

# 6 Views of third parties

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## Introduction

6.1. We invited views from helicopter operators in the UK and elsewhere, helicopter manufacturers, oil and gas companies, government and regulatory bodies, trade unions, airports, local authorities and chambers of commerce. This chapter summarizes the views of those third parties who made written submissions; some of them also attended oral hearings.

## Customers

### ***Agip (UK) Limited***

6.2. Agip (UK) Limited (Agip) said that it had no specific representations to make in relation to the merger. As a matter of principle, it might be supposed that a reduction in the number of helicopter operators would lead to higher rates and/or worse service being offered by the operators though Agip had no specific information to suggest that that would necessarily be the case, either now or in the future.

6.3. It could be argued that it would be desirable to re-establish the two separate helicopter operators (in addition to Bristow). However, any re-establishment would need to be balanced against the economic conditions prevailing within the helicopter services sector and that sector's ability, in the current economic climate, to support three operators. Agip would encourage the competition authorities to monitor the remaining offshore helicopter service companies.

### ***BP Amoco plc***

6.4. BP Amoco attended a hearing. It said that the approach followed by the MMC in its 1992 report on the merger between Bond and BIH remained valid. BP Amoco did not understand why the subject of the present inquiry might be different in any way from the earlier investigation. It was also concerned that departures of senior management from Bond before or during our inquiry might adversely affect the viability of Bond in the event of the merger being prohibited.

6.5. BP Amoco said that when awarding contracts for helicopter services, it would only be willing to do so to companies which it was confident could meet the necessary safety standards. It believed that major helicopter operators not currently in the UK offshore market, such as Era and PHI, would probably meet that requirement. Asked if it could protect its position through the encouragement of new entrants to the market, BP Amoco thought that it would be difficult for it to do so though possible as a last resort.

6.6. BP Amoco said that its demand for helicopter services had been fairly constant since 1993 at around 12,000 flying hours but falling to 11,000 in 1999 and 2000. Working practices alone would probably not lead to further reduction as it was not easy to co-ordinate flight sharing with other oil companies and BP Amoco had now largely moved back to shorter two and two shifts on its installations. Demand beyond 2000 was too difficult to predict.

6.7. When asked, BP Amoco thought that oil companies' market power as buyers was more theoretical and less real than helicopter operators argued. There were very few offshore helicopter companies and that gave them a definite say in the determination of helicopter rates. Nor could BP Amoco use the possibility of contracts in other parts of the world to bargain down UK rates as the choice of helicopter operators in non-UK markets was governed by factors specific to each market. Irrespective of the balance of buyer/seller power, BP Amoco, as a matter of policy, did not try to change contract terms in its favour during the life of a contract. BP Amoco said that it did not know the prices in the contracts of other oil companies and did not discuss such matters with them: there was, however, a freelance publication in Aberdeen which gave an indication of what the highest and lowest rates being paid in the market might be, as well as the usual gossip in any market.

6.8. As regards barriers to entry, BP Amoco expressed surprise that the authorities at Aberdeen Airport were now in a position to offer facilities at the airport should another helicopter operator wish to commence operations there (see paragraph 6.69).

6.9. We asked BP Amoco why it was concerned about the merger when it had placed very little business with Brintel in recent years except for some limited ad hoc work. BP Amoco said that its worries about Brintel had been founded during the period when it was part of the Maxwell organization (see paragraphs 3.26 to 3.30) and its safety standards had deteriorated. Despite some lingering residual concerns about its safety, had there still been the three separate operators in the UK offshore market Brintel would have been considered along with Bond and Bristow for the placing of BP Amoco contracts. BP Amoco could not point to any hard evidence that a duopoly would lead to a lessening of competition but considered that, for example, the sale of aircraft by CHC to OLOG implied that these two groups would tend to compete less vigorously than they might otherwise have done.

### ***Chevron UK Limited***

6.10. Chevron UK Limited currently has a contract with Bristow for helicopter services until May 2000. It did not believe that the merger would lead to higher prices or to lower service standards, but said that it would expect to see more competitive rates offered by the merged company.

### ***Conoco (UK) Limited***

6.11. Conoco (UK) Limited (Conoco), on behalf of itself and Britannia Operator Ltd (Britannia), said that although before the merger there were three helicopter operators, competition was effectively limited to two of them in both the Northern and Southern Zones. A further reduction in the number of service providers might lead to one company in each zone having a dominant or even a monopoly position. Continuity in a helicopter company's operations, for example in its aircraft and crews, was important and Conoco was concerned that the relationship it had built up with Bond over 20 years could be disrupted. In addition, the merger could diminish the potential attractiveness of multidisciplinary logistics packages being investigated by logistics service companies by pushing up the helicopter cost component in such packages.

