Restrictive Trade Practices Commission

Restraints on Competition in the Canadian Petroleum Industry

Petro-Canada's Acquisition of Gulf Canada's Downstream Assets West of Quebec

Argument:
Director of Investigation & Research
Combines Investigation Act

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1. Assets Acquired

On September 30, 1985 Petro-Canada acquired the downstream assets of Gulf Canada west of Québec at a total cost of $896 million. These assets included approximately 1,800 retail gasoline outlets, of which some 500 are located in Ontario. As a result of the acquisition, Petro-Canada now controls approximately 3,150 retail gasoline outlets west of the Ontario/Québec border, some 1,500 of which are located in Ontario.

In addition, Petro-Canada purchased Gulf's refineries in Port Moody, Clarkson and Moose Jaw bringing to four the number of refineries controlled by Petro-Canada west of the Ontario/Québec border. In 1987, Petro-Canada will complete the acquisition of Gulf's Edmonton refinery, thus extending its control to a fifth refinery in that region. Overall, Petro-Canada is now the largest refiner-marketer in Canada with some 4,300 retail gasoline outlets and seven refineries. (Volume 194, pp. 41281-303; p. 41298; pp. 41302-3; p. 41322).

2. Reasons Advanced For The Acquisition

Mr. West gave evidence on October 17th, 1985 in his capacity as President[1] of Petro-Canada Products Inc. His evidence was to the effect that Petro-Canada wanted Gulf's western Canadian assets in order to increase its market penetration there to levels comparable to some of the company's "major competitors" in that region. (Volume 194, p. 41281)

As for the rationale for acquiring Gulf's Ontario assets, where Petro-Canada was already the largest retail gasoline marketer, Mr. West offered the following explanations:

(1) The lubricant facilities and technology at Clarkson were viewed as a "strong asset" for Petro-Canada;

(2) "There appeared that there might be some efficiencies between the Trafalgar and Clarkson refineries";

(3) The company had "an interest" in acquiring Gulf's research and development facilities near Toronto;

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1. Mr. West is reported to have resigned from Petro-Canada effective December 1st, 1985. (Globe and Mail, November 23rd, 1985)

(4) "We felt in Toronto that Gulf had several service stations that were well located and had good productivity";

(5) The company wished to improve its retail representation in Northern Ontario.

(Volume 194, pp. 41281-2).

In explaining the company's rationale for the total package, Mr. West indicated that Petro-Canada was all but compelled to purchase Gulf's Ontario assets as the condition for obtaining Gulf's assets in western Canada:

> "Q. ... the question I had was did you have the option of just buying the West if you had wanted to?
>
> A. That was not one of the packages that was on the table". (Volume 194, p. 41397)

3. <u>Extent of Pre-Acquisition Assessment by Petro-Canada</u>

Mr. West admitted that Petro-Canada did not conduct any pre-acquisition studies with respect to the possible efficiencies which his company might hope to gain in refinery operations; nor did the company examine the extent to which the acquisition of such a large number of retail gasoline outlets might result in duplication vis-à-vis existing Petro-Canada outlets.

With reference to refinery efficiencies there was the following exchange:

> "MR. McDONALD: Q. Mr. West, you indicated that one of the attractions in purchasing the Ontario downstream assets were, I think what you called, Trafalgar-Clarkson efficiencies. That is at least what I wrote down, something to that effect. Could you elaborate on just what those would be? Those refineries are very close physically to each other, are they not?
>
> A. Yes. Yes, they are. They are a few miles apart. I am not sure how many miles, perhaps ten.
>
> <u>We have not concluded our studies</u> of what those efficiencies might be, so I cannot really elaborate on them, but there appeared that there could be some efficiencies."
>
> (Volume 194, p. 41338, emphasis added)

With respect to the duplication of retail gasoline outlets, the following evidence was elicited from Mr. West:

> "Mr. Sopinka: Q. Can you provide an estimate of the number of retail outlets that will probably have to be closed or disposed of by province?
>
> A. <u>No, sir, we do not have estimates of that at this time</u>.
>
> THE CHAIRMAN: Mr. Sopinka, if I could just interrupt. This may come up later. I can understand that you are probably just sorting out your assets.
>
> THE WITNESS: Yes, sir.
>
> THE CHAIRMAN: But when do you expect that you would begin to look at the problem of rationalization. You haven't looked at it yet.
>
> THE WITNESS: It is something that will be looked at over the next six to eight months, I would say, sir.
>
> THE CHAIRMAN: You would not begin any rationalization before an eight month period?

THE WITNESS: I would say that we would start some rationalization in about that time period. We are going to have to study the markets using discipline processes which the industry generally uses.

THE CHAIRMAN: You didn't do that before you bought the company?

THE WITNESS: We didn't do those studies, no, sir."

(Volume 194, pp. 41287-8, emphasis added)

While Petro-Canada has not carried out any study of potential retail outlet duplication, Mr. West speculated about the extent of rationalization that might eventually be necessary:

"Q. Do I take it from your answer that, as yet, you still do not even have a ballpark estimate of the number of outlets in the Province of Ontario that you are going to discontinue as Petro-Canada outlets?

A. We have not made that estimate yet, but I would say, generally, if it is helpful to you, with the, if we can use the term, rationalization that has occurred within the Gulf organization and within our own over the past few years, the amount of duplication will be relatively minor. We do not see this as being a big thing.

Q. Well, relatively minor. Let us take Ontario where you have roughly 1500 stations.

A. Yes.

Q. Now, 1,000 of your old stations and an extra 500 from Gulf. Relatively minor would mean discontinuing 300 of them?

A. Much less than that, I would think.

Q. One hundred?

A. I cannot tell you within 100, but it would be minor.

THE CHAIRMAN: I am a little surprised you would say that. I am not challenging your response, but I am surprised.

When that was announced, I happened to be away for two or three days, as much as I ever get away from Ottawa for. I was down in Western Ontario, and I could not help but be struck by the proximity of Gulf and Petro-Canada stations around corners. It did occur to me that if that was at all indicative you had quite a problem. But maybe you are going to run them on both sides, I do not know.

MR. SOPINKA: London is a small place.

THE CHAIRMAN: London was one of the places in question where there was (sic) considerable interest in that whole transaction."

(Volume 194, pp. 41321-4, emphasis added)

4. Director's Analysis of the Acquisition

(a) General Remarks

The Director's analysis proceeds from the viewpoint of whether or not this acquisition has been in the public interest in terms of its effect on competition in the various affected markets. It is evident, even at a glance, that this acquisition significantly increases concentration in all markets west of Québec, with the greatest increase in concentration being in the Ontario retail gasoline market. A detailed examination of the structural changes brought about by this acquisition is set out in this section.

(b) <u>Structural Analysis</u>

Appendix I consists of a series of tables which assess the pre-acquisition and post-acquisition situation in Ontario and selected western Canadian locations with respect to control over outlets, market share by volume, and average volume per outlet. The tables in Appendix II show the four-firm concentration ratio for retail gasoline markets west of Québec for the years 1981 and 1984 as well as the change in the 1984 ratio resulting from Petro-Canada's purchase of Gulf's downstream assets. Similar data for "All Canada" are also included in Appendix II. Appendix III contains tables showing refining market shares in Ontario, the Prairie, and the Pacific regions.

The market locations dealt with in Appendices I and II correspond to the areas set out in the Kent Marketing data already on the record. (Exhibits M-437 and M-783) The Ontario cities surveyed account for about 50 percent of all the gasoline sold in Ontario in a given year.[1] In the

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1. Ottawa, Metro Toronto, Vaughan/Markham, Brampton/Bramalea, Mississauga, Oshawa/Whitby, Ajax/Pickering and Thunder Bay account for 49.6% of Ontario retail gasoline sales. (RTPC Exhibit M-783; Ethyl Canada Inc. "Yearly Report of Gasoline Sales Through Licenced Retail Outlets, 1984")

Director's view, this fact alone makes these Ontario locations a reasonable proxy for the overall Ontario experience. In the case of the western Canadian locations, the areas surveyed (one per Province) are each major markets within a Province accounting for a substantial percentage of the gasoline sold within each of these Provinces.[1]

Before the acquisition all of these gasoline markets already exhibited a high degree of concentration. This has been worsened by the Petro-Canada/Gulf transaction, with some markets more harmfully affected than others.

At the refining level of the industry, Petro-Canada's acquisition of Gulf's refineries west of Québec increases concentration in the Ontario and Pacific regions. On the Prairies, refinery concentration is unchanged as Petro-Canada, which did not have a refinery in the region, simply replaces Gulf.

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1. Winnipeg accounts for 58.4% of Manitoba retail gasoline sales. Regina accounts for 20.9% of Saskatchewan retail gasoline sales. Edmonton accounts for 31.9% of Alberta and Northwest Territories retail gasoline sales. Vancouver accounts for 42.2% of British Columbia and Yukon retail gasoline sales. (RTPC Exhibit M-783; Ethyl Canada Inc. "Yearly Report of Gasoline Sales Through Licenced Retail Outlets, 1984")

On a national basis, Petro-Canada has become, by far, the largest refiner-marketer in the country through the elimination, by acquisition, of a major industry force. This narrows even more the market options available to the public.

(c) Regional Market Structures

(i) Ontario

In Ontario, the four-firm gasoline marketing concentration ratio increased from 59.4 percent in 1981 to 63.5 percent in 1984. This increase was the result of Petro-Canada's purchases of Petrofina and BP which gave it an 18.8 percent market share and made it a close second to Shell in Ontario market share. During this period Gulf, Shell and Texaco maintained stable market shares, while Imperial Oil's market share declined by 4.4 percent. With its acquisition of Gulf's Ontario marketing assets, Petro-Canada's market share in the province jumped from 18.8 percent in 1984 to 30.3 percent now. The four-firm concentration ratio has risen from 63.5 percent in 1984 to 73.9 percent following the acquisition.

The Ontario market has historically been one of the least highly concentrated markets in Canada owing to the presence of a strong independent gasoline marketing sector. Now, with Petro-Canada's acquisition of Gulf's marketing outlets, concentration in Ontario has increased dramatically to levels similar to those which have prevailed for years in markets such as the Maritimes, where there is no vigorous independent segment operating.

Appendix I lists market shares by volume and number of outlets prior to and after the Gulf acquisition for the cities surveyed by Kent Marketing in Exhibit M-783. These tables also show average volumes per outlet. In certain Ontario urban markets the four-firm concentration is higher than the Provincial ratio of 73.9 percent (e.g. Thunder Bay 81.9 percent, Vaughan/Markham 80.6 percent, Brampton/Bramalea 79.3 percent, Ajax/Pickering 77.9 percent, Mississauga 78 percent, and Metro Toronto 75.1 percent).

In Ontario the four-firm refining concentration ratio has increased from 74.8 percent to 86.3 percent. Petro-Canada is now the largest Ontario refiner with 27 percent of the market.

(ii) Prairies

On the Prairies, the four-firm gasoline marketing concentration ratio declined from 63.2 percent to 61.8

percent between 1981 and 1984. This decrease corresponds to the loss of market share of Imperial Oil during this period. As in Ontario, the other major companies (Gulf, Shell and Texaco) maintained relatively stable market shares. Prior to acquiring Gulf, Petro-Canada already had 9.5 percent of the Prairie market as a result of its purchase of Pacific Petroleums in 1979.[1] With its acquisition of Gulf's marketing assets on the Prairies, Petro-Canada sharply increased its market share to 23.9 percent. This makes Petro-Canada the largest marketer on the Prairies with a 3.5 percent greater share than the second place firm, Imperial Oil. Accordingly, the four-firm concentration ratio increases from 61.8 percent to just under 70 percent. In Edmonton the four-firm concentration ratio of 71.2 percent approaches the high level of concentration that currently exists in the Ontario market.

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1. Mr. West testified that this market share was not big enough for Petro-Canada, which required a greater share of the market to be considered a national oil company. But in fact, Petro-Canada was already larger in all Kent city markets in western Canada than another national refiner-marketer, Texaco Canada. Mr. West, in explaining Mr. Hopper's public statements concerning a "12% critical mass" in marketing, said that this share was necessary to be considered a national marketer with sufficient representation on "national highways". Now measured by their own standard, it has more than doubled the market share necessary to satisfy their objective in western Canada. (Volume 194, pp. 41326-7)

On the Prairies, Petro-Canada replaces Gulf as the second largest refiner behind Imperial with shares of 29.2 percent and 36.0 percent respectively. The four-firm concentration refining ratio remains at 86 percent.

