
Completed acquisition by Compagnie Générale de Géophysique of Veritas Inc

The OFT's decision on reference under section 22 given on 6 February 2007.
Full text of decision published 13 February 2007.

Please note that the square brackets indicate figures or text which have been deleted or replaced with a range at the request of the parties for reasons of commercial confidentiality.

PARTIES

1. **Compagnie Générale de Géophysique (CGG)** is an international company headquartered in France, active in the supply of a broad range of geophysical information and services to the oil and gas industry. It is also a global manufacturer and supplier of geophysical equipment through its wholly-owned subsidiary, Sercel Inc (**Sercel**).
2. **Veritas DGC Inc (Veritas)** is an international company headquartered in the US, also active as a provider of geophysical information and services to oil and gas companies worldwide (although not active in the manufacture or supply of geophysical equipment). In the year ended 31 December 2005, Veritas' UK turnover was approximately £24 million.

TRANSACTION

3. The parties entered into an agreement on 4 September 2006, whereby CGG would acquire Veritas in a part cash, part stock transaction. The deal completed on 12 January 2007. The extended administrative deadline is 6 February 2007 and the statutory deadline is 11 May 2007.

JURISDICTION

4. As a result of this transaction CGG and Veritas have ceased to be distinct. The parties overlap in the supply of geophysical (also known as seismic) services and the share of supply test in section 23 of the Enterprise Act 2002 (the Act) is met as post-merger CGG supplies more than a quarter of all seismic data processing services in the UK¹. The OFT therefore believes that it is or may be the case that a relevant merger situation has been created.

FRAME OF REFERENCE

Product market

5. The parties overlap in the global supply of seismic services (including to customers based in the UK and within the North Sea Area²) which are used to provide oil and gas companies with an image of sub-surface geology for identification of whether an area is likely to contain oil and gas reserves. The two principal overlapping activities are seismic data acquisition (the release of sound waves on land or at sea to collect raw data reflected from the sub-surface) and seismic data processing (where raw data is processed into a format that can be more easily interpreted by customers). As the evidence provided to the OFT suggests that there is no demand or supply side substitution between these two activities, and contracts are typically tendered separately and often won by different suppliers at each stage, seismic data acquisition and seismic data processing are considered individually below.
6. The parties also overlap in the ancillary seismic service of reservoir consultancy (where clients are advised how to maximise the process of oil and/or gas extraction from identified reserves). As the parties submit that they only offer limited reservoir consultancy services, restricted mainly to the Americas, and the OFT has received no third party concerns in this respect, the OFT does not believe that the merger will substantially affect competition for reservoir consultancy in the UK and so it is not considered further.

¹ As, to the parties' knowledge, there is no reliable third party data on seismic services in the UK, they submitted estimates based on revenues generated by UK located customers. Third parties did not provide us with any inconsistent evidence on this issue.

² The parties define the North Sea Area as comprising the waters of the UK, Norway and the Faroe Islands and those countries bordering the North Sea, namely the UK, Ireland, Norway, Denmark, the Faroe Islands, the Netherlands and Germany.

Seismic data acquisition

7. Seismic data acquisition work can be carried out either on a proprietary basis or on a speculative basis. Proprietary (or contract) data acquisition work is commissioned by oil and gas companies typically after a competitive tender and the data acquired is for the exclusive use of the client. By contrast, speculative (or multi-client) data acquisition work is carried out by seismic companies at their own initiative and forms part of a library capable of being licensed to multiple clients.³ Evidence provided to the OFT suggests that supply side substitution between proprietary and speculative seismic data acquisition work is easy (as the equipment and personnel used for each is identical). There may also be limited demand side substitution (although some customers opined that even if library data exists, in certain areas they may still consider using a proprietary survey to gain more accurate delineation). Accordingly, the OFT considers them to be in the same product frame of reference.
8. The OFT believes on the basis of the evidence before it that seismic data acquisition services (whether proprietary or speculative) should be considered separately depending on whether they take place on-shore (land seismic data acquisition) or off-shore (marine seismic data acquisition) as it has been verified by the parties and third parties that different technology and equipment is used for each. For example, marine seismic data acquisition is carried out from purpose-built boats or specially converted vessels not necessary for land seismic data acquisition.

