BP: BEYOND PETROLEUM?

In 1997, John Browne, British Petroleum’s (BP) recently appointed CEO, faced an oil industry plagued by low prices and low profit margins. Even the industry’s largest players faced near constant financial problems. As boss of BP, Browne was leading a regional, vertically-integrated oil company with a significant size disadvantage compared to leading competitors and no apparent way to differentiate itself. Contemplating his firm’s future, Browne soon decided that BP would have to become a global oil giant – and the world’s first green petroleum company.

History of BP

Founded in 1908 to extract newly discovered Persian oil under an agreement between the United Kingdom and Persia, BP was originally known as the Anglo-Persian Oil Company. It enjoyed strong support from the British government, which was deeply concerned about the growth of large international competitors such as Standard Oil in the U.S. and Royal Dutch Shell, two firms that had already become major players in the young and growing oil industry.

During its first several decades, the business activities of the Anglo-Persian Oil Company – which later changed its name to Anglo-Iranian Oil Company – exclusively involved the production of Iranian oil. However, after Iranian Prime Minister Muhammad Mossadegh nationalized the country’s oil industry in 1951, Anglo-Iranian diversified its geographical base by adding production in several other Middle Eastern nations. As a consequence, the company changed its name again, this time to British Petroleum.

Eager to protect itself from potential political turmoil in the Middle East, British Petroleum sought to expand by joining its competitors in the pursuit of oil in Alaska’s Prudhoe Bay and in the North Sea. The success of its Alaskan oil fields prompted a search for an American retail presence, which it was lacking at the time. A 1969 deal with the Standard Oil Company of Ohio (Sohio), a surviving piece of the original Standard Oil company that had been broken up by U.S. courts in 1911, combined BP’s growing Alaska production with a domestic U.S. retail network. By 1978, BP controlled the majority of Sohio and in 1987 it acquired the remaining 45 percent, making the U.S. firm BP’s first major foreign acquisition.

Fueling BP’s growth in the 1980s was the British government’s decision to sell its remaining stake as part of Prime Minister Margaret Thatcher’s broader privatization and market liberalization strategy. The Sohio acquisition had made BP a major gasoline retailer, enabling the company to join the ranks of vertically-integrated oil firms. BP continued its expansion through several smaller acquisitions in the 1990s. But its boldest move did not come until the end of the decade, when BP finally joined the ranks of global oil industry giants. In August 1998, BP announced plans to merge with U.S.-based Amoco, making the combined entity the world’s third largest oil company. The BP-Amoco deal was announced just as crude oil prices reached $11.80 per barrel, their lowest level in 25 years. In a statement released at the time, Browne said:

*Scan the QR Code in order to access multimedia content.  
http://multimedia.ie.edu/productos/bp_mobile
International competition in the industry is already fierce and will grow more acute as new players emerge. In such a climate the best investment opportunities will go increasingly to companies that have the size and financial strength to take on those large-scale projects that offer a truly distinctive return.¹

The merger of BP and Amoco set off a wave of consolidation activity in the industry. Though Exxon had remained the largest firm in the industry, followed by Royal Dutch Shell and now BP Amoco, the industry leader responded by merging with its U.S. rival Mobil in December 1998. Not wanting to be outdone, BP in turn merged with Atlantic-Richfield Company (ARCO) and further consolidated its position among the top. Another round of mergers among U.S. firms produced two other giants, ChevronTexaco and ConocoPhillips. Oil industry consolidation had been achieved in less than two years.

In this newly configured industry, BP would triple its revenues and grow its profits four-fold in less than a decade. In 1997, BP had earned $5.7 billion on revenues of $91.7 billion. By 2006, total revenues had reached $266 billion and the company recorded $22 billion in profit.

THE OIL INDUSTRY

The oil industry’s six ‘supermajor’ oil companies — ExxonMobil, ChevronTexaco, and ConocoPhillips of the U.S., Dutch-British Royal Dutch Shell, France’s Total, and BP — are active in nearly every part of the petroleum business. Their operations are divided into upstream divisions, which include the exploration, drilling, and operation of oil wells, and downstream divisions, which include oil refinery, petrochemical processing, distribution, and retail facilities. While large oil companies often outsource several of these components to a variety of oil services firms, all six supermajors are active in all parts of the value chain.

Supermajor oil companies make enormous investments in exploration, negotiation of royalty fees with local governments, and in drilling and well construction. These companies supervise projects across most or all major oil-producing regions of the world. Development costs vary widely depending on where reserves are located. One of the more cost effective, recently discovered mainland Chinese fields was estimated to cost roughly $450 million dollars for every one million barrels of oil annual capacity.² Offshore drilling, in contrast, is much more expensive. Petrobras, the Brazilian state-controlled oil giant, estimates that the newly discovered massive Tupi oil field off the Brazilian coast will cost between $70 billion and $120 billion to develop.³

While the largest companies are in the strongest position to launch new exploration projects and may have a cost advantage, the industry remains fragmented. ExxonMobil, as the world’s largest commercial producer, controls roughly 3 percent of global oil production. Large state-owned oil companies, particularly in Saudi Arabia, Russia, and China control far greater reserves and constitute additional important competition for the global supermajors.

