

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

Summary of final report

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Overview of our final report

1. The Competition and Markets Authority (**CMA**) has found that the merger between CHC Group LLC (**CHC**) and certain operations (together referred to as the **Fisher Business**¹) previously owned by Babcock International Group plc (**Babcock**) would result in a substantial lessening of competition (**SLC**) in oil and gas (**O&G**) Offshore Transportation Services in the UK. As a result, customers (the operators of oil rigs and platforms in the North Sea) may experience higher prices or a deterioration in service.
2. We have decided that the only effective way to address the competition issues would be for CHC to sell the Offshore UK business to a suitable buyer.

Who are the businesses and what services do they provide?

3. CHC and the Fisher Business both provide UK O&G Offshore Transportation Services, operating helicopter services to transport crew to and from oil and gas platforms in the North Sea.

¹ The Fisher Business consists of Offshore Helicopter Services UK Limited (**Offshore UK**), Offshore Services Australasia Pty Ltd (**Offshore Australia**) and Offshore Helicopter Services Denmark A/S (**Offshore Denmark**).

4. CHC operates helicopter services in various countries. Its worldwide turnover in 2020 was approximately £608 million, of which approximately £118 million was generated in the UK.
5. The Fisher Business, owned by Babcock before completion of the Merger, operates O&G Offshore Transportation Services internationally, with **Offshore UK** acting as its UK arm. The turnover of the Fisher Business in 2020 was approximately £147 million worldwide, of which approximately £102 million was generated by Offshore UK in the UK. CHC, Babcock and the Fisher Business together are referred to as the **Parties**, and CHC and the Fisher Business together are referred to as the **Merged Entity**.

What evidence have we looked at?

6. In assessing this Merger, we looked at a wide range of evidence that we considered in the round to reach our findings.
7. We received several submissions and responses to information requests from the Parties and held hearings with each of CHC, Babcock and the Fisher Business. We gathered information about tenders which had been run for UK O&G Offshore Transportation Services since 2017, including who bid for these tenders, who won and how other participants were ranked. We also examined the Parties' own internal documents, which show how they run their businesses and how they view their rivals in the ordinary course of business. These internal documents were also helpful in understanding the Parties' plans for the future of their businesses.
8. We spoke to and gathered evidence from other companies to understand better the competitive landscape, and to get their views on the impact of the Merger. In particular, we received evidence from the following:
 - Oil and gas companies who were customers of the Parties.
 - The other suppliers of helicopter services in this market.
 - Lessors of helicopters.
 - Participants in related markets (such as Search and Rescue services and providing transportation services for offshore windfarms, or from overseas O&G transportation operations) who potentially might consider entering the O&G Offshore Transportation Services market.
9. We also considered evidence from the Parties and third parties received during the CMA's phase 1 investigation into the Merger.

10. In March we published the provisional findings from phase 2 together with our initial thoughts on what actions would be required to address the substantial loss of competition we had provisionally found. We invited and received comments from the Parties and other interested companies and organisations, and had further discussions with CHC and the Fisher Business about remedies options.

What did this evidence tell us...

...about what would have happened had the Merger not taken place?

11. In order to determine the impact that the Merger may have on competition, we have considered what would have happened had the Merger not taken place. This is known as the counterfactual.
12. The Parties told us there was no other likely buyer, and Babcock would have closed down the business.
13. We looked at the financial position of the Fisher Business and at Babcock's internal documents for evidence of Babcock's intention and incentives to close down the business. The evidence shows that closing down the business was only one of several options that Babcock had considered with regard to the Fisher Business.
14. While the Fisher Business was not performing well at the time of the Merger, this performance could have improved in the future; the costs of closure prior to the expiry of its current customer contracts were substantial and the Fisher Business was continuing to make contributions to Babcock's overhead costs. Babcock therefore had a strong incentive to continue operating the business, unless it was able to find an alternative buyer. We do not consider it likely that Babcock would have closed the Fisher Business prior to the expiry of its current customer contracts.
15. We conclude therefore that if the Merger had not happened, the most likely counterfactual is that the Fisher Business would have continued to operate in the relevant market in the short to medium-term, including tendering for new contracts. This could either have happened under Babcock's ownership, or with the Fisher Business having been sold to an alternative buyer.
16. After the March Provisional Findings, we considered CHC's submissions as to its role in the market absent the Merger. We conclude that CHC had various options available to it, and pursuing alternative options would most likely have resulted in CHC continuing to compete in broadly the same way it was doing before the Merger.

