



EUROPEAN COMMISSION  
DG Competition

***Case M.7968 - EQT SERVICES UK / KUONI TRAVEL  
HOLDING***

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: 22/04/2016

***In electronic form on the EUR-Lex website under document  
number 32016M7968***



## EUROPEAN COMMISSION

Brussels, 22.4.2016  
C(2016) 2572 final

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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

### **To the notifying party:**

Dear Sir/Madam,

**Subject: Case M.7968 – EQT Services UK / Kuoni Travel Holding  
Commission decision pursuant to Article 6(1)(b) of Council Regulation No 139/2004<sup>1</sup> and Article 57 of the Agreement on the European Economic Area<sup>2</sup>**

- (1) On 16 March 2016, the European Commission received notification of a proposed concentration pursuant to Article 4 of the Merger Regulation by which the investment fund EQT VII, controlled by EQT Services (UK) Limited ("EQT" of United Kingdom), acquires within the meaning of Article 3(1) (b) of the Merger Regulation sole control of the whole undertaking Kuoni Travel Holding Ltd

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<sup>1</sup> OJ L 24, 29.1.2004, p. 1 (the 'Merger Regulation'). With effect from 1 December 2009, the Treaty on the Functioning of the European Union ('TFEU') has introduced certain changes, such as the replacement of 'Community' by 'Union' and 'common market' by 'internal market'. The terminology of the TFEU will be used throughout this decision.

<sup>2</sup> OJ L 1, 3.1.1994, p. 3 (the 'EEA Agreement').

("Kuoni" of Switzerland), by way of a public bid ("the Transaction").<sup>3</sup> EQT and Kuoni are designated hereinafter as the "Parties".

## **1. THE PARTIES**

- (2) EQT VII is an EQT investment fund active primarily in Northern Europe. Its portfolio companies are active in a variety of industries, such as healthcare, consumer goods, energy and environmental sectors, etc. EQT also controls i.a. Scandic Hotel Groups ("Scandic"), a publicly listed hotel chain, active primarily in Northern Europe.
- (3) Kuoni is a service provider to the global travel industry and governments, mainly active in three business areas:
  - a) Global Travel Distribution ("GTD"), whereby Kuoni is active as a B2B wholesaler and service provider of hotel accommodation and land services to travel agents, tour operators and other intermediaries;
  - b) Global Travel Services ("GTS"), whereby Kuoni provides tailor-made packages of hotels and other local destination services, as well as tailor-made travel logistics services all around the world, to tour operators and travel agents;
  - c) VFS Global, whereby Kuoni provides visa application outsourcing services to governments through the operation of visa application centres.<sup>4</sup>

## **2. THE OPERATION**

- (4) On 29 February 2016, a public bid was launched by EQT for the acquisition of all Kuoni B Shares through Kiwi Holding IV S.à.r.l. ("Kiwi"), a newly incorporated company. Kuoni B Shares provide for a voting power of 75% of the total outstanding voting securities of Kuoni. The remaining 25% of Kuoni's voting rights will be held by the Kuoni and Hugentobler Stiftung ("the Foundation").<sup>5</sup>
- (5) As decisions in relation to Kuoni's commercial strategy will be adopted [how decisions are adopted], EQT holding a majority of shares and votes will exercise decisive influence over Kuoni. EQT will also be responsible for the appointment of majority of the members in the Board of Directors of Kuoni and its companies. Conversely, the Foundation will only appoint a minority of representatives in Kuoni's boards and have veto rights on issues related to the protection of shareholders' financial interests.
- (6) Kuoni will post-Transaction be indirectly solely controlled by EQT.

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<sup>3</sup> Publication in the Official Journal of the European Union No C 108, 23.03.2016, p. 17.

<sup>4</sup> Kuoni's activities under the VFS business area do not give rise to any horizontal overlap or vertical relationship in the context of the Transaction. Therefore, Kuoni's activity under the VFS business area will not be further assessed in the framework of this decision.

<sup>5</sup> After the expiration of the initial acceptance period on 13 April 2016 of the public tender offer of EQT, the acceptance level of tendered shares was reached, namely 79.6% of Kuoni's voting rights and 74.6% of Kuoni's share capital (Parties' reply to Commission's Request For Information of 8 April, 2016).

