

***Case No COMP/M.5839 -
SCHLUMBERGER/ SMITH
INTERNATIONAL***

Only the English text is available and authentic.

**REGULATION (EC) No 139/2004
MERGER PROCEDURE**

Article 6(1)(b) NON-OPPOSITION
Date: 26/07/2010

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EUROPEAN COMMISSION

Brussels, 26.07.2010

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In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus [...]. Where possible the information omitted has been replaced by ranges of figures or a general description.

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying party:

Dear Sir/Madam,

**Subject: Case No COMP/M.5839 - SCHLUMBERGER/ SMITH
INTERNATIONAL
Notification of 18 June 2010 pursuant to Article 4 of Council Regulation
No 139/2004¹**

1. On 18/06/2010 the European Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 by which Schlumberger Limited ("Schlumberger", USA) acquires within the meaning of Article 3(1)(b) of the Merger Regulation sole control of Smith International, Inc. ("Smith", USA), by way of purchase of shares.

I. THE PARTIES

2. Schlumberger supplies technology, project management and information solutions to the oil and gas industry.
3. Smith provides equipment, products, and services to support the exploration, development, and production of oil and gas².

III. CONCENTRATION

¹ OJ L 24, 29.1.2004, p. 1 ("the Merger Regulation"). With effect from 1 December 2009, the Treaty on the Functioning of the European Union ("TFEU") has introduced certain changes, such as the replacement of "Community" by "Union" and "common market" by "internal market". The terminology of the TFEU will be used throughout this decision.

² It does so partially through M-I SWACO which is a joint venture, 60% owned by Smith and 40% owned by Schlumberger (and affiliated companies). However, Schlumberger does not exercise (joint) control over M-I SWACO according to the parties.

4. Following the transaction, Schlumberger will acquire sole control of Smith by acquisition of its shares. Thus, the operation constitutes a concentration within the meaning of Article 3(1)(b) of the ECMR.

IV. EU DIMENSION

5. The undertakings concerned have a combined aggregate worldwide turnover of more than EUR 5 000 million³ (Schlumberger EUR 14 700 million and Smith EUR 5 800 million). Each of them has an EU-wide turnover in excess of EUR 250 million (Schlumberger EUR [...] million and Smith EUR [...] million), but they do not achieve more than two-thirds of their aggregate EU-wide turnover within one and the same Member State.
6. The notified operation therefore has an EU dimension pursuant to Article 1(2) of the EC Merger Regulation.

V. RELEVANT MARKETS

7. The transaction horizontally relates to the markets for (i) directional drilling services, (ii) the supply of drill bits (iii) the supply of completion products and services and vertically to the market for (iv) the supply of power sections for drilling motors used in directional drilling services.

(i) Directional Drilling Services (DDS)

A. Relevant Product Market

8. The objective of directional drilling is for the path of the wellbore to hit a particular subsurface target, or targets, which are located away from (as opposed to directly beneath) the surface location of the rig. The process of obtaining knowledge as to the direction of the drill string and moving the string in the proper direction is referred to as “directional drilling”.
9. Directional drilling services include those products and services which regularly form a part of the contract between the directional drilling services company and the exploration and production company (“E&P company”) seeking this service. Within directional drilling services, a number of specific product lines can be contracted separately by the customer:

Directional drilling (DD)

10. The directional driller provides the main driller of the E&P company with the drilling parameters and directional settings from the drill string necessary to achieve the objectives under the directional drilling contract. The main driller of the customer is responsible for executing those instructions.

³ Turnover calculated in accordance with Article 5(1) of the Merger Regulation and the Commission Consolidated Jurisdictional Notice (OJ C95, 16.04.2008, p1).

Measurement-while-drilling (MWD)

11. An MWD tool is incorporated into the drill string and measures azimuth and inclination of the drill string. MWD tools can also measure other variables related to the drill string or, sometimes, the physical properties of the area where the drilling takes place. MWD is needed to perform directional drilling services effectively and is normally purchased in conjunction with the customer's purchase of DD.

