

Completed acquisition by CHC Group LLC of Offshore Helicopter Services UK Limited, Offshore Services Australasia Pty Ltd, and Offshore Helicopter Services Denmark A/S

Summary of the CMA's decision on relevant merger situation and substantial lessening of competition

ME/6932/21

SUMMARY

1. On 31 August 2021, CHC Group LLC (**CHC**) purchased the entire issued share capital of Offshore Helicopter Services UK Limited¹ (**Babcock Offshore UK**), Offshore Services Australasia Pty Ltd² (**Babcock Offshore Australia**) and Offshore Helicopter Services Denmark A/S³ (**Babcock Offshore Denmark**), (together, the **Fisher Business**) from Babcock International Group plc (**Babcock**) (the **Merger**). CHC and the Fisher Business are referred to as the **Parties** and, for statements referring to the future, as the **Merged Entity**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of CHC and the Fisher Business is an enterprise; that these enterprises have ceased to be distinct as a result of the Merger; and that the turnover test is met. The four-month period for a decision has not yet expired. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
3. The Parties overlap in the supply of helicopter services to transport crews to and from offshore oil and gas (**O&G**) platforms (**O&G Offshore Transportation Services**) in the UK.
4. As part of its counterfactual assessment, the CMA investigated whether the Fisher Business would have exited the market absent the Merger. Whilst Babcock has given serious consideration to closing the Fisher Business since

¹ Company number 04278474; previously named Babcock Mission Critical Services Offshore Limited and renamed on 16 September 2021.

² Australian company number 141024606; previously named Babcock Offshore Services Australasia Pty and renamed on 22 September 2021.

³ CVR number 41526211; previously named Babcock Denmark A/S and renamed on 1 September 2021.

2017, the available evidence indicates that exit was only one of several different options being considered by Babcock at the time when CHC approached it about a possible acquisition of the Fisher Business. As such, the CMA has not seen compelling evidence that the Fisher Business would have exited the market absent the Merger.

5. As part of its counterfactual assessment, the CMA also considered whether the Fisher Business is a diminished competitive force because of a 'manage for value' strategy that was implemented following a strategic review of the business by Babcock. However, the CMA found that the evidence on whether the manage for value strategy had a significant impact on competition between the Parties in the UK is mixed: while the Fisher Business sought to focus on contribution to cost rather than operating profit and limiting additional investment, the CMA has also seen evidence from a variety of sources indicating that the Fisher Business is continuing to compete in the market and is still an important constraint on CHC and other competitors. As such, given the counterfactual focuses only on significant changes (not related to the Merger) affecting competition between the merging firms, the CMA assessed the Merger against the pre-Merger conditions of competition and has taken account of the impact of the manage for value strategy in its competitive assessment.
6. The Parties overlap in the supply of O&G Offshore Transportation Services in the UK. The CMA found that suppliers capable of providing Search and Rescue (**SAR**) services should not form part of the frame of reference for the competitive assessment based on a lack of supply-side and demand-side substitutability. The CMA considered that the product scope should not be segmented by helicopter type, as the majority of customers told the CMA they could use more than one helicopter type for their requirements and all suppliers in the UK operate a range of helicopter types. The CMA also found that all current UK suppliers are able to bid and win contracts across the UK with their respective helicopter offerings. The CMA therefore assessed the impact of the Merger in the supply of O&G Offshore Transportation Services in the UK.
7. In order to assess the likelihood of the Merger resulting in horizontal unilateral effects, the CMA considered evidence relating to the current market structure, tender data, the impact of Babcock's manage for value strategy, the competitive constraint provided by other UK suppliers and the prospect of potential entry. The CMA found the Merger raises significant competition concerns as a result of horizontal unilateral effects in the UK supply of O&G Offshore Transportation Services, in particular for the following reasons:

- (a) The supply of UK O&G Offshore Transportation Services is relatively undifferentiated and concentrated, with only four suppliers (the Parties, Bristow and NHV) (**the incumbents**). The Parties' combined share of supply post-Merger is high, indicating that the Parties are likely to pose an important competitive constraint on one another.
 - (b) Tender data shows significant competitive interaction between all four incumbents, including the Parties. Babcock Offshore UK and CHC frequently bid against each other; CHC has lost a number of contracts to Babcock Offshore UK; and where Babcock Offshore UK wins, CHC often comes second. The tender data, the Parties' internal documents and evidence from third parties show that the Parties pose an important competitive constraint on one another, and the majority of customers have expressed concerns in relation to the Merger.
 - (c) The evidence available to the CMA indicates that Babcock Offshore UK is continuing to bid for contracts, despite adopting a 'manage for value' strategy. Although the evidence suggests that Babcock Offshore UK is cautious about investments and selective about what contracts it bids for, the other incumbents also do not bid for all contracts. The CMA considers that Babcock Offshore UK's internal strategic documents refer to increasing market share and growing the UK business, suggesting that it is an active competitor. The majority of third parties have not identified Babcock Offshore UK as a weak competitor because of its current strategy, nor have they generally identified a change in Babcock Offshore UK's strength as a competitor.
 - (d) Whilst both Bristow and NHV provide a constraint on the Parties, this is not sufficient to prevent a realistic prospect of a substantial lessening of competition given the level of concentration in the market. There are only four suppliers bidding for contracts and not every supplier bids for every opportunity. On average, there are only three bidders per tender as a result of all suppliers bidding somewhat selectively.
 - (e) The evidence gathered to date indicates that the threat of entry does not act as a material competitive constraint on the current incumbent UK suppliers of O&G Offshore Transportation Services.
8. The CMA believes barriers to entry are high in the supply of O&G Offshore Transportation Services. The CMA has not seen evidence of entry that would be timely, likely and sufficient in response to the Merger. As such, the CMA believes that entry or expansion would not be sufficient to prevent a realistic

prospect of a substantial lessening of competition (**SLC**) as a result of the Merger.

9. The CMA therefore believes that the Merger gives rise to a realistic prospect of a SLC as a result of horizontal unilateral effects in the supply of O&G Offshore Transportation Services in the UK.
10. The CMA is therefore considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (the **Act**). CHC has until 25 November 2021 to offer an undertaking to the CMA that might be accepted by the CMA. If no such undertaking is offered, then the CMA will refer the Merger pursuant to sections 22(1) and 34ZA(2) of the Act.