BP warns Congress offshore drilling regulations will threaten compensation fund

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In the past week, oil giant BP has begun warning Congress that if legislation placing limitations on offshore oil drilling were to become law, it would endanger the ability of the company to finance the $20 billion compensation fund for victims of the Deepwater Horizon oil spill.

BP's threats come, in part, as a reaction to recent legislation passed by the US House of Representatives known as the CLEAR Act. Ostensibly an offshore oil drilling reform program, the act contains provisions that would effectively prevent BP from acquiring further offshore oil leases or drilling permits in the Gulf of Mexico.

The provisions, added by Democratic Representative George Miller of California, would prevent any oil company from drilling in the American Outer Continental Shelf that has been shown to have a record of worker safety violations five times the industry average and at whose facilities more than 10 deaths have occurred. Currently, BP is the only oil company that would be affected by such regulations.

Responding to the legislation, David Nagel, the executive vice president of BP America, stated, "If we are unable to keep those fields going, that is going to have a substantial impact on our cash flow." He added, "[The legislation] makes it harder for us to fund things, fund these [compensation] programs."

BP spokesman Andrew Gowers attempted to portray his company as a victim of unjust punishment, saying, "We have committed to do a number of things that are not part of the formal agreement with the White House. We are not making a direct statement about anything we are committed to do. We are just expressing frustration that our commitments of good will have, at least in some quarters, been met with this kind of response."

"I am not going to make a direct linkage to the $20 billion," said Gowers, "but our ability to fund these assets and the cash coming from these assets that are securing these funds would be lost."

The conflict between future regulations on offshore oil drilling and the $20 billion compensation fund has been central to the deal worked out between BP executives and the White House all along. Rather than seizing BP's assets and funding compensation payments through the enormous amount of wealth at the oil giant's disposal, the Obama administration reached a deal with BP to fund the account through the future revenues of continued drilling operations in the Gulf. Through this arrangement, the Obama administration has provided BP the political cover under which any reform legislation can be challenged in its interest.

Just as opponents of the Obama administration's offshore drilling moratorium within the oil industry cynically used the plight of laid-off rig workers to campaign for the withdrawal of the moratorium, BP is now using the compensation needs of spill victims as leverage to negotiate better terms for themselves in the Gulf of Mexico.

At the same time, the multibillion-dollar company is working with Kenneth Feinberg, the "independent" administrator of the compensation fund who is in reality an employee of BP, to limit as much as possible the number of claims they will be forced to settle.

The chief concern of the Obama administration in securing the $20 billion compensation deal with BP has been to do whatever is necessary to retain the company's viability and defuse popular hostility toward BP and offshore drilling as a whole.