Logging-while-drilling (LWD)

12. The LWD tools contain sensors which measure and collect data on the characteristics of the formation surrounding the bore head. LWD allows using real time information to evaluate the formation properties of the well and to enable to change the direction of the well.
13. The Commission previously considered directional drilling services⁴. The Commission noted that the product lines above exhibit a high degree of complementarity, to the extent that they are part of a chain flow and, as such, they may be purchased by well operators on a single contract basis. However, the question of whether the relevant product market was directional drilling services or should be narrowed to the individual constituting product lines, DD, MWD, and LWD, was left open.
14. The parties to the present case submit that directional drilling services constitute the relevant product market, as DD, MWD, and LWD (though not directly substitutable) form part of the same directional drilling services solutions market and are complementary. When issuing an invitation to tender, customers often request suppliers to bid and price for all DD, MWD and LWD services which they consider they might require and then decide which tools actually to use on their rigs. Within the market, individual suppliers provide differentiated services, involving combinations of complementary tools and the respective personnel to operate them.
15. The market investigation has broadly confirmed this contention. A large majority of customers considered all directional drilling services a separate product market. Further, also a large majority of all the respondents submitted that bidding and pricing for all DD, MWD and LWD services together constitute a common practice in the sector. According to the customers' replies, directional drilling services are interfaced and interdependent, creating an integrated system. Separate provision of DD, MWD, and LWD services would result in sub-optimal performance.
16. In the light of the above, the Commission considers that, in the present case, directional drilling services constitute the relevant product market.

B. Relevant Geographic Market

17. The parties consider that the geographical scope of the market is worldwide as the related equipment and personnel can be and is moved in response to demand. Furthermore, the major suppliers and many customers are active globally. In any event, the parties submit that it is not appropriate to define the market on a narrower than EEA basis, essentially for the same reasons.
18. In *COMP/M.1140-Halliburton/Dresser*, the Commission considered a global market, noting, for example, that, notwithstanding where a provider of these services is based,

⁴ Case *COMP/M.1140- Halliburton/Dresser*, 06/07/1998.

its manpower and equipment are relatively easily transportable to other locations. However, the market definition was ultimately left open and considered as, at least, EEA wide.

Results of market inquiry

19. The geographical scope of the market for directional drilling was investigated in the market investigation. A large majority of respondents, both competitors and customers, considered that the market for directional drilling is worldwide. Indeed, most of the competitors considered the geographical scope of the market worldwide and a very small group considered it regional. As to customers, a large majority considered the market for directional drilling to be worldwide and a small minority regional in scope.
20. The respondents who argued in favour of a geographical scope smaller than worldwide identified an area either encompassing the entire EEA or, occasionally, even smaller regions like, for example, the North Sea. Such suggestions were made because:
 - a) customers tend to tender for contracts on a regional basis, requiring suppliers to be organised regionally as well;
 - b) the geological and geographical circumstances differ;
 - c) supply side structure of the market differs between regions.

Regional procurement is not a determining factor

21. The market test indeed confirmed that some customers tend to procure, not for the full worldwide requirements of a given customer, but on more local, if not, a 'rig by rig' basis. This practise appears the result of the fact that different site location and geological conditions (the presence of certain types of underground materials such as shale, sand, chalk, salt layers, high temperature, high pressure in the well, the shape of the well) require different toolsets (different types of drill motors, drill bits, use of casing profiles or rotary steerable).
22. It appears however that, even if tendering is not worldwide and the tools required in different situation may be different, the directional drilling services and their components tendered for are essentially the same in nature. The required equipment is 'repackaged' to provide a directional drilling service offer adapted to the specific circumstances of the drilling site.
23. The market investigation clearly confirmed that the equipment related to the provision of directional drilling is regularly transported within the EEA, from the EEA to other regions of the world and vice versa. Transport costs are modest or, at least, not of a magnitude to impede their frequent transportation. It has been argued in this context that moving around such equipment from job to job is in fact required as it ensures that this (high capital intensive equipment) has high utilisation ratio.
24. Consequently, customer procurement practises do not contradict a finding of geographical market that is relatively large, if not worldwide.

Geological circumstances do not decide market definition

25. Only a small minority of customers considered that geological formation is important for defining geographic markets. The answer of competitors was more mixed. Some reported that this had no impact and one claimed that geological formation was important, but noted that all tools are in essence technologically the same worldwide. Each of the remaining competitors that reported that geological formation was important, nonetheless considered the market to be worldwide. Thus the large majority of respondents did not support the view that the directional drilling market should be segmented on the basis of geological consideration.
26. Moreover, differences in geological formation occur in all parts of the world. Thus they do not provide for an appropriate ground to define geographical markets as they are not associated with specific geographical areas.

Supply side structure is in fact rather similar

27. The four large competitors (Schlumberger, Halliburton, Baker Hughes, and Weatherford) are present everywhere and represent world- and EEA-wide respectively 82.1% and approx. 94% of the market. Their ranking in different geographical areas is also similar (see table below par. 34 and par. 35). Even if the competitive fringe of smaller companies shows more variation as they tend to be present in certain geographical areas only⁵, the mere fact that the companies present in the competitive fringe differ does not mean that significant structural differences exist.
28. Consequently, there are no reasons to believe that the supply side structure of different geographical areas gives rise to market segmentation along geographical lines.

