

***Case No COMP/M.4564 -
BRIDGESTONE /
BANDAG***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 29/05/2007

***In electronic form on the EUR-Lex website under document
number 32007M4564***



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 29/05/2007

SG-Greffe(2007) D/203230

In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus [...]. Where possible the information omitted has been replaced by ranges of figures or a general description.

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying party

Dear Sir/Madam,

**Subject: Case No COMP/M.4564 –BRIDGESTONE / BANDAG
Notification of 17/04/2007 pursuant to Article 4 of Council Regulation
No 139/2004¹**

1. On 17 April 2007, the Commission received a notification pursuant to Article 4 of Council Regulation (EC) No 139/2004 ("The Merger Regulation") by which the undertaking Bridgestone Corporation via Bridgestone Americas Holding Incorporated ("Bridgestone", USA) acquires sole control of the whole of the undertaking Bandag Incorporated ("Bandag", USA).
2. After examination of the notification, the Commission has concluded that the notified operation does not raise serious doubts as to its compatibility with the common market and with the functioning of the EEA Agreement.

I. THE PARTIES

3. **Bridgestone** is the principal US subsidiary of the Japanese company Bridgestone Corporation ("BS") which is active worldwide in the tyre and rubber business. In the EU, BS operates through its wholly-owned subsidiary Bridgestone Europe NV ("BSEU"), which predominantly sells new tyres to original equipment manufacturers and replacement tyres to tyre dealers. In the retreading business, BS is active through

¹ OJ L 24, 29.1.2004 p. 1.

Bridgestone Retread Systems NV ("BSRS") which sells retreading materials and equipment and, to a limited extent, through BSEU.

4. **Bandag** is a US-listed company exclusively active in the tyre retreading business. In the US, it manufactures and sells tread and retreading equipment to independent retreading businesses and operates a network of retreaders and truck service centres. In the EU, Bandag sells tread and retreading equipment only to retreading businesses which operate as Bandag franchisees.

II. THE OPERATION

5. According to the proposed transaction, Bridgestone acquires sole control over Bandag by way of purchase of shares. The transaction therefore constitutes a concentration within the meaning of Art. 3(1)(b) of the Merger Regulation.
6. According to the notifying party the economic rationale of the transaction lies primarily in the USA, where Bridgestone is one of the major suppliers of new tyres, whereas Bandag is the largest player in retreading. The transaction would allow Bridgestone to compete more effectively with other major players, mainly Michelin and Goodyear, by giving the merged entity the ability to serve transportation companies seeking tyre management programs, which include the provision of both new and retreaded tyres.

III. COMMUNITY DIMENSION

7. The proposed transaction does not have a Community dimension within the meaning of Article 1 of the Merger Regulation. However, given that the operation is reviewable under the national merger control laws of four Member States (namely Austria, Germany, Ireland and Slovenia) as well as Norway the parties have requested, pursuant to Article 4(5) of the Merger Regulation, the referral of the case to the Commission.
8. Since none of the above Member States nor Norway has expressed its disagreement with such a referral request, the concentration is deemed to have a Community dimension pursuant to Article 4 (5) of the EC Merger Regulation.

IV. ASSESSMENT

1. Relevant product markets

9. Both parties are active in the commercial tyre industry in the broad sense. Bridgestone submits that the areas of overlap between the parties' activities are the supply of retreading material and equipment to retreaders and also the provision of tyre management to large end-customers.
10. The supply of retreading materials, by the manufacturers of such materials to companies active in retreading services, is upstream of the supply, by the latter category of companies, of retreading services and retreaded tyres to end-customers. In the parties' view the transaction does not affect the market for provision of retreading services and retreaded tyres to end-customers with the exception of tyre management, because Bandag is not directly active on this market as these services are provided by independent Bandag franchisees.

11. The notifying party submits that end-customers may be divided into large "mega-fleet" truck operators and operators of smaller fleets of trucks. This distinction has been mentioned in a previous Commission decision² where the question whether such a distinction should be made was finally left open.

a) Retreading material and equipment

12. Retreading is a process that provides tyres with an extended life by applying new tread (or rubber) to a worn truck tyre³ provided that its casing (its "structure") is still in sound condition. In some cases it is possible to repeat the retreading process up to four times to further extend the lifetime of the casing.

13. There are two different methods of retreading used tyres: the cold retreading process and the hot retreading process. While some processing steps are common, the two methods differ in the nature of the tread (retreading material) which is used in the process, the manner in which it is applied and the equipment required. In the hot process, the tread has not been pre-formed (uncured tread) and its pattern comes from a mould in which the casing and the tread are placed during the process at a high temperature (around 150°C). For the cold process, the tread has been pre-formed in strips or rings (pre-cured tread). The retreader selects the appropriate tread between various designs, widths and thicknesses, applies it to the casing and then moves it in a curing chamber which applies heat (around 99°C) and pressure to create the bond between the tread and casing.

