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Case No COMP/M.2208 - CHEVRON / TEXACO

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REGULATION (EEC) No 4064/89
MERGER PROCEDURE

Article 6(1)(b) NON-OPPOSITION
Date: 28/02/2001

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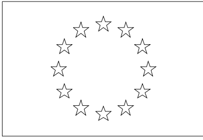

COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 28.02.2001
SG (2001) D / 286526 - 527

In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EEC) No 4064/89 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus […]. Where possible the information omitted has been replaced by ranges of figures or a general description.

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying parties

Dear Madam, Dear Sir,

Subject: Case No COMP/M.2208 – CHEVRON / TEXACO
Notification of 26.01.2001 pursuant to Article 4 of Council Regulation No 4064/89

1. On 26.01.2001, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89[1] ("the Merger Regulation") by which the US undertaking Chevron Corporation ("Chevron") enters into a full merger within the meaning of Article 3(1)(a) of the Merger Regulation with the US undertaking Texaco Inc. ("Texaco").

2. After the examination of the notification, the Commission has concluded that the notified operation falls within the scope of Council Regulation (EEC) 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 AND THE OPERATION

3. Both Chevron and Texaco are fully integrated oil companies, active world-wide in exploration and production of mineral oil and gas, the operation of refineries, and the manufacture, supply and distribution of refined petroleum products and lubricants. In addition, Chevron is active in coal and chemicals, including a variety of additives used for fuels and lubricants.

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[1] OJ L 395, 30.12.1989 p. 1; corrigendum OJ L 257 of 21.9.1990, p. 13; Regulation as last amended by Regulation (EC) No 1310/97 (OJ L 180, 9. 7. 1997, p. 1, corrigendum OJ L 40, 13.2.1998, p. 17).

4. On 15 October 2000, Texaco, Chevron and Keepep executed an Agreement and Plan of Merger (the "Merger Agreement"). By virtue of the Merger Agreement, on the date of the merger, Keepep, a new wholly owned subsidiary of Chevron, will merge into and with Texaco. Thereupon, the separate existence of Keepep will cease and Texaco will be the surviving corporation and become a wholly owned subsidiary of Chevron. On the date of the merger, Chevron Corporation will be re-named as ChevronTexaco Corporation. Therefore, the notified transaction is a full legal merger and a concentration within the meaning of Article 3(1)(a) of the Merger Regulation.

II. COMMUNITY DIMENSION

5. The undertakings concerned have, in 1999, a combined aggregate world-wide turnover of more than EUR 5 billion[2] (Chevron EUR 37685 million; Texaco EUR 40321 million). The 1999 aggregate Community-turnover of each of the parties exceeded EUR 250 million (Chevron EUR […] million; Texaco EUR […] million), but they do not achieve more than two-thirds of their aggregate Community-wide turnover within one and the same Member State. The notified operation therefore has a Community dimension pursuant with Article 1(2) of the Merger Regulation.

III. COMPETITION ASSESSMENT

A. Horizontal effects

6. Although the operation will create, in terms of oil and gas production, the fourth largest oil company, the lack of overlap described below reflects Chevron's focus on its operations outside the EEA. Chevron decided to concentrate its marketing activities in the United States and gradually disposed of its downstream European businesses. Most of its operations was sold to Texaco (1984), with the remainder to Shell (1997) and Petroplus (1998).

7. The parties have overlapping activities with an effect in the EEA in the following economic sectors : exploration for oil and gas; production and sales of crude oil; production and sales of natural gas; production and sales of other hydrocarbons; gas transportation and processing; hydrocarbons/gas to liquids technology; industrial fuel oil, marine fuels and marine lubricants; fuel performance additives; lubricants; shipping; trading.

8. Consistent with previous decisions, the following markets can be defined :
   - world-wide market for exploration for oil and gas;
   - world-wide market for production and sales of crude oil;
   - at least EEA market, but probably also including Russia and Algeria for production

[2] Turnover calculated in accordance with Article 5(1) of the Merger Regulation and the Commission Notice on the calculation of turnover (OJ C66, 2.3.1998, p25). To the extent that figures include turnover for the period before 1.1.1999, they are calculated on the basis of average ECU exchange rates and translated into EUR on a one-for-one basis.

and sales of natural gas[3];

- EEA or world-wide markets for industrial fuel, marine fuel and marine lubricants[4];

9. On the above markets, the merged entity will have a market share of below 15%. Therefore, the operation does not raise serious doubts as to its compatibility with the common market.

10. With respect to the production and sales of other hydrocarbons, the parties are, within the EEA, only active in the UK where their combined production would account for less than 5%.

