



Statement of Issues

23 October 2015

Halliburton Company – proposed acquisition of Baker Hughes Incorporated

Purpose

1. The purpose of this Statement of Issues is to:
 - give the Australian Competition and Consumer Commission's (**ACCC's**) preliminary views on competition issues arising from Halliburton Company's (**Halliburton's**) proposed acquisition of Baker Hughes Incorporated (**Baker Hughes**)
 - identify areas of further inquiry
 - give all interested parties an opportunity to comment
 - invite interested parties to submit information to assist us in our assessment of the issues.

Overview of the ACCC's preliminary views

Introduction

2. This Statement of Issues outlines competition concerns arising from the proposed acquisition in multiple markets.
3. Halliburton and Baker Hughes offer goods and services across a broad range of oilfield products, in many countries around the world. Oilfield services comprise products which are acquired to facilitate the exploration for and production of oil and gas. The merger parties are close competitors across a large number goods and services in Australia.
4. Based on total annual revenues, Schlumberger Limited (**Schlumberger**) is the largest global and Australian oilfield services provider. The merger parties—Halliburton and Baker Hughes—are currently the second and third largest providers both globally and in Australia. Market participants often use the term 'the big three' to describe Schlumberger, Halliburton and Baker Hughes.
5. In Australia, oilfield services are provided both onshore and offshore to Exploration and Production customers (**E&Ps**), and across a number of different basins with differing geological characteristics. Consequently, the ACCC is considering a number of different markets and a number of concerns across the range of goods and services supplied in Australia.

6. An important feature of oilfield services markets in Australia is the competitive advantages that the major global suppliers have relative to smaller competitors and potential entrants.
7. These advantages include economies of scope and scale; significant industry experience, particularly on complex projects, which has led to strong customer relationships and established reputations; and large research and development (R&D) and innovation expenditures keeping them at the forefront of technological developments.
8. The ACCC's preliminary view is that there are strong risks of unilateral and coordinated effects arising from the proposed acquisition. The advantages the merged firm and Schlumberger would have suggest that post-acquisition they are not likely to face strong competitive constraints from rivals or entrants in a number of markets.

Preliminary views

9. The legal test which the ACCC applies in considering the proposed acquisition is in section 50 of the *Competition and Consumer Act 2010*. Section 50 prohibits acquisitions that substantially lessen competition in a market, or are likely to do so.
10. The ACCC divides its preliminary views into two categories, 'issues of concern', and 'issues that may raise concerns.'
11. The geographic scope of all markets referred to below is Australia.

Issues of concern

- *The ACCC has identified issues of concern through unilateral effects in the supply of oilfield services to offshore drilling projects, in separate product markets as identified in **Annexure 1**.*
- *The ACCC has identified issues of concern through unilateral effects in a market for the provision of integrated oilfield services for all drilling projects in Australia.*
- *The ACCC has identified issues of concern in the supply of oilfield services for all drilling projects in Australia through coordinated effects.*

Issues that may raise concerns

- *The ACCC has identified issues that may raise concerns through unilateral effects in the supply of oilfield services to onshore drilling projects, in separate product markets as identified in **Annexure 2**.*

Making a submission

12. The ACCC is seeking submissions from interested parties, particularly on the following key issues:
 - The likelihood the proposed acquisition will lead to higher prices or reduced service in any market in Australia as a result of unilateral or coordinated effects.

- The capacity and capability of existing suppliers or new entrants to supply the range of products necessary to compete effectively for the supply of integrated services.
 - The presence of market conditions which may or may not facilitate coordinated conduct to the detriment of customers.
 - The availability of effective alternative suppliers either in Australia or overseas, for each product which the merger parties supply.
13. Detailed discussion of these and other issues, along with specific questions, is contained in this Statement of Issues.
 14. Interested parties should provide submissions by no later than 5pm on 12 November 2015. Responses may be emailed to mergers@acc.gov.au with the title: Submission re: Halliburton's proposed acquisition of Baker Hughes - attention Kate Reader and George Cunningham. If you would like to discuss the matter with ACCC officers over the telephone or in person, or have any questions about this Statement of Issues, please contact Kate Reader on (02) 9230 3822 or George Cunningham on (02) 9230 9138.
 15. The ACCC anticipates making a final decision on 17 December 2015, however, this timeline can change. To keep abreast of possible changes in relation to timing and to find relevant documents, interested parties should visit the Mergers Register on the ACCC's website at www.accc.gov.au/mergersregister.

Confidentiality of submissions

16. The ACCC will not publish submissions regarding the proposed acquisition. We will not disclose submissions to third parties (except our advisors/consultants) unless compelled by law (for example, under freedom of information legislation or during court proceedings) or in accordance with s155AAA of the *Competition and Consumer Act 2010*. Where the ACCC is required to disclose confidential information, the ACCC will notify you in advance where possible so that you may have an opportunity to be heard. Therefore, if the information provided to the ACCC is of a confidential nature, please indicate as such. Our [Informal Merger Review Process Guidelines](#) contain more information.

About ACCC 'Statements of Issues'

17. A Statement of Issues published by the ACCC is not a final decision about a proposed acquisition, but provides the ACCC's preliminary views, drawing attention to particular issues of varying degrees of competition concern, as well as identifying the lines of further inquiry that the ACCC wishes to undertake.
18. A Statement of Issues provides an opportunity for all interested parties (including customers, competitors, shareholders and other stakeholders) to ascertain and consider the primary issues identified by the ACCC. It is also intended to provide the merger parties and other interested parties with the basis for making further submissions should they consider it necessary.

Timeline

Date	Event
21 April 2015	ACCC commenced review of the proposed acquisition
23 October	ACCC publication of statement of issues
12 November	Deadline for submissions from interested parties in response to this Statement of Issues
17 December	Anticipated date for ACCC final decision

The parties

Halliburton

19. Listed on the New York Stock Exchange (HAL) and based in Houston, Texas, Halliburton is one of the world's largest providers of goods and services to the energy industry, operating in over 80 countries. It serves the upstream oil and gas industry throughout the lifecycle of a reservoir.
20. Halliburton has been operating in Australia for over 50 years. It has facilities in every Australian state (except Tasmania) and the Northern Territory through 16 bases and offices which support onshore and offshore projects. These facilities are used to provide distribution, servicing, staging, testing and repair services.
21. Halliburton's calendar-year 2014 revenues from Australian operations were in excess of US\$400 million.¹ Halliburton's total calendar-year 2014 revenues from its global operations were in excess of US\$32 billion.²

Baker Hughes

22. Also listed on the NYSE (BHI) and based in Houston, Texas, Baker Hughes is a large global supplier of oilfield services, products, technology and systems to the oil and natural gas industry, operating in over 80 countries. It helps customers find, evaluate, drill, produce, transport and process hydrocarbon resources.
23. Baker Hughes has been operating in Australia for almost 50 years. It has a presence in every Australian state except New South Wales and Tasmania and has a presence in the Northern Territory. For example, it owns drilling and evaluation centres in Western Australia and South Australia, operates a fleet of remote maintenance units to support remote locations, and operates chemical blending facilities in Victoria.
24. Baker Hughes' calendar-year 2014 revenues from Australian operations were in excess of US\$300 million.³ Baker Hughes's total calendar-year 2014 revenues from its global operations were in excess of US\$24 billion.⁴

¹ <http://clients1.ibisworld.com.au/reports/au/enterprisepremium/financials.aspx?entid=12860>.

² Halliburton, *2014 Annual Report*, p. 1.

The proposed transaction

25. On 16 November 2014, Halliburton agreed to acquire all of the shares in Baker Hughes, with completion then expected to occur in the second half of 2015. The global merger is valued at approximately US\$34.6 billion and is conditional on the parties obtaining regulatory approvals.
26. Halliburton will pay a fee of US\$3.5 billion if the transaction terminates due to a failure to obtain required antitrust approvals. The press release of November 2014 noted that Halliburton agreed to divest businesses that generate up to US\$7.5 billion in revenues, if required by regulators.⁵
27. On 7 April 2015, Halliburton announced that it proposed to sell the following businesses:⁶
 - Fixed Cutter and Roller Cone Drill Bits
 - Directional Drilling, and
 - Logging-While-Drilling (**LWD**) / Measurement-While-Drilling (**MWD**).
28. Subsequently on 28 September 2015, Halliburton and Baker Hughes announced they proposed to also separately sell further businesses:⁷
 - Halliburton's expandable liner hangers business, which is part of the company's Completion and Production Division
 - Baker Hughes' core completions business, which includes: packers, flow control tools, subsurface safety systems, intelligent well systems, permanent monitoring, sand control tools and sand control screens
 - Baker Hughes sand control business in the Gulf of Mexico, including two pressure pumping vessels
 - Baker Hughes offshore cementing businesses in Australia, Brazil, the Gulf of Mexico, Norway and the United Kingdom.
29. The ACCC has not had any engagement with the merger parties about whether divestitures are necessary or whether the divestitures proposed would remedy any competition concerns, whether pursuant to a court enforceable undertaking or otherwise. The ACCC further understands, as stated in the merger parties' 28 September 2015 announcement, that there is no agreement with any other competition authority as to the adequacy of the proposed divestitures.

³ <http://clients1.ibisworld.com.au/reports/au/enterprise/full/financials.aspx?entid=218>

⁴ Baker Hughes, 2014 Annual Report, p. 2.

⁵ See, Halliburton.

http://www.halliburton.com/public/news/pubsdata/press_release/2014/HAL-BHI-Joint-Announcement-Press-Release.pdf

⁶ See, Halliburton.

http://www.halliburton.com/public/news/pubsdata/press_release/2015/halliburton-to-separately-market-for-sale-its-drill-bits.html

⁷ See, Halliburton.

http://www.halliburton.com/public/news/pubsdata/press_release/2015/Halliburton-BakerHughes-announce-additional-divestiture.html

Review by other competition agencies

30. The proposed acquisition is currently being considered by competition authorities in a number of jurisdictions, including in the US, the European Union, India and China.

Other relevant companies

Oilfield services providers

31. The oilfield services industry is a global one with a large range of suppliers from large global companies (in revenue and product terms), such as the merger parties, to more specialised competitors. This section discusses briefly a few relevant competitors to the merger parties in Australia.

Schlumberger

32. Schlumberger is the largest supplier globally of goods and services to the international oil and gas exploration and production industry. The company has over 80 years' experience in the industry and employs approximately 108,000 people in more than 85 countries.⁸
33. Schlumberger supplies a wide range of goods and services in competition with the merger parties both globally and in Australia. The company's Australian operations are headquartered in Perth.
34. In 2014, Schlumberger's global revenue was over US\$48 billion.⁹

Weatherford International Ltd (Weatherford)

35. Weatherford is a global provider of equipment and services used in the drilling, evaluation, completion, production and intervention of oil and gas wells. Based in Houston, Texas, Weatherford employs over 55,000 people across 100 countries.¹⁰ In Australia, Weatherford has facilities in Perth and Brisbane.
36. Weatherford had global revenues in 2014 of over US\$14 billion.¹¹

Other

37. Other large global oilfield services providers operating in Australia include the following.
- National Oilwell Varco (**NOV**) is a Houston, Texas based company operating in three product segments: rig systems, wellbore technologies and completion and production solutions.¹² NOV had global revenues of US\$21 billion in 2014.¹³

⁸ Schlumberger, *2014 Annual Report*, p. 1.

⁹ Schlumberger, *2014 Annual Report*, p. 2.

¹⁰ Weatherford, *2014 Annual Report*, pp. 30–31.

¹¹ Weatherford, *2014 Annual Report*, p. 15.

¹² National Oilwell Varco, *2014 Annual Report*, pp. 1–2.

¹³ National Oilwell Varco, *2014 Annual Report*, p. 2.

- GE Oil & Gas forms part of the General Electric Company, an American multinational conglomerate based in Fairfield, Connecticut. GE Oil and Gas operates across exploration and production and extends to downstream activities. In 2014, GE Oil and Gas had global revenues of over US\$18 billion and approximately 45,000 employees worldwide.¹⁴
- Superior Energy Services (**Superior**) is a specialised oilfield services and equipment company.. Superior had global revenues of over US\$4.5 billion in 2014 and has over 14,000 employees worldwide.¹⁵
- Trican Well Services (**Trican**) is a global oilfield services company with a focus on pressure pumping services but also offering other services including completion tools. Trican earned global revenues of C\$2.7 billion in 2014.¹⁶

Customers

38. The merger parties typically provide their goods and services to oil and gas E&Ps. As with oilfield services providers, oil and gas E&Ps range in size from large multi-nationals to more specialised companies.
39. Large multi-national E&Ps operating in Australia include Royal Dutch Shell, ConocoPhillips, Sinopec, PetroChina, ExxonMobil, Chevron, BP and BG Group. Large Australian-based E&Ps include Woodside, Quadrant Energy, Santos, Origin and BHP. There are also local E&Ps operating around Australia, such as Beach Energy and Senex.

Industry background

Oil and gas industries in Australia

40. There are oil and gas drilling projects across large parts of Australia and in diverse locations including offshore Western Australia, and onshore in the Cooper Basin in central Australia. Gas resources are more significant than oil resources in Australia.
41. Offshore oil and gas wells can be drilled in a variety of environments, from deep water to shelf. Onshore wells can similarly be drilled in a range of environments; for example shallow coal seam gas (**CSG**) wells, deeper tight gas, or conventional oil and gas wells.
42. The gas industry in Australia has seen significant expansion over the past 10–15 years. In that period, new liquefied natural gas (**LNG**) plants have been constructed, or are being constructed, on both the east and west coasts. In Queensland, one LNG project recently began full production while another two are nearing completion. On the west coast, the North West Shelf, Darwin and Pluto LNG facilities have been producing for some time while another four facilities (Gorgon, Prelude, Wheatstone and Ichthys) are under construction.

¹⁴ General Electric, *2014 FORM 10-K*, p. 31.

¹⁵ Superior Energy Services, *2014 Annual Report*, pp. 4, 6.

¹⁶ Trican Well Services, *2014 Annual Report*, p. 2.

43. However, over the past 12 months, the prices of oil and gas have declined significantly. The ACCC understands that E&Ps in Australia have significantly reduced their drilling activity as a consequence.

Oilfield services

44. Oilfield services companies provide services to the oil and gas industries but do not typically produce oil or gas themselves.
45. E&Ps acquire oilfield services to allow them to explore new areas for future production and bring wells to production.
46. The goods and services offered by both Halliburton and Baker Hughes are structured around the two key phases in the lifecycle of a well:
- Drilling and Evaluation (**D&E**), and
 - Completion and Production (**C&P**).
47. The goods and services supplied for use in the D&E phase may include drilling rigs, drill bits and drilling fluids as well as tools and services which enable the modelling, measurement and optimisation of well construction activities.
48. The goods and services supplied in the C&P phase may include cementing and completion equipment and services, maintenance services, artificial lift and coiled tubing services. Consumables, parts and valves are also typically required as part of the production phase.

