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Exxon and Mobil Agree to Biggest Merger Ever

Energy: Rigorous review is expected of the $75.3-billion plan to create the world's largest corporation.

December 02, 1998 | NANCY RIVERA BROOKS | TIMES STAFF WRITER

Exxon Corp. and Mobil Corp. agreed Tuesday to a record $75.3-billion merger that will change the oil industry as much as the companies themselves and will face a rigorous regulatory review that is likely to force the sale of assets.

The marriage of Exxon and Mobil, the No. 1 and No. 2 U.S. oil companies, would create a host of superlatives--biggest merger, biggest publicly traded oil company and world's biggest corporation.

Motorists probably would notice little change because both brands will continue to exist, although the new company may have to sell some of its 48,500 gasoline stations as well as a refinery or two in response to the antitrust review that is sure to follow.

Small gasoline retailers said the proposed pairing could raise prices in some markets and environmentalists predicted a worsening in global warming.

The Exxon-Mobil matchup would be bad news for about 9,000 of the companies' 123,000 employees around the world. They would lose their jobs as the partners work to achieve $2.8 billion in near-term cost savings.

Beyond the rigors of cost-cutting, the new company, to be called Exxon Mobil Corp., would face the tricky task of mingling diverse corporate cultures. Exxon is seen as a cautious, tightfisted giant while Mobil is considered more aggressive and innovative.

"As many of you know, I have never been in favor of bigness for bigness' sake alone," Exxon Chairman and Chief Executive Lee R. Raymond said Tuesday. "This is a case of the whole being greater than the sum of the parts."

Mobil Chairman and Chief Executive Lucio A. Noto, who will serve as vice chairman of the new company that Raymond will run, said the proposed merger "is not a combination based on desperation; it's a combination based on opportunities."

He added, however, "We need to face some facts. The world has changed," Noto said. "The easy things are behind us."

The oil industry has been severely tested this year by rock-bottom prices resulting from an overabundance of crude that shows little sign of diminishing. The commodity lost 9 cents a barrel Tuesday to settle at $11.13 on the New York Mercantile Exchange.

If approved by shareholders and regulators, the transaction would reunite two of the largest parts of John D. Rockefeller's Standard Oil monopoly, broken up in 1911, and create an energy titan with operations in dozens of countries and on every continent.

With $203 billion in 1997 revenue, Exxon Mobil would capture General Motors Corp.'s claim to the title of largest corporation in the world and surpass Royal Dutch/ Shell Group as the largest oil and gas company that is not owned by a government.

In fact, the linkup of Exxon and Mobil would leave the oil industry with three giants: Exxon Mobil, Royal Dutch/Shell and the company that would result from the pending $49-billion merger of British Petroleum and Amoco Corp. These companies will be capable of undertaking oil and natural gas projects in far-flung corners of the world where such resources are waiting to be extracted, but at high cost.

"This sets a whole new paradigm in the oil industry," said Harry Quarls, senior partner in charge of the energy practice at consulting firm Booz Allen & Hamilton in Dallas. "The sort of scale that you're talking about with Mobil and Exxon is unprecedented."

The first hurdle that Exxon and Mobil will confront is the Federal Trade Commission. The sheer size of the deal guarantees that regulators in the United States and Europe will scrutinize the combination but will probably approve it with some divestitures, analysts said.

The most recent oil consolidation to make it through the FTC is the joint ventures of the refining and marketing operations of Shell and Texaco--one for the western United States and another for the eastern part of the nation, which also includes operations of Saudi Aramco--totaling $17 billion in assets. They were approved a year ago by the FTC, which required them to sell relatively few assets.

At the least, the FTC would order the companies to sell gasoline stations in areas where they are highly concentrated, perhaps on the Gulf Coast or in the Northeast, antitrust experts said. They might also be required to sell refineries in Louisiana, Texas or California. They each have one in the Golden State.

Raymond testily declined to specify which properties might be jettisoned.

At one point, Raymond snapped at a reporter: "I'm not interested in your views of how we should deal with the FTC."

Noto said Exxon and Mobil together would control about 13.5% of the nationwide gasoline market, second to the 14.5% of the Shell-Texaco joint ventures.

In Connecticut, where Exxon and Mobil own about 40% of the service stations, Atty. Gen. Richard Blumenthal, who is chairman of the antitrust committee of the National Assn. of Attorneys General, said he would help lead a multistate inquiry into the proposed merger.

Small gasoline retailers objected to the proposed merger, saying it would be bad for consumers, especially coming on the heels of the Shell-Texaco ventures.

"People will have two fewer suppliers to choose from, and we think two compete less effectively than four," said Jim Daskal, general counsel for the National Coalition of Petroleum Retailers, which represents 25,000 small gasoline retailers.

Environmentalists also criticized it, asserting that Exxon Mobil is likely to intensify exploration, threatening rain forests and exacerbating global warming.

The combination is also expected to draw scrutiny on Capitol Hill, where the chairman of the Senate Judiciary Committee, Orrin Hatch (R-Utah), promised hearings.

The transaction also could face objections in some of the more than 125 countries where the companies do business, analysts said. "The problem will be in Europe," said Constantine Fliakos, an analyst with Merrill Lynch & Co. That's where the two companies have the greatest concentration of refineries and gas stations.

Raymond and Noto said they did not yet know where the job reductions would fall, but that they would occur worldwide.

Kelly Quinn, president of the Oil, Chemical & Atomic Workers International Union Local 1-675, which represents 350 operations and maintenance workers at the Mobil refinery in Torrance, said work force reductions have become a way of life in the oil industry.

"I think ultimately we are going to lose jobs, but whether they get laid off or not I just don't know," he said. "There's so much merger mania going on. The industry has been going down in size for so long. It's not the first time we've gone through it."

Integrating two companies so that the best of both corporate cultures survives is a difficult task that few mergers achieve, said Sal Ilacqua, an energy analyst with Rothschild & Co. in New York.

"You're going to have this problem in any business merger," he said. "This is going to take a good five years to work through."

Under the deal announced Tuesday, Mobil shareholders would get 1.32 shares of Exxon for each Mobil share they hold, valuing the Mobil stock at $94.56 per share.

Exxon's stock closed at $71.63, down $3.38, and Mobil's closed at $83.75, down $2.25, both on the New York Stock Exchange.

On a daily basis, the companies together produce 2.5 million barrels of oil and equivalent amounts of natural gas--more than Iran. They own 41 refineries around the world. They would also be the market leader in the production of a variety of chemicals.

The acquisition is expected to close in mid-1999, Raymond said.

Special correspondent Stephen Gregory contributed to this report.

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* EUROPEAN DEAL: France's Total is buying Belgian refiner Petrofina. C4

(BEGIN TEXT OF INFOBOX / INFOGRAPHIC)

World's 10 Largest Companies

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Rank Company 1998 revenues, in billions 1 Exxon/Mobil $182.4* 2 General Motors $178.2 3 Ford Motor $153.6 4. Mitsui $142.7 5. Mitsubishi $128.9 6. Royal Dutch/Shell Group $128.1 7. Itochu $126.6 8. Wal-Mart Stores $119.3 9. Marubeni $111.1 10. Sumitomo $102.4

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* Does not include excise taxes; overall combined revenues would be $203.1 billion

Source: Oil & Gas Journal