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UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION

COMMISSIONERS: Timothy J. Muris, Chairman
Sheila F. Anthony
Mozelle W. Thompson
Orson Swindle
Thomas B. Leary

In the Matter of **SHELL OIL COMPANY,** a corporation, and **PENNZOIL-QUAKER STATE COMPANY,** a corporation.	Docket No. C-4059

COMPLAINT

Pursuant to the provisions of the Federal Trade Commission Act and the Clayton Act, and by virtue of the authority vested in it by said Acts, the Federal Trade Commission ("FTC" or "Commission"), having reason to believe that Respondent Shell Oil Company ("Shell") and Respondent Pennzoil-Quaker State Company ("Pennzoil") have entered into an agreement and plan of merger whereby Shell proposes to acquire all of the outstanding common stock of Pennzoil and to merge with Pennzoil, that such agreement and plan of merger violates Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45, and Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18, and it appearing to the Commission that a proceeding in respect thereof would be in the public interest, hereby issues its complaint, stating its charges as follows:

I. RESPONDENTS

Shell Oil Company

1. Respondent Shell 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 One Shell Plaza, Houston, Texas 77002.

2. Respondent Shell is, and at all times relevant herein has been, a diversified energy company engaged, either directly or through affiliates, in the business of manufacturing, refining, distributing, transporting, and marketing petroleum products, including gasoline, diesel fuel, jet fuel, base oil, motor oil, lubricants, petrochemicals, and other petroleum products. Shell's affiliates include Equilon Enterprises LLC, which is 100 percent owned by Shell, and Motiva Enterprises LLC, which is 50 percent owned by Shell and 50 percent owned by Saudi Refining Inc.

3. Respondent Shell is, and at all times relevant herein has been, engaged in commerce as "commerce" is defined in Section 1 of the Clayton Act, as amended, 15 U.S.C. § 12, and is a corporation whose business is in or affecting commerce as "commerce" is defined in Section 4 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 44.

Pennzoil-Quaker State Company

4. Respondent Pennzoil 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 Pennzoil Place, Houston, Texas 77252.

5. Respondent Pennzoil is, and at all times relevant herein has been, engaged, either directly or through affiliates, in the business of manufacturing, refining, distributing and marketing branded and unbranded motor oil, transmission fluid, lubricants, greases, base oil, automotive polishes, automotive chemical products, car care products, and specialty industrial products. Pennzoil's affiliates include Excel Paralubes, a joint venture that is 50 percent owned by Pennzoil and 50 percent owned by Conoco Inc.

6. Respondent Pennzoil is, and at all times relevant herein has been, engaged in commerce as "commerce" is defined in Section 1 of the Clayton Act, as amended, 15 U.S.C. § 12, and is a corporation whose business is in or affecting commerce as "commerce" is defined in Section 4 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 44.

II. THE PROPOSED MERGER

7. Pursuant to an agreement and plan of merger dated March 25, 2002, Shell intends to acquire all of the outstanding voting securities of Pennzoil and to merge Pennzoil with a wholly-owned subsidiary of Shell.

III. TRADE AND COMMERCE

A. Relevant Product Market

8. Paraffinic base oil is a refined petroleum product that is the principal component, or "basestock," of finished lubricant products used for a variety of applications, including passenger car motor oil, heavy duty engine oil, automatic transmission fluid, and other lubricants.

9. Paraffinic base oil is divided by the American Petroleum Institute into three groups (Groups I, II and III) based on differences in sulfur content, saturates level, and viscosity index. Group II paraffinic base oil has less than 0.03% sulfur by weight, more than 90% saturates by weight, and a viscosity index ranging from 80 to120. Motor oil blenders need Group II paraffinic base oil in order to meet the performance standards necessary for many of today's lubricants. Group II paraffinic base oil will also be necessary for the production of other lubricants as new performance standards are adopted. If the price of Group II paraffinic base oil were to increase by 5-10%, blenders of motor oil and other lubricants would not substitute to other products in sufficient volume to make the price increase unprofitable.

10. A relevant line of commerce (*i.e.*, product market) in which to analyze the effects of the proposed merger is the refining and marketing of Group II paraffinic base oil.

B. Relevant Geographic Market

11. A relevant section of the country (*i.e.*, geographic market) in which to analyze the proposed merger is the United States and Canada, where the merger would reduce competition in the refining and marketing of Group II paraffinic base oil. If the price of Group II paraffinic base oil in the United States and Canada were to increase by 5-10%, blenders of motor oil and other lubricants would not switch to sources of supply outside that area in sufficient volume to make the price increase unprofitable.

C. Market Structure

12. Through its ownership interests in Motiva Enterprises LLC and Equilon Enterprises LLC, Shell is engaged in the refining and marketing of Group II paraffinic base oil. Through its ownership interest in Excel Paralubes, Pennzoil also is engaged in the refining and marketing of Group II paraffinic base oil. Pennzoil also has a long-term contract with Exxon Mobil Corporation that gives Pennzoil control over additional supplies of Group II base oil that could potentially increase in volume if Exxon Mobil increases Group II production at its Gulf Coast refineries.

13. The refining and marketing of Group II paraffinic base oil in the United States and Canada would be highly concentrated as a result of the proposed merger. Following the merger, Shell would control more than 39% of Group II refining capacity in the United States and Canada. Market concentration, as measured by the Herfindahl-Hirschmann Index, would increase by more than 700 points to a level in excess of 2,300.

D. Entry Conditions

14. Entry into the relevant market in the relevant section of the country is difficult and would not be timely, likely or sufficient to prevent the anticompetitive effects that are likely to result from the proposed merger. Constructing a new refinery or converting an existing Group I refinery to produce Group II base oil is capital intensive, is subject to significant regulatory constraints, and would require several years to accomplish. As a result, new entry would not be able to prevent a 5-10% increase in the price of Group II paraffinic base oil.

IV. VIOLATIONS CHARGED

15. Shell and Pennzoil are actual and potential competitors in the refining and marketing of Group II paraffinic base oil in the United States and Canada.

16. The effect of the proposed merger, if consummated, may be substantially to lessen competition in the refining and marketing of Group II paraffinic base oil in the United States and Canada in violation of Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18, and Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45, in the following ways, among others:

a. by eliminating direct competition between Shell and Pennzoil in the refining and marketing of Group II paraffinic base oil;

b. by increasing the likelihood that the combined Shell/Pennzoil will unilaterally exercise market power; and

c. by increasing the likelihood of, or facilitating, collusion or coordinated interaction between the combined Shell/Pennzoil and other competitors in the refining and marketing of Group II paraffinic base oil;

each of which increases the likelihood that the price of Group II paraffinic base oil will increase in the United States and Canada.

V. STATUTES VIOLATED

17. The proposed merger between Shell and Pennzoil violates Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45, and would, if consummated, violate Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18, and Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45.

WHEREFORE, THE PREMISES CONSIDERED, the Federal Trade Commission on this twenty-seventh day of September, 2002, issues its complaint against said Respondents.

By the Commission.

Donald S. Clark
Secretary

SEAL: