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UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION

COMMISSIONERS: Timothy J. Muris, Chairman 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

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.