

SUMMARY

OVERVIEW OF THE CMA'S DECISION

1. The CMA has found that the acquisition by Schlumberger Limited (**SLB**) of ChampionX Corporation (**ChampionX**), gives rise to a realistic prospect of a substantial lessening of competition (**SLC**) in the supply of production chemical technologies (**PCTs**) to oil and gas exploration, development and production (**E&P**) companies as a result of horizontal unilateral effects; and in the supply of (i) directional drilling services using rotary steerable systems (**RSS**), and (ii) permanent downhole gauges (**PDGs**), in both cases as a result of vertical effects.
2. SLB has agreed to acquire ChampionX pursuant to an agreement entered into on 2 April 2024 for a purchase price of US\$7.8 billion. The CMA refers to this acquisition as the **Merger**. SLB and ChampionX are together referred to as the **Parties** and, for statements relating to the future, the **Merged Entity**.
3. As the CMA has found that the Merger gives rise to a realistic prospect of an SLC, the Parties have until 3 April 2025 to offer undertakings in lieu of a reference (**UILs**) to the CMA that will remedy the competition concerns identified. If no such undertakings are offered, then the CMA will refer the Merger pursuant to sections 33(1) and 34ZA(2) of the Enterprise Act 2002 (the **Act**).

Who are the businesses and what products/services do they provide?

4. The Parties are global players, publicly listed in the United States (**US**), that supply oilfield services, equipment and related technologies to E&P companies as well as other oilfield services providers worldwide. Both Parties have significant operations (including assets) used to supply E&P companies in the UK North Sea.
5. The products that the CMA looked at in detail were:
 - (a) PCTs: PCTs are chemical products used, among other things, to (i) ensure flow assurance; (ii) maintain asset integrity; (iii) optimise production; and (iv) manage water treatment during the production of crude oil and natural gas. Both Parties are active in the supply of PCTs.
 - (b) Poly-crystalline diamond (**PCD**) bearings: Bearings allow for the relative movement or rotation of the directional drilling equipment. PCD bearings are

particularly well-suited for operating under harsh conditions, such as the conditions in the UK North Sea, and last longer than other types of bearings. ChampionX, through its subsidiary US Synthetic Corporation (**US Synthetic**), is active in the supply of PCD bearings.

- (c) Directional drilling services using RSS: Bearings, including PCD bearings, are used in RSS, which are a form of drilling technology used to enhance the precision and efficiency of directional drilling operations, particularly in complex environments where precise control of the well path is required. SLB is active in the supply of RSS as part of its directional drilling services.
- (d) Quartz pressure sensors (**QPSs**) and transducers: Sensors, including QPSs, are used in oilfield applications to collect data and monitor certain downhole conditions (eg temperature and pressure). QPSs are typically used for high-value assets in offshore areas and are known for their robustness and accuracy in harsh downhole environments. The transducer is the entire assembly required to produce the output signals that can be read by a computer. ChampionX, through its Quartzdyne business, is active in the supply of transducers incorporating QPSs (**Quartz Transducers**).
- (e) PDGs: PDGs incorporate sensors/transducers, and are used primarily as part of well completions (ie the process of making a well ready for production) to measure certain downhole data, such as pressure and temperature. Quartz technology in PDGs allows for more accurate data measurement, faster transmission, higher resolution of information and greater long-term reliability. SLB is active in the supply of PDGs.

Why did the CMA review this merger?

6. The CMA's primary duty is to seek to promote competition for the benefit of consumers. It has a duty to investigate mergers that could raise competition concerns in the UK, provided it has jurisdiction to do so. In this case, the CMA has concluded that it has jurisdiction to review this Merger as a relevant merger situation has been created: SLB and ChampionX are each an enterprise that will cease to be distinct as a result of the Merger, and the share of supply test is met. The products supplied by SLB and Champion X are important inputs for E&P operators in the UK North Sea.

What evidence has the CMA looked at?

7. In assessing this Merger, the CMA has considered a wide range of evidence in the round.

8. The CMA received several submissions and responses to information requests from the Parties. This included information about the nature of the Parties' businesses, their bidding data, and the constraint from other suppliers.
9. The CMA also examined the Parties' internal documents, which show how they run their businesses, as well as how they view their rivals and the markets they operate in.
10. The CMA also spoke to and gathered evidence from the Parties' customers and competitors to get a better understanding of the competitive landscape and customers' requirements and purchasing patterns, as well as to get their views on the impact of the Merger.

What did the evidence tell the CMA...

...about the effects on competition of the Merger?

11. The CMA looked at whether the Merger would lead to a substantial lessening in competition as a result of:
 - (a) reduced competition in the supply of PCTs to E&P companies in the UK (horizontal unilateral effects);
 - (b) whether SLB could harm the competitiveness of other suppliers of directional drilling services using RSS in the UK by limiting their access to PCD bearings (foreclosure of RSS suppliers); and
 - (c) whether SLB could harm the competitiveness of other suppliers of PDGs in the UK by limiting their access to Quartz Transducers (foreclosure of PDG suppliers).

