

**UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION**

In the Matter of

**Phillips Petroleum Company,**

a corporation,

and

**Conoco Inc.,**

a corporation.

**Docket No. C-4058**

**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 (“Commission”), having reason to believe that respondent Phillips Petroleum Company has entered into an agreement to merge with Conoco Inc., all subject to the jurisdiction of the Commission, in violation of Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45, that such merger, if consummated, would 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, and that a proceeding in respect thereof would be in the public interest, hereby issues this complaint, stating its charges as follows.

**I. RESPONDENTS**

Phillips Petroleum Company

1. Respondent Phillips Petroleum Company (“Phillips”) 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 at Phillips Building, Bartlesville, Oklahoma 74004.
2. Respondent Phillips is, and at all times relevant herein has been, engaged in, among other things, the bulk supply, terminaling and marketing of light petroleum products, the bulk supply of propane, the gathering of natural gas and the fractionation of raw mix in the United States.

3. Respondent Phillips had total revenues of \$47.7 billion in 2001.

#### Conoco, Inc.

4. Respondent Conoco Inc., (“Conoco”) 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 at 600 North Dairy Ashford Road, Houston, Texas 77079.
5. Respondent Conoco is, and at all times relevant herein has been, engaged in, among other things, the bulk supply, terminaling and marketing of light petroleum products, the bulk supply of propane, the gathering of natural gas, and the fractionation of raw mix in the United States.
6. Respondent Conoco had total revenues of \$39.5 billion in 2001.

### **II. THE MERGER**

7. Respondents Phillips and Conoco plan a “merger of equals” in a transaction executed and announced on November 18, 2001. Under the terms of the agreement, Phillips shareholders will own about 56.6 percent and Conoco shareholders will own about 43.4 percent of the new company. Phillips shareholders will receive one share of new ConocoPhillips common stock for each share of Phillips they own and Conoco shareholders will receive 0.4677 shares of new ConocoPhillips common stock for each share of Conoco they own (the “Merger”). Phillips’ market capitalization is approximately \$18.5 billion and Conoco’s is approximately \$16.5 billion. The total dollar value of the Merger is approximately \$35 billion.

### **III. TRADE AND COMMERCE**

#### Eastern Colorado

8. A line of commerce in which to analyze the effect of the Merger is the bulk supply of light petroleum products (“LPPs”). LPPs include motor gasoline, diesel fuel, kerosene and jet fuel. For each product, there is no economic substitute.
9. A section of the country in which to analyze the effect of the Merger is the portion of Colorado east of the Continental Divide, a natural barrier between the eastern and western parts of Colorado (“Eastern Colorado”). This area includes the metropolitan statistical areas (“MSAs”) of Denver, Colorado Springs, Fort Collins, and Boulder, Colorado.



19. There are substantial barriers to entering the relevant market in Eastern Colorado. Building additional refineries locally or additional pipelines from refineries located outside of Eastern Colorado would be unlikely, take over two years, and therefore would not prevent respondents from raising prices above pre-Merger levels.

#### Northern Utah

20. A line of commerce in which to analyze the effect of the Merger is the bulk supply of LPPs. For each LPP, there is no economic substitute.
21. A section of the country in which to analyze the effect of the Merger is the portion of Utah north of the 39<sup>th</sup> parallel (“Northern Utah”). This area includes the Salt Lake City-Ogden and Provo-Orem MSAs.
22. The major buyers of LPPs in Northern Utah include wholesalers, known as jobbers or marketers. These entities buy large quantities of LPPs to resell to dealers or to sell directly to consumers.
23. Refineries produce LPPs and either deliver them into storage tanks or terminals on the premises or into large diameter refined products pipelines that, in turn, deliver into storage tanks or terminals located near the consuming public. Refineries and large diameter pipelines are direct horizontal competitors to provide bulk supplies of LPPs.
24. Jobbers delivering LPPs in Northern Utah have no effective alternative to using local refineries or pipeline transportation that deliver LPPs into Northern Utah. Jobbers cannot economically access refineries and pipelines located outside of Northern Utah. Transporting LPPs into Northern Utah by truck is costly and is not a commercially reasonable substitute.
25. Bulk suppliers can identify and price differently to targeted buyers located in densely populated areas, like Salt Lake City, and raise price by a small but significant and nontransitory amount. Other jobbers in outlying areas are not capable of buying product and reselling to the targeted buyers. Bulk suppliers limit supplies that jobbers and marketers can buy and can identify where those supplies are delivered. Within Northern Utah, there are more narrow discrimination markets composed of densely populated areas, like Salt Lake City.
26. Phillips owns a refinery in Woods Cross, Utah, outside of Salt Lake City. The refinery produces LPPs for distribution in Northern Utah.
27. Conoco owns more than 50 percent of the Pioneer Pipeline. The Pioneer Pipeline carries LPPs to Northern Utah. Conoco owns more than 50 percent of the terminal connected to the Pioneer Pipeline. Conoco operates the Pioneer Pipeline and connected terminals. By virtue of