Markets are larger than national

29. When a narrow geographical view is taken, market shares may occasionally be very high. In particular, this is true in Spain, Romania and Italy. These countries however represent a relative small amount of customers and business. Spain, Romania and Italy represent, respectively, [0-5]%, [0-5]% and [5-10]% of the turnover made with the provision of directional drilling within the EEA.⁶ Most directional drilling in Romania, Spain and Italy is contracted with a single customer.⁷ Differences in supply side structure in those circumstances may therefore well reflect the 'winner takes it all' principle of bidding markets, instead of reflecting differences in competitive conditions across the regions.
30. Indeed, customers of directional drilling services in Romania and Spain considered in the market investigation that the market for directional drilling is worldwide.⁸
31. At least with regard to Spain, the view that high market shares are not necessarily an indication of market power of the parties, but rather reflect the nature of bidding

⁵ e.g. Crescent Directional and Allis-Chalmers in the USA, Nabors in North America, Transmark in Continental Europe and North Africa, Phoenix Technologies in the USA, Canada, Albania, Russia and Peru, Target Energy in the UK and Uganda.

⁶ Calculation on the basis of sales volumes. Tables 2, 6, 7 and 8 Form CO.

⁷ According to the parties as regards Romania and Italy. For Spain this follows from the reply of Spanish customers for directional drilling and a comparison with the volume of contracted directional drilling in Spain as reported by the parties.

⁸ The market investigation had no Italian respondent.

markets is supported by the fact that, even during relatively small period of time, market shares have varied considerably. Whereas in 2009, Schlumberger's market share in Spain was [45-70]%, in 2007 and 2008 [...]. In contrast, between 2007 and 2009, a competitor's market share halved in the period between 2007 and 2009. Similarly, Smith's market share changed from [15-40]% in 2007, to [35-60]% in 2008, only to decrease again to [0-20]% in 2009⁹.

32. In the light of the above, the Commission considers that, in the present case, the relevant geographic market for directional drilling services is at least regional in scope. In any event, it is not necessary to decide on the precise geographical scope of the market for the supply of directional drilling services, since no competition concerns arise under any alternative market definition, this being regional, EEA-wide or worldwide.

C. Competitive Assessment

Non-coordinated Effects

33. Schlumberger, Halliburton, Baker Hughes and Weatherford are four major providers of directional drilling services. In addition, around 15 smaller competitors (their market shares ranging between 0 and 3%) are present in this market, Smith being one of them. As a result of the proposed transaction the biggest supplier of directional drilling services will merge with one of the top players in the competitive fringe.
34. On a worldwide basis the parties will have a combined market share of approx. [30-40]% with a low market share increment of [0-5]%, as set out in the table below. Moreover, the merged entity will face competition from the remaining three major competitors (Halliburton, Baker Hughes and, to a lesser extent, Weatherford) as well as the smaller players.

DIRECTIONAL DRILLING SERVICES – WORLDWIDE (2009)	
COMPETITORS	MARKET SHARES (%)
Schlumberger	[30-40]
Smith	[0-5]
TOGETHER	[30-40]
Halliburton	[20-30]
Baker Hughes	[10-20]
Weatherford	[5-10]
Other	[10-20]
TOTAL	100

Source: Parties' estimates.

35. If the market for directional drilling services were to be considered as regional in scope, the parties' combined market share would be higher, ranging from [40-60]% in the EEA and [40-60]% in North Sea region to [45-65]% in Western Continental

⁹ Table 8 Form CO.

Europe and [65-85]% in Eastern Continental Europe.¹⁰ Nevertheless, also in these cases the market share increment will be insignificant: up to [0-5]% in the Western and Eastern Continental Europe, where the parties' combined market share is the highest, and less than [0-5]% in the EEA and the North Sea region. Moreover, the same major competitors with substantial market shares are active in the EEA, North Sea region and Western Continental Europe. Halliburton is not present in Eastern Continental Europe. However, Weatherford seems to have reinforced its position in this region and together with Baker Hughes would exercise sufficient competitive constraint on the parties post-merger.

DIRECTIONAL DRILLING SERVICES – REGIONS (2009) – MARKET SHARES (%)				
COMPETITORS	EEA	NORTH SEA	CONTINENTAL EUROPE - WEST	CONTINENTAL EUROPE - EAST
Schlumberger	[40-60]	[40-60]	[45-65]	[65-85]
Smith	[0-5]	[0-5]	[0-5]	[0-5]
TOGETHER	[40-60]	[40-60]	[45-65]	[65-85]
Baker Hughes	[20-40]	[20-40]	[20-40]	[5-20]
Halliburton	[5-20]	[5-20]	[5-20]	0
Weatherford	[0-10]	[0-10]	[0-10]	[5-20]
Other	[0-10]	[0-10]	[0-10]	[0-10]
TOTAL	100	100	100	100

Source: parties' estimates

36. The parties submit that regardless of the geographic scope of the market (worldwide or regional), the transaction will not raise any competition concerns due to differences in the parties' business profiles, competitive dynamics of the directional drilling market and significant countervailing buyer power.

