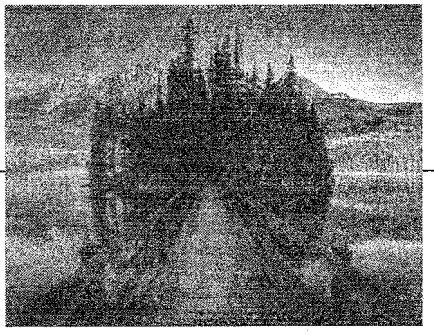
CASE 13

BP (Beyond Petroleum) Focuses on Sustainability



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BP, formerly British Petroleum and the Anglo-Persian Oil Company, has experienced a lot of ups and downs over its hundred-year history—from nearly bankrupting its founder William D'Arcy to becoming one of the world's largest energy companies. BP has also experienced its fair share of controversies regarding business practices, environmental damage, and hazards to workers. It and all other large energy companies have come under fire for being responsible for the release of huge amounts of greenhouse gasses into the atmosphere. BP, however, has attempted to turn a page in its history book toward a more environmentally-friendly future. The company has invested in renewable energy and has thrown large amounts of support behind ethics and compliance initiatives, even writing an expansive code of conduct for its 92,000 employees.

This case provides an opportunity to observe the efforts of BP to improve its image and manage decisions related to ethics and social responsibility. Before delving into recent issues that BP has faced, a brief history of BP is given to provide some background. Although BP has sought to establish itself as an ethically responsible company, certain disasters resulting from company negligence are detailed in this analysis to show that it has often failed at this goal in the past. In recent years, BP has realized the need to become more environmentally-friendly, being the first oil company to recognize the presence of global warming and to launch initiatives into producing cleaner forms of energy. In so doing, the company also hopes to educate others about how they can personally reduce their impact on the environment in the hopes of repositioning itself as an environmentally-responsible company.

This case was developed under the direction of O.C. Ferrell and Jennifer Jackson, with the editorial assistance of Jennifer Sawayda, University of New Mexico. It was adapted from a case by Eve Sieber and Lameck Lukanga, University of New Mexico. This case is meant for classroom discussion, and is not meant to illustrate either effective or ineffective handling of an administrative, ethical, or legal decision by management. All sources used for this case were obtained through publicly available material.

THE 100-YEAR HISTORY OF BP

BP was founded more than a century ago by William D'Arcy, a wealthy British gentleman who had invested all his savings in the quest for oil in the Middle East. While experts and scientists had encouraged D'Arcy to pursue the venture, after more than six years of drilling, both his patience and finances were running low. Finally, in 1908, the drillers reached almost 1,200 feet and a fountain of oil spewed out. After long years filled with disappointment, pain, and despair, the Anglo-Persian Oil Company, what would become BP, was born. The company quickly opened trade on the stock market, and D'Arcy, who had lost nearly his entire net worth, became rich.

A naptha field in Iran, formerly known as Persia, located around 130 miles from the mouth of the Persian Gulf, was the first place where the Anglo-Persian Oil Company established a refinery. (Naptha refers to any sort of petroleum product, in this case, the Anglo-Persian Oil Company was pumping crude oil.) George Reynolds, D'Arcy's head manager for all the miners, quickly discovered that navigating this rugged land was not going to be such an easy task. Simply moving equipment to the site had been a monumental task that took months. To facilitate transportation of the oil, BP started building a pipeline through the area, and many of the necessary supplies had to be shipped from the United States. In a time before paved roads, everything had to be hauled through the sand using manpower and mules. Because of the difficult mountainous terrain, the pipeline project took over two years to complete. The huge scope of the undertaking drew workers seeking to help build the largest refinery in the world. They came from nearby Arab countries and from far away India and China. The medical director for the project would eventually found a hospital in Abadan, originally created to serve BP employees, that would go on to become one of the two most important medical centers in the entire region.

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By 1914, BP was about to go bankrupt again. The company had a lot of oil but a shortage of people to sell the oil to. In 1914 the automobile had not become a mass-market product yet, and companies in the New World and Europe had first-mover advantages in the industrial oils market. An even worse problem was the strong smell of Persian oil, which eliminated it from the heating and kerosene lamp markets.

Winston Churchill, who was at the time British First Lord of the Admiralty, changed all that. He felt that the British navy, which was the envy of the world, needed a reliable and dedicated source of oil. Oil executives had been courting the navy for some years, but until Churchill, commanders had been reluctant to abandon coal. Churchill was adamant that only Anglo-Persian, because it was a British-owned company, could adequately protect British interests. Parliament overwhelmingly agreed, and soon was a major shareholder in the oil company. Thus began the debate over the repercussions of involving politics in the oil industry, a debate that only became louder throughout World War II, the Persian Gulf War, and the Iraq War.

