Competitive pressures drive Chevron-Texaco mega-merger

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The planned $35 billion merger of the Chevron Corporation and Texaco announced earlier this month will create the world's fourth largest oil company. More than 4,000 jobs will be cut from their combined workforce, with the merged companies expecting annual cost savings of $1.2 billion within six to nine months of closing the deal.

According to 1999 figures, a combined Chevron-Texaco will have annual revenues of $66.5 billion. Both companies have a global reach, with Chevron operating in nearly 100 countries and Texaco in more than 150.

The Chevron-Texaco deal is the third mega-merger in the oil industry in the space of two years following British Petroleum's acquisition of Amoco and Arco last year and the merger between Exxon and Mobil in late 1998.

The coming together of Exxon and Mobil saw the creation of the world's biggest oil company and the slashing of 9,000 jobs. Largely as a result of these cuts Exxon and Mobil announced annual savings of $2.8 billion. The BP-Amoco merger saw the cutting of 6,000 jobs and estimated annual savings of $2 billion.

One of the main driving forces behind the Exxon-Mobil and BP-Amoco mergers was the falling price of oil, which went to as low as $10 per barrel in the wake of the Asian financial crisis, and the slowdown in world economic growth. As retired Mobil executive Herb Scmitz commented at the time: “It's the way the industry and others have been going. The only way to find profits is by cutting costs.”

Since then the price of oil has risen but the pressure for mergers has not lessened. One of the main reasons for the Chevron-Texaco deal is the need to create a larger company to compete with the economies of scale available to Exxon-Mobil, BP-Amoco and Royal Dutch Shell.

As a recent editorial in the *Financial Times* noted: “Oil companies continue to face huge costs in their exploration and development programs, while the price of their commodity is notoriously volatile. Bigger companies are therefore much better able to afford the risks of finding and developing oil in frontier regions.”

This is clearly a major factor in the latest merger. “By combining their assets,” the editorial continued, “Chevron-Texaco would become very strong around the Caspian Sea and in west Africa. But oil companies also need a spread of operations and therefore of risk. Economies of scale also exist in downstream refining, where the margins of Chevron and Texaco individually are smaller than those of their bigger brethren. Chevron and Texaco claim merger synergies will save them $1.2 billion a year.”

According to some reports, the proposed deal will come under close scrutiny from the US Federal Trade Commission because of the combined companies' share of more than 30 percent of the retail gasoline market in California and Texaco's refining and marketing alliances with another oil giant, Shell, on the US East and West coasts. Texaco may have to sell its stake in refining to Shell as part of approval conditions for the merger.

However, the deal has already received support from the Clinton administration despite the concern over high oil prices and the concentration of the oil industry among a few major players. US Energy Secretary Bill Richardson told reporters last week: “My initial view is positive, but the Federal Trade Commission does a very good oversight role of ensuring that consumers are protected. My view is these are two solid companies that decided to merge. I think this is an inevitable result of the global economy.”

A former director of the FTC's Bureau of Competition, William Baer, explained that the Chevron-Texaco deal would come under scrutiny, but that in order to compete against their bigger rivals they were left with no other option. “Any time you see an industry that's rapidly consolidating,” he said, “the anti-trust regulators tend to get a little more cautious. On the other hand, the last guy in has the argument that ‘I need to get in too, or I won't be able to get the size of my competitors'.”

Mergers and acquisitions are not confined to oil but extend across all industries. This “merger mania”, as some analysts have dubbed it, points to the increasingly global character of all capitalist production.

Hot on the heels of the Chevron-Texaco deal came the announcement of a mega-merger between General Electric, the world's most valuable company, and Honeywell. The deal valued at $45 billion will see Honeywell's corporate headquarters in Morristown, New Jersey closed with the loss of 550 jobs.

General Electric produces power plant parts, aircraft engines and appliances, and also owns the NBC television network. Honeywell produces equipment for aerospace systems, power generation, transportation and factory automation as well as specialty chemicals, plastics, fibers and other industrial materials.

Commenting on the deal, analyst Nicholas P. Heymann of Prudential Securities Inc. said: “This is how GE gets a bigger footprint in the global marketplace, increasing its size by nearly a third overnight and adding to its dominance in key areas. This deal will allow GE to become the pre-eminent provider of productivity enhancement services in the airline industry, utilities and factory automation services.”

At present GE dominates the market for aircraft engines and servicing, while Honeywell is the predominant supplier of aircraft electronics for commercial jets. Honeywell is also the major force in the market for air traffic control systems.

Reflecting the general upsurge in merger activity, figures published by Thomson Financial Securities Data show that $520 billion in merger and acquisition deals were announced in the US alone for the third quarter of 2000, one of the highest totals of all time.

European buyers accounted for a record 24 percent of that amount, or $124 billion of deals. The largest announced cross-border deals involving European acquirers in the US were Deutsche Telekom's $54.8 billion bid for Voicestream Wireless, UBS's $16.5 offer for the Paine Webber Group and Credit Suisse First Boston's $13.5 billion bid for investment banking firm Donaldson, Lufkin and Jenrette.

In the nine months to the end of September, world mergers and acquisitions totalled $2.68 trillion arising from more than 27,300 deals. This was an increase on the same period in 1999, which saw $2.28 trillion in global deals.

The main areas of consolidation have been in the telecommunications, TV broadcasting, commercial and investment banking, electrical equipment and energy sectors.

The merger trend taking place across all industries now on a global basis will compel other competitors in every industry, as the example of Chevron-Texaco reveals, to undertake similar measures to remain competitive or go to the wall, further concentrating production, wealth and market share amongst a handful of giant transnational corporations, with accompanying large-scale job destruction.

Besides its immediate impact on jobs and working conditions, the increasing merger activity raises profound political questions. The defenders of the capitalist mode of production—who maintain that they are guided only by facts and not ideology—claim that the so-called “free market” is the only viable form of economic organisation, for which there is no possible alternative.

These assertions are being ever more directly contradicted by the economic facts of life. Out of the new round of merger mania what is emerging is a centrally-planned and coordinated system of global production. However, this system of production, which could provide the basis for rational economic planning on a world scale, is subordinated to the private appropriation of profit in the interests of a monopolistic grouping of transnational corporations and financial institutions.