No close competition between the parties

37. According to the parties, Schlumberger and Smith are not each other's closest competitors. Whereas Schlumberger's customer base predominantly comprises the major international and national oil companies and the larger independents, Smith's directional drilling business tends to service the smaller independent oil companies. The latter group of customers operate smaller, less complex and less valuable wells that those serviced by Schlumberger and the other major suppliers, and therefore have lower technology requirements and lower operating costs. The market investigation broadly confirmed the parties' view in this respect.
38. Moreover, the parties maintain that Schlumberger, Baker Hughes, Halliburton, and, to a lesser extent, Weatherford offer a complete range of technological capabilities. Unlike the major suppliers, smaller players are not technologically qualified to bid for certain tenders in the EEA. Thus Smith competes with Schlumberger for a limited number of contracts.

¹⁰ The DDS market share structure in the EEA and North Sea regions is comparable because, so claim the parties, the contracts awarded in the North Sea represent around 85% of all DDS carried out in the EEA.

39. The large majority of customers in the market investigation indeed did not consider Schlumberger and Smith direct competitors in terms of complete range of services. A smaller majority did not consider them direct competitors at the level of technological expertise. At the same time, the majority of customers highly valued these two criteria in awarding tenders for directional drilling services, the level of technological expertise being either the most or second-most important criterion for a large part of the respondents. Hence, the results of the market investigation support the argument that the parties are not each other's closest competitors.

Competitive dynamics of the market

40. The parties claim that, even if Smith and Schlumberger were to be found close competitors, the merged entity would still face sufficient competitive pressure from the remaining competitors in the directional drilling market, in particular, from companies offering a full range of technological capabilities such as Halliburton and Baker Hughes, to a lesser extent from Weatherford, as well as from a competitive fringe of smaller players in the directional drilling market. As parties point out, the suppliers tend to bid for contracts for which they are technically qualified, regardless of the scale of work, which suggests they do not face significant capacity constraints. Consequently, the parties consider that the proposed transaction will not affect the closest and best-endowed competitors able to fend off any attempt to increase prices post-merger. In addition the market for directional drilling services, so is claimed, has no significant barriers to entry or expansion, Weatherford and Scientific Drilling being the best examples.¹¹
41. The market investigation confirmed this contention. Almost all the respondents among the competitors described the market for directional drilling services as very competitive and a large majority of customers considered it as competitive. Further, the market inquiry confirmed the ability and readiness of suppliers to transport the equipment and personnel worldwide.¹² The global mobility of suppliers suggests their capacities are not constrained as they are able to respond to changes in demand and provide directional drilling services in different regions across the world. Low transport costs (less than 5% of the supplier's total revenue according to the findings of the market test) enable the suppliers to divert their services to other regions. Further, the market shares of the major suppliers varied greatly over the last three years, reflecting the swings in the number of the contracts awarded and the flexibility of major competitors in adjusting their output according to the shifts in demand in an effective and timely manner.¹³
42. With respect to the barriers to entry and expansion the market investigation was not conclusive. Both competitors and customers pointed out that it is difficult to enter the market for directional drilling services primarily due to high investment costs, complex technological know-how and experience required, as well as a high number of competitors present in this market. Nevertheless several respondents mentioned instances of market entry or exit over the past five years (e.g. Weatherford, Smith's acquisition of Pathfinder, Target's exit from the UK market for off-shore directional drilling services). On the top of that, a considerably high number of the respondents expected the market to expand in the nearest future.

¹¹ Weatherford entered the EEA market in 2005 and Scientific Drilling in 2008.

¹² See par. 23 above.

¹³ See par. 49 below.

Countervailing buyer power

43. Based on the fluctuations in the competitors' market shares over time and across regions the parties argue that customers of directional drilling services readily can and do switch their suppliers. Further, the parties submit that the large national and international oil and gas E&P companies as well as large independent oil companies possess considerable countervailing buying power able to contain market power that may result from the proposed transaction. The strong bargaining position of these customers is reflected in the tender design, where the customers rely on several suppliers or, in addition to a primary contractor, they select a secondary supplier, principally to maintain competitive pressure on the main contractor during the service delivery in cases of her sub-optimal performance as well as to secure access to various types of technology.
44. The market investigation confirmed this, with a majority of the respondents agreeing that larger customers possess a considerable buyer power vis-à-vis their suppliers and the award of contracts to several suppliers constitutes a common practice in the directional drilling market.
45. In addition, the majority of the respondents stated that the proposed transaction will not have a significant negative effect on the market for directional drilling services and no impact on the current prices.