ROLE OF GOVERNMENT

Almost since its inception, the oil industry has been a strategic industry, both for oil-producing countries and for consumers. Governments have therefore been closely involved in many aspects of the industry and private oil companies tend to act under considerable regulatory scrutiny. For producing countries, oil often constitutes a critical source of government revenues and exports. For consumers, oil is a principal source of energy, the fuel for millions of cars and trucks, and therefore a principal input factor for all kinds of economic activity. Security of supply and affordability have

thus been principal public policy concerns. Environmental concerns have become an additional, increasingly-important factor shaping policy a regulation vis-à-vis oil and petroleum products.

Because oil producers derive much of their profits from resource rents, governments have created royalty and tax policies that divert a substantial proportion of these revenues to various government entities. For some oil-producing nations, these taxes and royalties are the primary source of government income. As such, changes in the price of oil can have large effects on annual public budgets. For example, when the price of crude oil increased dramatically in 2004, the Kuwaiti government reissued its budget forecasts, replacing a $10 billion deficit with a $9 billion surplus.4

Governments have also upheld tight regulatory oversight over the industry as a means of maintaining strategic control over oil supplies. The Organization of Petroleum Exporting Countries (OPEC) was founded in 1960 and since then has occupied a central role in oil supply and pricing. The organization, whose twelve members jointly control about two thirds of proven oil reserves and include countries such as Saudi Arabia, Kuwait, the United Arab Emirates, Iran, Nigeria, and Venezuela, states that its objective is:

[To co-ordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry.5]

In reality, however, OPEC has essentially been a price cartel that seeks to keep prices up by restricting output.

If stabilizing the market is OPEC’s goal, its performance is quite poor. For example, when OPEC elected to discontinue shipments of oil to countries that supported Israel in its conflicts with Arab nations in 1973, the price of oil spiked and the United States and much of Western Europe experienced serious fuel shortages. In the following 20 years, oil prices fluctuated dramatically in response to changing demand patterns, production impasses, or economic forecasts.6 More recently, Hurricane Katrina in the United States disabled a number of offshore platforms and onshore refineries, prompting a dramatic rise in the oil price. The U.S. government responded by releasing petroleum from the nation’s Strategic Petroleum Reserve, which provided but limited relief on the price of crude oil and gas prices at the pump.7 Neither OPEC nor the major oil consuming countries have done a very good job in price stabilization.

Besides the ‘high politics’ shaping oil production and consumption, many governments are also closely involved in the technical regulation of drilling, refining, and distribution. Since virtually all steps in the value chain involve considerable health, safety, and environmental hazards, regulatory oversight is required to establish acceptable levels of risk. For oil producing companies, risk management became a major concern following the Exxon Valdez oil spill in March 1989, when a tanker accident in Alaska devastated coast lines and maritime life. Public outcry led to the passage in the U.S. Congress of the Oil Pollution Act of 1990, which, in addition to requiring spill contingency plans from oil shippers and setting stricter consequences for oil spills, required all U.S. oil shippers to phase in the usage of double-hull oil tankers.8

The industry’s regulatory environment has been subject to frequent shifts, often in response to concerted lobbying either by the industry or its critics. Whereas the Clinton Administration had tightened health and safety standards in U.S. during the 1990s, for instance, the regulatory

---

5 OPEC website (http://www.opec.org/aboutus/history/history.htm)
6 See Exhibit 1

*Scan the QR Code in order to access multimedia content about OPEC. http://multimedia.ie.edu/productos/bp_mobile/history.html
environment relaxed considerably under the Bush Administration. President Bush issued revised air pollution regulation in August 2003, loosening existing requirements for aging refineries to install advanced pollution controls. Even though the U.S. Court of Appeals for the District of Columbia eventually struck down the changes in March 2006, ruling that they violated the original Clean Air Act, the Environmental Protection Agency (EPA) reduced its inspections and relied instead on voluntary cooperation.¹⁹

ENVIRONMENTAL CHANGE: IMPACT ON THE OIL INDUSTRY

Beginning in the 1980s, scientists began to express increased concern about the effects of carbon emissions on the environment. Of particular concern was a theory that many years of man-made carbon emissions had contributed to create a so-called ‘greenhouse effect’ – an increased concentration of carbon dioxide and other gases trapped a greater-than-usual share of the sun’s energy in the earth’s atmosphere, thereby causing temperatures to rise across the globe by as much as 1°C per decade. This would, in turn, cause the melting of glacial ice and rising sea levels around the globe. Other possible consequences of the greenhouse effect include dramatic climate change, leading to desertification, increased flooding, and intense storms and other natural disasters.

Since the mid-1980s, oil industry executives and lobbyists have been locked in a battle with both scientists and NGOs about the industry’s role in combating climate change, who should pay for the increased expenses of cleaner operations, and about whether or not the science supporting climate change theories is sound enough to justify costly measures. Oil production, refinement, and distribution are energy- and pollution-intensive activities. Flaring, the burning of gas that accumulates as oil is pumped out of the ground, is a particularly wasteful, but very common practice. The industry has thus a considerable direct “carbon footprint”. But through its role as provider of carbon-based fuel for transportation and energy production, the industry has a much greater indirect impact on the environment and has therefore been at the center of political and regulatory debates. Much of the controversy has focused on the question whether it would be more effective to reduce emissions on the production or the consumption side, and which measures could deliver best results at the lowest cost.