Customer tendering and contracting practices

49. E&Ps often acquire oilfield services through competitive tendering. The ACCC understands customers typically engage in a multi-step process as follows:
- A list of candidate suppliers is developed and provided with an invitation to tender.
 - A two-stage assessment follows:
 - Technical assessment—where suppliers are assessed for their ability to deliver the good or service to the technical specifications of the customer.
 - Commercial assessment—where technically compliant tenders are assessed and compared for risk, price, quality, service etc.
 - A shortlist of tenderers is developed and a competitive process is carried out before the supplier is selected and terms and conditions are negotiated.
50. The ACCC understands contracts are typically for two to three years duration, although they may be longer. The contracting of services varies depending on the project characteristics. For example, an offshore drilling project may have less than 10 wells planned but each might be highly complex. The ACCC understands the general practice is for customers to retain a selected supplier for the life of the project.

51. On the other hand, an onshore CSG project might involve hundreds of shallow, non-complex wells. Onshore drilling E&Ps regularly utilise ‘call out’ suppliers at short notice. Onshore customers typically have a primary service provider for the bulk of the goods and services. A secondary supplier may be called upon when a good or service is required and the primary provider is unable to provide it.
52. The ACCC would welcome further information about the coverage (e.g. price terms) and flexibility of contracts, including the ability to switch suppliers, during the life of both offshore and onshore projects.
53. Customers may also elect to award contracts directly to suppliers without a tender process. This may be necessary where there are short project timeframes or a specific technology is required.

Future with and without the acquisition

54. The ACCC considers the effects of a proposed acquisition by comparing the likely future competitive environment post-acquisition (the ‘with’ position), to the likely competitive environment if the acquisition does not proceed (the ‘without’ position). The ACCC compares the with and without positions to determine whether the proposed acquisition is likely to substantially lessen competition.
55. The ACCC’s current assessment is based on the future *without* being the ‘status quo’. In this scenario, Halliburton and Baker Hughes remain independent competitors.
56. Notwithstanding the announcements by Halliburton and Baker Hughes that they are intending to sell certain businesses, the ACCC’s current assessment is based on the future *with* the proposed acquisition being the combination of Halliburton and Baker Hughes in their entirety.

Market Definition

57. The purpose of market definition is to establish the relevant field of inquiry for merger analysis. It is rarely possible to draw a clear line around the market boundaries, particularly where competition is multi-faceted as in this matter.
58. The ACCC does not expect its assessment of this matter to turn on market definition. Rather, the focus of the ACCC’s review has been on the likely competitive constraints the merged firm would face.
59. The ACCC’s starting point involves identifying the products actually or potentially supplied by the merger parties, and the areas of overlap. The ACCC then considers what other products are sufficiently close substitutes to provide a meaningful source of constraint on the merged firm.

Areas of overlap

60. The ‘big three’ oilfield services providers, and to a lesser extent Weatherford, offer a large number and range of projects to E&Ps.
61. **Table 1** below identifies specific projects in respect of which the ACCC understands the merger parties overlap in Australia.

Table 1: Overlapping products

Drilling and Evaluation	Completion and Production
<ul style="list-style-type: none"> • Consulting • Coring • Drill Bits – Fixed* • Drill Bits – Roller* • Drilling – Directional* • Drilling – LWD/MWD* • Completion fluids • Drilling fluids • Software • Solids Control and Waste Management • Surface Data Logging • Wireline – Cased Hole • Wireline – Open Hole 	<ul style="list-style-type: none"> • Cementing* • Coiled Tubing • Hydraulic Fracturing and Acidizing • Tubing Conveyed Perforating • Completions – Well Construction* • Completions – Core Completions* • Completions – Well Bore Intervention • Completions – Multi-Stage Fracturing

*The ACCC understands Halliburton and / or Baker Hughes proposes that all or part of these businesses will be sold to third parties as outlined in paragraphs 27 and 28 above.

62. The extent of the overlap between the merger parties differs in each of these products.
63. The ACCC understands from market inquiries that post-acquisition, Halliburton would be the largest supplier in Australia of a number of different products.
64. The ACCC also understands the merger parties offer certain products in other markets but do not overlap in Australia at present.

Markets for individual products and services

65. The ACCC understands that competition often occurs by good or service category. The ACCC is considering separate markets for the 21 good and service categories identified in **Table 1**. For functional reasons, E&Ps are not able to substitute one good or service for another.
66. Tendering is often conducted on the basis of these good and service categories. The ACCC understands that suppliers also typically structure business units in line with, or on a very similar basis to, **Table 1**. Suppliers of a certain category cannot easily switch production into an alternative category, in response to a small increase in price. This is because there are specialised production processes, R&D, training and expertise required.
67. The ACCC is exploring the boundaries of these individual product markets further, including whether a broader approach to market definition may be appropriate, and invites submissions from market participants on this issue.

Market for integrated services

68. Based on market feedback, the ACCC’s preliminary view is that in addition to individual product markets, there is a market for integrated services in Australia. The ACCC understands that there is a range of tendering and supply behaviours evident in oilfield services. The ACCC has received feedback that integrated services involve the provision of a package of goods and services, with the oilfield service provider also offering some form of coordination or managed delivery of these products across the package of goods and services provided.

69. The ACCC understands that there is a spectrum of integration.
70. The more sophisticated end of the spectrum is where an oilfield services provider provides project management for a project as a separate service which the ACCC understands is generally referred to as 'Integrated Project Management' or 'Integrated Services'. While the ACCC understands that the merger parties do not currently supply project management as a separate service line to any Australian projects, the ACCC understands that project management is provided by the merger parties in other markets¹⁷.
71. Market feedback suggests that the Australian market may be moving away from contracts for individual products and towards broader packages including Integrated Project Management or Integrated Services, and that some oilfield service providers are actively providing services of this kind to Australian E&Ps.
72. Another form of integration is where oilfield service providers offer price discounts across a package of goods and/or services, together with some form of service or project coordination. Coordination ensures the delivery of several goods and services is efficient and harmonised, which can benefit E&Ps. Market feedback indicates that some form of co-ordination maybe offered by providers where E&Ps purchase a number of products or services.
73. While the ACCC is considering this market across all projects in Australia, market feedback suggests that customers are more likely to demand a more sophisticated package of oilfield services for complex projects (such as deepwater¹⁸ or high pressure, high temperature (HPHT)¹⁹ projects). The ACCC has also not ruled out the possibility there are separate markets for integrated services for onshore and offshore drilling projects.
74. The ACCC's preliminary view is that there is a market for integrated services which is not limited to project management supplied as an additional service line. However the ACCC notes that it has received mixed feedback in this respect and would welcome further information regarding the extent to which integrated or coordinated services are currently offered, or expected to be offered in the future.
75. Integrated services are discussed in more detail at paragraph 104 below.

Offshore and onshore drilling projects

76. The ACCC considers that substitution possibilities, and thus competitive constraints, can also depend on whether the customer requires oilfield services for offshore or onshore drilling projects. Thus, the ACCC proposes to further define markets for onshore and offshore drilling.

¹⁷ <http://www.bakerhughes.com/products-and-services/integrated-operations/integrated-services>
http://www.halliburton.com/en-US_solutions_public/ps/workflow-integration/default.page?node-id=hgjyd48l

¹⁸ See for example, Schlumberger, *Oilfield Glossary*, accessed 30 September 2015.

http://www.glossary.oilfield.slb.com/en/Terms/d/deepwater_play.aspx

¹⁹ In the UK, high pressure, high temperature (HPHT) is defined as pore pressures of at least 0.8psi/ft and / or temperatures in excess of 149 degrees Celsius.

See for example, Schlumberger, *Oilfield Glossary*, accessed 24 September 2015.

