

***Case No COMP/M.4516 -  
CONTINENTAL /  
MATADOR***

Only the English text is available and authentic.

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

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Article 6(1)(b) NON-OPPOSITION  
Date: 08/06/2007

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 08/06/2007

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PUBLIC VERSION

MERGER PROCEDURE  
ARTICLE 6(1)(b) DECISION

To the notifying party

Dear Sir/Madam,

**Subject: Case No COMP/M.4516 - CONTINENTAL/ MATADOR  
Notification of 17/04/2007 pursuant to Article 4 of Council Regulation  
No 139/2004<sup>1</sup>**

1. On 27 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 Continental Aktiengesellschaft ("Continental", Germany) acquires within the meaning of Article 3(1)(b) of the Council Regulation sole control over Matador Rubber s.r.o. ("Matador", Slovakia) belonging to Matador Holding, by way of purchase of shares.
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. *Continental* is a German manufacturer and supplier of tyres, conveyor belts, technical rubber products and automotive components (brake systems, chassis components and vehicle electronics). Continental's tyre brands include brands such as "Continental", "Uniroyal", "Semperit" and "Barum".

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<sup>1</sup> OJ L 24, 29.1.2004 p. 1.

4. *Matador* is a Slovak company active in the manufacturing and distribution of tyres, conveyor belts and tyre building machines, with its main geographical focus in the countries of Central and Eastern Europe. The acquisition concerns all rubber activities of Matador, which will be transferred into a newly created company to be acquired by Continental. All non-rubber activities of Matador will remain under the control of Matador Holding.

## **II. THE TRANSACTION AND THE COMMUNITY DIMENSION**

5. The notified transaction consists of the acquisition by Continental of 51% of the shares of Matador, corresponding to the majority of voting rights. Continental will be able to appoint all managing directors and a majority of members of the supervisory board, thus Continental will thus acquire sole control over Matador.
6. The undertakings concerned have a combined aggregated world-wide turnover of EUR 15.26 billion. Each of the undertakings concerned has a Community-wide turnover in excess of EUR 250 million and none of the companies achieves more than two-thirds of its Community-wide turnover in one and the same Member State. The concentration therefore has a Community dimension pursuant to Article 1 (2) of the Merger Regulation

## **III. ASSESSMENT**

### **1. Relevant product markets**

7. Both parties are active in the production and distribution of tyres for both heavy vehicles and for passenger cars and in the manufacturing of conveyor belts.

#### *Tyres for heavy vehicles*

8. Based on the previous decisional practice of the Commission<sup>2</sup>, the market for tyres sold to OEM's ("Original Equipment Manufacturers" or vehicle producers) and the market for new replacement tyres are distinct. Whereas OEM tyres are tyres purchased by vehicle manufacturers for installation on new vehicles, replacement tyres are tyres replacing the tyres that were originally sold with the new vehicle. Since the life-span of a vehicle is much longer than the life-span of a tyre, tyres are typically replaced several times during the life-span of a vehicle.
9. Heavy vehicle tyres might be further segmented into tyres for (i) trucks and buses (ii) farm vehicles (iii) earth-moving equipment and other industrial tyres and (iv) aircraft. However, as the parties have overlapping activities only with regard to bus and truck tyres, it is not necessary to determine for the purposes of this decision whether these segments constitute separate markets and these segments will not be analysed further in this decision.
10. The notifying party submits furthermore that retreaded tyres, in particular in the budget segment, exercise a significant competitive pressure on new replacement tyres. Retreading is the process that provides tyres with an extended life by applying new tread to a worn truck tyre provided that its casing (its "structure") is still in sound

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<sup>2</sup> IV/M. 1470 – Goodyear/Sumitomo, COMP/M. 3081 – Michelin/Viborg and COMP 36.041

condition. In certain cases it is possible to repeat the retreading process several times to further extend the lifetime of the casing. It is typically used for trucks and buses, where the cost of new replacement tyres is substantial. The major tyre manufacturers, Michelin, Bridgestone and Goodyear all offer retreading. Depending on the specific country, more than half of the overall replacement market may consist of retreaded tyres.

11. In a previous decision<sup>3</sup>, the Commission has defined separate product markets for new replacement tyres and retreaded tyres. Although retreaded tyres and new tyres are technically substitutable, the cost per kilometre of use of a low-priced tyre is more expensive as of a retreaded tyre. The market investigation has also confirmed that there is substantial quality and price difference between new and retreaded tyres. Therefore the Commission considers that the distinction between new replacement tyres and retreaded tyres remains valid.