Conclusion

46. Given the low increment in market shares due to the transaction, and the additional circumstances set out above, the Commission considers that the proposed transaction does not raise serious doubts as to its compatibility with the internal market as regards non-coordinated effects in the market for directional drilling services.

Coordinated Effects

47. The parties submit that the transaction will not create or strengthen coordination in the market for the provision of directional drilling services. The pattern of competition observed pre-transaction can hardly be reconciled with coordination. Post-transaction, the acquisition of Smith will not change the underlying competitive dynamics of the market (the competition among Schlumberger, Baker Hughes, Halliburton, and Weatherford). Given that the conditions for coordination are not met in the market, it is very unlikely that a merger with this scope could establish such a situation of coordination.¹⁴
48. According to the results of the market investigation, the market for directional drilling is largely considered competitive by competitors and customers alike. Moreover, the majority of the respondents expect no significant impact of the merger on the market dynamics¹⁵ Currently, three or four larger competitors (Schlumberger, Baker Hughes, Halliburton, and the smaller Weatherford) together represent a very significant share of the market. The proposed operation does not appear to substantially alter this balance as it concerns a merger between one of the large competitors with a company outside this group. Similarly, a significant number of smaller competitors will remain in the market after the concentration has taken place.

¹⁴ See par. 51 - 56.

¹⁵ If negative effects are expected, then it is not clear which customers group will be more affected.

49. The fact that customers do change suppliers and market shares develop further indicates that coordination is unlikely to emerge or at least unsustainable. The swings in competitors' market shares over a relatively short period of time are particularly apparent on a regional level. For instance, considering the market for directional drilling services in Eastern continental Europe, whereas in 2007 Weatherford's market share was between [5-20]%, it doubled in 2008 reaching [10-25]% to drop again to [5-20]% in 2009. Similar changes can be observed in the Baker Hughes' market shares in this market over the same period of time ([5-20]%, [5-20]% and [5-20]% in years 2007, 2008 and 2009 respectively). On the worldwide market for directional drilling services similar shifts occur. For example, Halliburton accounted for [20-30]% of the worldwide market in 2005, subsequently its share decreased and varied between [10-20]% in years 2006-2008, to raise again in 2009 to [20-30]%¹⁶.
50. It follows that there are no grounds to consider that the proposed concentration will lead to structural changes that strengthen market participants' incentive or ability to coordinate.
51. Moreover, the conditions for any coordination to be sustainable are not met. These include: (i) the possibility to reach the terms of coordination and to monitor deviations (ii) a credible deterrent mechanism and (iii) the absence of reactions by non-participants to the coordination jeopardising the coordination's results.

Terms of coordination and monitoring deviations

52. Directional drilling services are differentiated goods. Even if some of the equipment used is technologically advanced but relatively standard, customers expect a service adapted to the specific (geographic, geological, etc.) requirements of the well at hand and suppliers may meet these expectations with different toolsets. Customers are generally also sophisticated purchasers and there seem to be no simple way to discriminate among them. Suppliers that develop technologically more advanced equipment that enabling them to deliver a more reliable and satisfactory directional drilling service appear able to acquire market share. Moreover, according to the market test, price is not a decisive factor for the customers in selecting the winning offer. The importance of less tangible elements (technological expertise, reputation, range of services) renders establishing and monitoring of terms of price coordination difficult.
53. Tendering is not standard among customers. What results from the market investigation is that tenders may be rig-specific or time-related or both, also depending on the type and amount of directional drilling services required. Similarly, it appears common customers' practice, in particular for larger orders, to rely on several suppliers or to select a secondary supplier next to the primary supplier.¹⁷ Framework contracts that set price and quality requirement, but that do specify a quantity of work, or contracts, where payment depends on the achievement of certain pre-set targets, also occur in practice. Tender design of this kind reduces transparency in the market and makes it harder for the suppliers to plan ahead and predict the volume of services to be provided. Coordination on volume terms therefore does not appear likely either.

¹⁶ Based parties' estimated figures

¹⁷ See par. 43-44.

