

## **More fuel for anti-BP sentiment**

**By Rebecca Bream**

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US federal investigator claims that BP illegally cornered part of the US propane market, the source of heating and cooking for millions of Americans, is the latest in a series of embarrassments for the oil group in North America.

BP has denied the charges and says it will fight the case but there is a risk that the lawsuit will add to the reputational damage it has already suffered in the US, one of its biggest markets.

In March last year, an explosion at BP's Texas City refinery, its biggest in the US, killed 15 people and injured about 500, making it the deadliest US refinery accident in more than a decade.

An investigation by the Department of Labor uncovered more than 300 violations at the refinery and BP, which did not admit fault, agreed to pay a \$21m (£11.5m) fine. BP had to spend \$1bn on repairs to the refinery, which was shut for many months. But that is not the end of the story; the Department of Labor has referred the Texas City case to the Department of Justice, which could ultimately press criminal charges against BP.

In March this year, there was a big oil spill at BP Alaska's operations at Prudhoe Bay, North America's largest oil field.

Up to 270,000 gallons of crude oil leaked from a corroded pipeline and the group is facing a criminal grand jury investigation into the spill.

This week's propane price-fixing charges brought by the US Commodity Futures Trading Commission come just a few years after BP promised to tighten the leash on its traders after being fined by the New York Mercantile Exchange.

BP agreed in 2003 to pay a \$2.5m to settle Nymex allegations of improper crude-oil trading, without admitting or denying any wrong- doing.

The latest price-fixing charges are not earth shattering by themselves. The individual traders involved could pay the biggest price: Dennis Abbott, a trader at the Chicago-based BP Products North America, could face a jail term of up to five years and a \$250,000 fine.

BP may face fines of \$120,000 for each violation, plus restitution to potential victims who can show they were overcharged.

BP's London-listed shares barely registered the news yesterday, rising 1.3 per cent in line with the rest of the UK oil sector.

But analysts said the lawsuit could add to anti-BP sentiments among politicians and the public in the US at a time when high energy prices are a sensitive issue.

The increases were reflected in higher retail propane prices for homeowners and commercial customers, CFTC, the futures industry regulator, said this week.

Peter Hitchens, oil analyst at Teather & Greenwood in London, says:

"If you look at the size of the company, [the price-fixing charge] is not going to be that important."

But, he says, it reflects the fact that oil company activities are being scrutinised like never before, "because they are making so much money".

Mr Hitchens says there were frequent accusations of price collusion aimed at oil companies, especially in the US, where lower fuel taxes made swings in oil prices more visible to consumers and politicians.

Because propane is a fuel used to heat 7m households in the US and just as many barbecues, price movements in the market are widely-felt.

The US market accounts for 38 per cent of BP's total capital employed and the company is by far the largest producer of both oil and gas there, with assets scattered across the country from the Gulf of Mexico to the Rocky Mountains and Alaska.

There are signs that the string of negative events in the US has had an effect on BP's share price. Since March 2005, when the Texas refinery explosion occurred, the stock has underperformed the world oil and gas sector by 10.7 per cent.

One investment bank oil analyst notes that the price-fixing accusations are unlikely to hit BP profit as propane is a small portion of its total downstream business. "But it could make politicians, the public and also investors look a bit harder at whether it is indicative of a wider problems going on."

BP rejects the idea that a deep-rooted weakness in the quality of its US management had contributed to the problems of the past 18 months.

Of the Texas City explosion, the Prudhoe Bay oil spill and the price-fixing accusations, the group said yesterday: "We absolutely believe they are unrelated events."

Ross Pillari, the chairman of BP America, was replaced at the start of last week in what has been seen as an effort to rejuvenate the management.

Bob Malone, the new chairman, was previously the chief executive of BP's shipping unit. "He will shake things up a little," says a person close to BP.

There is no doubt that BP will be unhappy about being the subject of another bad news story in the US, even if it is eventually cleared of price-fixing, as it has worked harder than most oil companies to clean up its image in recent years, ditching its old shield logo from the days when it was British Petroleum in favour of a sunflower, and adopting the motto 'Beyond Petroleum'.

The investment bank oil analyst says BP had "worked hard to minimise the fall-out" from the incidents in the US. "BP's problems in the US would have to get a lot worse before they started to damage its business opportunities there."

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BP's sunflower is wilting. Having splashed its decidedly organic logo all over the place in the past year or so, right now BP could probably use its old one: a shield.

An allegation of price-fixing in the US propane market follows other public relations disasters for BP's American operations. The worst was a fatal explosion at its Texas City refinery in March 2005, but it also faces a criminal investigation into pipeline leaks in Alaska.

The timing is bad. The oil industry's vast cash flows make it a tempting target for US politicians (and lawyers) when the country is fretful about energy shortages. There has already been an unsuccessful attempt to uncover price-gouging in the US gasoline market. BP, a foreign

corporation, is the country's largest producer of natural gas. Propane's use as a heating fuel for 7m households will make it easy for critics to juxtapose images of grannies shivering in their homesteads with those of faceless commodity traders.

That said, proving manipulation in the highly volatile propane market will be difficult. The allegations against BP centre on February 2004, when the propane price spiked and appeared to disconnect from heating oil and crude oil prices, which it usually tracks. But prices also spiked much higher exactly a year before that. Similar movements occurred in the winters of 1996-97 and 2000-01.

For BP's shareholders, there are two considerations. One is that the company must redouble its efforts to reduce exposure to such claims in its US operations, which account for 38 per cent of group capital employed. The second is that, barring a meltdown on the scale of Royal Dutch Shell's reserves scandal in 2004, high oil and gas prices, while inviting hostility, will remain the main factor moving BP's share price.