#### *Tyres for passenger cars*

12. The Commission has in past cases distinguished between (i) OEM tyres and (ii) replacement tyres also in relation to supply of passenger car tyres. The market investigation has clearly confirmed this distinction.
13. The notifying party suggested that retreaded passenger car tyres might exercise competitive constraint on the low-budget new replacement tyres. However, respondents during the investigation indicated that contrary to heavy vehicle tyres, retreaded passenger car tyres are hardly sold any more on the market. Therefore it is not necessary to include retreaded passenger car tyres in the product market definition.

#### *Distribution of tyres*

14. Tyres purchased by vehicle manufacturers for installation on new vehicles are sold, following a selection procedure, directly, without passing through an intermediary.
15. Although new replacement tyres are identical to the tyres originally installed on the vehicle, their distribution differs from OEM tyres. With regard to *heavy vehicles*, besides specialised tyre dealers, who are principally active at the retail level, direct distribution also plays a role.<sup>4</sup> The importance of the different distribution channels varies in the different countries.
16. With regard to *passenger cars*, the largest proportion of tyre sales goes directly to retailers, although also wholesalers play an important role in the distribution. The wholesalers then further distribute the tyres to specialist dealers, to automotive centres and also to mass markets. Distributors are often independent, but vertical integration is also common in the tyre industry.
17. According to the previous Commission's decisional practice, the market for the distribution of replacement tyres may be further divided into (i) a market for the distribution of replacement tyres for passenger cars and light trucks (ii) a market for

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<sup>3</sup> COMP 36.041 Michelin (§118), COMP M.4564 Bridgestone/Bandag

<sup>4</sup> According to the notification, about 80% of the heavy vehicle tyres in Europe are sold to specialised retailers, around 8% are sold to wholesalers and about 12% directly to end-users.

the distribution of replacement tyres for heavy vehicles and (iii) a market for the distribution of replacement tyres for two-wheel vehicles. However, as the transaction will not give rise to any competition concerns, it is not necessary to determine whether these segments constitute separate markets.

#### *Heavy conveyor belts*

18. Conveyor belts are made mostly of rubber or plastics (if necessary with textile or steel reinforcements) and are used to transport various single items or bulk materials.
19. In line with Commission's past practice<sup>5</sup>, Continental proposes first to distinguish between the product markets for *light conveyor belts* (PVC belts for moving light goods, e.g. at check-out counters in retail shops), *heavy conveyor belts* (rubber belts for transporting heavy, bulk materials) and *specialty belts* (special-purpose heavy conveyor belts<sup>6</sup>). The applications of these belts differ significantly. There are also differences as to the manufacturing process and their materials. Additionally, the three types of conveyor belts often involve different producers. Indeed, the market investigation widely confirmed this distinction. Almost all those who answered the questionnaire of the Commission whether customers or competitors, agreed that these products form separate product markets. The activities of the parties overlap only in the area of heavy conveyor belts, so light conveyor belts and speciality conveyor belts will not be analysed further in this decision.
20. The Commission has in the past further distinguished two separate product markets for heavy conveyor belts, according to the reinforcement material used.<sup>7</sup> On the one hand, it singled out *heavy steel cord conveyor belts* (where the rubber coating on the belt is reinforced by the insertion of steel cords to prevent from stretching), and, on the other hand, *heavy textile conveyor belts* (reinforced by textile/fabric placed between the layers of rubber).
21. The notifying party, however, maintains that both types of conveyor belts can be used for identical applications and are fully interchangeable. It therefore submits that they form one product market.
22. Contrary to the parties' view, the market investigation clearly pointed to the existence of separate markets for heavy textile and heavy steel cord conveyor belts. This distinction seems to be common in the industry and reflects the differences between the two types of belts. From the demand side perspective, the large majority of the customers responding to Commission's market investigation confirmed that steel cord and textile conveyor belts are used for different purposes and that they hardly ever switched between these belts in the past. Indeed, the two types of belts have different characteristics. Steel cord belts are much stronger and can be used to transport heavy

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<sup>5</sup> Case M.3436 Continental/Phoenix.

<sup>6</sup> Such as specialty conveyor belts for transporting agglutinant materials, dust-clear cover belts, oil-absorbent mats etc. The production of these specialty belts requires specific know-how.