<http://www.glossary.oilfield.slb.com/en/Terms/h/hpht.aspx>

77. The ACCC understands that equipment is typically not substituted between the two environments. Onshore equipment is typically not suitable for offshore requirements and vice versa. However, there may be some tools or equipment which are useful for both onshore and offshore projects. In addition, as discussed in more detail below the ACCC understands that offshore projects are associated with greater risks than onshore projects, which may have an impact on substitution possibilities. The ACCC is exploring these issues further.
78. In addition, the ACCC considers that the substitution possibilities available to customers in the Cooper Basin are different to those available to customers in other onshore locations. This is because the Cooper Basin has geological characteristics more complex than other onshore operations and is more remote than most onshore basins. The ACCC proposes to treat the Cooper Basin as a segment of the onshore market.

Geographic market

79. The merger parties are global entities with operations in a number of countries. Market inquiries indicate that the parties are able to move assets from country to country in response to demand and supply imbalances.
80. There are therefore global dimensions to competition that are relevant to the ACCC's assessment of the proposed acquisition. Nevertheless, the ACCC considers that the geographic dimension of all the relevant product markets is Australia-wide for the reasons below.
81. Initial market feedback indicates that, in relation to Australian projects, E&Ps seek and award tenders to oilfield services providers who have a physical presence in Australia. There are different oil and gas basins around Australia and oilfield services providers often have support infrastructure proximate to the basin. However, oilfield services can often be provided from a main support base with auxiliary bases closer to the drilling operations.
82. The ACCC understands that some products and services (for example, drilling fluids) and those in remote locations may require a more significant local support base. This suggests there may also be local or regional elements to competition.

Preliminary view on relevant markets

83. Based on information received to date, the ACCC's preliminary view is that the markets relevant for assessing the competition effects of the acquisition are:
- individual markets for the categories of products identified in **Table 1** above, separately for onshore and offshore drilling projects in Australia (that is, there is a market for onshore cementing and a separate market for offshore cementing etc.)
 - an integrated services market in Australia.
84. The ACCC is not investigating products and services where current information suggests that the merger parties do not overlap in Australia. However, the ACCC may do so in the future if new information is received.

The ACCC invites comments from market participants on its preliminary views about the definition of the relevant markets. In particular market participants may wish to comment on:

- the boundaries of the relevant product markets identified by the ACCC
- the extent to which customers are able to meet their current and future requirements for integrated or coordinated services by selecting from a variety of individual suppliers rather than a single supplier
- differences in customer requirements for, and supply of, products and services in offshore and onshore drilling environments
- the geographic boundaries of the relevant market, including the importance of global, national and regional elements of competition.

Market shares and concentration

85. The ACCC has limited information about market shares and concentration in the relevant markets and is exploring this issue further.
86. Market shares based on revenue may not be a reliable indicator of the extent of competition in oilfield services and the constraint from alternative suppliers. This is because revenues measured at any particular time may be dominated by large and infrequent tenders. Similarly, market shares based on the number of contracts won may not be a reliable indicator of the likely effect of the proposed acquisition on market concentration if:
- a small number of contracts account for a large share of revenues in a market
 - a large number of contracts account for a small share of revenues in a market.
87. The ACCC understands from market inquiries that the merged firm will be the market leader in the following products and services for onshore and offshore projects combined:
- a. coring
 - b. drill bits – roller cone
 - c. cementing
 - d. hydraulic fracturing and acidizing
 - e. coiled tubing
 - f. tubing conveyed perforations
 - g. wireline – cased hole
 - h. completions – well construction
 - i. completions – core completions

- j. completions – wellbore intervention.
88. The ACCC understands the merged firm will also be a significant competitor (or the only other competitor) in the following markets in which Schlumberger is the market leader:
- a. LWD / MWD
 - b. wireline – open hole
 - c. drill bits – fixed
 - d. drilling – directional
 - e. surface data logging
 - f. fluids – drilling
 - g. fluids – completions.

The ACCC invites comments from market participants on its preliminary views about market shares and concentration in oilfield services markets in Australia. In particular market participants may wish to comment on:

- the most appropriate means of measuring markets shares and concentration
- markets in which the merged firm would be market leader.

Alternatives to the merged firm

89. The ACCC is considering the constraint imposed by competitors to the merged firm post-acquisition. **Annexure 3** below outlines the ACCC's understanding of oilfield services providers operating in each of the relevant individual markets identified above.
90. As **Annexure 3** shows, in some markets, particularly offshore, there are few competitors to the merged firm.
91. In onshore markets there are typically several active competitors. However, there are fewer competitors operating in the Cooper Basin where the drilling requirements are significantly more complex.

Customer switching

92. The level of constraint imposed by alternative current and/or potential oilfield services providers will depend in part on the extent to which customers are willing and able to switch between suppliers.
93. Customers can either switch suppliers during a drilling project, or between drilling projects. Market feedback indicates that the level of switching differs between onshore and offshore projects.
94. In onshore projects, it appears customer switching is more likely. Contracts are typically of shorter duration and lower value than in offshore markets. More importantly, the drilling projects are less technical and therefore require less rigorous qualification processes. Also, there are typically more suppliers available in onshore markets.

95. For offshore projects, however, it appears customer switching within the duration of a project is infrequent and difficult. Market participants described long and detailed tender processes (sometimes involving many months) before a provider is offered a contract. This process ensures the highest quality product or service is obtained at the best possible price.
96. Once a drilling project is underway, E&Ps and providers develop close working relationships. Such relationships, especially on a successful project, make switching to a new provider less likely. A supplier competitor would need to offer a substantial discount, but even this may not compensate for the additional risks entailed with switching.
97. Some market participants described contractual fees and charges customers must pay to an incumbent for connecting a competitor's tools or equipment to the incumbent's equipment.
98. Market feedback suggests that both onshore and offshore E&Ps will, at times, engage a secondary provider to switch to in the event of poor performance by the primary provider.

The ACCC invites comments from market participants on its preliminary views about alternatives to the merged firm. In particular, market participants may wish to comment on:

- active or potential oilfield services providers in any of the products and services identified in **Annexure 3**
- any suppliers not identified in **Annexure 3**
- the competitive strength of any of the market participants identified in **Annexure 3**
- the nature and extent of customer switching either during a project or between projects.

Competitive advantages of the major providers

99. Anti-competitive effects in mergers can arise in different ways, depending on market characteristics.
100. An important feature of the oilfield services markets in Australia is the competitive advantages that major suppliers have relative to smaller competitors and potential entrants.
101. These advantages include economies of scope and scale; significant industry experience, particularly on complex projects, which has led to strong customer relationships and established reputations; and large R&D and innovation expenditures keeping them at the forefront of technological developments. These advantages mean that any switching is more likely to be to another large supplier, particularly offshore projects.
102. Customers frequently described the 'scope' (understood to mean support infrastructure and networks) of the merger parties as providing comfort that the merger parties could source additional resources if required. The ACCC understands the merger parties will source equipment and personnel from anywhere in their global network to fulfil contracts.
103. With such advantages, post-acquisition a combined Halliburton – Baker Hughes and Schlumberger are not likely to face strong competitive pressures from rivals

or entrants. The ACCC's preliminary view is that these market characteristics significantly increase the risk of unilateral and/or coordinated effects arising from the proposed acquisition.

Ability to provide an integrated offer

104. The ACCC is considering integrated services as a separate market as identified in the **Market Definition** section above and as discussed in the **Statement of Issues** section below. It appears there is a spectrum of integration, ranging from packaging through to integrated or coordinated services.
105. Market participants have spoken of a trend towards larger oilfield services providers offering integrated services over recent years. This has particularly been the case for complex drilling projects (such as deepwater or HPHT projects).

