‘Black Gold’ Merger Mania

How the Exxon/Mobil and BP Amoco/ARCO Mergers Threaten Consumers

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Public Citizen’s Critical Mass Energy Project

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How the Exxon/Mobil and BP Amoco/ARCO Mergers Threaten Consumers

Introduction

The Federal Trade Commission will soon make landmark decisions concerning the proposed merger of Exxon Corporation and Mobil Corporation, and the proposed merger of BP Amoco and Atlantic Richfield Company (ARCO). These two proposed mergers involve the 1st, 2nd, 3rd, and 7th largest private oil companies in the world.

The trend toward growing concentration in the oil & natural gas industry could have impacts on consumers for decades to come. The corporate marriages between Exxon/Mobil and BP Amoco/ARCO would likely lead to less competition in the oil & gas industry, which provides most of the fuels used for transportation as well as the feedstocks used in making countless products. Declining competition in the oil & gas industry could harm consumers as prices rise for gasoline and heating fuels, for products made with oil or natural gas, and for products shipped by a transportation system heavily dependent on oil.

Industry consolidation could give oil companies greater leverage over politicians throughout the world. Larger market shares, revenues, and profits make it easier to spend more on campaign contributions, lobbying expenditures, and corporate propaganda, all geared toward their private interests of tax subsidies and the dismantling of environmental laws.

The Federal Trade Commission should put the interests of the American people before the economic interests of the oil companies, and say no to these pending mergers.

Possible Impacts from the Exxon/Mobil Merger

Exxon Corporation is the largest privately-owned oil company in the world. In 1998 it ranked 1st in total assets ($93 billion), gross revenues ($115 billion), and net income ($6.4 billion), as shown in Table 1.

Mobil Corporation, until recently the world’s second largest oil company, is now third, with 1998 total assets of $48 billion, gross revenues of $54 billion, and a net income of $3.3 billion.

The merger of Exxon and Mobil would create an oil company that would have the largest retail gasoline market share in the nation. Based on 1998 figures, the Exxon/Mobil combination would have accounted for 18.6 percent of national gasoline sales, as shown in Table 2.

The Exxon/Mobil merger represents special concerns for consumers since Exxon and Mobil currently compete in many of the same states. A merger between these two companies would reduce competition and increase the market share of the surviving company in the states were it would sell gasoline.

In particular, the merged company would have retail market shares of 20 percent or more in 8 states, all located on the East Coast: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Vermont, and Washington, DC (see Table 3).

Table 1. 1998 Top 10 Oil Companies, Ranked by Total Assets.

Company	Total Assets ($000,000)	Gross Revenues ($000,000)	Net Income ($000,000)	Rank
Exxon	92,630	115,417	6,440	1
BP Amoco	42,858	83,732	3,260	2
Mobil	42,754	53,531	3,272	3
Chevron	36,540	29,943	1,339	4
Texaco	28,570	31,707	578	5
Shell	26,543	17,034	(1,727)	6
ARCO	25,199	10,809	452	7
Conoco	16,075	23,168	450	8
Marathon	14,544	22,075	310	9
Phillips	14,216	11,545	237	10
If Mergers Are Approved				
Exxon/Mobil	135,384	n/a	n/a	1
BP Amoco/ARCO	67,953	n/a	n/a	2

Source: National Petroleum News Market Facts 1999

Table 2. Gross Gasoline Gallonage & Relative Market Shares, 1998

Company	Gross Gallons (000,000)	Market Share	Ranking
BP Amoco	13,398	10.40%	1
Citgo	13,241	10.28%	2
Mobil	12,847	9.97%	3
Shell	11,482	8.91%	4
Exxon	11,145	8.65%	5
Marathon	10,286	7.99%	6
Chevron	10,010	7.77%	7
Texaco	8,968	6.96%	8
Sunoco	5,721	4.44%	9
Phillips	4,906	3.81%	10
ARCO	4,708	3.66%	11
Other	22,088	17.16%	-
Total	128,800	100%	-
If Mergers Had Occurred in 1998			
Exxon/Mobil	23,922	18.63%	1
BP Amoco/ARCO	18,106	14.06%	2

Source: National Petroleum News Market Facts 1999

The merged company would have a retail market share of 15 percent or more in 5 additional states: Delaware, Maryland, Pennsylvania, Virginia, and West Virginia. The combined Exxon/Mobil company would likely be the largest retailer from Richmond to Portland, the most densely populated area in the U.S.

