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***Case No COMP/M.6854 - CAMERON/ SCHLUMBERGER/
ONESUBSEA***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 15/04/2013

***In electronic form on the EUR-Lex website under
document number 32013M6854***



EUROPEAN COMMISSION

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 Where possible the information omitted has been replaced by ranges of figures or a general description.

Brussels, 15.4.2013
C(2013) 2260 final

PUBLIC VERSION

MERGER PROCEDURE

To the notifying parties:

Dear Sir/Madam,

**Subject: Case No COMP/M.6854 – Cameron/ Schlumberger/ OneSubsea
Commission decision pursuant to Article 6(1)(b) of Council Regulation
No 139/2004¹**

- (1) On 8 March 2013, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 by which Cameron International Corporation ("Cameron", United States of America) and Schlumberger Limited, also referred to as Schlumberger N.V. ("Schlumberger", The Netherlands) acquire within the meaning of Article 3(1)(b) of the Merger Regulation joint control of the undertaking OneSubsea ("OneSubsea", United States of America and Kingdom of the Netherlands, Luxembourg or Ireland) by way of purchase of shares in a newly created company constituting a joint venture (Cameron and Schlumberger are designated hereinafter as the "notifying parties" or "parties to the proposed transaction").

1. THE PARTIES

- (2) **Cameron** is a global provider of flow equipment products and services used by the oil, gas, and process industries. In the oil and gas production industry, Cameron's equipment is used primarily above the wellhead.
- (3) **Schlumberger** is a global oilfield products and services company supplying technology, information solutions, and integrated project management for oil and gas customers.

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.

- (4) **OneSubsea** is a newly created company constituting a joint venture that will be active in the manufacture, development and supply of products, systems and services for subsea oil and gas production.

2. THE OPERATION

- (5) The proposed transaction consists of the acquisition by Cameron and Schlumberger of joint control of OneSubSea. Cameron and Schlumberger will respectively acquire 60% and 40% of the voting securities in two separate legal entities, together constituting OneSubsea. Cameron and Schlumberger intend to combine the subsea production systems portions of Cameron's Drilling & Production Systems business unit and Schlumberger's Framo Engineering division, its Diamould electrical and signal connector business, and its flow assurance consultancy and surveillance businesses.

3. THE CONCENTRATION

- (6) OneSubsea will be jointly controlled by Cameron and Schlumberger. OneSubsea will be a separately run business with its own resources, personnel and assets and it will perform all the activities normally carried out by any other independent company operating on the same market(s).

Joint control

- (7) OneSubsea will be jointly controlled by Cameron and Schlumberger. Given its 40% shareholding in both legal entities making up the joint venture, Schlumberger will have the power to appoint two out of the five representatives on the Executive Committee. Even though the Executive Committee will generally adopt its decisions by simple majority, Schlumberger will nonetheless have a veto right over the approval of the annual financial plan and the strategic plan², [...].
- (8) The veto rights listed above go beyond those normally accorded to minority shareholders, in particular because of Schlumberger's negative decisive influence over the joint venture's business plan, the appointment of senior management and the adoption of the annual financial plan.³ It results that both Cameron and Schlumberger will have joint control over OneSubsea.

Full functionality

- (9) The parties will contribute the main part of their respective subsea businesses to the joint venture and neither of them will be active in the supply of products or services covered by those contributed businesses post-transaction. Accordingly, the joint venture will have its own assets, capital, human resources (the relevant employees currently employed by the parties will become employees of the joint venture) and management dedicated to direction and management of the joint venture's day-to-day activities. Accordingly, the joint venture will operate as an autonomous

² The parties submit that the strategic plan is essentially the business plan, setting out growth plans, strategic initiatives, capital costs and earnings contribution.

³ Commission's Consolidated Jurisdictional Notice (OJ C95, 16.04.2008, p1), Recital 69 through 73.

economic entity, performing the functions normally carried out by undertakings operating on the same market.⁴

- (10) The joint venture is also established on a lasting basis, as the formation agreement⁵ does not include a termination date and the venture has not been established in connection with one specific project.
- (11) In light of the above, the transaction constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

4. EU DIMENSION

- (12) The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 000 million⁶ (Cameron: EUR 4 999 million; Schlumberger: EUR 28 405 million). Each of them has an EU-wide turnover in excess of EUR 250 million (Cameron: EUR [>250] million; Schlumberger: EUR [>250] million), but they do not achieve more than two-thirds of their aggregate EU-wide turnover within one and the same Member State. The notified operation therefore has an EU dimension.