Integrated services

106. Integrated services involve the oilfield services provider offering some form of project management or project coordination, as well as a comprehensive range of individual goods and services.
107. Demand for integrated services appears related to project complexity. In complex and remote environments, customers appear more likely to require integrated services as the financial, environmental and reputational risks are higher.
108. Integrated project management may be tendered as a separate service. Fixed-fee, performance based and/or risk-sharing arrangements may be included in the pricing for the relevant package of individual products and services.
109. Integrated services includes project coordination, where a supplier coordinates the various products and services it supplies on the project, through to project management where the supplier is heavily involved in designing, planning and executing the project.²⁰ Integrated project management may also include 'turnkey' arrangements where the oilfield services provider carries financial risk for the performance of a well until certain milestones are met.²¹
110. An example of integrated services in Australia is QGC's contract with Schlumberger for rig management on its CSG operations in QLD.²² Under this contract, Schlumberger provided an integrated service for well construction and well intervention.
111. An integrated services contract includes the underlying goods and services necessary for drilling a well and therefore drives sales of those products and services. Consequently, market power in integrated services can have an impact

²⁰ See, for example, Halliburton, accessed 25 September 2015.
<http://www.halliburton.com/en-US/ps/project-management/project-management/integrated-services.page?node-id=hgoxc0in>

²¹ See for example, Schlumberger, accessed 24 September 2015.
<http://www.glossary.oilfield.slb.com/en/Terms/t/turnkey.aspx>

²² See, Schlumberger, *IPM Project Catalogue*, pp. 11-12, accessed 24 September 2015.
http://www.slb.com/-/media/Files/ipm/catalogs/integrated_project_management_catalog.pdf

on a supplier's overall share of sales of the products and services included as part of an integrated service.

112. Market feedback suggests it is rare for smaller suppliers to enter partnerships to offer an integrated service. Competitors identified challenges in establishing partnerships with the ability to compete effectively with a single integrated firm. The inability to efficiently provide a range of products and services constrains the ability of smaller suppliers to compete in the provision of integrated services. These suppliers do not have the necessary expertise and are unable to capture the efficiencies across product or service lines that the large providers can.
113. The ACCC understands that the merger parties currently package products in Australia, but do not currently supply integrated project management as an additional service line, although they have the capacity to do so. However, this is not necessarily indicative of future behaviour because market feedback indicates that demand for integrated services in Australia may be increasing. .

Bundling

114. Oilfield services providers appear to frequently offer pricing discounts or service improvements in return for the award of more than one product or service contract. The ability of large oilfield services providers to bundle from their extensive portfolios is a competitive advantage in all individual product and service markets. The merger parties both have extensive portfolios and post-acquisition would have a more extensive product and service offering.
115. . A bundle may take the form of a single contract for multiple products and services (but not including project management or project coordination). However, it more commonly takes the form of multiple separate contracts with pricing discounts across the bundle.
116. Bundle discounts may vary depending on the number of contracts secured. For example, customers will sometimes include a discount matrix as part of a request for tender or simply invite suppliers to identify opportunities for bundling. A discount matrix offers suppliers the opportunity to specify discounts contingent on the number of contracts secured.
117. Although bundling can offer customers benefits, it can also raise the cost of entry as new entrants may have to offer substantial discounts to induce customers to 'unbundle' the incumbent's offer. New entrants may also have to enter in multiple markets in order to compete with the bundle.

The ACCC invites comments from market participants on its preliminary views about integrated services and bundling/packaging. In particular, market participants may wish to comment on:

- the distinction between integrated services and bundling
- current and expected future demand for integrated services
- the companies that offer or are able to offer integrated services currently or in the foreseeable future
- the extent and effect of bundling.

Threat of entry and expansion

High entry and expansion barriers

118. The ACCC considers the merged firm is not likely to be constrained by the credible threat of entry or expansion. Barriers to entry and expansion are significantly higher in offshore markets than in onshore markets and are amplified in integrated services. Barriers to expansion are particularly significant for any competitor to attain the scale and breadth of the merger parties.
119. This Statement of Issues does not explore the differences in barriers to entry or expansion for each potential market in detail.
120. Certain products and services have higher barriers to entry than others. For example, entry into *wireline – open hole* is difficult, due to high R&D costs and lead time.
121. There are examples of new entry over the past 10 years in onshore markets. However, entry has typically been into one or two product markets and has not been of the scale or scope necessary to compete effectively with the merged firm. For example, Trican and Superior entered in Queensland's CSG basins. Both companies supply cementing and other services. Condor entered hydraulic fracturing and related services in 2014 after securing a contract with Beach Energy.²³
122. As noted, entry or expansion on a scale sufficient to constrain the merged firm across its entire product range is unlikely. In reality, the only firms with the potential to constrain the merged firm across the entire product range are the large multinational oilfield services providers (Schlumberger and to a lesser extent Weatherford).
123. The ACCC understands Weatherford has a less extensive offering in Australia than it does in other jurisdictions. Weatherford may be able to expand its offering post-acquisition if the merged firm exercised market power. This is an issue the ACCC is still assessing.
124. The ACCC is considering whether other multi-national oilfield services providers currently present in Australia (such as GE Oil and Gas, NOV or Superior) present a credible threat of entry into markets affected by the acquisition. The ACCC's preliminary view is that this is unlikely. These companies have limited offerings relative to the merger parties, meaning extensive entry would be required.
125. As noted above, many customers are unwilling to switch to new entrants regardless of price advantages because of the risks involved, particularly for offshore drilling projects.
126. The ACCC is also considering whether other overseas suppliers could enter Australia. Some market participants suggested there may be South East Asian suppliers with the ability to enter Australia.
127. It is likely oilfield services providers currently have excess capacity. The recent downturn in the industry has led to significant cut backs in or deferrals of projects. In these conditions, providers are more likely to have excess capacity and are, therefore, more likely to provide a competitive constraint on the merged

²³ See, *Condor*, accessed 30 September 2015.
<http://condorenergy.com.au/news/australias-great-fracking-contender/>

firm. This is a cyclical condition, however, in contrast to the permanent effect of the proposed acquisition.

128. It is the ACCC's preliminary view that the threat of new entry or further expansion would not be sufficiently timely to defeat an exercise of market power by the merged firm. The ACCC also considers the proposed acquisition would likely increase barriers to entry.
129. In the following sections, the ACCC explores certain barriers to entry that are most relevant to oilfield services.

Economies of scale and scope

130. There are economies of scale and scope in the provision of oilfield services. Scale economies limit the viability of entry below a minimum efficient scale. Entry on the scale needed to constrain the merged firm would add significantly to industry capacity relative to demand and thus be likely to reduce the expected returns from entry. The small size of the Australian oilfield service market relative to other geographic areas increases the difficulty for new entrant suppliers to achieve minimum efficient scale.
131. Economies of scope exist as the merged firm will be a global conglomerate firm able to spread its fixed costs across many products and jurisdictions. Overheads (including support infrastructure, transport costs etc.) and administrative costs will be spread across the merger parties' global network.
132. Due to the cyclical and lumpy nature of the industry, large firms gain significant operational advantages through diversification across product and service categories, and geographic areas. For example, market participants suggested one supplier had recently shifted certain onshore assets from Australia to the Middle East in response to shifting demands.

Experience, reputation and relationships

133. E&Ps bear significant environmental, financial and reputational risks associated with projects. These risks become more significant as the drilling project becomes more complex.
134. The products and services required by E&Ps are highly technical and must also be reliable. Market feedback suggests that experience, reputation and relationships are important for providers to participate and be successful in tenders. Offshore and complex drilling projects are especially high risk meaning these factors tend to be more important in offshore markets.
135. Some customers described requiring many kilometres of drilling experience in a product or service before considering a new entrant. Several E&Ps advised the ACCC that, due to a desire to protect their reputation, they would not even consider a new entrant for offshore work regardless of any price advantage.
136. A new entrant must overcome the experience and reputational advantages of incumbents either through superior pricing, service or technology.
137. E&Ps have long and detailed pre-contractual qualification processes, involving issues such as: staff, health and safety, management, tool testing and scope/support infrastructure. These processes can take 12 months or more for providers to complete and are a considerable barrier to new entrants.