(iii) <u>Pacific</u>

In the Pacific region, the data for Vancouver indicates very high levels of gasoline marketing concentration. In 1981 the four-firm concentration ratio was 76.1 percent. This figure declined to 71.6 percent in 1984. As was the case in the other regions, this reduction corresponds to a reduced market share held by Imperial Oil. Prior to the acquisition, Petro-Canada was the fifth largest marketer in Vancouver with a 9.5 percent market share. By acquiring Gulf's marketing outlets, Petro-Canada moves into second place behind Chevron with a share of 23.1 percent. Chevron's market share is 24.4 percent. Following the acquisition the four-firm concentration ratio in Vancouver has increased to the extremely high level of 80.7 percent.

In the Pacific region the four-firm refining concentration ratio has increased from 84.1 percent to an astounding 94.2 percent. Petro-Canada is now the largest refiner in the region with a 32.8 percent market share.

(iv) All Canada

Petro-Canada's acquisition of Gulf's marketing outlets west of Québec has had a significant impact on the four-firm concentration ratio for "All Canada". Between 1981 and 1984 this ratio increased by 2.2 percent from 58.1 percent to 60.3 percent. Prior to the acquisition, Petro-Canada was already the second largest national marketer with a share of 16.5 percent. Petro-Canada's acquisition of Gulf's assets boosts the four-firm ratio by almost 10 percent from 60.3 percent to 70.0 percent. Petro-Canada is now the largest gasoline retailer on a national basis with 27.8 percent of the market and this share is some 10 percent greater than the second largest firm, Shell.

On an 'All Canada' basis the four-firm refinery ratio has increased from 64.9 percent to 72 percent and will reach 75 percent when Gulf's Montreal refinery is shut down in conjunction with Ultramar's acquisition of Gulf's downstream assets in Quebec and the Atlantic provinces at the end of the year. Petro-Canada is now the largest refiner with 22.5 percent of the national market, a figure that will rise to 23.4 percent when the Montreal refinery closes. In all three regions, the two-firm refining concentration ratio (Petro-Canada and Imperial) is in excess of 50 percent. Their national figure is 44.7 percent.

(v) Conclusion - Structural Change

Prior to Petro-Canada's acquisition of the Gulf assets the downstream sector of this industry was already too highly concentrated. From a competition policy perspective, the degree of concentration in the downstream industry is now at even more unacceptable levels. Gulf, a major industry force, has been removed from the market, making it much easier for the remaining firms in the industry to co-ordinate their refining and marketing policies and further limiting the market choices available to consumers.

Competition policy concerns over the very high level of concentration resulting from this acquisition are further heightened by the fact that Petro-Canada, now the largest refiner-marketer in Canada, is woefully inefficient and admits to passively following the pricing policies of the other major companies.

5. Petro-Canada's Inefficiency

(a) Introduction

Since 1979 Petro-Canada has spent some $3.5 billion purchasing Pacific Petroleums (1979), Merit Oil

(1981), Petrofina (1981), British Petroleum (1983) and now Gulf Canada. The result is that Petro-Canada is, by far, the largest gasoline marketer in the country and demonstrably one of the least efficient.

The Commission is well aware that the gasoline marketing sector of the Canadian petroleum industry has experienced chronic excess capacity and inefficiency for some three decades. However, there has been considerable rationalization of the refining and marketing sectors over the past decade due, in large part, to changes in world petroleum and automotive markets in the 1970's, followed by a substantial decline in demand in the 1980's. To differing degrees the major oil companies have responded to these changing market conditions by rationalizing their marketing facilities. Low volume stations were closed as these refiner-marketers attempted to improve their efficiency. In 1975 there were 25,752 retail gasoline outlets in Canada. At the end of 1984 this number was reduced to 14,308, a decline of 44 percent. In addition, since 1979 eleven oil refineries have been closed across Canada.

In contrast, Petro-Canada, through its acquisition of BP in 1983 and Gulf in 1985 has been dramatically increasing its number of service stations. With 1000 Ontario service stations in 1984, Petro-Canada already had more outlets in Ontario than any other marketer. Table I shows that Petro-Canada had 20.2 percent of the outlets in Ontario. This was 4 percent more than its nearest rival, Shell, and almost double the number of Imperial outlets. Indeed, in every Kent market in Ontario, except for Thunder Bay, Petro-Canada had the greatest number of outlets prior to the acquisition of Gulf.

(b) <u>Petro-Canada Inefficiency Prior to the Gulf Acquisition</u>

Industry participants generally recognize "average volume per outlet" as the best index for measuring relative gasoline marketing efficiency. For example, the Vice-President of Sunoco Inc. testified before the Commission that "in a business like our kind of retail business where you get a high fixed cost base the throughput determines how efficient you are".[1] (Volume 161, p.28986)

The tables in Appendix I compare average volume throughputs by company in 1984 for each of the Kent Marketing cities. Prior to the Gulf acquisition, Petro-Canada was one of the least efficient marketers in

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1. In addition to this quotation from Sunoco's Vice-President of Marketing, the Director would refer the Commission to the sources given at p.M-7 in Volume 3 of his Reply Argument.

Ontario. In terms of average volume throughputs, Petro-Canada ranked sixth behind Canadian Tire,[1] Shell, Imperial, Gulf, and the Independents.

Petro-Canada's inefficiency prior to the Gulf purchase is graphically illustrated by observing outlet-volume relationships in local Ontario markets. In Toronto, Petro-Canada required 72 percent more outlets than Imperial to capture a meagre 2.7 percent greater market share. In Ajax/Pickering Petro-Canada required 80 percent more outlets than Shell for a 1.5 percent lower market share. In Brampton/Bramalea Petro-Canada required twice as many outlets as Shell to obtain a 4.5 percent greater market share. In Ottawa, Petro-Canada had triple the number of outlets to gain double the market share enjoyed by Imperial.

(c) The Effects of Petro-Canada's Previous Acquisitions

There can be no doubt that Petro-Canada's low standing in the market in terms of relative efficiency is linked directly to its previous acquisitions and to its subsequent marketing policies.

Petro-Canada entered the refining and marketing sectors by acquiring Pacific Petroleums and Petrofina in

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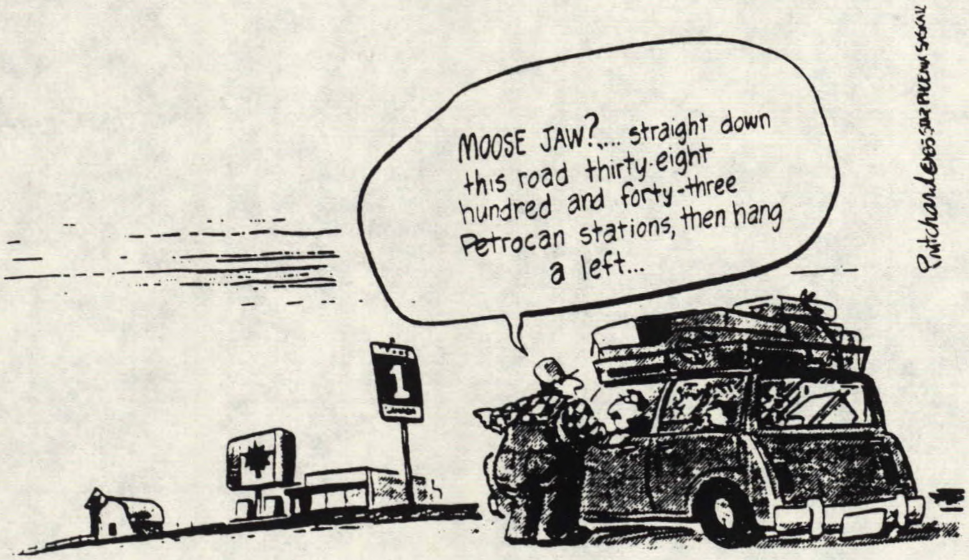
1. The reason for including Canadian Tire is set out in the notes to Appendix 1.

1979 and 1981, respectively. To further increase its market share within specific regions (i.e. the Lower Mainland of British Columbia and Eastern Canada), the company acquired Merit Oil in 1981 and British Petroleum (BP) in 1983. Through these four acquisitions Petro-Canada acquired a total of 2,985 gasoline marketing outlets in Canada. (Petro-Canada Response to Undertakings, Public Record, November 7, 1985)

By acquiring Merit Oil, Petro-Canada removed one of the largest and most price aggressive independent marketers in British Columbia. Petro-Canada rebranded the Merit stations to the Petro-Canada brand, and revised the pricing policy at these outlets from that of a discounter to that of a major brand price follower. Predictably, volumes sold through the former Merit network declined substantially. Hence, the public was denied the benefits of purchasing from one of the most competitive forces in the Lower Mainland of British Columbia. (Director's Argument, Volume 3, p. 109; Director's Reply Remedies Argument, pp. M30-1)

In Eastern Canada (Ontario, Québec and the Maritimes) Petro-Canada acquired two of the most inefficient firms in the industry. Petrofina and BP entered the Canadian market in the mid-1950's. Senior executives of these companies testified before the Commission that as late entrants their firms were relegated to poor retail locations compared to those of the long established majors. They further admitted that at the time they sold their firms to Petro-Canada, their marketing networks had poor productivity. (Volume 99, p. 18652; Volume 162, pp. 29155-6; Volume 155, p. 28297) By May of 1982, Petro-Canada and BP ranked 13th and 14th, out of fifteen firms, in outlet productivity in Ontario. Petro-Canada and BP were 73 percent below the average throughputs enjoyed by the industry pacesetter (Canadian Tire) and 40 percent below the average volumes of Imperial, the best of the branded majors. (Exhibit M-477, Serial 1018)

(d) Petro-Canada's Inefficiency Following the Gulf Acquisition



Underlying the humour of this cartoon there is a serious message.1

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1. Cartoon reproduced with permission of Dennis Pritchard, Saskatoon Star Phoenix.

The acquisitions of Petrofina and BP meant that Petro-Canada, which acquired a legacy of inefficiency, found itself with substantial duplication of retail marketing facilities in Ontario and Québec. Though some rationalization of the Petro-Canada network has been undertaken in the past few years, it has clearly been an inadequate response to a mammoth problem.

Petro-Canada, which already had 1000 retail outlets in Ontario in 1984, has now acquired an additional 500 Gulf outlets. After the acquisition, Petro-Canada has nearly double the number of Shell outlets and three times as many as Imperial in Ontario. With an outlet market share of 30.5 percent, Petro-Canada now owns almost <u>one in every three</u> outlets in Ontario.

In certain Ontario markets Petro-Canada has as much as 40 percent of the number of outlets (Ajax/Pickering 40 percent, Brampton/Bramalea 38.8 percent, Vaughan/Markham 39.6 percent). In terms of volume, Petro-Canada has shares as high as 42 percent in Brampton/Bramalea and 43.2 percent in Vaughan/Markham. In Toronto, the largest metropolitan market in Canada, Petro-Canada has 30.8 percent of the total outlets and 28.7 percent of the total volume.

This exacerbates the already serious duplication problem which the company has had for years. Incredibly, Petro-Canada management admitted before the Commission that it did not conduct any studies prior to the Gulf takeover to identify potential additional duplication problems. Even more amazingly, Mr. West candidly admitted to the Commission that most of Gulf's Ontario marketing assets were not even needed by Petro-Canada:

> Q. "It really comes down to this: You had an 18, almost 19 percent market share in Ontario. There is another figure on the record of 17 percent. It depends on whose data you take here, and now you are up to 30 percent. I mean you really did not need that additional market share in Ontario, did you?
>
> A. No. No, we did not need it. It was attractive to us, though, because it provided some advantages to us that we did not otherwise have. We felt the overall efficiency would be in line with running a commercial private-sector type of organization".
>
> (Volume 194, pp. 41398-9, emphasis added)

Mr. West testified that Petro-Canada had to buy Gulf's Ontario assets in order to get the western Canadian assets. (Volume 194, p. 41397) While it is difficult to understand why this should have been necessary, it is most surprising that Mr. West would characterize the resulting expected duplication of outlets as "minor" in light of Petro-Canada's previous acquisitions and its existing serious duplication problem prior to the acquisition.