5. COMPETITIVE ASSESSMENT

- (13) The joint venture will be active in the offering of products and services that will be used subsea to extract (as well as optimise the extraction process of) hydrocarbon reserves (oil and gas) from reservoirs located offshore in deep-water. Unlike surface production and processing equipment, the product offerings of the joint venture will be installed and operated on the seabed while the related services are specific to the subsea segment of offshore oil and gas production and processing.

A. Horizontal relationships

1. Relevant product and geographic markets

- (14) The notifying parties indicate that out of the 70 000 to 80 000 wells (for hydrocarbon production) completed annually on a worldwide basis, around 3 500 are completed offshore. Around 15% of those 3 500 are considered to be subsea. The notifying parties submit that subsea production and processing equipment has fundamentally different characteristics to similar production and processing equipment that is used at the surface level, due to the need to withstand the extreme pressure, temperature, and corrosive conditions of operating on the seabed in salt water oceans in depths as great as 3 000 meters. More, the subsea equipment needs to be capable of being serviced and maintained through the use of remotely operated underwater vehicles. Accordingly, topside (surface) production and processing equipment would not be substitutable with subsea production and processing equipment.
- (15) With regard to support activities for petroleum and natural gas extraction, the Commission has previously only established a separate subsea market in relation to

⁴ Commission's Consolidated Jurisdictional Notice (OJ C95, 16.04.2008, p1), Recital 91 through 94.

⁵ Master Formation Agreement by and among Cameron and Schlumberger of 14 November 2012.

⁶ Turnover calculated in accordance with Article 5 of the Merger Regulation.

(submarine) pipelaying, considering that the services involved include remotely operated vehicle services, diving services and survey and positioning services.⁷ Also, the Commission has previously assessed a potential separate market for well completion products and services with an application offshore in deep water without finally concluding on the issue.⁸ The notifying parties submit that the joint venture will not be active in either of these markets. As regards potential relevant product markets concerned with the proposed transaction, the parties supply subsea products both at the downstream level to exploration and production ("E&P") customers, as well as at the upstream level to competitors.

Relevant downstream product markets

- (16) The notifying parties state that the joint venture will be active in the following three downstream segments of a subsea market: (1) subsea production systems ("SPS", essentially comprising the infrastructure of a subsea oil or gas field); (2) subsea processing components (used to optimise efficiency and production from a producing subsea oil or gas well), and; (3) other related products and services.
- (17) The relevant products that will be contributed by **Cameron** to the joint venture and that are encompassed by the abovementioned subsea segments are: subsea Christmas trees (an assembly of gate valves, spools, and fittings that is directly fixed to the top of an underwater wellhead for directing and controlling the flow of oil, gas and other fluids), subsea wellheads (system of spools, valves and assorted adaptors that provide pressure control of a production well), subsea manifolds (an assembly of pipes, chokes, and flowline connectors housed in a fabricated steel frame, serving as a collection point for commingling the oil and gas from several wells), subsea production control systems (consist of subsea and topside control pods/boxes that together allow for the issuing of commands to the subsea equipment), subsea mechanical connectors (used to connect subsea equipment to flowlines and jumpers which transmit the produced fluids to and from the subsea equipment), jumpers (short flowlines that are used to connect certain subsea equipment to wells and to each other), Early Engineering Engagement ("EEE") services (involving preparing engineering and technological solutions for a subsea oil and gas field prior to project execution), and subsea well access packages (devices that provide access to the well in order to allow for various services to be conducted in the wellbore).
- (18) The relevant products that will be contributed by **Schlumberger** to the joint venture and that are encompassed by the abovementioned subsea segments are: subsea multi-phase flow meters ("MPFMs") (used to provide well flow information by direct *in situ* measurement of the unprocessed well stream), subsea booster pumps (used to increase production and fluid flow from an oil well), subsea compression systems (allowing for the compression of gas on the ocean floor, instead of on the surface), subsea water injection systems (involves the injection of seawater into a well at high pressure in order to maintain well pressure and increase or maintain the flow of oil and gas), subsea electrical power and signal connectors (used to connect subsea equipment to the umbilical which in turn transmits power and transmits and receives signals between the topside facility and the subsea equipment), flow assurance consulting services (ensures the successful and economical flow of the hydrocarbon

⁷ COMP/M.2842 – Saipem / Bouygues Offshore, Commission decision of 2 July 2002.