<sup>7</sup> In case M.3436 Continental/Phoenix the Commission has found that the two categories of heavy conveyor belts have separate areas of application, based on their different characteristics (steel cord belts being stronger and used for transporting heavier goods over larger distances, such as in lignite mining, while textile belts suited for transporting lighter goods over shorter distances).

materials over large distances, which is reflected by the substantial price differences between the two products. From the supply side, one can also observe differences in the production process which is translated into the fact that not all manufactures are active in producing both types of belts<sup>8</sup>. For these reasons, the Commission maintains that heavy textile and heavy steel cord conveyor belts form distinct product markets.

## 2. Relevant geographic markets

### *Tyres*

23. As regards to *OEM tyres*, whether sold to heavy vehicle manufacturers or to passenger car producers, the notifying party submits that, in accordance with the decisional practice of the Commission<sup>9</sup>, the relevant market is the EEA wide, as vehicle manufacturers tender and purchase tyres on a European-wide basis. This was unanimously confirmed by the market investigation.
24. As regards to *replacement tyre markets*, which have traditionally been considered as national in scope by the Commission, the notifying party submits that the market is increasingly becoming EEA-wide. According to the notification, the same competitors offer the same brands for customers who tend to source at pan-European level. Additionally, prices are converging at EEA-level. The notifying party submits in particular that at least the three Baltic States constitute one single market due to homogeneous competition conditions. At the same time, the notifying party acknowledges price differences, differences in brands and positioning of suppliers in the different countries and also indicates that the size of the various price segments varies significantly between certain countries.
25. Respondents during the market investigation have clearly confirmed that these markets still remain national in scope. With regard to the Baltic States, the market investigation was not conclusive. Whereas competitors indicated that competitive conditions are homogeneous in the three countries not all customers shared this view. However, the question whether the Baltic States constitute a separate market can be left open in this case, since the transaction does not lead to competition concerns under both alternatives.

### *Heavy conveyor belts*

26. As far as heavy conveyor belts are concerned whether steel cord or textile, the Commission has in the past considered the relevant geographic market to be Europe-wide.<sup>10</sup>
27. Continental submits that the geographic scope should be wider than EEA and also comprise other European countries like Switzerland and countries of Western Balkans, as well as Turkey, Russia, Ukraine, Belarus, Kazakhstan and Uzbekistan. The parties

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<sup>8</sup> For example Fenner as a leading producer of heavy textile belts has very little or no activities in the area of heavy steel cord conveyor belts in Europe.

<sup>9</sup> See for example IV/M. 1470 – Goodyear/Sumitomo, COMP/M. 3081 – Michelin/Viborg

<sup>10</sup> Case M.3436 Continental/Phoenix.

argue that transport costs are low and producers from former Soviet republics increasingly participate in tenders within the EEA.

28. However, the presence of non-EEA producers on the EEA market is currently negligible<sup>11</sup> and the home markets such as Russia and Kazakhstan are dominated by local players. The customers participating in the market investigation also confirmed that producers from outside EEA are very rarely, if at all, invited to present their offers. Only a small minority of customers actually buys from these manufacturers.
29. It can thus be assumed that the relevant geographic market for heavy conveyor belts (both heavy steel and heavy textile conveyor belts) is EEA-wide, but the question can ultimately be left open in this case since the transaction does not lead to competition concerns.

### **3. Competitive assessment**

#### *Heavy vehicle tyres and passenger car tyres sold to OEM's*

30. In both OEM markets, for heavy vehicle and for passenger car tyres, the target company, Matador is a minor player, whereas Continental is one of the established players in both segments.
31. With regard to *heavy vehicle tyres*, Continental holds [15-25]%<sup>12</sup> of the market. Whereas its far most important competitor is Michelin [35-45]%, also Goodyear [15-25]% and Bridgestone [5-15]% play an important role on the market. Matador's sales on this market remain below 1%.
32. In the *passenger car tyre* market Continental is the strongest player with [25-35]% surrounded by the same players. Michelin holds [20-30]%, Bridgestone [15-25]%, Goodyear [10-20]% and Pirelli [5-10]% of the OEM market for passenger cars. Matador's sales only cover [0-5]% of the passenger car OEM market. Indeed, during the market investigation none of the vehicle manufacturers indicated that the transaction could affect effective competition on these markets.
33. Given the negligible sales of Matador in these markets, any competition concern can be excluded.

