

***Case No COMP/M.4816 -
BLACKSTONE /
HILTON***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 19/10/2007

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 19-X-2007

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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 Where possible the information omitted has been replaced by ranges of figures or a general description.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.4816 – BLACKSTONE / HILTON
Notification of 14.09.2007 pursuant to Article 4 of Council Regulation
No 139/2004¹**

1. On 14/09/2007, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 by which the Blackstone Group L.P. ("Blackstone", US) acquires within the meaning of Article 3(1)(b) of the Council Regulation control of the whole of Hilton Hotels Corporation ("Hilton", US) by way of purchase of shares.
2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of the Merger Regulation and 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. Blackstone is a global asset manager and provider of financial advisory services based in the United States.

¹ OJ L 24, 29.1.2004 p. 1.

4. Hilton is a US-based company, which, together with its subsidiaries, engages in the ownership, management and development of hotels, resorts and timeshare properties and the franchising of lodging properties. Hilton's hotel brands include Hilton, Hilton Garden Inn, Doubletree, Embassy Suites Hotels, Hampton Inn, Homewood Suites by Hilton, Conrad Hotels & Resorts, and Waldorf Astoria. Of Hilton's approximately 490,000 rooms, only approximately [...] are in the EEA.

II. THE OPERATION

5. Blackstone and Hilton (the parties) have signed an Agreement and Plan of Merger, dated 3 July 2007, which provides for the acquisition indirectly by private equity funds affiliated with Blackstone, of all shares of Hilton.

III. CONCENTRATION

6. Leading to the acquisition of sole control the transaction therefore constitutes a concentration within the meaning of Art. 3(1)(b) of the Merger Regulation.

IV. COMMUNITY DIMENSION

7. The undertakings concerned have a combined aggregate worldwide turnover of more than EUR 5 000 million (Blackstone: EUR [...]; Hilton: [...]). The aggregate Community-wide turnover of each of at least two of the undertakings concerned is more than EUR 250 million (Blackstone: EUR [...]; Hilton: EUR [...]) for 2006. None of the undertakings concerned achieves more than two thirds of its Community wide turnover in any Member State. The notified transaction therefore has a Community dimension.

V. COMPETITIVE ASSESSMENT

A) Introduction

8. The notified transaction has an impact on the hotel sector, particularly at local level in Germany, in Dresden and Mainz. Blackstone owns [...] hotels in Dresden, while Hilton owns [...] hotel there. In Mainz, Blackstone has only [...] in the city and Hilton owns [...] hotels.
9. The Transaction results also in vertical links between Hilton's hotels and Travelport LLC ("Travelport"), a Blackstone-controlled portfolio company, namely because of Travelport's activities as a provider of electronic global distribution system ("GDS"), via Galileo and Worldspan.

B) Horizontal effects

Relevant Product Market

Hotel Accommodation

10. The Commission has in previous decisions noted that the market for hotel accommodation could be segmented (i) by price/comfort level based on the grading or stars awarded to the particular hotel² which indicates the standard and facilities the customer may expect and/or (ii) by ownership, distinguishing between chain hotels and independent hotels³. However, the Commission has not found it necessary to exactly define the relevant product market in the hotel sector.
11. The notifying party (Blackstone) believes that overlaps in prices and facilities among hotels in different star categories lead to a continuous chain of substitution among hotels and therefore they are strongly supportive of an all hotels product market.
12. With regard to the segmentation based on ownership, the notifying party considers that, from a customer's view, independent and chain hotels are largely substitutable, particularly at a local level.
13. Nevertheless, for the purposes of assessing the Transaction, the notifying party has provided information (i) at national level, both for all hotels and chain hotels, and (ii) at local (i.e., city) level, for all hotels, chain hotels and hotels by star classification.
14. The precise definition of the relevant product market in this case may be left open, as the Transaction will not lead to a significant impediment to effective competition under any alternative product market definition.

Relevant geographic market

15. In previous decisions, the Commission has noted that the relevant geographic market may be both national and local⁴. National because the structure of supply may vary from one market to another since the hotel industry is linked to national economic trends and local because competition exists at a local level between all types of hotels (chains and independents) since consumer choice of hotel will heavily be determined by location.
16. The notifying party has provided data both on a national and city basis. The precise definition of the relevant geographic market may be left open in this case as the Transaction will not lead to a significant impediment to effective competition under any alternative geographic market definition.

² Cf Case No. COMP/M.1596 - *Accor/Blackstone/Colony/Vivendi*; Case No. COMP/M.2451 - *Hilton/Scandic*; Case No. COMP/M.2997 - *Accor/Ebertz/Dorint*; Case No. COMP/M.3858 - *Lehman Brothers/SCG/Starwood/Le Meridien* and Case No. COMP/M.4624 - *EQT/Scandic*.

³ Cf Case No. IV/M.126 - *Accor/Wagons-Lits*; Case No. IV/M.1133 - *Bass PLC/Saison Holdings B.V.* and Case No. COMP/M.4624 - *EQT/Scandic*.

