

Obama Scolding BP on Dividend Favors Fishermen Over Retirees

By Brian Swint

June 9, 2010 (Bloomberg) -- Miriam Sullivan may lose about \$10,000 a year of her retirement income if BP Plc suspends its dividend because of the Gulf of Mexico oil spill.

“It’s a nice amount of money to have coming in,” said Sullivan, the 74-year-old wife of a retired schoolteacher in Haddonfield, New Jersey, and one of the 39 percent of BP shareholders who live in the U.S. “They’re penalizing people that are innocent by cutting the dividend at this point, when they don’t even need to. It seems very political.”

President Barack Obama said last week he won’t let BP “nickel and dime” Gulf residents while the biggest U.S. oil producer pays investors, and a group of lawmakers yesterday called on BP Chief Executive Officer Tony Hayward to stop dividends until the bills for the cleanup and liabilities are paid. The dispute highlights the pressure on Hayward to satisfy the competing demands of shareholders, who got \$10 billion in payouts last year, and the local victims of the spill.

“It’s a horrible thing that happened, but how do you decide a fisherman has priority over a grandmother who needs a pension to sustain herself?” said Christine Tiscareno, an analyst at Standard & Poor’s in London. “The company’s not running away from any of its obligations, and if it were up to Tony, they would pay the dividend.”

In the U.S., pension funds holding BP shares include the California Public Employees Retirement System, New Jersey Division of Investment and the Texas Teachers Retirement System, Bloomberg data show. U.S. institutions own 25 percent of BP shares, while individual investors in the country hold 14 percent, according to the company’s website.

U.K. Issue

BP’s dividend is an even bigger issue in the U.K., where it’s the highest-weighted company in the benchmark FTSE 100 Index after HSBC Holdings Plc and accounted for about 14 percent of all dividend payouts in 2009, according to Morgan Stanley.

Should BP keep the same dividend this year as in 2009, the yield, or ratio of payout to share price, will be more than 10 percent, the highest among 18 of the company’s peers tracked by Bloomberg.

BP shares have dropped 40 percent since the April 20 explosion on the Deepwater Horizon drilling rig killed 11 workers and damaged a subsea well, causing a leak that's become the worst in U.S. history. The spill soiled about 140 miles (225 kilometers) of shoreline in Louisiana, Alabama and Mississippi, and has polluted some 80 miles in Florida, the Coast Guard said June 5.

A group of 43 lawmakers led by Peter Welch, a Democrat from Vermont, and Lois Capps, a Democrat from California, this week told Hayward to suspend the dividend to "put progress before profits." Obama said he would have fired Hayward for saying he wanted to end the leak because he wanted "his life back."

'Bashing Big Oil'

"You won't lose votes bashing banks or big oil," said David Hart, an analyst at Westhouse Securities Ltd. in London. "There are real concerns about the impact of the spill on the economy and environment in the Gulf, but politicians haven't worked out that BP is probably capable of making a 100 percent effort on the spill and also maintaining the dividend."

With profit of more \$20 billion last year, debt levels below its preferred range of 20 percent to 30 percent and open lines of credit, Fitch Ratings analyst Jeffrey Woodruff said June 4 that BP can probably afford to both pay for the cleanup and the dividend.

That didn't stop Fitch and Moody's Investor Services from downgrading BP bonds by one level as the costs from the cleanup mount. BP said June 7 it has spent \$1.25 billion so far, or about \$27 million a day. Credit Suisse estimates that the total cost of the spill may reach \$37 billion.

Pension Funds

Many pension funds in the U.K. hold stocks in proportion to the FTSE Index and so haven't sold as 50 billion pounds (\$73 billion) was wiped off BP's market value since the accident, according to the National Association of Pension Funds. BP's weighting in the index implies that the company accounts for about 1.5 percent of all U.K. pension fund holdings, the NAPF said.

"If you're on a pension, it needs to be stable," said Gudmund Halle Isfeldt, an analyst at DnB NOR ASA in Oslo. "Tony Hayward wants to deliver. But maybe they'll pay a lower dividend to get some goodwill from Obama."

Gregory Evans, an environmental litigation partner at Milbank, Tweed, Hadley & McCloy LLP in Los Angeles said people have to distinguish between shareholders and fishermen.

"Investors roll with the good and the bad that a company might experience," Evans said in a telephone interview. "The fishermen did not take a risk on BP. They're out there to make a living and deserve adequate compensation."

The retiree Sullivan said the prospect of a dividend cut makes her think of her mother, a housewife who lived off the dividends from Atlantic Richfield Co. stock when she had no social security after her husband died. BP bought Arco in 1999.

“People with low middle class incomes like my mother will be impacted,” Sullivan said. “Those are the people you should worry about, just as you worry about the poor fishermen. Two wrongs don’t make a right, just because somebody has been hurt doesn’t mean you hurt somebody else unnecessarily.”

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