- (7) The Transaction therefore constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

### **3. EU DIMENSION**

- (8) The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 000 million<sup>6</sup> (*EQT Funds: EUR [...] million; Kuoni: EUR 2 753 million*). Each of them has an EU-wide turnover in excess of EUR 250 million (*EQT Funds: EUR [...] million; Kuoni: EUR [...] million*), but they do not achieve more than two-thirds of their aggregate EU-wide turnover within one and the same Member State.
- (9) The notified operation therefore has an EU dimension according to Article 1(2) of the Merger Regulation.

### **4. COMPETITIVE ASSESSMENT**

#### **4.1. Market definition**

- (10) EQT controls Scandic, which is active in the provision of hotel accommodation services in Europe and in particular in Finland, Norway, Denmark and Sweden.
- (11) Kuoni, through GTD and GTS is a global intermediary of travel services, including hotel accommodation services, to travel agents ("TA"), online travel agents ("OTAs"), tour operators ("TO"), and other intermediaries.

##### **4.1.1. Market for hotel accommodation**

- (12) The Commission has in prior decisions considered that the market for hotel accommodation could be segmented: (i) by price/comfort level based on the grading or stars awarded to the particular hotel, which indicates the standard and facilities the customer may expect; and/or (ii) by ownership, distinguishing between chain hotels and independent hotels. Ultimately however, the Commission left the precise scope of the product market open.<sup>7</sup>
- (13) According to the Parties, a segmentation based on price/comfort level and grading of stars is not appropriate since overlaps in prices and facilities among hotels in different star categories lead to a continuous chain of substitution among hotels. With regard to a segmentation based on ownership, the Parties submit that independent and chain hotels are entirely substitutable from a demand perspective, in particular at local level.

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<sup>6</sup> Turnover calculated in accordance with Article 5 of the Merger Regulation.

<sup>7</sup> See cases M.6738 – Goldman Sachs/KKR/QMH; M.6058 – Bank of Scotland/Barclays Bank/Kew Green Hotels; M.3858 – Lehman Brothers/SCG/Starwood/Le Meridien; M.2197 – Hilton/Accor/Forte/Travel Services JV and M.126 – Accor/Wagon-Lits.

- (14) In prior decisions, although the Commission left the exact geographic market definition open, it noted that that the relevant geographic market may be both national and local. National, because the structure of supply may change from one country to another, since the hotel industry is linked to national economic trends, and local, because customers' hotel selection is heavily determined by location.<sup>8</sup>
- (15) The Parties submit that the Commission's considerations in previous decisions regarding the geographic market definition do not apply to the present case as both GTD and GTS are global intermediaries and consolidators of hotel content that make this broad inventory available to the retail side of distribution. The Parties therefore consider that the market for the provision of hotel accommodation should be defined as EEA-wide. As however GTD and GTS, as well as their competitors, provide hotel inventory in various parts of Europe, the Parties submit that a delineation of the relevant market at national level could also be relevant.
- (16) For the purpose of this case, the precise product and geographic market definition can be left open, since the Transaction does not raise serious doubts on any plausible market.

#### 4.1.2. Market for hotel intermediation

##### 4.1.2.1. GTD business

- (17) The Parties claim that Kuoni is active through GTD on a two-sided market for intermediated hotel reservations, which could be further segmented between reservations made by online travel agents ("OTAs") and reservations made to corporate customers ("B2B"). The Parties distinguish intermediated hotel reservations from those made directly to the hotels. Conversely, bookings made through global distribution systems, other forms of B2B wholesalers, such as GTD, travel agencies and tour operators, as well as online travel agents are considered intermediated hotel reservations by the Parties. Moreover, the geographic scope of such market should be, according to the Parties at least EEA-wide, if not world-wide.
- (18) The Commission has not assessed a market for hotel intermediation in the past. In prior decisions<sup>9</sup> it has however concluded that the market for the provision of global distribution systems' services constitutes a separate market.<sup>10</sup> Even though some market participants in prior cases considered that direct distribution and other content aggregators and metasearch companies compete to some extent with global distribution systems, the Commission has so far concluded on a market for the provision of global distribution systems' services only.<sup>11</sup>

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<sup>8</sup> M.3858 – Lehman Brothers/SCG/Starwood/Le Meridien; M.2197 – Hilton/Accor/Forte/Travel Services JV and M.126 – Accor/Wagon-Lits.

