

## Our View: BP – Energy’s “Bad Predictor”

Philip K. Verleger, Jr.

February 13, 2023

British Petroleum’s actions over the last thirty years have made it one of the world’s best inverse indicators. Indeed, for us, BP stands for “**Bad Predictor**.”<sup>1</sup> Looking back over BP’s various decisions over the last three decades, we identified many that proved wrong and very few that proved right. We discuss some of these below.

BP’s string of failures began in 1998 when it acquired Amoco, formerly Standard Oil of Indiana. As *The Economist* noted at the time, “BP is generally better at the upstream part of the business (finding and extracting oil); Amoco at the downstream business of refining, distributing and marketing the stuff. Amoco’s stronghold is the United States—hitherto a weak spot for BP.”<sup>2</sup>

The Amoco acquisition failed for several reasons. First, US oil and gas production surged with the introduction of new technologies. As Figure 3 shows, US crude oil production has increased from 6.3 million barrels per day in the year of the acquisition to a peak of 12.3 million barrels per day in 2019. Natural gas production increased from twenty-four trillion cubic feet in 1998 to forty-two trillion cubic feet in 2022.

BP further failed on the production side when its Macondo well blew out in the Gulf of Mexico. Evidently, BP is not very good at “the upstream side of the business.”

BP’s acquisition of Amoco and subsequent acquisition of Arco failed on the marketing side as well. Fourteen years later, BP decided to sell its retail business in the eastern United States to focus on marketing in the west.<sup>3</sup> A year later, it sold its Gulf Coast refinery to Marathon and its West Coast marketing assets to Tesoro.<sup>4</sup>

In 1999 BP acquired Solarez, a manufacturer of solar panels and announced BP now meant “Beyond petroleum.” Twelve years later the business was shut down, defeated by low-cost Chinese production.

In 2020, the company’s CEO described himself as an outspoken advocate of the green revolution. Last week, BP again reversed course, announcing it would spend more on oil and gas development and less on clean energy initiatives.

Rinse and repeat.

Reviewing the last thirty years, BP has failed regarding technical innovation, retail marketing, globalization, and its responses to important industry changes.

BP acquired Amoco and then Arco to boost oil and natural gas production, anticipating ever-rising prices and declining North American output. Prices fell, and the technological innovation of fracking brought down drilling costs and boosted domestic supply.

---

<sup>1</sup> There are other, more flattering names for the company. BP’s former chairman Sir John Browne touted BP as standing for “Beyond Petroleum.” Upon hearing this, one environmentalist argued that BP stood for “burning the planet” after noting that the company spent more on developing its new identity than on renewable energy. See Terry Macalister and Eleanor Cross, “BP rebrands on a global scale,” *The Guardian*, July 24, 2000 [<https://tinyurl.com/msvt8f6t>].

<sup>2</sup> “Oil’s well that ends well,” *The Economist*, August 13, 1998 [<https://tinyurl.com/46a9etav>].

<sup>3</sup> “BP ampm Exits Eastern U.S.,” CStore Decisions, August 29, 2012 [<https://tinyurl.com/bddpsx76>].

<sup>4</sup> “BP Caps U.S. Fuels Shift With Completion of Tesoro Deal,” *CSP Daily News*, June 3, 2013 [<https://tinyurl.com/yndrc76c>].

BP acquired Amoco and Arco to boost its meager presence in marketing in the United States and Canada. It did so just as the hypermarket revolution occurred. Costco, Walmart, and other marketing-only firms drove most of the dealers BP purchased out of business or to other brands.

BP invested in solar to go “Beyond Petroleum” just as China was admitted into the World Trade Organization. China then became the largest supplier of solar panels, forcing BP to close the solar energy firm it purchased.

Finally, while BP foresaw many of the changes coming to the oil and energy business and acted, on almost every occasion, it made the wrong decision.