Theory of Harm 1: Horizontal unilateral effects in the supply of PCTs to E&P companies in the UK

12. The CMA considers that the Merger gives rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in the supply of PCTs to E&P companies in the UK. In particular:
 - (a) The Parties had a combined share of supply of [60–70]% with an increment of [10–20]% in the supply of PCTs in the UK in 2023. The Merged Entity would be the largest supplier of PCTs in the UK by a large margin, with more than double the share of the next largest player. The CMA considers that the market for PCTs is already highly concentrated and that the Parties are close competitors, together with Baker Hughes and Clariant accounting for [90–100]% of the supply of PCTs in the UK. The Merger would combine the

largest supplier of specialty chemicals (ChampionX), with one of the few other suppliers of specialty chemicals (SLB), and the largest supplier of commodity chemicals in the UK (SLB) with one of the few other material suppliers of commodity chemicals (ChampionX).

- (b) Although the Parties' bidding data indicates that there is a degree of differentiation between the Parties, the CMA considers that in the context of a highly concentrated market, the overlap in bidding between the Parties is nevertheless material, and in any event, bidding data may not capture the full extent of competition between the Parties.
- (c) The Parties' internal documents show that they regularly identify and monitor each other as one of very few credible competitors in the supply of PCTs in the UK, with ChampionX frequently identified as a market leader both globally and in the UK.
- (d) Third-party evidence indicates that the Parties compete closely in the commodity chemical segment of the PCT market. In the specialty chemical segment, despite not being ChampionX's closest competitor, SLB exerts a material competitive constraint on Champion X. Third-party evidence confirmed that the Parties, Baker Hughes and Clariant are the only significant suppliers of PCTs in the UK (including in both segments).

Theory of Harm 2: Input foreclosure in the supply of directional drilling services using RSS in the UK

13. The CMA considers that the Merger gives rise to a realistic prospect of an SLC as a result of input foreclosure in the supply of directional drilling services using RSS in the UK. In particular:
- (a) With regard to the Merged Entity's ability to harm the competitiveness of its downstream rivals, the CMA considers that ChampionX (through its subsidiary, US Synthetic) has market power in the supply of PCD bearings as the global market leader (with a global share of [90–100]% in the supply of PCD bearings in 2023). The CMA also considers that PCD bearings are an important input, seen by third parties as critical elements in RSS tools and are used widely in the UK. The CMA considered various foreclosure mechanisms through which the Merged Entity may be able to harm its downstream rivals, as well as whether competition could be harmed by the flow of commercially sensitive information (**CSI**) from SLB's rivals to the Merged Entity (given ChampionX's role as their PCD bearing supplier).
 - (b) With regard to the Merged Entity's incentive to foreclose rivals, the CMA considers that, given SLB's strong position and successful downstream offering, and the Merged Entity's strong ability to foreclose, the gains in

downstream sales are likely to outweigh any losses of upstream sales, which are likely to be limited given the lack of effective alternatives to ChampionX.

- (c) With regard to the effects of any potential foreclosure, the CMA considers that SLB is the largest directional drilling services supplier in the UK, in a concentrated market comprising only four suppliers. As such, the firms that could be foreclosed play an important role in the competitive process in the downstream market and a foreclosure strategy would significantly harm overall competition.

Theory of Harm 3: Input foreclosure in the supply of PDGs in the UK

14. The CMA considers that the Merger gives rise to a realistic prospect of an SLC as a result of input foreclosure in the supply of PDGs in the UK. In particular:

- (a) With regard to the Merged Entity's ability to harm the competitiveness of its downstream rivals, the CMA considers that ChampionX (through its Quartzdyne business) has market power in the supply of Quartz Transducers for use in PDGs in the UK as the global market leader (with a global share of [90–100]% in the supply of Quartz Transducers in 2023). The CMA also considers that Quartz Transducers are an important input, are seen by third parties as the industry standard and are used widely in the UK. The CMA considered various foreclosure mechanisms through which the Merged Entity may be able to harm its downstream rivals, as well as whether competition could be harmed by the flow of CSI from SLB's rivals to the Merged Entity (given ChampionX's role as their Quartz Transducer supplier).
- (b) With regard to the Merged Entity's incentive to foreclose rivals, the CMA considers that, given SLB's strong position and successful downstream offering, and the Merged Entity's strong ability to foreclose, the gains in downstream sales are likely to outweigh any losses of upstream sales, which are likely to be limited given the lack of effective alternatives to ChampionX.
- (c) With regard to the effects of any potential foreclosure, the CMA considers that SLB is the largest PDG supplier in the UK, in a concentrated market comprising only three suppliers. As such the firms that could be foreclosed play an important role in the competitive process in the downstream market and a foreclosure strategy would significantly harm overall competition.

What happens next?

15. As a result of these concerns, the CMA believes the Merger gives rise to a realistic prospect of SLCs as a result of (i) horizontal unilateral effects in the supply of PCTs to E&P companies in the UK; (ii) input foreclosure in the supply of directional

drilling services using RSS in the UK; and (iii) input foreclosure in the supply of PDGs in the UK.

16. The Parties have until 3 April 2025 to offer undertakings which might be accepted by the CMA to address the SLCs. If no such undertakings are offered, or the CMA decides that any undertaking offered is insufficient to remedy its concerns to the phase 1 standard, then the CMA will refer the Merger for an in-depth phase 2 investigation pursuant to sections 33(1) and 34ZA(2) of the Act.