The Exxon/Mobil merger would also increase the combination's market power in oil refining. Nationally, Exxon/Mobil would account for 11.5 percent of oil refining capacity, with a 9 percent share of total refinery capacity in the West Coast market and an 18 percent share in the Gulf Coast region.[1]

Another impact of the proposed merger comes at the expense of Exxon and Mobil workers. The companies estimate that 9,000 workers will lose their jobs.[2]

Possible Impacts from the BP Amoco/ARCO Merger

BP Amoco is now the world's second largest oil company in terms of total assets ($43 billion), gross revenues ($84 billion), and net income ($3.2 billion), as shown in Table 1. BP Amoco is the result of a 1998 merger between British Petroleum and Amoco.

Atlantic Richfield Company (ARCO) is the world's 7th largest oil company, with total assets of $25 billion, gross revenues of $11 billion, and a net income of $450 million.

A merger between BP Amoco and ARCO would create a company with the second largest share of retail gasoline sales in the U.S. Based on 1998 figures, the BP Amoco/ARCO combination would have accounted for 14.1 percent of national gasoline sales, as shown in Table 2.

In contrast to the proposed Exxon/Mobil combine, BP Amoco and ARCO do not operate gas stations in the same states. With no overlapping retail markets, a merger between BP Amoco and ARCO should not result in reduced competition between gas stations, as will likely occur if the Exxon/Mobil merger is allowed to proceed.

Nevertheless, the BP Amoco/ARCO merger is likely to affect retail prices of gasoline, especially in Alaska and on the West Coast. The BP Amoco/ARCO combination would own 72 percent of the 800-mile Trans-Alaska oil pipeline.[3] BP Amoco/ARCO would be a majority owner of most of Alaska's developed oil fields and facilities—the company would produce about 74 percent of Alaska's oil.[4] Since most Alaskan oil goes to the West Coast, where ARCO already has the largest retail operation, the BP Amoco/ARCO combine could have the ability to raise prices for gasoline and other finished oil products.

Another casualty of the proposed merger are the estimated 2,000 workers who may lose their jobs.[5]

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[1] National Petroleum News, *Market Facts 1999*, Arlington, IL: Adams Trade Press, Vol. 91, No. 8 (Mid-July 1999) at 106-111 (hereinafter cited as NPN).
[2] Steve Rosenbush, "9,000 Lost Jobs Will Be Mostly White Collar," *USA Today*, December 2, 1998.
[3] "BP Plant to Cost 400 Jobs," *Anchorage Daily News*, April 2, 1999 at A1.
[4] "Worries About Oil Merger Unite Political Foes," *Anchorage Daily News*, August 16, 1999 at A1.
[5] *BP Amoco and ARCO in $26.8 Billion Deal Agreed By Boards of Both Companies*, press release, April 1, 1999.

