Gulf crisis stokes Washington-London tensions

By Jean Shaoul
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BP's criminal actions in the Gulf of Mexico have generated a huge crisis for British capitalism and the City of London. This is not because the disaster has cost the lives of 11 oil workers, wrecked the livelihoods of tens of thousands of workers and created the world's largest environmental disaster. Far from it.

It is because yet another British-based company faces a possible threat to its existence. Having lost its engineering and manufacturing base, the British financial elite has for years been dependent upon the banks, insurance and oil. With the collapse of Britain's banks, BP is not only its premier company, it is also the emaciated edifice upon which finance capital depends.

BP's annual dividend accounts for £1 in every £7 of dividends paid out by British companies.

BP is the most important holding for nearly half of the UK's equity income funds, with some holding as much as 10 percent of their stock in BP, particularly following the banking collapse. But it is not just UK pension funds that depend upon BP, so do California retirement system Calpers, the Teacher Retirement System of Texas and Ohio Public Employees Retirement System. As a result, some insurance and pension funds have reduced their holdings, but most have few alternatives.

BP's share price has fallen by more than 40 percent since the disaster, its lowest level since 1997, while the cost of insuring its debts against default has risen to junk bond levels. This is despite the fact that BP is predicting free cash flow, after both operating and capital expenditure but before dividends, of about $11 billion for 2010, $22 billion for 2011 and $23 billion for 2012, assuming oil prices do not fall below $80 a barrel as a result of the recession.

While BP is unlikely to have to pay all the costs and fines in connection with the disaster immediately, it is clear that this leaves no room for dividends and must eat into BP's future investment plans—already low compared to other oil majors—under conditions where its existing gas and oilfields are running dry. Moreover, it has room to borrow only another $18 billion.

The firm, for years a blue chip company, has now become the most frequently traded stock among private clients. There is now talk of BP putting its US business, the former Amoco and Arco companies which it bought in 1999, into Chapter 11 bankruptcy protection, which would then allow BP to be sold off piecemeal.

But the scale of the claims that BP faces—the cost of the cleanup, fines and compensation to those hurt by the disaster is escalating by the day—could also take its insurers down with it, unless criminal charges render at least some of BP's insurance invalid.

BP has announced that it is withholding this quarter's dividend, worth about $2.62 billion or $10.5 billion a year. This is many times more than the company has spent so far on cleaning up the greatest environmental disaster in US history. While the oil company initially made the offer to ward off criticism from President Barack Obama as part of a public relations exercise, it is now staring bankruptcy in the face.

Last week Obama demanded BP pay the wages of rig workers laid off by other firms because of the six-month moratorium on deepwater drilling in the Gulf. On Wednesday, BP agreed to deposit up to $20 billion—a sum equivalent to just two years' dividends—into an escrow account to meet the rising cleanup and compensation costs. Obama also told the company to come up with new plans to capture more of the oil from the leaking well.

Obama's purpose in upping the pressure on BP is to reach some sort of agreement that the administration hopes will curb growing popular outrage over the disaster while preserving the longer-term interests of BP and the oil industry as a whole.

BP also faces at least $14 billion in fines, $4,300 for each barrel of oil spilt, as the estimates of the daily amount of oil leaking and the time it will take BP to plug the leak rise. But even this underestimates the scale of the fines, based as it is on a daily leakage of 30,000 barrels a day. US government-sponsored scientists have now put an upper figure at 60,000 barrels a day, and this could still rise.

The City and the media were appalled at this turn of events, which they saw as a major threat to the financial elite. Nothing and no one must interfere with the divine right to dividends, not even for a few months.

The response was rabid nationalism, jingoism and anti-US rhetoric. There were cries that Obama had singled out BP rather than US subcontractors such as Halliburton for criticism, and demands that Prime Minister David Cameron defend the British company from US attacks, including US threats to prosecute the company and remove the statutory cap on BP's liability.

Norman Tebbit, a cabinet minister under Margaret Thatcher, lambasted Obama in the *Daily Telegraph* for being "despicable" and "xenophobic". This was a reference to Obama "harping on" about "British Petroleum", BP's former name.

Boris Johnson, the Conservative Mayor of London, ranted about "the anti-British rhetoric that seems to be permeating from America" and said this might damage UK interests.

The *Daily Telegraph*, in an article headlined "Obama's boot on the throat of British pensioners", highlighted the impact of the fall of BP's share price on the London Stock Market and on pension funds, which have invested heavily in BP.

The *Telegraph* editorialised, "BP's shareholders, many of whom invested in the company after being let down by the banks, have every right to feel angry at the prospect of losing their dividend". This was, it said, grossly unfair, since Transocean, the Swiss-based company, part owned by BP, which owns the Deepwater Horizon rig that caused the explosion, would be paying out a $1 billion dividend.

A *Financial Times* editorial chastised the entire administration, from Obama down. It complained about the "vituperative statements" emanating from the White House, such as Obama's statement that he wanted to know "whose ass to kick" and the White House's "ratcheting up of the pressure" on BP.

The British government has traditionally had a very close relationship with BP. Labour Prime Minister Tony Blair's former personal assistant, Anji Hunter, quit Downing Street in 2001 to work for six years as director of communications for BP. Last year, after lobbying by the company, Labour ministers supported the release of Abdel-baset al-Megrahi, the man convicted of the Lockerbie bombing, as a sweetener to clinch a £500 million oil deal with Libya.

This has continued with the Conservative government. David Cameron and the Chancellor of the Exchequer George Osborne intervened to squash any notion that they were hanging BP out to dry. Both spoke to Carl-Henric Svanberg, BP's chairman, urging him to find a "constructive solution" to the crisis.

Cameron said, "We need to be clear that BP needs to do everything it can to deal with the situation *and the UK government stands ready to help*" (emphasis added).

He did not, however, say what the government would do other than plead BP's case with Obama before a visit to Washington next month. Obama, for his part, told Cameron that he did not intend to "undermine" the stock market value of BP.