Research and Development (R&D) and innovation

138. R&D and innovation costs present a significant barrier to entry. This is particularly important for highly technical equipment, such as *wireline – open hole* and *MWD*. The ACCC understands R&D and innovation by the merger parties takes place in the United States.
139. The ACCC understands the market leaders; Schlumberger, Halliburton and Baker Hughes spent US\$1.2 billion, US\$601 million and US\$430 million respectively on R&D in 2014. This contrasts with Weatherford which spent US\$265 million in 2013.²⁴
140. Technologies developed in the United States can be used globally with little customisation required for different geographies. The global companies are able to spread the sunk R&D costs across multiple jurisdictions.
141. R&D and innovation therefore represent a significant competitive difference between incumbent providers and new entrants. New entrants must match, or better, the technical expertise of the incumbent providers. Market participants suggested it would take three to five years to develop any new technology, plus additional testing. It may be open for prospective rivals to access any essential proprietary technology through licensing arrangements. However, some market participants raised concerns about the feasibility of this.
142. The ACCC understands there is little product development occurring in Australia or specific to Australia. The ACCC has not identified any companies which entered through local product innovation. Recent entry has occurred through the use of tools and equipment developed in other jurisdictions.
143. There are tools and equipment available ‘off the shelf’, which are manufactured in the United States and China in particular. The ACCC understands the recent expansion of onshore drilling projects in the United States has led to the commoditisation of certain tools and equipment. Where tools are available ‘off the shelf’, R&D is unlikely to present a material barrier to entry. The ACCC is considering the availability of ‘off the shelf’ equipment.
144. The ACCC is exploring the nature of R&D in oilfield services, including whether or not patent protection for technologies in the industry is strong. Much of the investment in R&D and innovation appears to be in developing products and services and updating and upgrading existing products.

Sunk costs and deterrence of entry

145. Typically, one or more of the market leaders in oilfield services (Schlumberger, Halliburton and Baker Hughes) will be active and dominant in each geographic or product market. The scope of these suppliers and the presence of large sunk costs creates high barriers to new entry or expansion.
146. New entrants will likely face difficulties in competing against incumbents that might not take their sunk costs into account when setting prices in response to the threat of entry. Faced with entry, the incumbent might choose to reduce prices to a point where it is not covering some or all of its sunk costs. As the entrant has not yet incurred sunk costs, it will need to take these additional costs into account when determining its own pricing.

²⁴ Schlumberger, *2014 Annual Report (Form 10-K)*, p. 31; Halliburton, *2014 Annual Report (Form 10-K)*, p. 2; Baker Hughes, *2014 Annual Report (Form 10-K)*, p. 54; Weatherford, *2014 Annual Report (Form 10-K)*, p. 5.

147. In these circumstances an equally efficient, or even a more efficient, entrant may be unable to price competitively. The ACCC understands incumbent suppliers have reacted strongly to new entry in the past by reducing prices. A reputation for retaliation may also be sufficient to deter new entry.

The ACCC invites comments from market participants on its preliminary views about the threat of entry and barriers to entry. In particular market participants may wish to comment on:

- the importance of experience, reputation and relationships
- the extent and importance of R&D and innovation in oilfield services (including the prevalence and importance of patents in oilfield services)
- the importance of offering a range of oilfield services and the ability of the global conglomerate firms to spread fixed costs across their global network
- the likely strategic behaviour of market leaders.

Countervailing power

148. The ACCC is exploring the extent of countervailing power held by E&Ps.
149. As set out in the ACCC Merger Guidelines, countervailing power exists when buyers have special characteristics which enable them to credibly threaten to bypass the merged firm, for example, by vertically integrating into the upstream market (for example, in this case providing oilfield services in-house) or by sponsoring new entry.
150. E&Ps are typically large, multinational companies with sophisticated procurement processes and strategies. However, market feedback suggests that even the large multinational E&Ps may not hold significant countervailing power. Countervailing power is more likely in onshore markets than offshore markets where barriers to entry are higher.
151. The ACCC is exploring whether there are examples of vertical integration in oilfield services in Australia. The ACCC understands Sirius Well Manufacturing Services (**SWMS**) is a joint venture between Shell and CNPC. This represents an example of successful vertical integration by E&Ps. The ACCC is not yet aware of the extent of SWMS's operations in Australia.
152. There have been some examples of sponsored entry in onshore markets over the past decade. However, this has been generally of limited scale and in a small number of markets. Sponsored entry does not appear to be of the magnitude necessary to constrain the merged firm across its entire operation.
153. The ACCC understands multinational oil and gas operators will sometimes sponsor R&D by oilfield services providers where the operator has identified a need. Such sponsorship may provide an avenue for entry by a new competitor, although the sponsor would retain ownership of the technology. However, the ACCC considers such sponsorship would likely only occur in a narrow product or service segment and would be unlikely to constrain an exercise of market power by the merged firm across a broad range of markets, although it may provide a constraint in a narrow market or segment.

The ACCC invites comments from market participants on its preliminary views about countervailing power. In particular market participants may wish to comment on:

- the ability of E&Ps to bypass market leaders
- the extent of any vertical integration or sponsored entry.

Statement of Issues

154. In the following sections, this Statement of Issues considers the competition effects of the proposed acquisition in each of the areas of concern, or potential concern, the ACCC has identified.
155. As many of the competition issues are relevant across the areas of concern, much of the competition analysis is captured in the preceding sections. The following sections expand on competition issues particular to each area of concern.
156. Common issues discussed above and relevant to all areas of concern are as follows:
- The major providers have competitive advantages over smaller competitors through scale and scope; significant industry experience, particularly on complex projects, which has led to strong customer relationships and established reputations; large R&D and innovation expenditures keeping them at the forefront of technological development and an enhanced ability to offer package discounts.
 - The threat of entry and expansion is low as barriers are high in oilfield service markets in Australia.
 - Although customers are often large multi-national companies, they do not necessarily have countervailing power (being, the ability to credibly bypass the merged firm).

All drilling projects

Issue of concern: Unilateral effects in the supply of oilfield services to all drilling projects, in a market for integrated services.

157. The ACCC's preliminary view is that the proposed acquisition is likely to substantially lessen competition by removing a significant competitor in a market for integrated services.
158. The ACCC understands that only Schlumberger and the merger parties are able to offer integrated services. A significant portfolio is necessary, as it results in expertise across a broad range of products and services, and creates opportunities for cost savings through shared efficiencies. Thus Schlumberger, Halliburton and Baker Hughes are close competitors in this market.
159. The ACCC understands that Schlumberger has the most extensive portfolio of oilfield services and has been a strong driver of integrated services. Post-acquisition, Schlumberger would remain the market leader in the integrated services market in Australia.
160. The ACCC is not aware of any integrated services contracts, where the merger parties provide 'Integrated Project Management' or 'Integrated Services' that are currently being supplied in Australia at present, although it appears that they do

offer these integrated services globally.²⁵ However, the merger parties have been and will continue to be the only competitors to Schlumberger for these types of integrated services contracts.

161. Globally and in Australia, Weatherford is the next largest competitor after the three market leaders discussed above. Weatherford also offer a broad range of goods and services. However, there are gaps in Weatherford's portfolio limiting its ability to compete in the most sophisticated end of the bundled oilfield services market. Also, market feedback suggests Weatherford has a smaller presence in Australia than in some other geographic areas.