The twentieth century saw enormous growth in the oil industry, along with massive power shifts in the Middle East. In 1969, Muammar al-Gaddafi led a coup in Libya, promptly demanding a tax increase on all oil exports. Gaddafi eventually nationalized BP's share of an oil operation in Libya. This move led other oil-rich countries in the Middle East, including Iran, Saudi Arabia, Abu Dhabi, and Qatar, to eventually nationalize. The effect on BP was massive—between 1975 and 1983, the oil production in the Middle East fell from 140 million to 500,000 barrels.

In order to survive, BP had to find new places to dig for oil. The Forties Field off the coast of Scotland, capable of producing 400,000 barrels of crude oil a day, and Prudhoe Bay in Alaska, where BP had tapped its largest oil field yet in 1969, were the two great hopes for BP's future at this time. However, transportation of the oil was again a problem. The remoteness of BP's best sites would challenge not only BP's engineering capabilities, but more importantly its commitment to the environment. The Forties Field pipeline would eventually become the largest deepwater pipeline ever constructed, a project that required special attention due to the harsh weather. The Trans-Alaska pipeline system would become the largest civil engineering project in North America, measuring nearly 746 miles long. The company performed extensive research to identify any potential environmental risks, making sure the pipeline included long above-water stretches to ensure that the warm oil transporting through it wouldn't melt the permafrost. BP also had to take steps to ensure that habitat disruption would be minimal. The company tried to assure concerned stakeholders that the environment was a serious matter to them, which they would address with an intense level of focus and commitment.

However, BP's actions have not always coincided with its words. The company's promises to act as a responsible environmental steward would be questioned as parts of BP shares were sold off, as competition in the energy industry began to stiffen, and as mergers started to occur.

QUESTIONS ABOUT BP'S ETHICAL CONDUCT

As one probes below the surface of BP's public façade, one finds numerous instances of questionable behavior within this multinational oil company. These questionable deeds include fraud, environmental crimes, deaths, and the endangering of habitats.

In March 2005, a huge explosion occurred at a BP-owned oil refinery in Texas that killed 15 employees and injured another 170 people. The company was found guilty by the Southern District of Texas for a one-count felony for violating the Clean Air Act and was ordered to pay $50 million in criminal fines. The explosion was the result of a leak of hydrocarbon liquid and vapor, which then ignited. This specific unit had to be shut down for nearly a month in order to be repaired. BP admitted that it had ignored several procedures required by the Clean Air Act for ensuring mechanical integrity and a safe startup between 1999 until the explosion in 2005. The BP case was the first prosecution under a section of the Clean Air Act, which was created to help prevent injuries from such accidental leaks of explosive substances.

The company was also charged with violating the Clean Water Act when Alaskan oil pipelines leaked crude oil into the tundra and a frozen lake. The fines resulting from this infraction included $12 million in criminal fines, $4 million in payments to the National Fish and Wildlife Foundation, and $4 million in criminal restitution to the state of Alaska. The leaks occurred in March and August of 2006, after BP failed to respond to numerous red flags. One of these flags was the dangerous corrosion of the pipes that went unchecked for more than a decade before the Clean Water Act violation. A contract worker discovered the first pipeline leak in March of 2006. This leak resulted in more than 200,000 gallons of crude oil spilling onto the fragile tundra and a nearby frozen lake and was the largest spill to ever occur on the North Slope. A second 1,000-gallon leak occurred shortly after the first, in August 2006. Although it was small, the second leak led to the shutdown of oil production in the east side of Prudhoe Bay until BP could guarantee that the pipelines were fit for use.

Regular routine cleaning of the pipes is simple and would have prevented the 2006 oil leaks in Alaska. Nevertheless, in October 2007, BP recorded yet another spill near Prudhoe Bay. This time it was 2,000 gallons of toxic methanol, a deicing agent, that spilled onto the tundra and killed many plants and animals.

In the Northern District of Illinois, BP was charged with conspiring to violate the Commodity Exchange Act and also to commit mail fraud and wire fraud. The fraud involved purchasing more than the available supply of TET propane, and then selling it to other market participants at a price inflated well above market value. This sort of market manipulation is not tolerated in the United States, and BP was forced to pay large fines. The company had to pay $100 million in criminal penalties, $25 million to the U.S. Postal Inspection Consumer Fraud Fund, and a restitution of $53 million. Additionally, BP had to pay a civil penalty of $125 million to the Commodity Futures Trading Commission. Furthermore, four former employees were indicted in February 2004 for conspiring to manipulate the propane market at an artificially high price. The estimated loss to consumers who paid over market value exceeded $53 million dollars. The violation resulted in a 20-count indictment by a federal grand jury in Chicago.