6.12. Conoco strongly favoured greater competition within the helicopter and logistics markets. The current economic climate had resulted in increased competition: helicopter service providers appeared less capable than other sectors in coping with demand fluctuations. Conoco had not identified any substantive benefit for offshore oil and gas producers from the merger. Though international comparisons were difficult to make, Conoco noted that the UK (and US) market was highly competitive and that helicopter rates were lower than in other parts of the world.

6.13. As for the specific effects of the merger, Conoco thought that there would not be any substantive cost increase under its contracts, both of which had an end date of July 2003. Britannia's contract, secured through Chevron (UK) Limited, was due to terminate in June 2000 and Britannia estimated that costs could rise by 10 to 15 per cent, both on a future contract and through break clauses on the existing one.

6.14. Since the merger could be expected to lead to potentially higher prices and/or poorer service, particularly when any beneficial pressure exerted by the current low level of North Sea activity ceased, Conoco and Britannia considered that it would be in the public interest to re-establish two separate companies in addition to Bristow.

### ***DNO Heather Ltd***

6.15. DNO Heather Ltd said that it had no objection to the merger as there would still be sufficient competition in the market place.

### ***Elf Exploration UK PLC***

6.16. Elf Exploration UK PLC (EEUK) said that it had no specific objections to the merger and on balance considered that it would not be against the public interest. It told us that it currently had three helicopter service agreements in place; the primary contract was with Brintel, while it also had two ad hoc/emergency agreements with Bond and Bristow.

6.17. In response to a number of specific questions, EEUK said that it did not envisage any change to the existing contract rates throughout the remaining term of the contract. When asked what impact the merger would have on future contracts, EEUK considered that the merger would lead to greater stability in the market. EEUK did not believe that the merger alone would have a significant effect on future contract rates. These would instead be driven primarily by wider industry activity levels. Elf did not expect the merger to have any detrimental impact on the standards or quality of service that currently prevailed, nor did it see any reason for the service standard to decline in the future.

6.18. EEUK believed that the merger would provide a future opportunity for improved service while maintaining or reducing costs in real terms. The North Sea market was currently operated by three

helicopter support companies. The buying power of the merged company was likely to put it in a position to more equitably match and compete with Bristow.

### ***Enterprise Oil plc***

6.19. Enterprise Oil plc did not wish to make any particular comments on the merger, but made the general point that a greater choice of suppliers was always preferable to a narrower choice.

### ***Mobil North Sea Limited***

6.20. Mobil North Sea Limited (Mobil) said that the oil and gas industry had seen a significant decrease in the volume of air traffic supporting offshore activity, and it was a widely accepted view that the industry could not support three helicopter operators in the present business climate. Therefore, a reduction in the number of operators did not cause it any major concerns at present. Mobil's new contract with Bond had taken effect in August 1999 and had a five-year term with options. Mobil said that early indications suggested that the standard of service to be provided by the new company would exceed that which could have been provided by Bond prior to the merger, and Mobil expected that the standard of service would continue to be higher for future contracts also.

6.21. Over 99 per cent of Mobil's purchases of helicopter services were under contract. It had purchased spot helicopter services in the past, but this was in exceptional circumstances and was not something it would plan to do. Mobil believed that costs could rise by possibly 10 per cent for future contracts, and for spot purchases it expected the rise to be significantly higher by up to 30 per cent or more. Mobil said that competition between bidders was intense, regardless of the geographical location in the UKCS. Prices tended to be higher in the UK due to the demands of regulators and oil companies for certain technical and safety modifications.

### ***Phillips Petroleum Company United Kingdom Limited***

6.22. Phillips Petroleum Company United Kingdom Limited said that while the merger might lead to improvements in operating efficiency through the rationalization of assets, the reduction in the number of contractors from three to two might also have the effect of reducing the bargaining power of the contractors' clients, and the competitive pressure on the contractors to be more efficient and to offer attractive rates to their clients in a captive market. At present, it did not believe that the advantages or disadvantages were sufficiently clear-cut to enable it to express an opinion for or against the merger.

