Department of Justice

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THURSDAY, DECEMBER 23, 1993

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JUSTICE DEPARTMENT FILES ANTITRUST SUIT AND CONSENT DECREE IN DRESSER/BAROID PROPOSED MERGER

WASHINGTON, D.C. -- The Department of Justice's Antitrust Division today filed a civil suit to block the $900 million merger of two of the nation's largest oil field service companies on the grounds that it would drive up the cost of oil and gas exploration unless certain divestitures are required.

The Department filed the suit against Dresser Industries Inc. of Dallas and Houston-based Baroid Corporation in U.S. District Court in Washington, D.C. At the same time, the parties filed a consent decree that would settle the suit by requiring the companies to divest a complete drilling fluid business, as well as Baroid's domestic diamond drill bit business and licenses related to its worldwide diamond drill bit business. Both drilling fluids and diamond drill bits are used in drilling for crude oil and natural gas.

Anne K. Bingaman, Assistant Attorney General in charge of the Antitrust Division said, "Dresser's proposed acquisition of Baroid would seriously reduce competition for drilling fluid and would eliminate one of the world's most significant competitors.

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It would also eliminate one of only a few competitors for diamond drill bits. Unless these divestitures are required, the cost of oil and gas exploration and development in the United States is likely to increase."

Drilling fluids, which are a combination of chemical compounds, are pumped through the drill pipe to improve its function, including cooling and lubricating the drill bit and controlling downhole pressure. Diamond drill bits are attached to the end of the drill pipe and cut through the earth.

The antitrust suit alleges that the proposed transaction would substantially lessen competition in two markets--the production and sale of drilling fluids in the United States and the manufacture and sale of diamond drill bits in the United States.

In the market for drilling fluids, Dresser and Baroid are two of only three dominant competitors. Their combined sales account for over 50 percent of both the $350-$400 million domestic and the over $1 billion worldwide drilling fluid markets. In 1992, Dresser accounted for about 29 percent of domestic sales and Baroid accounted for about 22 percent.

Dresser and Baroid are also two of the five major national and international manufacturers of diamond drill bits. Total domestic sales of diamond drill bits were over $36 million in 1992, with Dresser, through its Security Division, accounting for about 13 percent of domestic sales and Baroid's wholly owned subsidiary, DB Stratabit (USA) Inc., (DBS), accounting for about 10 percent. Worldwide sales were approximately $160 million, of which the defendants accounted for over 30 percent.

The consent decree requires the defendants to divest either Dresser's or Baroid's drilling fluid business. It also requires the defendants to divest DBS's domestic assets and license its patents and other technology to a new competitor for sale of DBS diamond drill bits domestically and to a significant extent throughout the world. The consent decree would also permit the merged firm to remain as a competitor selling DBS diamond drill bits throughout the world.

Bingaman added that, "These divestitures preserve competition in two products that are essential to the continuing recovery of the U.S. oil and gas market."

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