Land seismic data acquisition

9. The OFT was provided with evidence by the parties and third parties that the technology, equipment and personnel used in relation to so-called 'transition zones', including swamps, beaches and similar areas where the water is not deep enough to support marine seismic data acquisition vessels, is generally similar to that used in land seismic data acquisition. Accordingly, the OFT has

³ Speculative data tends to be collected during winter months as demand for proprietary work is low because poor weather conditions reduce the quality of survey data.

considered transition zone seismic data acquisition to be a sub-category of land seismic data acquisition. Notwithstanding, given that there is no overlap in these activities between the parties in Europe⁴ and third parties are unconcerned, the OFT does not believe that the merger will substantially affect competition for land seismic data acquisition in the UK and it is not considered further.

Marine seismic data acquisition

10. The acquisition of marine seismic data is usually performed using the traditional streamer method, where one or more lines of streamer cables (receivers) are trailed behind vessels.⁵ Where a single line of streamer cable is used, 2D seismic information is obtained. 3D seismic data is acquired by trailing a number of parallel lines of streamer cables, while 4D seismic data is acquired by performing the same 3D acquisition processes at the same location at different times. The OFT has considered whether to assess separate subdivisions of marine seismic data acquisition based on these different types of data acquisition methods.⁶
11. The parties and third parties have confirmed that, while there is limited demand side substitution between 3D and 4D seismic data acquisition services, the same equipment, crew and vessels are used and it is an identical process. For the purpose of this analysis, therefore, the OFT has considered them to be within the same product frame of reference.

⁴ Neither party has been active in land seismic data acquisition in the UK in the last four years and over the same period Veritas has not been active in the North Sea Area. For completeness, the parties estimate that they had a combined global share for land seismic data acquisition in 2005 of between 15-25 per cent based on revenues with two other providers of a larger size and several smaller players.

⁵ A less traditional method of obtaining marine seismic data is by the Ocean Bottom Cable (OBC) method, which involves the laying of cables on the ocean floor. It is a specialist niche area developed for use in offshore fields that are congested by drilling rigs and other surface obstructions and is significantly more expensive than streamer methods. OBC techniques are used for only a very small proportion of the parties' total, and sector total, marine seismic data acquisition work and the parties state that they do not operate any OBC vessels. For these reasons, combined with the fact that the OFT has received no third party concerns in this respect, the OFT does not believe that the merger will substantially affect competition for OBC services in the UK and so it is not considered further.

⁶ For example, the OFT previously considered segmentation on this basis when investigating the completed merger of the surface seismic data acquisition and data processing interests of Schlumberger Limited and Baker Hughes Incorporated (Report to the Secretary of State for Trade and Industry dated 21 December 2000):

www.oft.gov.uk/Business/Mergers+FTA/Advice/Clearances+and+referrals/Schlumberger.htm
. The transaction was subsequently cleared in accordance with this advice.

12. Evidence was mixed as to the substitutability between 2D and 3D marine seismic data acquisition. On the one hand, the parties submit that although marine seismic vessels are generally designed to acquire only one type of information (2D or 3D), there is some degree of supply side substitutability between the different types of vessels and equipment used in each case and they should be regarded, therefore, as being in the same product frame of reference. In particular, vessels capable of obtaining 3D seismic data could be used to obtain 2D data without any additional cost. Further, while 2D vessels are not able to conduct 3D surveys, the parties submit that conversion of vessels happens often, can be completed within a few months and recent examples have cost between \$5-10 million.
13. On the other hand, third party views and evidence was mixed on the extent of the substitutability between 2D and 3D marine seismic data acquisition. On the demand side, it was suggested by third parties that there is little substitutability between 2D and 3D surveys since they are used for different purposes and reveal different information.⁷ On the supply side, while it was confirmed that 2D data can be obtained using a 3D equipped vessel, one third party commented that it may not be cost effective to do so (even if prices rose by 5-10 per cent) as 3D data acquisition requires larger and more powerful vessels.
14. As the degree of demand and supply side substitutability between 2D marine seismic data acquisition and 3D marine seismic data acquisition is unclear, the OFT has taken a cautious view and considered them separately. However, it is not necessary to conclude on the exact product scope as no competition issues are raised whichever definition is used.