### ***Ranger Oil (UK) Limited***

6.23. Ranger Oil (UK) Limited (Ranger) currently had one helicopter contract for central/northern North Sea operations with Bond. The contract commenced in June 1998 and will run until May 2000, with yearly options up to May 2003. Ranger considered it unlikely that it would be necessary for it to spot charter in future as it predicted general overcapacity in the market place for the next several years. It did not anticipate that the merger would have any impact on its current contract, nor did it expect to see any change in the standards or quality of service that currently prevailed.

6.24. Ranger said that helicopter operators were still operating on the same rates as ten years ago. Their costs, nevertheless, continued to increase as a result of aircraft replacement, labour rates and training cycles. Much of their business was tied up in long-term fixed contracts, and there was constant downward pressure as the market shrunk. This trend would continue as a result of abandonment of installations, changes in work schedules and lower manning levels on new installations. This declining activity would probably force a reduction to two companies in due course, regardless of the merger. Ranger anticipated overcapacity in this market over the next several years and had no particular concerns about the merger, which was part of an overall trend in the UK offshore industry.

### ***Shell UK Limited***

6.25. Shell UK Limited (Shell) said that it had no objection in principle to the merger. However, the result would be to leave only two helicopter companies able to supply the present level of helicopter logistics activity in the UKCS. Consequently, it would be extremely concerned if these companies did not remain completely independent in the future. Failure to ensure this in the European environment would be commercially unacceptable and would have worldwide implications where the remaining competition consisted of a limited number of small operators.

6.26. In answer to a number of specific questions, Shell said that its current requirement for helicopters was four, which was projected to reduce to two in 2010. The main determinants for helicopter demand were, and would remain, offshore platform manning levels and the number of drilling rigs operating. There was currently an oversupply of helicopters resulting in a reduction of helicopter activity and rates. Shell was of the view that with the downturn in activity it was increasingly difficult to sustain three helicopter operators serving the North Sea market. With three helicopter operators based in Aberdeen, it would have been difficult to attract new entrants, as new facilities would have to be built. However, with this merger it was likely that space would become available should a third operator be attracted to Aberdeen. Shell did not expect the merger to lead to higher prices or worse service as these were determined in its contracts with the operators: but in the event of there being such results Shell would encourage other operators to enter the market through participation in the competitive tendering process.

### ***Talisman Energy (UK) Limited***

6.27. Talisman Energy (UK) Limited (Talisman) said that it had no objection to the merger. Since Talisman started operating North Sea platforms in January 1997 CHC had been its preferred helicopter support contractor. CHC had won the support contract for Talisman's Beatrice, Buchan and Clyde offshore production platforms through a competitive tender effort undertaken in late 1996. At the time the bid process was undertaken, Talisman was not predisposed to any service provider. Although Talisman had sizeable operations in Canada, Indonesia and Sudan there were few, if any, instances where the company had used the services of CHC outside the UK.

6.28. From an industry perspective Talisman had developed the view throughout 1999 that, with the ever-changing North Sea oilfield activity, ownership profiles were changing as companies amalgamated—and for a variety of reasons they required less offshore personnel. It was possible that the industry was becoming less capable of supporting three major service providers.

6.29. Talisman did not believe that the merger would have any material affect on pricing, and it was confident that the two remaining competitors within the market would provide ample competition. Further, it did not envisage any change to the standard or quality of service provided by the industry.

### **Other helicopter operators**

#### ***Aeromega Helicopters Ltd***

6.30. Aeromega Helicopters Ltd questioned the Canadian ownership of CHC and whether it was eligible to hold an air operators licence. One of the licence conditions was that the company concerned must be majority owned and effectively controlled by EEA member states and/or their nationals. But provided that CHC met the same criteria for an air operator's licence as UK or EEA nationals, Aeromega Helicopters Ltd would have no objection to the merger.

#### ***Bond Air Services Ltd***

6.31. BAS attended a hearing. It is a company jointly owned by brothers Peter and Stephen Bond resulting from their purchase of the onshore twin-engined helicopter division of Bond in July 1999. It currently operates from short-term rented facilities within a Bond office/hangar building at Aberdeen

Airport, and also has an agreement with Bond to use its CAA approvals and accounts/administration department services until December 1999.

6.32. BAS said that as part of the agreement to purchase the onshore twin-engined division of Bond, it had been required to enter into a reciprocal non-compete agreement which prevented BAS from competing in the UK offshore market for a five-year period commencing July 1999: a corresponding agreement limited Bond's participation in the UK onshore market. A further non-compete agreement applied to the Bond brothers personally for two years from July 1999.