#### *New replacement tyres for heavy vehicles*

34. Although the merger will affect a number of national markets for replacement tyres, the acquisition of Matador will not significantly strengthen Continental's overall position in Europe. On the *overall EEA level*, the combined market share of the parties will be about [10-20]% (about [5-15]% for Continental and nearly [0-5]% for Matador).<sup>13</sup> The merging entity will still face effective competition from a number of

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<sup>11</sup> With the exception of the Turkish producer Ozer with around [0-5]% market share in the EEA according to parties' own estimates

<sup>12</sup> Market shares are based on volumes and are the best estimates of the parties.

<sup>13</sup> Market shares are based on sales in 2006. They reflect the estimation of the notifying party based on ERM data.

well-established players. The market leader is Michelin [30-40]% followed by Bridgestone [10-20]%, Goodyear [10-20]% and Pirelli [5-10]%. Additionally, there are number of local/regional players and importers in Europe, such as Nokian, Mitas, Hankook, Yokohama, Kuhmo, Toyo, Avonn Cooper and Nexen.

35. On the *national level*, Matador has a strong focus on Central and Eastern-European countries. The transaction will lead to combined market share above [20-30]% in the following markets for heavy vehicle replacement tyres:

*Heavy vehicle tyres - 2006 Market shares based on value (parties' estimates)*

	Austria	Bulgaria	Czech Republic	Lithuania	Slovak Republic	hypothetical market of Baltic States
Continental	[25-35]%	[25-35]%	[25-35]%	[20-30]%	[5-10]%	[15-25]%
Matador	[0-5]%	[0-5]%	[0-5]%	[5-10]%	[10-20]%	[0-5]%
<b>Combined</b>	<b>[30-40]%</b>	<b>[25-35]%</b>	<b>[30-40]%</b>	<b>[30-40]%</b>	<b>[20-30]%</b>	<b>[20-30]%</b>
Michelin	[10-20]%	[15-25]%	[20-30]%	[15-25]%	[15-25]%	[15-25]%
Goodyear	[10-20]%	[5-10]%	[5-10]%	[15-25]%	[5-10]%	[10-20]%
Bridgestone	[5-15]%	[5-15]%	[5-10]%	[5-10]%	[5-10]%	[5-10]%
Pirelli	[5-10]%	[0-5]%	[0-5]%	[0-5]%	[0-5]%	[0-5]%

36. As can be seen from the table, in the vast majority of these national markets Matador is not a strong player. In general, the increment brought about by the transaction is not more than [0-5]%. Matador achieves the highest value market share in its home-country, Slovakia, where it has amounted to [10-20]%. However, as the table shows, even in these markets, the merging entity will still face strong established multi-national players who can exert significant competitive constraints vis-à-vis the combined entity. Additionally, a number of other smaller competitors are present on the market further enhancing the competition in particular in the medium and lower budget segment on the market.
37. The market investigation has also clearly confirmed that both, competitors and customers see the Bulgarian, Czech, Lithuanian and the Slovak markets as strongly growing, thereby facilitating new entry to the market. Indeed, some players announced significant investments in new plants, in particular, to serve the growing Central and Eastern-European markets.
38. The notifying party submits that Continental and Matador cannot be considered as close competitors. The "Matador" brand is positioned at 30-40% below the price level of premium brands such as "Michelin" and "Goodyear" and considered a low-budget brand. Continental competes in the premium and standard segment with its "Continental" "Semperit" and "Uniroyal" brands, although it is also present in the lower segment with its "Barum" brand.