Table 3. Retail Gas Stations and Market Shares, 1998

State	Exxon Stations	Mobil Stations	Exxon/Mobil Stations	All Stations	Exxon Market Share	Mobil Market Share	Exxon/Mobil Market Share
20 percent or greater market share for Exxon/Mobil combination							
Connecticut	60	269	329	1,654	4%	16%	20%
Maine	100	179	279	1,274	8%	14%	22%
Massachusetts	90	485	575	2,600	3%	19%	22%
New Hampshire	37	155	192	893	4%	17%	22%
New Jersey	400	433	833	3,900	10%	11%	21%
New York	190	1,169	1,359	6,246	3%	19%	22%
Vermont	35	159	194	759	5%	21%	26%
Washington, DC	35	4	39	101	35%	4%	39%
15 percent or greater market share for Exxon/Mobil combination							
Delaware	45	52	97	572	8%	9%	17%
Maryland	290	150	440	2,770	10%	5%	16%
Pennsylvania	481	432	913	5,000	10%	9%	18%
Virginia	645	184	829	5,241	12%	4%	16%
West Virginia	300	8	308	2,000	15%	0%	15%
10 percent or greater market share for Exxon/Mobil combination							
Arizona	115	144	259	1,950	6%	7%	13%
California	380	712	1,092	11,258	3%	6%	10%
Michigan	0	516	516	5,223	0%	10%	10%
Montana	160	0	160	1,568	10%	0%	10%
Rhode Island	10	65	75	525	2%	12%	14%
Texas	1,480	553	2,033	14,773	10%	4%	14%
Less than 10 percent market share for Exxon/Mobil combination							
Alabama	300	0	300	5,000	6%	0%	6%
Alaska	0	0	0	262	0%	0%	0%
Arkansas	200	1	201	2,984	7%	0%	7%
Colorado	0	0	0	2,256	0%	0%	0%
Florida	275	466	741	9,301	3%	5%	8%
Georgia	300	6	306	7,765	4%	0%	4%
Hawaii	0	0	0	370	0%	0%	0%
Idaho	57	0	57	765	7%	0%	7%
Illinois	0	360	360	4,639	0%	8%	8%
Indiana	0	83	83	3,200	0%	3%	3%
Iowa	0	12	12	3,534	0%	0%	0%
Kansas	0	0	0	2,797	0%	0%	0%
Kentucky	55	0	55	4,214	1%	0%	1%
Louisiana	365	163	528	7,276	5%	2%	7%
Minnesota	0	115	115	4,053	0%	3%	3%
Mississippi	160	5	165	3,799	4%	0%	4%
Missouri	0	89	89	4,981	0%	2%	2%
Nebraska	0	0	0	2,214	0%	0%	0%
Nevada	31	29	60	850	4%	3%	7%
New Mexico	33	1	34	1,650	2%	0%	2%
North Carolina	685	23	708	7,629	9%	0%	9%
North Dakota	0	7	7	886	0%	1%	1%
Ohio	28	3	31	6,050	0%	0%	1%
Oklahoma	0	0	0	4,005	0%	0%	0%
Oregon	63	0	63	1,857	3%	0%	3%
South Carolina	375	0	375	4,481	8%	0%	8%
South Dakota	13	0	13	1,600	1%	0%	1%
Tennessee	435	0	435	5,016	9%	0%	9%
Utah	0	0	0	1,324	0%	0%	0%
Washington	240	0	240	3,100	8%	0%	8%
Wisconsin	0	360	360	3,867	0%	9%	9%
Wyoming	32	0	32	636	5%	0%	5%
Total	8,500	7,392	15,892	180,668	n/a	n/a	n/a

Source: National Petroleum News Market Facts 1999 - Distribution Outlets, Company Reports

Merger Mania

Due in part to low oil prices and intense international competition, the oil companies claim they need to merge to survive. In announcing the merger, BP Amoco and ARCO said, "Against the background of uncertain oil prices and the increased competitive pressure across the sector, it is clear that … our companies can compete more effectively together than apart …."[6] Exxon and Mobil said, "This merger will enhance our ability to be an effective global competitor in a volatile world economy and in an industry that is more and more competitive."[7]

Even though in recent years prices for crude oil and gasoline have hit historic lows, oil and gasoline prices have climbed sharply during the past six months. Crude prices moved from $10 per barrel in February 1999 to $21 a barrel in August. The price for wholesale gasoline futures went from less than $0.39 per gallon in February to $0.63 in August. Rising oil and gasoline prices refute the arguments made by the oil companies that they need to merge to survive.

