

Biggest vertically integrated oil and gas firms management essay



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Starting as Anglo Persian Oil and founded by William Knox D'Archy who ventured to Iran and was given a concession to search for Oil in 1901 leading to being the first one discovering Oil in the Middle East Region in 1908. In 1909 APO was officially incorporated as a subsidiary of the Burmah Oil Company.

Before the First World War the Anglo-Persian had a deal with the British government, promising them secure oil supplies in return the British government bought a controlling interest from the company. In 1935 the Anglo-Persian Oil changed to Anglo-Iranian Oil Company until after the Second World War, between the wars the Anglo-Persian Oil company expanded their business to Canada, South America, Africa and Europe. In 1951 the Company was nationalized by Iran and at that time UK was its biggest investor and began to explore in countries like Kuwait, Libya and Iraq. In 1954 the company was named British Petroleum company. From then did BP expand towards Alaska and the British North Sea which led to exploration and on stream of the oil fields in the middle 1970s. BP had several mergers which include the merge with US Standard Oil which became BP America and the merge with Enron which became BP Solarex also merges happened with Britoil, Amoco, Burmah-Castrol and Arco.

Wide geographical presence

BP wide geographical presence, can be seen that it operates in over 80 countries worldwide had several operations in USA, Russia, Europe, Canada, Australasia and other parts of Africa. About 61% of the fixed assets are invested in companies for OECD Countries and about 37% of its assets are based in USA and around 18% of it in Europe. te

In 2011 Upstream and midstream activities were operated in 30 countries which were: Egypt, Angola, Canada, Russia, USA, Azerbaijan, Trinidad Tobago, North America, Asia, Middle East and Australasia.

BP has a wide geographical presence. The company operates in over 80 countries and has well established operations in Europe, USA, Canada, Russia, South America and Australasia. There are approximately 61% of the company's fixed assets are invested in organizations for OECD countries, with around 37% of its fixed assets which located in the USA and approximately 18% in Europe. Furthermore does the segment deal with gas marketing and trading activities which are mostly in Europe, USA and Canada. BP markets its products in over 70 countries by the refining and marketing segment, especially concentrated in Europe and North America. Moreover manufacturing and markets products in Asia, Africa, and across Australasia.

Its exploration and appraisal production segment is focused in Angola, Australia, Azerbaijan, Brazil, Canada, Egypt, the deep water Gulf of Mexico and the UK, USA, North Sea and Oman. Furthermore does BP have development areas which include Australia, , Egypt, Canada, North Africa, the deep water Gulf of Mexico. BP's midstream activities involve the extraction of Natural gas liquids USA, Canada, Indonesia and the UK.

Its development areas include Angola, Azerbaijan and the the North Sea.

The areas of production include Azerbaijan, Egypt, Angola, Argentina, UAE, Trinidad, UK and the USA. The midstream activities include the processing facilities and export terminals, as well as the ownership and the <https://assignbuster.com/biggest-vertically-integrated-oil-and-gas-firms-management-essay/>

management of oil and natural gas pipelines, LNG processing facilities and transport and also the NGL extraction businesses in UK, USA, Canada and Indonesia.

Dominate Market Position

BP counts as one of the largest oil and gas companies worldwide in the industry and is UK's largest cooperation. Numbers show that BP count as one of the leading companies, which numbers compared to other companies show. In the year 2000 stood BP's crude oil production at 7, 609 million cubic-feet per day. Leading in a total production of 3240 thousand barrels of oil equivalent per-day, the gas sales stood at 14, 471 million cubic feet per day, refinery throughputs at 2, 916 thousand barrels per-day and marketing sales at 3, 756 thousand barrels per-day. BP has one of the highest oil and gas reserves worldwide, with 1652 Million Barrels at the End of 2011 and operating in Europe, USA, Australasia, Africa and Asia. 70% of profits are made in the USA and Europe and pushing forward with exploration and production operations worldwide which include Africa, South America, Asia and Capian Sea.

