The Commission has reason to believe the proposed acquisition of Koko’oha Investment Inc.’s wholly-owned subsidiary Mid Pac Petroleum, LLC by Par Petroleum Corporation is likely to substantially lessen competition in the bulk supply of Hawaii-grade gasoline blendstock, in violation of Section 7 of the Clayton Act. The transaction is likely to impede the ability of Aloha Petroleum, Ltd., the only remaining bulk supplier without a local refinery, to use imports to constrain the local refiners’ bulk supply prices. Par has agreed to settle the Commission’s charges. Our remedy counteracts the alleged potential anticompetitive effects of the proposed acquisition without eliminating any of the efficiencies from the combination of Par and Mid Pac.

As set forth in the complaint, the competitive concerns from this acquisition stem from the unique characteristics of the Hawaiian market for bulk supply of Hawaii-grade gasoline blendstock ("HIBOB"), which is blended with ethanol to make finished gasoline. Other than Par and Chevron, Aloha is the only owner of a commercial gasoline terminal in Hawaii that is capable of receiving economical shipments of imported HIBOB – the Barbers Point terminal. Pursuant to a long-term storage and throughput agreement, Mid Pac currently shares access to Barbers Point.² Par and Chevron can produce more gasoline (HIBOB and other gasoline blending components) than is consumed in Hawaii, rendering imports unnecessary. However, Aloha’s ability to threaten credibly to import HIBOB constrains the prices charged by the local refiners and, ultimately, the price paid by Hawaii gasoline consumers. Aloha’s ability to threaten to import at Barbers Point thus is key to negotiations with Par and Chevron.

The Commission’s investigation uncovered evidence that Par’s acquisition of Mid Pac’s throughput and storage rights at Barbers Point would give Par the incentive and ability to reduce Aloha’s capability to constrain prices through importing, thereby increasing the price Aloha pays for bulk supply. As an incumbent local refiner that seeks to supply Aloha, Par would have an incentive to use the Barbers Point rights strategically and differently than Mid Pac. By storing substantial amounts of gasoline for an extended period, Par could reduce the size of an import cargo that Aloha could receive at the terminal. This would force Aloha to spread substantial fixed freight costs over a smaller number of barrels of gasoline, which would significantly increase its cost-per-barrel of importing. Contrary to Commissioner Wright’s assertion, the evidence shows that market participants, including Aloha itself, believe Par might profitably seek to adopt this strategy.

Our reason to believe that Par would take steps leading to this competitive harm also flows from evidence and analysis suggesting that the benefits to Par of such a strategy outweigh its likely costs. The costs to Par associated with storing the amount of product necessary to tie

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1 Chairwoman Ramirez, Commissioner Brill, Commissioner Ohlhausen, and Commissioner McSweeny join in this statement.

2 Mid Pac acquired its rights to the Barbers Point terminal in 2005 after the Commission’s challenge of Aloha’s acquisition of Trustreet Properties LLP, which was Aloha’s 50 percent partner in the terminal at the time.
up Aloha’s import capability at Barbers Point appear modest at best. At the same time, Par stands to benefit significantly, in its bulk supply and downstream businesses, from even a slight increase in bulk supply prices.

Moreover, even if the benefit to Par depends on Chevron following Par’s strategy, evidence from the investigation suggests a substantial risk that Chevron would respond in that fashion. As the only other incumbent local refiner and potential local supplier to Aloha, Chevron also stands to benefit if Aloha’s import costs are increased. Regardless of where in the supply chain it occurs, any increase in prices would harm Hawaii gasoline consumers.

The proposed consent order is narrowly tailored to address these specific competitive concerns by requiring the termination of Par’s acquired storage and throughput rights at Aloha’s Barbers Point terminal.\(^3\) There is no evidence that this particular remedy would eliminate any of the efficiencies arising from the acquisition. The prior approval and notice provisions in the proposed consent order provide additional safeguards to alert the Commission of any future agreements or acquisitions that might similarly harm competition, while imposing minimal reporting requirements on Par. Under these circumstances, we believe that the remedy furthers the public interest.

\(^3\) Aloha and Par had entered into negotiations regarding the termination of Par’s storage and throughput rights at the Barbers Point terminal before the Commission identified this as a competitive concern.