

*Case No IV/M.747 -
Chevron Corp / British
Gas / Nova Corp / NGC
Corp*

Only the English text is available and authentic.

**REGULATION (EEC) No 4064/89
MERGER PROCEDURE**

Article 6(1)(b) NON-OPPOSITION
Date: 25/07/1996

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 25.07.1996

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying parties

Dear Sirs,

Subject: Case No.IV/M.747 - CHEVRON CORPORATION/BRITISH GAS/NOVA CORPORATION/NGC CORPORATION

Notification of 24 June 1996 pursuant to Council Regulation (EC) No. 4064/89

1. On 24 June 1996 Chevron Corporation (USA), British Gas plc (UK), NOVA Corporation (Canada) and NGC Corporation (USA) notified to the Commission an intended operation whereby Chevron, British Gas and NOVA Corporation acquire within the meaning of article 3(1)b of Council Regulation 4064/89 joint control of a newly created company (Newco):
 - which will itself acquire the natural gas business unit of Chevron and the business of its subsidiary Warren Petroleum Company (USA),
 - into which the business of NGC will be merged, and
 - which will assume the name NGC Corporation.
2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of application of Council Regulation No 4064/89 and does not raise serious doubts as to its compatibility with the common market and with the functioning of the EEA Agreement.

I THE PARTIES

3. Chevron is engaged primarily in the exploration for, production of and supply of crude oil and natural gas; refining of crude oil; supply, distribution and marketing of crude oil, natural gas and refined products.

4 The principal business of British Gas is the production and supply within Great Britain of gas and the supply of related products and services.

5 NOVA supplies natural gas and petrochemicals.

6 NGC is engaged primarily in the acquisition and supply of natural gas and natural gas liquids.

II THE OPERATION

Introduction

7 The two economic sectors involved in the concentration are the processing of natural gas, the fractionation of natural gas liquids and associated activities; and the marketing of natural gas and natural gas liquids.

8 Natural gas is obtained from gas or oil wells. At the processing stage it can be converted into natural gas for sale as a fuel or the liquids can be removed and the resulting product fractionated in order to create chemical feedstock, motor fuels and other products.

9 The objective of the concentration is to merge the US midstream natural gas activities (ie activities after production up to and including wholesale marketing) of Chevron with the natural gas business of NGC. Chevron can thereby withdraw from the day-to-day management of a non-core activity while retaining an interest in a company with much experience in the sector. NGC anticipates efficiencies from the concentration. NGC is at present jointly controlled by British Gas (35 per cent of the shares) and NOVA (35 per cent). The operation therefore involves the creation of Newco, a concentrative joint venture jointly controlled by Chevron, British Gas and NOVA which will acquire the relevant activities of Chevron, into which the activities of NGC will be merged, and which will assume the name NGC Corporation.

Joint control

10 Chevron, British Gas and Nova will each hold approximately 25 per cent of the shares of Newco. Under the bylaws of Newco three of the thirteen directors will be appointed by each of Chevron, British Gas and Nova and two by managers of NGC; the remaining two directors will be independent. The approval of at least eleven directors is required for certain decisions, including those relating to oil or gas futures activities involving an exposure in excess of US\$ [...] ⁽¹⁾, expenditure and potential liabilities exceeding US\$ [...] ⁽¹⁾ (although decisions relating to expenditure and potential liabilities between US\$ [...] ⁽¹⁾ and US\$ [...] ⁽¹⁾ can be delegated to an executive committee itself appointed by at least 11 directors), the introduction of a new line of business and the appointment of directors and senior officers. The result of this provision is that any one of Chevron, British Gas or Nova (but no other shareholder) can block any such decision; deadlock would therefore occur without their concurrence.

⁽¹⁾ Deleted for publication. These thresholds are low in comparison with level of investment needed for (eg) the acquisition of processing plants, pipelines and similar assets or the acquisition of a small gas and liquids marketing company.

- 11 Newco will therefore be subject to joint control by Chevron, British Gas and Nova.

Lasting autonomous economic entity

- 12 The operation of Newco will consist of activities acquired from Chevron which Chevron has carried on as business activities distinct from those which it will retain and in addition all the present activities of NGC. It will have sufficient financial and other resources to operate on a lasting basis. It will perform the normal functions of a trading company within a trade market. Newco will inherit supply contracts between Chevron and the Chevron businesses acquired by Newco. These will largely be transitional, and the amounts involved will in no case exceed 20 per cent of the supply of the product involved. The agreements will be on normal commercial terms. Newco's shares will be traded on the New York Stock Exchange.
- 13 Newco will therefore perform on a lasting basis all the functions of an autonomous economic entity.

Absence of coordination

- 14 Since transport costs and adequacy of supply make trade in gas between North America and Europe insignificant, each gas market in Europe must be considered as distinct from each gas market in North America. Apart from British Gas, whose main activities are the exploration for and production of North Sea gas and the supply of domestic gas in Great Britain, the notifying parties will have only limited activities in any market in Europe. Chevron is active in North Sea gas and oil exploration and production, but its supply of natural gas in any market in Europe is insignificant in competition terms. British Gas⁽²⁾ is the majority partner (51 per cent) with NGC (49 per cent) in Accord, which acts as a trader or market-maker in natural gas, buying and selling gas in the United Kingdom to meet the short-term requirements of producers and the requirements of industrial customers. Chevron thus joins the original ultimate parents of NGC as the holder of an interest (indirectly c 12 per cent) in Accord. There is no change in the control of Accord; indeed British Gas will reinforce its existing control. Furthermore there are no proposals for Chevron to supply Accord, and Chevron does not in any case anticipate having sufficient capacity available for such short-term contracts. If it did supply Accord it would do so on normal commercial terms.
- 15 Nor are the North Sea activities of Chevron and British Gas conducted upstream of the activities of Newco, which are carried on in a separate geographic market.
- 16 There is as a result no possibility of coordination of the activities of Chevron, British Gas, Nova and NGC as a consequence of the operation.

⁽²⁾ Following the demerger of British Gas in 1997 the interest of British Gas will be held by the company conducting the gas trading business.

Conclusion

17 The operation accordingly constitutes a concentration within the meaning of article 3(1)b of the Regulation.

III CONCENTRATION OF COMMUNITY DIMENSION

18 Chevron, British Gas, Nova and NGC have a combined aggregate worldwide turnover in excess of 5000 million ECU. Chevron and British Gas each has a Community-wide turnover in excess of 250 million ECU. But each of the parties does not achieve more than two-thirds of its aggregate Community-wide turnover within one and the same member State.

19 The operation therefore has a Community dimension within the meaning of article 3(1)(b) of the Regulation.

20 The notification does not qualify for cooperation between the Commission and the EFTA Surveillance Authority.

IV COMPATIBILITY WITH THE COMMON MARKET

21 The merging businesses are carried on almost exclusively in North America. The only activities of Newco in the European Union will consist of the minority interest formerly held by NGC in Accord and the supply to members of the Chevron corporate group of administrative support services formerly supplied by Warren Petroleum. Although Chevron has gas exploration and production activities in the North Sea which are upstream from the activities of British Gas in the supply of gas in Great Britain, its activities in this respect are insignificant. Accordingly no competition problems arise.

V CONCLUSION

22 For the foregoing reasons, the proposed concentration does not raise serious doubts as to its compatibility with the common market and with the functioning of the EEA Agreement.

For the above reasons, the Commission has decided not to oppose the notified operation and to declare it compatible with the common market and with the functioning of the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of Council Regulation No. 4064/89.

For the Commission,