When the Chairman referred to his own observations of the close proximity of Gulf and Petro-Canada stations in London, Ontario, and asked if Petro-Canada was going to run them on both sides of the street, counsel for Petro-Canada deflected the question by noting that "London is a small place." (Volume 194, pp. 41322-3)

In order to assist the Commission and Petro-Canada, the Director has conducted a survey of the Ottawa market, which is considerably larger than London. Apart from the obvious practical advantages of surveying the Ottawa market, the Kent Marketing data suggests that Ottawa is representative of (or, if anything understates) the duplication problem that exists for Petro-Canada right across the province. For example, Petro-Canada now has 27.3 percent of the total gasoline outlets in Ottawa. By comparison, the figure for Ajax/Pickering is 40 percent and the provincial average is 30.5 percent. (Appendix I)

(e) 'Minor' Duplication in the Ottawa Market

Prior to the acquisition of Gulf, Petro-Canada already had the largest number of outlets in Ottawa. According to Kent Marketing, Petro-Canada had 50 service stations or 19.5 percent of the total market. Now Petro-Canada has acquired an additional 20 Gulf outlets for a total of 70, or 27.3 percent of all the outlets in the Ottawa market. By comparison, Imperial Oil has only 18 outlets in Ottawa, or 7 percent of total outlets. (Exhibit M-783).

In order to determine the extent of duplication in the Ottawa market the Director located eighteen of the twenty Gulf stations reported by Kent.[1] The market in the immediate vicinity of these stations was then surveyed to identify any Petro-Canada stations in the same area. The survey found there were at least thirty-four Petro-Canada outlets in close proximity to the eighteen Gulf stations.

The Petro-Canada and Gulf stations covered in the survey have been plotted on a series of maps that are contained in Appendix IV. The maps focus on specific areas of the city where all of the Gulf and surrounding Petro-Canada stations are located. An analysis describing Petro-Canada's duplication problem accompanies each map.

Three facts are obvious from the survey of the Ottawa market:

1. Significant duplication existed in Petro-Canada's Ottawa network even before the Gulf acquisition. For example, in a two block stretch on Richmond Road at Bell's Corners (Map 1) Petro-Canada already had three stations. On Carling Avenue (Maitland-Churchill - Map 4) it operated two

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1. Two of the twenty Gulf outlets and three of the fifty Petro-Canada outlets reported by Kent have closed since the time the survey in M-783 was completed.

full-serve stations in the space of three blocks. On Bank Street, between Walkley Road and Riverside, (Map 6) Petro-Canada has 5 stations (3 self-serves and 2 full-serves). On Baseline Road, between Clyde and Greenbank, it had three stations. Compare this arrangement to Gulf's Ottawa network, where it operated only one station to serve any given area of the market.

2. There is complete duplication between the acquired Gulf stations and the existing clusters of Petro-Canada stations. All eighteen Gulf stations duplicate existing Petro-Canada stations. Fourteen of the eighteen Gulf stations are on the same street as Petro-Canada stations. Thirteen Gulf stations are within <u>three</u> blocks of a Petro-Canada station. Nine Gulf stations are on the <u>same</u> block as a Petro-Canada station. Finally, six Gulf stations, or one-third of the acquired Gulf outlets, are either <u>right beside or across the street</u> from an existing Petro-Canada station. Certainly it can not be argued that duplication is "minor" in the Ottawa market. Indeed, the conclusion is the opposite. There is massive duplication between the two chains in Ottawa, calling into question why Petro-Canada would need <u>any</u> of Gulf's Ottawa outlets.

3. An examination of all the maps clearly contrasts Gulf's and Petro-Canada's marketing networks in Ottawa.

Gulf frequently had one strategically located station on a highly travelled route while Petro-Canada had groups of closely located stations. If Petro-Canada's goal is to achieve lower operating costs then it could start by studying the station distribution of the company it acquired.

The Director submits that similiar studies of other urban markets would lead to exactly the same conclusions. In fact, Petro-Canada's duplication problem may well be even worse in other markets. In Ottawa, Petro-Canada had 19.5 percent of the outlets before the Gulf acquisition and now has a 27.3 percent outlet share. The duplication problem in markets such as Ajax/Pickering, where Petro-Canada already had 30 percent of the outlets and now has 40 percent, or, in Brampton/Bramalea, where it now has 38.8 percent of all outlets must be appalling.

(f) <u>Conclusion - "Minor" Duplication</u>

In a brochure entitled "WELCOME, We're at your service. How the Petro-Canada purchase of Gulf assets will work for you ..." (Appendix V) Petro-Canada attempts to convince the public that it will somehow benefit from this acquisition. The brochure states in part:

"Competitive Balance:
The added strength it has gained in refining capabilities and retail services guarantees that Petro-Canada will be able to compete even more effectively against the major international companies in Canada's domestic marketplace.

Better Facilities:
Petro-Canada now has more locations-more full-service, more self-service, more car washes, more service bays-all adding up to more convenience for you, the Petro-Canada customer."

In the Director's submission the views expressed in this Petro-Canada publication are out of touch with reality. The acquisition is not going to enhance Petro-Canada's ability to compete "more effectively" in the marketplace. On the contrary, the acquisition of all those unnecessary service stations and the problems of duplication and redundancy will, if left untreated, worsen Petro-Canada's competitive position in the marketplace.

Petro-Canada does not have "better facilities". It only has more facilities ("more locations - more full-service, more self-service, more car washes and more service bays"). Petro-Canada's conclusion that this adds up to "more convenience for you, the Petro-Canada customer", simply reflects the long since abandoned mentality of the major oil companies in the 1950's and 1960's when they saturated the country with gasoline service stations. If anything, the evidence in the marketing sector of this inquiry has shown that the non-price competition of that era, with a heavy emphasis on "conveniently" located service stations, led directly to low volumes per outlet and to the high marketing costs which were ultimately borne by the Canadian consumer in the form of high prices.

What is conspicuous by its absence from Petro-Canada's brochure is any suggestion that it will be offering Canadians lower prices now that it owns "more" of everything. On that score, while the brochure is mute, Mr. West confirmed to the Commission that Petro-Canada will simply continue to mimic the pricing behaviour of the other majors. In the circumstances, Mr. West's admission should be seen as candid, though sad, reflection of reality. Put simply, the company is correct in recognizing that it is, in its present state, unable to offer meaningful price competition to the other major firms.

Petro-Canada is now in the same predicament that the other major oil companies found themselves in over a decade ago. In 1972 Gulf, fully recognized the problem that the industry faced:

> "The key problem that all major companies have is the large number of low volume, low potential, non viable stations resulting from the expansion in the 50's and early 60's. These are millstones around the neck of the industry and have only existed as long as there were fat margins available. They are not able to compete if margins are narrowed and are not capable of developing the increased volume required."
>
> (RTPC Exhibit M-354, emphasis added)

It was this recognition of the importance of achieving marketing efficiency that led the other firms in the industry to embark on their long and ongoing process of rationalization. In the Director's view unless Petro-Canada can be brought to recognize the overwhelming importance of dramatically improving its marketing efficiency, the company will continue to be the high cost supplier, incapable of offering effective competition in the marketplace, and relegated instead to seeking the business of Canadian motorists solely on the basis of less than candid brochures and hyped-up television advertisements which seek to persuade Canadians that somehow it is good for them to patronize "their" gasoline company.

In the Director's view, it is absolutely essential that Petro-Canada's inefficiency, which is <u>caused</u> by its ownership of too many retail outlets, located in close proximity one to another, be addressed and corrected. Only in this way can this publicly owned corporation be put on a proper business-like, market-driven footing. Only then will it be in a position to offer viable competition in a market which the evidence in this inquiry has demonstrated is sadly lacking in appropriate competitive influences.

6. Conclusion and Recommendation

Earlier this year the Government began the process of deregulating the upstream segment of the petroleum industry. The movement to deregulation was predicated upon the belief that the interplay of competitive market forces will ensure the most efficient allocation of resources in this sector of the economy. The Minister of Energy, Mines and Resources made it clear in introducing the Western Accord that the Government would rely upon market forces to achieve its objectives in the energy area:

> "Let me deal with the deregulation of crude oil. Since the national energy policy was imposed in October, 1980 Canadians have suffered from a bureaucratic nightmare, a nightmare which has frightened away foreign investment, boosted prices at the pumps, and discouraged those who wanted to go out and find new sources of oil and gas. Those days are over too. Beginning on June 1, 1985 we will let buyers be buyers and sellers be sellers. In other words, under deregulation the market will decide what crude oil prices will be.
>
> I have repeatedly made the point that Governments do not set gasoline prices. In the past, Governments have set well-head prices. We are going to create the environment for market forces to operate with buyers and sellers involved. If prices go down, then product prices should go down."
>
> (House of Commons Debates, Official Report, Volume III, March 28, 1985, pp. 3468 and 3473)

The Canadian public will only benefit from deregulation of the upstream sector of the petroleum industry if there are competitive refined product markets downstream. By significantly lessening competition downstream, Petro-Canada's acquisition of Gulf's marketing and refining assets west of Québec undermines the attainment of the Government's objectives. The acquisition has brought about a sharp increase in concentration at the refining and marketing levels of the industry, which were already dominated by only a few large vertically-integrated companies. Competition prospects have been significantly reduced through the elimination of a major market participant.

Having acquired Petrofina, BP and now Gulf, Petro-Canada is not in any position to bring meaningful competitive pressure to bear in the marketplace. That Petro-Canada is a high-cost marketer is plain from the evidence on duplication and average volume throughputs. The President of Petro-Canada Products Inc. acknowledged as much before the Commission. Even more telling was his frank admission that Petro-Canada, despite becoming the largest refiner-marketer in Canada, would continue to be a passive price follower. (Volume 194, p. 41428) Petro-Canada itself recognizes and admits its own impotence as a dynamic market force.

The marketing network that Petro-Canada acquired from Gulf was the product of some ten years of rationalization and, as a package, the Gulf network was much more efficient than Petro-Canada's. It is a sad state of affairs when one of the least efficient firms in this industry, before satisfactorily improving its own operatng efficiency, acquires 1800 additional marketing outlets, many of which it admittedly did not want or need, without even bothering to study the implications of doing so.

With the further duplication in facilities that has come about because of the acquisition, a large number of the Gulf and Petro-Canada outlets are now redundant to the needs of a single efficient firm. The outlets in Gulf's network were on the whole more productive than Petro-Canada's. In the context of Gulf, as a single entity, its number of outlets and their locations could be viewed as being close to optimal as far as that one firm was concerned. The Gulf network did not suffer from unnecessary, inefficient duplication to any great extent compared to Petro-Canada. Rather, the Gulf outlets were poised in the market at locations judged appropriate by Gulf, offering motorists another choice in the market. Because of this acquisition, any benefits that the public may have received from the existence and independent operation of Gulf's relatively more efficient marketing network have been lost. Because of this acquisition, marketing assets which could provide beneficial and much needed competition in the gasoline market constitute a problem in the hands of another industry participant.

In most industries competitive market forces would quickly cure Petro-Canada's duplication and inefficiency problems. In a competitive industry Petro-Canada could not have continued operating the assets that it acquired from Petrofina and BP in the manner in which it did. In a competitive market, Mr. West could not, in light of Petro-Canada's massive problems, confidently predict handsome profits for Petro-Canada and a rosy future. (Volume 194, p. 41426) In a competitive market, the least efficient firms, such as Petro-Canada, either have to adjust to market realities or risk extinction.

That Petro-Canada has been able to pursue its goal of sheer growth for several years, with little regard for improving its efficiency, is a clear indication that competitive pressures in this industry are inadequate to discipline Petro-Canada.

With the removal of Gulf from the market, competitive pressures (already weak and ineffectual) are bound to be lessened even further, presaging little or no hope that market forces are going to be sufficient to induce Petro-Canada to rid itself of its enormous duplication and inefficiency problem and become more efficient.

In the Director's view, strong remedies are required to bring about a properly functioning market. Under section 5(3) of the Petro-Canada Act the Minister of Energy, Mines and Resources is the sole shareholder of the firm on behalf of the Government. Section 7(2) requires Petro-Canada to comply with any policy directions given to it in writing by the Governor-in-Council.