11. In gas transportation and gas processing, the relevant market from a demand perspective, i.e. owners of gas fields requiring transport and/or processing, consists of the (existing or newly constructed) infrastructure that forms a viable economic alternative[5]. As indicated in the BP Amoco/Arco decision, the main competition concern arising from an interest in such infrastructure is the possibility for the infrastructure owners to constrain the development of new, competing gas fields. In this context, the position of an individual company will, in view of the third party access rules in the different pipelines, depend not so much on its equity capacity share, but on the total capacity and especially spare capacity of the infrastructure in which it has an interest. In view of the limited number of pipelines in which the parties have an interest and the limited spare capacity in these pipelines, no such concerns arise.

12. Hydrocarbons/Gas to liquids ("GTL") technology consists in the transformation of low value hydrocarbon solids and liquids from refinery processes or natural gas into high purity liquid petroleum products such as gasoil and base oils. Both parties, among others, are developing this technology. Currently, none of the players have a portfolio of intellectual property rights that cover all the essential steps in the GTL production process. In fact, the parties are pursuing different GTL applications based on technology held by third parties and the combination of this technology will not affect future developments of the technology. In addition, the Commission referred in *Exxon/Mobil*[6] to the fact that there are currently no commercially viable projects in operation and also to the absence of impact that this technology currently has on the petroleum product markets. Therefore, no competition concerns arise from the parties' activities with respect to GTL technology.

13. Fuel performance additives are added at the terminal to gasoline and diesel to meet advertised proprietary performance standards or by the customer to enhance fuel performance. The parties indicate that performance additives can be segmented into three product sub-groups: bulk gasoline, premium diesel and after market. Due to the chemical similarities between these product groups and the high degree of supply-side substitutability, they form, according to the parties, a single product market that is EEA-

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3 For all the above markets : M.1383 – Exxon/Mobil; M.1532 – BP Amoco/Arco.

4 M.1301 – Texaco/Chevron.

5 M.1532 – BP Amoco/Arco.

6 Paragraphs 40 to 47.

wide in scope. It is, however, not necessary to define the relevant product markets, as whatever market is taken, the combined market share would be less than 15%.

14. Texaco is a lubricants blender and marketer with approximately a [0-10]% share of all lubricants sales on an EEA scale. In the lubricants sector, the Commission has, in a previous case[7], distinguished different product markets for automotive, industrial, marine and aviation lubricants and has defined the market likely to be the EEA in respect of the first three products. It later decided that there was a world-wide market for aviation lubricants[8]. On an EEA scale and, with respect to aviation lubricants also on a world-wide scale, Texaco has market positions significantly below 15% in each relevant lubricant product market[9]. Chevron has no sales of aviation lubricants and accounts for less than 1% of automotive and industrial lubricant sales on an EEA and national scale. On marine lubricants, the parties had already merged their operations through the FAMM joint venture[10] that has an estimated market share of [less than 15]% in the EEA. Therefore, no competition problem arises out of the concentration in view of the minimal market share addition on any of the lubricant markets.

15. In shipping, Chevron operates a fleet of 29 vessels which it owns or leases under long-term charters and has at any given time 30 to 40 vessels chartered at any given time on a single voyage basis for its own transportation needs. Texaco obtains its shipping requirements from StenTex, a 50-50 JV with Stenabulk AB. No competition concerns arise from this activity. In trading, the parties activities are ancillary to the marketing and sale of their output and do not give rise to a competition concern either.

B. Vertical effects

16. Vertically affected markets arise only on the lubricant additives markets. They are defined, consistent with the Commission's decision in M.1137 – Exxon/Shell, as the EEA market for viscosity index improver ("VII") packages and detergent inhibitor ("DI") packages. These additives are an important input material for finished lubricants.

17. Chevron holds, through its Oronite subsidiary, a [15-25]% market share of the EEA market for DI packages and a [25-35]% market share on the EEA market for VII improvers. Texaco is not active in these markets. On the downstream finished lubricants markets, described in paragraph 14, Chevron has market shares below 1% whereas Texaco has a more important activity, although without achieving significant market shares. As lubricant producers multi-source their additives requirements in order to profit from technological improvement[11] and as there are three other significant

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7 Case No.IV/M.727 – BP/Mobil

8 Case No. COMP/M.1383 – Exxon/Mobil.

9 Even when calculated on the basis of national markets, distinguishing between automotive / industrial / marine and aviation lubricants, market shares remain below 15% with the exception of a [30-40]% market share for industrial lubricants in Denmark.

10 The formation of the joint venture was cleared by the Commission in 1998: Case No. IV/M.1301: Texaco/Chevron/FAMM jv

11 Chevron currently sources […] its requirements [not only] from its full subsidiary Oronite [but also from Oronite's competitors].

competitors on the additives supply markets (Lubrizol, Ethyl and Infineum), the vertical effects of the operation do not raise serious doubts as to the compatibility of the operation with the common market.

IV. CONCLUSION

18. 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 (EEC) No 4064/89 and Article 57 of the EEA Agreement.

For the Commission,
Mario Monti
Member of the Comission