Credible deterrent mechanism

54. The above described tendering practises of customers render the market non-transparent. Negotiations are bilateral. Moreover, customers do not select suppliers on a single, transparent criterion, such as price, but use a variety of less tangible criteria such as the supplier's reputation, technological expertise and range of services to which, in addition, they do not all attach the same relative importance.¹⁸ Lastly, the volumes that will eventually be supplied may remain uncertain at the time of contract conclusion. These market characteristics render the award of contracts non-transparent and, thus, do not allow for effective monitoring and detection of deviations from a possible coordination.
55. Even if, on the whole, market participants expect the market to increase, market expectations appear not homogeneous enough for sustainable coordination to take place, as deviations will be difficult to distinguish from general market trends.¹⁹

Outsiders' reaction to coordination

56. As explained above, the tools required to perform directional drilling can be transported easily and the suppliers do not face significant capacity constraints.²⁰ Efforts to raise prices or reduce capacity in a give geographical area can therefore well trigger suppliers to enter or expand their business thwarting any effect potential coordination may have.

Conclusion

57. Given the above, the Commission considers that the proposed transaction does not raise serious doubts as to its compatibility with the internal market as regards coordinated effects in the market for directional drilling services.

(ii) Supply of Drill Bits

A. Relevant Product Market

58. A drill bit is the tool which is actually in contact with the rock. It creates a hole by cutting, scraping or crushing that rock. This is usually done through a rotational motion of the drill bit located at the bottom of the drill string. Drill bits are essentially of two types: either roller cone or polycrystalline diamond compact (PDC) type.
59. The Commission has not considered the drill bits market in its past decision practice.
60. According to the parties, most major drill bit manufacturers produce both types of drills and the customers for each type are the same. The parties further argue that customers tend to procure both types of drill bits according to their needs and will often purchase drill bits from more than one supplier at the same time. For this reason, the parties consider that a market for drill bits does not need to be further segmented.

¹⁸ Other, less tangible criteria mentioned by the respondents include reliability of the supplier, safety, performance, staff quality, equipment quality, security of supply and relationship with the customer.

¹⁹ Several respondents found it very difficult to give any prediction as to the development of the DDS market, as it follows, as they claim, wider market impacts, especially the swings in oil prices. 4 respondents estimated that the market would be static in the next few years.

²⁰ See par. 23.

The market investigation has confirmed this, with an overwhelming majority of the respondents agreeing that no further market subdivision is required.

61. In any event, in the present case it is not necessary to conclude whether the market for supply of drill bits needs to be subdivided into roller cone drill bits and PDC drill bits, as the assessment of the transaction remains unchanged regardless of the product market definition considered.

B. Relevant Geographic Market

62. According to the parties, drill bits are transported around the world to where they are needed. Geological formations dictate which drill bits will be used and these differ across the geographical regions. However, this is not considered to give cause to a sub segmentation of the geographical market as each drill bit supplier has a range of drill bits able to deal with all (or at least most) different geological formation types. Customers generally demand access to a wide range of a manufacturer's drill bits wherever customers' drilling operation may be located. Consequently, the parties submit that the relevant geographic market for the supply of drill bits has a global dimension, or it is at least EEA-wide.
63. There are no Commission precedents guiding geographical market definition for the supply of drill bits.
64. It appears from the market investigation that a large majority of customers and competitors consider the market for drill bits worldwide.
65. In any event, it is not necessary to decide on the precise geographical scope of the drill bits market, since no competition concerns arise under any alternative market definition.

C. Competitive Assessment

66. Contrary to the market for directional drilling services, in the market(s) for drill bits Smith has a substantial presence whereas Schlumberger has virtually none. Schlumberger produces drill bits [...] ²¹. As can be deduced from the table below, in view of Schlumberger's market presence, both (i) on a worldwide or EEA-wide level, and (ii) under any alternative product market definition (i.e. the overall market for drilling bits or its further segmentation into roller cone drill bits and PDC drill bits) the operation does not appear to raise competition concerns.

²¹ [...].

DRILL BITS – MARKET SHARES (%) 2009				
COMPETITORS	ALL DRILL BITS		PDC	ROLLERCONCONE
	WORLD	EEA	EEA	EEA
Smith	[20-30]	[20-35]	[15-30]	[30-45]
Schlumberger	[0-5]	[0-5]	[0-5]	0.0
TOGETHER	[20-30]	[20-35]	[20-35]	[30-45]
Baker Hughes	[30-40]	[20-40]	[20-40]	[25-45]
Halliburton	[10-20]	[10-25]	[10-25]	[5-20]
NOV	[10-20]	[15-30]	[20-35]	[5-20]
Other	[5-15]	[0-10]	[0-10]	[0-10]
TOTAL	100	100	100	100

Source: Spears Oilfield Market Report 1999-2010, adapted by the parties. Parties' estimates.