39. The market investigation indicated that market participants do not perceive a major difference between Barum and Matador brands, which compete more or less in the same segment, although Barum has consistently been priced a little higher than Matador and there are indications from the Czech market that Continental has been trying to slowly move Barum upwards from the low segment in the last years. [...]
40. The market investigation focused in particular on the *Czech Republic* and *Slovakia* where certain respondents voiced concerns with regard to the effect of the transaction on competition. It should be noted that, certain competitors have overestimated the parties' sales and the respective market shares in these countries. Sales data submitted by the parties and their competitors during the market investigation confirmed that the merged entity will face established players in both markets.
41. In the *Czech Republic* even taking the more conservative volume shares (which are higher for the parties than value shares in these countries due to relatively strong budget brands "Barum" and "Matador"), the combined market share of the parties would be [35-45]%. Currently the strongest player in this market is Continental [25-35]% followed by Michelin [20-30]%, Goodyear [5-15]%, Matador [5-10]%, Bridgestone [0-5]% and Pirelli [0-5]%.
42. In *Slovakia*, the combined volume market share of the parties is [35-45]%. Currently the highest sales are made by the target company, Matador [25-35]%, followed by Michelin [15-25]%, Continental ([5-15]%), Goodyear ([5-15]%), Pirelli [0-5]% and Bridgestone [0-5]%.<sup>14</sup> In both markets a number of smaller players are also present, such as Nokian.
43. Furthermore, it appears that despite the strongly growing markets, Matador is gradually losing not only market shares but also sales in absolute terms. In the Czech Republic, Matador is not considered a strong player and has lost approximately [...] of its sales since 2003. Even in its home country, Slovakia, its sales have dropped by nearly [...] since 2003, causing a roughly [15-25] % loss in the market share.
44. Based on the above, the Commission concludes that the transaction will not lead to competition concerns in the market for new replacement heavy vehicle tyres in the Czech Republic and in Slovakia.

*New replacement tyres for passenger cars*

45. On the replacement passenger car tyres market, the parties' combined EEA 2006 market share would amount to [15-25]% (for Continental [15-25]%, for Matador [0-1]%). As Matador's sales focus on Central-Eastern European countries, the transaction will result in market shares above 25% with at least [0-5]% increment in the markets for new passenger car replacement tyres in the Member States indicated in the table below<sup>15</sup>:

*Passenger car tyres - 2006 market shares based on value (parties' estimates)*

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<sup>14</sup> The indicated market shares are based on the number of tyres sold by the market players in 2006 as submitted during the market investigation.

<sup>15</sup> Market shares are based on the best estimates of the parties. It does not indicate market shares of further small competitors.

	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Romania	Slovak Republic	hypothetical market of Baltic States
Continental	[25-35]%	[25-35]%	[15-25]%	[25-35]%	[20-30]%	[10-20]%	[10-20]%	[25-35]%
Matador	[5-10]%	[0-5]%	[5-10]%	[0-5]%	[5-10]%	[5-15]%	[15-25]%	[0-5]%
<b>Combined</b>	[30-40]%	[25-35]%	[25-35]%	[25-35]%	[25-35]%	[25-35]%	[30-40]%	[25-35]%
Michelin	[10-20]%	[5-15]%	[10-20]%	[10-20]%	[15-25]%	[25-35]%	[15-25]%	[15-25]%
Goodyear	[10-20]%	[10-20]%	[10-20]%	[20-30]%	[15-25]%	[20-30]%	[15-25]%	[15-25]%
Bridgestone	[0-5]%	[0-5]%	[5-10]%	[0-5]%	[0-5]%	[0-5]%	[0-5]%	[0-5]%
Pirelli	[0-5]%	[0-5]%	[5-10]%	[0-5]%	[0-5]%	[0-5]%	[0-5]%	[5-10]%
Hankook	[0-5]%	[0-5]%	[0-5]%	[0-5]%	[0-5]%	[0-5]%	[0-5]%	[0-5]%

46. The parties have to face strong local and multinational competitors on these markets. In most of the markets Matador can only be considered as a less significant one-brand producer. On the other hand, Continental has a wide product portfolio with its premium and standard brands ("Continental", "Uniroyal", "Semperit"). It is also present in the budget segment since it has acquired the traditional Czech national brand, "Barum". Although, the parties submit that Barum's price positioning in these countries, whilst still being in the budget/cheap brand section, is consistently above that of Matador, indicating a certain degree of differentiation between these two brands, the market investigation did not confirm that Barum and Matador would not be considered as close competitors. Nonetheless, it should be recognised that the parties would face very strong competition in the budget segments where they have overlapping activities. Even in those countries where they have higher combined market share, they have to compete with a number of low-budget brands such as Kormoran (Michelin), Debica (Goodyear), Hankook and further other, mainly Asian brands.
47. Certain competitors during the market investigation pointed to competition concerns with regard to the combined market power of the merging parties in the market for new replacement passenger car tyres in the *Czech Republic* and *Slovakia* claiming that the merged entity would achieve a substantial market power. The Commission has investigated the issue and considered the arguments put forward.
48. First of all, it should be noted that based on the sales data gathered by the European Commission during its market investigation (and even based on more conservative volume data), some of the competitors have clearly overestimated the parties' sales. In the *Czech Republic* although the market leader Continental (with a volume market share of [30-40]%) will further increase its market presence due to the acquisition of Matador [5-10]%, the merged entity will face further strong competitors on the market, Michelin [10-20]% and Goodyear [10-20]% and also a number of smaller players. Additionally, it appears that competition in the low-budget segment is rather strong. Matador is only one of the budget brands. Both of the other major tyre manufacturers

have brands in the low price segment.<sup>16</sup> Additionally, despite the strongly growing Czech market, Continental and in particular Continental's Barum brand is losing sales. [...] Matador's sales of passenger car tyres have also slightly decreased since 2004 in the Czech Republic.