Accordingly, it is the Director's view that the Restrictive Trade Practices Commission should recommend that Petro-Canada be directed by the Minister to undertake specific actions in order to ensure that the company achieves the goal of maximum marketing efficiency.

First, the Minister should direct that a detailed economic study be undertaken to assess the efficiency of Petro-Canada's present distribution network. This study should include (i) an analysis of all retail gasoline marketing outlets including the duplication of sites both before and after the Gulf acquisition, (ii) an analysis of volume throughputs at each of these sites, (iii) identification of those sites which are surplus to

Petro-Canada's realistic needs, and (iv) the development of a plan that will meet the goal of operating a marketing network in the most efficient manner possible.

Mr. West, the former President of Petro-Canada Products Inc., indicated that an internal study is already underway. However, he clearly believed that there was only a "minor" duplication problem arising out of the Gulf acquisition, and he appeared to feel that the duplication problems arising from the Petrofina and B.P. acquisitions had already largely been solved. In the circumstances, it would be preferable to have the Minister retain outside experts to conduct the study, to ensure that it is both complete and unbiased. A group of outside experts, devoting itself exclusively to the study, should be able to report back to the Minister in a relatively short time frame.

In the Director's view, a proper, detailed analysis of Petro-Canada's situation will no doubt confirm that divestiture of a significant number of retail outlets will be required by Petro-Canada if the company is to achieve the goal of maximum efficiency set by the Government. In this regard, the Commission should further recommend that the Minister should direct Petro-Canada to divest itself of those outlets which are identified by the study as surplus to its efficient needs.

These surplus outlets should be offered for sale initially to existing Canadian independent marketers and other Canadian entrepreneurs. This would not only foster increased competition, but would also meet the Government's stated objective of maintaining and enhancing Canadian ownership of the petroleum industry. Outlets which remain unsold after prospective Canadian purchasers have had an opportunity to acquire them should be offered next to others who are prepared to operate them as retail gasoline marketing outlets. Only if there is no realistic prospect for selling a given property as an ongoing gasoline marketing outlet should Petro Canada be permitted to dispose of a property for "non-petroleum use".

The harmful effects brought about by this acquisition can be ameliorated, only if this course of action is followed.

APPENDIX I

1984 GASOLINE MARKET SHARES

BY SELECTED METROPOLITAN AREAS

Source: Kent Marketing Services
RTPC Exhibit M783

Notes to Tables

1. Refiners' market shares include second brands.

2. 'Average Volume/Outlet' is measured in gallons.

3. Number in brackets represents ranking based on average volume per outlet.

4. 'Independents' includes Canadian Tire.

5. Canadian Tire is identified separately because Imperial Oil regarded this firm as the "pacesetter" against which it measured its own productivity. (See RTPC Exhibit M-477, Serial 1018)

OTTAWA
(Pre-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Petro-Canada	19.5	18.5	413,141	(7)
Shell	15.6	15.9	445,862	(4)
Texaco	11.7	11.6	432,982	(5)
Gulf	7.8	10.2	572,632	(3)
Esso	7.0	9.5	593,278	(2)
Sunoco	8.6	7.0	356,664	(8)
Canadian Tire	1.6	4.5	1,268,191	(1)
Ultramar	1.6	0.4	124,642	(9)
Independents	28.1	26.7	415,264	(6)

Four Firm Concentration Ratio: 55.4% (outlets)
56.2% (volume)

OTTAWA
(Post-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Petro-Canada	27.3	28.7	458,710	(3)
Shell	15.6	15.9	445,862	(4)
Texaco	11.7	11.6	432,982	(5)
Esso	7.0	9.5	593,278	(2)
Sunoco	8.6	7.0	356,664	(7)
Canadian Tire	1.6	4.5	1,268,191	(1)
Ultramar	1.6	0.4	124,642	(8)
Independents	28.1	26.7	415,264	(6)

Four Firm Concentration Ratio: 63.2% (outlets)
65.7% (volume)

METRO TORONTO
(Pre-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Shell	17.1	21.6	700,027	(2)
Petro-Canada	20.2	17.8	487,376	(6)
Esso	12.6	15.1	664,342	(3)
Gulf	10.6	10.9	566,744	(4)
Texaco	13.4	9.7	401,779	(9)
Sunoco	9.2	5.9	478,435	(7)
Canadian Tire	1.9	4.8	1,435,301	(1)
Ultramar	0.5	0.4	410,184	(8)
Independents	16.5	16.8	566,488	(5)

Four Firm Concentration Ratio: 63.3% (outlets)
65.4% (volume)

METRO TORONTO
(Post-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Petro-Canada	30.8	28.7	514,788	(5)
Shell	17.1	21.6	700,027	(1)
Esso	12.6	15.1	664,342	(3)
Texaco	13.4	9.7	401,779	(8)
Sunoco	9.2	5.9	478,435	(6)
Canadian Tire	1.9	4.8	1,435,301	(1)
Ultramar	0.5	0.4	410,184	(7)
Independents	16.5	16.8	566,488	(4)

Four Firm Concentration Ratio: 73.9% (outlets)
75.1% (volume)

AJAX/PICKERING
(Pre-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Shell	16.7	24.4	963,206	(1)
Petro-Canada	30.0	22.9	502,375	(5)
Esso	10.0	13.7	897,983	(2)
Gulf	10.0	9.1	597,320	(4)
Texaco	13.3	7.8	383,902	(7)
Sunoco	6.7	4.3	423,095	(6)
Independents	13.3	17.8	877,343	(3)

Four Firm Concentration Ratio: 70.0% (outlets)
70.1% (volume)

AJAX/PICKERING
(Post-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Petro-Canada	40.0	32.0	526,111	(4)
Shell	16.7	24.4	963,206	(1)
Esso	10.0	13.7	897,983	(2)
Texaco	13.3	7.8	383,902	(6)
Sunoco	6.7	4.3	423,095	(5)
Independents	13.3	17.8	877,343	(3)

Four Firm Concentration Ratio: 80.0% (outlets)
77.9% (volume)

BRAMPTON/BRAMALEA
(Pre-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Gulf	14.3	22.2	1,121,140	(3)
Petro-Canada	24.5	19.8	582,820	(6)
Shell	12.2	15.3	898,265	(4)
Canadian Tire	4.1	11.7	2,056,305	(1)
Esso	16.3	10.3	458,067	(7)
Sunoco	8.2	9.2	813,417	(5)
Texaco	14.3	5.4	272,654	(8)
Independents	10.2	17.7	1,245,862	(2)

Four Firm Concentration Ratio: 69.4% (outlets)
69.0% (volume)

BRAMPTON/BRAMALEA
(Post-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Petro-Canada	38.8	42.0	781,148	(5)
Shell	12.2	15.3	898,265	(3)
Canadian Tire	4.1	11.7	2,056,305	(1)
Esso	16.3	10.3	458,067	(6)
Sunoco	8.2	9.2	813,417	(4)
Texaco	14.3	5.4	272,654	(7)
Independents	10.2	17.7	1,245,862	(2)

Four Firm Concentration Ratio: 81.6% (outlets)
79.3% (volume)

VAUGHAN/MARKHAM
(Pre-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Petro-Canada	27.0	28.4	615,372	(4)
Esso	16.2	18.0	649,998	(2)
Gulf	12.6	14.8	686,923	(1)
Shell	10.8	10.8	587,026	(5)
Texaco	9.0	8.6	562,043	(7)
Sunoco	6.3	6.1	568,242	(6)
Canadian Tire	2.7	2.9	640,008	(3)
Independents	18.0	13.4	435,253	(8)

Four Firm Concentration Ratio: 66.6% (outlets)
72.0% (volume)

VAUGHAN/MARKHAM
(Post-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Petro-Canada	39.6	43.2	638,138	(3)
Esso	16.2	18.0	649,998	(1)
Shell	10.8	10.8	587,026	(4)
Texaco	9.0	8.6	562,043	(6)
Sunoco	6.3	6.1	568,242	(5)
Canadian Tire	2.7	2.9	640,008	(2)
Independents	18.0	13.4	435,253	(7)

Four Firm Concentration Ratio: 75.6% (outlets)
80.6% (volume)

OSHAWA/WHITBY
(Pre-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Texaco	19.8	17.3	435,510	(6)
Petro-Canada	19.8	15.9	400,057	(7)
Shell	11.1	10.7	473,748	(3)
Esso	8.6	8.1	465,868	(4)
Gulf	7.4	6.9	461,498	(5)
Sunoco	7.4	5.3	352,513	(8)
Canadian Tire	2.5	4.3	856,611	(1)
Independents	25.9	35.9	686,754	(2)

Four Firm Concentration Ratio: 59.3% (outlets)
52.0% (volume)

OSHAWA/WHITBY
(Post-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Petro-Canada	27.2	22.8	416,814	(6)
Texaco	19.8	17.3	435,510	(5)
Shell	11.1	10.7	473,748	(3)
Esso	8.6	8.1	465,868	(4)
Sunoco	7.4	5.3	352,513	(7)
Canadian Tire	2.5	4.3	856,611	(1)
Independents	25.9	35.9	686,754	(2)

Four Firm Concentration Ratio: 66.7% (outlets)
58.9% (volume)

MISSISSAUGA
(Pre-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Petro-Canada	21.2	22.7	696,433	(5)
Shell	18.5	22.0	774,104	(2)
Gulf	10.3	12.0	763,505	(3)
Esso	10.3	11.2	708,927	(4)
Sunoco	11.6	10.1	567,228	(7)
Texaco	13.7	9.6	455,363	(9)
Canadian Tire	1.4	3.1	1,465,018	(1)
Ultramar	2.1	1.5	476,624	(8)
Independents	12.3	11.0	582,211	(6)

Four Firm Concentration Ratio: 65.0% (outlets)
67.9% (volume)

MISSISSAUGA
(Post-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Petro-Canada	31.5	34.7	718,305	(3)
Shell	18.5	22.0	774,104	(2)
Esso	10.3	11.2	708,927	(4)
Sunoco	11.6	10.1	567,228	(6)
Texaco	13.7	9.6	455,363	(8)
Canadian Tire	1.4	3.1	1,465,018	(1)
Ultramar	2.1	1.5	476,624	(7)
Independents	12.3	11.0	582,211	(5)

Four Firm Concentration Ratio: 75.3% (outlets)
78.0% (volume)

THUNDER BAY
(Pre-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Esso	18.7	23.9	528,058	(1)
Shell	21.3	21.7	418,692	(4)
Texaco	21.3	21.8	420,745	(3)
Gulf	12.0	10.6	363,669	(6)
Husky	10.7	4.8	187,283	(8)
Petro-Canada	4.0	3.9	406,068	(5)
Ultramar	2.7	2.0	309,517	(7)
Independents	9.3	11.3	496,354	(2)

Four Firm Concentration Ratio: 73.3% (outlets)
78.0% (volume)

THUNDER BAY
(Post-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Esso	18.7	23.9	528,058	(1)
Shell	21.3	21.7	418,692	(4)
Texaco	21.3	21.8	420,745	(3)
Husky	10.7	4.8	187,283	(7)
Petro-Canada	16.0	14.5	374,268	(5)
Ultramar	2.7	2.0	309,517	(6)
Independents	9.3	11.3	496,354	(2)

Four Firm Concentration Ratio: 77.3% (outlets)
81.9% (volume)

ONTARIO
(Pre-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Petro-Canada	20.2	18.8	507,275	(6)
Shell	16.3	19.3	646,450	(2)
Esso	11.9	13.9	636,693	(3)
Gulf	10.3	11.5	605,901	(4)
Texaco	13.6	10.4	418,268	(8)
Sunoco	8.5	7.4	474,819	(7)
Canadian Tire	1.8	4.4	1,331,363	(1)
Ultramar	0.8	0.4	309,774	(9)
Husky	0.5	0.2	187,283	(10)
Independents	18.0	18.0	543,078	(5)

Four Firm Concentration Ratio: 62.0% (outlets)
63.5% (volume)

ONTARIO
(Post-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Petro-Canada	30.5	30.3	540,566	(5)
Shell	16.3	19.3	646,450	(2)
Esso	11.9	13.9	636,693	(3)
Texaco	13.6	10.4	418,268	(7)
Sunoco	8.5	7.4	474,819	(6)
Canadian Tire	1.8	4.4	1,331,363	(1)
Ultramar	0.8	0.4	309,774	(8)
Husky	0.5	0.2	187,283	(9)
Independents	18.0	18.0	543,078	(4)

