Obama mortgages the Gulf of Mexico to BP

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In a deal that has sweeping, long-term implications for millions of people living and working along the US Gulf Coast, the Obama administration has agreed to base the payments by BP to the oil disaster fund on the oil giant's profits from its drilling operations in the Gulf.

On Monday, BP made its first deposit into the disaster fund, which is overseen by "claims czar" Kenneth Feinberg, while top executives visited the White House to discuss the longer-term financial commitment. The initial sum was $3 billion, with another $2 billion to be paid during the fourth quarter of 2010. Thereafter, BP will deposit $1.25 billion each quarter for the next three years, bringing the total up to its original pledge of $20 billion

The company's CEO, Robert Dudley, and Lamar McKay, a top US executive for BP, met Monday at the White House with chief of staff Rahm Emanuel, retired admiral Thad Allen, who headed the government disaster response, and other administration officials.

A White House statement declared that the Obama aides "impressed upon BP the importance of living up to their commitment to long term recovery, and underscored that the administration will remain vigilant in ensuring that promise is met."

The actual nature of the Obama-BP talks, however, is better demonstrated by the 40-page agreement whose text was released by the White House late Wednesday afternoon.

After depositing the first $3 billion into the fund, BP must provide collateral to guarantee the remaining $17 billion it has pledged to deposit over the next three and a half years. BP initially claimed that no such collateral was necessary, because it will be able to make the payments from operating cash flow and sales of selected corporate assets.

BP will give as security "interests in production payments pertaining to the [company's] U.S. oil and natural gas production," the bulk of which is located in the Gulf of Mexico.

The escrow fund will be on deposit with Citibank, which is the corporate trustee. Two individual trustees were also named, retired federal judge John S. Martin Jr. and Kent D. Syverud, dean of Washington University Law School in St. Louis.

Political figures in both big business parties played a role in the talks. BP hired a prominent Democrat on Wall Street, former Clinton administration Treasury deputy secretary Roger Altman, to advise it on the revenue for escrow trade-off.

In response to complaints from Republican Senator David Vitter that local capitalists would be shut out of the financial rewards from servicing the trust fund, the checks issued by the fund can be cashed without charge at Whitney National Bank, a New Orleans financial institution with 160 branches along the Gulf coast. Whitney will be recompensed by the fund.

Commenting on the Obama-BP talks as they were coming to a head, the *Wall Street Journal* noted Monday that an agreement tying the escrow fund to production revenues "would give both sides an incentive to continue production in the Gulf, scene of the U.S.'s worst-ever offshore oil spill."

The consumer lobby Public Citizen took note of the same fact. Its director, Tyson Slocum, said in a statement that securing the compensation fund with drilling revenue "is wildly inappropriate, as it will make the government and BP virtual partners in Gulf oil production. ... It will give the government a financial incentive to become an even bigger booster of offshore oil drilling in the Gulf."

BP operates 89 producing wells in the Gulf of Mexico and owns a stake in 60 Gulf wells operated by other oil companies. The combined BP production from all 149 wells is about 400,000 barrels a day, worth $32 million a day, or $11.6 billion a year, at a market price of $80 a barrel. The Gulf accounts for 10 percent of BP's worldwide production.

Such figures demonstrate how tiny, relative to BP's assets, the $20 billion commitment to the Gulf really is. BP collects that much revenue worldwide every two months. Two years of Gulf oil revenue alone would pay the full cost of the disaster fund.

Tying the disaster fund directly to Gulf oil revenue has obvious political advantages for the company, as the *Journal* pointed out, "because it could make the administration and BP partners of sorts in developing the Gulf." It would forestall measures such as the bill passed by the House of Representatives last month effectively banning BP from new offshore drilling in the Gulf, because such a move would then threaten the stream of revenue for the disaster fund.

Such a move would coincide with the purposes of the Obama administration, whose main concern since the Deepwater Horizon disaster began with an explosion that killed 11 oil-rig workers April 20 has been to preserve the profitability and viability of BP. The White House never considered commandeering the assets of the corporate criminal, instead allowing BP to retain control of the disaster site through a series of failed attempts to shut down the oil leak. It has persistently downplayed the possibility of prosecution of any executives from BP or its partners in the well.

Meanwhile a senior BP official, chief operating officer Doug Suttles, told the Associated Press that BP's oil production in the Gulf of Mexico could involve drilling again in the area immediately adjacent to the capped Deepwater Horizon well. "There's lots of oil and gas here," Suttles said, "We're going to have to think about what to do with that at some point."