As the end of the decade approached, the debate over global warming began to reach the highest levels of government. British Prime Minister Margaret Thatcher gave an important speech in 1988 about environmental concerns that were increasingly threatening the globe, including global warming, acid rain, and holes in the ozone layer. Global warming had not yet attained substantial public awareness as an issue of concern, and many scientists were skeptical of its validity as a scientific theory. Due in part to her background as a scientist, Thatcher stepped forward to call for inquiries into the science behind global warming, its potential impact on society, and the time frame over which expected changes would materialize. “In the past when we have identified forms of pollution, we have shown our capacity to act effectively,” she said. “Even though this kind of action may cost a lot, I believe it to be money well and necessarily spent because the health of the economy and the health of our environment are totally dependent upon each other.”¹⁰

But Thatcher’s was one of the few calls to action on the issue of global warming, and it went unheeded for quite some time. In 1992, the United Nations hosted its Conference on Environment and Development, better known as the Earth Summit, in Rio de Janeiro. The resulting document was entitled the United Nations Framework Convention on Climate Change, which aimed to curb emissions of greenhouse gas in order to reduce global warming. The treaty provided for a series of

---


*Scan the QR Code in order to access multimedia content about the Greenhouse Effect. http://multimedia.ie.edu/productos/bp_mobile/greenhouse.html*
'protocols,' which would set specific emissions goals that the contracting parties would agree to achieve before certain dates.

The most important of these protocols was the Kyoto Protocol, which was adopted in 1997 at a conference in Kyoto, Japan. The principle objective of this agreement was a reduction of emissions between 6-8 percent below 1990 levels across a large number of developed countries by 2008-2012. The agreement appeared to be an important symbol of progress but its true success rested on ratification by the U.S., the largest overall and per capita emitter of carbon dioxide. Following Vice President Al Gore’s leadership on the issue, President Bill Clinton signed the agreement committing the U.S. to binding reductions. However, Clinton never submitted the treaty to the U.S. Senate for ratification in light of the Republican-controlled chamber's hostility to the agreement. Soon after taking office, President George W. Bush explicitly rejected the agreement in March, 2001. World leaders condemned the move, calling it a short-sighted reaction and proclaiming it a major setback to the worldwide push to combat climate change.11

Within the U.S., the legitimacy of climate change science continued to be a hotly contested issue. While the science is almost universally acknowledged in other developed countries, oil companies have spent millions of dollars discrediting climate change science, lobbying politicians to avoid stricter regulation, and creating public relations efforts that are intended to foster public skepticism of the issue’s significance in the United States. The Global Climate Coalition, which had almost universal support of the oil industry during the 1990s, was an industry lobby group that opposed any significant action to curb greenhouse gases. Later reports found that George W. Bush, a Texas native with strong personal ties to the oil industry, had sought the advice of ExxonMobil executives when deciding his personal stance on the Kyoto Protocol.12

Many scientists, nonprofit organizations, and environmental lobby groups have fought back, accusing the oil industry of distorting science and using its extensive political influence to avoid paying for the costs of lower emissions. Much of this criticism has been targeted specifically at ExxonMobil, the largest contributor to political campaigns of any oil company and the most aggressive opponent of climate change science. Greenpeace produced an extensive website called Exxonsecrets.org, which displayed an intricate web of scientists, politicians, think tanks, and research institutions, demonstrating step-by-step “how ExxonMobil funds climate change skeptics.”13

BP BREAKS RANKS

On May 19th, 1997, in a speech at Stanford University, the school from which he had obtained an engineering degree many years before, BP CEO John Browne rocked the petroleum world: not only did he become the first oil industry CEO to acknowledge that global climate change indeed posed a serious and potentially catastrophic threat, but he also announced that BP was going to do something about it. “The journey has begun, and must continue,” he intoned. Although he conceded that scientific research had by no means reached a consensus on global climate change, Browne urged that “it would be unwise and potentially dangerous to ignore the mounting concern.” In his speech, he promised that BP would address the problem by financially supporting international research efforts, investing in alternative energy technology, particularly solar, and by monitoring its own emissions.14

12 John Vidal, “Revealed: How Oil Giant Influenced Bush,” Guardian Online, 8 June 2005 (http://www.guardian.co.uk/climatechange/story/0,12374,1501646,00.html)
13 “Exxonsecrets.org: How ExxonMobil Funds the Climate Change Skeptics” (http://www.exxonsecrets.org)
14 John Browne, Speech at Stanford University, 19 May 1997 (http://www.bp.com/genericarticle.do?categoryId=98&contentId=2000427)
*Scan the QR Code in order to access multimedia content about the John Browne’s strategy. http://multimedia.ie.edu/productos/bp_mobile/john.html
In terms of BP’s direct greenhouse gas emissions, Browne was sure to point out that “as a company, our contribution is small.” He stated that BP’s worldwide exploration and refining operations produced about eight megatons of carbon a year, and its chemical operations produced one megaton. If one added to this the emissions produced by consumption of BP products, the total rose to 95 megatons – in total, according to Browne, “just one percent of the total carbon dioxide emissions which come from all human activity.” Nevertheless, Browne promised that BP would be establishing a database, marking benchmark data, and developing target goals as their research continued. “Our goal is to eliminate flaring except in emergencies,” he said. He noted environmental steps that the company had already taken, such as reducing flaring in Norway to less than 20 percent of previous levels from 1991 to 1997, investing $100 million to eliminate emission of volatile compounds in Scotland, or reducing oil discharges in the North Sea. He stressed that “no legislation has compelled us to take that step – we’re doing it because we believe it is the right thing to do.”