Four Firm Concentration Ratio: 72.3% (outlets)
73.9% (volume)

Note: 'Ontario' includes Ottawa, Metro Toronto, Ajax/Pickering, Vaughan/Markham, Brampton/Bramalea, Mississauga, Oshawa/Whitby and Thunder Bay

WINNIPEG
(Pre-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Shell	22.3	23.4	489,754	(4)
Esso	11.9	15.1	595,464	(1)
Gulf	11.9	14.2	558,410	(2)
Petro-Canada	8.6	9.3	503,618	(3)
Texaco	9.7	6.7	323,975	(6)
Husky	7.2	1.8	114,170	(8)
Canadian Tire	0.4	0.2	213,134	(7)
Independents	28.4	29.5	486,115	(5)

Four Firm Concentration Ratio: 55.8% (outlets)
62.0% (volume)

WINNIPEG
(Post-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Petro-Canada	20.5	23.5	535,339	(2)
Shell	22.3	23.4	489,754	(3)
Esso	11.9	15.1	595,464	(1)
Texaco	9.7	6.7	323,975	(5)
Husky	7.2	1.8	114,170	(7)
Canadian Tire	0.4	0.2	213,134	(6)
Independents	28.4	29.5	486,115	(4)

Four Firm Concentration Ratio: 64.4% (outlets)
68.7% (volume)

REGINA
(Pre-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Esso	17.5	21.7	570,455	(1)
Shell	16.5	15.0	417,443	(5)
Gulf	12.4	13.9	515,140	(2)
Petro-Canada	9.3	8.7	431,118	(4)
Texaco	13.4	8.4	288,094	(7)
Husky	2.1	1.6	357,676	(6)
Independents	28.9	30.7	489,071	(3)

Four Firm Concentration Ratio: 59.8% (outlets)
59.3% (volume)

REGINA
(Post-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Petro-Canada	21.6	22.6	479,131	(3)
Esso	17.5	21.7	570,455	(1)
Shell	16.5	15.0	417,443	(4)
Texaco	13.4	8.4	288,094	(6)
Husky	2.1	1.6	357,676	(5)
Independents	28.9	30.7	489,071	(2)

Four Firm Concentration Ratio: 69.0% (outlets)
67.7% (volume)

EDMONTON
(Pre-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Esso	16.5	22.0	657,726	(1)
Shell	15.9	15.6	483,929	(4)
Gulf	13.0	14.8	559,877	(2)
Petro-Canada	9.9	10.8	540,087	(3)
Texaco	11.9	8.9	368,567	(6)
Husky	6.1	3.2	257,853	(7)
Canadian Tire	0.9	0.1	84,172	(8)
Independents	26.7	24.7	457,835	(5)

Four Firm Concentration Ratio: 57.3% (outlets)
63.2% (volume)

EDMONTON
(Post-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Petro-Canada	22.9	25.6	551,360	(2)
Esso	16.5	22.0	657,726	(1)
Shell	15.9	15.6	483,929	(3)
Texaco	11.9	8.9	368,567	(5)
Husky	6.1	3.2	257,853	(6)
Canadian Tire	0.9	0.1	84,172	(7)
Independents	26.7	24.7	457,835	(4)

Four Firm Concentration Ratio: 67.2% (outlets)
72.1% (volume)

VANCOUVER
(Pre-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Chevron	21.4	24.4	628,337	(3)
Esso	15.7	17.2	692,060	(1)
Shell	16.5	16.0	536,808	(5)
Gulf	12.2	14.0	636,308	(2)
Petro-Canada	8.4	9.1	588,868	(4)
Texaco	8.6	5.1	325,798	(7)
Husky	2.0	0.8	225,256	(8)
Independents	15.3	13.4	481,558	(6)

Four Firm Concentration Ratio: 65.8% (outlets)
71.6% (volume)

VANCOUVER
(Post-Acquisition)

Brand	Percentage of Total Outlets	Percentage of Total Volume	Average Volume	Ranking
Chevron	21.4	24.4	628,337	(2)
Petro-Canada	20.6	23.1	616,880	(3)
Esso	15.7	17.2	692,060	(1)
Shell	16.5	16.0	536,808	(4)
Texaco	8.6	5.1	325,798	(6)
Husky	2.0	0.8	225,256	(7)
Independents	15.3	13.4	481,558	(5)

Four Firm Concentration Ratio: 74.2% (outlets)
80.7% (volume)

APPENDIX II

RETAIL GASOLINE MARKETING

FOUR-FIRM CONCENTRATION RATIOS: 1981, 1984

ALL CANADA, ATLANTIC, QUEBEC, ONTARIO, PRAIRIE, AND PACIFIC REGIONS

Source: Director's Reply Argument, Table 5
RTPC Exhibits M-77, M-437, M-783

NOTES

1. Market shares are based on percent of total volume sold in each market.

2. 'All Canada' represents the summation of the volume sold in the cities surveyed by Kent Marketing in the years cited.

3. 'Atlantic' represents St. John's, Halifax/Dartmouth and Saint John.

4. 'Quebec' represents Montreal and Hull.

5. 'Ontario' in 1981 represents Metro Toronto, Ajax/Pickering, Oshawa/Whitby, Brampton/Bramalea, Mississauga, Vaughan/Markham and Ottawa.

6. 'Ontario' in 1984 represents Metro Toronto, Ajax/Pickering, Oshawa/Whitby, Brampton/Bramalea, Mississauga, Vaughan/Markham, Ottawa and Thunder Bay.

7. 'Prairies' represents Winnipeg, Regina and Edmonton.

8. 'Pacific' represents Vancouver.

9. Refiners' market shares include sales by second brands.

FOUR-FIRM CONCENTRATION RATIOS: 1981, 1984
(%)

ALL CANADA

Company	1981	1984 (pre-acquisition)	1984 (post-acquisition)
Petro-Canada	--	16.5	27.8
Shell	17.3	17.1	17.1
Imperial	19.0	15.4	15.4
Gulf	11.6	11.3	--
Texaco	10.2	--	9.7
Four-Firm Ratio	58.1	60.3	70.0

FOUR-FIRM CONCENTRATION RATIOS: 1980, 1984
(%)

ATLANTIC

Company	1980	1984
Irving	26.9	28.7
Imperial	27.2	23.3
Petro-Canada	-	15.7
Gulf	11.3	9.4
Shell	8.3	-
Four-Firm Ratio	73.7	77.1

FOUR-FIRM CONCENTRATION RATIOS: 1981, 1984
(%)

QUEBEC

Company	1981	1984
Petro-Canada	-	21.4
Shell	16.8	15.4
Imperial	14.4	13.1
Texaco	13.8	12.3
B.P.	12.1	-
Four-Firm Ratio	45.1	62.2

FOUR-FIRM CONCENTRATION RATIOS: 1981, 1984
(%)

ONTARIO

Company	1981	1984 (pre-acquisition)	1984 (post-acquisition)
Petro-Canada	--	18.8	30.3
Gulf	11.3	11.5	--
Shell	19.0	19.3	19.3
Imperial	18.3	13.9	13.9
Texaco	10.8	--	10.4
Four-Firm Ratio	59.4	63.5	73.9

FOUR-FIRM CONCENTRATION RATIOS: 1981, 1984
(%)

PRAIRIE

Company	1981	1984 (pre-acquisition)	1984 (post-acquisition)
Petro-Canada	8.2	9.5	23.9
Gulf	15.5	14.4	--
Shell	18.5	18.5	18.5
Imperial	21.0	19.4	19.4
Texaco	--	--	8.0
Four-Firm Ratio	63.2	61.8	69.8

FOUR-FIRM CONCENTRATION RATIOS: 1981, 1984
(%)

PACIFIC

Company	1981	1984 (pre-acquisition)	1984 (post-acquisition)
Chevron	23.4	24.4	24.4
Petro-Canada	--	--	23.1
Imperial	22.7	17.2	17.2
Shell	14.9	16.0	16.0
Gulf	15.1	14.0	--
Four-Firm Ratio	76.1	71.6	80.7

APPENDIX III

1981, 1985 Refining Market Shares
For Pacific, Prairie, Ontario Regions
and All Canada

Source: RTPC Exhibit R-103,R-103(A)
<u>Oilweek</u>, June 10, 1985

Notes

1. Market shares are based on percentage of crude oil capacity (barrels per calendar day).

2. "Pacific" region is defined as British Columbia.

3. "Prairie" region is defined as Manitoba, Saskatchewan, and Alberta.

Ontario Region
(pre-acquisition)

Firm	1981	1985
Imperial	21.4	23.7
Texaco	16.2	18.3
Suncor	15.3	17.3
Petro-Canada	-	15.5
Shell	20.1	13.7
Gulf	13.4	11.5
B.P.	13.6	-

Four-Firm Concentration Ratio: 73.0% (1981)
74.8% (1985)

Ontario Region
(post-acquisition)

Firm	1985
Petro-Canada	27.0
Imperial	23.7
Texaco	18.3
Suncor	17.3
Shell	13.7

Four-Firm Concentration Ratio: 86.3% (1985)

Prairie Region
(pre-acquisition)

Firm	1981	1985
Imperial	41.6	36.0
Gulf	27.9	29.2
Shell	9.6	11.3
Federated Co-op	9.9	9.6
Turbo	-	6.1
Husky	3.0	5.2
Texaco	7.9	-

Four-Firm Concentration Ratio: 89% (1981)
86% (1985)

Prairie Region
(post-acquisition)

Firm	1985
Imperial	36.0
Petro-Canada	29.2
Shell	11.3
Federated Co-op	9.6
Turbo	6.1
Husky	5.2

Four-Firm Concentration Ratio: 86% (1985)

Pacific Region
(pre-acquisition)

Firm	1981	1985[1]
Imperial	24.3	25.1
Gulf	27.8	11.7
Chevron	20.9	21.5
Shell	13.1	14.8
Petro Canada	8.5	21.1
Husky	5.4	5.8

Four-Firm Concentration Ratio: 86.1% (1981)
82.5% (1985)

Note: (1) Port Moody allocated 51% to Gulf and 49% to Petro-Canada

Pacific Region
(post-acquisition)

Firm	1985
Petro-Canada	32.8
Imperial	25.1
Chevron	21.5
Shell	14.8
Husky	5.8

Four-Firm Concentration Ratio: 94.2% (1985)

All Canada
(pre-acquisition)

Firm	1981	1985
Imperial	23.1	22.2
Gulf	14.4	15.4
Shell	14.1	14.5
Irving	11.2	12.8

Four-Firm Concentration Ratio: 62.8% (1981)
64.9% (1985)

All Canada
(post-acquisition)

Firm	1985[1]	1985[2]
Petro-Canada	22.5	23.4
Imperial	22.2	23.1
Shell	14.5	15.1
Irving	12.8	13.3

Note: (1) Assumes Gulf's Montreal refinery remains operating.
(2) Assumes Gulf's Montreal refinery is closed.

