BP says oil spill compensation fund running out

July 30 2013, by Roland Jackson

BP returned to net profit in the second quarter, lifted by the absence of major writedowns, the British energy giant said.

British energy giant BP admitted on Tuesday that its $20 billion (15 billion euro) fund to compensate victims of the 2010 US oil spill disaster has almost run out of cash.

The London-listed energy major made the announcement in its latest

results statement, in which BP also revealed a huge switch back into net profit during the second quarter of 2013.

It signalled it would pay further disaster claims from future profits.

BP said it had increased the estimated amount of cash needed to compensate businesses and individuals from $8.2 billion to $9.6 billion.

This means that just $300 million is left out of the $20 billion Deepwater Horizon Oil Spill Trust fund, which was created by BP to settle legal obligations stemming from the catastrophe.

The group added that its total estimated bill for the disaster stands at $42.4 billion, including clean-up costs and fines.

The announcement was made more than three years after a deadly explosion on BP-leased drilling rig Deepwater Horizon killed 11 people and sent 4.9 million barrels of oil gushing into the Gulf of Mexico.

That sparked the worst environmental disaster in US history and forced BP to sell billions of dollars of assets.

"As at 30 June 2013, the cumulative charges to be paid from the trust, and the associated reimbursement asset recognised, amounted to $19.7 billion," BP said in its earnings statement on Tuesday.

"This represents an increase of $1.4 billion for the quarter which relates principally to business economic loss claims ... for which eligibility notices have been issued, as well as increases in the provision for administrative costs."

Graphic on the 2010 Deepwater Horizon disaster that killed 11 oil rig workers and spilled 4.9 mn barrels of crude oil. Oil giant BP—who leased Deepwater Horizon—ending up paying billions of dollars in compensation and cleanup costs.

This was a reference to claims from businesses for losses incurred as a result of the spill.

"A further $0.3 billion could be provided in subsequent periods for items covered by the trust, with no net impact on the income statement.

BP added that it expected to fund any remaining claims from its income in the third quarter, but noted that future business economic claims could not be estimated reliably.

— Return to profit, free of write-downs —

Meanwhile, BP also revealed that it returned to net profit in the second quarter of this year, helped by the absence of major write-downs.

Earnings after taxation stood at $2.042 billion in the three months to the end of June, it said.

That contrasted with a net loss of $1.519 billion in the same period of last year, when it plunged because of lower oil prices and vast write-downs.

BP added that its replacement cost profit—the current accounting calculation which excludes changes in the value of inventories—jumped to $2.4 billion in the quarter, compared with $104 million in the first quarter of 2012.

However, stripping out write-downs on the value of oil fields and refineries in the United States last year, underlying replacement cost profit sank by 24.0 percent to $2.71 billion.

A volunteer holds an oil-covered Northern Gannet in Fort Jackson on May 1, 2010 after the the Deepwater Horizon leak.

That was far lower than market expectations of $3.40 billion, according to analysts polled by Dow Jones Newswires.

BP said it was battling a higher tax rate, lower oil prices, higher costs and lower post-tax income from Russia because of a strengthening of the ruble.

Total oil and gas production fell 1.5 percent to 2.241 million barrels of oil equivalent per day in the second quarter, mostly because of asset sales.

"The results show strong underlying pre-tax performance from BP's businesses," said CEO Bob Dudley.

But BP's shares took a severe beating, closing 3.41 percent lower at 451.45 pence on London's FTSE 100 index of leading companies, which ended 0.16 percent higher at 6,570.95 points.

"The oil giant has unfortunately missed analyst estimates, with increased government taxes, currency movements and a lower oil price all contributing," said equity analyst Keith Bowman at Hargreaves Lansdown Stockbrokers.

"Actual production has again fallen, impacted by ongoing business sales, whilst legal settlements in relation to the Gulf of Mexico accident continue to cast a long shadow," he said.

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