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Case No IV/M.085 - ELF / OCCIDENTAL

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REGULATION (EEC) No 4064/89
MERGER PROCEDURE

Article 6(1)(b) NON-OPPOSITION
Date: 13.06.1991

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COMMISSION
OF THE EUROPEAN
COMMUNITIES

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MERGER PROCEDURE
ARTICLE 6(1)b DECISION

VERSION FOR THE PUBLIC

Registered with advice of delivery

1. Notifying party

Dear Sirs,

Subject: Case No IV/M085 - ELF/OCCIDENTAL
Your notification of 13.05.1991 pursuant to Article 4 of Council Regulation No 4064/89

(1) The proposed concentration consists of the acquisition by E E Petroleum Ltd., an indirect subsidiary of Société Nationale Elf Aquitaine (SNEA) of all the shares of Occidental Petroleum (Great Britain) Inc. (OPGB). The company being acquired is a holding company whose assets consist mainly of the shares of Occidental Petroleum (Caledonia) Ltd. which is incorporated in the United Kingdom.

After examination of the notification, the Commission has concluded that the notified operation falls within the scope of Council Regulation No 4064/89 and does not raise serious doubts as to its compatibility with the common market.

I. CONCENTRATION

(2) Since following the completion of the transaction, OPGB will be a wholly owned subsidiary of E E Petroleum Ltd., the notified operation constitutes a concentration within the meaning of Article 3(1)b of the Regulation.

II. COMMUNITY DIMENSION

(3) The operation has a Community dimension. The worldwide turnover of the SNEA group in 1990 was 25 140 million ECU and the corresponding figure for OPGB was 323 million ECU. The SNEA group had a Community wide turnover of 18 626 million ECU and all of OPGB's turnover was realized in the Community. The two undertakings did not achieve more than 2/3 of their aggregate

Community wide turnover within one and the same Member State.

III. COMPATIBILITY WITH THE COMMON MARKET

Affected Product Markets

(4) The SNEA group is active in three principal business sectors as follows:

(i) the exploration, production, refining, marketing and trading of crude oil and natural gas;
(ii) the production and marketing of basic and specialty chemicals;
(iii) the research, development, manufacturing and marketing of prescription and non-prescription drugs, bio-industry products and perfumes.

(5) The undertaking to be acquired is a subsidiary of the Occidental Petroleum Corporation, which is a major diversified US oil and gas company. OPGB's activities consist of the exploration, production and marketing of crude oil and gas reserves in the UK sector of the North Sea and in this regard it has interests in approximately 26 North Sea blocks relating to 8 North Sea fields. OPGB's interest in these blocks, in all but one case, are shared with a number of other participants. OPGB is the "operator" of six of the eight fields in question. As operator OPGB is responsible for the actual day to day management and operation of the field in question subject to the specific terms of the relevant operating agreement among it and the other field participants.

(6) OPGB also holds a 36.5% interest in the pipeline system which carries or will carry crude oil from five fields in which it has an interest, as well as from another five fields in which the company has no interest, to the Flotta terminal in the Orkney Islands where it is received and processed for loading into oil tankers. OPGB also holds a 36.5% interest in the Flotta terminal itself. SNEA holds no interest in the Flotta terminal or the pipeline system but has a minor stake in three other crude oil pipelines in the North Sea area.

(7) The product markets in which there will be an increase in market share as a result of the concentration are therefore the exploration, production and marketing of firstly crude oil and secondly natural gas.

Crude Oil

(8) Crude oil is usually traded on a worldwide basis. Refiners buy crude oil from around the world according to availability, price, technical requirements of their refineries and the particular demands of the market. At the worldwide level, it appears that the proposed concentration will have no impact as the combined crude oil market share of SNEA and OPGB in terms of production will be less than 1% (0.819% + 0.003%). If the geographic market is narrowed to the European Community, the crude oil market share is 4.9% for SNEA and 0.24% for OPGB. If the geographic market is narrowed further to the North Sea, the combined market share of the parties is slightly more than 3%. The parties combined market share in crude oil is small

regardless of whether one looks at the product market in terms of production, reserves or acreage, or whether one looks at the geographic market in terms of the Community, the North Sea or even the United Kingdom.

(9) Furthermore, in practice there is no close vertical relationship between SNEA's production business and its refining and marketing business. This is due to the fact that oil companies in meeting their refining needs look to the worldwide crude oil market, rather than merely to their own production, and to the fact that the decision whether to sell or refine a given amount of their own crude oil production depends on a number of constantly changing market factors, including current oil prices. This is confirmed by the fact that in 1990 SNEA's total crude oil worldwide production was 23.0 million tonnes and it purchased on the market an additional 34.2 million tonnes. Of the total (57.2 million tonnes), 17.5 million tonnes were refined by SNEA, of which only 4.1 million (23%) had come from SNEA's own production. It follows that the vertical relationship does not present any risk of foreclosure effects for third parties.

Natural Gas

(10) The physical characteristics of natural gas make it difficult to transport and store. It is necessary either to transport natural gas under pressure in pipeline systems which create a continuous physical connection from producer to consumer, or to freeze it in order to liquefy the gas. Due to the technological complexity and high cost of liquefication, transport and regasification of LNG, and the consequently limited volume of liquefied natural gas (LNG) produced, the definition of the relevant geographic market for natural gas depends to a large extent on the existence of natural gas pipeline systems.

(11) The United Kingdom is largely self-sufficient with most gas supply coming from its sector of the North Sea although there is also a pipeline connection with the Norwegian sector and Norwegian imports accounted for 13% of UK consumption in 1990. Approximately 25% of the Norwegian natural gas imports sold into the UK market were produced by SNEA. Since the United Kingdom has no significant pipeline connection with any other Member State, and imports of LNG are at present only a marginal possibility, it is not excluded that it could constitute a separate geographic market for natural gas. OPGB's activities are confined to this country where it had a market share of natural gas production of 0,000071% in 1990. The SNEA group had a market share in the United Kingdom of 13,9% in 1989 and its estimated market share for 1990 is 10%. It does not hold a larger market share in any other Member State. The concentration will not alter SNEA's relative position in terms of North Sea oil and gas reserves. Three large international companies, British Petroleum, Shell and Exxon have significant market shares of UK natural gas production.

(12) Natural gas contracts are generally of a duration of up to 20 years depending of the life of the field concerned. The prices agreed in the contracts are normally determined for the entire duration of the contract, starting at an initial price and subject thereafter to an indexing formula usually

based on the current prices of other petroleum products. It follows that all of OPGB's current natural gas production in the operating fields is committed under long term contracts, and will therefore continue to be sold mainly to British Gas after the concentration.

(13) Neither OPBG nor SNEA is vertically integrated with respect to their natural gas production, with the limited exception of the SNEA production of natural gas from fields in south west France. Regarding the conglomerate aspects of the operation, the only product directly related to gas in which SNEA has a substantial market share is sulphur but the concentration will not have any significant effect on this or any other product market in which SNEA currently operates.

(14) In view of the parties' position in the crude oil and natural gas markets, and in particular their low market shares, the concentration will not create or strengthen a dominant position as a result of which effective competition would be significantly impeded in the common market or in a substantial part of it.

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

For the Commission