

Hayward loses out in struggle at BP

OIL & GAS

News analysis

Svanberg likely to stay on as chairman to lead search for a new chief executive, writes Ed Crooks

For the past few weeks Tony Hayward and Carl-

tunate necessity of his departure, rather than clamouring for him to leave.

As one person close to the company put it: "Up until April 19 [the day before the Deepwater Horizon explosion], his performance was excellent."

Appointed in 2007 to rectify BP's terrible financial and operational record in the final years of his prede-



Carl-Henric Svanberg (left), Tony Hayward and Bob Dudley leave the White House after meeting President Obama

Reuters

Henric Svanberg have been locked in a battle for survival.

BP's chief executive and chairman have both been savagely criticised for their roles in the Gulf of Mexico crisis, Mr Hayward most strongly in the US, Mr Svanberg by UK shareholders.

Among BP's investors there has been an expectation that both would have to lose their jobs, so that the company could begin to look to the future.

Among BP's board and its advisers, however, there have been deep concerns about the idea of changing both the top jobs at the company simultaneously, leaving BP with a double transition to new leadership when it is in a vulnerable position.

In effect, that has meant that either Mr Hayward or Mr Svanberg would have to go first. It is that battle that Mr Svanberg appears to have won.

Many of BP's shareholders have been very supportive of Mr Hayward. They were resigned to the unfor-

cessor Lord Browne, he seemed to have set the company on the right course. Profits rose sharply relative to BP's peers and the shares outperformed. Meanwhile, measured indicators of safety improved.

Even before any of the investigations into the disaster have concluded, there has been some evidence to suggest that that improvement in safety had not sunk as deeply into the company as Mr Hayward had hoped.

The central reason why

he has had to go, however, seems to be that he has lost the confidence of the US public and politicians.

A succession of perceived gaffes in interviews made him, in the words of the New York Daily News, "the most hated and clueless man in America".

Another person close to BP said the prime criterion for decisions about management was not past performance, but ability to lead the company in the future.

BP still believes it has a future in the US, in spite of the spill, and it would have been impossible to sustain its presence there with Mr Hayward as chief executive.

While his departure was unavoidable, the timing of it was still up for debate.

In British corporate governance, the prime job of any chairman is to hire and, if necessary, fire the chief executive.

Before BP could make a decision on Mr Hayward, it

had to resolve the chairmanship first.

Mr Svanberg's performance during the crisis was attacked by several of BP's leading investors, who felt he had not been sufficiently engaged or doing enough to help and supervise Mr Hayward.

Some of his defenders have said "he has not done anything wrong", to which his critics might retort that he has not done much right, either.

However, his performance on June 16 at the White House to negotiate BP's payment of \$20bn for victims of the spill, when he seems to have struck up a good working relationship with President Barack Obama, has counted in his favour.

Now it looks as though he will be allowed to stay on to lead the succession.

That does not look difficult. The Mississippi-raised Bob Dudley, who has been helping to restore BP's image in the US with his performance as the new head of the company's response to the spill, is the obvious candidate.

While the leaking well in the Gulf is not yet permanently sealed, but merely fitted with a temporary cap, it might still be too early for Mr Dudley to take over.

He runs the risk of having his reputation tarnished right at the outset if something goes wrong. That might be the single best reason for BP's board to give Mr Hayward just a little longer.

Dudley will need his quiet steeliness and experience as a tough arbiter

Bob Dudley will need more than his fabled calmness under fire – strenuously tested in a shareholder dispute in Russia – if he succeeds Tony Hayward as BP's chief executive, **write Brian Groom and Catherine Belton.**

The American will need to convince investors and lawmakers that BP can meet its \$40bn-plus liabilities, come through an array of investigations, transform its

operational culture and survive as an independent business.

Mr Dudley, BP's managing director for the Americas and Asia, has improved the company's image since he was put in charge of coordinating its Gulf of Mexico clean-up and compensation efforts a month ago. In 2008, he won plaudits from BP colleagues for his quiet steeliness in handling the dispute at TNK-BP, 50:50

owned by BP and Russian billionaire shareholders.

Supporters say he had been a tough arbiter of diverging shareholder interests as chief executive since it was founded in 2003. BP's Russian partners, however, accused him of running the company only in BP's interests as they sought more control.

As pressure mounted with investigations into labour law violations and visa problems,

Mr Dudley was forced to flee Russia. He cited a campaign of harassment. BP said this was orchestrated by the Russian shareholders, which they denied.

He began his career with Amoco in 1979, moving to BP when it took over Amoco in 1998. At BP he was an executive assistant to Lord Browne, the former chief executive, and oversaw operations in Russia before heading TNK-BP.