Browne, while acknowledging that oil would continue to supply the majority of the world’s energy for some time, also put stress on the potential of solar power. “At the moment solar is not commercially viable,” Browne said, admitting that the current “best technology produces electricity at something like double the cost of conventional sources for peak demand.” But he stressed that “technology is advancing…with appropriate public support and investment I’m convinced that we can make solar competitive in supplying peak electricity demand within the next 10 years.” He announced BP’s goal to extend the reach of solar energy, particularly in the developing world.

The last measure Browne discussed at length in the Stanford speech involved BP’s initiatives to fund ongoing climate change research and alternative energy research in cooperation with international organizations. He announced partnerships with the Battelle Institute, the greenhouse gas program of the International Energy Agency, and reforestation programs in Turkey and Bolivia. The Battelle Institute would be working to develop a technology strategy for BP, while the International Energy Agency would work specifically on reducing emissions from fossil fuels. “That support will be focused on finding solutions and will be directed to work of high quality which we believe can address the key outstanding questions,” Browne said. He pointed out that these efforts were only a beginning, saying “We need to experiment and to learn and we’d welcome further partners in the process.”

This cataclysmic speech represented the beginning of a drastically different tack in BP’s corporate strategy. While BP was taking a serious risk, hopes were high that a more environmentally-friendly stance would enhance relationships with the public, governments and outside institutions, and ultimately, improve its bottom line. Dick Olver, BP’s Head of Exploration and Production, left no doubt what was driving the shift: “This was a business decision, a cold hard way of getting competitive advantage by taking a distinctive position.”

Browne stressed in his speeches the importance of corporate social responsibility, particularly the burden that he believed rested on the oil industry. “I believe the [people] expect a company like BP (...) to offer answers and not excuses. People expect successful companies to take on challenges, to apply skills and technology and to give them better choices. Well, we are ready to do our part – to reinvent the energy business, to stabilise our emissions — and, in doing so, to make a contribution to the challenge facing the world.”

There was potential in BP’s plan to increase efficiency in production and save the company money. Avoiding the flaring or venting of natural gas that accumulated during oil production was only the most obvious example of wasteful pollution. Gas flaring worldwide contributed 390 million tons of

---

15 Ibid.
16 Ibid.
17 Ibid.
18 Ibid.
19 Quoted in “Global Climate Change and BP Amoco,” Harvard Business School case # 9-700-106.
carbon dioxide emissions per year.\(^{20}\) BP, in its promise to end flaring, to capture the gas instead, and to find a market for it, was looking to both conserve and add to the bottom line at the same time.

**INITIAL REACTIONS**

Although BP did not work to publicize Browne’s Stanford speech to any great extent, there was significant and largely favorable press coverage. “BP’s stance sets a higher standard against which to judge other companies’ readiness to cooperate with efforts by governments to fight climate change,” wrote Leyla Boulton in the *Financial Times.*\(^{21}\) James Gerstenzang, commenting in the *Los Angeles Times,* compared the move to the Liggett Group’s admission that smoking causes heart disease. Environmental groups also praised Browne’s pronouncement, including the Sierra Club: “They’re doing something, and they’re doing something in the right direction. One cheer for BP.”\(^{22}\) Some believed the initiative would change the industry’s strategic landscape. The head of California’s Environmental Protection Agency, for instance, told the press that “This bold move will set the stage for other companies to emulate.”\(^{23}\) Greenpeace, however, maintained that BP’s promises were only that, promises. “Greenpeace will continue to oppose BP and other oil companies which continue to expand the oil reserves of industrial countries,” said a spokesperson.\(^{24}\)

Other significant players in the oil industry privately expressed betrayal at BP’s defection on the climate change issue. The front of big oil, once uniformly in denial of global warming, was now split. “He’s out of the church,” one anonymous industry leader told the *Los Angeles Times* in reference to Browne.\(^{25}\) Chevron’s general manager of health, safety and environment in San Francisco expressed concern that efforts to reduce greenhouse gas emissions would “severely disrupt economies – and later prove to be unnecessary.”\(^{26}\) It seemed that oil industry competitors were already feeling the pressure from BP’s decision to go green. BP had quietly quit the Global Climate Coalition, the oil industry’s anti-environmental lobby group, in 1996. With the company’s much more public position following the Stanford speech, other companies began to follow its lead.

Inside BP, there was also a spectrum of opinions. Many employees felt good that their company was ready to make a positive contribution to the environment. However, there was also some skepticism. Some employees felt that BP’s green turn could not be genuine, or, alternatively, that for an oil company to try to embrace environmentalism was simply not a viable business strategy.

**BP MAKES GOOD ON ITS PROMISE**

Less than a year after the Stanford speech, Browne was ready to make an even stronger commitment. He publicly announced that BP would cut its own emissions 10 percent by 2010. The 10 percent goal was to serve as a “stretch target” – while BP’s engineers were reasonably confident that a reduction of this order could be reached, they did not know exactly how. To reach the goal, BP worked with the Environmental Defense Fund, a U.S.-based NGO, to create an internal emissions trading for greenhouse gases within the company. Each business unit received an initial allocation of emissions credits and managers could buy or sell these credits on an internal carbon exchange. This cap-and-trade system enabled business units that achieved emissions


\(^{23}\) Glennnda Chui, "Climate change: oil company exec outlines action agenda," *San Jose Mercury News,* 21 May 1997.