BP counts to the largest retailer of gasoline in the USA, with approximately 17150 service stations in the USA, 11850 throughout the rest of the world. BP sales its product in 100 countries and is marketing its brand ARCO in the east and AMOCO in the west of the USA.

Furthermore does BP UK retail its Castrol lubricants in over 50 countries and supplies Castrol products and services to the metalworking industry. BP also markets lubricants outside the USA, under its own brand. Moreover does BP

count to the largest marketers of aviation fuel in the world and counts to a major supplier of fuels to the shipping industry, supplying to more than 900 ports and 1400 airports worldwide.

Vertically integrated operations

BP has a vertically integrated operations and is involved upstream, midstream and downstream of oil and gas. BP operates in two main business segments which include Exploration and Production and Refining and Marketing of oil and natural gas.

The involvement in upstream activities includes the exploration of oil and natural gas, field development and also the production. The midstream activities include the management and ownership of pipelines processing facilitates, export terminals and transportation.

BP's most fundamental midstream activities are in three major pipelines which is the Trans Alaska, the Forties Pipeline and the Central Area Transmission Pipeline system. Furthermore there are three main Liquefied natural gas plants which is the LNG plant in Trinidad, the Boatang LNG plant in Indonesia and in Australia through the share of LNG from the North West Shelf natural gas development.

The involvement in downstream activities include five stages. Refining, followed by manufacturing, then marketing, then transportation and at last supply and trading of oil and gas and related products. In total BP has either shares or owns 16 refineries globally. BP's worldwide network contains about 21800 retail sites operating under several brands which are BP, Aral and

Arco and BP's retail network included about 11300 branded retail sites, <https://assignbuster.com/biggest-vertically-integrated-oil-and-gas-firms-management-essay/>

which include 8200 within Europe and approximately 2300 outside Europe, Australia, USA, New Zealand and South Africa.

BP's vertically integrated operations grant advantages related to operational efficiencies. Furthermore the control over the whole value chain, makes it possible for the company to manufacture products that are being used at several stages in the whole value chain and those operations give BP significant advantages in the oil and gas industry.

Weaknesses:

Oil spill Gulf of Mexico

In year 2010 the drilling of an exploration well lead to an explosion on the Transocean rig, which was located approximately 41 miles offshore Louisiana Mississippi Canyon Block 252. The outcome was that the explosion killed 11 workers and the rig which was worth over 500 Million Dollar sank into the Gulf of Mexico, creating an oil spill, leading to the largest oil spill in the petroleum industry. Approximately 53000 barrels of oil every day were escaping from the well until it was capped and in the year 2010 the US federal government declared the well is effectively dead.

As ways for compensation did BP meet several claims which appeared from individuals, businesses, government and natural resource damages did BP set up the 20 Billion Dollar Deepwater Horizon Oil Spill Trust. Furthermore, BP provided 500 Million Dollar for the Gulf of Mexico Initiative which is funding research for the investigation of the impacts of affected ecosystems.

Moreover the company contributed a 100 Million Dollar fund for the support of rig workers who are hit by the drilling moratorium. Overall BP spent about <https://assignbuster.com/biggest-vertically-integrated-oil-and-gas-firms-management-essay/>

7. 8 Billion Dollars on the settlement to resolve property, economic and medical claims by 125000 individuals.

The Gulf of Mexico oil spill has caused BP having a damaged reputation which could have impacts regarding the ability to access new opportunities in the USA and anywhere else.

Unfavourable Sentiment from public, industry and politics towards BP and also towards the drilling activities in general may damage BP's relationships with partners or host governments. Furthermore the incident burdend the cash flow of BP which had an impact on the ability to invest in new opportunities.