6.33. BAS said that it had no current plans to enter into the offshore market although it had the financial, operational and technical expertise to do so. However, as a result of the CHC/HSG merger, it believed that a non-competitive relationship might be established between the merged Brintel/Bond, as part of CHC, and OLOG's UK partner, Bristow. The agreement for CHC to sell surplus aircraft to OLOG merely strengthened the BAS belief. BAS considered that the merger might well result in poor, inefficient helicopter services and unnecessarily high prices to the offshore industry. Should such a situation arise, BAS would wish to have the opportunity, without contractual constraint, of offering the offshore industry, particularly in the northern area, the choice of a third helicopter operator to ensure the provision of the required level of service at competitive rates.

6.34. Assuming, however, the absence of this non-competition constraint, BAS thought that there were four remaining major barriers to entry into the offshore market:

- (a) First, the northern North Sea market was serviced primarily by the Eurocopter AS 332L Super Puma helicopter. Between them CHC and OLOG owned/controlled all the North Sea-equipped AS 332L Super Pumas in the market place.
- (b) Second, the delivery time from the manufacturer, Eurocopter, for the new AS 332L helicopters ranged between 12 and 18 months which, after allowing for fitting out of specialized North Sea modifications, would result in an earliest entry into service period of some 16 to 22 months from a contract award by an oil company.
- (c) Third, the majority of the specialized North Sea modifications required for the AS 332Ls were proprietary having been designed in-house by Bristow or BIH/Bond. BAS doubted that these companies would be willing to make some of the required modifications available on normal commercial terms to a potential new entrant.
- (d) Fourth, there was currently no suitable hangarage available at Aberdeen Airport that was not controlled by Bristow or BIH/Bond. A new entrant would need either a convenient site to provide its own passenger-handling terminal or have access (without unreasonable constraint) to CHC or Bristow passenger/freight check-in and handling facilities at Aberdeen Airport. The fact that the Aberdeen Airport management did not approve of the mixing of fixed and rotary wing aircraft for passenger operations made the main airport terminal unavailable for use by helicopters engaged in passenger transport.

6.35. BAS considered that if the above impediments were overcome a credible entrant such as itself could, using second-hand Super Pumas and with a firm contract from an oil company already assured, enter the market in about 9 to 12 months. It would not be an easy thing to bring about, partly because 12 months ahead was longer than an oil company would normally envisage when preparing to switch a contract from an existing operator.

6.36. BAS recognized, however, that, over the last few years, lower oil prices had reduced demand for offshore helicopter services resulting in the recent situation where the necessary returns might not have been available to all three Aberdeen-based operators (particularly Brintel, which had developed substantial overheads and infrastructures at Aberdeen Airport supported largely by one client's contract which, when terminated in July 1998, created substantial ongoing losses).

6.37. BAS said that notwithstanding these market conditions over the last few years, it did not believe that it was in the offshore industry's interest for there to be inappropriate constraints to the entry of a third offshore helicopter operator should market demands increase and/or Bristow and CHC formed a non-competitive commercial relationship that resulted in poor, inflexible service and uncompetitively high prices.

6.38. Despite its concern that the merger could well lead to a lessening of competition, BAS also considered that there was nothing inherently objectionable in there being two suppliers of helicopter services provided that they genuinely competed and gave the oil companies good service at reasonable rates. In that event there was not likely to be an opportunity for a third supplier.

### ***Bristow Helicopters Limited***

6.39. Bristow attended a hearing. It said that ordinarily when two competitors merged it could be a potential threat to the public interest, but in this instance it did not consider that to be the case. That was because of the powerful position in the market of the customers, the oil companies involved in North Sea exploration and development, which were vastly greater in size and economic strength than the helicopter companies that provided the relevant services. The oil companies were to a large extent able to dictate the terms and conditions of the relevant flying operations and that would continue to be so despite the merger. Helicopter rates and operators' profitability were being forced down: for example, rates had dropped by some 10 per cent over the last year and Bristow was not making any money at present. Even large contracts were no guarantee of success as Bristow had found with the [*Details omitted. See note on page iv.*]: aircraft usage had shrunk and Bristow had been put under pressure to cut the rates originally agreed for that contract.

6.40. In Bristow's view, the cuts in demand and operators' rates, combined with the operators' surplus capacity, made consolidation inevitable. It was also the case that operators' costs were too high. Bristow ran a high-standard operation (in terms of safety and quality) but with high costs—perhaps the highest of the three operators: the Bond operation pre-merger was of a similar nature to Bristow. The market could probably sustain no more than two operators in the longer term.