⁸ COMP/M.1976 – Shell / Halliburton / Well Dynamics JV, Commission decision of 15 March 2001.

stream from the reservoir to the refinery), subsea sampling (a service which allows the collection of fluid samples from various points of the subsea production system on the seabed floor), surveillance (enables real-time monitoring of the subsea equipment) and marine swivels and marine systems (offshore systems that ensure that all fluids, controls, and power are transferred safely from the geo-stationary components to the rotating surface vessel).

- (19) As regards subsea production systems, the notifying parties further submit that a potential relevant product market for the supply of integrated subsea production systems exists, separate from markets for the supply of individual subsea production components (equipment). Subsea production systems can range in complexity from a single satellite well with a flowline linked to a fixed platform, vessel or an onshore installation, to several wells on a template or clustered around a manifold, and transferring to a fixed or floating facility, or directly to an onshore installation. The following subsea production components could further constitute separate relevant product markets: subsea Christmas trees (produced by Cameron), subsea electrical power connectors (produced by Schlumberger), subsea electrical signal connectors (produced by Schlumberger), subsea manifolds (produced by Cameron), subsea wellheads (produced by Cameron) and subsea jumpers (produced by Cameron).
- (20) As regards subsea processing components, the notifying parties however indicate that no relevant product market exists for the supply of integrated subsea processing systems.⁹ The following subsea processing components could constitute separate relevant products markets: subsea separation systems (the notifying parties submit that neither Schlumberger nor Cameron currently have a commercial offering in this respect), subsea boosting (comprising subsea booster pumps¹⁰ produced by Schlumberger and subsea compressors produced by Schlumberger), and subsea water injection systems (produced by Schlumberger).
- (21) As regards other related products and services, the notifying parties finally indicate that this segment consists of several separate relevant product markets, being: subsea metering and subsea Multi-Phase Flow Meters ("MPFMs"), subsea sampling, subsea Front-End Engineering and Design ("FEED"), flow assurance consulting, subsea well intervention access equipment and systems, subsea surveillance, and marine swivels.

Relevant upstream product markets

- (22) The notifying parties currently also produce a number of upstream input components to subsea Christmas trees and SPSs respectively, which will be supplied by the parents to the joint venture post-transaction. These upstream components are: subsea chemical injection valves ("CIVs"), subsea chokes, and subsea gate and ball valves.
- (23) In the absence of any horizontal overlaps between the notifying parties' activities, these potential (upstream and downstream) markets were examined by the Commission insofar as they could give rise to vertically affected markets. The Commission's market investigation confirmed that, based on product characteristics,

⁹ Due to the way in which processing is procured and supplied.

¹⁰ Within the potential relevant market for subsea booster pumps, the parties consider subsea single-phase booster pumps, subsea multi-phase booster pumps (encompassing both twin screw and helico-axial subsea booster pumps) and non-wellbore electric submersible pumps to compete with one another.

requirements set by E&P customers, intended use and price, that each of the following subsea products constitutes a separate relevant product market: subsea production systems, subsea gate and ball valves, subsea CIVs, subsea chokes, subsea electrical connectors (encompassing both subsea electrical power connectors and subsea electrical signal connectors), subsea MPFMs, subsea booster pumps, subsea Christmas trees and subsea manifolds. Apart from subsea booster pumps, none of the respondents to the market investigation considered a narrower sub-segmentation appropriate.

- (24) As regards subsea booster pumps, the vast majority of respondents to the market investigation considered the relevant product market to encompass subsea single-phase booster pumps (both centrifugal and hybrid), subsea multi-phase booster pumps (encompassing both twin screw and helico-axial subsea booster pumps) and non-wellbore electric submersible pumps. A majority of respondents also indicated that they would be capable of switching between different suppliers of subsea booster pumps. However, although these products serve a similar technical purpose and can be used subsea, the market investigation also provided indications that the degree to which customers will consider the different subsea booster pumps interchangeable depends on the characteristics of the specific subsea environment. Indeed, a majority of respondents explained that the composition of the well flow (e.g. the gas-to-oil ratio and the degree of viscosity) can limit the substitutability of the different aforementioned pumps. A number of respondents in this respect explained that, although technically substitutable, subsea helico-axial booster pumps are more suited for coping with high gas-to-liquid ratios than subsea twin-screw booster pumps. Accordingly, based on consumer preference relating to technical capabilities, it cannot be ruled out that for certain subsea production projects, subsea helico-axial booster pumps constitute a separate relevant product market.
- (25) In any event, for the purposes of this decision, the exact delineation of the relevant product markets can be left open as the proposed transaction will not give rise to competition concerns, irrespective of the market definition retained.

