

BP under pressure to link pay deals of executives to safety performance

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BP faces a showdown with its shareholders over the pay packet of the out-going chief executive, Lord Browne, and the failure of the oil company to link its directors' pay to health and safety issues.

An investment body whose members own 1.2% of the group's shares plans to vote against the company's remuneration report at its annual meeting on April 12. At the same time Pirc, the corporate governance body, is advising shareholders to reject the report.

The Local Authority Pension Fund Forum (LAPFF), whose members control £70bn of pension fund assets for 39 local authorities, is voting against the remuneration report because of the failure to clearly tie executive rewards to safety performance. It is advised by Pirc and has been in discussions with the company for the past six months and raised its concerns with BP's chairman, Peter Sutherland, last year. In the wake of problems such as the Texas City refinery fire, the oil company has been facing questions about its safety record and in 2006 it docked the bonuses of some executives because of these issues. Lord Browne, who will leave BP after 40 years in July, took home £4.5m in cash and shares last year although his bonus was nearly halved from £1.7m to £900,000 following the safety issues. Even so, some investors would like to see an explicit link made between pay and performance, and the LAPFF is already in contact with like-minded investors on such safety issues.

Councillor Darrell Pulk, chairman of the LAPFF, said: "It is plainly right that BP should not pay directors full bonuses in the wake of the highly critical [former US secretary of state James] Baker and CSB [chemical safety board] reports. But we do not see any linkage between long-term incentives and BP's stated desire to be a leader in process safety management."

While he welcomed the company's willingness to discuss the issues being raised, he felt that opposition to the remuneration report was the only course of action.

The LAPFF wants the long-term incentive scheme to contain elements related to safety and other non-financial matters - particularly for the in-coming chief executive, Tony Hayward.

The company has told the forum that safety components will be part of bonus consideration for 2007 and the investors said they would "assess the stringency of these targets" next year.

Other investors are known to believe that there could be a greater link between the BP executives' pay and non-financial matters such as safety.

Pirc, which advises the LAPFF, is basing its decision to recommend voting against the remuneration report on a number of matters, including the decision by the remuneration committee to allow Lord Browne to participate in a three-year pay plan even though he will only be at the company for another six months.

The corporate governance body also cites "significant concerns" over the package being given to Lord Browne when he departs which includes 12 months' salary, currently £1.5m; 130% of his salary as a possible bonus and an extra £90,000 in benefits. "Pirc considers that termination payments should not exceed one year's salary and benefits," the corporate governance body said.

Some of Lord Browne's final pay deal is subject to claw-back - or mitigation - if he takes a job that pays one third or more of the quarterly severance payments.

Even though it is urging investors to vote against the remuneration report, Pirc said it "welcomed" the remuneration committee's decision to halve the bonuses paid to directors.

BP declined to comment.