6.41. Asked about entry into the market, Bristow said that a new entrant serving UKCS customers could operate from a number of locations (not necessarily airports) in the UK, depending on the requirements of the client. A client might specify the location from which the operator was required to service a particular contract and might acquire, or take a lease of, an appropriate airfield or green-field site suitable for helicopter operations in order to allow the successful company to operate from the location preferred by the oil company. For example, an oil company client had taken a lease on Scatsta Airport in the Shetland Islands from which Bristow carried out helicopter operations on its behalf. An important consideration was that the helicopter operators, including Bristow, now had surplus facilities at Aberdeen Airport. The satellite type of operation used originally by Bristow in Norway and now by Brintel in Denmark, where the bulk of costs were carried within the operator's home base overheads, also facilitated entry to the market.

6.42. We asked Bristow about the sale of helicopters by CHC to the US company OLOG, which has a 49 per cent shareholding in Bristow. (Fuller details of the sale are in Appendix 3.1, paragraphs 28 to 34.) So far as Bristow was aware, the sale was a wholly commercial arrangement. OLOG had been able to secure a favourable deal simply because CHC's need for funds to complete the acquisition of HSG gave OLOG a strong bargaining position. It had obtained not only aircraft but also, and more importantly, the possibility of operating contracts to go with them. It was certainly not a 'cosy' deal.

### ***Era Aviation Inc***

6.43. Era is based in Alaska, USA. It said that although it was not currently operating in Europe, the North Sea helicopter services market continued to be one of the leading markets for helicopter services in the world and, as such, it did have continuing interest in establishing operations there. At present, it was difficult to quantify what the conditions would have to be before Era would seriously consider entering the market. Era thought that, at the very least, it would take a significant improvement in exploration and production activity in the area with a commensurate pricing structure to provide a fair return on its investment.

### ***Irish Helicopters***

6.44. Irish Helicopters said that it did not have any objection at this time to the merger.

## ***Norsk Helikopter AS***

6.45. Norsk Helikopter AS (Norsk), in which Bristow has a 49 per cent shareholding, said that because of its association with Bristow, it would not normally operate in the UK North Sea Northern Zone helicopter services market. However, due to a recent shortage of capacity it did support Bristow with the lease of a helicopter and crew for a short period to operate in the Northern Zone. Norsk said that, operationally, it would be quite feasible for it or another Norwegian helicopter company to operate direct from Norway into the Northern Zone on a regular basis, dependent on the Norwegian base chosen for the operations. Norsk might in future consider entering the Northern Zone market if, for example, there was a demand for a particular type of helicopter operated by it which Bristow did not have available.

## **Government departments and regulatory bodies**

### ***Civil Aviation Authority***

6.46. The CAA provided a description of its regulatory responsibilities; these are set out in paragraphs 4.5 to 4.9.

6.47. The CAA said that it exercised its powers against the background that its primary objective in this area was the maintenance of effective consumer protection arrangements. In particular, in its last Statement of Policies of May 1993, it noted that it 'will not expect to intervene in areas—for example, in off-shore helicopter operations—where aircraft of more than 20 seats are used but where there could be no impact on consumer protection arrangements'. The CAA added that it did still have a responsibility to satisfy itself that operating licence-holders were owned and effectively controlled by EEA nationals and that, after investigation, it had no reason to believe there to be a problem in respect of the merger.

6.48. The CAA said that, in this market, the nature of the contracts between the purchasers of helicopter services in the North Sea and the operators would appear to be of particular significance, but the issues raised were more related to general competition than to aviation specifically. In the circumstances the CAA thought that it was difficult for it to offer comments of substance on the merger.

### ***Department of the Environment Transport and the Regions***

6.49. The Department of the Environment, Transport and the Regions (DETR), as described in paragraphs 4.5 to 4.9, shares regulatory responsibility with the CAA, in that the Secretary of State may permit helicopter operators without a UK Operating Licence to provide helicopter services in the UK. In addition, the DETR commented that the Government believed that competition in the civil air transport market benefited users by providing maximum choice at the lowest charges. A merger between two of the three largest offshore helicopter operators raised, as last time, potential concerns about competition and its impact on users despite changes in ownership since 1992. The relative market share of each in 1998 did not seem substantially different from those given for 1991 in the 1992 report. The fact that the operators now operated worldwide as a global industry did not seem to imply that markets, determined by demand considerations, were also global. Even extending the UKCS market to include the NWECS showed a dominant presence by the three main market players, particularly if the ownership by HSG of Bond discounted it as a competitor to other HSG operations, and the ownership of Norsk by Bristow did likewise for Bristow. KLM ERA's operations had been transferred to Bristow.