Relevant geographic market

- (26) As regards the relevant geographic market, the parties claim that within the subsea production and processing segment only worldwide markets exist. According to the parties, customers tend to source all of these products and services on a worldwide basis and the sourcing policy of the relevant customers would not be influenced by the manufacturing location of the supplier. Furthermore, the parties claim that subsea products are necessarily used at offshore locations, as part of large-scale production projects, meaning that the relevant geographic scope is not linked to any particular country.
- (27) The vast majority of respondents to the Commission's market investigation considered the conditions of competition to be similar at a global level. Indeed, a number of respondents explained that suppliers of subsea products generally meet a worldwide demand, due to the limited size of the supply market, the geographic coverage of the existing suppliers of subsea products, the advanced technological nature of the products involved, a lack of regulatory requirements and the limited transportation costs relative to the total price of these products. The market investigation also indicated that a local or regional market presence of suppliers of subsea products is generally considered important by downstream E&P customers.

According to some respondents, although local market presence is an important requirement for E&P customers to award contracts for the supply of subsea products, most of the suppliers active within the subsea segment are capable of quickly accessing any specific subsea project from their regional headquarters. Also, one competitor indicated that local presence can be established as part of the supply agreement for a specific subsea project. In that regard, a large majority of respondents indicated that they were not aware of any supplier of SPSs to operate on a less than world-wide basis.

- (28) In any event, for the purposes of this decision, the exact delineation of the relevant geographic markets can be left open as the proposed transaction will not give rise to competition concerns, irrespective of the market definition retained. The Commission has also assessed the impact of the proposed transaction on the basis of EEA-wide markets.¹¹

2. Competitive assessment

- (29) The parties claim that their activities in the subsea segment are complementary. Given that Cameron will be contributing its subsea production products and services to the joint venture, while Schlumberger will be contributing its subsea processing products and services as well as other related products and services, the parties' activities do not overlap at a horizontal level. Accordingly, the proposed transaction does not give rise to any horizontally affected markets.¹²

B. Vertical relationships

1. Relevant product and geographic markets

- (30) On the basis of the narrowest possible delineation of the relevant product and geographic markets set out above, the proposed transaction would give rise to seven separate, vertically affected markets. These markets are set out in the below table and described in further detail in the subsequent paragraphs.

¹¹ The parties submit that although Cameron does not have exact EEA market shares for any of the products that it will contribute to the joint venture, it nonetheless confirmed that, on the basis of its best estimates, its market share in the EEA generally follows the level of its market share on a worldwide basis.

¹² As defined in part III of section 6 of Form CO Relating to the Notification of a Concentration pursuant to Regulation (EC) No 139/2004.

No	Upstream Input	Downstream Product
1	Subsea gate & ball valves (Cameron, around [20-30]% worldwide)	subsea Christmas trees (Cameron/OneSubsea, [20-30]% worldwide)
2	Subsea CIVs (Cameron, [10-20]% worldwide)	subsea Christmas trees (Cameron/OneSubsea, [20-30]% worldwide)
3	Subsea chokes (Cameron, [50-60]% worldwide)	subsea Christmas trees (Cameron/OneSubsea, [20-30]% worldwide)
4	Subsea electrical connectors (Schlumberger/OneSubsea, [5-10]% EEA)	subsea Christmas trees (Cameron/OneSubsea, [20-30]% worldwide)
5	Subsea chokes (Cameron, [50-60]% worldwide)	subsea manifolds (Cameron/OneSubsea, [10-20]% worldwide)
6	Subsea booster pumps (Schlumberger/OneSubsea, [90-100]% EEA)	SPS (Cameron/OneSubsea, [20-30]% worldwide)
7	Subsea MPFMs (Schlumberger/OneSubsea, [70-80]% EEA)	SPS (Cameron/OneSubsea, [20-30]% worldwide)

