Valvoline.

C-3907
JUN 14 2000
478945-#2

JOHN C. BIEHL
Sr. Vice President
and General Counsel
Phone: (606) 357-7227
Fax: (606) 357-2255

June 12, 2000

RECEIVED
JUN 12 2000
COMPLIANCE DIVISION

VIA FAX

Office of Secretary
Federal Trade Commission
600 Pennsylvania Ave., N.W.
Washington, D.C. 20580

ATTN: Daniel P. Ducore, Esq.

RE: FTC File No. 991-0077
Docket No. C-3907

This letter responds to the Federal Trade Commission's request for comments on Exxon Mobil's Application for Approval of Proposed Base Oil Supply Agreement with Pennzoil-Quaker State and Castrol North America, Inc. pursuant to the Commission's Consent Order Docket No. C-3907.

Paragraph XIV, Section C of the Consent Order states, "The purpose of this Paragraph is to provide a supply of Base Oil to independent or integrated compounder blenders of Base Oil into finished products and to remedy the lessening of competition in the refining and marketing of Base Oil resulting from the proposed Merger". Upon reviewing the realities of the marketplace and the published form of the application, which has been redacted to the point of rendering a critique virtually meaningless, Valvoline has concluded that the proposed transaction does not satisfy the purpose of this paragraph of the Consent Order.

The Valvoline Company is a division of Ashland Inc. Since neither Valvoline nor Ashland produce base oils, Valvoline is forced to purchase them in the marketplace, frequently from competitors such as Exxon Mobil. Indeed, even if base oils are purchased from producers other than Exxon Mobil, its dominant position in this market still strongly influences the price paid for base oil because of the pervasive use of the "Exxon posting". Exxon Mobil's dominant position, as evidenced not only by its market share but also by its presence as a preferred supplier to Original Equipment

Manufacturers and its influence over base stock prices, requires that the Commission not allow this application to serve as a vehicle to further reduce capacity in the production of base oil.

Pennzoil recently sold a facility in Rouseville, Pennsylvania that produced 4500 barrels per day of base oil to an entity that will no longer produce base oil. Similarly, its Shreveport, Louisiana facility with a capacity of 8600 barrels per day is presently for sale. Whether there is a causal connection between the sale of the Pennzoil production facilities and the Exxon Mobil Pennzoil agreement is unknown. However, the effect is the same - a reduction in the supply of base oils occurring in a market that is already very tight. If the Commission is to approve the Pennzoil Agreement with Exxon Mobil it should, as a minimum, require Pennzoil to sell the Shreveport facility to a purchaser who has the commitment to continue the production of base oil and the financial ability to keep that commitment.

The critical need to maintain base oil production is evident as one looks at conditions in the marketplace. During the past several months the price of base oil has increased dramatically while the demand for finished lubricants has remained relatively flat. Of course, the price of crude oil has had an impact on this pricing. But so has the reduction in base oil supply attributable to the six domestic base oil facilities that have closed in the past four years.

While independent purchasers have experienced dramatic increases in base oil prices from Exxon Mobil and some other producers, they have not seen similar price increases in finished oil prices from these same entities. It is reasonable to conclude that producers such as Exxon Mobil are using their refining margins to support finished lubricant prices to gain market share at the expense of independents. The only way to combat this type of behavior is to maintain as much base oil product capacity as possible in as many hands as possible. Exxon Mobil's proposed application does not accomplish this.

Finally, it is necessary to comment on the redacted form of the application itself. While Valvoline can understand the need to maintain confidentiality on certain business terms, the application has been redacted to the point that meaningful comments are impossible. Of particular interest would be the response to Paragraph XIV.4.B of the Order that allows the purchaser to purchase "grades, viscosities, qualities and amounts that correspond to the planned production at all of Exxon Mobil's Designated Base Oil refineries." As new lubricant standards are adopted requiring improved base stocks, i.e., Group II and Group III the answer to this provision becomes even more critical.

The inability to see a response to this provision does not give Valvoline comfort that the proposed agreements satisfy it. Indeed, it raises new questions. Will Pennzoil be purchasing Group II and Group III base oils from Exxon Mobil thus cutting into the supply available for independent purchasers? Did Pennzoil pursue this agreement as an alternative to upgrading its facilities to product the next generation of base stocks? Will Pennzoil sell its Shreveport facility to a purchaser with the ability to operate and upgrade as necessary? The Commission must answer these and other questions before it can consider approving the Exxon Mobil Application.

Valvoline appreciates the opportunity to comment on this proposed transaction and will answer any questions or provide additional information that is requested.

Sincerely,

John C. Biehl

John C. Biehl

JCB/jm