(If times are tough for these oil companies, maybe their boards should consider cutting back on the generous salaries and stock options paid to the CEO's of these merging corporations. In 1998, Exxon's Lee R. Raymond received $11,907,349 in salary and $19,344,406 in stock options; Mobil's Lucio A. Noto took home a salary of $5,579,768 and $8,958,250 in stock options; BP Amoco's Sir John Brown pocketed $1,510,000 along with $1,100,000 in stock options, and ARCO's Mike R. Bowlin made $2,177,328 plus stock options valued at $4,715,860.[8])

Oil companies are not the only ones that could see larger profits in the wake of a merger. Wall Street investment bankers, lawyers, and accountants will likely receive about $90 million for their help in consummating these mergers.[9]

If these two large mergers are allowed to proceed, the merger frenzy will likely continue, as other oil companies scramble to compete in a market dominated by giants. A review of oil company assets shows that Exxon/Mobil ($135 billion) would be twice as large as BP Amoco/ARCO ($68 billion), which would be almost twice as large as its next largest competitor, Chevron Corporation ($37 billion), as shown in Table 1. Oil companies with smaller assets may have to merge to survive, which could result in fewer companies, less competition, and higher prices for consumers.

Merged Companies More Politically Powerful

The oil & gas industry already wields considerable influence in the halls of Congress. Oil and gas companies exert influence on government policies ranging from tax subsidies to attempts to gut or weaken environmental laws and regulations. While mergers give greater power to

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[6] Ibid.
[7] *Exxon and Mobil Sign Merger Agreement*, press release, December 1, 1998.
[8] Information for Raymond, Noto, and Bowlin from AFL-CIO website: www.paywatch.org. Information for Brown, BP Amoco 20F form.
[9] Reuters New Service, April 6, 1999.

individual companies, industry consolidation makes the industry itself more influential as power becomes concentrated in the hands of the very few.

According to the Center for Responsive Politics (www.opensecrets.org), the oil & gas industry spent over $120 million lobbying Congress during 1997 and 1998.[10] As shown in Table 4, Exxon spent $10,834,660 on '97-'98 lobbying expenditures; Mobil spent $11,400,000; BP & Amoco spent $8,686,090; and ARCO spent $8,500,000.

The top 10 oil & gas companies gave a total of $4,623,072 to members of Congress during the 1998 election cycle, also shown in Table 4. Exxon gave $845,325; Mobil gave $250,230; BP & Amoco gave $810,266; and ARCO gave $737,477.

Table 4. Oil Company Lobbying Expenditures and Campaign Contributions, 1997-1998.

Organization	1998 Lobbying Expenditures	1997 Lobbying Expenditures	'97-'98 Campaign Contributions	Rank
Mobil Oil	$6,160,000	$5,240,000	$250,230	1
Exxon Corp	5,620,000	5,214,660	845,325	2
USX Corp	4,300,000	4,060,000	509,206	3
Texaco	4,228,898	5,628,965	422,840	4
Shell Oil	3,720,219	2,940,800	151,236	5
ARCO	3,000,000	5,500,000	737,477	6
Amer. Petro. Inst.	2,982,188	3,680,000	71,459	7
Chevron Corp	2,969,825	3,999,338	825,033	8
Amoco Corp	1,760,000	3,380,000	493,500	9
BP America	1,712,190	1,833,900	316,766	10
Total	$36,453,320	$41,477,663	$4,623,072	

Source: Center for Responsive Politics

Members of Congress are more than happy to give these companies something in return for oil company money. For example, federal tax legislation currently pending before Congress includes give-aways to the oil & gas industry that would cost the American taxpayer more than $600 million over the next five years. The tax breaks would skyrocket to more than $2.2 billion through the year 2009 (see Figure 1).[11]

Exxon and Mobil are working hard to prevent the U.S. from signing the Kyoto protocol on climate change.[12] Both are board members of the Global Climate Coalition, which is made up of companies and trade associations representing more than 230,000 firms in the fossil-fuel, automotive, and energy-intensive industry sectors in the U.S. The coalition questions the

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[10] Oil and gas industry lobbying expenditures for 1997 were $62,388,028; 1998 were $57,696,393 (Center for Responsive Politics).

[11] Brian Dunkiel and Gawain Kripke, *Missing the Green: Congress Proposes Tax Cuts for Destructive Industries While Ignoring the Environment*, Washington, DC: Friends of the Earth, August 1999 (the report can be viewed at http://www.foe.org/act/e4e34tax.html).