- (31) Firstly, several subsea production and processing components constitute an input to subsea Christmas trees, in which segment the parties' market share amounts to [20-30]% at worldwide level. The following upstream subsea products constitute an input to subsea Christmas trees: (1) subsea gate and ball valves (around [20-30]% worldwide), (2) subsea CIVs ([10-20]% worldwide), (3) subsea chokes ([50-60]% worldwide), (4) subsea electrical connectors ([0-5]% worldwide and [5-10]% in the EEA).
- (32) Secondly, (5) subsea chokes ([50-60]% worldwide) also form an upstream input to subsea manifolds. Cameron currently holds a market share of around [10-20]% of the latter market at worldwide level.
- (33) Thirdly, several subsea production and processing components constitute an input to subsea production systems that are currently supplied by Cameron. While Cameron's worldwide market share for the supply of subsea production systems is estimated by the parties to amount to [20-30]%, the parties' market shares in respect of the following upstream inputs exceed 25%: (6) subsea booster pumps ([90-100]% both in the EEA and worldwide), and (7) subsea MPFMs (around [50-60]% worldwide and around [70-80]% in the EEA).

2. *Competitive assessment*

- (34) It should be noted that the vertical relationships numbered (1), (2), (3), and (5) above, all of which involve products that are currently produced by Cameron, are pre-existent to the transaction. Cameron already produces both the upstream inputs and the downstream SPSs and will simply continue to supply the joint venture post-transaction.
- (35) As far as the vertical link numbered (4) above is concerned, even though it is not pre-existent to the transaction, it should be noted that the market shares involved ([5-10]% and [20-30]% at the upstream and downstream level in the EEA respectively) are limited. Moreover, the parties will face competition post-merger from a number of strong competitors upstream such as Teledyne ([30-40]% worldwide market share and [30-40]% EEA market share) and Tronic ([40-50]% worldwide market share and [40-50]% EEA market share). As regards subsea chokes, involved with the vertical link numbered (5) above, a majority of respondents to the Commission's market investigation indicated that in order to meet their demand, they would be capable of switching between upstream suppliers, identifying numerous qualified suppliers that would remain post-merger (such as e.g. Masterflo, Kent-Introl, FMC and GE). A number of respondents furthermore explained that switching through re-tendering of supply contracts would involve limited cost and lead time, at least for projects not yet constructed. Also, the vertical relationships numbered (1) and (2) do not involve market shares which exceed 30% at either level of the respective supply chains.
- (36) The parties submit that the proposed transaction will neither lead to customer foreclosure in view of the limited market shares, pre-existent vertical relationships and remaining strong competitors such as GE, FMC and Aker who will serve as significant sources of demand.
- (37) Given that (i) the above vertical relationships are either pre-existent to the proposed transaction or involve limited market shares, (ii) several strong competitors remain post-merger for each of the upstream inputs, and (iii) the parties' relevant market shares do not lead to any increment, the joint venture is unlikely to have the ability and incentive to engage in any foreclosure scenario. The Commission therefore considers that the concentration does not raise serious doubts as to its compatibility with the internal market in relation to these vertically affected markets, numbered (1) through (5) above.
- (38) The proposed transaction finally gives rise to vertically affected markets that are numbered (6) and (7) above. As these links are not pre-existent to the transaction and involve high market shares, they will be dealt with in further detail below.

Input foreclosure

Subsea booster pumps (upstream) – subsea production systems (downstream)

- (39) Subsea booster pumps are used to increase production and fluid flow from an oil well by using a subsea pump to add energy to the system and provide the pressure needed from the reservoir to transfer production to the sea surface. Two main types

of booster pumps exist, i.e. helico-axial booster pumps and twin-screw booster pumps, both being multi-phase booster pumps with differing characteristics in respect of e.g. handling capability for free oil to gas ratios and impurities. The parties submit that both types of pumps compete with one another as well as with subsea single-phase booster pumps and non-wellbore electric submersible pumps.

