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12-17-2010

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Recommended Citation

Roger Williams University School of Law, "Newsroom: Dean Logan on U.S. Gov't BP Lawsuit" (2010). *Life of the Law School (1993-)*. 110.

https://docs.rwu.edu/law_archives_life/110

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Newsroom

Dean Logan on U.S. Gov't BP Lawsuit

Reuters spoke to Dean David A. Logan about the consequences of the U.S. government's massive civil lawsuit against BP, announced Thursday.



The U.S. Justice Department is suing nine companies, including BP, for billions of dollars in damages related to the Gulf of Mexico oil leak.

Attorney General Eric Holder announced the lawsuit seeks civil penalties under the Clean Water Act. It also contends eight of the nine defendants should be liable without limitation for all removal costs and damages under the Oil Pollution Act.

The complaint, filed in the U.S. District Court in New Orleans, alleges BP and the other eight companies were in violation of several crucial federal safety and operational regulations. Holder says these violations caused or contributed to an April 20, 2010 explosion on board the Deepwater Horizon offshore drilling rig, an accident that claimed the lives of 11 workers and began a massive oil leak that lasted three months.

REUTERS today issued a story called "[BP investors spooked by oil spill lawsuit](#)," again quoting **Dean David A. Logan**, who has become a regular source of expertise on this issue, being quoted in the New York Times, the Washington Post, the Financial Times of London, and many other news outlets.

LONDON, 17 Dec 2010 - Oil major BP was the biggest faller on Britain's blue-chip board on Thursday, as investors fretted that a US government lawsuit might mean the cost of its oil spill will be far higher than predicted.

Legal experts have said BP's \$US40 billion estimate for the total cost of the oil spill – hitherto largely accepted by financial analysts – could double if the US government managed to convince a court that BP had been grossly negligent.

BP and analysts had dismissed this possibility so far, but the harshly worded lawsuit filed on Wednesday by the Obama Administration spooked investors who in recent months have been betting on a BP recovery and a return to paying dividends.

"Clearly it is a negative development. It creates some fears concerning the ultimate decision on gross negligence or not," Societe Generale analyst Irene Himona said.

"There is ongoing legal uncertainty," Ms Himona added.

BP's London listed shares closed down 1.4 per cent at 470 pence, underperforming a 0.1 per cent rise in the STOXX Europe 600 Oil and Gas index. BP's New York-listed ADRs added to losses on Wednesday, trading down 0.2 per cent at 1836 GMT.

In recent months, BP's shares had risen over 60 per cent since hitting a low below 300 pence, on hopes the worst was behind the company.

The stock was up 10 per cent in December alone as analysts and investors speculated that BP's oil spill provision could significantly overstate its liabilities, a hope that was dented by the lawsuit.

"This is a reminder of what people should have already have known, and I suppose it makes people a little nervous," one top 10 investor said.

Lowballing?

BP has not said what its strategy will be in fighting the myriad lawsuits against it, except to say its \$US40 billion estimate reflects its belief that it was not grossly negligent.

The company also disputes the government's 4.9 million barrel estimate of the amount of oil that spilt and said it hoped to receive some credit for recovering some spilt oil.

All this suggests it could expect a fine of under \$US2 billion. But if the company is found to have been grossly negligent, it could face fines of \$US21 billion, and this would open the door to bigger awards against BP in civil lawsuits.

Reuters reported earlier in December that BP's costs could double if BP was found grossly negligent.

This could put pressure on BP's plans to reinstate its dividend early in 2011, or force it to increase its planned \$US25 billion to \$US30 billion asset disposal programme, said Manoj Ladwa, senior trader at ETX Capital.

Analysts currently expect BP to announce a 7 to 10 cents dividend, down from 14 cents previously, for the fourth quarter.

Some London-based analysts and investors downplayed the significance of the US move.

"This action from the US government has been completely expected," a top 10 investor said.

"We don't perceive this as any kind of setback, as we don't really think it changes things."

However, David Uhlmann, a University of Michigan Law School professor and a former federal prosecutor said the lawsuit was a bad omen for BP.

"I would say the Justice Department was making a statement with the filing of yesterday's complaint about the fact that they intend to be aggressive in holding BP and the other companies involved accountable for the Gulf oil spill," he said.



"It makes everything considerably more complicated for BP,"

Roger Williams University School of Law Dean David Logan said.

Unpredictable legal penalties

The mainly UK-based analyst community that covers BP has often struggled to estimate US legal costs and penalties.

After a fatal blast at BP's Texas City refinery in 2005 that killed 15 workers, analysts predicted the disaster would cost BP \$US300 million to \$US400 million.

By 2008, though, BP had paid over \$US2 billion in compensation claims related to Texas City, while lost profits and repairs had cost another \$US1 billion at least.

The government's lawsuit also seeks damages from BP's partners in the well, Anadarko Petroleum Corp and Mitsui & Co Ltd unit MOEX, well driller Transocean Ltd and its insurer QBE Underwriting/Lloyd's Syndicate 1036.

Shares in Swiss-based Transocean, the world's largest offshore rig contractor, dropped 4.4 per cent on Thursday. Anadarko's shares were down 1.6 per cent.

Analysts said the inclusion of insurer QBE in the lawsuit alongside BP and other oil companies demonstrated that the US government was casting its net as widely as possible as it seeks to cover the cost of cleaning up the spill.

"They're just throwing these things at everybody. It's the dartboard approach," one London-based insurance analyst said.

Adding to the negative press on BP's safety record, leaked US diplomatic cables reveal BP suffered a blowout on an Azerbaijan gas platform in September 2008 and was fortunate to evacuate workers safely, Britain's Guardian newspaper reported.

A BP spokesman said the company had a gas leak, not a blowout, and that this was reported at the time.

For full story, click [here](#).