Threats

Risks concerning environmental regulations

BP is subject to different environmental laws and regulations which regulate the discharge of pollutants. Due to rising awareness of the effect which the environment has on human health, regulations continuously improved in the recent years. The European Union adopted important strategic objectives with regards to climate change. In the same year, the European Council adopted a European sustainability strategy which is based on three reference targets which must be achieved by 2020. These include a reduction of 20% in carbon dioxide (CO₂) emissions and also a decrease in demand by 20%. Regarding environmental matters BP has already a weak record.

There are a few anticipated proceedings from the government against BP and specific subsidiaries under environmental laws which may lead to sanctions worth \$100, 000 or more. Furthermore BP is also made liable for environmental claims for personal injury and property damage.

Instability in some oil-producing regions

The company has exploration and production interest in 30 countries, include Africa, Middle East and South America which are considered as political instable. The issue is many geo-political risks are outside of its control, even though the company has been operating there for a while. Especially operations in countries like Egypt, Russia, Iraq may be affected by economic and political risks. For example the partnership concerning with Libyan Investment Corporation which is covered under the agreement of exploration and production in 2007, BP's net assets in Libya include \$437 million. The political unrest in 2011 lead to close down of the BP office in 2011 and the operations in Libya needed to be suspended. BP expects to resume their a \$2 billion exploration deep-sea drilling work off the coast of Libya in 2013. The outbreak of political unrest in Libya lead to the closure of the BP office back in 2011 and all BP staff were evacuated from Libya.

The failure to work on these events could seriously damage BP's company operations and disrupt the flow of output.

Saturation of resources in the North Sea

Large exploration operations have been done by BP in the North Sea that have turned out immensely successful, as there has been intensive exploration work done.

Reserves in the area are growing and in the last few years there was a series of dry holes being drilled. The main key challenge for BP is the saturation of reserves in this area and specifically in other parts of the world the newer exploration activities are more localized which leads to higher investments.

Opportunities

BP Begins Production From Skarv Field, Norway

On the 02. 01. 2013 BP announced the start of the in the Norwegian Sea, from the Skarv field, which is one of the major upstream projects, which production started on the 31. 12. 2012. The field which was discovered in 1998 has an estimated recovery of approximately 100 million barrels of oil and also more than 1. 5 trillion cubic feet of rich gas.

It is located 210 km west of the Norwegian coast in water depth of approximately 350-450 metres. The estimated production of the field is approximately 125, 000 barrels of oil equivalent per day monthly average rate (30, 000 barrels of oil equivalent net to BP in the first six months and is expected to have a maximum daily rate of about 165, 000 barrels of oil equivalent (40, 000 barrels of oil equivalent net BP) by the end of the year. Skarv will be play a significant role for BP in Norway which will contribute an important part to the growth from Norway. The expected life of the field is 25 years and will be an important contributor to the local businesses and creating many jobs.

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The field development includes storage and a offloading vessel, a purpose-built for harsh waters, new highly-advanced floating production, five subsea drilling templates and a 80km gas export pipeline which is connected to the Gassled transportarion system, making it possible to export gas to Europe.

Expansion of the biofuels business in Brazil

Low carbon energy will play an important role in meeting the world energy demand, whereas BP has committed itself producing biofuels to help meet this demand. The company is expanding its biofuels business in Brazil through acquisitions.

In April 2011, BP completed the achievement of majority control of the Companhia Nacional de Acucar e Alcool (CNAA), which is a ethanol and sugar producer based in Brazil

BP paid approximately \$680 million to acquire 83% of the shares of CNAA and also to

refinance 100% of CNAA's existing long term debt. Furthermore in September 2011, BP agreed to acquire an additional 3% share of CNAA from LDC Bioenergia for \$25 million. After this acquisition BP will have 99. 97% shares in CNAA.

The estimated crushing capacity of all three mills when developed is estimated to be 15 million tons of sugar cane, per year. When the mill is operating at full capacity then the production capacity will increase to approximately 480 million liters ethanol equivalent per year. Furthermore it is expected that BP will increase its production capacity to approximately 1.