- its majority stake and operatorship, Conoco controls the pricing of LPPs on the Pioneer Pipeline.
28. Phillips and Conoco are direct horizontal competitors in Northern Utah. Phillips owns a refinery and Conoco owns a pipeline that provide bulk supplies of LPPs into Northern Utah.
  29. Together, respondents will account for about 25 percent of the LPP bulk supply capacity in Northern Utah. The market, as measured by shipments or capacity, is highly concentrated with the HHI rising by about 300 points to above 2100.
  30. After the Merger, the combined firm could effectively coordinate to reduce supply, slow growth of supply, and raise prices in the market for LPP bulk supply in Northern Utah.
  31. There are substantial barriers to entering the relevant market in Northern Utah. Building additional refineries locally or additional pipelines from refineries located outside of Northern Utah would be unlikely, take over two years, and therefore would not prevent respondents from raising prices above pre-Merger levels.

#### Spokane MSA

32. A line of commerce in which to analyze the effect of the Merger is the terminaling services for LPPs. LPP terminals are specialized facilities with large storage tanks used for the receipt and local distribution of LPPs by tank truck. There are no substitutes for terminals for the storage and local distribution of gasoline and other light petroleum products.
33. A section of the country in which to analyze the effect of the Merger is the MSA of Spokane, Washington. LPP marketers in Spokane only can receive terminaling services from terminals located in Spokane, Washington. LPP marketers in Spokane have no effective alternative to terminals located within Spokane and cannot economically access more distant terminals or other LPP pipelines outside of Spokane.
34. Phillips owns a terminal in Spokane, Washington, which provides terminaling services for Spokane.
35. Conoco owns a terminal in Spokane, Washington, which provides terminaling services for Spokane.
36. The market for terminal services in Spokane is highly concentrated with the HHI rising by over 1600 points to 5000. Conoco and Phillips are two of three suppliers of terminal services.
37. After the Merger, the combined firm could effectively coordinate or unilaterally raise prices of terminal services in Spokane.

38. There are substantial barriers to entering the relevant market in Spokane. Building additional terminals in Spokane would be unlikely, take over two years and therefore would not prevent respondents from raising prices above pre-Merger levels.

#### Wichita, Kansas

39. A line of commerce in which to analyze the effect of the Merger is the terminaling services for LPPs. LPP terminals are specialized facilities with large storage tanks used for the receipt and local distribution of LPPs by tank truck. There are no substitutes for terminals for the storage and local distribution of gasoline and other light petroleum products.
40. A section of the country in which to analyze the effect of the Merger is the MSA of Wichita, Kansas. LPP marketers in Wichita only can receive terminaling services from terminals located in Wichita. LPP marketers in Wichita have no effective alternative to terminals located within Wichita and cannot economically access more distant terminals or other LPP pipelines outside of Wichita .
41. Phillips owns a terminal in Wichita, which provides terminaling services for Wichita.
42. Conoco owns a terminal in Wichita, which provides terminaling services for Wichita.
43. The market for terminal services in Wichita is highly concentrated with the HHI rising by over 750 points to over 3600.
44. After the Merger, the combined firm could effectively coordinate or unilaterally raise prices of terminal services in Wichita.
45. There are substantial barriers to entering the relevant market in Wichita. Building additional terminals in Wichita would be unlikely, take over two years and therefore would not prevent respondents from raising prices above pre-Merger levels.

#### Southern Missouri

46. A line of commerce in which to analyze the effect of the Merger is the bulk supply of propane. Consumers use propane for, among other things, space heating and industrial processes. There is no economic substitute for propane.
47. A section of the country in which to analyze the effect of the Merger is the area located in southern Missouri – south and west of St. Louis (“Southern Missouri”). Propane wholesalers in Southern Missouri can only receive bulk quantities of propane from propane terminals in



59. There are substantial barriers to entering the relevant market in St. Louis. Building additional refineries or pipelines to transport propane to St. Louis would be unlikely, take over two years and therefore would not prevent respondents from raising prices above pre-Merger levels.

Southern Illinois

- 60.