67. Firstly, the increment due to the transaction is negligible ([0-5]% in the EEA and [0-5]% worldwide for the overall market for drill bits, [0-5]% in the EEA market for PDC drill bits and no increment in the EEA market for rollercone drill bits). Secondly, strong competitors will remain in the market(s) after the transaction, such as Baker Hughes, Halliburton and NOV.
68. The majority of the respondents did not indicate any negative effects of the transaction on the market(s) for drill bits. None of the respondents claimed that an insufficient number of suppliers will remain in the market(s) after the transaction. Finally, only few respondents submitted that the transaction would reinforce Schlumberger's position in these markets.

Conclusion

69. Given the moderate combined market shares and the negligible increment due to the transaction, the Commission considers that the proposed transaction does not raise serious doubts as to its compatibility with the internal market as regards the market for supply of drill bits or any of its further sub segmentations.

(iii) Supply of Completion Products and Services

A. Relevant Product Market

70. Completion products and services – of which there are various types, which are not substitutable with each other – are used once the drilling of the well has finished, preparing the well for actual production.
71. The Commission previously identified²² a relevant product market for completion products and services, essentially based on the fact that, even if the individual components of completion products and services are technically distinct, they are not substitutable and exhibit a high degree of complementarity. They are part of a chain flow and may be also purchased by well operators on a single contract basis.

²² Case COMP/M.1140-Halliburton/Dresser.

Nevertheless, the Commission did not exclude a narrower delineation of the product market.

72. The parties question whether it is appropriate to define a relevant market as broadly as one for completion products and services. They consider that the following product/service lines are typically viewed as included within completions: liner hangers, packers (and their accessories), multilateral junctions, sub-surface safety valves, bridge plugs, formation isolation valves, flow control valves, reservoir monitoring systems, downhole pumps, sand control tools, sand control screens and expandable screens. The parties do not consider perforation services²³ and down hole pumps to be part of this market.
73. The majority of the respondents to the market inquiry confirmed that the market for completion products and services constitutes the relevant product market and that further segmentation is not required. It appears from their replies that a few of the main providers are capable of providing most, if not all, of the equipment and services mentioned above.
74. In the light of the above, the Commission considers that, in the present case, the market for supply of completion products and services constitutes the relevant product market. With respect to perforation services and down hole pumps, it is not necessary to resolve upon whether or not these services/product lines belong to the completion products and services market since such conclusion would not affect the outcome of the competitive analysis.²⁴

B. Relevant Geographic Market

75. The parties consider this market to be worldwide in scope.
76. In *Halliburton/Dresser* case²⁵ the parties considered that the geographic market for the supply of completion products and services has a global dimension. However, the Commission considered the market as being, at least, EEA-wide.
77. It follows from the market investigation that a large majority of customers and competitors consider the market for completion products and services worldwide.
78. In any event, it is not necessary to decide on the precise geographical scope of the market for completion products and services, since no competition concerns arise under any alternative market definition.

C. Competitive Assessment

79. As can be deduced from the table below, the market shares of the parties on the market for completion services are moderate, both when assessed on a worldwide and on EEA-wide basis. In addition, the increment brought by the transaction is minimal: [0-5]% worldwide and only [0-5]% EEA-wide. Moreover, while a sufficient number of

²³ Perforation services entails detonating explosive charges downhole creating holes through the well casing to allow oil or gas to flow into the wellbore.

²⁴ See par. 80 below.

²⁵ Case *COMP/M.1140-Halliburton/Dresser*.

competitors is present in the market and will remain there post-transaction, the combined entity will be the fourth player worldwide and third EEA-wide.

COMPLETION SERVICES – MARKET SHARES (%) 2009		
COMPETITORS	WORLD	EEA
Schlumberger	[10-20]	[10-20]
Smith	[0-5]	[0-5]
TOGETHER	[10-20]	[10-20]
Baker Hughes	[20-30]	[25-45]
Halliburton	[20-30]	[15-35]
Weatherford	[10-20]	[10-20]
Other	[10-20]	[0-15]
TOTAL	100	100

Source: Spears Oilfield Market Report 1999-2010, adapted by the parties. Parties' estimates.

80. From an EEA-wide perspective, the fact whether perforation services or downhole pumps are included in the market for completion products and services does not appear to affect the competitive analysis, as Smith sells none of these products into the EEA. Equally, it does not appear to matter whether completion products and services are viewed as a single market or whether the constituting service / product lines are considered separate, narrower product markets. The only overlap within the EEA between the parties concerning products that are part of an overall completion market concerns so-called "packers". The parties estimate their EEA market share for the supply of packers as being [10-20]% (for Schlumberger) and [0-5]% (for Smith).
81. Additionally, the vast majority of the respondents to the market investigation considered that a sufficient number of suppliers would remain in the market after the transaction, had no or no significant objections to the proposed concentration.

Conclusion

82. In view of the above, the Commission considers that the proposed transaction does not raise serious doubts as to its compatibility with the internal market as regards the market for supply of completion products and services or any of its further sub-segmentations.