4 billion liter of ethanol equivalent when the assets of CNAA's are fully developed.

In December 2012 BP Biofuels announced to expand its sugarcane processing ventures in Brazil, costs are estimated to be approximately \$350 million. Thereafter the mill will be able to produce approximately 450 million litres of ethanol equivalent per year. Furthermore it is estimated that with the mill it will be able to export about 340 gWh of energy to the Brazilian national grid. The company plans the expansion to start next year and includes the building of a new mill and is expected to, create approximately, 7650 direct and indirect jobs and it is estimated that the mill will be fully operation by the end of 2014.

It is expected that alternative energy is the fastest growing energy sector over the next 20 years and with global production of biofuels.

These acquisitions underline BP's commitment in building material businesses in

Growing economies and continued expansion in Brazil through biofuels investments.

Strategic agreement and contracts

BP and subsidiaries of Kinder Morgan Energy Partners, LP, announced in July 2012 that they have entered into agreements that provide BP with natural gas transportation, storage and gas supply on Kinder Morgan's Texas intra-state pipeline systems. They will enable BP Energy to gain access to up to one billion cubic feet per day (bcf/d) of natural gas transportation capacity

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and up to 19 bcf of storage capacity on the Kinder Morgan Tejas and Kinder Morgan Texas Pipeline systems.

Furthermore did Morgan Energy Partners, L. P. and BP North America announced the beheading of commercial agreements which are based long term, in order to provide BP processing services and storage at the Kinder Morgan's terminals which are located on the Houston Ship Channel. BP allocated over 40, 000 barrels per day of throughput at Morgan's petroleum condensate facility that will split condensate into four different types of components, such as heavy naphthas and light, kerosene and gas oil.

The planned expansion which will cost approximately \$75 million is part of Kinder Morgans expansion to construct five tanks which will connect to the condensate facility with new pumps, manifolds and piping.

Moreover on behalf of the Tangguh PSC partners, BP signed on the 25. 05. 2012 an Memorandum of Understanding in order to provide LNG to the state electricity company of Indonesia, PT on a long term basis

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Period Ending:

Trend

12/31/2011

12/31/2010

12/31/2009

12/31/2008

Liquidity Ratios

Current Ratio

116%

112%

114%

95%

Quick Ratio

85%

81%

76%

71%

Cash Ratio

17%

24%

14%

24%

Profitability Ratios

Gross Margin

18%

5%

22%

17%

Operating Margin

8%

5%

8%

10%

Pre-Tax Margin

10%

2%

11%

9%

Profit Margin

7%

1%

7%

6%

Pre-Tax ROE

35%

5%

25%

38%

After Tax ROE

23%

3%

16%

24%

The current ratio improved from 2009 to 2010 and from 2010 to 2011 as well as the quick ratio improved from 2009 to 2010 and from 2010 to 2011. The cash ratio improved from 2009 to 2010 but then slightly deteriorated from 2010 to 2011 not reaching 2009 level.

BP PLC's gross margin improved from 2008 to 2009, then from 2009 to 2010 a major deterioration but then improved from 2010 to 2011 but still not reaching the level of 2009.

The operating profit margin deteriorated from 2009 to 2010, then increased from 2010 to 2011 reaching 2009 level. The Pre-Tax margin improved from 2008 to 2009, then had a major decrease in 2010, then improved in 2011. The profit margin increased from 2009 to 2010 but decreased from 2010 to 2011 but from 2010 to 2011 improving reaching 2009 level.

BP PLC's pre-tax ROE deteriorated from 2009 to 2010 but then improved from 2010 to 2011 exceeding 2009 level. The after-tax ROA decreased from 2009 to 2010, then improved from 2010 to 2011 exceeding 2009 level.

This financial statement shows that BP has been quite consistent in its performance besides in the year 2010 whereas all numbers were at its low, a reason for that being the Gulf of Mexico oil spill. However it recovered from its low and reaching its old level in almost all criteria.