



Competition  
Commission  
SINGAPORE

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## **Section 57 of the Competition Act (Cap. 50B)**

### **Grounds of Decision issued by the Commission**

#### **Notification for Decision: Anticipated Merger between National Oilwell Varco Pte Ltd and South Seas Inspection (S) Pte Ltd**

**15 September 2009**

**Case number: CCS 400/004/09**

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Confidential information in the original version of this Decision has been redacted from the published version on the public register. Redacted confidential information in the text of the published version of the Decision is denoted by [X]

## **INTRODUCTION**

1. On 5 August 2009, the Competition Commission of Singapore ("CCS") received a notification for a decision pertaining to an anticipated transaction ("the notification"), by which National Oilwell Varco Pte Ltd ("NOV") would acquire 100 per cent of the outstanding shares of South Seas Inspection (S) Pte Ltd ("SSI") and by which Varco International Do Brasil Equipamentos E Servicos Ltda ("NOV Brazil") would purchase specified assets from South Seas International Ltda ("SSI Brazil"<sup>1</sup>) ("the Transaction"). NOV and SSI are collectively referred to in this Decision as "the Parties".

2. CCS has concluded that the Transaction, if carried into effect, will not infringe the prohibition under section 54 of the Competition Act (Cap. 50B) ("the Act").

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<sup>1</sup> SSI Brazil is a wholly owned subsidiary of SSI.

## THE PARTIES

### NOV

3. NOV is a limited private company incorporated in Singapore, with registered branch offices in [§]. The parent company of both NOV and NOV Brazil is National Oilwell Varco, Inc. ("NOV Inc"), incorporated in the United States of America. NOV is involved in the following activities in Singapore:

- i) Inspection of drill pipes used in the oil and gas industry, trading, repairing, servicing and renting of oilfield equipment and tools, and the supply of consumables to the oilfield industry;
- ii) Assembly, sale, repair and servicing of oilfield drilling equipment, oilfield pressure control and motion compensation equipment, and instrumentation;
- iii) Design, manufacture, sale and servicing of equipment used in the oilfield and other related industries.

### SSI

4. SSI is a limited exempt private company incorporated in Singapore. SSI provides packaged services of construction, inspection, maintenance, operational and repair to the oil and gas, marine and general industries. SSI's customers include oil rig contractors, international oil companies, oilfield services companies and oilfield equipment manufacturers in Asia, Australia, Brazil, Russia, Central Europe and the Middle East. According to the Form M1, SSI provides the following services:

- i) Inspection of oil country tubular goods ("OCTG") and non-destructive testing ("NDT")<sup>2</sup>;
- ii) Derrick services;
- iii) Rope access;
- iv) Load testing; and
- v) Oilfield equipment maintenance.

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<sup>2</sup> Generally, "OCTG" includes three types of seamless tubes delivered in quenched and tempered condition: drillpipes, casing pipes and tubing. These are tubes used in relation to drilling in the oil and gas industries. OCTG and NDT inspection services refer to the non-destructive testing of drill pipes, casing tubing, drilling tools, bottom hole assemblies, hardbanding, pipe maintenance and storage, using techniques such as visual testing, mag particle testing, ultrasonic testing and radio graphic testing.

## THE MERGER

5. As described above, the Transaction involves [X] for 100 per cent of the outstanding shares in SSI, and to SSI Brazil for specified assets. The Parties submit that the merger will enable NOV to [X].

6. Based on the Parties' submission that this constitutes a merger within the meaning of section 54 of the Act, CCS proceeded to assess the competitive effects of the notified Transaction.

## COMPETITION ISSUES

7. [X] the businesses of NOV and SSI overlap horizontally in the supply of OCTG inspection services and NDT inspection services. [X]

8. In addition, given that NOV operates in the market for the supply of oilfield systems and components (an upstream or tying market to the market for the provision of installation services for the same type of systems and components), CCS also examined other possible competition concerns such as those relating to vertical integration and conglomerate issues [X] which could potentially arise from the merger.