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The legal, environmental, and ethical transgressions on the part of BP demonstrate clearly that the company has a history of disregarding the well-being of stakeholders. "The actions against BP, along with the criminal charges against the four former BP traders, reflect our continued efforts to ensure that companies and individuals that do not follow the law will face consequences for their actions," said Assistant Attorney General Alice S. Fisher of the Criminal Division. While purporting to be an ethical company, concerned with stakeholder well-being, BP's violations tell a different story.

BP REPAIRS ITS IMAGE

BP has begun to work to repair its tattered image. The twenty-first century found stakeholders more wary of companies, especially after decades of repeated violations and misconduct on the part of the oil industry. Oil leaks, toxic emissions, dead animals, refinery fires, wars in the Middle East, rising gas prices, pollution, and dwindling supplies all have combined to paint a very ugly picture of the oil industry as a whole. A central topic of the debate over the future of the world's energy supply focuses on global warming and greenhouse gas emissions.

One way BP worked to repair its damaged image was by changing its name from British Petroleum to simply BP, and increasing alternative energy offerings in its product mix. John Browne, BP group chief executive proclaimed, "we are all citizens of one world, and we must take shared responsibility for its future and for its sustainable development." BP was the first global energy firm to publicly announce its recognition of the problem of climate change. Browne has publicly discussed BP's involvement in finding new sources of energy, and has stated that he believes in balancing the needs of development and environmental protection. While its primary product is still petroleum, BP accepts that global warming is human-made, and it has begun to seek alternative revenue streams in wind farms and other lower-emissions energy sources. The company invests around $1.4 billion, or 5 percent of its total capital investment, in renewable energy like wind, solar power, and biofuels.

BP also has worked hard to overcome its negligent image by focusing renewed efforts on areas, such as Alaska, where the company has received a lot of bad press. Every winter when the Alaskan tundra is icy and frozen, a team of BP specialists heads for the remote areas of the Alaska North slope oilfields. The specialists' purpose is to excavate gravel from the pads on which drilling rigs once stood. They also remove drill cuttings and other waste left behind by the original exploration teams. Most of the excavated gravel can be reused immediately or treated on-site. The remainder of the gravel is either processed for future use or is ground down before it is injected back into the ground. The specialists aim to do as much as possible to return the sites to their original tundra state. This includes selective replanting and reseeding of the area. The specialists are guided by scientists and engineers from BP's remediation management team. They have already completed approximately 40 percent of a clean-up and restoration exercise agreed upon by BP and the state of Alaska. The Sag Delta 1 site on the Beaufort Sea Coast and the Kuparuk 24-12-12 site by the Kuparak River are two examples of the sixteen sites already sanitized. The specialists will return on a regular basis until their job is complete. The estimated cost of BP's future efforts will be close to $250,000,000. Even with all that effort, ultimately, the final restoration is best left to nature, with native tundra species soon returning to cover any remaining evidence of human presence.

BP WORKS TO IMPROVE SUSTAINABILITY

To adapt in a changing world, BP launched its Alternative Energy business in 2005. While still a small part of its overall company at $1.4 billion in investments, BP sees "going green" as an increasingly important part of its business, which it will expand as it becomes more profitable to do so.

Wind

BP has over 500 megawatts (MW) of installed capacity, with 432 MW in operation. Starting in 2008, BP began full-scale commercial operation in conjunction with wind farms across the country, including Cedar Creek in Colorado, a 274–wind turbine outfit. BP's installed wind capacity has the potential to supply power to 6 million homes.

Solar

In order to affordably expand its solar capacity, BP signed agreements with numerous solar panel producers in Asia. BP has installed only 4 MW of solar panels in the United States, those going to Wal-Mart stores in California. It does 70 percent of its solar business in Europe where demand is higher. BP also has developed two of the largest solar power plants in the world in Spain, projects that will supply energy to up to a million homes. BP also supports the Solar Cities concept, which has brought more access to solar power to seven cities across Australia.