<sup>9</sup> See case M.4523, Travelport/Worldspan.

<sup>10</sup> Global distribution systems provide a platform that allows travel agencies to compare information on schedules, capacity, inventory, availability and prices and make reservations on a large and varied number of travel providers, such as airlines, hotels and car rental companies, worldwide.

<sup>11</sup> See case M.4523, Travelport/Worldspan.

- (19) As to the geographic scope of this market, the Commission recently concluded that it is world-wide on the upstream side, i.e. the provision of booking inventory by travel service providers, such as hotels and at least national on the downstream side, i.e. the provision of services to travel agents, tour operators, etc.<sup>12</sup>
- (20) For the purpose of this case, the precise product and geographic market definition can be left open, since the Transaction does not raise serious doubts on any plausible market.

#### 4.1.2.2. GTS business

##### *(a) Market for group travel*

- (21) Kuoni's GTS business focuses on group travel content to TAs, OTAs and TOs, who then resell to leisure and corporate end customers under their own brands. GTS's packaged group travel content includes accommodation, restaurants, different entertainment and attraction options and other local destination services such as guides and sightseeing; it does not however include flights to the destinations. Airline tickets are usually added by the B2B customers purchasing GTS's packages.
- (22) The Parties submit that for the purpose of the present transaction the B2B supply of group tour packages should be considered as the relevant product market and the relevant geographic market as global in scope.
- (23) The Commission has not previously assessed the definition of a market for B2B group travel providers. It has however considered a wider market for distribution of travel services in prior decisions, and although ultimately leaving the precise definition open, it considered potential subdivisions between business and leisure travellers, foreign and domestic destinations, travel to short-haul and long-haul destinations as well as package holidays and independent holidays.<sup>13</sup>
- (24) As regards the geographic scope, the Commission has in prior decisions concerning the distribution of travel services defined the markets as national.<sup>14</sup>

##### *(b) Market for Meetings, Incentives, Conferences and congresses and Exhibitions*

- (25) A smaller part within the GTS' business is dedicated to Meetings, Incentives, Conferences and congresses, and Exhibitions ("MICE"). The MICE activities comprise a range of services related to the organisation and management of meetings, congresses, conferences, exhibitions and similar events, such as project management, logistic planning, accommodation, transport, content, activities etc. Hotel accommodation is thus only a part of the services offered. These business event services are primarily offered to international tour operators, travel agencies, meeting planners, incentive houses and congress organisers.

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<sup>12</sup> See M.4523, Travelport/Worldspan, M.7802 – Amadeus/Navitaire.

<sup>13</sup> See cases Case M.1524 - Airtours/First Choice, Case M.4600 - TUI/First Choice, M.4601, - KarstadtQuelle/MyTravel, Case M.5867 - Thomas Cook/Öger Tours.

<sup>14</sup> See cases M.4601, KarstadtQuelle/MyTravel, Case M.1524, Airtours/First, Case M.4600, TUI/First Choice.

- (26) According to the Parties, the scope of the geographic market can be considered to be EEA-wide since organizers within the EEA compete for the organization of meetings, incentives, conferences and congresses. It is often the content of the package, rather than the geographical location, that is determinative for the customer.
- (27) The Parties indicate that there is no Commission precedent concerning the potential market for MICE.

*(c) Conclusion*

- (28) For the purpose of this case, the precise product and geographic definitions of the markets in which GTS is active through the provision of both group travel and MICE services, can be left open, since the Transaction does not raise serious doubts on any plausible market.

**4.2. Competitive assessment**

- (29) The Transaction will not give rise to any horizontal overlap as none of the portfolio companies controlled by EQT has any business activities competing with the activities of Kuoni.
- (30) There is a limited vertical link between Scandic's upstream hotel activities and Kuoni's GTD and GTS business: both GTD and GTS source room inventory from Scandic and resell such inventory as part of the B2B services they provide to the travel industry.
- (31) Such vertical link leads to affected markets because Scandic's estimated share on the upstream market for the provision of hotel accommodation services by hotel chains in Sweden amounts to [30-40]%. The Parties could not accurately estimate Scandic's market shares on potential sub-segments of the market for the provision of hotel accommodation by 3-star, 4-star or 3- and 4-star hotel chains in Sweden;<sup>15</sup> these sub-segments would however also be affected by the Transaction, given Scandic's share on the broader market for the provision of hotel accommodation by hotel chains in Sweden.
- (32) Moreover, 18 local markets for the provision of hotel accommodation services in Sweden, Finland and Norway would also be vertically affected by the Transaction, as set out in the table below. The Parties could not reliably estimate Scandic's market shares on further subsegments by price/comfort level or ownership. All these sub-segments would however also likely be affected, given Scandic's market share on the total local markets for the provision of hotel accommodation services.<sup>16</sup>

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<sup>15</sup> According to the Parties, there are no public or uniform prevailing systems for grading hotels in Sweden and Scandic does not market hotels with reference to any official star classification.