6.50. The DETR said that the experience since liberalization of the single market in 1993 suggested that the potential for new entrants to succeed other than at the margins should be viewed with caution. Two substantial helicopter companies had entered the UKCS market but subsequently exited. The reported current adverse economic conditions in the UKCS of a declining market, surplus capacity and declining yields suggested that entry may not be seen as worthwhile. It was unclear whether the past barrier to entry of access to onshore facilities had been removed. On the other hand the oil and gas companies had countervailing power, though its extent was unclear. In making these observations, however, the DETR concluded that it was not in a position either to support or to oppose the proposed merger as it lacked sufficient direct experience of the oil and gas industry.

## ***Department of Trade and Industry***

6.51. The Engineering Industries Directorate of the Department of Trade and Industry (DTI), which sponsors helicopter manufacturers, noted that the merger, while reducing competition in the market, should benefit the helicopter manufacturing industry by strengthening the customer base.

6.52. The Infrastructure and Energy Projects Directorate of the DTI said that the merger did cause it concern in terms of reducing the market to a duopoly, thus reducing competition. Whilst it was feasible that the present instability in the UK oil and gas industry might lead to one of the helicopter service companies leaving the market, it believed that it would be a disbenefit to the UK oil companies if this situation was accelerated by the merger.

## ***Health and Safety Executive***

6.53. The Health and Safety Executive (HSE) had no comments on the merger. It said that the safety of helicopter operations in relation to offshore installations served by helicopters based in the UK was primarily a matter for the CAA. However, duty holders (offshore installation owners and operators) were required, by offshore health and safety regulations, to make appropriate arrangements for precautionary and emergency evacuation of personnel from installations. It was for the duty holder to decide which methods they wished to employ and to demonstrate to the HSE that their arrangements were effective. Use of a helicopter was one way of meeting the regulatory requirements, but there were alternative methods. Where duty holders placed reliance upon helicopters as part of the emergency response plan, they must ensure, through appropriate arrangements with service providers (for example, helicopter operators and marine search and rescue services), that an appropriate level of service was available.

## **Trade unions**

### ***Amalgamated Engineering and Electrical Union***

6.54. The Amalgamated Engineering and Electrical Union (AEEU) outlined a number of issues relating to the merger. These related principally to the health and safety of its members working in the Northern Zone of the North Sea and the implications of the merger for transfer of workers to the operational area.

6.55. Though the AEEU accepted that significant cost savings would be possible with the merger of the two companies, these should not be achieved at the expense of safe flight operations. The new company needed to establish a standard of health and safety best practice that would be applied commonly in all operational centres.

6.56. There should be a commitment to integrate training across the company to familiarize staff with all aircraft operating in the merged fleet. This should be conducted in a manner that would not compromise the safety or disrupt the operation of helicopter services.

6.57. Flight crews transferred to different operational centres should be allowed a reasonable period of familiarization of the new location. The company should recognize that flight conditions could vary considerably at different operational centres and that safe flight operations required a consistently high level of flight crew briefing.

6.58. The AEEU said that the helicopter industry in the Northern Zone of the North Sea should remain a competitive market environment. It recognized that reducing costs could be a legitimate way of increasing market share. However, safety should be ring-fenced from cost cutting and the industry, and those who travelled to work by helicopter should not be exposed to any competitive pressures that drove down commonly-applied high safety standards.

### ***The British Air Line Pilots Association***

6.59. BALPA attended a hearing. It said that the structure of the helicopter industry and its cost and revenue base made the merger essential to the health of both companies and the UK offshore helicopter transport industry. The environment was one of falling contract rates and very substantial (if not overwhelming) bargaining power on the part of buyers. Market contestability was a reality and there was

an ever-present threat of new entry. Without the merger, Brintel's ability to survive would have been limited as the loss of contracts had made it unviable. A merger was, in BALPA's view, vital to afford the helicopter sector a breathing space.