49. Similarly, it should also be stressed that the Commission analysed with scrutiny the historical home market of Matador, *Slovakia*. Again, it appears that the parties' sales were overestimated. Based on volume sales figures of the main market participants, the combined entity would hold [35-45]% of the market. Whereas the two strongest players in this market are Matador [20-30]% and Michelin [20-30]%, they are followed by Goodyear [10-20]% and Continental [10-20]%. The merged entity will face also smaller competitors such as Pirelli [0-5]%, Bridgestone [0-5]%, but also Hankook, Nokian, Toyo, Avon Cooper, Yokohama etc.
50. In Slovakia, Matador is the traditional national brand which explains its relative high sales compared to other brands. It should be however noted that despite the rapidly growing market, Matador has lost sales substantially. Since 2003 it has lost nearly [...] of its sales. Also Continental did not manage to increase its sales in the growing market and lost market shares since 2003.
51. Based on the above, the Commission concludes that the transaction will not lead to competition concerns on the market for new replacement passenger car tyres in the Czech Republic and in Slovakia.

#### *Distribution of new replacement tyres*

52. Continental is active in the retail distribution of both passenger cars and heavy vehicle tyres via subsidiaries or franchisees in Austria, Belgium, the Czech Republic, Germany, Ireland, Italy, Latvia, Liechtenstein, Luxembourg, Norway, Poland, Spain and Sweden. Matador is only active in the Czech Republic, Hungary and Slovak Republic. The combined market share of the parties in distribution is below [10-20]% in all these countries except of Czech Republic, in both markets, and Slovakia for passenger cars and light truck tyres. Beside the limited presence in the parties, it has to be noted that vertical integration appears to be a rather common practice in the industry. Additionally, similarly to independent retailers, even retail companies owned by tyre manufacturers offer tyres of other tyre manufacturers to complement their portfolio.
53. The only horizontal overlap in the retail distribution between the parties occurs in the *Czech Republic*. For *passenger and light truck tyres* Continental is active in the Czech Republic with its own subsidiaries (CD Barum and Barumcentrum Praha) and also has non-exclusive franchising agreements with a number of dealers. This whole distribution network mostly distributes Continental's own brands [...] and only to a minor extent sells competitor's brands to complement the portfolio. On the wholesale level, this whole network distributes about [5-15]% of the volume of passenger and light truck tyres sold in Czech Republic. On the retail level, the outlets owned by Continental and the franchisees cover about [10-20]% of the passenger and light truck market in volume the Czech Republic. The distribution in the Czech Republic is very fragmented, the majority consisting of independent dealers. Matador owns a much

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<sup>16</sup> Michelin with its Kormoran brand and Goodyear with its Sava brand.

smaller distribution network for passenger and light truck tyres in the Czech Republic, which is also selling mostly [...] its own brand. The sales of its distribution network on the wholesale level comprise about [5-10]% of the total passenger and light truck tyres sold in the Czech Republic (distributing most of Matador's tyres present on the Czech market), whereas Matador's retail outlets cover only about [0-5]% of the market.