Seismic data processing

15. The parties submit that the supply of seismic data processing should be considered as the appropriate product frame of reference for assessing the merger as the majority of processing centres (including those belonging to the parties) are capable of processing all land and marine-based seismic data, including 2D, 3D and 4D data types, and companies typically process both. This is consistent with the majority of third party views that there is considerable overlap in the techniques, software and expertise required to process different types of data thereby reducing switching costs. The OFT,

⁷ Customers confirmed that 2D data acquisition is used for reconnaissance over a large area, while 3D data acquisition is usually required once a 2D survey has revealed the likely existence of oil and/or gas reserves and is used for prospect generation and well placement.

therefore, considers it appropriate to consider seismic data processing as a relevant product frame of reference for the purpose of this analysis, although it is not necessary to reach any exact conclusions as the competition analysis is unchanged whatever definition is used.

Seismic data acquisition equipment

16. Although the parties do not overlap in this area, the OFT has also considered the relevant product scope in relation to seismic data acquisition equipment as it is relevant to the consideration of the vertical effects of the merger (considered below). The parties submit that all seismic data acquisition equipment should be regarded in the same product frame of reference. However, evidence from third parties suggests the contrary. For example, all but one third party opined that marine and land data acquisition equipment should be considered separately. Further, evidence provided to the OFT suggests that segmentation as narrow as by equipment product type may be appropriate.
17. Seismic data acquisition crews are generally equipped with recording systems, streamer cables, cable location and geophysical data location systems, multiple navigation systems and source control systems with a multitude of instruments incorporated in each. As most individual equipment pieces have different functions, demand side substitution appears limited⁸ and switching production between different equipment pieces relatively difficult due to the different technologies involved. Therefore, the OFT has taken a cautious view and considered land and marine seismic data acquisition equipment, and different equipment product types within each category, separately for the purpose of this analysis. However, it is not necessary to conclude on the exact product market as no competition issues are raised whichever definition is used.

Geographic market

Marine seismic data acquisition

18. The parties submit that the geographic scope for marine seismic data acquisition is worldwide as vessels can, and regularly are, moved between projects globally. Further, key customers (such as major oil and gas

⁸ For example, geophones (which measure the speed of the seismic pulse that reaches the surface during the acquisition of data on land) serve a different purpose to hydrophones (which measure pressure variations produced by the sound waves in the water).

companies) generally purchase on a global basis and there are no significant barriers to offering seismic data acquisition services across national borders. This view of the geographic frame of reference was supported by all third parties contacted by the OFT and, therefore, it has been considered appropriate to consider the geographic scope on this basis. However, it is not necessary to conclude on the exact geographic market for marine seismic data acquisition as the competition analysis is unchanged whatever definition is used.

Seismic data processing

19. The parties submit that the geographic scope for seismic data processing is global as seismic data can be processed remotely around the world (by means of satellite transmission) and many of the large providers have regional processing centres worldwide. Third party views and evidence were mixed on this issue. For example, a number of third parties opined that while in theory it is not necessary for data processing centres to be located close to acquisition sites, in reality customers prefer processing to be done locally to allow for involvement (such as regular processing discussion meetings). Therefore, although it is not necessary for the OFT to conclude on the exact geographic market for seismic data processing as no competition issues are raised whatever definition is used, for completeness shares of supply are considered on a global as well as on a regional (UK and North Sea Area⁹) basis.

Seismic data acquisition equipment

20. The parties submit that the geographic scope for seismic data acquisition equipment is global due to the worldwide presence of customers and suppliers. Third party views and evidence supported this assertion and the OFT has, therefore, considered the geographic scope on this basis. However, it is not necessary to conclude on the exact geographic market as the competition analysis is unchanged whatever definition is used.

