UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION

COMMISSIONERS: Robert Pitofsky, Chairman
Sheila F. Anthony
Mozelle W. Thompson
Orson Swindle
Thomas B. Leary

In the matter of	)	
	)	
BP AMOCO P.L.C.,	)	
a corporation,	)	
	)	Docket No. C-3938

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States are located at 200 East Randolph Drive, Chicago, Illinois 60601

2. Respondent BP Amoco is, and at all times relevant herein has been, engaged in the exploration, development, and production of crude oil on the Alaska North Slope, and the sale of that crude oil to refinery customers located in the states of Alaska, Hawaii, California, and Washington, and elsewhere.

3. Respondent BP Amoco had total sales, of all products, of over $91 billion in 1999. Respondent BP Amoco's United States sales of all products totaled over $38 billion in 1999.

4. Respondent BP Amoco is, and at all times relevant herein has been, engaged in commerce, or in activities affecting commerce, within the meaning of Section 1 of the Clayton Act, 15 U.S.C. § 12, and Section 4 of the Federal Trade Commission Act, 15 U.S.C. § 44.

II. Respondent ARCO

5. Respondent ARCO is a corporation organized, existing and doing business under and by virtue of the laws of the State of Delaware, with its office and principal place of business located at 333 S. Hope Street, Los Angeles, California 90071.

6. Respondent ARCO is, and at all times relevant herein has been, engaged in the exploration, development, and production of crude oil on the Alaska North Slope, and the sale or delivery of that crude oil to refinery customers, or its own refineries, located in the states of Alaska, Hawaii, California, and Washington.

7. Respondent ARCO had total sales, of all products, of more than $12 billion in 1999.

8. Respondent ARCO is, and at all times relevant herein has been, engaged in commerce, or in activities affecting commerce, within the meaning of Section 1 of the Clayton Act, 15 U.S.C. § 12, and Section 4 of the Federal Trade Commission Act, 15 U.S.C. § 44.

III. The Merger

9. On or about March 31, 1999, Respondents BP Amoco and ARCO executed an agreement to merge their two companies. The value of the merger, when it was announced, was approximately $26 billion.

IV. Trade and Commerce

A. Alaska North Slope Crude Oil:

10. The Alaska North Slope is a major oil-producing region of the United States. Alaska North Slope crude oil ("ANS crude oil") is used to supply refineries in Alaska, Hawaii, the West Coast of the United States, and Asia. Approximately 90% of all ANS crude oil is refined on the United States West Coast, and approximately 45% of all crude oil refined on the United States West Coast is ANS crude oil.

11.

B. TAPS Pipeline:

14. Except for the small amount of ANS crude oil that is used by refineries in Alaska, ANS crude oil is transported from the North Slope via the Trans-Alaska Pipeline System ("TAPS"), an 800-mile long pipeline, to the warm water port of Valdez on Alaska's Prince William Sound. The only way that ANS crude oil can be transported from the Alaska North Slope to Valdez is through TAPS.

15. Seven companies jointly own the TAPS pipeline. BP Amoco and ARCO are the two largest owners. BP has about a 50% interest and ARCO has about a 22% interest. Each owner of TAPS has an exclusive right to sell space on its ownership-share of TAPS capacity and to set its own tariff, to which it can apply discounts, for carriage on that capacity. After the merger, BP Amoco would control a 72% interest in TAPS.

16. All ANS crude oil is commingled in TAPS, and all ANS crude oil produced from any field, by any producer, is undifferentiated at Valdez.

C. Sale and Delivery of ANS Crude Oil:

17. The major oil companies that produce ANS crude oil own or have long term charters over specialized marine tankers. These specialized tankers are the only form of marine transportation permitted by law to transport ANS crude oil from Valdez to the United States West Coast.

18. The ANS crude oil sold or delivered by ARCO is identical to the ANS sold or delivered by BP Amoco.

19. Unlike the sale of most crude oil elsewhere in the world, ANS crude oil is sold and shipped by the larger oil producing companies on the Alaska North Slope to refineries on a delivered price basis. West Coast refineries do not have the option of hiring a tanker to carry ANS crude oil purchased in Valdez. Nor do these refineries have the option to deliver it to another refinery.

20. The small North Slope producers -- with no tanker fleets of their own -- sell their oil either to a producer with a tanker fleet or to the small refineries located in Alaska.

21. Refineries use crude oil as the principal input in making gasoline, diesel fuel, kerosene jet fuel, asphalt, coke, and other refined petroleum products. There are no substitutes for crude oil as an input into petroleum refineries for the manufacture of petroleum-based fuels.

22. Crude oils that come from different places have different gravity, sulfur, aromatics, metals and other characteristics.