[12] Friends of the Earth, *Exxon and Mobil Undermine Action On Climate Change*, Washington, DC, March 1999.

majority scientific opinion on climate change and vociferously oppose cuts in greenhouse gas emissions at international climate talks.

Exxon and Mobil have websites full of self-serving warnings of economic collapse if the U.S. was to implement the weak but needed policies contained in the Kyoto treaty.[13] In contrast, studies conducted by non-profit groups show that the U.S. economy could drastically reduce greenhouse gas pollution in ways that would lower consumer energy bills while creating additional jobs.[14]

Figure 1. Assistance to Industries that Distress the Environment

The tax bill [currently pending before Congress] includes a section entitled "Relief for Distressed Communities and Industries." A better title might be "Relief for Industries that Distress Communities and the Environment." The tax bill includes numerous tax breaks for the oil & gas industry … and others. These include:

Special Net Operating Loss Rules for Oil and Gas Properties: The tax bill would carve out a special allowance for taxpayers to apply losses from oil & gas businesses to taxes paid five years in the past and provide a new subsidy to fossil fuel production that will cost taxpayers $139 million over the next five years.

Pipeline Transportation Income: The tax bill would create an additional tax break for oil- and electricity-related income of foreign-based companies. According to the Joint Committee on Tax, this proposal would cost the U.S. Treasury $26 million over the next five years.

Repeal Special Rules Applying to Foreign Oil and Gas Income: The final tax bill includes a provision from the House version that would repeal tax rules applying to income from oil & gas income earned in another country. An existing 35 percent tax credit limit on taxes from foreign oil & gas extraction income would be eliminated. To hide the huge cost of this change, the tax bill delays implementation until 2007. Between 2004 and 2009, this change would cost U.S. taxpayers $1.7 billion.

Expand Percentage Depletion Allowance for Oil and Gas: The tax bill extends and expands special tax breaks for oil & gas production known as the percentage depletion allowance. The tax bill makes oil & gas investments even more favorable. The percentage depletion allowance subsidizes fossil fuel development by allowing oil & gas businesses to deduct the depreciation of facilities based on a guaranteed percentage. The value of the tax break can exceed the actual value of the property. This makes investing in oil & gas more attractive than other investments, such as cleaner energy sources that do not contribute to global warming. Provisions in the tax bill would cost U.S. taxpayers $250 million over the next five years.

Expensing of Geological Costs for Oil and Gas: The tax bill provides new special treatment of exploration costs for the oil & gas industry, costing taxpayers $121 over five years.

In total, these oil & gas provisions will cost more than $600 million over the next five years. The tax breaks would skyrocket to more than $2.2 billion through the year 2009.

Source: Brian Dunkiel and Gawain Kripke, *Missing the Green: Congress Proposes Tax Cuts for Destructive Industries While Ignoring the Environment*, Washington, DC: Friends of the Earth, August 1999 (the report can be viewed at http://www.foe.org/act/e4e34tax.html).

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[13] www.exxon.com, www.mobil.com

[14] See, for example, Alliance to Save Energy, American Council for an Energy Efficiency Economy, Natural Resources Defense Council, Tellus Institute, and Union of Concerned Scientists, *Energy Innovations: A Prosperous Path to a Clean Environment*, Washington, DC: Alliance to Save Energy, 1997; and *America's Energy Choices: Investing in a Strong Economy and a Clean Environment*, Cambridge, MA: Union of Concerned Scientists, 1992.

American oil companies have lobbied for years to prevent a tightening of the fuel efficiency standards for cars and light trucks. Current fuel efficiency standards, which have remained largely unchanged since 1989 due in part to the oil company lobby, save the average owner of a new car $3,300 over the lifetime of the vehicle. Higher standards would save consumers more money as well as conserve a precious, finite resource and reduce pollution that is ruining the environment.

Recommendation

Based on our analysis, we have only one recommendation. The Federal Trade Commission should put the interests of the American people before the economic interests of the oil companies, and say no to these pending mergers. Merger and consolidation in the oil & gas industry is likely to lead to higher prices for consumers, increased political power for the surviving companies, greater environmental damage, and a further undermining of our nation's democracy.