... about the effects of the Merger?

17. We have looked at whether the Merger would lead to a significant reduction in competition between CHC, the Fisher Business and their competitors by removing an important competitor and, in doing so, allow the Merged Entity to worsen or not improve its offering (such as price or service quality) compared to the situation if the Merger did not take place.
18. Babcock told us that it was following a 'manage for value' strategy for the Fisher Business until it could be sold, which reduced the effectiveness of the Fisher Business as a competitor in the market.
19. We consider that there are only four effective suppliers in the market (each of CHC, Offshore UK, Bristow and NHV) and that the alternatives outside these competitors are significantly weaker options. Our view is that CHC and Offshore UK impose an important competitive constraint on one another that would be lost as a result of the Merger.
20. This constraint has not been undermined by Babcock's manage for value strategy: the evidence shows that Offshore UK remains an effective competitor, and the loss of this competitor would significantly reduce the already very limited pool of alternatives available to customers, reducing their ability to play-off suppliers against each other and weakening their buyer power.
21. While Bristow and NHV are effective competitors, our view is that the aggregate constraint from these two suppliers would not be sufficient to offset the substantial loss of competition from the Merger.
22. We therefore conclude that the competitive impact of losing Offshore UK as a competitor in UK O&G Offshore Transportation is substantial.

... about any countervailing factors?

23. We considered whether there are any actions which customers and/or potential entrants could take to mitigate this SLC.
24. We looked at the barriers to entering the market, including: the requirements associated with leasing aircraft; costs of modifying helicopters used in other related markets; constraints and costs of obtaining facilities and bases; and regulatory requirements particularly since Brexit. We conclude that the costs to set up a full new UK infrastructure are significant.
25. We looked at the likelihood of potential entry and expansion of suppliers in the market. Our view is that the combination of a decline in the industry to date,

an unclear path to recovery of the O&G market, alongside low margins and significant barriers to entry, means that it is unlikely that new entrants will be looking to enter the market in response to the Merger or that there will be significant expansion of suppliers in the market.

26. Further, businesses which were suggested to us as potential entrants have made clear to us that they are not interested in entering the UK O&G Offshore Transportation Services market. This is the case based both on the current market conditions, and with consideration of other scenarios (eg increased prices/profitability) that may prompt entry.
27. We looked at whether customers could support new entry or self-supply, which may aid buyer power, and which could prevent an SLC. However, based on the evidence we have obtained from third parties, we are of the view that entry, including customer sponsored entry or self-supply, is not a likely scenario.
28. We therefore conclude that countervailing factors would not be likely to prevent an SLC from arising.

Conclusions on the SLC

29. For the reasons above, we conclude that the Merger would result in an SLC in the supply of UK O&G Offshore Transportation Services.

What must be done to remedy the SLC we have found?

30. We considered different options for CHC to sell off all or part of the UK operations of the Fisher Business (Offshore UK), and whether they would be effective at replacing the competition lost by the Merger, requirements for a suitable purchaser for the business to be sold, and the process that should be followed to sell the business.
31. We have decided that only divestiture of Offshore UK to a suitable purchaser would be an effective remedy to address the SLC and the harm it would cause to competition, and that requiring this would not be disproportionate. A suitable purchaser therefore must be found which meets criteria we have described in our report.

What happens next?

32. The CMA will now take steps to implement the remedies described above, and will consult publicly on the approach to be taken.

33. In line with guidance, the CMA will implement its remedy decision within 12 weeks of publication of the final report. The CMA may extend this time period once by up to six weeks.