Four-Firm Concentration Ratio: 72.0% (1985)[1]
74.9% (1985)[2]

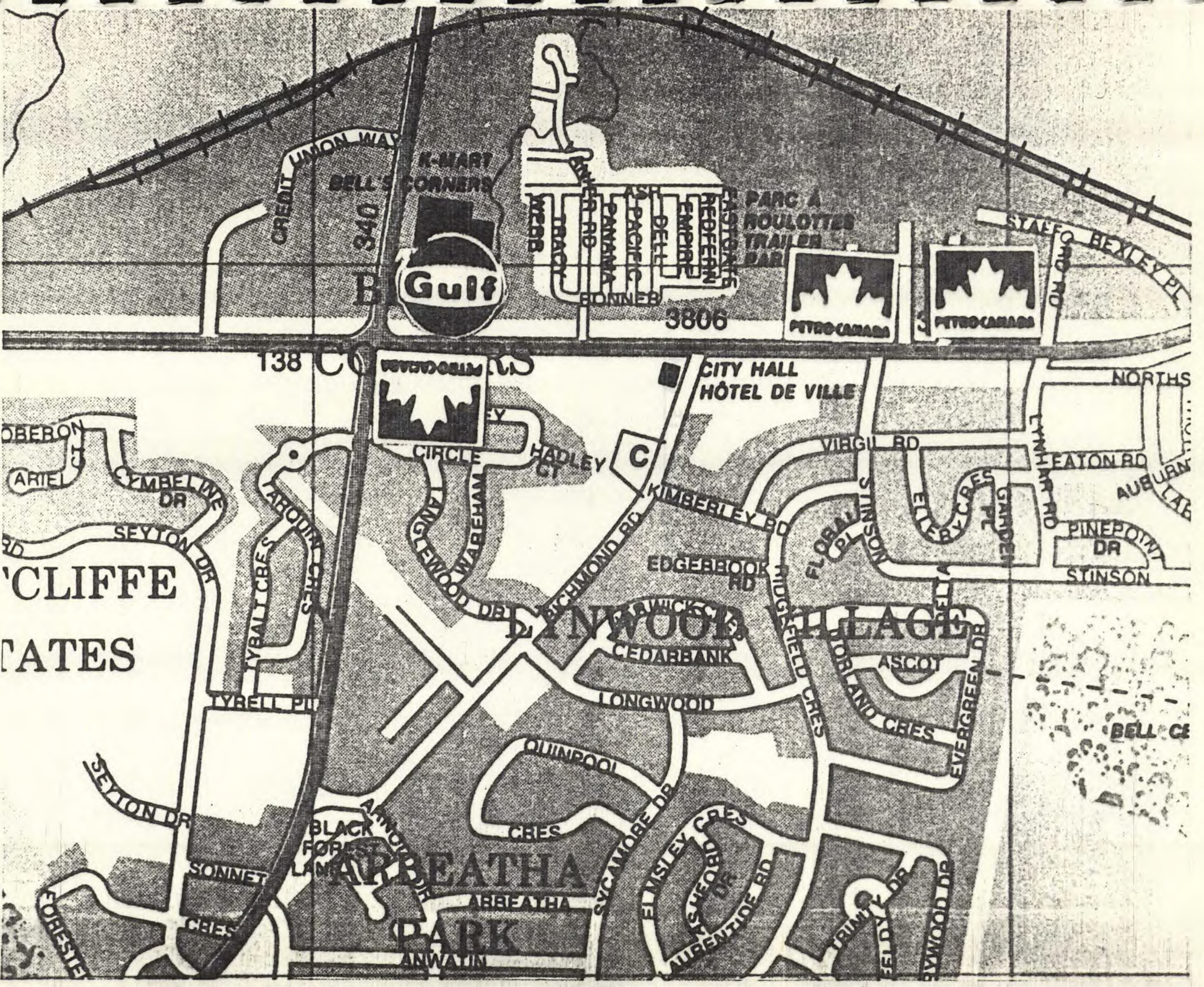
APPENDIX IV

DUPLICATION IN OTTAWA - MAPS

Map 1: Bell's Corners

Map 1: Bell's Corners

In this area, Petro-Canada already had serious duplication prior to the acquisition of Gulf. As a result of its previous acquisitions, Petro-Canada had three service stations on the same street in the space of two blocks (including two self-serves 250 feet apart). Petro-Canada has now acquired a Gulf full-serve right across the street from its existing full-serve. As a result, Petro-Canada now has four outlets within the space of several hundred feet on this short stretch of Richmond Road.

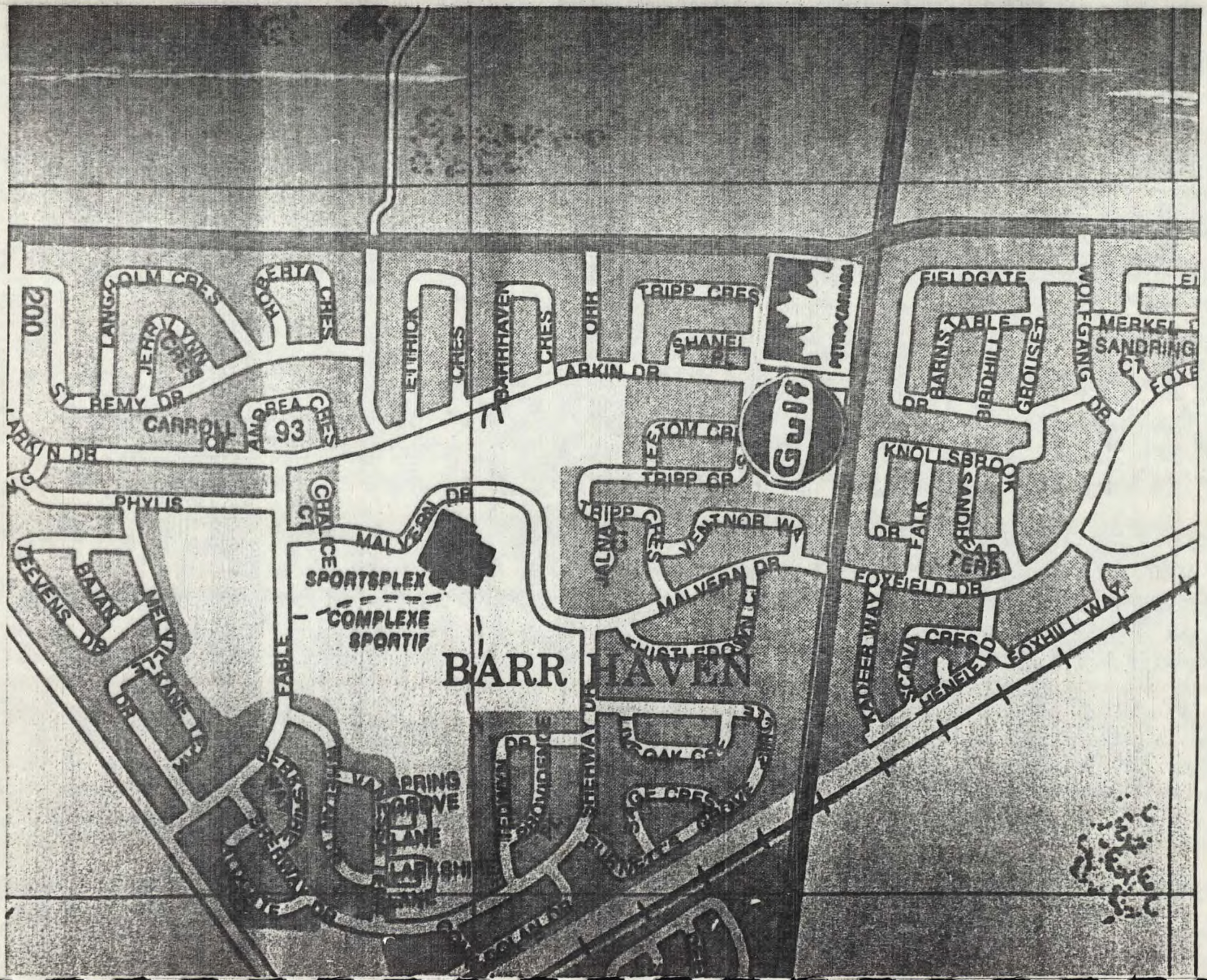


MAP 1 - BELL'S CORNERS

Map 2: Barrhaven

Map 2: Barrhaven

Prior to the Gulf acquisition, Petro-Canada operated a self-serve station at the corner of Fallowfield Road and Greenbank Road. It has now acquired the Gulf self-serve at the other end of the same block at the corner of Greenbank Road and Larkin Drive. These two stations are separated by only four other small business premises.



MAP 2 - BARRHAVEN

Maps 3 and 4: Baseline Road, Carling Avenue, Merivale Road

Maps 3 and 4: Baseline Road, Carling Avenue, Merivale Road

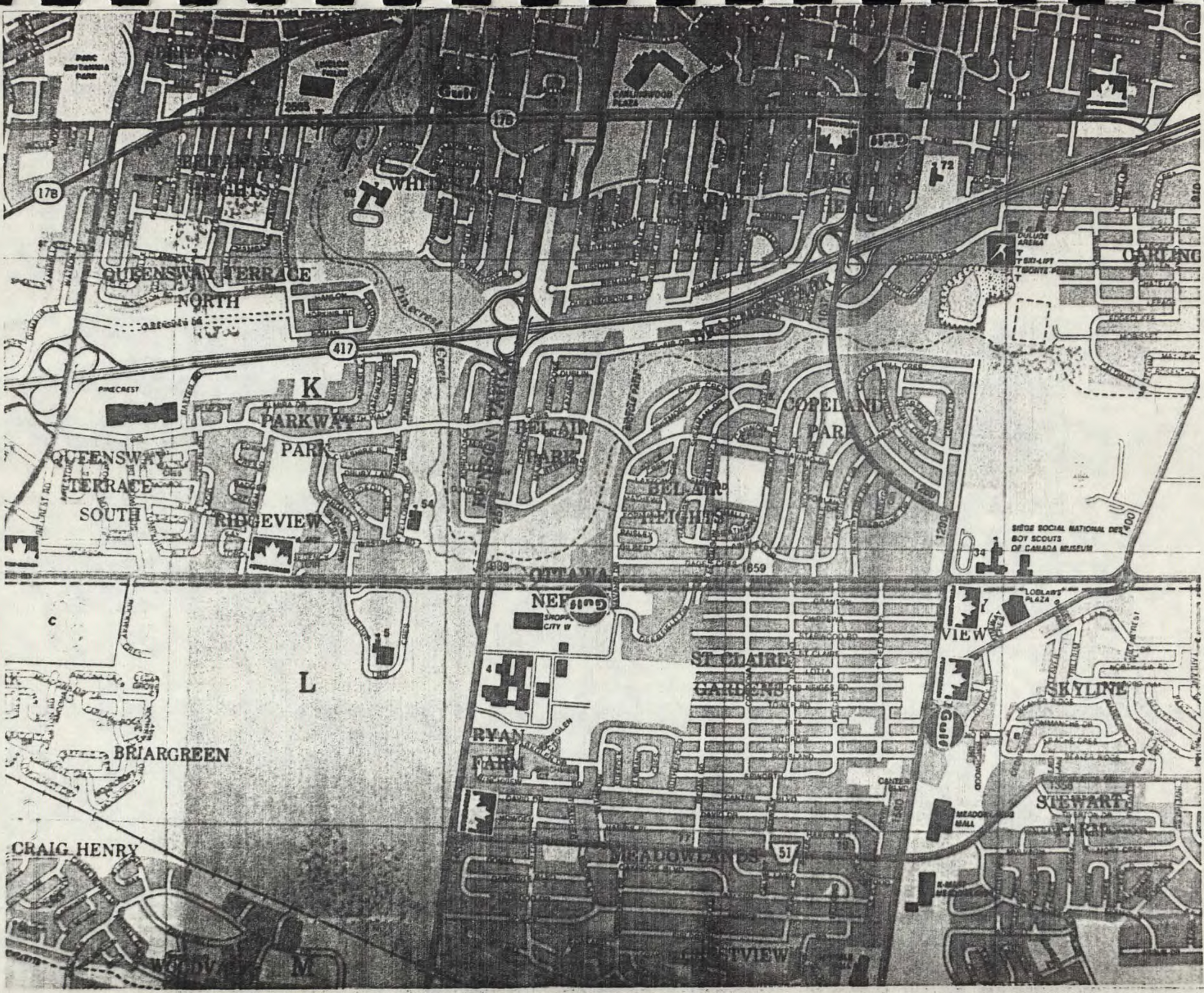
In this area, Petro-Canada had eight stations prior to acquiring Gulf. It has now acquired a further four Gulf stations. These maps graphically demonstrate that Petro-Canada had a serious duplication problem before the acquisition. Every one of the newly acquired Gulf stations duplicates an existing Petro-Canada station.

On Carling Avenue, Petro-Canada already had three stations between Bayshore Drive and Churchill. Two of these stations (both full-serve) are within three blocks of each other. It has now acquired two stations on Carling including a Gulf self-serve right across the street from a Petro-Canada full-serve at the Carling/Maitland intersection.

Driving south on Maitland Avenue, one reaches the corner of Baseline Road and Clyde Avenue where Petro-Canada already had a self-serve. A block away on the same side of the street (Clyde and Merivale), Petro-Canada had a full-serve. The Gulf acquisition gives Petro-Canada another self-serve one-half block south of this full-serve on the same side of the street.