News analysis

True consequences for the environment may not be known for months, write Harvey Morris and Fiona Harvey

With oil no longer flowing into the Gulf of Mexico and with BP on the way to shutting down permanently its ill-fated Macondo well, scientific assessments are under way to determine the full extent of the environmental consequences of the 87-day leak.

The answer, which may not be known for months, will inevitably fall somewhere between the wilder claims that the massive spill would annihilate marine life in the world's ninth largest sea and the early judgment of Tony Hayward, chief executive of BP, that the impact would be "very, very modest".

Complicating the issue is a single question: where is the oil?

The Financial Times put the question to Doug Suttles, BP's chief operating officer, when he visited an undersea robot command vessel in the Louisiana oil town of Port Fourchon.

"The oil has gone to a number of places," he said. "About 1m barrels was collected and a quarter of a million barrels burned. It's a very light oil, so lots of it evaporated."

Mr Suttles noted there had been a dramatic decrease in quantities of surface oil since the leak was capped. Last Wednesday, before tropical storm Bonnie interrupted the clean-up effort, only 56 barrels of oil-water mix were skimmed compared with up to 25,000 barrels a day previously.

When Mr Hayward made his remark about the spill's "modest" impact, BP was still insisting that only 5,000 barrels a day were escaping. Calculations by government scientists have now put that figure as high as 60,000 barrels a day for the duration of the leak.

That amounts to 5.4m barrels of oil, as Bobby Jindal, Louisiana governor, noted last week, quoting a Coast Guard report. This upper estimate is equal to a day's US crude production. The report said 2.6m barrels of the oil had evaporated or otherwise biodegraded.

"A lot of the oil is being evaporated and broken up. The conditions in the Gulf are favourable to this," said

Simon Boxall of the UK's National Oceanography Centre at Southampton University.

The Coast Guard broadly agreed, although Mr Jindal noted that still left 1.59m barrels of crude in the Gulf, where it continued to threaten the coastline of Louisiana and its neighbours.

The decision last Thursday by Jane Lubchenco, head of the National Oceanic and Atmospheric Administration (NOAA), to reopen a third of the 80,000 square miles of federal waters previously closed to fishermen reflected a perception of a diminished threat in at least some areas of the gulf.

"When you fly over the Gulf of Mexico you see a dramatic change," Mr Suttles said.

However, many environmental groups are sceptical of this sanguine attitude. A



A brown pelican on the Florida coast

Kill delayed

BP's operations to kill its Macondo well have been delayed by seven to nine days after a storm alert in the Gulf of Mexico forced an evacuation of vessels, writes Harvey Morris.

Engineers are planning a "static kill" of the well by pumping drilling mud down it and plugging it with cement. A relief well that will permanently resolve the crisis is also nearing completion.

Vessels began returning to the well site on Saturday as tropical storm Bonnie was downgraded to a tropical depression.

Retired Admiral Thad Allen, federal co-ordinator for the disaster response, said surveillance was under way yesterday to see if the adverse weather had moved floating oil closer to the coastline.

Jane Lubchenco, head of the National Oceanic and Atmospheric Administration, said the weakened system, with winds of up to 30 miles an hour, could help to disperse surface oil.

report by the American Bird Conservancy, a conservation charity, found that in some cases BP was looking for the oil in the wrong places. It found that many of the booms and skimmers being used were ineffective, and said it had seen BP clean-up operators miss out on large areas where there was still oil on the surface of the sea.

Visible oil is only part of the problem, moreover. Studies of undersea pollution have been under way since May to establish the existence of vast plumes of oil identified by some academic teams as potentially threatening marine life hundreds of metres beneath the surface of the gulf.

"What we found was that there were certain indicators of oil and that it was highly dispersed," said Larry Mayer, a New Hampshire University oceanographer. When it came to the quantities of oil found - studies showed traces of between one to seven parts per million - he said it was too early to gauge the impact.

Another issue is the dispersants used to clean up the spill, which some scientists fear could end up having a worse effect on sea life than the oil. Martin Preston, a marine chemist at the University of Liverpool, said the effects of the dispersants were still unknown, as their use in this manner was "unprecedented".

Some local experts in Louisiana say the wetlands have suffered decades of oil pollution since the industry began there, and that the latest damage to marshland is much less than that already suffered as a result of ill-conceived water-management projects, dredging of oil pipeline canals and hurricanes.

Evidence of the spill's impact on wildlife has also been inconclusive. Although the spectre of oiled brown pelicans enraged the public, the breed - once almost extinct as a result of run-offs of the now banned pesticide DDT - still thrives along the gulf coastline.

As of July 23, 1,403 birds of all species had been collected visibly oiled and a third released to the wild after being cleaned. A further 1,149 were found dead and visibly oiled.