The ACCC invites comments from market participants on its preliminary views about the competition assessment outlined above. In particular market participants may wish to comment on:

- the importance of bundled oilfield services, particularly when provided as integrated services
- the importance of an extensive portfolio of oilfield services
- the ability of suppliers who do not supply a wide range of products and services to constrain suppliers who offer a broader range, including by teaming up with other suppliers to offer a competing integrated system.

Issue of concern: Coordinated effects in the supply of oilfield services for all drilling projects in Australia.

162. The ACCC's preliminary view is that the proposed acquisition is likely to lead to a substantial lessening of competition in onshore and offshore markets through coordinated effects.
163. Market participants raised concerns about the merged firm engaging in coordinated rather than competitive conduct with Schlumberger post-acquisition. This may be the case if the proposed acquisition alters the nature of the interdependence between Halliburton and Schlumberger in a way that makes coordination more likely, complete or sustainable. The ACCC notes that such coordination would not require explicit agreement, and may only involve tacit coordination.
164. The ACCC considers coordinated conduct possible where:
- firms have the ability and incentive to settle on terms that are profitable for all
 - firms can detect deviations from the consensus
 - the threat of retaliation from other firms involved is sufficiently costly to act as a deterrent to deviation
 - the consensus is not undermined by competitive constraints in or outside the market.

²⁵ Halliburton, 2014 Annual Report, p. 4; Baker Hughes, 2014 Annual Report, p. 9 (and p. 4 of the Form 10-K).

165. The ACCC is exploring two avenues in which coordinated conduct could potentially occur:
- through market sharing arrangements across the various goods and services, and geographies in which the merger parties compete with Schlumberger (for example, the merged firm could focus on particular product categories in which it has strength, such as pressure pumping or completions, while Schlumberger might focus on areas in which it has strength, such as wireline).
 - through potential coordinated conduct within markets where post-acquisition, the merged firm and Schlumberger would be the only remaining competitors (such as offshore directional drilling).
166. The ACCC considers there are several factors that suggest coordination may be more likely, complete and sustainable as a result of the merger.
167. The proposed acquisition significantly increases the level of concentration in oilfield services in Australia generally, and in many markets specifically. Such an increase in concentration makes it easier for market participants to coordinate behaviour and to monitor compliance coordination.
168. Post-acquisition there will be greater symmetry between the product range and size of the merged firm and Schlumberger. This may make it easier for the parties to co-ordinate in a way that is profitable for both parties. Similarly, greater symmetry is more likely to align incentives to deviate and to punish, thus making coordination more sustainable.
169. As set out above, the ACCC's preliminary view is that alternatives to the merged firm, the threat of new entry or expansion and countervailing power of customers are unlikely to provide effective competitive constraints. Consequently, these constraints would be unlikely to destabilise any potential coordinated conduct.
170. However, there are certain features of the market which may suggest coordinated conduct may be difficult in practice. For example, large projects tendered for on irregular intervals may increase the incentive for providers to compete and may make it harder for participants to punish competitive behaviour.
171. Products offered by oilfield services providers can be differentiated. For example, liner hangers differ between providers (market feedback indicates that Baker Hughes has mostly conventional liner hangers whereas Halliburton has expandable liner hangers). Differentiation may make it more difficult for market participants to determine whether a tender was lost as a result of deviation from a coordinated arrangement or simply a customer preference for a differentiated product. However, the acquisition of Baker Hughes may mean there is less product differentiation post-merger and may therefore make it easier to identify deviation.

The ACCC invites comments from market participants on its preliminary views outlined above. In particular market participants may wish to comment on:

- the likelihood that the proposed acquisition will lead to coordinated effects in any market

- the ways in which the proposed acquisition may change the nature of interdependence between rivals so that coordination is more likely, complete or sustainable
- the ways in which coordination might occur, for example, market sharing, customer allocation or tacit agreements on price.

Offshore drilling projects

Issue of concern: Unilateral effects in the supply of oilfield services to offshore drilling projects, in a number of separate markets.

172. The ACCC's preliminary view is that the proposed acquisition is likely to substantially lessen competition by removing a significant supplier or potential supplier with the capability, expertise and experience to separately provide each of the goods and services identified in **Annexure 1**. The ACCC's preliminary view is that the constraints imposed on the merged firm post-acquisition will not be sufficient to prevent an exercise of market power.
173. As identified above, the ACCC understands the merged firm would have a market leading position in certain products. This position would likely give the merged firm market power in these markets, particularly in those instances where there are few alternatives to the merged firm.
174. With respect to goods and services where one or both of the merger parties' Australian sales are not currently high, the ACCC considers their existing Australian presence combined with their global capabilities mean they are potential new entrants and/or capable of expanding their existing offers if profitable to do so. The merger parties therefore provide a constraint on one another in the relevant markets. This constraint would be removed post-acquisition.
175. In markets for offshore drilling projects, there are varying levels of constraint from alternatives to the merger parties. As identified in **Annexure 3**, in some markets there is one alternative, in others there are two or three. The constraint provided by these alternatives varies, however, from one market to the next depending on the strength of competitor. Market feedback suggests that across offshore markets, competitors to the big three only capture a small share of total revenue.
176. As discussed above, the merger parties have significant competitive advantages over smaller competitors.

The ACCC invites comments from market participants on its preliminary views outlined above. In particular market participants may wish to comment on:

- the likelihood the proposed acquisition would remove a significant supplier or potential supplier for particular offshore goods and services
- the nature and extent of constraint proved by alternative offshore providers.

Onshore drilling projects

Issue that may raise concerns: Unilateral effects in the supply of oilfield services to onshore drilling projects, in a number of separate markets.

177. The ACCC's preliminary view is that the proposed acquisition may substantially lessen competition by removing a significant supplier or potential supplier with the capability, expertise and experience to separately provide each of the goods and services identified in **Annexure 2**.
178. As discussed above, the merger parties have significant competitive advantages over smaller competitors. As identified in **Annexure 3** below, in the goods and services identified in **Annexure 2** there are few competitors in Australia at present for onshore drilling projects.
179. The ACCC understands from market feedback that the merged firm would have strong presence in *coring*, and *hydraulic fracturing and acidizing*, *completions – core completions* and *completions – wellbore intervention*.
180. The ACCC understands one or other of the merger parties has a small presence in *surface data logging* and *wireline – open hole* in Australia at present. However, these markets appear to be characterised by a relatively small number of competitors and face limited constraint from the available alternatives.
181. As discussed in more detail above, there are high barriers to entry across all markets, including onshore markets. Barriers to entry are likely particularly high in *wireline – open hole* where sophisticated electronics are used.
182. As also discussed in more detail above, the proposed acquisition removes the most likely competitor to enter or expand into these goods or services.
183. The competition concerns identified for onshore markets are particularly relevant to the Cooper Basin segment of the market. The remoteness and particular geological characteristics in the Cooper Basin increase the barriers to entry and expansion. The ACCC's preliminary view is that the proposed acquisition is likely to be most problematic in the Cooper Basin in the goods and services identified in **Annexure 2**.

The ACCC invites comments from market participants on its preliminary views about the definition of the relevant market(s). In particular market participants may wish to comment on:

- the likelihood that the proposed acquisition would remove a significant competitor or potential competitor for particular onshore goods and services
- the impact on particular projects such as those in the Cooper Basin.

ACCC's future steps

184. The ACCC will finalise its view on this matter after it considers submissions invited by this Statement of Issues.
185. As noted above, the ACCC now seeks submissions from market participants on each of the issues identified in this Statement of Issues and on any other issue that may be relevant to the ACCC's assessment of this matter. Submissions are to be received by the ACCC no later than 12 November 2015 and should be emailed to mergers@acc.gov.au.

