

Lessons from the BP oil spill disaster

BY

Ramki

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Background

- Deepwater Horizon oil rig owned by BP exploded off the coast of Louisiana killing 11 and opening a well that is releasing thousands of barrels of crude into the Gulf of Mexico.
- Possibly the largest US ecological disaster ever
- P&C National Underwriter expects losses of \$1.5B
- Close to \$1 B already spent by BP
- 76000 sq miles of sea is closed to fishing
- Fed has opened criminal investigation into the disaster.

Lessons

- 1. Aggressive corporate cultures discount risk- that is dangerous
 - Don't play down problems
- 2. Preparing for a world where things only go right is dangerous
 - No worst case scenario planning is done by many companies
- 3. Looking at prior record and prior ability to marshal an emergency response to satisfy safety analysis concerns is not correct
 - This is because as industry goes into deeper waters earlier lessons learned may not be sufficient

Lessons contd.

- 4. There should be clear communication between all parties to a contract.
 - Here three companies were involved -BP, Transocean which owned the rig and Halliburton , the drilling ops contractor - constant and open communication was lacking between the parties to see how one party's actions affected others;
 - for instance a cap designed for a particular depth may not work when drilling goes deeper.
- 5. Do not ignore initial red flags
 - Deep water Horizon was possibly equipped with a system called E-drill which continuously beams data from rig operations to a monitoring centre in Houston. So they should have had preliminary danger signals. Were they ignored?

Lessons contd.

- 6. Psychological factors should be clearly understood.
 - Michael Roberto professor of management at Bryant University says:
 - "When red flags appear , there is a powerful human tendency to discount the risk , particularly if we are not sure we have a solution. People don't want to grapple with the horror of not having a solution. Instead they convince themselves the problems are smaller than they are."
 - In every risk committee meeting this quote should be prominently displayed.

Lessons contd.

- 7. CFO's should play a more critical role in risk management- they should have a 'second set of eyes' to see such risks and caution the management.
- 8. Never underestimate intelligence of others
- 9. You are only as strong as your weakest link
- 10. BP has clearly said the responsibility for safety existed with Transocean –
 - Transocean's list of customers includes Exxon, Anadarko and Chevron- so this can happen to others also?

Lessons contd.

- 11. There should always be a 'Plan B' which should be tested and be battle ready
 - Two relief wells won't be finished till Aug - Temporary fix being tried to cap the spill. No one is sure this will work. Thus no one was prepared for this at all.
- 12. US Government acts differently when it comes to USA.
 - In Bhopal they have taken a stand that Union Carbide/Dow is not responsible. In BP President Obama says he will make BP pay every penny for the oil spill!

What should the US Govt do?

- Harvard's David Gergen has a few ideas:
- 1. Set up a daily command center in Washington where a presidentially appointed leader runs the show, calls the shots, coordinates the overall effort, briefs the president and briefs the country.
- 2. Have two deputies, one to direct the leak-stoppage and the other to direct the clean-up. Ex-CEOs and generals would be excellent candidates.
- 3. Summon all the major oil and drilling companies to the White House for emergency efforts to get the hole plugged.
- 4. Get BP out of the picture for clean-up; just send it the bill. If it is still needed for hole-plugging, okay, but ensure that it answers every day to directions from the government. If BP needs new internal leadership, figure out how to get that done.

What should the US Govt do? Contd.

- 5. Employ the U.S. military for organizational coordination and where needed, for anything else such as clean-up.
- 6. Make more aggressive efforts to tap the best minds in the world for help.
- 7. Provide the country with the kind of daily briefings that the military has mastered for wartime — bring in people who are smart, straight and tough.
- 8. Ensure that economic assistance is provided to families, small businesses and communities that need it with dispatch and generosity.
- 9. Call off the finger pointing until we get out of this mess.
- 10. And finally, very importantly, exercise the powers of leadership every day from the Oval Office.

Sources

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- Time
- CFO.com
- Bnet