- (40) As mentioned above, it cannot be ruled out, from the customer's perspective, that for certain subsea projects, subsea helico-axial booster pumps are not substitutable with subsea single-phase booster pumps, subsea twin screw booster pumps and non-wellbore electric submersible pumps. In those instances, the parties hold a [90-100]% market share.
- (41) In this respect, the parties indicated that FMC has developed a competing subsea helico-axial booster pump.¹³ In the market investigation one respondent considered itself a direct competitor to the parties for the supply of subsea helico-axial booster pumps, whilst another respondent explained to be in the process of developing a competing technology. Indeed, as stated above, a majority of respondents to the market investigation also indicated that they would currently be capable of switching between different suppliers of subsea booster pumps. Accordingly, despite the parties' [90-100]% market share, downstream (E&P and SPS) customers are not precluded from switching their supply of subsea booster pumps to different suppliers.
- (42) The parties submit that the joint venture will have neither the ability nor the incentive to foreclose competitors. As regards an ability to foreclose competitors, the parties claim that booster pumps were only used in [...] out of [...] subsea projects that were awarded to SPS providers over the past three years. The parties estimate that booster pumps will be installed in less than 25% of the 200 deep water subsea fields that will be in operation by the end of 2016. The parties further submit that the patents relating to their subsea helico-axial booster pump have expired and that any manufacturer can therefore now use the technology to develop a helico-axial booster pump. Accordingly, the importance of booster pumps as an input to subsea production systems would be limited.
- (43) The parties further submit that, even in those cases where booster pumps are exceptionally supplied through competing SPS providers, the joint venture would neither have the ability nor the incentive to engage in an input foreclosure strategy given the transparency of the booster pump market. According to them, E&P customers are aware of the upstream prices and would simply procure the required booster pump directly from the upstream supplier, if faced with a price increase for booster pumps supplied through competing SPS providers.
- (44) Indeed, the majority of respondents to the Commission's market investigation did not consider subsea booster pumps manufactured by the parties to constitute an essential input for the supply of downstream SPSs. Various respondents indicated that they source all of their input requirements for their downstream supply of SPSs from suppliers other than the notifying parties, which supports the parties' claim in this

¹³ The website of FMC features the following line: *FMC Technologies and Sulzer Pumps Ltd. have collaborated on a new, high speed 3.2 MW, 5,000 psi helico-axial pump solution (...)* (cf. <http://www.fmctechnologies.com/en/SubseaSystems/Technologies/SubseaProcessingSystems/SubseaPumping/Spotlight/Technologies/MultiphasePumps.aspx>).

regard. At the same time, a majority of respondents does not expect that subsea booster pumps will in the near future constitute a prerequisite for the awarding of SPS contracts by E&P companies.

- (45) The parties also indicate that E&P companies determine whether a subsea booster pump is to be used as part of a specific subsea project and source these almost always directly from upstream suppliers. Furthermore, the parties submit that in the event subsea booster pumps are supplied as part of a SPS, they represent less than [...] of the cost of the overall subsea production system.
- (46) On the basis of the above, the Commission considers that the parties' ability to foreclose competitors in respect of subsea booster pumps is limited.
- (47) As regards an incentive to foreclose competitors, the parties submit that given the limited size of their subsea booster pump business when compared to their subsea production systems business, they would not have an incentive to attempt to raise prices or downstream rivals' costs due to the risk of losing their much larger downstream business to competitors. Moreover, the parties indicate that almost all subsea booster pumps are procured directly by the relevant end-customer (E&P companies), and therefore foreclosing the supply of subsea booster pumps to competing SPS providers would not affect their downstream competitors' ability to effectively supply SPSs. Accordingly, any foreclosure strategy would merely jeopardise its business relationship with the downstream E&P company, without affecting the profit generated from its supply of subsea production systems.
- (48) According to the parties, the profitability of a foreclosure strategy would be limited, given that the upstream margin (generated by the supply of subsea booster pumps) that the parties would forego ([...] in average for the period 2010-2012) exceeds the downstream margin generated by an increase of sales of subsea production systems ([...] in average for 2012).¹⁴
- (49) The market investigation confirmed that subsea booster pumps (including those manufactured by the parties) do not currently constitute critical components of the downstream SPSs. More, subsea booster pumps represent only a limited proportion of the total cost of producing a SPS (around [...]).
- (50) Accordingly, the Commission considers that the notifying parties do not have an incentive to foreclose their supply of subsea booster pumps to competing SPS providers, given that any foreclosure would likely result in only a limited increase in their downstream sales of SPSs, which would likely not offset the decrease in sales of subsea booster pumps.¹⁵
- (51) The absence of either an ability or an incentive to foreclose their supply of subsea booster pumps to competing SPS providers is furthermore supported by the market investigation, as the vast majority of the respondents indicated that they did not expect the proposed transaction to have any impact on either the availability or the price of subsea (multi-phase helico-axial) booster pumps.