186. The ACCC intends to publicly announce its final view by 17 December 2015. However the anticipated timeline may change in line with the Merger Review Process Guidelines. A Public Competition Assessment for the purpose of explaining the ACCC's final view may be published following the ACCC's public announcement.

ANNEXURE 1

Offshore goods and services where the ACCC has concerns are:

- a. coring
- b. drill bits – fixed
- c. drill bits – roller
- d. drilling – directional
- e. logging while drilling (LWD) and measurement while drilling (MWD)
- f. completion fluids
- g. drilling fluids
- h. software
- i. surface data logging
- j. wireline – cased hole
- k. wireline – open hole
- l. cementing
- m. coiled tubing
- n. completions – well construction
- o. completions – core completions
- p. completions – wellbore intervention

ANNEXURE 2

Onshore goods and services where the ACCC has concerns are:

- a. drilling – directional
- b. surface data logging
- c. wireline – open hole
- d. cementing
- e. hydraulic fracturing and acidizing
- f. completions – core completions
- g. completions – wellbore intervention

ANNEXURE 3

The table below outlines the ACCC’s understanding of the suppliers offering each good or service to onshore and offshore drilling projects.

Table 2: Oilfield services providers in Australia

Product / service line	Supplier	Onshore	Offshore	ACCC comments
Directional drilling	Halliburton	Yes	Yes	
	Baker Hughes	Yes	Yes	
	Schlumberger	Yes	Yes	
	Weatherford	Yes	No	
	Scientific Drilling International	Yes	No	
	Surtron Technologies	Yes	No	
	National Oilwell Varco (NOV)	Yes	Yes	Provides toll and equipment rental services only.
	Stealth Tools	Yes	No	Provides toll and equipment rental services only.
	Geoglide Well Positioning Services	Yes	No	
MWD / LWD	Halliburton	Yes	Yes	
	Baker Hughes	Yes	Yes	
	Schlumberger	Yes	Yes	
	Weatherford	Yes	No	
	Scientific Drilling International	Yes	No	
	Surtron Technologies	Yes	No	
	NOV	Yes	Yes	Provides rental services for tools and equipment.
	Stealth Tools	Yes	No	Provides rental services for tools and equipment.
	Geoglide Well Positioning Services	Yes	No	Understood to not be active in LWD.

Halliburton Company – proposed acquisition of Baker Hughes Incorporated

Product / service line	Supplier	Onshore	Offshore	ACCC comments
Wireline – cased hole	Halliburton	Yes	Yes	
	Baker Hughes	Yes	Yes	
	Schlumberger	Yes	Yes	
	Weatherford	Yes	No	
	SGS	Yes	No	
	Vause Oil Production Services	Yes	No	
	Expro	Yes	Yes	
	Archer Limited	Yes	No	Tool rental. No services.
	Owen Oil Tools	Yes	No	Tool rental. No services.
Wireline – open hole	Halliburton	Yes	Yes	
	Baker Hughes	Yes	Yes	
	Schlumberger	Yes	Yes	
	Weatherford	Yes	No	
Coring	Halliburton	Yes	Yes	
	Baker Hughes	Yes	Yes	
	Schlumberger	No	No	
	NOV	Yes	Yes	
	Corpro	Yes	Yes	

Product / service line	Supplier	Onshore	Offshore	ACCC comments
Drill bits (combines fixed and roller drill bits)	Halliburton	Yes	Yes	
	Baker Hughes	Yes	Yes	
	Schlumberger	Yes	Yes	
	NOV	Yes	Yes	Understood to have limited presence for offshore drilling projects.
	Varel International	Yes	No	
	Ultrerra	Yes	No	
	Tercel	Yes	No	
	Stealth Tools	Yes	No	
Surface data logging	Halliburton	Yes	No	
	Baker Hughes	Yes	Yes	
	Schlumberger	Yes	Yes	
	Weatherford	Yes	No	
Cementing	Halliburton	Yes	Yes	
	Baker Hughes	Yes	Yes	
	Schlumberger	Yes	Yes	
	Davis Lynch	No	Yes	
	Weatherford	Yes	No	
	Trican Well Services	Yes	No	
	Sirius Well Manufacturing Services	Yes	No	
	TopCo	Yes	No	
Superior Energy Services	Yes	No		

Halliburton Company – proposed acquisition of Baker Hughes Incorporated

Product / service line	Supplier	Onshore	Offshore	ACCC comments
Completions (combines: well construction core completions wellbore intervention multi-stage fracturing)	Halliburton	Yes	Yes	
	Baker Hughes	Yes	Yes	
	Schlumberger	Yes	Yes	
	Weatherford	Yes	Yes	
	Expro	Yes	Yes	Understood to be active in wellbore intervention only.
	Archer Limited	Yes	No	
	TAM International	Yes	No	
	Interwell	Yes	No	
	Well Dog	Yes	No	
	Vause Oil Production Services	Yes	No	
	Peak	Yes	No	
	Tendeka	Yes	No	
	Magnum Oil Tools	Yes	No	
Hydraulic fracturing	Halliburton	Yes	Yes	
	Baker Hughes	Yes	Yes	
	Schlumberger	Yes	Yes	
	Condor Energy	Yes	No	Including the Cooper Basin.
Drilling fluids	Halliburton	Yes	Yes	
	Baker Hughes	Yes	Yes	
	Schlumberger	Yes	Yes	
	Newpark	Yes	Yes	
	AMC Oil and Gas	Yes	No	
	Nalco	Yes	No	
Completion fluids	Halliburton	Yes	Yes	

Product / service line	Supplier	Onshore	Offshore	ACCC comments
	Baker Hughes	Yes	Yes	
	Schlumberger	Yes	Yes	
	Newpark	Yes	Yes	
	AMC Oil and Gas	Yes	No	
	Nalco	Yes	No	
Coiled Tubing	Halliburton	Yes	Yes	
	Baker Hughes	Yes	Yes	
	Schlumberger	Yes	Yes	
	Superior Energy Services	Yes	Yes	
	OzCoil	Yes	No	
	Savanna Energy Services	Yes	No	
	Condor Energy	Yes	No	
	Drover Energy	Yes	No	
	Energy Drilling	Yes	No	
	Wellpro	Yes	No	
Tubing Conveyed Perforations	Halliburton	Yes	Yes	
	Baker Hughes	Yes	Yes	
	Schlumberger	Yes	Yes	
	Weatherford	Yes	No	
	SGS	Yes	Yes	
	Expro	Yes	Yes	
	Owen Oil Tools	Yes	No	
	READ Cased Hole	Yes	No	
Solids Control and Waste Management	Halliburton	Yes	Yes	
	Baker Hughes	Yes	Yes	Baker Hughes has a small presence in Australia.

Halliburton Company – proposed acquisition of Baker Hughes Incorporated

Product / service line	Supplier	Onshore	Offshore	ACCC comments
	Schlumberger	Yes	Yes	
	Kayden Industries	Yes	No	
	Scomi Oilfield Services	Yes	No	
	NOV	Yes	No	
	AMC Oil and Gas	Yes	No	Presence in Perth Basin only.
	Step Oil Tools	Yes	No	
	Axiom	Yes	No	
	Derrick	Yes	No	
	NewPark	Yes	No	Presence in the Northern Territory only.
Consulting	Halliburton	Yes	Yes	
	Baker Hughes	Yes	Yes	
	Schlumberger	Yes	Yes	
	Azteck	Yes	Yes	
	Read Cased Hole	Yes	Yes	
Software	Halliburton	Yes	Yes	
	Baker Hughes	Yes	Yes	
	Schlumberger	Yes	Yes	
	Paradigm	Yes	Yes	
	DownUnder GeoSolutions	Yes	Yes	
	Independent Data Services	Yes	Yes	