<sup>16</sup> According to the Parties, there are no public or uniform prevailing systems for grading hotels in Sweden and Scandic does not market hotels with reference to any official star classification.

<b>Local<sup>17</sup> market</b>	<b>Scandic market share, based on number of available rooms (%volume)</b>
<b>Sweden</b>	
Arvika	[30-40]%
Bollnäs	[30-40]%
Borås	[20-30]%
Falun	[30-40]%
Gällivare	[20-30]%
Gävle	[30-40]%
Karlskrona	[20-30]%
Karlstad	[30-40]%
Linköping	[40-50]%
Strömstad	[30-40]%
Södertälje	[50-60]%
Trollhattan	[50-60]%
Värnamo	[50-60]%
Örebro	[30-40]%
Östersund	[30-40]%
<b>Finland</b>	
Kajana	[40-50]%
<b>Norway</b>	
Finnmark	[40-50]%
Sør-Trøndelag	[30-40]%

- (33) According to the Parties, the vertical links brought about by the Transaction would not give rise to any competition concerns. The Parties explain that GTD and GTS, in providing both group travel and MICE services, source hotel accommodation at EEA-level and provide their customers with a broad inventory of hotels in different locations in the various EEA countries. Therefore, the vertical relationships, which will arise as a result of the Transaction should be assessed on an EEA-basis. Similarly, GTD and GTS for all services it provides, source from both chain and independent hotels as well as hotels of different price/comfort levels. Therefore, the vertical relationships should be assessed on the basis of the total market for the provision of hotel accommodation services.

#### 4.2.1. Input foreclosure

- (34) The Commission assessed whether the Parties would likely foreclose Kuoni's competitors from access to hotel inventory post-Transaction. In particular, the Commission considered whether the Parties would have (i) the ability to foreclose other intermediaries' access to hotel inventory, (ii) any incentive to do so and (iii)

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<sup>17</sup> In Arvika, Gällivare and Värnamo, the only Scandic hotel in the area is a franchised hotel. In Östersund, there are two Scandic hotels of which one is franchised hotel. In Strömstad, the only Scandic hotel is a partner hotel. In Sør-Trøndelag two of the seven Scandic hotels are partner hotels. [information about control of partner and franchised hotel] (franchised hotels are considered hotels, which are neither owned nor managed by Scandic).



whether such foreclosure strategy would result in significant detrimental effects for consumers.<sup>18</sup>

- (35) The Commission considers that Scandic's market position is such that it would not provide it with the ability and incentive to foreclose Kuoni's competitors from access to its inventory.
- (36) First, Kuoni's market share on the markets where GTD and GTS are active is below [20-30]% under any plausible market definition.
- (37) Secondly, other intermediaries could replace Scandic with other hotel chains, such as Accor, Best Western and Intercontinental Group and independent hotels in the various locations across the EEA, should Scandic chose to restrict its hotel content solely to GTD and GTS.
- (38) Thirdly, Scandic accounted for [...]% of the total room nights sold in the EEA in 2015 and therefore its room inventory is unlikely to be an important input for intermediaries.
- (39) Fourthly, by restricting its hotel content, Scandic would be excluded from most of the hotel bookings made through intermediaries globally and in the EEA and this is not in line with Scandic's interest to increase its occupancy rate.
- (40) Fifthly, distribution through GTD accounted for [...]% of Scandic's sold room nights and GTS accounted for even less in 2015. Therefore, Scandic would have no incentive to limit the distribution of its inventory only to Kuoni.
- (41) As a result, the Commission concludes that the Parties will not have the ability or incentive to engage in any input foreclosure strategy post-Transaction.

