

But then accounts of prior problems at BP refineries, where accident levels seemed to have exceeded normal industry standards, began to appear. On March 30, 2004, almost a year to the day before the most recent explosion reported here, a blast had occurred at this same gasoline processing unit of this same Texas City refinery. No deaths or injuries had resulted, but a subsequent investigation by the U.S. Occupational Health and Safety Administration resulted in citations for 14 alleged violations of standard operating procedures (*Wall Street Journal*, March 24, 2005, p. A6). And then, just a week prior to the March 24 explosion at Texas City, BP was reported to have settled a large California lawsuit claiming that it had (1) failed to properly maintain the huge storage tanks that are a common sight at most crude oil refineries, and (2) that it had improperly falsified the maintenance records for those storage tanks, at its largest refinery within California. BP agreed in this case to pay a fine of \$81 million for these documented errors. And finally, in September 2004, six months before the explosion that forms the topic of this case, an accidental release of superheated steam at the Texas City refinery had scalded two workers to death and seriously injured a third. The Occupational Health and Safety Administration in this instance charged BP with "intentional disregard of or plain indifference to" OSHA rules (*Wall Street Journal*, March 25, 2005, p. A3). These earlier events expanded the concerns of local residents, state regulators, and federal authorities alike:

[The] deadly explosion at a Texas refinery has increased scrutiny of the safety record at BP P.L.C., which has been dogged by a spate of recent incidents in the U.S., including several at the site of Wednesday's explosion. (*Wall Street Journal*, March 25, 2005, p. A3)

These concerns were further magnified by a rather unusual factor associated with the most recent explosion. Four of the victims were women who worked in an office trailer located only 50 yards from the blast site. There was no official explanation why a wooden office trailer housing clerical personnel had been placed in such close proximity to potentially the most dangerous processing unit within the refinery (*New York Times*, March 15, 2005, p. A3).

In May 2005, two months after the March 25 explosion, BP issued an interim report that laid most of the blame on a small number of employees for "operational and supervisory mistakes." The company did, however, accept overall responsibility for the accident, and said that it had set aside \$700 million to compensate all of the victims (*Wall Street Journal*, December 10, 2005, p. A9).

In September 2005, seven months after the March 25 explosion, the Occupational Health and Safety Administration issued a far more condemning report. This government agency found hundreds of safety violations that it called "egregious and willful," and levied a fine of \$21.4 million. Most of the safety violations were related to (harmlessly incinerated) all leaking gases and sent all leaking fluids to an underground interrelated valves, controls, tanks, flares, and alarms—was found not to have been working properly.

The \$21.4 million fine, though a record size for the agency, was much more a minor matter for BP, which had reported an after-tax profit of \$15.7 billion for the prior year. Far more important to the company, doubtless, were the terms of a three-year

probationary period imposed by OSHA. BP had to (1) request permission from the agency before starting up the totally destroyed isomerization unit after rebuilding was completed; (2) report all accidents and all injuries, regardless of cause, to the agency on a regular basis; and (3) hire outside professionals to review all refinery safety programs and management communication procedures (*Wall Street Journal*, September 23, 2005, p. B1).

All of these events, reports, fines, and requirements came as a surprise to most investors, competitors, and even environmentalists. British Petroleum, long considered a laggard in the global petroleum industry, had apparently been almost totally rejuvenated starting in 1995 by the appointment of John Browne, a Cambridge University-educated physicist, art collector, and opera buff who differed markedly from the traditional image of rough-and-tumble petroleum industry executives, as CEO. The new appointee, however, did have extensive oil field experience. He had joined BP in 1966, shortly after graduation, and then lobbied extensively to be detached from the London headquarters office, which was the traditional training ground for new university hires in Britain, and sent to the North Slope of Alaska. The North Slope at this time was a cold and inhospitable place that was in the midst of an active drilling and development program to gather new supplies to meet the oil shocks and shortages of the 1970s and 1980s caused by two sequential Arab oil embargoes.

John Browne did both manual and managerial work in Alaska for eight years and then, buoyed by that experience on his résumé, rapidly moved up the corporate promotion ladder. He became manager of North American operations (and gained an MBA from Stanford while stationed in San Francisco), vice president for global development, executive vice president for global operations and then, in 1995, at 52 years of age, was appointed president and chief executive officer. BP was a traditional British company, and part of that tradition was the rule that the chairman of the board of directors had to serve in a non-executive position. The chairman oversaw operations; he or she did not direct them.

As president, John Browne quickly began directing operations in a forceful yet urbane way. In 1995, oil prices had fallen from the high levels of the 1980s when there were continual shortages of most petroleum products due to the Arab embargoes. The new supplies from Alaska, South America, and Africa had ended those shortages, created surpluses, lowered the market price for crude oil to \$10 per barrel, and created a totally new set of problems for senior oil company executives.

John Browne convinced members of the board of directors that acquisitions to gain economies of scale and investments to get efficiencies of operation were the only means of survival for an underperforming company under those changed conditions. He quickly negotiated the acquisition of Amoco Oil Company, a mid-sized firm headquartered in Chicago with refining and retail operations in the Midwest, and then a merger with Atlantic Richfield, a somewhat larger Los Angeles firm with extensive holdings in southern California. At the same time, he endeared himself, and his company, to environmentalists when he became the first oil company executive to agree, in 1997, that global warming was real, adopted the "Beyond Petroleum" slogan for BP, and announced active programs to develop less environmentally harmful sources of energy.

The timing for all of these moves could not have been better. BP earnings expanded rapidly as industrial development in China and India created new demands for petroleum products and raised price levels for crude oil over the next seven years from \$10 per