⁹ The parties provided share estimates in their submission on this basis.

HORIZONTAL ISSUES

Market shares

2D marine seismic data acquisition

21. 2D marine seismic data acquisition is carried out by a number of large players internationally. The parties estimate that their combined global share of supply for 2D marine data acquisition is less than 10 per cent (increment less than five per cent) based on capacity by number of vessels (the merged entity has two vessels capable of acquiring 2D data).¹⁰ Two other global operators are estimated to have larger shares than the merged entity (Fugro and SMNG) with three others of a similar size and a fringe of players with one vessel only.
22. Taken in conjunction with the lack of third party concerns in this area and as the parties do not appear to be any more important a competitor to each other than a number of other significant players that will provide sufficient actual rivalry to constrain the merged entity, the OFT believes that the loss of any competitive constraint resulting from the merger for 2D marine seismic data acquisition is not significant.

3D/4D marine seismic data acquisition

23. In the supply of 3D/4D marine data acquisition services, the parties provided estimates for global shares based on two measures of global capacity.¹¹ In relation to number of vessels capable of acquiring 3D/4D data, the parties estimate that they had a share of less than 25 per cent (increment approximately 10 per cent) in 2005. Based on the number of streamers on such vessels (each vessels has between two and 12 streamers), the parties' 2005 share is estimated to be between 25 and 30 per cent (increment approximately 10 per cent).

¹⁰ The parties stated that they do not both record revenue streams from marine seismic data acquisition separately depending on type (2D, 3D or 4D). However, the OFT considers that global capacity by number of vessels is a credible alternative measure of market power for the purpose of this analysis, as the sector appears at or near full capacity, and is consistent with industry use.

¹¹ The parties were not able to provide the OFT with share data in respect of 4D marine data acquisition services alone as they do not record it separately from other marine data acquisition.

24. Third parties have confirmed that the merger creates three long established suppliers of 3D/4D marine seismic data acquisition of roughly similar size (the merged entity, WesternGeco and PGS). In addition, the parties point to recent new entrants (such as Wavefield Geophysical AS, Scan Geophysical and Arrow Seismic) who have been successful at gaining business from the incumbent suppliers and have expansion plans in place. Based on the evidence provided, including customer comments that contracts are tendered on a competitive basis and that customers can and do switch suppliers regularly, the OFT considers that the competitive position for 3D/4D marine seismic data acquisition is not substantially affected by the merger.

Seismic data processing

25. Post-merger, the parties supply approximately a third of all seismic data processing services globally (increment between 10 to 15 per cent) becoming equal largest processor, alongside WesternGeco. More narrowly, the parties submit that they have a combined share of total revenues of approximately 25 per cent (increment less than 10 per cent) for the North Sea Area. In the UK, the merged entity has become the largest provider with a share of between 35 to 40 per cent (increment between 10 to 20 per cent) based on revenues, however the parties estimate that three other players (WesternGeco, Paradigm and PGS) have a share of 10 per cent or more. This information was generally supported by third party opinion.
26. As with seismic data acquisition, seismic data processing customers commented that contracts are tendered on a competitive basis and they can and do switch suppliers regularly. Taken in conjunction with the number and strength of existing competitors and a general absence of third party concerns in this area, the OFT considers that the competitive position for seismic data processing is not substantially affected by the merger.

Barriers to entry and expansion

Marine seismic data acquisition

27. Evidence provided to the OFT suggests that the costs involved in acquiring and equipping a seismic vessel are significant and converting a vessel for 3D/4D marine seismic data acquisition is similar to the cost of a new build. Third parties also opined that the recruitment of key experienced personnel can act as a major barrier to entry. However, over the last few years,

demand for oil and gas has increased (driven by increasing prices) and oil and gas companies have placed significant investment emphasis on exploration, which has in turn provided support and financing to new entrants in the sector. Given the lack of horizontal issues in this case, however, it is not considered necessary to reach a firm conclusion on barriers to entry in the marine seismic data acquisition sector.

