

# Anticipated acquisition by Baker Hughes Nederland Holdings B.V. of Oz MidCo AS (Altus Intervention)

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

ME/7007/22

### SUMMARY

1. On 18 March 2022, Baker Hughes Nederland Holdings B.V. (**BH**) agreed to acquire Oz MidCo AS and its subsidiaries that include Altus Intervention AS (**Altus**) (the **Merger**). BH and Altus are together referred to as the **Parties**, and for statements relating to the future, the **Merged Entity**.
2. The Competition and Markets Authority (CMA) believes that it is or may be the case that each of BH and Altus is an enterprise that these enterprises will cease to be distinct as a result of the Merger; and that the share of supply test is met. Accordingly, arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation
3. Both Baker Hughes and Altus supply various well intervention services in the UK, including to operators active on the UK continental shelf. Well intervention services are essential services used by oil and gas operators to manage well production, provide well diagnostics and modify a well's state or configuration. The Parties overlap in the supply in the UK of a range of well intervention services, including:
  - (a) coiled tubing services (**CT**), which involve the supply of a long flexible pipe used to convey fluids, tools or gases into deviated or horizontal wells; and

- (b) standalone pumping services (**Pumping**), which involve the delivery of gases or liquids into the well;<sup>1</sup>
4. Separately, the Parties also overlap in the following:
- (a) pipeline services (**Pipeline**),<sup>2</sup> which are services provided on newly constructed or existing pipeline facilities; and
- (b) process services (**Process**), which are services provided on non-pipeline equipment (together **PPS**).<sup>3</sup>
5. There is also a vertical relationship between the Parties' activities, with BH supplying tools, through its Sondex brand (**Sondex**), to its competitors in the supply of cased hole wireline services (**CHWL**), including Altus and others. UK CHWL suppliers use Sondex tools to supply different CHWL services, namely e-line services (**e-line**), where both Parties compete, and slickline services (**slickline**),<sup>4</sup> in which Altus is present in the UK but BH is not.
6. The CMA has assessed the impact of the Merger in relation to the services in which the Parties overlap, using the following frames of reference: (i) the supply of CT in the UK; (ii) the supply of Pumping in the UK; (iii) the supply of Pipeline in the UK; and (iv) the supply of Process in the UK.
7. The CMA has found that the geographic frame of reference is the UK part of the North Sea including onshore UK (**UK**) for CT, Pumping, Pipeline and Process and that it would not be appropriate to widen to include the **non-UK part of the North Sea** (or beyond), given the importance to UK customers of having UK-based suppliers and the difficulties in moving staff and equipment by suppliers from the UK to the non-UK part of the North Sea or vice versa.
8. The CMA has found that the Merger raises significant competition concerns as a result of horizontal unilateral effects in the (i) supply of CT in the UK; and (ii) supply of Pumping in the UK.
9. In relation to the supply of CT in the UK, the CMA has found that the supply of CT in the UK is highly concentrated. The Parties are the two largest suppliers and have held a very high combined share in the supply of CT in the UK in the last three years. The Merged Entity would be the main supplier of CT, being twice the size of any other competitor. The evidence available to the CMA

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<sup>1</sup> Pumping services can be provided as standalone or as an ancillary service with CT.

<sup>2</sup> These include filling, cleaning, gauging, isolating, pressure testing, dewatering drying or chemically conditioning a pipeline.

<sup>3</sup> Non-pipeline equipment is for example processing facilities on offshore oil- and gas platforms, refineries, petrochemical plants and gas processing plants.

<sup>4</sup> CHWL involves services in completed or 'cased' wells', specifically: i) e-line, which uses an electric cable; and ii) slickline, which uses a non-electric steel cable, for the maintenance of a well.

indicates that the Parties are the closest competitors in the supply of CT in the UK and that the Merger would remove a strong competitive constraint on each of the Parties. The CMA found that, other than Halliburton, which poses the main constraint on the Parties, other suppliers such as Well Services Group and Schlumberger do not pose a material competitive constraint on the Parties.

10. In relation to the supply of Pumping in the UK, the CMA found that the supply of Pumping in the UK is highly concentrated. The Parties are two of the three largest suppliers and have held a very high combined share in the supply of Pumping in the UK in the last three years. The Merged Entity would be the main supplier of Pumping in the UK, being seven times the size of any other competitor. The evidence considered by the CMA shows that the Parties are very close competitors in the supply of Pumping in the UK and that the Merger would remove a strong competitive constraint on each of the Parties. After the Merger, Halliburton would be the main competitor to the Parties in the supply of Pumping in the UK, with IKM and other smaller suppliers posing only a much weaker constraint.
11. The CMA found that entry and/or expansion is not likely to be timely and sufficient to offset the effects of the substantial reduction of competition resulting from the Merger in the supply of CT and Pumping in the UK.
12. The CMA therefore believes that the Merger gives rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in the (i) supply of CT in the UK; and the (ii) supply of Pumping in the UK.
13. The CMA found that the Merger does not raise competition concerns in: (i) the supply of Pipeline in the UK; and (ii) the supply of Process in the UK. In both of these markets, the CMA found that the combined share of the Parties is moderate. The CMA also found that, while the Parties compete against each other, they are not particularly close competitors. There are other competitors that compete at least as closely with the Parties as the Parties with each other. The Merged Entity will continue to be constrained by (at least) IKM, Halliburton and EnerMech, all of which impose a strong competitive constraint on the Parties.
14. The CMA also considered whether the Merged Entity might foreclose its rivals in the supply of e-line and slickline in the UK, by restricting access to CHWL tools.
15. The CMA did not find competition concerns in relation to the vertical effects of the Merger. The CMA considers that the Merged Entity is unlikely to have the ability to foreclose downstream rivals in the supply of CHWL in the UK. The

Merged Entity does not appear to hold upstream market power, in relation to the supply of CHWL tools to UK customers, because downstream rivals could switch to several alternative suppliers (with some rivals self-supplying these tools at present). At most, the Merged Entity only has the ability to foreclose a small number of its CHWL rivals in relation to limited number of tools.

16. Even if the Merged Entity had the ability to foreclose certain customers (ie those that do not currently self-supply CHWL tools and have a large stock of BH's CHWL tools), any harm to these suppliers would likely be limited. These suppliers have a limited market position (some of the most significant competitors to the Merged Entity self-supply CHWL tools so would be largely unaffected by any attempted foreclosure strategy). On this basis, the CMA does not believe that the foreclosure of these rivals would substantially lessen overall competition in the downstream market.
17. The CMA is therefore considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (the **Act**). The Parties have until 29 November 2022 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 33(1) and 34ZA(2) of the Act.