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Oil Spill's Blow to BP's Image May Eclipse Costs



U.S. Coast Guard, Petty Officer 2nd Class Prentice Danner, via Associated Press

A high volume skimming system skimmed oil from the Gulf of Mexico near Venice, La.

By CLIFFORD KRAUSS
Published: April 29, 2010

HAMMOND, La. — **BP** says that the [offshore drilling](#) accident that is spewing thousands of barrels of [oil](#) a day into the Gulf of Mexico could cost the company several hundred million dollars.

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Suzanne Plunkett/Reuters
Tony Hayward, chief of BP, has tried to burnish the company's reputation.

Nobody really knows whether the London-based oil giant is being too conservative about the cost for the April 20 accident, which some experts say could end up as the biggest oil spill in history. The 1989 grounding of the [Exxon Valdez](#) off Alaska, for example, cost [Exxon Mobil](#) more than \$4.3 billion, including compensatory payments, cleanup costs, settlements and fines.

But regardless of the out-of-pocket costs, the long-term damage to BP's reputation — and possibly, its future prospects for drilling in the Gulf of Mexico — is likely to be far higher, according to industry analysts.

The magnitude of the Deepwater Horizon disaster seems to be finally sinking in with investors. BP's stock plunged more than 8 percent Thursday in American trading in an

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otherwise strong day for stocks. Since the accident, the American depositary receipts of the company have fallen about 13 percent, closing Thursday at \$52.56.



For Tony Hayward, who has led BP for the last three years, the accident threatens to furnish the tattered reputation of the company, which has been plagued by a pipeline leak in Alaska in 2006. In a letter to his London office recently, “What the hell did I do?” he wrote. “I am not responsible for an interview Thursday. But in my opinion,” he said, “Reputationally, and in every other way, the accident has been a failure of speed and efficacy of our response.” The damage from the underwater well has frustrated Mr. Obama, who offered the assistance of an array of government agencies, including the military, while noting that, under federal law, “BP is ultimately responsible for funding the cost of response and cleanup operations.”

Mr. Hayward, who has blamed the rig's owner and operator, [Transocean](#), for the accident, said that it was nevertheless BP's responsibility to deal with the immediate problem. “We take it with the utmost seriousness,” he wrote. “Nothing else matters right now.”

Wall Street experts say that while the company is spending an estimated \$6 million a day on fixing the mess, it is impossible to accurately estimate how much the incident will eventually cost.

BP, which leased the platform from Transocean, has said that drilling and operating relief wells to plug the runaway well may cost as much as \$300 million, but those same wells will eventually be used to produce profitable oil.

The cost of an environmental cleanup will depend largely on how much oil reaches shore. The government could assess fines or other penalties. And lawyers have already filed a flurry of suits on behalf of commercial fisherman, shrimpers and injured oil workers against BP; Transocean; Cameron, the company that manufactured the blowout preventer; and other companies involved in the drilling process.

Cleanup costs will be divided among BP, which has a 65 percent ownership of the field, and minority partners Anadarko and Mitsui.

Transocean's stock price fell nearly 7.5 percent Thursday, and is down more than 14 percent since the accident. The company has insurance that covers the rig that was lost, but any broader assessment of Transocean's liability will be determined after investigators understand what caused the accident.

Regardless of the final assessment of blame, Wall Street analysts warned that everything BP does from now on will come under increased scrutiny by regulators and that potential partners in drilling ventures may well look elsewhere.

“In the last two years, it seemed BP had really cleaned up their act,” said Fadel Gheit, a managing director and oil analyst at Oppenheimer & Company. “Now it looks like a house of cards that has totally collapsed.”

Under Mr. Hayward's predecessor, John Browne, BP rebranded itself as “Beyond Petroleum,” a company that was environmentally conscious and wanted to develop alternative energy sources like solar and wind power. Its insignia of a blooming flower was intended to portray the company as one that was responsive to growing public concerns about [climate change](#).

But the company seemed to lose its focus on maintenance and safety, BP executives later

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acknowledged. The 2005 explosion at a refinery in Texas City, Tex., killed 15 workers and injured hundreds more. The [Occupational Safety and Health Administration](#) fined BP a record \$87 million for neglecting to correct safety violations.

Only a year later, a leaky BP oil pipeline in Alaska forced the shutdown of one of the nation's biggest oil fields. BP was fined \$20 million in criminal penalties after prosecutors said the company had neglected corroding pipelines. Soon after the incident, Mr. Browne quit amid tabloid headlines about his private life.

Mr. Hayward, a geologist who had been in charge of exploration and production, took over and promised to refocus the company and change the culture, emphasizing safety.

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John M. Broder contributed reporting from Washington.

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