Seismic data processing

28. According to the parties, barriers to entry into seismic data processing are low and new entry is also increasingly apparent in the sector (for example, AGS, GX-Technology, Paradigm and Ensign-Geotrace), including entry by specialist processing companies not active at the data acquisition stage. Third parties generally confirmed this to be true (noting that the cost of 'off the shelf' hardware is coming down in price), however, they also opined that recruitment of experienced processor staff can act as a barrier. Given the lack of competition issues raised in relation to seismic data processing, the OFT does not consider it necessary to reach a firm conclusion on barriers to entry in the seismic data processing sector.

Buyer power

29. Key customers of seismic service companies are large state-owned and international oil and gas companies (for example, BP and Shell) which typically contract seismic surveys following a competitive tendering process. Many of these customers have in-house seismic data processing capabilities and, given their significant financial resources, may also have the ability and commercial interest to sponsor new entry and/or assist smaller companies in the seismic data acquisition sector (or indeed enter themselves).¹² As such, this may place a competitive constraint on the merged entity and other seismic service suppliers. However, given the lack of competition issues in relation to seismic data acquisition and processing, the OFT does not consider it necessary to reach a firm conclusion on buyer power.

¹² Seismic acquisition and processing work generally makes up a very small percentage of the total exploration and production costs of an oil and/or gas company.

VERTICAL ISSUES

30. Pre-merger CGG was already vertically integrated in the supply of seismic data acquisition and seismic data acquisition equipment (through its subsidiary, Sercel). Two third parties contacted the OFT concerned that CGG's increased market power in seismic data acquisition resulting from the merger could provide CGG with an incentive to foreclose wholly or in part the upstream supply of its equipment to third parties, potentially impacting on downstream competition by putting some rivals to the merged entity at a cost disadvantage. One of the third parties expressed a particular concern that access to marine seismic data acquisition equipment (from which CGG makes a significantly smaller proportion of its total revenues compared to land seismic data acquisition equipment) and, specifically, streamer cables and airguns¹³ may be restricted by the merged entity.
31. Where a vertically integrated entity possesses market power at one level of the supply chain, consideration must be given as to whether a merger results in an enhancement of the ability and incentive of the entity to exploit that market power. Therefore, in assessing whether the merger could have vertical foreclosure effects, the OFT has considered both the ability of CGG to foreclose, as well as any incentive created or strengthened by the merger for CGG to adopt a foreclosure strategy. To fully analyse the specific third party concerns raised with the OFT, consideration has been given to all seismic data acquisition equipment but taking into account, in particular, marine seismic data acquisition equipment, and specifically air guns and streamer cables.
32. The issue is not the state of competition based on factors that predate the merger but, rather, whether the merger itself causes a substantial lessening of the degree of competition already present. Here the question is whether the merger itself creates or substantially strengthens CGG's ability and incentive to exploit its market power in seismic data acquisition equipment to foreclose downstream rivals and thereby ultimately harm customers of seismic data acquisition services.

¹³ Air guns are used in seismic surveys to generate high levels of low frequency sound through the release of highly compressed air.

CGG's ability to foreclose

33. There are several small providers of seismic data acquisition equipment specialising in specific equipment product types, however, Sercel and Input Output are the only two full-range equipment providers (both of which supply land and marine seismic data acquisition equipment).¹⁴ The parties estimate that Sercel has a global share of approximately [above 50] per cent of the supply of seismic data acquisition equipment globally, while Input Output (another US company) has a global share of approximately 25 per cent. There is also a fringe of smaller players (including Oyo Geospace, Bolt Technologies and Teledyne Marine Products).¹⁵
34. Both Sercel and Bolt Technology produce air guns. Further, the OFT received mixed evidence as to whether Input Output is a third supplier as it produces an alternative to traditional air guns in the form of its sleeve gun.¹⁶ In relation to streamer cables, which can be fluid, gel or solid, there are two producers: Sercel (which produces solid cables); and, Teledyne which produces fluid and gel cables. Input Output also supplies solid and fluid streamer cables but these are produced by Teledyne to Input Output's design specifications. Again, the OFT received mixed evidence on whether customers regard solid, fluid and gel streamer cables as substitutes in practice.¹⁷
35. While third party evidence provided to the OFT suggests that equipment suppliers could expand production of specific equipment items relatively easily if demand or prices suddenly increased, third parties commented that