## REPORTABLE MARKETS

### The Parties' submission

9. [X] there are three reportable markets related to the notified merger:
- i) the Singapore or regional, if not global, market for OCTG and NDT inspection services;
  - ii) the global market for systems and components used in oil, gas drilling and production ("oilfield systems and components"); and,
  - iii) the Singapore or regional, if not global, market for installation services for oilfield systems and components in offshore rigs and drill ships.
10. The Parties submit that the area of overlapping business between NOV and SSI is for the provision of OCTG and NDT inspection services in Singapore. NOV does not provide installation services for oilfield systems and components in offshore rigs and drill ships, while SSI does not manufacture or sell oilfield systems and components. As such, any post-merger increase in market concentration will be in the market for the provision of OCTG and NDT inspection services in Singapore or the region.

11. The Parties further submit that NOV and SSI supply complementary services, [X].

Information on the reportable markets provided to CCS by third parties

12. Based on its enquiries, CCS understands that the three reportable markets are related. Customers, usually drilling contractors or oil and gas majors, purchase oilfield systems and components for the construction of an oil drilling rig (typically either an offshore/ semi-submersible rig or a drill ship) from suppliers such as NOV which compete in a global market, either directly or indirectly by outsourcing to a shipyard. These customers (or the sub-contracted shipyards) will then procure the services of companies such as SSI to provide installation services, to fabricate derricks and the superstructure for the rigs. The partially completed derricks are then sent to shipyards, which will install other equipment and components (such as drill motors, mud pumps, draw-works, accommodation modules, etc) to complete the construction of the rig.

13. From time to time, rigs require periodic maintenance and refurbishment at shipyards. Part of this maintenance process involves the use of NDT inspection services in order to check the serviceability of equipment on the rig.

14. In the following sections, CCS would first analyse the impact of the merger on the overlapping market followed by the non-horizontal markets.

## **OVERLAP/HORIZONTAL MARKET**

### **Product market definition**

The Parties' submission

15. In the Form M1, the Parties submit that the provision of OCTG inspection services and NDT inspection services forms a single market in which the merging parties will overlap post-merger.

16. The Parties submit that "NDT inspection services", refers to non-destructive testing on any equipment across different industries (including marine-related equipment but excluding OCTG<sup>3</sup>) and "OCTG inspection services" generally refers to the NDT inspection of oil country tubular goods. The Parties use the terms "OCTG inspection services" and "NDT inspection services" to distinguish between the OCTG and non-OCTG equipment for which the Parties provide NDT inspection services.

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<sup>3</sup> The Parties' response to CCS on 24 August 2009.

CCS' assessment

17. CCS sought clarification with the Parties on their original submission on their view that the provision of OCTG and NDT inspection services forms a single market. Based on the additional information provided by the Parties, CCS is of the view that the markets for OCTG inspection services and NDT inspection services may be characterised as two separate markets for the following reasons:

- i) CCS notes that the Parties have stated that customers can purchase OCTG inspection services and NDT inspection services singly and separately from different suppliers; and
- ii) The inspection of OCTG may utilise either non-destructive testing or destructive testing ("DT") techniques,
- iii) It is the Parties' own submission that companies can supply OCTG and NDT inspection services singly and separately, and
- iv) [REDACTED].

18. On this basis, CCS proceeded to make necessary enquiries with third parties on whether OCTG and NDT inspection services should comprise two or a single market.

19. Based on the responses received, CCS is of the view that even if two narrower markets for "NDT inspection services" and "OCTG inspection services" can be defined, it would not materially change the outcome of the competition analysis, given that:

- i) In the narrower market of "OCTG inspection services" only, there is no overlap between the Parties' business post-merger, given that [REDACTED], and
- ii) In the narrower market of "NDT inspection services" only, CCS' enquiries indicate that the merged entity will not have any significant market power post-merger in the "NDT inspection services market". [REDACTED]. This is consistent with third party feedback which suggests that the merged entity will not have any significant market share post-merger.

20. Based on the above, CCS is satisfied that it is not necessary to make an assessment of whether the market should be defined narrower than what the Parties have submitted i.e. "OCTG and NDT inspection services". As such, the CCS will examine the potential competition concerns arising from the market for the provision of "OCTG and NDT inspection services" post-merger. For the avoidance of doubt and confusion over the terminology, "OCTG and NDT inspection services" (as defined by the Parties) will hereinafter be referred to as

“inspection services”.