54. Indeed, although the vast majority of competitors did not raise any concern with regard to the effect of the transaction in the distribution of tyres, two competitors indicated to the Commission that the transaction would result in reduced access to the market for other tyre manufacturers in the passenger car tyre market and in particular that the merged entity would be able to control the access of tyres to end users. The Commission, however, did not find that the transition would involve any risk of foreclosure of competing brands. First, as explained above, the position of the combined entity on the upstream market will not be as significant as to create dominance or other competition concerns. Second, it should be noted that the role of the parties in distribution will not be such as permitting the merged entity to foreclose competitors in their access to consumers following the transaction, given that the relatively limited size of the parties' and their franchisees retail outlets (which was significantly overestimated by these two competitors), the very little increment of Matador's distribution and the fact that both parties are already now using their distribution networks mainly for distribution of their own tyres. The transaction will thus bring little change in the distribution of competitor's brands in the Czech Republic. In addition, competitors have a number of alternatives available to distribute their products. In fact, the distribution of tyres is very fragmented and the biggest portion consists of independent tyres dealers, where multi-sourcing of tyres from various manufacturers is the common practice. Furthermore, Continental's distribution network has to be put in context by the fact that the most of the retail outlets consist of non-exclusive franchisees which are not controlled by Continental.
55. Via the above-described distribution network the parties are also present in the *Czech market for heavy vehicle tyres distribution*. Continental's distribution network sells on the retail level about [15-25]% of the heavy vehicle tyres sold on the Czech market and about [15-25]% on the wholesale level (based on the more conservative volume figures). Matador's distribution network covers at the retail level about [0-5]% of the market and on wholesale level about [5-15]%. This will not enable the merged entity to foreclose access to customers for competing brands. Following the transaction, competitors will continue to have a number of alternative ways for distribution of their heavy vehicle tyres. In particular, unlike passenger car tyres, a significant proportion of tyres are sold directly to end-users.<sup>17</sup> Furthermore, there are a high number of independent tyre dealers pursuing a multi-sourcing strategy, who will continue to distribute competitor's heavy vehicle tyres to end consumers. The transaction will thus not lead to foreclosure of competing brands.
56. The Commission has also investigated whether the merger could possibly prevent competitors to have access to the *distribution market for passenger car and light truck tyres in the Slovak Republic*.

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<sup>17</sup> About one third of the heavy vehicle tyres are sold directly in the Czech Republic.

57. First of all, the combined entity will not have substantial presence on the market. In Slovakia, only Matador is active in distribution at the wholesale level via its wholly owned subsidiary which distributes around [15-25]% of all tyres sold on the Slovak market and at the retail level via its "Pneubox" network which covers less than [5-10]% of the market.
58. Secondly, the Slovakian tyre distribution market is highly fragmented. Whereas 50% of the tyres are channelled via wholesalers, the other half of the tyres goes directly to retail tyre dealers (which represent around 70% of the sales to the end-consumers) and to other distribution channels such as car dealers, fast fitters and mass markets representing 20% of the sales at the end-consumer level. Additionally, a number of companies are vertically integrated and are simultaneously present in the wholesale and retail. In particular, specialised tyre retail is highly fragmented: the ten largest distributors account for 10% of the market, whereas the majority of the retailers have less than 1% market share. Moreover, beside Matador only one other competitor owns a limited number of outlets in Slovakia. Independent distributors systematically follow a multi-brand sourcing strategy whereby they maintain a wide a product portfolio including brands of the different competitors. It follows that competitors have a number of alternatives available to distribute their products.
59. Thirdly, it should be also noted that before the transaction, Matador's retail network did not serve as a major channel to the competitors. Matador's subsidiary mainly sold Matador's own tyres [...] covering less than [0-5]% of the passenger car sales in Slovakia. Via "Pneubox" network competitors sold even less tyres. Indeed despite the fact that Matador mainly sold its tyres via its own network, competitors manage to increase their market shares.
60. It follows that given the limited importance of Matador in the distribution market, the merged entity would not have the ability to substantially reduce competitors' access to the distribution of passenger car tyre manufacturers in Slovakia.

*Heavy Conveyor belts*

61. The transaction gives rise to combination of Continental's and Matador's heavy conveyor belt businesses.
62. In the *heavy textile conveyor belts* market, the combined entity would have around [20-30]% market share in the EEA (Continental [15-25]%; Matador [0-5]%). Its strongest competitor would be Fenner ([20-30]%), besides other producers such as Sempetrans ([5-10]%), Metso ([0-5%]) and a number of other smaller competitors, such as Sava, Wolbrom, Bytom and Depreux<sup>18</sup>. The relatively modest size of the combined entity and a strong presence of other producers will ensure that there will be enough competition remaining on the market.
63. In the EEA market for *heavy steel cord conveyor belts*, the combined market share would be more significant but the transaction would only give rise to a minor increment. Whereas Continental with [45-55]% is the strongest player on the market,

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<sup>18</sup> Market share estimates provided by parties and adjusted according to turnover figures provided by Sempetrans, Metso, Wolbrom and Fenner.

