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Rebranding costs for private service stations and a R6bn refinery upgrade are some conditions in approved Sinopec merger with Chevron SA

The Competition Tribunal has approved the merger involving China's largest petroleum refinery owner, Hong Kong based Sinopec Corp and Chevron South Africa (CSA), owned and controlled by Chevron Global Energy Inc (CGEI), subject to a wide range of employment, investment and other public interest conditions.

Sinopec is a significant Chinese manufacturer and supplier of petroleum and petrochemical products, and is also China's largest oil refinery company and the second-largest chemicals Company in the world. CSA, incorporated in South Africa, is ultimately controlled by Chevron Corporation. CSA is active in the market for the refining and production of petroleum products at its Cape Town refinery.

In terms of the agreement SOIHL HK, owned by China Petroleum and Chemical Corporation (Sinopec), a state owned Chinese company, will acquire a 75% interest in CSA. The transaction is subject to certain contractual provisions one of which relates to a first right of refusal in favour of CSA's previously disadvantaged minority shareholders, Off The Shelf Investments Fifty-Six (RF) (Pty) Ltd ("OTS").

In order to address any potential concerns, the merging parties tendered a set of proposed conditions and the Competition Commission recommended that the Tribunal approve the proposed transaction subject to those conditions.

However, at the hearing a group of 10 Branded Marketers of CSA stated that they were dissatisfied with the proposed conditions relating to them, as well as the lack of engagement between them and the merging parties about the proposed transaction and its potential effects on them.

The Branded Marketers are independent wholesalers / distributors to whom CSA sold its wholesale / distribution business in defined territories (primarily in rural or more remote areas) several years ago and assigned to them the contracts with operators of retail service stations in such territories. The Branded Marketers are responsible for the wholesale and distribution of CSA's products to service stations in those territories in terms of CSA's so called Branded Marketer Programme.

Subsequently, the merging parties tendered further conditions relating to the post-merger engagement by Sinopec with the Branded Marketers in regard to any aspects of its evolving long term strategy for CSA that may affect the Branded Marketers. We have approved the proposed transaction subject to these conditions. Other imposed conditions relating to the Branded Marketers are that:

1. Sinopec shall also ensure that CSA will not change any of the existing contracts with the Branded Marketers that would be to the detriment of the Branded Marketers.

2. Sinopec shall ensure that CSA will bear the full costs of rebranding of certain service stations to the Sinopec brand. Sinopec will spend approximately R290 million rand to cover the cost of rebranding the 227 service stations falling under CSA's Branded Marketer Footprint that have been upgraded to the latest Caltex standards, as well as also cover the rebranding costs to the Sinopec brand for approximately 353 sites in the three large metropolitan areas (outside the Branded Marketer areas).

3. Where the existing branding of certain filling stations falling within the Branded Marketer Programme has not yet been upgraded to the latest Caltex standards, Sinopec must cover a minimum of 20% of the rebranding costs necessary in order to rebrand these service stations in line with Sinopec's branding. For approximately 254 stations that have not yet been upgraded, Sinopec shall cover a minimum of 20% of the rebranding costs at an estimated cost of R25 million.

Other conditions, as agreed to by the merging parties, which form part of the Tribunal's approval are:

1. Sinopec will establish its head office in South Africa;

2. There shall be no retrenchments as a result of the proposed transaction;

3. CSA must continue to meet any ongoing contractual obligations in terms of its retired employees;

4. Sinopec must within a period of 5 years invest R6 billion, over and above CSA's current investment plans, to develop the Western Cape refinery;

5. Sinopec shall ensure that CSA maintains a baseline number of independently owned service stations;

6. Where independently owned service stations are to be established CSA shall give preference to Small Businesses, especially Black-owned businesses;

7. CSA must increase its level of supplies of LPG to Black-owned Businesses in an amount in excess of 15%, following the expiration of current contractual arrangements;

8. Sinopec will procure that CSA shall maintain or increase the current level (as a proportion) of expenditure on local procurement of goods and services;

9. CSA must establish a development fund of approximately R215 million over a period of 5 years to support Small Businesses and Black-owned Businesses which are involved in CSA's value chain;

10. CSA shall use all reasonable endeavours to increase its current Broad Based Black Economic Empowerment scorecard rating by two levels, from level 4 to level 2 within 2 years;

11. Sinopec undertakes to procure that, over a period of 5 years, it shall increase the Broad Based Black Economic Empowerment shareholding in CSA from 25% to 29%, and retain it at no less than 29%; and

12. Sinopec will use reasonable endeavours to promote the export of South African manufactured products for sale in China.

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