### **Geographic market definition**

#### **The Parties’ submission**

21. The Parties submit that inspection services are generally provided as an incidental service to the other maintenance services required when offshore rigs call at Singapore. The Parties further submit that inspection services may also be provided at remote drilling locations depending on the customer’s requirements. Hence, the Parties submit that the primary geographic market involved for the provision of inspection services is likely to be Singapore or regional, if not global.

#### **CCS’ assessment**

22. Feedback from third parties was consistent with the Parties’ claim that the inspection services market is Singapore or regional. CCS understands from third party feedback that it is possible for a service provider to service a client located outside Singapore, either at a remote drilling location on a job-by-job basis or via affiliate offices in other countries for certain longer term jobs. However, feedback from third parties has also indicated that it may not be economical for some inspection service providers located outside Singapore to compete for customers in Singapore, as these providers will be faced with increased costs associated with the need to transport their equipment and personnel into Singapore.

23. CCS is of the view that the geographical market for inspection services is Singapore. However, the question of whether the geographical market could be a wider regional market can be left open since, as detailed below, CCS’ analysis of the anticipated merger’s impact on competition would be the same regardless of whether the wider geographical market definition is adopted.

## **COMPETITION ASSESSMENT ON OVERLAP/HORIZONTAL MARKET**

### **Market share and market concentration**

#### **The Parties’ submission**

24. The Parties submit that their estimated sales and market shares over the period 2006-2008 for the inspection services market are as follows:

**Table 1: Estimates of sales and market shares in the Singapore Inspection Services  
Market 2006-2008**

		2006	2007	2008
NOV	Sales (S\$'000)	[X]	[X]	[X]
	Market Shares (%)	[65-75]	[70-80]	[70-80]
SSI	Sales (S\$'000)	[X]	[X]	[X]
	Market Shares (%)	[5-15]	[0-10]	[0-10]
NOV + SSI	Sales (S\$'000)	[X]	[X]	[X]
	Market Shares (%)	[75-85]	[75-85]	[75-85]
DJ Inspection Services Pte Ltd	Sales (S\$'000)	[X]	[X]	[X]
	Market Shares (%)	[10-20]	[10-20]	[5-15]
ICO Asia Pacific Inc.	Sales (S\$'000)	[X]	[X]	[X]
	Market Shares (%)	[0-10]	[0-10]	[0-10]
Canopus Inspection and Technical Associates Pte Ltd	Sales (S\$'000)	[X]	[X]	[X]
	Market Shares (%)	[0-10]	[0-10]	[0-10]
Other players	Sales (S\$'000)	[X]	[X]	[X]
	Market Shares (%)	[X]	[X]	[X]
CR3	Pre-merger	[85-95]	[85-95]	[85-95]
	Post-merger	[90-100]	[90-100]	[90-100]
	% pt-Change	[0-10]	[0-10]	[0-10]

Source: The Parties' submission and third party feedback

Note: The Parties submit that the three competitors listed above are the key competitors whom they observe in the market, [X] The market share estimates which the Parties submitted above are only based on the market shares of the NOV, SSI and the 3 other large competitors in the market. [X]. Therefore, CCS notes that if the sales estimates of other market competitors were available and included, the market shares of the Parties would be lower than the estimates submitted in the above table.

#### CCS' assessment

25. Although there was no independent source for verification of the

Parties' estimates, the feedback furnished to CCS in the course of its enquiries was consistent with the market size and share estimates provided by the Parties.

26. The CCS is generally of the view that competition concerns are unlikely to arise in a merger situation unless:

- the merged entity will have a market share of 40% or more; or
- the merged entity will have a market share of between 20% to 40% and the post-merger CR3<sup>4</sup> is 70% or more.

27. On a post-merger basis, CCS notes that the combined market share for the Parties in the inspection services market would be [75-85]%. The CR3 in the inspection services market would also increase from [85-95]% to [90-100]%, a [0-10]% point increase in the CR3.

