

**Response to Issues Statement**

In response to the CMA's Issues Statement, the Parties cross-refer to their previous submissions to the CMA.

**1. Counterfactual**

- 1.1 The Merger is intended to allow the Parties to compete more effectively in the challenging market conditions prevailing since 2014. Given the current demand outlook on the UKCS (and on the North Sea), the Parties will need to [REDACTED]. Any vessel for which there is no future order backlog will be [REDACTED].
- 1.2 See further Section 3 of the Initial Submission and pages 4 and 5 of the slide deck presented at the site visit on 8 November 2019, attached as Annex 1.<sup>1</sup>

**2. Relevant Product Market**

- 2.1 On a project-by-project basis:
- (i) Customers can plan ahead to reduce or avoid the requirement for an ASV;
  - (ii) Where customers do seek to contract an ASV (having exhausted alternative options), semi-submersibles compete with some or all of jack-ups, monohulls, W2Ws and unconverted drilling rigs; and
  - (iii) Customers face a trade-off between price and effectiveness when deciding how to undertake a project – most inefficiencies (resulting in reduced gangway uptime) can be compensated by reduced day rates.
- 2.2 See further Section 4 of the Initial Submission, paragraphs 5.1-5.3, and pages 18-21 of the slide deck presented at the site visit.

**3. Relevant Geographic Market**

- 3.1 The merged entity will face an effective competitive constraint from vessels located in RoW. Mobilisation costs are not a barrier to effective competition for UKCS opportunities, and given the prevailing situation of global oversupply and the favourable stacking conditions in the North Sea region (due to less humid weather, deep-water quaysides and access to quality yards/suppliers), RoW-located vessels are incentivised to compete for any North Sea (and UKCS) contracts.

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<sup>1</sup> Please note that, as discussed at the site visit on 8 November 2019, page 13 of the presentation has been amended to clarify that the chart shows cumulative MMO months performed by a semi-submersible ASV per platform.

- 3.2 See further Section 7 of the Initial Submission and pages 27-33 of the slide deck presented at the site visit.

**4. Horizontal Theory of Harm and CMA's Data / Analysis / Evidence**

- 4.1 The CMA's theory of harm is that the Merger, by "*removing one party as a direct competitor*", may result in the merged entity increasing prices, lowering quality/customer service or reducing range or innovation.
- 4.2 The Parties submit that following the collapse in oil prices in 2014, oil and gas companies have fundamentally changed aspects of their operating models and there is a corresponding permanent, structural reduction in demand on the UKCS and North Sea. To the (reduced) extent that UKCS projects are proceeding, customers will seek to avoid contracting ASVs wherever possible.
- 4.3 The Parties have produced their own best estimate of future North Sea demand for semi-submersible ASVs based on feedback from their customers. This forecast indicates possible future demand of [REDACTED]. This level of future demand is therefore sufficient to justify [REDACTED]. As explained above in paragraph 1.1, vessels with no future order backlog will be [REDACTED] to compete for the small number of future opportunities on the UKCS.
- 4.4 In light of the recent shift in demand, the CMA will not obtain any meaningful insights in this case from retrospective evidence, including from the Parties' historical internal documents (strategic, accounting-related, commercial or otherwise) or historical bidding data. Rather, in order to inform its assessment, the CMA must speak directly to relevant UKCS customers in order to verify the Parties' demand forecast (as well as the alternatives available to customers for future projects and the competitive constraint posed by other vessels). In doing so it is important that the CMA asks UKCS customers to provide expected requirements for semi-submersible ASVs on a best estimate basis, and probes beyond speculative possibilities or initial preferences. It is also important that the CMA speaks to informed individuals (likely to be at the executive rather than procurement level).
- 4.5 See further Sections 2, 3 and 4 of the Initial Submission and pages 23-25 and 32 of the slide deck presented at the site visit.