(iv) Supply of Power Sections for Drilling Motors Used In Directional Drilling Services

A. Relevant Product Market

83. Power sections are one of the two components which make up drilling motors, the other being transmission sections. Drilling motors are in turn part of the directional drilling services.
84. In Commission's decision practice, no precedents exist regarding power sections for drilling motors. The parties propose that the relevant product market is a market for the supply of power sections for motors used in directional drilling services.

85. The results of the market investigation did not confirm the market definition proposed by the parties. The majority of respondents regard power sections and motors as part of the wider product market for directional drilling services. According to the respondents, drilling motors are only one of the potential tools used in the directional drilling services. They are often acquired as part of the directional drilling packages from the same supplier. Power sections also form part of these packages mostly due to the compatibility requirements. However, some of the respondents also indicated the existence of a separate market for drilling motors, including power sections, as well as few respondents considered power sections as a separate market.
86. In any case, given that no competition concern would arise under any delineation, the Commission considers that the exact market definition can be left open for the purposes of this case.

B. Relevant Geographic Market

87. Power sections are easily transported where they are required. However, the parties claim that power sections need to be relined periodically during the lifetime of a drilling motor. Consequently, producers of power sections generally supply power sections and provide reconditioning services on a regional basis. The parties therefore consider that the geographic market for the provision of power sections is EEA-wide.
88. There is no Commission precedent for power sections.
89. According to the findings of the market test, a vast majority of customers and competitors consider the market for the supply of power sections to be of a global dimension.
90. In any event, it is not necessary to decide on the precise geographical scope of the power sections market, since no competition concerns arise under any alternative market definition.

C. Competitive Assessment

91. Schlumberger does not manufacture components of drilling motors but acquires them from third parties and assembles them at its facility in the UK, where it produces complete drilling motors. Smith manufactures power sections through its US-based Dyna-Drill business,, but does not sell these products into the EEA. Thus, Schlumberger does not acquire power sections in the EEA from Smith.
92. Other than Smith, the parties submit, Baker Hughes is the only directional drilling services company that engineers and manufactures its own motors and power sections for captive use in its own directional drilling services. In addition, Weatherford has recently acquired ASL, a company which manufactures power sections. All other directional drilling services companies' source motor components from third party suppliers.

Input foreclosure

93. There appears to be no risk of input foreclosure following the transaction if an EEA-wide market were to be considered. Smith does not sell its power sections into the EEA and, thus, these do not currently represent an input for the provision of directional drilling services in the region.

94. On an alternative worldwide market for the supply of power sections, Smith's total production of power sections accounts for around [...] of un-integrated sales. On the same potential geographic market, if the production of all integrated companies were to be regarded, Smith's share would drop to ca. [...].²⁶ Hence, and according to the parties, customers for power sections would have substantial un-integrated sources of supply (NOV, Robbins & Myers, and Kachele in EEA), such that a hypothetical refusal by the merged entity to supply power sections would not have a significant competitive effect.
95. The market investigation confirmed the parties' arguments. The overwhelming majority of customers considered that the transaction will have no or very limited impact on the market for the provision of power sections, since a sufficient number of suppliers will remain in the market after the transaction.

Demand foreclosure

96. There appears to be no risk of demand foreclosure. Schlumberger declares to have no immediate plans to change its current EEA-suppliers of power sections after the transaction. To support this claim, the parties submit that power sections require local presence to provide for re-lining services, and neither Smith nor Schlumberger have such facilities located in the EEA²⁷. Yet, in this regard, the market investigation did not corroborate the parties' allegation. The vast majority of respondents underlined that power sections can be easily shipped from the plant to any other location.
97. However, even if post-transaction Schlumberger were to source all its power sections for its directional drilling services work in the EEA from Smith, this would not have a negative impact on competition. In such a case, the remaining directional drilling services companies would still account for an ample source of demand for the Schlumberger's current power sections suppliers.
98. The majority of the respondents to the Commission's enquiries had no strong objections to the transaction in this regard. Therefore, it is unlikely that the proposed concentration will give rise either to input or demand foreclosure post-transaction.

Conclusion

99. In light of the above, the Commission considers that the proposed transaction does not raise serious doubts as to its compatibility with the internal market as regards the market for power sections.

²⁶ Parties' estimates.

²⁷ Schlumberger does have a facility in the UK where it assembles drill motors. However, it appears this facility is not equipped for relining power sections.

VI. CONCLUSION

100. For the above reasons, the Commission has decided not to oppose the notified operation and to declare it compatible with the internal market and with the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of the Merger Regulation.

For the European Commission,
(Signed)
Neelie KROES
Vice-President of the Commission