68. Sections of the country in which to analyze the effect of the Merger are local areas within Lea County, Eddy County and Chavez County, New Mexico, and Schleicher County, Texas (“Permian Basin Markets”). Consumption of natural gas in those areas of the Permian Basin is well below natural gas production levels. Most production is processed and transported to fractionators. Permian Basin producers cannot access gathering pipelines more than a few miles from their wells because of low production levels and the relatively high cost of building gathering pipelines. Small areas within the Permian Basin are relevant markets.
69. Phillips owns approximately 30 percent of Duke Energy Field Services (“DEFS”). DEFS owns significant natural gas gathering systems in the Permian Basin Markets.
70. Conoco owns significant gathering systems in the Permian Basin Markets.
71. DEFS and Conoco are the only two gatherers in the Permian Basin Markets. Those markets are highly concentrated.
72. After the Merger, the combined firm and DEFS would likely bid less aggressively to provide gathering services, resulting in higher gathering fees and less natural gas production.
- 73.

Mont Belvieu, Texas

74. A line of commerce in which to analyze the effects of the Merger is fractionation. Fractionators are specialized facilities that separate raw mix natural gas liquids into specification products such as ethane or ethane-propane, propane, iso-butane, normal-butane, and natural gasoline by means of a series of distillation processes. These specification products are ultimately used in the manufacture of petrochemicals, in the refining of gasoline, and as bottled fuel, among other uses. There are no substitutes for fractionators for the conversion of raw mix into individual specification products.
75. A section of the country in which to analyze the effects of this transaction is Mont Belvieu, Texas. Mont Belvieu, Texas is an active fractionation center and natural gas liquids trading hub. Companies with pipeline access to Mont Belvieu have no economic alternative to using fractionation services in Mont Belvieu.
76. Phillips owns 30 percent of DEFS. Phillips may appoint two members of the DEFS board of directors. DEFS owns an interest in the Enterprise and Mont Belvieu I fractionators. By virtue of its ownership in DEFS, Phillips has access to competitively sensitive information of the Enterprise and Mont Belvieu I fractionators, and significant voting interests.
77. Conoco partially owns and operates Gulf Coast Fractionators. Conoco has access to competitively sensitive information of Gulf Coast Fractionators.
78. The market for fractionation in Mont Belvieu is highly concentrated.
- 79.

83. One relevant product market in which to assess the effect of the Merger is the bulk supply of light petroleum products.
84. One relevant geographic market in which to assess the effect of the Merger is Eastern Colorado.
85. The Eastern Colorado market is highly concentrated and the Merger, if consummated, will substantially increase that concentration.
86. Entry into the Eastern Colorado market would not be timely, likely or sufficient to deter or counteract likely anticompetitive effects arising from the Merger.
87. The Merger will eliminate ongoing competition between respondents with the likely result of reducing the output of LPPs in Eastern Colorado.

**COUNT II:  
LOSS OF COMPETITION IN NORTHERN UTAH**

88. Paragraphs 1 - 87 are incorporated by reference as if fully set forth herein.
89. One relevant product market in which to assess the effect of the Merger is bulk supply of light petroleum products.
90. One relevant geographic market in which to assess the effect of the Merger is Northern Utah.
91. The Northern Utah market is highly concentrated and the Merger, if consummated, will substantially increase that concentration.
92. Entry into any of the Northern Utah market would not be timely, likely or sufficient to deter or counteract likely anticompetitive effects arising from the Merger.
93. The Merger will eliminate ongoing competition in between the respondents in the Northern Utah market with the likely result of raising rates and reducing output of LPPs.

**COUNT III:  
LOSS OF COMPETITION IN SPOKANE, WASHINGTON**

94. Paragraphs 1 - 93 are incorporated by reference as if fully set forth herein.
95. One relevant product market in which to assess the effect of the Merger is the provision of terminaling services of LPPs.

96. One relevant geographic market in which to assess the effect of the Merger is Spokane, Washington.
97. The Spokane market is highly concentrated and the Merger, if consummated, will substantially increase that concentration.
98. Entry into the Spokane market would not be timely, likely or sufficient to deter or counteract likely anticompetitive effects arising from the Merger.
99. The Merger will threaten ongoing competition between the respondents in the Spokane market with the likely result of increasing terminaling services fees and reducing output of terminaling services in the relevant market, and thereby increasing the cost of LPPs.

**COUNT IV:  
LOSS OF COMPETITION IN WICHITA, KANSAS**

100. Paragraphs 1 - 99 are incorporated by reference as if fully set forth herein.
101. One relevant product market in which to assess the effect of the Merger is the provision of terminaling services of LPPs.
102. One relevant geographic market in which to assess the effect of the Merger is Wichita, Kansas.
103. The Wichita, Kansas, market is highly concentrated and the Merger, if consummated, will substantially increase that concentration.
104. Entry into the Wichita, Kansas, market would not be timely, likely or sufficient to deter or counteract likely anticompetitive effects arising from the Merger.
105. The Merger will threaten ongoing competition between the respondents in the Wichita, Kansas, market with the likely result of increasing terminaling services fees and reducing output of terminaling services in the relevant market, and thereby increasing the price of LPPs.