14. The hot process involves relatively high investment costs and lower tread costs whereas the cold process requires lower initial investment but higher tread costs. As a result, hot retreading process activities are performed by special facilities more akin to manufacturing facilities whereas cold retreading is typically performed closer to the customer. Respondents to the market investigation indicated that the minimum sales volume to achieve profitability is much higher in hot retreading than in cold retreading.

15. Bandag and Bridgestone provide tread and equipment to businesses active in the retreading services. Bridgestone supplies both uncured tread (for hot process) and pre-cured tread (for cold process); its customers for uncured tread are mainly Bridgestone-owned retreaders whereas customers for pre-cured tread are mainly independent retreaders and tyre dealers. Bandag supplies only pre-cured tread to businesses which have signed an industrial franchise agreement with Bandag. Bandag's franchise network (144 franchisees) is a mix of wholesalers that are exclusively involved in retreading and retreaders that are vertically integrated as tyre dealers.

16. According to Bridgestone, retreaded tyres produced with both methods are perfectly substitutable from a final customer's point of view and the choice of the process has no impact on the price of tyres. Indeed, the market investigation has shown that although certain end-customers have a preference for tyres retreaded through one of these methods, the retreading process as such is not the decisive element for making their choice.

² Comp /M.3081 – Michelin/Viborg

³ Retreading passenger car tyres is also possible but this is a niche market where Bandag is active to a very limited extent and Bridgestone is not.

17. At the upstream level of retreaders demand-side substitutability is very limited: it follows from the above that a hot retreader cannot use pre-cured tread and a cold retreader does not demand uncured tread. During the market investigation, cold retreaders confirmed that the investment to switch to hot retreading would be very substantial (superior to 1 M EUR) and that they need a much larger customer base to be profitable in hot retreading.
18. Moreover, regarding supply-side substitutability, respondents to the market investigation indicated that whereas some companies like Bandag, Nokian and Goodyear are only or mainly active in pre-cured tread, other suppliers like Michelin and Continental focus on uncured tread.
19. Based on the limited substitutability at the upstream level it appears that the product *market for retreading material* should be differentiated between uncured tread and pre-cured tread. With such a distinction the overlap between the parties would only occur in the market for pre-cured tread. However, the precise product market definition can be left open, as it would not materially affect the assessment of the notified transaction.

b) Retreaded tyres/new replacement tyres

20. When the original tyre of a commercial vehicle can no longer be used it can in principle be replaced by a new tyre or a retreaded tyre. In a previous decision⁴, the Commission has defined separate product markets for new replacement tyres and retreaded tyres.
21. During the investigation, the Commission sought to verify whether such a distinction remains valid and notably whether low-budget new replacement tyres could be substitutes for retreaded tyres, given the small price differences between them. Most customers indicated that quality of the cheap new tyres is poor and looking at the cost per kilometre of use a low-priced tyre is at least twice as expensive as a retreaded tyre. This is all the more true because the quality of the casing of most of these cheap replacement tyres excludes the possibility of retreading. End-users who own their casings would choose to retread them rather than buying a low-priced tyre, given that retreading prolongs the life of a tyre and reduces the cost per kilometre of a casing.
22. Therefore, at the current stage of development of these low-budget tyres, the Commission considers that the distinction between new replacement tyres and retreaded tyres remains valid.

c) Tyre management for large customers ("mega-fleet")

23. The notifying party submits that there is a separate product market for the provision of tyre management services for mega-fleet customers. It suggests that mega-fleets can be defined as businesses which are active in the commercial vehicle transport industry and operate more than 1000 vehicles on a multi-national basis. According to the parties, these businesses require not only to be supplied with tyres but also "cradle-to-grave" tyre services that national dealer networks cannot offer: centralised billing on a pan-European basis, tyre management reporting, fleet consultancy, maintenance services and casing management. Contracts are awarded through a bidding process or negotiations with selected suppliers.

⁴ COMP 36.041 Michelin (§118)

24. Although it appears that big fleet customers consider the overall options and costs for their "tyre management" as a whole (including new replacement tyres and retreading) it is not necessary, for the purpose of the present decision, to conclude whether a separate market should be defined for mega-fleet tyre management, since the transaction does not give rise to competition concerns.

2. Relevant geographic markets

25. As regards retreading material and equipment, Bridgestone submits that the geographic market is the EEA as a whole. The notifying party points out that suppliers of retreading materials have one or few central production facilities but make sales in a number of Member States, transport costs are not significant and there are no substantial price differences within the EEA.

