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Oil Spill Fines Could Force BP to Sell Russian Assets

By The Moscow Times

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LONDON — The prospect of up to $18 billion in new fines for the 2010 Gulf of Mexico oil spill could encourage BP to sell off some of its Russian interests, which already look at risk of being dragged into a political standoff between Moscow and the West.

Shares in the British oil group dropped sharply on Thursday after a U.S. judge ruled it was "grossly negligent" in the April 2010 rig explosion and spill that killed 11 workers.

A day later, many analysts said the fall was overdone, pointing out the level of fines may not be determined for years and that BP could probably afford to pay them without any major asset sales, or a big cut to its dividend.

However, some said the bad news could prompt BP to look at reducing its exposure to Russia at a time when the West is imposing sanctions on Moscow for its support of separatists in Ukraine, and Russia is countering with its own restrictions.

"I wouldn't be surprised due to the ongoing crisis in Ukraine and Russia if BP would like to reduce its huge 19.75 percent stake in the BP-Rosneft joint venture to cut their risks there, even though it is profit making," said Natixis analyst Abhishek Deshpande.

BP has said it remains firmly committed to Russia despite the political crisis as the assets generate up to a quarter of its global production. It declined to comment on Friday about assets sales.

Analysts at Citi called BP's Russian exposure an "overhang" and said that together with the mushrooming costs of the Gulf of Mexico spill cleanup it was the main reason for the lower share price valuation of BP versus its oil major peers.

Deshpande said a reduction of BP's Russian exposure would not be easy and buyers were limited. They could include China, if cleared by the Kremlin, or Rosneft itself, he said, though the state-owned Russian oil group could have problems financing a deal given its limited access to capital because of sanctions.

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It has set aside provisions of $42 billion for cleanup, compensation and damages arising from the Gulf of Mexico spill, including $3.5 billion for fines under the Clean Water Act.

Thursday's ruling could make BP liable for up to $17.6 billion under that act if its appeal is denied, potentially leaving it with a significant shortfall to make up.

"This decision represents another step in the process, but there is a long way to go in resolving this issue," BP chief executive Bob Dudley wrote to employees in an internal memo, seen by Reuters.

BP's stock was up around 1 percent by 11:45 a.m. GMT, as analysts played down the immediate impact on the company.

"A lengthy appeals process reduces the net present value of the fine. We note that Exxon took almost 20 years to settle the 1989 Valdez spill," said analysts from Investec.

Barclays also said it was likely to be a number of years before any fines were paid. The next phase of a civil trial over the accident is scheduled for January 2015.

No Dividend Impact

Citi said it was raising its rating on BP shares to "buy" from "neutral" following Thursday's drop — raising its price target to 510 pence from 480 pence — and Standard & Poor's also said it was maintaining its "buy" recommendation.

BP stock is still down 30 percent since before the 2010 oil spill, while Britain's benchmark FTSE 100 equities index is up 25 pct over the same period.

The new ruling comes as oil majors are already suffering pressure from shareholders to control escalating costs, so BP may have to take an even harder look at projects before going forward with them.

Besides BP's Russian exposure, analysts have highlighted an Alaskan natural gas project that could cost between $45 billion and $65 billion, BP's U.S. fracking unit that has so far failed to deliver and the Mad Dog 2 platform in the Gulf of Mexico that was put on standby in 2013 because of high costs.

However, the ruling is unlikely to have much impact on BP's dividend payments in the near term, as the company had $27.5 billion in cash and equivalents on its balance sheet at the end of the second quarter.

"We believe the financial implications of this ruling will remain significantly below the maximum — the Citi estimate is $8.2 billion — a sum that should not impact on BP's ability to fund future growth ambitions nor shareholder dividends," Citi said in a note.

Investec said a less quantifiable factor, though, was the impact of the gross negligence ruling on BP's global reputation.

"Could they find it harder to win new business?," asked analyst Neill Morton.

BP could once again find itself excluded from new business with the U.S. government, including lucrative contracts with the military and deepwater drilling licenses in the Gulf of Mexico. Washington removed in March a two-year ban on BP that was imposed for "lack of business integrity."

"I'm not buying BP here. The ruling opens up the door in the United States to more fines for BP," said Beaufort Securities sales trader Basil Petrides. "The U.S. government has got its knife out for BP and is sharpening the blade."