\(^{26}\) Glennnda Chui, "Climate change: oil company exec outlines action agenda," *San Jose Mercury News,* 21 May 1997.
levels below their target amount to sell surplus credits to other units that had been unable to reach their targets. A central emission trading team was formed, and business unit managers’ carbon performance became part of their overall performance assessment. BP’s emission trading system became a model for many other companies and later served as the blueprint for the European Union’s Emissions Trading Scheme (ETS), an intra-firm trading platform designed to achieve Europe’s commitments under the Kyoto Protocol.

BP’s internal cap-and-trade system was widely praised as enabling the company to reach its ambitious emissions reduction target in 2002, eight years ahead of schedule.27 Browne insisted that “the 10 percent reduction over four years had been achieved at no net cost to the company,” and he vowed the company would henceforth grow with zero additional emissions “despite plans to grow its oil and gas production by 5.5 percent a year.”28

The oil company also boosted its commitments to solar energy with the purchase of Solarex in 1999 for $45 million, combining it with BP Solar to form BP Solarex. This made BP the largest solar power company in the world. As Browne affirmed, “This acquisition is another significant step towards our target of building a $1 billion solar business over the next decade.”29 Shortly thereafter, BP announced that it would be installing solar panels on over 200 of its gas stations.

As far as its research commitment was concerned, BP began to partner with universities and research centers around the world. At Tsinghua University in China, BP provided $500,000 to establish a Clean Energy Center. The company also worked with Imperial College in London to establish an $8 million project to study urban energy needs. At Stanford University, BP sponsored a $2 million research program on “the public policy aspects of modern energy markets.”30

Building on these initial commitments, BP announced a much more ambitious investment in 2006. Under Browne’s leadership, the company vowed $500 million over ten years to establish an Energy and Biosciences Institute, which, it proclaimed, would “carry out radical research to probe the emerging secrets of bioscience” and apply them to “the production of new and cleaner energy.” BP was hoping to attach the institute to a leading university in either the United Kingdom or the United States. “By creating this integrated and dedicated research centre, we plan to harness a technical discipline with enormous potential to provide new energy solutions,” said Browne.31

BP’s 2002 Sustainability Report boasted a variety of additional accomplishments. The company proudly reported “its best ever performance on safety, with 40 percent fewer accidents resulting in time off work and 16 workplace fatalities compared to 23 the year before.” Moreover, process improvements had resulted in a 70 percent reduction of water use in BP’s facilities, the company had voluntarily adopted strict human rights principles to guide its international operations, and it was proud to announce that employee satisfaction around the world had improved considerably.

BP also took another, highly-visible step to make good on its pledge to be a different kind of oil company. In 2002, it formally left Arctic Power, a group which had been lobbying for oil exploration in the Arctic National Wildlife Refuge in Alaska in opposition to a broad coalition of environmentalists and conservation groups. BP claimed that it had never been an active member of Arctic Power and that it therefore simply made sense to “take [the issue] off the plate.” The Green Century Balanced Fund praised the move, saying that “BP’s decision is an important step forward for efforts to permanently protect the Refuge…and we hope that other companies will consider taking a similar step.”32

30 “Our Actions,” BP website (http://www.bp.com/sectiongenericarticle.do?categoryId=9015929&contentId=7029024)
31 “Our Actions,” BP website (http://www.bp.com/sectiongenericarticle.do?categoryId=9015929&contentId=7029024)
“BEYOND PETROLEUM”

Almost from the beginning, BP was eager to capitalize on its newfound environmentalism. The first step was to redesign its logo, replacing the characteristic shield with an eco-friendly green, yellow and white flower. It was reported that BP spent $7 million developing their new logo.\textsuperscript{33}

BP also launched full-force into a new global advertising campaign, called “beyond petroleum,” the campaign aimed at remaking the company’s image by stressing its commitment to alternative energy and the fight against climate change. Print ads featured bold phrases like “It’s time to turn up the heat on global warming,” “For finding energy, there’s no place like work” or “Solar energy, aisle four,” and then provided detailed information in smaller print on some of BP activities or products.

TV advertising featured seemingly random people being interviewed on the street about climate change or oil companies’ responsibilities. The people, described in the transcripts as “middle aged business man” or “young Asian woman,” usually expressed concerns about global warming, highlighting that governments and business were not doing enough, and concluding, for example, by telling the camera, “We need to deal with it today.” Each series of interviews was followed by some brief facts about what BP was actually doing, or planning to do. These included toutin the company’s solar, wind, or biofuel investments, highlighting emissions reductions due to the use of natural gas instead of oil for electricity generation, or simply reminding viewers that BP had been “the first major oil company to publicly acknowledge global warming.” To manage expectations, the screens of BP achievements were often followed with a simple “It’s a start” before cutting to the logo and the “beyond petroleum” slogan.

Another set of ads raised the concept of the “carbon footprint,” or each person’s personal contribution to global warming. The TV advertisements asked, “What size is your carbon footprint?” and showed a dozen or so people unable to answer the question. The concluding text across the screen said, “Reduce your carbon footprint. First find out what it is: Visit us at bp.com/carbonfootprint.” In this way, viewers whose interest had been piqued by the cryptic advertisement were encouraged to visit BP’s website, where they could calculate their individual environmental impact by answering a few questions and learn about ways to reduce overall emissions.

