

**CHC Helicopter Corporation
and
Helicopter Services Group ASA**

A report on the merger situation



COMPETITION COMMISSION

CHC Helicopter Corporation and Helicopter Services Group ASA

A report on the merger situation

**Presented to Parliament by the Secretary of State for
Trade and Industry by Command of Her Majesty
January 2000**

Members of the Competition Commission as at 15 December 1999

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¹These members formed the Group which was responsible for this report under the chairmanship of Mr P G Corbett.

Note by the Department of Trade and Industry

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The omissions are indicated by a note in the text or, where space does not permit, by the symbol ✂.

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Part I

Summary and Conclusions

1 Summary

1.1. On 17 September 1999 the Secretary of State referred to us the acquisition by CHC Helicopter Corporation (CHC) of Helicopter Services Group ASA (HSG) (see Appendix 1.1). CHC is a Canadian supplier of helicopter services. Its UK subsidiary, Brintel Helicopters Limited (Brintel), supplies helicopter services to oil and gas installations on the UK Continental Shelf (UKCS). HSG is a Norwegian supplier of helicopter services which also has a UK subsidiary, Bond Helicopters Limited (Bond), that supplies the UKCS. CHC acquired 100 per cent of the shares of HSG in a series of transactions between 3 March and 1 October 1999. We found that a merger situation qualifying for investigation had been created by these transactions.

1.2. We concluded that the Northern Zone of the UKCS (north of latitude 56°N) and the Southern Zone were distinct markets. As Brintel and Bond competed for contracts in both zones we decided that we needed to examine the effects of the merger in each. One other helicopter operator, Bristow Helicopters Limited (Bristow), whose parent company is 49 per cent owned by the US company Offshore Logistics Inc (OLOG), competes for contracts in both the Northern and Southern Zones.

1.3. We assessed the public interest implications of the merger by considering four inter-linked questions.

1.4. The first was whether Brintel would have remained in the market in the absence of the merger. We accept that there has been a reduction in demand for helicopter services since 1990 and that it is likely that there will be some further reduction in future. We also believe that the loss of its large contract with Shell in 1998 had seriously weakened Brintel's position. However, Brintel has recovered to some extent from this loss and in 1999 it won an important contract in Denmark. We are not convinced that it was likely to have left the market in the absence of the merger.

1.5. Our second question was whether entry barriers were sufficiently high that entry by another operator would be unlikely even if prices were to rise after the merger. We considered in particular whether there had been any changes to entry barriers since a report in 1992 by the Monopolies and Mergers Commission (MMC) on a proposed merger between Bond and Brintel's predecessor (the 1992 report). We found that regulatory barriers were now lower as a result of liberalization of air transport markets within the European Economic Area (EEA). Although nationality requirements still restrict the entry of non-EEA companies, in practice various North American companies have found ways of entering EEA markets, mainly through joint ventures.

1.6. The 1992 report found that the limited availability of facilities at Aberdeen Airport for potential new entrants was a serious entry barrier to the Northern Zone. We found that the position had changed. The integration of Brintel and Bond as a result of the merger would release [*Details omitted. See note on page iv.*]. Even if these facilities were not made available to another helicopter operator, Aberdeen Airport told us that facilities elsewhere at the airport could be found. We also noted the feasibility of a satellite operation in which a new entrant could have its main base elsewhere and would maintain only minimal facilities at

Aberdeen. We decided that it was no longer credible to argue that a shortage of onshore facilities at Aberdeen Airport would constrain entry to the Northern Zone. Nor would there be any problem in obtaining onshore facilities for the Southern Zone.

1.7. The only other potentially serious entry barrier would be the need to obtain suitable helicopters. Although there are a limited number of second-hand Super Pumas (the preferred type of helicopter for the Northern Zone) available to potential new entrants, we doubt whether this would be a major barrier to entry provided that oil companies let their contracts in a way which assisted a new entrant. The helicopters used in the Southern Zone are generally lighter models which are more widely available.

1.8. We conclude that both the Northern and Southern Zone markets are contestable.

1.9. Our third question was whether the merger, by creating a duopoly, would materially reduce the level of competition. We noted that the sale of 12 helicopters by CHC to OLOG in 1999 had played an important part in permitting CHC to acquire HSG, which might not appear to be in OLOG's interests as a competitor. We considered whether this transaction might be symptomatic of a close relationship between CHC and OLOG which would predispose them not to compete strongly. However, when we looked at the details of the transaction we concluded that it was a normal commercial deal in which both sides sought to secure the maximum business advantage for themselves. We found no basis for believing that favours were done by one side or the other.

1.10. Competition between duopolists is likely to be stronger when the two companies price their products independently. We see no reason to believe that Brintel/Bond and Bristow will not engage in independent pricing. Nevertheless, we think it is likely that there will be a loss of competition arising from the reduction in the current number of competitors as a result of the merger.

1.11. Our fourth question was whether the buyer power of the oil companies was insufficient to prevent any reduction in competition leading to higher prices or other adverse effects. Oil companies are much larger and commercially stronger organizations than helicopter operators and their purchasing power is concentrated (BP Amoco plc and Shell UK Limited account for almost half of the total value of UKCS helicopter contracts). We were told of various ways in which they controlled the procurement process. There is evidence to suggest that in recent years they have become more determined to use their buyer power to force down the supply costs.

1.12. The 1992 report said that the bargaining power of oil companies would be offset by their need to secure an essential service. There have been two important changes since then. Barriers to entry have been reduced and oil companies have become more determined to bear down on costs. We think that oil companies would and could encourage new entry if they were dissatisfied with existing helicopter operators and that the credibility of this threat would influence the behaviour of these operators, making them less inclined to take advantage of any reduction in competition. We conclude that the buyer power of oil companies will be sufficient to prevent any reduction in competition arising from the merger leading to higher prices or other adverse effects.

1.13. Accordingly, we conclude that the acquisition of HSG by CHC does not operate against the public interest and may not be expected to do so.