28. Although the merged entity will have a significant market share of the inspection services market, and the CR3 post-merger exceeds CCS' indicative thresholds, CCS is of the view that the Transaction will not lead to a substantial lessening of competition in the inspection services market, for the following reasons:

#### **Low Barriers to Entry and Expansion**

29. [X] submit that there are no significant costs or other requirements for setting up an OCTG and NDT inspection site in Singapore which may be prohibitive for the entry of new market players. In addition, [X] also submit that entry into the market may take place in as short a timeframe as one year. [X] further submit that companies in related markets such as those in tubular rental, connection threading, machine shop and weld on connector business have the ability to enter the OCTG and NDT inspection services market.

30. CCS received feedback from third parties suggesting that there are no significant barriers to entry into the market for the provision of inspection services. CCS understands that the equipment needed to provide these inspection services are readily available and are relatively inexpensive. Feedback received also indicated that the manpower required for the provision of these inspection services is also readily available.

31. In general, third party feedback also indicated that there are no barriers to existing competitors from expanding their market shares when a suitable opportunity arises. According to them, existing competitors are generally able to scale up their existing operations within a short span of time (about one to three months) to take on new jobs and expand their market share. In addition, competitors from the region are able to enter the Singapore market and are able to provide comparable inspection services at short notice.

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<sup>4</sup> The CR3 refers to the concentration ratio arrived at by combining the market shares of the three largest firms in the relevant market.



### **Strong countervailing buyer power**

32. [X] submit that customers who procure inspection services are large, sophisticated customers [X], who frequently engage in price negotiations with their inspection service providers. [X]

33. Feedback from third parties is consistent [X] that customers of NDT inspection services are generally price-sensitive and are not bound by long term contracts, and that they do not procure inspection services from one company exclusively. These customers frequently switch suppliers in response to any dissatisfaction with prices charged or quality of the service rendered. In addition, third party feedback has also suggested that as there is price transparency within the industry, customers know the range of fees that are usually quoted for any particular type of NDT inspection service.

34. Furthermore, feedback from third parties indicated that they are of the view that the merger would not substantially lessen competition in the inspection services market in Singapore.

### **Non-coordinated effects**

35. CCS is of the view that non-coordinated effects are unlikely to arise in the market for the provision of inspection services as a result of the Transaction, due to the reasons as outlined above, namely that:

- i) There are low barriers to entry and expansion for the inspection services market and,
- ii) Existing countervailing buyer power.

36. The factors above indicate that there will be constraints on any attempt by the merged entity to exercise its post-merger market power in the inspection services market. Any attempt to reduce output or raise prices post-merger is likely to be met by potential or existing competitors stepping in to capture market share.

### **Coordinated effects**

37. As noted above, the increase in market concentration arising from the Transaction is incremental, and the Transaction will not lead to a significant change to the existing structure of the relevant market. Given that this market is characterised by the provision of a type of service, and that customers are price sensitive and are not locked-in to any single supplier, customers are able to easily switch between suppliers if they are not satisfied with either the prices charged or the level of service provided. In light of these factors, CCS is of the view that the merger, if carried into effect, will not lead to an increase in

coordinated effects.

## **NON-OVERLAPPING VERTICAL/LATERAL MARKETS**

### **Product and geographical market definition**

#### The Parties' submission

38. The Parties submit that NOV and SSI supply complementary services. In particular, [X].

39. Accordingly, the two other reportable markets submitted by the Parties are:

- i) the global market for systems and components used in oil and gas drilling and production ("oilfield systems and components"); and
- ii) the Singapore or regional, if not global, market for installation services for oilfield systems and components in offshore rigs and drill ships.

#### CCS' assessment on the systems and components market

40. The Parties submit that the market for oilfield systems and components is a global market. Based on third party feedback and publicly available information on the industry, CCS understands that the oilfield systems and components are manufactured and procured on a worldwide basis. [X].

41. CCS thus agrees with the Parties that the upstream/tying market for oilfield systems and components is likely to be a market on its own, and is global in scope.