The major characteristics of BP’s advertising campaign was the feature of “ordinary” people of all backgrounds that viewers could relate to, contrasting their concerns about global warming with concrete steps the company had taken or was taking, assigning a degree of personal responsibility to combat global warming (“carbon footprint”), and reminding viewers that BP could only do so much so quickly (“It’s a start”). Every spot concluded with the new BP flower logo and the words “beyond petroleum.” Reportedly, BP spent over $100 million per year on the campaign.\textsuperscript{34}

GREEN DELIVERS

On multiple dimensions, the new green strategy appeared to deliver the kind of results the company had been hoping for. By 2002, BP had reduced its direct greenhouse gas emissions from 95 million tons of CO\textsubscript{2} equivalent to just above 80 million tons.\textsuperscript{35} The company had thus reached the 10 percent goal in only four years, way ahead of the self-imposed 2010 deadline.


\textsuperscript{34} Darcy Frey, “How Green is BP?,” The New York Times, 8 December 2002.


*Scan the QR Code in order to access multimedia content about the Beyond Petroleum campaign. http://multimedia.ie.edu/productos/bp_mobile/BeyondPetroleum.html*
BP’s financial performance during this period was outstanding. The company’s share price had risen more than 70 percent between Browne’s Stanford speech and the end of the decade. Even though it fell again somewhat in 2001 and 2002, it remained on average about 40 percent above the level just prior to the company’s green turn and later climbed to twice that level. Earnings were impressive and earnings growth was phenomenal. BP recorded profits of $6.8 billion in 2002, $10.5 billion in 2003, and $17.3 billion in 2004. While ExxonMobil, the industry’s number one, considerably exceeded these figures with $11.5 billion, $21.5 billion, and $25 billion respectively, BP not only beat its rival in earnings per share in both 2004 and 2005, but also recorded an impressive 124 percent increase in per share earnings between 2003 and 2005, compared to just 77 percent for ExxonMobil.

In contrast to environmental and financial performance, the effect on the company’s reputation was harder to measure, at least in clearly quantifiable terms. But even here Browne and his associates could identify early rewards for the risk they were taking. The 2001 World’s Most Respected Company Survey, conducted jointly by PriceWaterhouseCoopers and the Financial Times, brought good news as Browne was the highest rated British CEO and fellow CEOs considered BP’s environmental management exemplary. What really was surprising, however, was to “see BP voted top in the environmental league table by the media and non-governmental organizations (NGOs), ahead of Body Shop and even of Greenpeace itself.” According to the Financial Times:

One respondent lauded BP’s ‘efforts to change their image of energy rather than just a petroleum company.’ (…) Several of those questioned were impressed by the way a floundering, two-pipeline company has been turned in recent years into the world’s third largest oil group, while at the same time being, in the words of one CEO, a ‘leader in greening the petroleum industry.’ To carry off this twin feat showed, according to one respondent, the capacity for ‘business building combined with sensitivity to world issues’ and, according to another, the ability to ‘merge environment issues with corporate issues.’

BP scored similarly well in subsequent surveys and managed an impressive feat in 2004 — top ratings from environmentalists for its corporate social responsibility and top ratings from fund managers in the category ‘shareholder value’.

THE COMPETITION Responds

Although BP retained the title of being the first oil company to acknowledge climate change, some of its rivals were not far behind. Royal Dutch Shell was a notable example. Shell executives publicly declared their awareness of global warming shortly after BP in 1997, and invested more than $1 billion in alternative energy and renewables. The company described itself as “a worldwide group of oil, gas and petrochemical companies with interests in biofuels, wind and solar power and hydrogen.” Shell was also the only oil industry giant to make the Global 100 List of Most Sustainable Corporations in 2006.36

While ChevronTexaco and ConocoPhillips did little to promote climate change policies in their corporate communications, both companies took steps towards greater environmental sustainability. ConocoPhillips joined the U.S. Climate Action Partnership, a group that lobbied for mandatory emissions caps, and pledged to spend $150 million in 2007 on alternative energy.37 Chevron, in turn, claims it has reduced its carbon emissions by 24 percent per energy unit produced since 1992.38

Even ExxonMobil, historically the most resistant to acknowledging the reality of global warming, started to take some action, particularly after Rex Tillerson replaced Lee Raymond as the

company’s CEO on January 1, 2006. Raymond, whom Paul Krugman had famously labeled an “enemy of the planet”, had perhaps been the fiercest business critic of concerted action against climate change in the U.S.\(^3\) Under his leadership, the firm long dismissed the reality of global warming and deliberately funded research to dispute the growing scientific consensus on climate change. These efforts had proven effective. One study in the year 2003 found that reporting on global warming in major U.S. newspaper “that a majority of reports gave the skeptics – a few dozen people, many if not most receiving direct or indirect financial support from Exxon Mobil – roughly the same amount of attention as the scientific consensus, supported by thousands of independent researchers.”\(^4\)

While ExxonMobil had taken some steps even before 2006 to soften its edge, Tillerson in particular highlighted the need to improve environmental efficiency, both on the production and the consumption side. The company took steps to reduce flaring and reduced emissions in some refineries by as much as 70 percent. The world’s largest oil company also gave $100 million to Stanford’s Global Climate and Energy Project, where researchers investigated solar energy, hydrogen and the possibility of storing carbon dioxide in underground reservoirs.\(^4\) Wandering beyond its traditional terrain, ExxonMobil teamed up with Toyota to improve battery performance for hybrid cars.\(^5\) Nevertheless, ExxonMobil’s undisputed focus continued to be the exploration, production, and refinement of oil and the company emphasized the growing future need for oil and petroleum products.\(^6\)