The total of oiled sea turtles located, the overwhelming number still alive, amounted to 189.

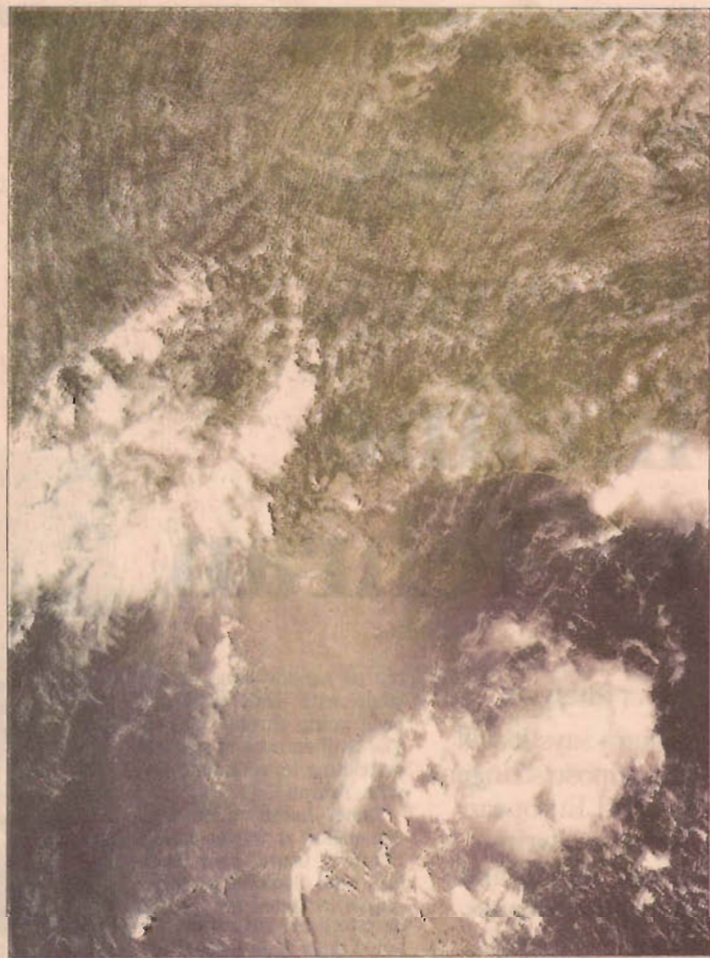
The battle for survival at the top of BP, Page 16

FINANCIAL TIMES MONDAY JULY 26 2010

Oil sleuths

Struggle to assess

the spill's effect



Workers hired by BP pick up oil on the beach in Gulf Shores, Alabama, and (right) a satellite shows a dark streak of oil in the Gulf of Mexico

AP

Oil clean-up in numbers*

5.4m
barrels of oil
spilled in the gulf



34.6m
gallons of oily water
recovered



1.84m
gallons of
dispersants
used in total



20,000
tonnes of sand used
by Louisiana National
Guard to fill coastal gaps



4,303
active
response
vessels in total



2.6m
barrels of oil either
evaporated or biodegraded



11.14m
gallons of
oil burned



11,500km
boom
deployed



114
aircraft



41,000
personnel involved
in response in total



Sources: Deepwater Horizon Response; Louisiana Governor's Office

*as of July 21

US politicians have let
the world down on climate

Clive Crook, Page 7



Tony Hayward, BP chief executive, left, and Bob Dudley, his likely successor, after meeting Barack Obama, US president, last month

Reuters

Hayward set to quit as chief of BP

By Ed Crooks and Fiona Harvey
in London

Tony Hayward, the embattled chief executive of BP, is set to announce his departure, possibly as early as today, according to people close to the UK oil company.

However, Mr Hayward is likely to stay on until the leaking well in the Gulf of Mexico has been permanently sealed.

The board is meeting this afternoon to make a final decision, as it prepares for BP's second-quarter results announcement tomorrow.

The company is expected to make a provision of \$25bn-\$30bn to cover the costs of its massive oil spill in the Gulf of Mexico, the largest such incident ever in US waters.

BP said yesterday: "Tony Hay-

ward remains the chief executive and has the full support of the board and senior management."

However, the company's shareholders and advisers have come to believe that he will have to go because of the damage done to his standing in the US. He was vilified by the American media and politicians for seeming to play down the significance of the spill.

A significant pay-off would be likely to provoke criticism from US politicians who have focused their anger on Hayward

Carl-Henric Svanberg, chairman of BP, has also been strongly criticised, particularly by BP's shareholders, but will have the final say on Mr Hayward's future.

Reports over the weekend suggested that there were discussions under way over Mr Hayward's pay-off, but there is little leeway for the board in agreeing the terms of his departure.