On Baseline Road between Clyde Avenue and Greenbank Road, Petro-Canada already had three service stations (2 self-serves and 1 full-serve). Petro-Canada has now acquired a Gulf self-serve at Baseline Road and Navaho Drive, a few blocks west of their existing self-serve at Clyde and close to a Petro-Canada full-serve at Baseline and Cobden. Within a short distance on Baseline Road Petro-Canada now "conveniently" has four service stations including three self-serves.

MAP 3 - BASELINE ROAD CARLING (WEST)



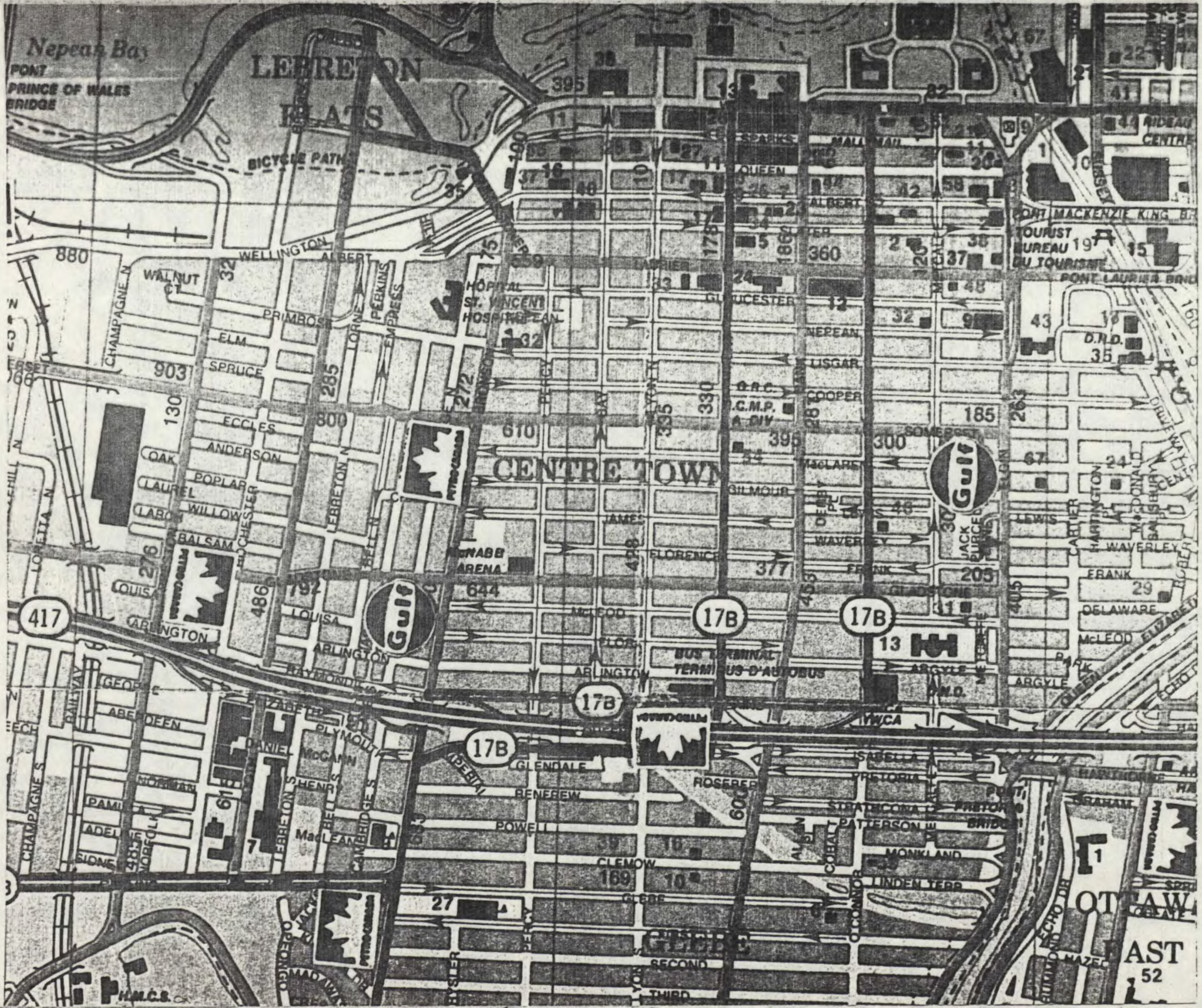
MAP 4 - BASELINE ROAD, CARLING (EAST), MERIVALE ROAD (NORTH)

Map 5: Bronson Avenue - Centre Town

Map 5: Bronson Avenue - Centre Town

Petro-Canada already had two service stations located close to one another on Bronson Avenue. At the corner of Bronson and Carling the company had a full-serve outlet,and at the corner of Somerset and Bronson there was a self-serve. The acquisition of Gulf gives Petro-Canada an additional self-serve station at Gladstone and Bronson roughly midway between the two existing Petro-Canada stations on this major artery. In the vicinity, Petro-Canada already had two other stations, both a few blocks away from the Gulf.

MAP 5 - BRONSON AVENUE-CENTRE TOWN



Map 6: Riverside Drive and Bank Street

Map 6: Riverside Drive and Bank Street

The reason for locating the Riverside Drive and Bank Street areas on the same map is to show that the stations at the Bank Street-Riverside intersection serve the public travelling on both of these main arteries.

Duplication of existing Petro-Canada stations prior to the acquisition was already substantial. This situation is further worsened by the acquisition of Gulf's outlets in the area. This area is now served by 10 stations controlled by Petro-Canada, two of which were acquired in the Gulf deal.

On Bank Street alone, in a distance of two and one-half miles between Walkley Road and Fifth Avenue, Petro-Canada already had five stations (3 self-serves and 2 full-serves). To service the same market, Gulf had one self-serve. Petro-Canada has now acquired this station to make a grand total of six on this stretch of Bank Street.

The newly acquired Gulf self-serve station at Riverside and Bank is opposite the existing Petro-Canada self-serve station on the same intersection. This certainly locks up Billings Bridge for Petro-Canada, since the company now has three stations at the ends of this three hundred foot bridge.

On Riverside Drive Petro-Canada already had a full-serve in a small plaza on Ridgewood. Petro-Canada has now acquired a Gulf full-service station one block north on Riverside Drive. In addition, this Gulf station now gives Petro-Canada one station at each end of the Hog's Back Bridge. Since these three Petro-Canada stations at Riverside serve many of the same customers as the three Billings Bridge stations, there is further duplication between these two clusters of stations.

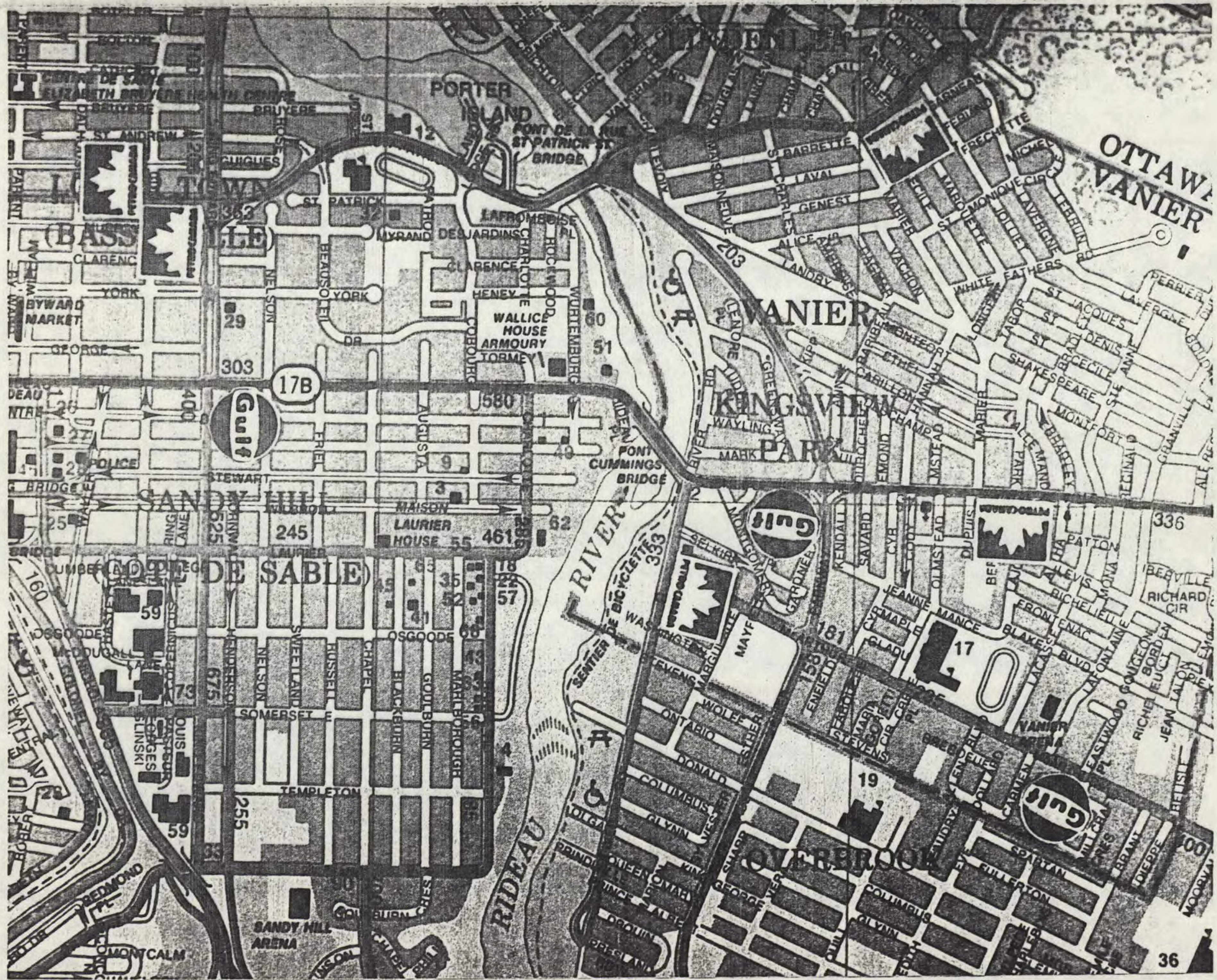
MAP 6 - RIVERSIDE DRIVE AND BANK STREET

Map 7: Lower Town and Vanier

Map 7: Lower Town and Vanier

In a radius of one and a half kilometers, Petro-Canada already had five service stations. Petro-Canada has added three Gulf service stations in this area. Petro-Canada had a full service station at King Edward and St. Patrick. One block west, there was another Petro-Canada station. It has acquired a Gulf self-serve only three blocks south at King Edward and Rideau. Moving east along Rideau Street and its extension, Montreal Road, Petro-Canada has acquired a Gulf full-service/car wash at the River Road intersection, six short blocks from a Petro-Canada self-service/car wash at Lajoie. Four blocks south of the Montreal Road/River Road intersection, Petro-Canada had a self-serve at Washington Avenue and River Road. Now, the the company has added a Gulf full-serve a short distance away at McArthur and Carmen.