#### 4.2.2. Customer foreclosure

- (42) The Commission also assessed whether post-Transaction the Parties would likely foreclose Scandic's competitors from accessing customers on the downstream market for distribution of hotel accommodation services. In particular, the Commission considered whether the Parties would have (i) the ability to reduce its purchases from Scandic's competitors, (ii) any incentive to do so and (iii) whether such foreclosure strategy would result in significant detrimental effects for consumers.<sup>19</sup>
- (43) Kuoni's market position in the EEA is such that it would not provide it with the ability and incentive to foreclose other hotels.
- (44) First, a considerable proportion of hotel rooms are sold through the hotels' own distribution channels (direct customers contacts, hotel/chain websites, call centres) without depending on GTD and GTS.<sup>20</sup> Therefore, even if Kuoni would cease

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<sup>18</sup> Non-Horizontal Merger Guidelines, paragraphs 31-32.

<sup>19</sup> Non-Horizontal Merger Guidelines, paragraphs 58-59.

<sup>20</sup> In Scandic's case as an example, these channels represent approximately [...]% of all room nights sold in the EEA (reference period Q1- Q2 2015). Similar situations would appear likely for other hotels in the relevant areas.

sourcing from Scandic's competitors, these would continue to have access to customers through their own channels.

- (45) Second, as regards the distribution through intermediators, hotels make their content available through all GDSs, through OTAs and through multiple B2B wholesalers that sell identical or equivalent hotel inventory in competition with each other. Hotels also conclude agreements with offline TAs and tour operators. GTD's estimated share of hotel inventory sales in the B2B intermediation segment is [5-10]%, both globally and in the EEA. Similarly, it is estimated that GTS accounts for [0-5]% of group travels sold globally. On a global B2B market for group trips, GTS's share would be well below [20-30]%. GTS's share is estimated to be well below [10-20]% in Europe on the same market, and its share of EEA room nights booked through B2B intermediaries will therefore be similar. Therefore, Scandic's competitors would have numerous alternatives in relation to the B2B distribution of their inventory.
- (46) Third, Kuoni's GTD and GTS business represent a very small share of the total hotel bookings in the EEA. GTD's and GTS's global sales' activities accounted for the booking of [...] million and [...] million room nights in the EEA respectively, which would correspond to [...] % of the total number of room nights sold in the EEA. Therefore, Kuoni would not have the ability to foreclose Scandic's competitors from accessing the market for distribution of hotel accommodation services.
- (47) Fourth, Scandic accounted for [...] % and [...] % of the room nights booked through GTD and GTS at hotels in the EEA respectively. Therefore, Kuoni would have no incentive to cease sourcing hotel inventory from Scandic's competitors.
- (48) In light of the above considerations, the Commission concludes that the Parties will not have the ability or incentive to engage in any customer foreclosure strategy post-Transaction.

#### 4.2.3. Assessment at national and local level

- (49) The analysis would not change even when considering the affected markets arising post-Transaction at national and local level.
- (50) Such markets would be affected only due to Scandic's estimated shares upstream. However, any ability or incentive to foreclose input for rivals of GTD and GTS on these markets can also be excluded.
- (51) At national level in Sweden, Scandic lacks any significant degree of market power and accounted for [...] % of the room nights booked through GTD in 2015. Conversely, GTD and GTS accounted for approximately [...] % and [...] % of sold room nights in Sweden in 2015 respectively.
- (52) Similarly, at local level, such markets are not an important input to the downstream markets, in which GTD, GTS and the competitors of these businesses operate. In addition, a number of competing hotels are present at local level, including in the two cities where Scandic achieves the highest market share, namely Södertälje and Trollhättan. In particular, in Södertälje Scandic faces competition from hotel chains

such as Nordic Choice and Sweden Hotels; in Trollhättan, additional hotel chains include Nordic Choice, Best Western, Sweden Hotel and Countryside Hotels.<sup>21</sup>

- (53) In light of the above, the Transaction does not raise serious doubts as to its compatibility with the internal market.

## **5. CONCLUSION**

- (54) For the above reasons, the European Commission has decided not to oppose the notified operation and to declare it compatible with the internal market and with the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of the Merger Regulation and Article 57 of the EEA Agreement.

*For the Commission*

*(Signed)*

*Margrethe VESTAGER*

*Member of the Commission*

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<sup>21</sup> In Södertälje, Scandic faces competition also from independent hotels such as Vindeus Hotels.