¹⁴ Cf. Commission's non-horizontal guidelines (OJ C-265/07), paragraph 41.

¹⁵ Cf. Commission's non-horizontal guidelines (OJ C-265/07), paragraph 42.

- (52) The Commission therefore considers that the concentration does not raise serious doubts as to its compatibility with the internal market in relation to the vertically affected markets of subsea (multi-phase helico-axial) booster pumps and subsea production systems as a result of input foreclosure.

Subsea MPFMs – subsea production systems

- (53) Subsea MPFMs are used to provide well flow information by taking measurements of the individual flow rates (and volumes) of the amount of oil, gas and water in the flow of produced fluids from a well.
- (54) The parties explain that MPFMs are mostly supplied by upstream manufacturers directly to end-customers (E&P companies). When MPFMs are supplied through SPS providers, the E&P company either indicates to the SPS provider which supplier it must source the MPFM from, or it sets out the technical specifications for the MPFM and requires that the SPS provider procures the MPFM under a sub-contract.
- (55) According to the parties the joint venture would not have an ability to engage in any foreclosure strategy in relation to the supply of MPFMs to competing SPS providers as: (i) MPFMs are designed to be standalone units and are as such not standard elements of an SPS; (ii) end-customers are aware of the cost, value, quality and functions of MPFMs, as they generally procure these directly from upstream manufacturers while setting the technical requirements themselves; (iii) viable competitors remain on the upstream market post-merger (Roxar and MPM with a [10-20]% and [5-10]% share of the EEA market respectively)¹⁶; (iv) MPFMs generally cost between EUR 375 000 and EUR 650 000, thus representing a minor share of the total price of a typical SPS contract (which can range up to EUR 75 million)¹⁷; and (v) the large E&P end-customer can sponsor entry of a new supplier upstream¹⁸ when faced with an increase in price of a preferred SPS, given their history of product development in the subsea segment.
- (56) The joint venture would furthermore not have the incentive to foreclose its downstream competitors, given the likelihood of retaliation across the board of its subsea products by the end-customer in the event the latter would be faced with a price increase or quality degradation as regards competing SPS providers' offerings.
- (57) The Commission's market investigation confirmed that: (i) the vast majority of respondents did not consider subsea MPFMs manufactured by the parties to constitute an essential input for the supply of downstream SPSs; (ii) a vast majority of respondents also indicated to be capable of switching to different suppliers for their subsea MPFMs requirements while the associated switching cost and lead time seems to be limited; and (iii) various respondents explained that FMC and Roxar are currently qualified (alternative) suppliers of subsea MPFMs. Moreover, the Commission's market investigation has shown the vast majority of respondents to expect the parties' competitors in the subsea production and processing business to

¹⁶ Moreover, the parties indicate that both GE and Piero Fiorentini are developing a subsea MPFM, with Piero Fiorentini intending to enter the subsea MPFM market still in 2013 (already promoting this product on its website).

¹⁷ Cf. Commission's non-horizontal guidelines (OJ C-265/07), paragraph 34.

¹⁸ Schlumberger e.g. explained that the helico-axial booster pump technology was developed through licenses granted to it by different E&P customers.

similarly expand their current activities as well as to integrate further at a vertical level.

- (58) On the basis of the above, in particular the fact that subsea MPFMs represent a limited cost factor relative to the price of downstream SPSs, and as SPS customers consider the parties' input interchangeable with that produced by other upstream suppliers, the Commission considers that the parties' ability to foreclose the input of MPFMs is limited.
- (59) The Commission also considers that the parties are likely to lack an incentive to foreclose competitors, given that (based on information provided by the parties) the profitability of any foreclosure strategy would be limited as the upstream margin generated from the sale of MPFMs that the parties would forego ([...] % in average for the period 2010-2012) exceeds the downstream margin generated from the potential increase of sales of subsea production systems ([...] % in average for 2012).¹⁹ More, subsea MPFMs represent only a limited proportion of the total cost of producing a SPS. Accordingly, even in the event the notifying parties would have the ability to foreclose their supply of subsea MPFMs to competing SPS providers, they would not have an incentive to do so, given that any foreclosure would likely result in only a limited increase in their downstream sales of SPSs.²⁰
- (60) The absence of either an ability or an incentive to foreclose competitors is supported by the market investigation, as the vast majority of the respondents indicated that they did not expect the proposed transaction to have any impact on either the availability or the price of subsea MPFMs.
- (61) The Commission therefore considers that the concentration does not raise serious doubts as to its compatibility with the internal market in relation to the vertically affected markets of MPFMs and subsea production systems as a result of input foreclosure.