**CRUMBLING ENTHUSIASM**

BP’s quest to become the world’s first “green” oil company was not without its critics. Business analysts expressed concern that the strategy would not pay off financially for BP. These critics publicly worried that neither consumers nor investors would sufficiently reward BP for its unusual environmental efforts. Moreover, the risk went beyond quarterly earnings. To some, Browne’s strategic shift amounted to the company making itself a target by raising expectations it could not meet. Others, such as the *Wall Street Journal*, simply called BP bitingly “Beyond PR.”\(^4\)

Indeed, environmental groups became increasingly critical with the evolution of events at BP. They argued that BP, as an oil company, was simply running a marketing campaign intended to divert customers and other stakeholders from thinking about the harmful environmental effects of BP’s activities. “This is a triumph of style over substance,” said Greenpeace. “BP spent more on their logo this year than they did on renewable energy last year…BP doesn’t stand for Beyond Petroleum. It stands for Burning the Planet.”\(^4\)

While growing criticism from environmental groups was certainly disconcerting, things were about to get much worse.

**TRAGEDY IN TEXAS CITY**

On March 23, 2005, an industrial malfunction occurred at a BP refinery in Texas City in the U.S. While an isomerization unit was being restarted after a brief shutdown, an explosion occurred, causing a fire that engulfed a large area around the accident site. Fifteen people were killed from the blast and resulting fire, and 170 others were injured, making the accident one of the worst workplace disasters to occur in recent U.S. history.

---

5. ExxonMobil website (http://www.exxonmobil.com)
10. *Scan the QR Code in order to access multimedia content about the Tragedy in Texas.*

[http://multimedia.ie.edu/productos/bp_mobile/accident-texas.html](http://multimedia.ie.edu/productos/bp_mobile/accident-texas.html)
In addition to causing tragic loss of life and damaging substantial refinery infrastructure, the explosion collapsed the roof of a chemical storage tank located near the immediate site of explosion, which resulted in the release of a cloud of benzene into the surrounding air. This made conditions dangerous for rescuers and investigators.

BP acted decisively in the aftermath of the accident, immediately launching an internal investigation into the causes. It knew that resolute action was the only way to minimize damage to its reputation as a responsible oil company. The internal investigation team published a final report about the causes of the incident on December 9, 2005, but had already published a substantial interim report on May 12 with the purpose of sharing with the public critical information as soon as it had become available. In these reports, details of careless implementation of procedures and a culture ignorant of safety standards began to emerge.

In the months following the Texas City explosion, two more incidents occurred at the same facility. On July 28, a hydrogen gas exchanger pipe was ruptured, causing the eruption of a large fireball. Shortly thereafter, on August 10, a hole developed in a high-pressured gas valve. Within a week, on August 17, the Chemical Safety Board, citing the three serious safety incidents that had occurred at the refinery within a six-month period, recommended that BP executives authorize an external commission to complete a comprehensive assessment of BP’s management and safety practices throughout its North American refinery operations. On October 24, BP announced the creation of such a panel, chaired by former U.S. Secretary of State James Baker.46

Meanwhile, on October 30, the Chemical Safety Board announced the results of its own investigation, finding that BP had implemented a cost-savings plan that had negatively affected the quality of its maintenance programs. Facing difficult market conditions in the late 1990s, BP had implemented an across-the-board 25 percent cut in fixed spending at its refineries.

The results of the Baker-led BP U.S. Refineries Independent Safety Review Panel were published on January 16, 2007. The panel identified several standard safety precautions that BP had failed to implement and concluded that safety concerns did not carry sufficient weight in decision-making. The commission offered several recommendations for improvement, many of which, BP was glad to point out, the company had already implemented in response to its own internal investigations. Responding to the Baker Report, Browne explained: “We asked for a candid assessment from this diverse group of experts and they delivered one. We will use this report to enhance and continue the substantial effort already underway to improve safety culture and process safety management at our facilities... I intend to ensure BP becomes an industry leader in process safety management and performance. We will want to do everything possible to prevent another tragedy like the one that occurred at Texas City.”47

However, Browne did not respond to the Baker Panel’s thinly-veiled criticism of his leadership at BP; “Browne’s passion and commitment for climate change is particularly apparent,” the report states. “In hindsight, the panel believes that if Browne had demonstrated comparable leadership and commitment to process safety, that leadership and commitment would likely have resulted in a higher level of process safety in BP’s U.S. refineries.”48

Even though the panel did not find any direct link between BP's environmental strategy and the tragic accident, some critics took the report to imply that “if Lord Browne had been more concerned with the nitty-gritty of running the business, and less with grand posturing on the side of the environmental angels, those 15 people in Texas might still be alive.”49

OIL SPILL AT PRUDHOE BAY

On March 2, 2006, BP employees discovered a large oil leak in one of its pipelines in the North Slope region, an area used for the transport oil from the Prudhoe Bay region of Alaska. Approximately 6,350 barrels (about one million liters) of oil had spilled out onto the open tundra. The cause was quickly confirmed to be corrosion. Concerned about the possibility of future leaks, the U.S. Department of Transportation ordered BP to complete a thorough inspection of the pipeline to determine whether there was additional corrosion. Environmentalists were dismayed and sharply criticized BP for the incident.