6.60. BALPA saw three principal consequences if the merger were not allowed to stand. First, without the opportunities for rationalization savings the opportunistic rate-cutting behaviour of the major oil companies would continue to threaten the viability of the UK industry. The merger was not, in BALPA's opinion, likely to lead to any long-run increase in rates as the operators were classical price takers. Secondly, the standing of the UK industry in the global environment could be weakened by a failure to allow the creation of a stronger player in the wider European helicopter services market. Thirdly, the efficiency and operational stability of the industry would continue to be jeopardized if operators could not proceed with the necessary re-equipment. Many aircraft were old, and though they were safe because of the safety focus of the industry and its personnel, they needed to be retired. When asked how CHC would be able to keep the cost savings for investment, if the oil companies had such bargaining power, BALPA added that the cost savings would not flow to the customers in the short run.

6.61. BALPA believed that the principal losers of any decision to disallow the merger could well be the labour groups whose members were employed within the two companies, particularly the smaller operator, Brintel. While there would be some rationalization arising from the merger, the net long-term effect would be to preserve and enhance job security. Without the merger, many more employees would face redundancy and deteriorating terms and conditions.

6.62. Commenting on the threat of market entry, BALPA said that helicopter operators and the merged company would not be able to exercise monopoly power because of the potential competition from global helicopter companies' European operations. The threat of entry arising from worldwide consolidation and rationalization meant that, even if an operator had an incentive to seek monopoly profits, these would be competed away. The costs of entry into the market were low, while the cost of exit from a contract and the market were extremely high, encouraging a threatened incumbent to respond by lowering the price. Apart from their power as buyers, the oil companies had no hesitation in inducing new operators to enter the market to increase competition as had happened with British Caledonian Helicopters in the 1980s and KLM ERA in 1995.

6.63. When asked about barriers to entry, BALPA did not consider these to be a problem. The rationalization of Bond and Brintel was making qualified staff available and the Aberdeen Airport management would be anxious to see the surplus hangarage caused by the merger put at the disposal of any other interested operators. The ability of an existing operator to utilize a satellite operation, as Brintel had done in Denmark, also facilitated entry to the market.

6.64. We asked BALPA if it saw any danger that a CHC and OLOG duopoly would lead to a reduction in competition. BALPA saw no grounds for supposing that might happen. The two groups competed strongly in other markets around the world. Relations between the two had never been good and BALPA did not see that changing, despite the recent agreement for sale of helicopters from CHC to OLOG. In the final analysis, the oil companies would ensure that competition was not stifled.

6.65. BALPA urged that the merger be allowed to stand. It would guarantee the stability and high operational safety standards of the UK industry through the pooled resources of the combined companies and help secure acceptable rates of return and investment; without those returns the prospect would be of continued decline. Secondly, as the major trade union representing helicopter flight crew in the UK, BALPA, while accepting that there would be some short-term negative employment prospects, believed that only the merger would protect jobs in the two companies in the long run. BALPA, as a flight crew union, was particularly concerned about the impact of continued instability and uncertainty on the supply of trained pilots and technicians. Without the replenishment of this human capital, which the merger would help to bring about, the industry's future was in jeopardy.

## **Other parties**

### ***Aberdeen Chamber of Commerce***

6.66. Aberdeen Chamber of Commerce said that rationalization within the offshore oil sector had encouraged service organizations such as helicopter companies to consider similar moves in order to remain competitive. Competition would remain between the merged organization and the other major supplier of helicopter services. However, the Chamber would be very concerned should any further re-

organization take place which led to a situation where there was only a significant single supplier. It said that with major drives to improve the competitive position of the North Sea vis-à-vis other oil and gas provinces, it did not believe that reducing the number of suppliers from three to two would have any material effect on prices. On the contrary, rationalization should bring cost savings, which would enable these services to remain competitive.

### ***Aberdeen City Council***

6.67. Aberdeen City Council was concerned that the merger would lead to a reduction in the number of people employed within the air service industry in Aberdeen and north-east Scotland. Any reduction in the numbers of industry companies operating in this area must also give rise to some concern about the effects on competition. The Council had concluded that, at this time, given the reduction in air movements and passenger numbers to and from North Sea oil rigs, there might well be insufficient work to maintain three viable helicopter businesses.

6.68. The Council said that the merger was characteristic of cost-reducing measures being carried out across the oil and gas sector over recent times. It should be noted that while it was expected that the industry in the north-east of Scotland would continue to employ up to 30,000 people by 2011, this compared to the current employment level of 40,000. The Council added that, according to *Aberdeen City/Aberdeenshire Oil & Gas Prospects* dated September 1999, it was expected that there would be a reduction of air movements over the coming years.