26. The market investigation confirmed that customers are supplied on a pan-European basis. All Bandag franchisees source their retreading material and equipment from Belgium or the Netherlands and the same is true for Bridgestone customers. The market investigation did not reveal any specific national regulations which would result in different market conditions.

27. On the other hand, it appears that certain suppliers of retreading materials⁵ have high market shares (above 40%) in some EU countries (Michelin in France, Belgium and the Netherlands, Bandag in Norway and Ireland, Marangoni in Italy and Poland, Kraiburg in Austria) but are not active in other Member States. These differences would reflect national preferences concerning retreading processes: cold retreading has a better market penetration in Northern Europe whilst hot retreading has a better market penetration in Southern Europe. Moreover, brand preferences appear to vary among these countries and certain companies set different prices in different countries.

28. The market investigation was not conclusive with regard to the geographic scope of the market. In any case, it is not necessary to conclude on the precise geographic market definition as the proposed transaction is not likely to raise competitive concerns whether the market should be considered as national or EEA-wide in scope.

29. As regards the market for retreaded tyres, the Commission has considered in earlier cases⁶ that the market was national in scope, since it is a market for the provision of services (retreading of the tyres) and the structure of supply is heterogeneous within the EEA. Respondents to the market investigation largely confirmed the existence of national markets.

30. As regards the potential market of tyre management for mega-fleet customers, Bridgestone submits that given the pan-European nature of such services, the geographic scope of this market is the EEA. As mentioned above, such a separate market has not been defined in this case and the question can ultimately be left open as

⁵ Uncured + pre-cured tread.

⁶ Comp 36.041 Michelin (§154)

the concentration does not raise competition concerns on any potential mega-fleet market either on an EEA-wide or a national basis.

3. Competitive assessment

31. Bridgestone is mainly active in the retreading business through BSRS, originally a jointly controlled 75%-25% joint-venture with the Italian undertaking Marangoni Tread S.p.A. ("Marangoni"). On 16 April 2007, Bridgestone and Marangoni entered into a Termination Share Sale and Transfer agreement pursuant to which Bridgestone has acquired Marangoni's 25% interest in BSRS. The transfer of the shares occurred on 25 April 2007. Thus BSRS will in the future operate as a wholly-owned subsidiary of Bridgestone. For the purpose of this assessment and considering notably the removal of the structural link between Bridgestone and Marangoni, Marangoni is considered as a competitor of the parties⁷.

a) Retreading material and equipment

32. In 2005, the total market volume for retreading material including both uncured and pre-cured tread, represented 7,131,321 equivalent number of tyres and the market value was 301.14M EUR. The combined market share of the new entity would be [10-20%] in volume (Bandag: [10-15%], Bridgestone: [<5%]) and [15-20%] in value⁸. They will face competition from Michelin ([25-35%] in volume), Marangoni ([10-20%]), Kraiburg ([5-15%]) and other smaller suppliers like Nokian. On a national basis, the parties' combined market shares will be [25-30%] in Denmark (with a [0-5%] increment), [35-40%] in the Netherlands (with a [<5%] increment) where Michelin is the market leader and [40-50%] in Norway (with a [<5%] increment)⁹. In all other countries, the combined market share of the parties will be below 25%.

33. On a market for pre-cured tread, the new entity would become the market leader in the EEA and in some national markets as shown on table below (market shares in equivalent number of tyres in 2005).

⁷ Bridgestone also holds a 16% non-controlling interest in the Finnish company Nokian.

⁸ These market shares cover the total sales of retreading material by the parties. They include pre-cured tread sold internally by BSRS to cold retreaders owned by Bridgestone and uncured tread supplied to Bridgestone-owned hot retreading facilities.

⁹ The data have been provided by the parties and have been by and large confirmed by the market investigation.

Pre-cured tread	Bandag	Bridgestone	Combined	Michelin	Marangoni	Kraiburg	Others	Total market (equivalent number of tyres)
Denmark	[25-30%]	[5-10%]	[30-35%]	[0-5%]	[30-35%]	[25-30%]	[10-15%]	72,000
France	[30-35%]	[5-10%]	[35-40%]	[30-35%]	[10-15%]	[5-10%]	[5-10%]	166526
Netherlands	[60-70%]	[<5%]	[60-70%]	[0-5%]	[5-10%]	[0-5%]	[20-25%]	80,685
Norway	[50-60%]	[<5%]	[55-65%]	[5-10%]	[5-10%]	[5-10%]	[15-20%]	90,000
Portugal	[20-30%]	[<5%]	[25-30%]	[0-5%]	[20-25%]	[0-5%]	[40-45%]	199,227
EEA	[20-25%]	[<5%]	[25-30%]	[5-10%]	[20-25%]	[15-20%]	[20-25%]	3,881,969