⁴ Cf Case No COMP/M.3858 – *Lehman Brothers/SCG/Starwood/Le Meridien*, Case IV/M. 1596 *Accor/Blackstone/Colony/Vivendi* and Case No COMP/M.2197 *Hilton/Accor/Forte/Travel Service JV*.

C) Vertical effects

17. Blackstone is engaged in activities that are vertically linked to Hilton's hotel activities. However, only its electronic booking activities through GDSs would give rise to affected markets. Therefore, the rest of Blackstone's activities⁵ that can be vertically linked to Hilton's hotel activities will not be further analysed.

Relevant Product Market

GDS Services

18. In its recent *Travelport/Worldspan*⁶ decision, the Commission stated that "*GDS providers act as intermediaries in a market of a two-sided nature, connecting two separate customer categories. In the upstream market (the travel service provider (TSP) side of the market), TSPs offer GDSs information on their booking inventory and the content, while the GDSs offer TSPs booking capabilities and a distribution channel to travel agents (TA). In the downstream market (TA side of the market), GDSs offer TAs reservation, booking and ticketing services by means of a comprehensive tool which allows comparison of prices and conditions from hundreds of TSPs*".
19. In *Travelport/Worldspan*, the Commission concluded that a "GDS only" product market best reflects the current competitive conditions for the GDS providers in the EEA.
20. The notifying party believes that GDSs do compete with other distribution methods in addition to supplier.com websites, including direct bookings with hotels (which were the source of over [...] % of Hilton's bookings in the EEA in 2006) by TAs, tour operators and consumers, third-party websites, distribution switches, toll-free call centres, third-party websites and OTAs. Accordingly, the notifying party considers the relevant product market to be all channels for hotel bookings. However, the notifying party has also provided data on the basis of a GDS-only market
21. In order to determine whether alternative technologies should be included in the same relevant product market as the GDS-providers, the Commission in *Travelport/Worldspan* assessed the extent to which these alternatives are substitutable to GDS services. The same arguments apply to the present case, given that the market and features considered are the same in both cases.
22. As regards supplier.com websites, the Commission in *Travelport /Worldspan* concluded that supplier.coms function as partial substitutes to GDS services and that a certain proportion of hotels' bookings are to some extent "captive" to the GDS providers. It is important for hotels to be distributed via GDS in order to capture travellers wanting to "add on" a hotel booking to their GDS flight reservation.
23. As regards the other platforms enounced by the notifying party, in *Travelport/Worldspan* the Commission concluded that they are not substitutable of GDSs because of limited functionalities or higher costs.

⁵ These activities are Travelport's Online Travel Agency activities, Blackston's Hotel Accommodation Wholesale activities, Travelport's Reservation Technology activities and Blackstone's Hotel Leasing activities.

⁶ Cf Case No COMP/M.4523 *Travelport/Worldspan*.

24. In the present case, given the very recent assessment of the Commission in its *Travelport/Worldspan* decision, it can be concluded that the product market is the provision of GDS services exclusively

Relevant geographic market

25. The upstream side of the market, where Hilton is present, is the relevant one in the present case. The downstream side of the market relates to the relationship between GDSs and TAs, therefore Hilton is not involved.

26. In *Travelport/Worldspan*, the Commission concluded that the upstream market was EEA-wide. In the present case, the upstream market is also considered EEA-wide. The notifying party agrees with such geographic market definition.

D) Compatibility with the common market

Horizontal effects

27. In the EU, the parties have overlapping activities in Belgium, Czech Republic, Denmark, France, Germany, Italy, the Netherlands and Sweden. However, in all of these countries, the parties’ combined market share in the overall hotel market is [5_10]%. Moreover, the parties’ combined market share in the segment for all chain hotels is [10_15]% in these countries. In the segment for graded hotels, the parties’ activities only overlap in the sub-segment of 4-star hotels, with the exception of Italy, where the parties’ activities overlap in the sub-segments of 4-star and 3-star hotels. However, also in these sub-segments the parties’ combined market share is below 15% in the abovementioned EU countries.

28. With regard to local markets, in the overall hotel segment, the parties' combined market share is below 15% in those locations with overlapping activities (i.e. Amsterdam; Berlin; Brussels; Cannes; Copenhagen; Dresden; Dusseldorf; Frankfurt; Lyon; Mainz; Milan; Munich; Paris; Prague; Strasbourg; Stockholm; Rome; and Venice), except in Dresden and Mainz.