**COUNT V:  
LOSS OF COMPETITION IN SOUTHERN MISSOURI**

106. Paragraphs 1 - 105 are incorporated by reference as if fully set forth herein.
107. One relevant product market in which to assess the effect of the Merger is the bulk supply of propane.

108. One relevant geographic market in which to assess the effect of the Merger is Southern Missouri.
109. The Southern Missouri market is highly concentrated and the Merger, if consummated, will substantially increase that concentration.
110. Entry into the Southern Missouri market would not be timely, likely, or sufficient to deter or counteract likely anticompetitive effects arising from the Merger.
111. The Merger will eliminate ongoing competition between respondents with the likely result of raising rates and reducing supplies of propane in the Southern Missouri market and thereby increasing the cost of propane for industrial and agricultural consumers.

**COUNT VI:  
LOSS OF COMPETITION IN THE ST. LOUIS, MSA**

112. Paragraphs 1 - 111 are incorporated by reference as if fully set forth herein.
113. One relevant product market in which to assess the effect of the Merger is the bulk supply of propane.
114. One relevant geographic market in which to assess the effect of the Merger is the MSA of St. Louis, Missouri.
115. The St. Louis MSA is highly concentrated and the Merger, if consummated, will substantially increase that concentration.
116. Entry into the St. Louis MSA would not be timely, likely, or sufficient to deter or counteract likely anticompetitive effects arising from the Merger.
117. The Merger will eliminate ongoing competition between respondents with the likely result of raising rates and reducing output of propane in the St. Louis MSA and thereby increasing the cost of propane and natural gas utility services.

**COUNT VII:  
LOSS OF COMPETITION IN SOUTHERN ILLINOIS**

118. Paragraphs 1 - 117 are incorporated by reference as if fully set forth herein.

119. One relevant product market in which to assess the effect of the Merger is the bulk supply of propane.
120. One relevant geographic market in which to assess the effect of the Merger is Southern Illinois.
121. The Southern Illinois market is highly concentrated and the Merger, if consummated, will substantially increase that concentration.
122. Entry into the Southern Illinois market would not be timely, likely, or sufficient to deter or counteract likely anticompetitive effects arising from the Merger.
123. The Merger will eliminate ongoing competition between respondents with the likely result of raising rates and reducing output of propane in the Southern Illinois market and thereby increasing the cost of propane for industrial and agricultural consumers.

**COUNT VIII:  
LOSS OF COMPETITION IN THE PERMIAN BASIN**

124. Paragraphs 1 - 123 are incorporated by reference as if fully set forth herein.
125. One relevant product market in which to assess the effect of the Merger is gathering of natural gas.
126. Several geographic markets in which to assess the effect of the Merger are in the Permian Basin.
127. Each Permian Basin Market is highly concentrated and the Merger, if consummated, will substantially increase that concentration.
128. Entry into each Permian Basin Market would not be timely, likely, or sufficient to deter or counteract likely anticompetitive effects arising from the Merger.
129. The Merger will eliminate ongoing, actual potential and perceived potential competition between respondents with the likely result of raising rates and reducing output of processed natural gas from the Permian Basin, and diminishing production of natural gas in the Permian Basin.

**COUNT IX:  
LOSS OF COMPETITION IN MONT BELVIEU**

130. Paragraphs 1 - 129 are incorporated by reference as if fully set forth herein.

131. One relevant product market in which to assess the effect of the Merger is fractionation of natural gas.
132. The relevant geographic market in which to assess the effect of the Merger is Mont Belvieu, Texas.
133. The Mont Belvieu market is highly concentrated, and the merger, if consummated, will substantially increase that concentration.
134. Entry into Mont Belvieu would not be timely, likely, or sufficient to deter or counteract likely anticompetitive effects arising from the Merger.
135. The Merger will eliminate ongoing competition between respondents with the likely result of raising prices and reducing output of fractionated specification products in Mont Belvieu, Texas.

#### **IV. VIOLATIONS CHARGED**

136. The merger agreement entered into by respondents Phillips and Conoco constitutes a violation of Section 5 of the FTC Act, as amended, 15 U.S.C. § 45.
137. The Merger, if consummated, would violate Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18, and Section 5 of the FTC Act, as amended, 15 U.S.C. § 45.

**IN WITNESS WHEREOF**, the Federal Trade Commission, having caused this Complaint to be signed by the Secretary and its official seal affixed, at Washington, D.C., this thirtieth day of August, 2002, issues its complaint against respondents.

By the Commission.

SEAL

Donald S. Clark  
Secretary