



Last month, BP increased by \$8 billion the financial provisions it was taking for the Gulf of Mexico oil spill; the company's shares rose. Better-than-expected underlying profits and upbeat comments from new Chief Executive Bob Dudley were taken by the market as a sign the company had turned the corner and would soon return to pumping out steadily rising dividends.

Key to this sanguine outlook is confidence that the new estimate of the total cost of the spill -- \$40 billion -- will be sufficient.

"We think that \$40 billion adequately provisions for the liabilities that are outstanding so far," said Mark Lacey, Fund Manager at Investec Global Energy Fund. Paul Mumford, fund manager at Cavendish Asset Management, went further, saying the provision is likely to be overly conservative: "You might well find that you get provision write-backs," he said, hinting the bill could be lower.

That optimistic view may turn out to be true. BP executives have said this is their "best estimate" of costs, adding they could turn out lower. But history shows there is ample scope for nasty surprises from BP. The London-based oil giant -- last year it was the biggest non-state controlled oil and gas producer in the world -- has so far consistently underestimated the scope and potential cost of the Gulf spill.

It also has a track record of low-balling disasters, including the fatal Texas City refinery blast in 2005. Not only has the company underestimated the cost of repairing equipment and ecosystems in the past, it has also made overly optimistic assumptions about legal challenges.

That may be happening again.

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