Matador has only minor sales [0-5%]<sup>19</sup>. Further players on the market are Sempertans ([15-25%]), Metso ([5-10%]), Bridgestone [0-5]%, Ozer [0-5]%, Artego [0-5]%, Wolbrom ([0-5%]), NorRubber [0-5]% and other minor players.<sup>20</sup>

64. There are several elements indicating that the current transaction will not substantially affect competition in the EEA market for heavy steel cord conveyor belts. First, Matador is not only a minor player in heavy steel cord conveyor belts in the EEA market, but it also can not be considered as a close competitor to Continental.
65. In addition, the parties have a different geographic focus. Matador is currently supplying in only three EEA countries, [...], [...] and [...] <sup>21</sup>. In these countries, Continental has either no sales or a negligible position ([...] [0-5%]). On the other hand, Continental is mainly supplying its heavy steel cord conveyor belts to Western European countries, in particular, to [...].
66. This different geographic focus of the parties is supplemented by a very different positioning and perception of their conveyor belts on the market place. The market investigation showed that customers regard Continental conveyor belts as having a premium quality, with a correspondingly high price level. Matador, on the other hand, offers conveyor belts on the lower end of the market, both in terms of price and quality. Indeed, one can observe that the preferences of customers in the different geographical areas where the parties focus their activities differ: while most German customers participating in the Commission's market test indicated that quality is the most important factor for them when choosing conveyor belts, the customers in Central and Eastern Europe clearly have a preference for a lower price. Due to the different competitive overlaps, the transaction would bring a very little change in the market structure. There are a number of other players on the market which will continue to exert a more significant pressure on the merged entity. In particular Sempertans is seen as the closest competitor and the challenger of Continental in terms of prices and quality, followed by players like Metso and Bridgestone. In the lower end of the market, there are a number of heavy conveyor belts producers mostly from Eastern and Central Europe, in particular Sava (Slovenia), Wolbrom and Bytom (Poland), who serve as a viable alternative supplier to Matador. Indeed, customers of Matador indicated that due to the price-sensitivity, they would be no problems to switch the supplies to these competitors

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<sup>19</sup> The parties have initially provided market share figures for heavy steel cord conveyor belts including steel-reinforced belts such as Feximat and Metalcord/Metaltrans, which are produced by some of their competitors (the market shares would in that case be slightly lower – Continental [45-55]%, Matador [0-5]%, combined [45-55]%). However, the market investigation indicated that these belts cannot achieve strength levels of steel-cord conveyor belts and cannot be therefore interchangeable with them as for certain applications requiring higher strength. In addition, different production technology is used involving different machines. Although these belts can be characterized as somewhere between textile and steel cord conveyor belts with overlapping areas with both types in terms of strength levels, the Commission considers, contrary to the submissions of the parties, that it would be more appropriate not to include them in the assessment relating to steel cord conveyor belts.

<sup>20</sup> Market share estimates provided by parties and adjusted according to turnover figures provided by Sempertans, Metso, Wolbrom and Fenner.

<sup>21</sup> Outside the EEA Matador also supplies [...]

67. It should also be noted that Continental generates more than [60-80]% of its EEA sales of heavy steel cord conveyor belts with its [...] main customers<sup>22</sup>. These are electricity companies operating large lignite mines: [...], with whom Continental has had long-standing historic relations. Unlike smaller clients, these companies source most of their steel cord conveyor belts on the basis of long-term contracts with established producers meeting their specific qualification criteria. To ensure transport of large quantities, conveyor belts used by these companies must reach a certain width (more than 2.40 m) and a corresponding strength<sup>23</sup>. Given the particularities in the production process of these conveyor belts, many smaller producers, including Matador, do not produce steel cord conveyor belts which can serve these customers. Indeed, large customers active in the area of lignite mining have indicated during the market investigation that due to lack of belts of appropriate width, Matador can not be seen as a credible supplier in the reasonably near future.
68. In conclusion, Matador is only a minor player in the EEA. The parties are serving different needs of customers who are located in different geographical areas. Therefore, the transaction will not bring significant change in the market structure and is thus unlikely to lead to any competition concerns.

#### **IV. CONCLUSION**

69. 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

Neelie KROES

Member of the Commission

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<sup>22</sup> If one would consider the 2006 EEA market share of Continental for heavy steel cord conveyor belts without Continental's sales to these [...] customers, the market share of Continental would drop from [45-55]% to [20-30]%.

<sup>23</sup> Heavy textile conveyor belts are not suitable at all for these heavy applications due to their limited strength.