepwater Horizon. “This was not methodical.”

Nor was it safe.

The near sinking of Thunder Horse in 2005 was caused by a shockingly simple mistake: a check valve had been installed backward, and that caused water to flood into, rather than out of, the rig when it heated up during the hurricane.

After costly repairs to fix that damage, BP discovered a more significant problem: rudimentary mistakes in the welding of pipes in the underwater manifold, which connects dozens of wells and helps carry the oil back to the platform, had caused dangerous cracks and breaks.

Had the well been active, the damaged pipes would have caused a major oil spill. As it was, the company had to remotely rip out, retrieve and fix dozens of complex and heavy pieces of equipment lying on the sea floor, some weighing more than 400 tons.

Altogether, the blunders cost BP and its minority partner, Exxon Mobil, hundreds of millions of dollars in repairs and set back production, today at 300,000 barrels of oil and oil equivalents a day, by three years.

Although the Deepwater Horizon accident involved an exploration rig, not a production platform, a similar carelessness and disregard for safety was evident in BP's decisions there, according to preliminary findings by the House Energy and Commerce Committee. "In effect, it appears that BP repeatedly chose risky procedures in order to reduce costs and save time and made minimal efforts to contain the added risk," wrote Henry A. Waxman, the committee chairman, and Bart Stupak, chairman of its subcommittee on oversight and investigations.

BP took a different sort of risk in Russia, forming a 50-50 joint venture in 2003 with that nation's unpredictable oligarchs to gain access to the vast resources beneath the Siberian taiga.

The deal, which accounted for about one-quarter of BP's global oil reserves, nearly collapsed in 2008, when the Russian government sought tighter control over its energy sector. After a nasty public fight, BP was forced to hand over operational control of the venture to its Russian partners, although it continues to reap vast profits from it.

BP stepped into another tricky political situation last year, when Iraq offered foreign companies $2 a barrel to help it increase production from its oil fields, which had suffered from years of war and neglect. BP's competitors blanched at the low price, but Mr. Hayward teamed up with a Chinese state-owned company and accepted the deal.

The chairman of a rival company was so enraged that he called Mr. Hayward and demanded: "Tony, have you gone mad?" BP's move forced other companies to agree to similar terms. As one analyst noted, it was "disastrous to profitability" for the industry.

Old Habits Die Hard

Time and again, BP has insisted that it has learned how to balance risk and safety, efficiency and profit. Yet the evidence suggests that fundamental change has been elusive.

Revisiting Texas City in 2009, inspectors from the Occupational Safety and Health Administration found more than 700 safety violations and proposed a record fine of $87.4 million — topping the earlier record set by BP in the 2005 accident. Most of the penalties, the agency said, were because BP had failed to live up to the previous settlement fully.

In March of this year, OSHA found 62 violations at BP's Ohio refinery, proposing $3 million more in penalties.

"Senior management told us they are very serious about safety, but we observed that they haven't translated their words into safe working procedures and practices, and they have difficulty applying the lessons learned from refinery to refinery or even from within refineries," said Mr. Michaels, the OSHA administrator.

BP is contesting OSHA's allegations, saying it has made substantial improvements at both facilities.

Accidents have also continued to plague BP's pipelines in Alaska. Most recently, on May 25, a power failure led to a leak that overwhelmed a storage tank and spilled about 200,000 gallons of oil — the third-largest spill on the Trans-Alaska Pipeline System.

Mr. Dudley, the BP executive overseeing the gulf response, said it was unfair to blame cultural failings at BP for the string of accidents.

"Everyone realized we had to operate safely and reliably, particularly in the U.S., to restore a reputation that was damaged by the accident at Texas City," he said. "So I don't accept, and have not witnessed, this cutting of corners and the sacrifice of safety to drive results."

Mr. Waxman, whose committee is investigating the Deepwater Horizon accident, has a very different view. When Mr. Hayward testified a month ago, the representative upbraided him: "There is a complete contradiction between BP's words and deeds. You were brought in to make safety the top priority of BP. But under your leadership, BP has taken the most extreme risks."

“BP cut corner after corner to save a million dollars here and a few hours there,” Mr. Waxman said. “And now the whole Gulf Coast is paying the price.”

Julia Werdigier contributed reporting.