### ***BAA Aberdeen Airport Limited***

6.69. Aberdeen Airport said that it did not believe the merger would cause any operational difficulties in either the interim or long term. If another helicopter operator wished to commence operations from Aberdeen, aircraft parking facilities would be made available and suitable sites had already been identified for any additional hangarage, if required. Should the merger be allowed to proceed, it anticipated that further vacant hangarage would become available and the owner of such facilities would have the ability to sub-let them with the permission of the airport. If terminal and passenger-handling facilities were not readily available to a new entrant to the market, the airport said that it would have no difficulty in agreeing to helicopter passengers being processed through one of the terminals on the west side of the airfield, currently used for fixed-wing traffic. Passengers could then be transported to the helicopter parking areas already identified as suitable for a third operator.

6.70. Aberdeen Airport said that its intention would be to permit the merged company to operate its combined helicopter operations from the east side of the aerodrome on a temporary basis, which would necessitate the closure of the east side taxiway to accommodate all the helicopter movements. That temporary permission had been granted on the understanding that Aberdeen Airport would have discussions with the merged company to agree the most suitable location for the permanent arrangements, which could necessitate the relocation of the operation back to the west side of the aerodrome.

## **Individuals**

### ***Mr Frank Doran MP***

6.71. Frank Doran, MP for Aberdeen Central, wrote in support of the merger which, he believed, should be allowed to proceed. He said that the North Sea oil and gas industry was crucial to the economy of the North-East of Scotland and the UK. Because of the nature of the industry, helicopter services were a vital lifeline. At present, there were three service companies operating in the North Sea, either from Aberdeen or from East Anglia. All three companies were part of larger operations but the part of the company, in each case, which operated in the North Sea was under financial pressure. A report commissioned by SREA found that there was a decline in the charges per helicopter paid by the oil industry, a reduction in revenues and a reduction in use. The recent changes in contract relationships, some of which were of very long duration, were a sign that in the market place real power lay with the oil industry.

6.72. Mr Doran said that the North Sea oil and gas industry was in a mature phase and while the decline would be a long one, all experts agreed that it had started. The oil industry had embarked on a

series of cost-saving measures which politicians welcomed in general, so long as the aims were to prolong the life of the industry. However, the net effect had been to reduce profitability across the board of contracting and service companies. Based on the evidence he had seen, and his knowledge of the industry, Mr Doran said he found it hard to accept that there was room for three helicopter service providers in the industry.

6.73. Aberdeen was the main base for offshore helicopter operations and had a concentration of highly-skilled workers who serviced the industry. Mr Doran understood that the merger was likely to lead to some 94 redundancies, but if it did not take place there was a risk of even greater job losses should one or other of the companies fail, which in turn could threaten the existing skill base.

6.74. While the recent record on safety in the helicopter industry had been good, overall in the North Sea their record had been extremely poor. There was very little evidence of investment by the helicopter industry in safety measures. After the Cormorant Alpha incident in 1992 when 11 lives were lost, the oil industry did pay for some essential research and for the implementation of necessary safety measures. That simply underlined the inability of the existing companies to invest in research and development on safety as a matter of routine; they were totally dependent on the oil industry.

6.75. Mr Doran said that, additionally, the fleets of all three existing companies were ageing ones and, while their fleets were maintained to the highest possible standards and there was no suggestion of any safety difficulties in the current fleet, the fact that there was only a very limited programme of replacements with newer aircraft was a matter for concern. While he did not criticize the helicopter companies for this, he believed that they carried a joint responsibility with the oil companies to ensure that income was sufficient for investment in research and development and in new vehicles. What was clear in the current state of the offshore oil and gas industry helicopter market was that there was insufficient income to generate money for investment.

### ***Mr E Underwood***

6.76. Mr E Underwood said that the merger would result in less competition in the helicopter services industry in Aberdeen. It had already led to staff relocations and redundancies and to aircraft being sold off.

### ***A employee of Bond***

6.77. An employee of Bond expressed concern about the merger, stating that it was similar to the situation in 1992 when Bond attempted to acquire BIH. He said that the Bond JAR 145 approval was at risk because the new management had decimated the Bond management structure to the point where the company was in contravention of the JAR 145 requirements. A JAR 145 approval was not forthcoming for the merged company and therefore the two companies had to operate separately. He felt that the speed with which the new management had acted might have been prompted by its desire to pre-empt any decision the CC might reach, and in the circumstances it might be extremely difficult, if not impossible, to come to a decision other than to allow the merger to go ahead without full consideration.

P G CORBETT (*Chairman*)

P A GEROSKI

M R PROSSER

A J PRYOR

P A BOYS (*Secretary*)

15 December 1999