On August 6, BP announced that it had found substantial corrosion in the piping, and that it would begin shutting down the pipeline the following day. The closure of the pipeline necessitated the complete discontinuation of Prudhoe Bay operations, temporary crippling the largest oil field in the United States. This represented a loss of 400,000 barrels of oil per day, or approximately 8 percent of the total daily U.S. output. BP was not able to open the field for several months while it made repairs to sixteen miles of pipeline.

High summer demand, limited refining capacity, and other global oil production disruptions had already pushed oil prices near their highest point ever. The Prudhoe Bay shutdown pushed them up even further, with the price of crude oil increasing a further three percent to $76.98 per barrel. This was significant enough to increase the prices that consumers had to pay at the pump.

BP was blasted by politicians and consumers alike. Edward Mackey, a member of the House Energy and Commerce Committee, raged that “With oil above $70 per barrel and BP making record profits, it can afford to properly clean and maintain its pipelines. This sudden loss of production will dramatically increase oil prices and the American people will be footing the bill for this combined failure of D.O.T.’s regulatory oversight and BP’s corporate responsibility.” The strongest response came from Alaska Governor John Murkowski, who sharply criticized BP. Alaska earned tax and royalty revenues of $6.9 million per day from BP’s operations, and without them, the state was to fall into the red within two months, he explained. Since the state earned 89 percent of its income from oil and had few additional tax revenues, Murkowski was forced to order a hiring freeze on state employees in response to the shutdown. He directed his attorney general to investigate whether BP could be held liable for the state’s lost revenue during the production stoppage, called BP’s management irresponsible, and accused the company of failing to consult with the state before shutting down. “What did BP learn last Sunday that it did not know previously that would cause BP to take such precipitous action?,” Murkowski asked.

THE END OF AN ERA

Having been credited with transforming BP from a regional player into a global oil supermajor, changing the oil industry by taking on the challenge of climate change, and securing the praise of environmentalists and shareholders alike, Browne was highly respected within the industry and in the larger business community. He was honored with the Ernest C. Arbuckle Award in 2001 by the Stanford Business School Alumni Association and voted the Most Admired CEO by Management Today from 1999 to 2002. Immensely popular as a prominent British businessman, Browne was knighted by Queen Elizabeth II in 1998, and took the title Baron Browne of Madingley in 2001.

Lord Browne had been widely expected to retire at the end of 2008, when he was to turn 60. But the series of mishaps in the company’s U.S. operations, low fourth-quarter 2005 production, and a loss of nearly $40 billion in market capitalization during the second quarter of 2006 started to take

---

*Scan the QR Code in order to access multimedia content about the Oil Spill at Prudhoe Bay. [http://multimedia.ie.edu/productos/bp_mobile/oil-spill.html](http://multimedia.ie.edu/productos/bp_mobile/oil-spill.html)
its toll. On January 11, 2007, five days before the publication of the Baker Report and facing heightened scrutiny of his leadership, Browne announced that he would instead be leaving near the end of 2007, a year earlier than expected. At the time, his early retirement was attributed exclusively to BP’s business problems. Brown’s successor was to be Tony Hayward, a company veteran since 1982 and its head of upstream operations. Praising his leadership, BP’s chairman, Peter Sutherland, called Browne “the greatest British businessman of his generation. His vision, intellect, leadership and skill will be difficult to follow.”

But Browne’s desire for an orderly retreat after more than a decade at the helm of BP were disrupted by an embarrassing scandal involving his former lover, British tabloids, and the publication of personal and highly sensitive information. After unsuccessfully fighting the material’s publication in court, Browne resigned from BP on May 1, 2007, and, in doing so, gave up between £4 and £15 million in retirement benefits.

As Browne left office, disgraced, his critics had already reached a verdict about his leadership and BP’s “beyond petroleum” strategy. As one of them pointed out, “Significantly, the world’s largest public oil company, ExxonMobil, has always concentrated on running its business the old-fashioned way, and has resolutely resisted kowtowing to environmental trends or climbing in bed with environmental radicals. It is therefore the most hated of oil companies. However, its price/earnings ratio, at 11.1, is a full point ahead of that of BP, and two points ahead of Shell. Meanwhile, since the announcement of Lord Browne’s departure, BP shares have been on the rise.”

---

Shareholders hoped that Tony Hayward, the new CEO, would rebuild the value of a shaken BP. From restoring BP’s share price, to reestablishing the company’s now tainted reputation, to repairing its North American operations problems, to reenergizing executive morale, Hayward had his work cut out for him. BP briefly had had it all – it was a powerful global oil giant that had been the darling of both investors and environmentalists. What had propelled BP to these heights and what had dragged it down? And what conclusions about the “Browne years” should Hayward draw in shaping the company’s strategy for the future?

---

*Scan the QR Code in order to access news related to British Petroleum.
http://multimedia.ie.edu/productos/bp_mobile/news.html
EXHIBIT 5
CO₂ EMISSIONS BY SECTOR

Emissions distribution by sectors (year 2000).

ENERGY EMISSIONS
- Power (24%)
- Transport (14%)
- Buildings (8%)
- Industry (14%)
- Other energy related (5%)
- Waste (3%)
- Agriculture (14%)

NON-ENERGY EMISSIONS
- Land use (18%)
EXHIBIT 6
GREENPEACE NEWSPAPER ADVERTISEMENT (1997)

EXHIBIT 7
“BEYOND PETROLEUM” CAMPAIGN

Biofuels, solar, hydrogen, natural gas. We think it’s important to diversify, too.

Energy: From the ground, the sun, or both?

It’s time to turn up the heat on global warming.