Merger will lead to job cuts

British Petroleum acquiring US oil producer Amoco

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The planned acquisition of the US-based Amoco oil company by British Petroleum will result in cost cutting and the elimination of thousands of jobs at the new combined company, which will rank as the world's third largest oil producer behind Royal Dutch/Shell and Exxon in terms of net income and second largest in terms of oil and gas reserves.

The deal is valued at $48.2 billion, making it the largest industrial merger in history, surpassing the recent Daimler-Chrysler merger, valued at $40.5 billion. The new entity, BP Amoco PLC, will be headquartered in London. It will be the largest company in Britain and the largest oil and natural gas producer in the United States.

One of the first results of the BP-Amoco fusion will be the elimination of 6,000 or more jobs. A large portion of these cuts will be carried out at Amoco facilities in the United States, including its research offices in Houston. BP says it plans to eliminate 1,000 jobs at its refining and marketing operations in Cleveland. It is estimated that the layoffs and other cost cutting measures will result in savings of $2 billion annually.

The merger is a further demonstration of the global character of world production. It is part of a trend toward industrial and financial consolidations where transnational corporations are seeking to strengthen their position amid tight global competition. The nature of modern production requires access to markets and raw materials throughout the world and possession of enormous amounts of capital.

Amoco's chief weakness has been its focus on the saturated American market. The deal will allow the fused company to become more competitive in the former Soviet Union, China and Latin America, areas where investment has recently increased. It will also allow the companies to consolidate their spending on exploration, an area where Amoco has had serious problems.

At a news conference in London BP Chief Executive Sir John Browne explained the motivation for the merger. 'International competition in the industry is already fierce and will grow more acute as new players emerge. In such a climate the best investment opportunities will go increasingly to companies that have the size and financial strength to take on those large-scale projects that offer a truly distinctive return.'

Later he added, 'This deal moves us into the super league and provides the prospect of real competition for those already in it.'

It is expected that BP's acquisition of Amoco will set off a wave of consolidations in the oil industry similar to what has taken place in telecommunications and financial services. Likely candidates include Mobil, Chevron and Texaco. Oil and chemical workers both in America and overseas will inevitably pay the price through one round after another of job cuts and layoffs.

Stockholders stand to reap a windfall as a result of the BP-Amoco merger. Stock prices of both companies soared on the announcement of the deal, even in the face of another sharp drop on Wall Street. Amoco shareholders will get 3.97 BP shares for each Amoco share, a premium of 15 percent. At the end of trading August 10, the day of the announcement, Amoco shares were up $5.85, a 14 percent increase.

A factor behind the consolidation in the petro-chemical industry is the falling price of crude-oil, a result of relative oversupply and stagnant demand.

Crude-oil prices have fallen to around $13 a barrel, compared to $20 last year. On the day of the deal's announcement the price of crude oil fell further, to around $10 a barrel, a ten-year low. Taking inflation into account the price of oil is lower today than it was 25 years ago, before the Middle East war and the subsequent oil embargo by Arab producers sent prices soaring. Lower prices have depressed oil company profits, with Amoco earnings falling by nearly 50 percent in the first six months of 1998.

One of the main reasons for the oil glut is the crisis of Asia, which has had a dampening impact on consumption. The fall in oil prices is part of a global trend toward deflation, with the price of gold and raw materials slumping.

While the tendency toward the global integration of production is a necessary and progressive outcome of the development of mankind's productive forces, under the system of capitalism it is undertaken in a haphazard and ruthless manner. Since the days of John D Rockefeller's Standard Oil trust the oil companies have epitomized corporate ruthlessness in the pursuit of profit. The tendency toward the creation of global mega monopolies in oil and other basic industry foreshadows a new wave of attacks on workers.

See Also:
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