BP’s $20 Billion Escrow Fund a Step in Right Direction but is No Cap; Future Commitments Likely to Exceed Escrow Outlay Says IHS Herold

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Suspension of dividends no surprise, but reduced capital spending will hamper BP’s long-term growth

NORWALK Conn.--(BUSINESS WIRE)--NORWALK Conn.--(BUSINESS WIRE)--BP's announcement that it has established a $20 billion escrow fund to cover remediation costs and claims associated with the Deepwater Horizon incident, along with its previous announcement to suspend dividends for stockholders for the rest of the year, are clear steps in the right direction for all constituents, energy research firm IHS Herold said today. However, the firm cautioned that remediation, legal and other costs associated with the Gulf oil spill will likely exceed $20 billion and a reduction in BP's capital outlay will hamper the company’s long-term growth potential.

"From a public relations standpoint," said Matti Teittinen, vice president and senior equity analyst at IHS Herold, “news that BP will set up a $20 billion escrow fund helps in rebuilding the company’s image, especially in light of the speed at which the agreement was reached. In addition, the tone of the interactions between BP and the government had become increasingly confrontational in recent weeks, but this agreement perhaps marks greater cooperation between the two, which could benefit BP down the road. However, while the $20 billion figure is really the first concrete number we have seen related to potential liabilities, it is not a cap, and future commitments, including punitive damages and fines, are likely to be in excess of this $20 billion.”

Suspension of the dividend does not come as a surprise,” Teittinen added, “given the associated political pressure and financial burden of the spill, but it does remove some of the uncertainty in BP shares.”

The $7.5 billion dividend savings, along with reduced organic capital spending levels and a three-fold increase in planned asset sales, will essentially cover the $20 billion price tag, Teittinen said.

“Lower capital outlays will hamper long-term growth and the company will be at an operational disadvantage relative to its peers. As a result, we may see BP exploring a range of strategic alternatives to raise further capital to fund growth.”

About IHS Herold (www.ihsherold.com)

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