As BP has continued its worldwide efforts to reduce greenhouse gas emissions, it has introduced a new solar-driven pump system at the Moxa Gas Field site in Wyoming. Two kinds of pumps are located at each of the 460 wells: One pumps methanol, while the other circulates heated glycol to prevent the freezing of equipment, which is a recurring problem in the harsh fields of Wyoming. BP has installed 230 solar-driven methanol pumps to help reduce the amount of natural gas needed to run the site. BP estimates that by using these

new solar pumps, it has reduced Moxa's annual natural gas needs by over 48 million cubic feet, which amounts to around $200,000 in savings. The new pumps also create a safer work environment, as they reduce the risk of gas cloud related hazards for the employees. BP has plans to install 460 additional solar-driven glycol pumps. By replacing all of the pumps, BP has the potential to completely eliminate the use of natural gas at the Moxa site, making the pumping system virtually greenhouse gas free.

Biofuels

Biofuels have received a lot of negative press for their contributions to diminished food supplies and increasing food prices, and for causing deforestation in places like the Philippines and Brazil where it has become increasingly profitable to plant biofuel stock like sugar cane and palm. However, BP sees biofuels as a significant part of its energy portfolio for the next two decades, until better alternative energy sources are perfected.

BP became the single largest foreign stockholder in a Brazilian bioethanol company when it purchased a 50 percent stake in Tropical Energia S.A. The company's facility in Goias state, Brazil, has a capacity of 115 million gallons of sugarcane bioethanol. BP has also been working with Dupont to develop biobutanol, a biofuel with higher energy content than bioethanol.

BP's push in the alternative energy sector prompted the creation of a special purpose entity (SPE) with Verenium Corporation, a leader in the development of cellulosic ethanol, a fuel that is still in its infancy but that many hope can be the future of biofuels. Both partners hope to speed the development of cellulosic ethanol, and to one day make it commercially viable. Cellulosic ethanol is a renewable fuel produced from grasses and nonedible plant parts, such as sugarcane waste (called bagasse), rice straw, switchgrass, and wood chips. Although at this point it is much more difficult and energy-intensive to produce than corn or sugarcane ethanol, many believe that, as the technology improves, cellulosic ethanol will provide such benefits as greater per-acre yields and lower environmental impact, and it will not affect commodity or food prices, since it uses only waste products. If all goes as planned, BP's and Verenium's strategic partnership will help stimulate the development, production, and consumption of cellulosic ethanol over other types of liquid fuels.

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Carbon Sequestration and Storage

Although it is a tremendously expensive undertaking, many experts believe that one of the best ways to control greenhouse gas emissions is through carbon sequestration and storage (CCS). CCS involves capturing greenhouse gas emissions from smokestacks and other sources of the pollutant and pumping the gasses deep underground to empty oil or gas fields or aquifers. BP has been researching CCS since 2000, and opened the Salah Gas Field in Algeria for experimentation in 2004. BP captures and stores up to 1 million tons of carbon dioxide per year at Salah, which is equivalent to removing 250,000 cars from the road. BP hopes to do the same thing at Hydrogen Energy, its joint venture with Rio Tinto to develop low-carbon-emissions power plants for Abu Dhabi and California. While questions remain about the long-term effectiveness of CCS (no one knows for sure if the CO_2 stays underground, or whether it eventually leaks out), many energy companies such as BP see it as a promising technology.

Other Energy-Saving Measures

Beyond alternative energy sources, BP is also looking to save energy through better planning and implementation of its many operations around the world. The BP Zhuhai (BPZ) PTA plant is setting an example by using more efficient forms of energy. This development of more efficient, cleaner energy and the reduction of CO_2 emissions is an increasing priority in China. Many companies in China still use heavy oil and coal for fuel. For the past four years, BPZ has worked to set new standards and make a greater contribution in this area. A sequence of heat recovery projects has allowed the plant to optimize the use of steam as a way to reduce liquefied petroleum gas (LPG) consumption significantly. This has greatly saved energy and reduced emissions. Since 2005, BPZ has reduced its CO_2 emissions by 35 percent and has reduced the use of LPG by 48 percent. Additionally, by reducing fuel consumption, BPZ also has reduced the road safety and operational risks associated with delivery and unloading of LPG. BPZ is recognized locally and regionally for its promotion of environmental values. It has set an environmental standard for other companies to follow. The company also is a prime example of how being green can be cost-efficient. It has achieved a net savings for BP worth approximately $7.6 million a year.

BP is also working in Algeria to help sustainability. The Algerian business unit of BP is striving to lessen groundwater and soil impacts from its operations. The company is doing this by incorporating liability prevention processes early in the process, even into the planning stages of operations. However, in a desert area, where sandstorms and other disastrous weather patterns are common, planning ahead and anticipating problems is not easy to do. The BP Algeria team, working in conjunction with the state oil company Sonatrach and Norway's Statoil, has established two primary environmental objectives: (1) to impact the environment as minimally as possible, and (2) to take actions swiftly to correct any potential liabilities from earlier operations. BP's Remediation Management Liability Prevention team supports the Algeria team and Sonatrach in identifying potential causes of soil and groundwater problems incurred at any point during BP's operations. Together, they have been able to identify problems by conducting a series of site visits, doing risk-analysis work, administering prevention assessment tool surveys, and identifying improvement opportunities in the area of operations. All parties involved have been able to synthesize their findings into a long-term plan for the management and prevention of environmental liabilities in Algeria.

