Newsroom: Logan on BP and Mitsui Liability

Roger Williams University School of Law

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Japanese trading house Mitsui’s exploration unit MOEX owned 10 percent of the Macondo well but had sought to avoid paying its share of the costs, claiming BP was negligent and MOEX should be exempted from this obligation.

The settlement is likely the first of a series of settlements between BP and its partners before the February 2012 trial date set for hundreds of spill-related lawsuits, said David A. Logan, dean of Roger Williams University School of Law in Bristol, Rhode Island.
"It's a signal that the parties are very unlikely to let this play out all the way to trial," said Logan, who has been closely following the BP litigation. "Corporate leaders want predictability, and litigation is uncontrollable and unpredictable."

Byron Stier, a professor of mass tort litigation at Southwestern Law School in Los Angeles, said the MOEX deal could be a precursor to a settlement with Anadarko Petroleum Corp, also a part owner in the ruptured well, but not necessarily with other defendants.

"BP is still blaming Transocean, and taking a stance against them," Stier said. "That suggests BP may be more litigation-oriented (with Transocean), rather than see them as part of one big happy family."

Shares of BP closed 2.7 percent higher in London, against a rise of 0.5 percent in the STOXX Europe 600 Oil and Gas index.

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Societe Generale analyst Irene Himona said that the Mitsui settlement shows that a BP partner has agreed to share both the blame and the costs of the April 2010 oil rig explosion.

"It is very significant because clearly now it means that BP can try and ensure that everybody else who is involved will also meet their obligations," she said.

BP has estimated the cost of capping the well, cleaning up the damage from America's largest-ever offshore oil spill and compensating those affected will be more than $41 billion, including what analysts estimate will be around $4 billion to $5 billion in fines.

Mitsui's payment covers its contribution toward the cost of capping the well, cleaning up the oil and compensating those affected. Hence, the Japanese company is paying less than a third of its potential liability for these elements.

On this basis, Anadarko could be liable for almost $2.7 billion, toward these elements of the total cost, based on its 25 percent share of the well. That is less than some investors had expected.

"Anadarko has been more vocal recently about the potential for a settlement and we believe today's BP-Mitsui news further increases the likelihood of that outcome," analysts at Houston-based investment bank Simmons & Co said in a note to clients.
Anadarko Chief Executive Jim Hackett said earlier this month he would be prepared to come to the table and settle "under the right circumstances."

Anadarko spokesman John Christiansen said on Friday: "We view BP's willingness to reach settlement with MOEX as a positive step."

BP said in an e-mailed statement that Anadarko, like MOEX, signed on as a "responsible party" under the Oil Pollution Act.

"In contrast to MOEX, however, Anadarko continues to avoid its responsibilities, refusing to pay for any damages, clean-up or restoration."

The statement added that BP had billed Anadarko more than $5 billion to date. "We expect Anadarko to pay its share of the costs of the accident and spill," it said.

MOEX remains on the hook for its share of any fines, penalties or punitive damages levied on the project. In a worst case scenario, these could double BP's $41 billion estimate and MOEX would likely have to pay 10 percent of these.

MOEX has now joined BP in blaming the accident principally on Transocean, the company that BP hired to drill the well, under BP's instruction. BP has sought to extract the full cost of the disaster from the Switzerland-based driller.

Transocean's contract with BP indemnifies it against environmental damage but if BP can prove gross negligence or that the Deepwater Horizon drilling rig was unseaworthy, it could overrule this indemnity.

Transocean said the Deepwater Horizon rig was in sound working condition, and had passed multiple government inspections before operating in the Gulf.

"As the owner and operator of the Macondo well, BP has clear financial incentives to assign blame to other parties, but its public posturing is not supported by the body of evidence," Transocean said in an e-mailed statement.

"Government investigations have rightly concluded that the Macondo incident was caused by a failure of the cement in the well."
A commission appointed by President Barack Obama to investigate the rig blast found that BP and its contractors, Transocean, and cement specialist Halliburton, had all made mistakes but added that BP was responsible for more mistakes than the others.

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(Logical reporting by Moira Herbst in New York, Anna Driver in Houston and Sarah Young in London; Editing by Sophie Walker and Matthew Lewis)

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