23. Each refinery is uniquely designed to handle a particular crude oil slate. For a refinery, changing the crude oil slate changes both the overall product yield and the output of particular products. For this reason, there are often no substitutes at competitive prices for individual types of crude oil, including ANS crude oil, for individual refineries.

24. Refineries cannot substitute from among different crude oils readily, and do not do so without evaluating, assisted by complex computer linear programs, the economics of crude oil substitution. BP Amoco knows this, and with the aid of computer models designed to replicate those of its refinery customers, attempts to price its ANS crude oil up to -- but not above -- the point at which a refinery customer is likely to switch to an alternative crude oil. Each refinery customer has a different substitution point, or "trigger point" at which it will switch from ANS crude oil to an alternative crude oil.

25. BP Amoco limits supplies of ANS crude oil delivered to the United States West Coast. BP Amoco accomplishes this by exporting ANS crude oil to Asia, often at lower prices, net of its transportation costs, than it could obtain by selling the ANS crude oil on the West Coast. BP Amoco makes these sales in order artificially to short the United States West Coast market. The ANS crude oil supply deficit created by BP Amoco causes the price of ANS crude oil to rise on the West Coast.

26. ARCO exercises some constraint on BP Amoco's ability to exercise market power. In the recent past, ARCO has been a more significant constraint on BP Amoco, and, with new production about to commence, as well as a new, increased, ability to substitute other crude oils for ANS crude oil at its Los Angeles refinery, ARCO will be able to constrain BP Amoco's pricing more substantially in the future.

27. Through future exploration and production activities, ARCO is the firm most likely to constrain BP Amoco's ability to exercise market power.

D. *Alaska North Slope Natural Gas:*

28. The Alaska North Slope contains an estimated 35 trillion cubic feet of natural gas reserves. Together, BP Amoco and ARCO own more than half of these reserves. Although small quantities of ANS natural gas are now sold to North Slope contractors and gas utilities, most of the gas remains stranded on the North Slope.

29. Large scale sales of North Slope natural gas have not been feasible due to high costs in transporting the gas from the Alaska North Slope to markets in the rest of Alaska, the lower 48 states, or Asia. BP Amoco and ARCO have expended huge sums of money over the years in efforts to find ways to bring the North Slope natural gas to market. These efforts include using liquefied natural gas ("LNG") and gas-to-liquids ("GTL") technologies, and the transportation requirements associated with them. These efforts and expenditures have continued at least through the time of the announcement of the proposed merger.

30. BP Amoco and ARCO are the two most important potential future developers, producers, and sellers of North Slope natural gas.

E. West Texas Intermediate Crude Oil:

31. BP Amoco and ARCO provide pipeline transportation and oil storage services into, and in, a crude oil marketing hub located in Cushing, Oklahoma. The Cushing area serves as a major crude oil marketing hub in the United States. The crude oils coming out of Cushing are transported by a network of pipelines to refineries located in the central parts of the United States.

32. There are no substitutes for pipelines for the transport of crude oil to Cushing, and no substitutes for storage

33. A substantial portion of the crude oil traded in Cushing consists of West Texas Intermediate ("WTI") crude oil, which arrives from pipelines originating in Texas, and imported crude oil, which is offloaded from tankers on the Gulf Coast and transported to Cushing by pipeline. Prices for WTI crude oil traded in Cushing serve as a benchmark for the worldwide pricing of many crude oils.

34. Cushing also serves as a delivery point, for light sweet crude oil futures trading on the New York Mercantile Exchange ("NYMEX"). When NYMEX contracts expire, traders typically meet their obligations to deliver light sweet crude oil by tendering WTI crude oil. NYMEX contracts for crude oil futures typically designate Cushing as the delivery point.

35. Efficient functioning of the pipeline and oil storage facilities into and in Cushing is critical to the fluid operation of both the trading activities in Cushing and the trading of crude oil futures contracts on the NYMEX. The restriction of pipeline or storage capacity can affect the deliverable supply of crude oil in Cushing, and consequently affect both WTI crude oil cash prices and NYMEX futures prices.

36. A firm that controlled substantial storage in Cushing, and pipeline capacity into Cushing, would be able to manipulate NYMEX futures trading markets and thereby enhance its own futures positions at the expense of producers, refiners, and traders. Because the price of WTI crude oil is used as a benchmark for the price of other crude oil, the ability to manipulate the delivered price of WTI crude oil will have ripple effects throughout the oil industry.

COUNT ONE: LOSS OF COMPETITION IN PRODUCTION AND SALE OF ANS CRUDE OIL

37. Paragraphs 1 - 36 are incorporated by reference as if fully set forth herein.

A. Relevant Product Markets

38. The relevant product markets in which it is appropriate to assess the effects of the proposed merger include:

(a) the production, sale, and delivery of ANS crude oil;

(b) the production, sale, and delivery of crude oil used by targeted West Coast refiners; and

(b) the production, sale, and delivery of all crude oil used by refiners on the West Coast.