¹⁴ Although WesternGeco has developed seismic data acquisition equipment with its own proprietary technology, it does not supply third parties. The parties suggested that second hand equipment could be acquired instead of new equipment, however, the OFT has not received sufficient evidence to objectively justify a belief that it is a viable alternative in all cases.

¹⁵ The parties estimate that Sercel's share of the marine seismic data acquisition sector is also around [above 50] per cent (approximately \$[] million out of a total sector worth \$530 million), with Input Output and Oyo Geospace as the two other main competitors.

¹⁶ One third party opined that air guns and sleeve guns are credible alternatives as they fulfil the same type of function. However, another third party stated that they did not consider them strong substitutes as air guns have more precise and predictable timing. As the OFT was provided with evidence to suggest that Input Output's sleeve guns are currently used by a number of seismic data acquisition providers in their vessels and recent improvements could increase their attractiveness as a substitute to air guns, the OFT considers that they may impose some degree of constraint and Input Output is likely to be well placed to develop an even more viable alternative to the traditional air gun upon customer demand.

¹⁷ Several third parties opined that solid streamers are a better technology, for example, being more environmentally friendly and robust than other steamer cable types.

it is difficult to enter into new lines of production as they typically involve different technologies.¹⁸ In this respect, the OFT has not received sufficient evidence of the likelihood of entry into particular seismic data acquisition product lines, including air guns or streamer cables, in practice (for example, on a five to ten per cent increase in price) to place a strong competitive constraint on existing players. Furthermore, customer evidence indicates that switching between different seismic data acquisition equipment suppliers for existing vessels/units is relatively timely and costly due to technological incompatibility, although evidence suggests that there are plenty of examples of switching for new build projects.

36. In summary, on the basis of the evidence provided, the OFT believes that CGG pre-merger may already have had some ability to foreclose the supply of seismic data acquisition equipment, including marine seismic data acquisition equipment, streamer cables and air guns to third parties (although the OFT found no examples of a foreclosure strategy being followed in the past). This ability does not appear to have been materially affected by the merger.

CGG's incentive to foreclose

37. While a merged firm may have the ability to foreclose competition in some way, it may lack the incentive to do so if such a strategy would not be profitable. When conducting an assessment of incentives to foreclose, the OFT relies on evidence, including internal documents and financial data, together with financial modelling and simulation techniques where possible, to assess whether foreclosure is likely to be profitable post-merger.¹⁹
38. Evidence provided to the OFT casts doubt on the profit-maximising rationale of a foreclosure strategy in this case. First, the parties submit that in recent years less than half of Sercel's total sales of seismic data acquisition equipment (including the marine segment when considered on its own) have been accounted for by CGG and Veritas (the latter having bought the majority of its requirements from Sercel pre-merger²⁰).

¹⁸ Further, new seismic data acquisition equipment entrants over the last few years have been subsequently acquired by Sercel or Input Output.

¹⁹ See *Mergers – substantive assessment guidance* (OFT 516), paragraph 5.4.

²⁰ This would suggest that, post-merger, there is unlikely to be a significant internal increase in demand for Sercel's equipment which could detract from meeting third party demand.