Customer foreclosure

- (62) As regards subsea booster pumps and subsea MPFMs, the notifying parties are similarly unlikely to be capable of foreclosing customers, given that they represent only a limited share of the downstream demand (due to the notifying parties' [20-30] % share of the SPS market at either worldwide or EEA level), while several strong competitors will serve as significant sources of demand post-merger.²¹ Moreover, the notifying parties' indicated that in 2012, it supplied a majority of its MPFMs directly to E&P customers, while its subsea booster pumps are almost always supplied directly to E&P customers; in such cases, a customer foreclosure scenario cannot occur. The parties accordingly submit that supplies made to SPS providers generally constitute a limited share of total demand. Therefore, a decision of the joint venture to source all of its MPFMs and booster pumps requirements internally would have a limited impact on the total demand for subsea MPFMs and subsea booster pumps.

¹⁹ Cf. Commission's non-horizontal guidelines (OJ C-265/07), paragraph 41.

²⁰ Cf. Commission's non-horizontal guidelines (OJ C-265/07), paragraph 42.

²¹ Cf. Commission's non-horizontal guidelines (OJ C-265/07), paragraph 61.

- (63) The Commission therefore considers that the concentration does not raise serious doubts as to its compatibility with the internal market in relation to the vertically affected markets of subsea (helico-axial) booster pumps and subsea MPFMs with subsea production systems as a result of customer foreclosure.

Conglomerate effects

- (64) The joint venture will combine Cameron's and Schlumberger's offerings relating respectively to subsea production and subsea processing. Currently, competing firms such as General Electric, Aker and FMC already offer a combination of subsea production and subsea processing components, meaning that the joint venture is likely to create a more effective competitor to the companies mentioned. Also, as mentioned above, the complementary offerings of the joint venture do not seem to be essential inputs on any of the related markets.
- (65) The Commission therefore considers that the concentration does not raise serious doubts as to its compatibility with the internal market as a result of conglomerate effects.

Cooperative effects of the joint venture

- (66) Although Cameron and Schlumberger will both retain activities outside the joint venture in the field of topside treatment of produced water and sand, the parties claim that any competitive overlap is highly limited. Cameron currently supplies equipment and services for the topside treatment of produced water and sand while Schlumberger mainly provides topside treatment of produced water and sand. Cameron and Schlumberger's activities outside the joint venture furthermore only overlap, to a limited extent, as regards certain mud (used for drilling) mixing and handling equipment. Finally, Cameron currently provides topside separation while the joint venture will be seeking to develop a subsea separation system. Schlumberger is not active, nor does it intend to become active in the future, in either topside or subsea separation. The parties claim that subsea separation cannot be substituted with topside separation, constituting different markets. Due to the higher cost of subsea separation, any such system will namely only be opted for in projects that require the specific capacities of subsea separation.
- (67) Accordingly, Cameron and Schlumberger would not retain activities in the same market(s) as the joint venture, nor in markets that are upstream or downstream from that of the joint venture nor in a neighbouring or closely related market. Indeed, the limited overlaps between the parents' activities are mainly involved with support activities for topside (rather than subsea) oil & gas extraction.
- (68) Furthermore, Cameron and Schlumberger would in any case not have the ability or an incentive to cooperate in respect of these activities, as they would face competition from a large number of competing suppliers while the limited overlap only represents a small proportion of both parents' overall businesses. The parties therefore claim that the proposed transaction will not give rise to any cooperative effects.

- (69) Given the fact that (i) the competitive overlap in the parents' activities is unrelated to any of the markets on which the joint venture will be active²², (ii) the competitive overlap would only represent a limited proportion of both parents' overall businesses, and (iii) the parents would in this segment face competition from a large number of competing suppliers, the Commission considers that the proposed acquisition is unlikely to give rise to any spill-over effects.

6. CONCLUSION

- (70) For the above reasons, the European 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 Commission
(Signed)
Joaquín ALMUNIA
Vice-President

²² Cf. Article 2(5) of the Merger Regulation.