B. Relevant Geographic Markets

39. The relevant geographic market in which it is appropriate to assess the effects of the proposed merger are:

(a) the United States West Coast;

(b) smaller areas within the United States West Coast, including Los Angeles, San Francisco, and Seattle; and

(c) reducing the amount of crude oil shipped to the United States West Coast; and

(d) raising barriers to entry;

each of which will increase the likelihood that the price of ANS crude oil will increase, or will not decrease as much as it otherwise would have, but for the merger.

COUNT TWO: LOSS OF COMPETITION IN BIDDING FOR RIGHTS TO EXPLORE ON THE ALASKA NORTH SLOPE

43. Paragraphs 1 - 42 are incorporated by reference as if fully set forth herein.

A. The Relevant Product Market

44. The purchase of exploration rights is a relevant product market and line of commerce within which to assess the likely effects of the proposed merger.

B. The Relevant Geographic Market

45. The Alaska North Slope is the geographic market within which to assess the likely effects of the proposed merger.

C. Concentration

46. After the merger, BP Amoco would become the leading bidder and, alone, would control a dominant share of exploration and development assets. The proposed merger would substantially increase market concentration in an already highly concentrated market for bidding on exploration rights for new North Slope fields.

D. Conditions of Entry

47. Entry into the relevant markets would not be timely, likely, or sufficient to prevent the anticompetitive effects.

E. Effects

48. The effect of the proposed merger, if consummated, will be substantially to lessen competition in bidding for leases on state and federal properties on the Alaska North Slope. The proposed merger will also raise already formidable barriers to entry.

COUNT THREE: LOSS OF COMPETITION IN PIPELINE TRANSPORTATION OF ANS CRUDE OIL

49. Paragraphs 1 - 48 are incorporated by reference as if fully set forth herein.

A. The Relevant Product Market

50. The pipeline transportation of ANS crude oil is a relevant product market and line of commerce within which to assess the likely effects of the proposed merger.

B. The Relevant Geographic Market

51. The Alaska North Slope is the geographic market within which to assess the likely effects of the proposed merger.

C. Concentration

52. The relevant market is highly concentrated and the proposed merger would substantially increase market concentration. After the merger, BP Amoco would become the largest owner of TAPS pipeline capacity and would control a dominant share of that market.

D. Conditions of Entry

53. Entry into the relevant markets would not be timely, likely, or sufficient to prevent the anticompetitive effects.

E. Effects

54. The effect of the proposed merger, if consummated, will be substantially to lessen actual and potential competition, either unilaterally or through coordinated interaction, with the likelihood that the price of transporting ANS crude oil through TAPS will increase.

COUNT FOUR: LOSS OF POTENTIAL COMPETITION IN SALE OF ANS NATURAL GAS

55. Paragraphs 1 - 54 are incorporated by reference as if fully set forth herein.

A. The Relevant Product Market

COUNT FIVE: LOSS OF COMPETITION IN PIPELINE AND OIL STORAGE SERVICES IN CUSHING, OKLAHOMA

61. Paragraphs 1 - 60 are incorporated by reference as if fully set forth herein.

A. The Relevant Product Market

62. Oil pipeline and storage services into and in Cushing are an appropriate relevant product market within which to assess the likely effects of the proposed merger.

B. The Relevant Geographic Market

63. Cushing is an appropriate section of the country and geographic market within which to assess the likely effects of the proposed merger on pipeline and storage services for crude oil trading based in Cushing.

C. Concentration

64. The proposed merger would substantially increase market concentration in an already highly concentrated market. After the proposed merger, BP would control over 40% of the pipeline and storage capacity serving Cushing.

D. Conditions of Entry

65. Entry into the relevant markets would not be timely, likely, or sufficient to prevent the anticompetitive effects.

E. Effects

66. The proposed merger, if consummated, would substantially lessen competition in pipeline and storage services into and in Cushing by, among other ways:

    (a) eliminating substantial actual competition between BP Amoco and ARCO;

    (b) creating or enhancing or facilitating the ability of BP Amoco to exercise market power; and

    (c) enabling BP Amoco to manipulate NYMEX trading in light sweet crude oil futures by restricting or otherwise manipulating the deliverable supply of crude oil in Cushing.

V. Violations Charged

67. The agreement entered into between Respondents BP Amoco and ARCO for their merger constitutes a violation of Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45. Further, the agreement, if consummated, would be a violation of Section 5 of the Federal Trade Commission Act and Section 7 of the Clayton Act, 15 U.S.C. § 18.

WHEREFORE, THE PREMISES CONSIDERED, the Federal Trade Commission on this thirteenth day of April, 2000, issues its Complaint against Respondents BP Amoco and ARCO.

By the Commission.

Donald S. Clark
Secretary

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