39. Second, analysis of the merging parties' profit margins requested by the OFT for the last few years shows that CGG's margins for seismic data acquisition equipment (including the overall marine segment, air guns and streamer cables) are consistently higher over time than those it makes from supplying downstream acquisition and processing services.²¹ Even if evidence had been provided to the OFT suggesting CGG has a possible incentive to restrict third party access to its seismic data acquisition equipment post-merger, it is noteworthy that Sercel's customers often require both land and marine seismic data acquisition equipment, therefore any potential anti-competitive benefits that might be perceived as deriving from foreclosure of one category of products would need to be balanced against a possible negative knock-on effect on sales in other categories.
40. In examining the robustness of CGG's incentive to foreclose, internal documents provided by CGG were also reviewed by the OFT but no evidence was found suggesting that a business strategy based on foreclosure has been followed. On request by the OFT, concerned third parties were neither able to provide documentary evidence supporting their concerns (as may be expected if the merger was anticipated to have a potentially large impact on their seismic data acquisition operations) nor to provide evidence to suggest that any incentive for CGG to foreclose third parties is created or strengthened by the merger. For all the reasons stated above, the OFT believes that a foreclosure strategy would not be profitable to the merged entity.
41. In summary, even assuming CGG has the ability to restrict access of seismic data acquisition equipment to third parties, the OFT believes on the evidence before it that any incentive to foreclose remains unchanged by the merger and, in any event, such a strategy appears to be contrary to profit-maximising behaviour. No customers of seismic data acquisition services were concerned about this issue.

THIRD PARTY VIEWS

42. Aside from the vertical issues discussed above, third parties were mostly unconcerned by this transaction. The OFT received a small number of

²¹ A foreclosure strategy would be considered profit maximising if CGG could make higher profit margins from seismic data acquisition services than from the manufacture of seismic data acquisition equipment (including any standalone segments such as marine or from specific equipment product types).

concerns from third parties opining that there would be a reduced choice in the number of seismic service bidders available for contracts which might lead to higher prices and fewer technical options. These are addressed above.

ASSESSMENT

43. The parties overlap principally in the supply of seismic data acquisition and processing services. CGG is also active in the manufacture and supply of seismic data acquisition equipment through its subsidiary, Sercel.
44. At the narrowest level of product scope, the OFT considers that seismic data acquisition can be further segmented depending on whether it takes place on-shore or off-shore and also according to the type of data that is acquired (2D or 3D/4D) but that the relevant geographic frame of reference is likely to be global for each segment. Seismic data processing is considered to be an independent product frame of reference but evidence on its relevant geographic scope has been mixed suggesting it may be regional. However, the OFT has not considered it necessary to conclude on exact product or geographic scopes in relation to its assessment of this transaction as the competitive analysis is unchanged whatever definitions are used.
45. The OFT has focused its analysis on marine seismic data acquisition services as the parties do not overlap in Europe for land seismic data acquisition and there are a number of other large players at the global level. The 2D and 3D/4D marine seismic data acquisition global sectors can be characterised as competitive, as can the supply of seismic data processing services globally, in the North Sea Area and in the UK. In all cases, there are a number of other equally sized suppliers, as well as a fringe of smaller players, to which customers could switch in the event of a price rise by the merged entity. Furthermore, customers, who are typically large sophisticated oil and gas companies with the incentive and resources to ensure that supply remains competitive, may possess a degree of buyer power and regularly switch suppliers. Taken in conjunction with a general absence of third party concerns, the OFT believes that the loss of any competitive constraint on the horizontal level as a result of this transaction will not be significant.

46. Two third parties were concerned that the merger may result in an incentive for the merged entity to wholly or partially restrict third party access to its seismic data acquisition equipment, in particular, marine equipment, air guns and streamer cables. The OFT therefore found it necessary to consider this issue further to determine whether the merger had created or increased both the ability and the incentive of CGG to undertake a foreclosure strategy. On the basis of evidence provided to the OFT by the parties and third parties (including internal documents, or an absence thereof, and profit margin estimates), the OFT believes that although CGG may already have had some pre-merger ability to foreclose supply (already being a vertically integrated supplier with a degree of market power upstream), no incentive for foreclosure is created or strengthened by the merger. In conclusion, based on the evidence provided to it, the OFT does not have a positive belief objectively justified by relevant facts that the merger will substantially affect competition through a risk of vertical foreclosure.
47. Consequently, the OFT does not believe that it is or may be the case that the merger has resulted or may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

48. This merger will therefore not be referred to the Competition Commission under section 22(1) of the Act.