BP REACHES STAKEHOLDERS WITH ITS SUSTAINABILITY PROGRAMS

In addition to its Alternative Energy program, BP also has implemented environmental awareness programs in Britain to help stakeholders understand the impacts of global warming and the importance of sustainability issues. BP is trying to help the environment by making people more aware of their carbon footprint. BP Educational Service (BPES) initiated the distribution of the Carbon Footprint Toolkit. It is an award-winning program designed to help high school students understand the effects of climate change and their own carbon footprint. Developed in conjunction with teachers and BP's experts, the toolkit enables students to examine their school's carbon footprint and to help develop carbon reduction plans for their schools. The Carbon Footprint Toolkit was originally developed

as a response to teachers' demands that came out of a series of "green" workshops that BP held. Available free of charge to all high school students and their teachers, the Carbon Footprint Toolkit has been a successful initiative for BP. Available only in Britain, the kit is available in 80 percent of all British high schools.

The toolkit received a prestigious award for e-learning at the International Visual Communications Association (IVCA) awards in 2007. Follow-up research on the tool has shown that the toolkit has greatly helped to increase the profile of BPES and also has raised the level of trust and recognition for BP's education initiatives. In addition, the proportion of teachers surveyed who judged their students to be environmentally aware increased from 62 percent to 89 percent after using BPES resources.

THE CODE OF CONDUCT

To help deal with BP's growing reputation for ethical misconduct, BP's Ethics and Compliance team organized the creation, publication, and distribution of a company code of conduct in 2005. The code was distributed to BP employees around the globe and is also publicly available online at the BP website. Given the multinational nature of the BP business, the code seeks to unite its diverse employees behind a set of universal standards of behavior. The cross-functional team that drafted the code of conduct faced many major challenges, like how to agree upon and communicate consistent standards for all BP employees regardless of location, culture, and language. They had to devise a plan to make the code a one-stop reference and guide to individual behavior at BP. It would have to cover everything from health and safety to financial integrity. The code of conduct was the largest mass communications exercise ever attempted in BP.

Work began in 2004 with a large-scale benchmarking exercise. The ethics and compliance team, with the help of many external specialists, studied, in great detail, the codes of fifty-two other companies. Using the information collected from preliminary research, a team of senior regional, functional, and business segment leaders worked to develop the content of the BP code. A preliminary version of the code was tested in global workshops involving more than 450 BP employees from all levels of the company.

All BP employees must read the code. To facilitate understanding, it is translated into languages as diverse as Mandarin, German, Azeri, and Arabic. The company also holds awareness meetings to help employees understand the contents of the code. Perhaps the most important role of the code is that it put in writing, for the first time, BP's ethical and legal expectations. It gives clear guidelines for individuals covering five key areas: health, safety, security, and the environment; employees; business partners; government and communities; and company assets and financial integrity. The code is entitled "Our Commitment to Integrity," making the ethical intent of this document clear from the first page.

CONCLUSION

From the beginning, BP proved that it was able to overcome significant obstacles. It went from near bankruptcy to being one of the largest energy companies worldwide. BP has experienced a range of ethical issues, the most well-known stemming from the company's own negligence and misconduct. Yet, although BP has had a spotty past when it comes

to integrity, the company has worked hard to overcome its negative image. It is not only investing in cleaner energy but also is trying to repair its image by reducing its environmental impact and cleaning up areas after it has used them. Some question whether BP's new socially responsible initiatives are a public relations ploy or a genuine attempt toward change. However, there is no question that BP's emphasis on environmental responsibility is having a positive impact to some extent.

From publishing a thorough code of conduct to investing in more renewable energy to being the first major oil company to admit that global warming is a threat to our future, BP has sought to establish itself at the forefront of ethical energy companies. The company realizes that being environmentally sustainable and ethically responsible not only is the right thing to do, but is also profitable. Good publicity and stakeholder goodwill can be powerful forces in helping companies maintain a competitive edge and thrive.

QUESTIONS

1. Based on the history of the company, why did BP get involved in so much questionable conduct?
2. Analyze BP's efforts to improve sustainability. Do you think they are sufficient, or does the company need to do more?
3. Do you believe the BP code of conduct and ethics initiatives will prevent future misconduct?

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