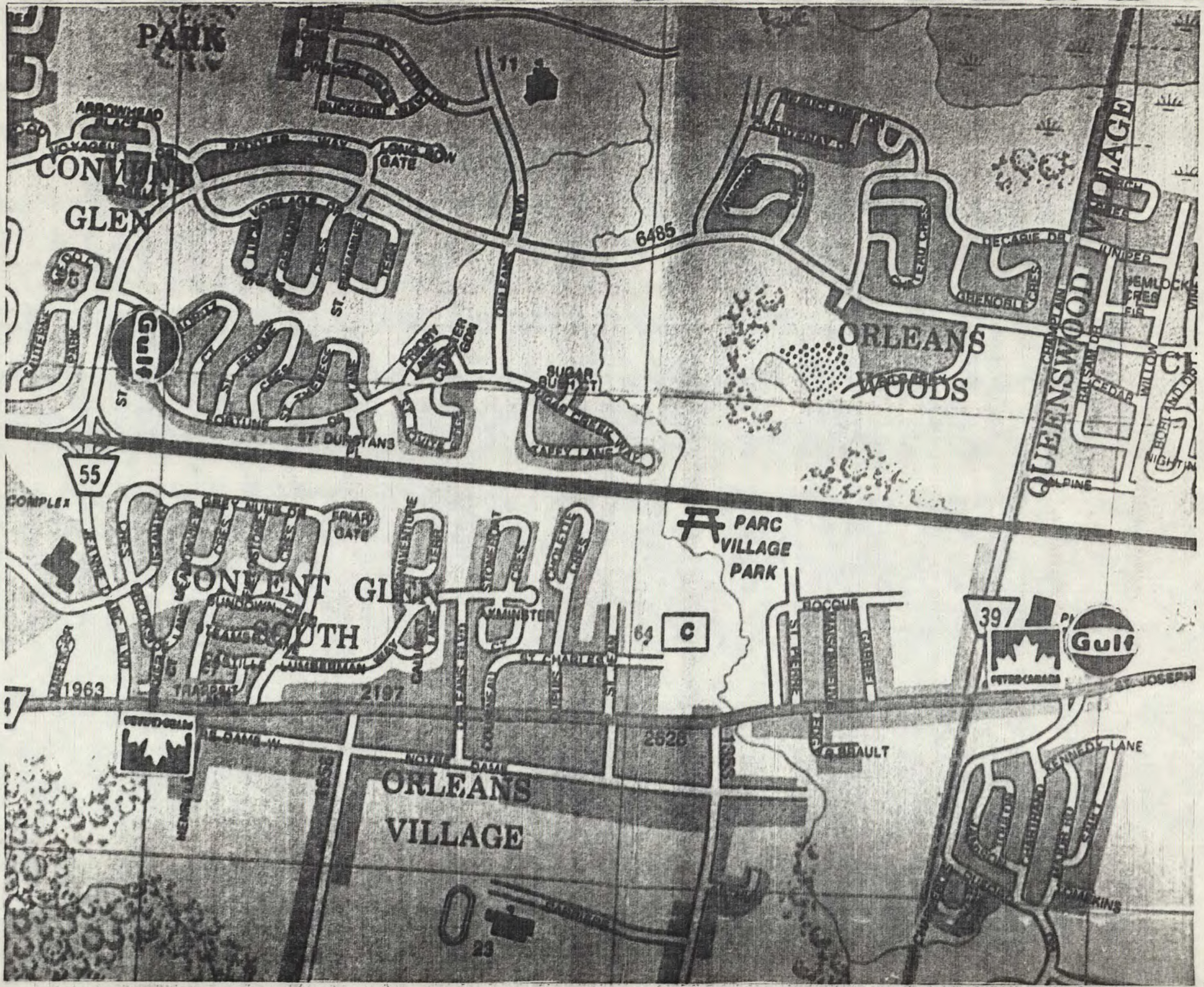
MAP 7 - LOWER TOWN AND VANIER



Map 8: Orleans

Map 8: Orleans

Prior to the acquisition Petro-Canada had two self-serves on St. Joseph Blvd. located a mile apart between Jeanne D'Arc and Champlain Streets. The company has added a Gulf self-serve/car wash a few hundred feet east of the Champlain/Street Joseph Blvd. outlet, and another Gulf self-serve at the corner of Fortune Drive and Jeanne D'Arc, only a half-mile from the Jeanne D'Arc/St. Joseph self-serve. This gives Petro-Canada four self-serves in Orleans in a radius of a mile.



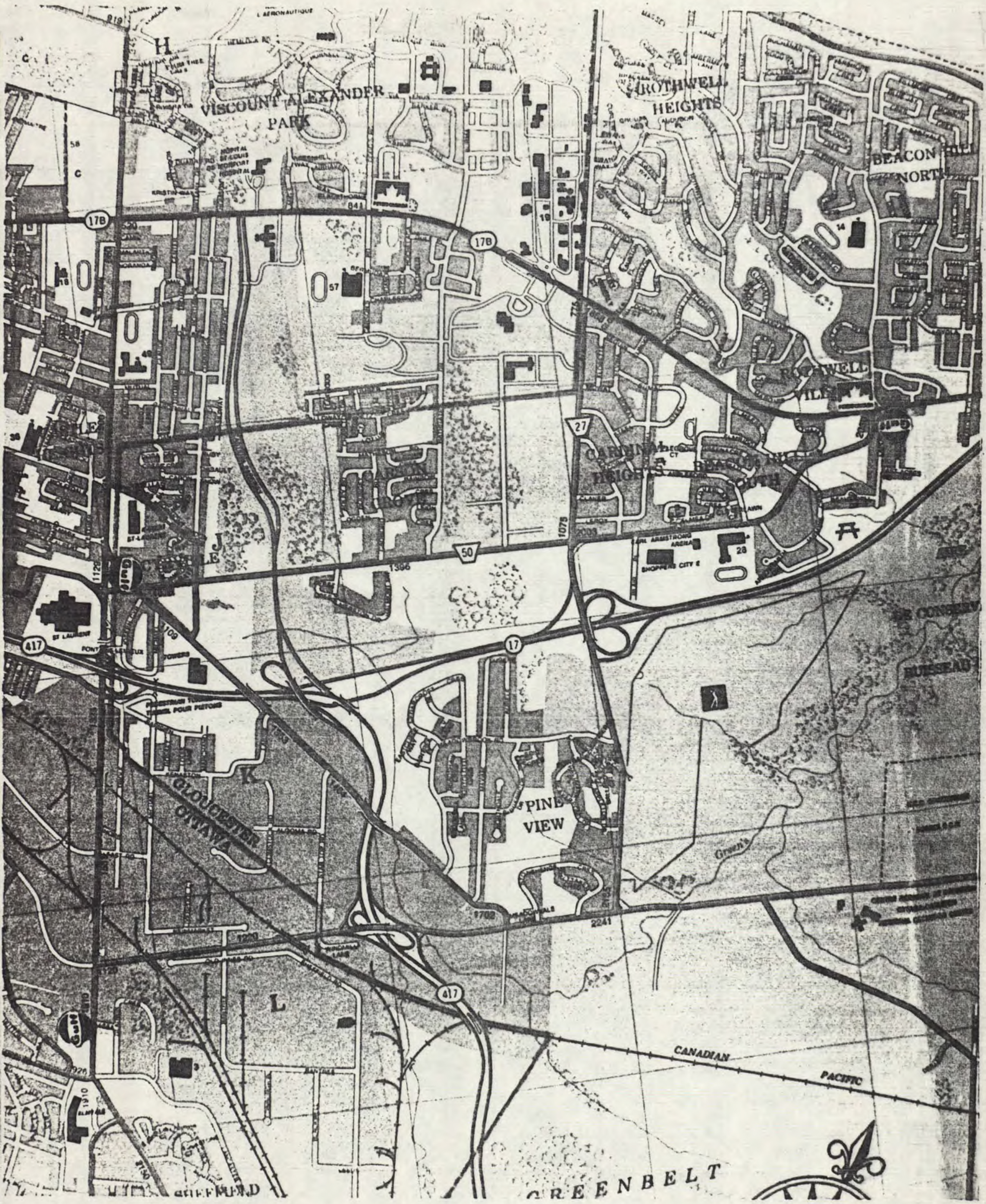
MAP 8 – ORLEANS

Map 9: Ogilvie Road, Montreal Road, St. Laurent Blvd.

Map 9: Ogilvie Road, Montreal Road, St. Laurent Blvd.

Petro-Canada already had two stations in this area (a full-serve and a self-serve). The acquisition adds 3 Gulf outlets (two self-serves and a self-serve/car wash). Within a distance of one and one-half miles on Montreal Road, between Carson Road and Ogilvie Road, Petro-Canada now controls three stations, including two self-serves across the street from each other at the intersection of Montreal and Ogilvie. In addition Petro-Canada has added the Gulf outlets on St. Laurent between Ogilvie and Bourrassa and on Ogilvie between St. Laurent and Montreal Road.

MAP 9 - OGILVIE ROAD, MONTREAL ROAD, ST-LAURENT BLVD.



APPENDIX V

WELCOME

We're at your service

How the Petro-Canada purchase of Gulf assets will work for you...

WELCOME

PETRO-CANADA ®

Gulf*

We're at your service

How the Petro-Canada purchase of Gulf assets will work for you...

® Trademark of Petro-Canada * Trademark of GULF CANADA LIMITED—Petro-Canada Inc. registered user

THE BACKGROUND

On September 30, 1985, Petro-Canada bought most of Gulf Canada's marketing and refining operations in Western Canada and Ontario. The purchase was a commercial transaction, made for sound business reasons and without one penny of taxpayers' money.

As a loyal customer, you have played a direct part in making your company, be it Petro-Canada or Gulf, highly successful. It is customer support that has made Petro-Canada and Gulf dealers rightfully proud of the high standards of service they have offered in the past. We want to thank you for that.

Our new, larger network of retailers is now united in welcoming you. We promise you that, together, we will work even harder to earn your continuing support in the years ahead, with even better value and better services at all our locations.

Petro-Canada has a proud record of achievement.

- It has recorded profits every year of its existence.
- Its earnings have sustained an investment program of one billion dollars a year over the past three years.
- This year, in the first eight months of 1985, it returned a 50 million-dollar dividend payment to the government of Canada.
- It has achieved steady increases in its share of the market year after year.
- It has become one of Canada's most active and successful exploration companies.
- It is a leader in the search for offshore and Arctic energy resources.
- It has added substantially to reserves of oil and gas in Western Canada.

THE BUILDING BLOCKS

Petro-Canada is committed to becoming the best energy company in Canada, providing customer service and satisfaction second to none. The Gulf purchase gives Petro-Canada greater balance. That balance results in added strength. That strength will support Petro-Canada's commitment to excellence, to profitability, and to energy and jobs for the people of Canada.

Balance is the key word in understanding the significance of the Gulf purchase. The addition of the Gulf assets to those of Petro-Canada has created balance in four critical areas:

Structural Balance: By strengthening its refining and retail operations, Petro-Canada has solidified a healthy commercial foundation to support its ongoing search for new Canadian oil and gas.

Regional Balance: Until now, Petro-Canada's refining and retail presence in Western Canada and in certain regions of Ontario has been small. The addition of over 1300 retail outlets in the West and 500 in Ontario means that Petro-Canada is now better equipped to serve its customers' needs in those regions.

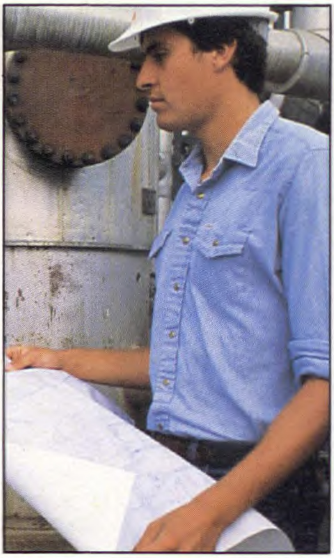
Product Balance: Thanks to the addition of Gulf products, research labs, and manufacturing facilities, Petro-Canada will now have a complete range of top-quality products and services to offer all of its customers.

Competitive Balance: The added strength it has gained in refining capabilities and retail services guarantees that Petro-Canada will be able to compete even more effectively against the major international companies in Canada's domestic marketplace.

The combination of all of these elements brings together a wealth of benefits and major improvements for all of us. Petro-Canada is now in a better position to provide more and improved services to you, its Canadian customers.

THE BENEFITS

Better Customer Service: Petro-Canada is already dedicated to providing the best customer service in the industry. Gulf dealers had a similar commitment. Now the best of both customer service policies is available under the Petro-Canada banner.



Better Facilities:
Petro-Canada now has more locations–more full-service, more self-service, more car washes, more service bays–all adding up to more convenience for you, the Petro-Canada customer.

Better Product Range:
Petro-Canada now has the quality and the technology to serve the entire industrial market with fuels, lubricants and petrochemicals.

Better Research & Development:
Petro-Canada's improved R&D capacity means better products now, and new products to meet your needs in the future.

Better Returns:
Earnings generated by Petro-Canada's retail and refining operations remain in Canada for reinvestment in Canada's future.

PERFORMANCE EFFICIENCY DEPENDABILITY

We are professionals
We know our business
We are profitable
And we're proud of the job were doing.

PETRO-CANADA ®