Source: Notifying Party, Form CO and market investigation

34. In *Norway and the Netherlands*, where Bandag already holds high shares, the increment caused by the merger is very small. The same is true for *Portugal*, where Bandag's market share is lower and Marangoni is a strong competitor. Therefore competition concerns caused by the transaction are unlikely.
35. In *Denmark*, the merged entity would have to face competition from Marangoni and Kraiburg. In *France*, Michelin through its wholly-owned subsidiary Pneu Laurent holds already a strong position in the market for pre-cured tread. The market investigation indicates that competitive pressure would remain important in the market; no customers in these specific countries voiced particular concerns about the transaction.
36. Moreover, it should be underlined that Bridgestone and Bandag are not close competitors since they do not have the same customers for pre-cured tread. Through BSRS, Bridgestone supplies pre-cured tread mainly to independent retreaders. The only independent retreaders to which Bandag sells pre-cured tread are businesses which have agreed to operate as Bandag franchisees. During the market investigation, Bandag franchisees confirmed that they have an obligation to purchase Bandag tread exclusively from Bandag (and other Bandag franchisees)¹⁰. While they are free to buy new replacement tyres from different manufacturers, the franchise agreement foresees that they must source their raw materials and equipment for cold retreading exclusively from Bandag¹¹. In view of the existing exclusive supply relationship between Bandag and its franchisees, these franchisees cannot currently choose Bridgestone as a materials supplier and conversely Bridgestone's customers cannot source from Bandag unless they

¹⁰ Cf Bandag System Franchise agreement, annex Q&A21 of Form CO

¹¹ The franchise agreement is only valid for pre-cured tread. Some of these retreaders are also active in hot retreading, for which they source uncured tread from different manufacturers.

decide to become Bandag's franchisees. Therefore the merger would not lead to any reduction of choice in this respect.

37. In view of the small increment in market shares, the presence of strong competitors and the different business models of the parties, the Commission concludes that the concentration would not impede effective competition on the market for pre-cured tread.

b) Retreaded tyres

38. As regards retreaded tyres, the notifying party submits that their activities do not overlap. While Bridgestone owns some retreaders in five countries (Denmark, France, Germany, Spain and the UK), Bandag is only active at this level of the industry through Bandag franchisees which, in the parties' view, are legally and commercially independent from Bandag.
39. The Commission has considered during the market investigation the degree of independence of Bandag franchisees vis-à-vis Bandag. First it should be noted that Bandag's franchise network comprises wholesalers solely involved in retreading and retreaders that are vertically integrated as tyre dealers. Therefore many Bandag franchisees do not only supply retreaded tyres but also provide various services like the sale of new tyres, car accessories and spare parts, vehicle repair services or maintenance. Bandag estimates that sales of Bandag retreaded tyres represent on average [...] of a franchisee's total tyre sales¹². Furthermore, Bandag franchisees have indicated during the market investigation that they were totally free to determine their prices and commercial policy as regards tyre retreading. Hence, it appears that Bandag franchisees control their operations at the retail level of tyre retreading and sales of retreaded tyres.
40. The Commission has also taken into account a scenario where Bandag franchisees' shares would be attributed to Bandag. Even in such a scenario, the combined market shares of the parties would be [10-15%] in Germany, [10-15%] in the UK and in Spain, [20-30%] in the Netherlands and [30-35%] in France¹³. In these countries, the merged entity would face strong competition from the Michelin-owned Euromaster network whose market shares are [10-20%] in Germany and Spain, [20-30%] in France, [25-35%] in the Netherlands and [30-40%] in the UK. Even in this scenario, it is thus unlikely that the transaction would significantly impede effective competition on the market for retreaded tyres.

c) Tyre management for large customers

41. Finally, as regards the potential market of tyre management for mega-fleet customers, the new entity would hold only a [5-10%] share in the EEA. Its shares would exceed 15% only in Denmark ([25-35%]) and in Norway ([15-20%]). Bandag's presence in the provision of these services has been very limited¹⁴. In value, Michelin would remain the

¹² Some of these tyre dealers, though they are Bandag franchisees, are wholly-owned by Bandag's competitors e.g. Continental.

¹³ Source : Notifying party, form CO

¹⁴ The parties estimate that about 100 contracts are awarded each year. Bandag has won only [...] bids, [...] of which are still in force.

market leader in such a potential product market in the EEA, as well as at a national level.

V. CONCLUSION

42. For the above reasons, the Commission has decided not to oppose the notified operation and to declare it compatible with the common market and with the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of Council Regulation (EC) No 139/2004.

For the Commission
signed
Meglena Kuneva
Member of the Commission