#### CCS' assessment of the market for installation services of oilfield systems and components

42. CCS understands from third parties that while it is possible for overseas companies with a good track record to enter the local market to provide installation services, most installation services for systems and components is currently procured locally due to reasons such as higher costs of engaging service providers based overseas and the preference for companies who understand local operations and requirements. However, feedback received has also indicated that some companies are able to service overseas customers [X], from their Singapore-based offices.

43. On balance, CCS is of the view that the downstream/tied market for installation services of systems and components is Singapore.

## **Vertical/conglomerate effects**

### The Parties' submission

44. The Parties submit that the impact of the notified acquisition on the downstream market for the provision of installation services of oilfield systems and components is not significant, given the large number of customers and competitors globally for the provision of such services. [X].

### CCS' assessment

45. Competition concerns may arise if NOV is a dominant supplier in oilfield systems and components and they leverage on their dominance to foreclose competition [X]. Additional factors that would signal potential post-merger competition concerns in the installation services market include those such as the lack of alternatives to SSI in this market, and if there were significant barriers to entry for this market.

### State of competition in the oilfield systems and components market

46. The Parties were unable to provide any information on the estimated market shares for NOV in the reportable global market for oilfield systems and components. They however submitted that the systems and components used for the construction of a rig varies on a case-by-case basis, [X], depending on the customers' preferences and specific needs, and the types of rigs constructed. [X] submit that there is no single source in which the market shares of the said products as a distinct product set are tracked on a regular or meaningful basis.

47. Estimates provided by third Parties indicate that NOV is a [X] player in this global market. However, according to feedback from third parties, customers of oilfield systems and components procure on a global basis and are able to switch to buying from other suppliers of oilfield systems and components with ease. Information provided by third parties to CCS also indicates that customers of oilfield systems and components such as shipyards are large and sophisticated customers who are in a good position to negotiate prices and terms.

### State of competition in the installation services market

48. Based on feedback from third Parties, and the Parties' submission, there are approximately [X] companies currently providing installation services in Singapore. [X] customers [X] have the ability, and do as a matter of common practice, dictate which service provider is used for the installation of components [X]. CCS' enquiries found evidence suggesting that the prices of installation services in Singapore are generally competitive, and that the barriers to entry for this market are not significant. Companies based overseas

with a good track record are able to enter the Singapore market with relative ease, and there has been evidence of this occurring in the past five years. The customers of installation services are also in a strong position to influence prices given their strong buyer power. CCS has also received feedback indicating that these large customers are able to successfully negotiate for lower prices and better contractual terms.

49. In addition, feedback from third parties who require installation services for oilfield systems and components have indicated that they do not foresee any potential competition concerns arising from the merger, as customers can still retain their ability to choose their installation service provider, regardless of their choice of supply for oilfield systems and components.

50. Finally, CCS' enquiries have also revealed that there could be benefits arising from the vertical integration of NOV's oilfield systems and components business and SSI's installation services in that customers may now be able to procure turnkey projects from one single party, instead of having to source for these products and services separately from multiple companies.

51. Based on the above, CCS is of the view that the Transaction is unlikely to result in a substantial lessening of competition in the installation services market.

#### **ANCILLARY RESTRICTIONS**

52. The Parties have also notified ancillary restrictions to CCS. These ancillary restrictions relate to [§].

53. CCS has considered the above restrictions and in the context of the Transaction, is satisfied that they are directly related and necessary to the implementation of the merger, on the basis that it is essential for NOV to receive the full value of the assets transferred, and in particular the benefit of the goodwill and know-how acquired as a result of the Transaction. CCS is satisfied that the notified ancillary restrictions fall under the exclusion in paragraph 10 of the Third Schedule of the Act.

## CONCLUSION

54. Based on the information submitted to CCS by the Parties and through CCS' enquiries, for the reasons stated above, CCS is of the view that the Transaction, if carried into effect will not infringe the section 54 prohibition.

55. In accordance with section 57(7) of the Competition Act, this decision shall be valid for a period of one year from the date of this decision.



Toh Han Li  
Acting Chief Executive  
Competition Commission of Singapore