He is likely to be owed a year's salary, which was £1.045m (€1.25m) in 2009, and take a pension pot accrued over 28 years at the company, worth £10.84m at the end of last year.

A significant pay-off would be likely to provoke criticism from US politicians who have focused their anger over the spill on the 53-year-old who took on the chief executive's role in 2007, after the departure of Lord

Browne. The favourite to replace Mr Hayward is Bob Dudley, the managing director for the Americas and Asia who joined the BP board in February 2009. Raised in Mississippi, in the Gulf of Mexico region, he has been overseeing BP's response to the spill since last month.

Mr Dudley is the former chief executive of TNK-BP, the group's 50 per cent owned Russian joint venture, but was forced to leave the country during the dispute with the Russian shareholders in 2008.

A tropical storm has forced BP to suspend operations on capping the spill, but these are expected to resume within the next few days.

Oil sleuths, Page 3
Battle for survival, Page 16
www.ft.com/bp

NEWS

One crisis eclipses Hayward's career

BY PAUL SONNE

LONDON—In three short months, BP PLC Chief Executive Tony Hayward learned what it meant to become the face of disaster.

Until this spring, Mr. Hayward was a brainy geologist leading a seemingly successful turnaround of BP's sluggish operations and positioning it to compete more effectively with rivals such as **Royal Dutch Shell**.

But that fell by the wayside on April 20, when the Deepwater Horizon oil rig, drilling a well for BP, exploded and sank, sending hundreds of millions of gallons of oil spewing into the Gulf of Mexico. Eleven workers died in the catastrophe.

He was making headway on cutting costs and improving safety at BP, but he failed to connect with the people of the Gulf Of Mexico region when the oil spill struck.

Now, as BP board meets Monday to decide Mr. Hayward's fate, his story has become a cautionary tale to CEOs everywhere of how a single mishandled crisis can eclipse an entire career.

Mr. Hayward became CEO of BP a little over three years ago. He promised to reverse the mistakes of his predecessor John Browne, who left amid personal scandal and left a legacy of lackluster performance and poor safety practices — the latter thanks to the 2005 explosion at

the company's Texas City refinery that left 15 people dead.

Although he 53-year-old Mr. Hayward brought in a system to enforce safety standards across the company just months after becoming CEO, his vision did not always trickle down. The company saw continued leaks in its pipeline in Alaska, and problems persisted with pressure-relief valves at its refinery in Toledo, Ohio.

BP has said that Mr. Hayward's cost-cutting drive—\$4 billion in reduced costs in 2009 alone—allowed the company to put more resources into operations, including safety, but critics have asked whether it nurtured a culture of cutting corners. Mr. Hayward rejected that criticism during an acrimonious Congressional hearing last June.

An "ouster is way overdue. He's lost his legitimacy to lead," says Jeffrey Sonnenfeld, a professor at the **Yale School of Management**.

By most accounts, it was Mr. Hayward's inability to generate much empathy from the U.S. public that led to calls for his ouster. He helped fuel that perception with a number of gaffes, such as his initial description of the spill as "relatively tiny," and his decision to attend a yacht race in June, even as the oil slick continued to spread across the Gulf of Mexico.

Robbie **Vorhaus**, a crisis expert at Vorhaus Communications Inc. in Sag Harbor, N.Y., says that in such crises CEOs face the task of becoming human. "All of a sudden you have an event where you are now standing in the spotlight among shrimp fisherman and local politicians and people who maybe make 20 or 30,000 dollars a year," Mr. Vorhaus said. "A true leader needs



BP CEO Tony Hayward discusses recovery operations aboard a drill ship in the Gulf of Mexico on May 28.

to be able to come from the heart and make these people feel that there is a connection." Mr. Vorhaus says that's where Mr. Hayward failed.

Mr. Hayward had experienced little that would have prepared him to adopt the populist touch. He joined BP in 1982, not long after he received a PhD in geology from **Edinburgh University** in Scotland. He worked as a rig geologist in the North Sea, then flew around the

world testing rocks for oil—from Papua New Guinea to Northern Yemen.

Mr. Hayward moved from specializing in science to understanding business in 1990 when he became the assistant to John Browne, then head of exploration and production who five years later became CEO.

Mr. Hayward eventually replaced Mr. Browne, who left amid a scandal connected to his personal life.

But three years on, Mr. Hayward finds himself in the midst of a different kind of scandal.

"Maybe he would have had a chance if he had been just really spectacular on his feet as the crisis manager, but he was so abysmal at that, there was no way out," says Sydney Finkelstein, a professor at the **Tuck School of Business at Dartmouth College**.

—Erin White and Guy Chazan
contributed to this article.