Dresden

29. In Dresden, Blackstone has [...] hotels, [...] in the 4-star sub-segment and [...] in the 3-star sub-segment, while Hilton has just [...], in the 4-star sub-segment. The Transaction will result in an affected market for “all hotels”, “all chain hotels” and “all 4 star hotels,” as shown in the table below:

Category	Capacity (Rooms)	Blackstone		Hilton		Blackstone/Hilton	
		Room	%	Room	%	Room	%
All Hotels	8,233	[...]	[15-20]	[...]	[0-5]	[...]	[20-25]
All Chain Hotels	5,467	[...]	[25-30]	[...]	[5-10]	[...]	[30-35]
4 Star Hotels	4,591	[...]	[10-15]	[...]	[5-10]	[...]	[20-25]

30. In Dresden, Hilton is contributing [...], representing an incremental share of [5-10]% to Blackstone’s portfolio (all chains). The notifying party submits that there are numerous

strong rival hotels in Dresden including: Maritim Hotel & International Conference Center; NH Hotels Dresden; Ramada International Hotel Dresden; Hotel Novotel Dorint Dresden; and Kempinski Hotels Taschenbergpalais Dresden. The notifying party also submits that there are several hotels that are currently under construction in Dresden and are expected to open in 2008.

31. Further, the notifying party submits that the hotel market in Dresden is characterised by a relatively low occupancy rate. Hilton’s Dresden Hotel has achieved an occupancy rate of only [...] % in 2007. Therefore, if Blackstone attempted to restrict the supply of hotel rooms, competitors would have ample supply to replace Blackstone.

Mainz

32. In Mainz, Blackstone has only [...]. Hilton has [...] hotels, [...] in the 4-star sub-segment. Therefore, in Mainz, Blackstone and Hilton do not have any overlapping activities by star category. The Transaction results in an affected market for “all hotels” and “all chain hotels” in Mainz, as shown in the table below.

Categor	Capacit (Rooms)	Blackston		Hilton		Blackstone/Hilto	
		Room	%	Room	%	Room	%
All	2,654	§...	[0-5]	§...	[20-25]	§...	[25-30]
Hotels Chain	1,521	[...]	[5-10]		[35-40]	[...]	[40-45]

Hotels

33. The increase in share is the result of Blackstone contributing [...] to Hilton’s [...] hotels (market share increase of [5-10]%). There are numerous competitors, including: Hyatt Regency Mainz; Novotel Dorint Mainz; Hotel Contel Mainz and others. The occupancy rate is also low (between [...] for the parties).
34. Furthermore, the notifying party submits that many customers consider Mainz to be in the wider metropolitan area of Frankfurt. If Mainz were included in the Frankfurt metropolitan area, the Transaction would not result in any affected market.
35. Given the relatively low increase in the parties' combined market shares and the presence of several strong competitors, the proposed transaction will not raise serious doubts as to the compatibility with the common market or a substantial part of it, in relation to the supply of hotel rooms.

Vertical effects

36. As regards Blackstone's ability or incentive to foreclose other hotels, the notifying party submits that (i) Galileo/Worldspan represents a small share in the EEA of all hotel bookings ([0-5]%), (ii) [...] of hotel bookings on Galileo are covered by corporate agreements between hotels and corporate customers or TAs and Galileo has no ability to foreclose such bookings without alienating its TA customers, and (iii) competition between Galileo/Worldspan and other GDSs eliminates any incentives for Galileo/Worldspan to exclude Hilton's competitors or favour Hilton and risk losing other TSP content.
37. The market investigation has confirmed the low dependency of hotels on GDSs for the distribution of their travel content. Indeed, bookings made directly with a hotel (e.g., by phone, fax, e-mail or in person) by consumers, TAs and tour operators represent a far more important distribution channel than GDSs. In 2006, over [...]% of room nights sold in Hilton hotels in the EEA were made through bookings directly at the hotel. The percentage of total bookings made via GDSs in 2006 ranged between [...], with a weighted average of [...], according to the results of the market investigation.
38. The market investigation also confirmed that the percentage of hotel bookings made via GDSs that are covered by corporate agreements between such hotels and corporate customers or TAs represents a significant part of GDS' hotel bookings, ranging between 30% and 80%, according to hotel competitors and 70% to 90%, according to GDSs. The market investigation also confirmed that GDSs do not have influence over these bookings.
39. Although two competitors of Hilton argued that Galileo/Worldspan could have incentives to discriminate in favour of Hilton to facilitate increased bookings, the majority of the respondents confirmed that Galileo/Worldspan will not have incentives either to foreclose its GDS by solely including Hilton hotels or to discriminate in favour of Hilton.
40. With respect to Blackstone's ability or incentive to foreclose other GDSs from access to Hilton's content, other GDSs could replace Hilton with other hotels, given the low market share of Hilton, would Blackstone chose to restrict its hotel content solely to Galileo. More importantly, by doing so, Blackstone would exclude Hilton from most of the hotel bookings made through GDSs in the EEA. The market investigation confirmed that hotels provide content to all GDSs in order to maximize coverage of end-consumers. Furthermore, if Blackstone excluded other GDS from access to Hilton's content, it would also undermine the direct agreements Hilton has reached with its key corporate and TA customers.
41. A competitor of Hilton also argued that Hilton (via Galileo/Worldspan) could have access to commercially sensitive information of its competitors. However, [...].
42. Thus, it can be concluded that, as to vertical relationships, the operation does not raise serious doubts as to the compatibility with the common market or a substantial part of it.

VI. CONCLUSION

43. 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
Andris PIEBALGS
Member of the Commission