

### Pricing

#### Price determination

1. Evidence from a number of sources (including customers, our qualitative survey and the ferry operators themselves) presented a consistent picture of the process by which prices are determined:
  - (a) There are no list prices (other than the 'spot' price for the very small proportion of freight customers that do not have an account and who purchase at the port).
  - (b) Although there is often a long-run relationship between ferry operator and customer, there are no formal written contracts spelling this out (both Stena and P&O operate with their own standard terms and conditions).
  - (c) Prices are discussed at least annually (with some customers renegotiating prices more than once per year): it appears that ferry operators often request an increase to take effect at the beginning of the year. If the customer agrees the new prices, the ferry operator sends a letter, fax or email confirming this.
  - (d) Where active negotiations take place, the starting point is the previous year's price paid by that customer. Active negotiations centre around price and volume: the ferry operator may offer and the customer may seek lower prices in exchange for higher volume (which would in practice come at the expense of the ferry operator's competitors). Usually, a ferry operator proposes a price increase to take effect at the beginning of the year, the customer then obtains competitive prices from other ferry operators and negotiations over price and volume ensue.
  - (e) Negotiations cover all routes between Great Britain and Ireland likely to be used by the customer (although separate prices are agreed for each route). In the case of Stena, negotiations cover Great Britain–Continent routes as well.

(f) Customers may request a reduction at any time, for instance by inviting their current ferry provider to match a price quoted by a competitor, or lose volume to that competitor.

(g) Customers do not make binding commitments on volume: from the ferry operator's point of view, if the customer does not deliver on volumes, the sanction is a higher price either next year or on the next occasion prices are negotiated.

(h) Formal volume discounts play a relatively modest role. [



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(i) [



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(j) Negotiations may cover payment terms as well as prices, [



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(k) Third party agents may negotiate on behalf of smaller customers which by themselves have less negotiating power. Third party agents also offer other

services including load brokering (for example assisting the haulier to find a back-load for the return leg), fuel, insurance and advice on haulage matters.


2. Prices having been agreed, customers book capacity as and when needed. Customers with regular traffic volumes may have an allocation of a certain number of units on peak sailings, and this may play a part in price negotiations on some routes. Booked freight may not reach the ferry in time for a variety of reasons (including cancellation or rescheduling of hauliers' jobs and late running) and ferry operators allow for this by overbooking. Although ferry operators seek to maintain contact with customers on the day regarding take-up of bookings, on occasions not all booked freight that arrives in time makes it on to the ferry, for example because the 'no-show' percentage is lower than usual. Our understanding is that booked freight that misses the ferry is not charged and that booked freight for which there is no room on the ferry ('short shipped') is not compensated by the ferry operator. Ferry operators actively monitor customers' utilization of allocations and reduce it if it is not utilized sufficiently well.

### **Price levels**

3. The overall level of pricing on different crossings will reflect factors such as the intensity of competition that affects that crossing, and the level of costs, in particular port costs and vessel costs (vessel costs per freight unit will be affected, among other things, by crossing distance and vessel capacity). On a particular crossing the relative prices paid by different freight units reflect three main factors:
  - (a) the size and type of the freight unit;

- (b) whether it travels peak or off-peak. Different prices are charged according to the time of crossing, with night-time peak crossings being more expensive;<sup>1</sup>
- (c) the customer concerned. Different customers pay different prices reflecting their negotiating strength—those with the largest volumes tend to have the strongest negotiating position.

Other factors that may occasionally affect prices include special offers for specific commodities and directional rates (occasionally a haulier may be offered a lower rate for eastbound than westbound flows).

4. Table 1 shows average peak and off-peak prices<sup>2</sup> on each crossing for both accompanied and unaccompanied vehicles (average prices calculated in this way may be affected by traffic mix). The difference between peak and off-peak average prices is variable [  ], and may be affected by traffic mix (large customer getting a better price may account for a higher proportion of peak than off-peak traffic). Space allocations on peak crossings may be an important feature of the market and, at least on some crossings, customers may be granted an allocation of peak capacity 'subject to off-peak support'. This suggests that there is excess demand at current prices for peak capacity and that the peak/off-peak differential does not fully reflect the economic benefits of peak travel (given existing capacity).
5. The difference between accompanied and unaccompanied average prices varies across routes, tending to be smallest on the Loch Ryan crossings. In most cases the difference is greater than can be accounted for by differences in vehicle length (around 25 per cent). The difference between accompanied and unaccompanied

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<sup>1</sup>The position is more complex on the northern corridor.

<sup>2</sup>Weighted average price averaged over all customers (average revenue per freight unit). Average off-peak prices reflect both daytime and weekend sailings.

average prices may to some extent reflect traffic mix—unaccompanied customers tend to be larger with a stronger negotiating position and paying lower prices. [redacted] suggested that unaccompanied customers had a stronger negotiating position irrespective of volume: it told us that the prospect of gaining considerable volumes of unaccompanied freight on a ferry operator's off-peak services gives unaccompanied freight hauliers additional leverage during the negotiation process. However, [redacted] also suggested that the lower level of unaccompanied prices was mainly for historic reasons.

6. Table 1 also shows that Holyhead–Dublin average accompanied prices are [redacted] Liverpool–Dublin average accompanied prices<sup>3</sup> despite the distance travelled being only about half, both services using the expensive Dublin port and 2002 capacity being similar.<sup>4</sup> Other evidence also suggests that Stena's Holyhead–Dublin Bay prices are high compared with other routes where Stena operates both ropax and HSS craft: Holyhead–Dublin Bay average prices are [redacted] per cent above Stranraer–Belfast despite the distance being only 22 per cent further, while Harwich–Hook average prices are only [redacted] per cent higher than Holyhead–Dublin Bay despite the distance being double. Stena told us of a number of reasons why average rates on Holyhead–Dublin were higher than on Stranraer–Belfast including [

redacted]. Stena also told us that rates on routes to the Republic of Ireland were historically always higher than rates on routes to Northern Ireland, reflecting the fact that the former were international routes (with part of the cost attributable to the additional costs incurred with undergoing the customs process).

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<sup>3</sup>Average peak prices are [redacted] and average off-peak prices [redacted].

<sup>4</sup>In 2002, both crossings had four sailings per day with about 2,000 lane metres on each sailing.

TABLE 1 Peak and off-peak average prices for Stena and P&O crossings

	Peak	Off-peak*	Total		
<i>Holyhead–Dublin</i>	(	)	)		
Accompanied					
Unaccompanied					
Total†					
<i>Holyhead–Dun Laoghaire</i>					
Accompanied					
Unaccompanied					
Total†					
<i>Mostyn–Dublin</i>					
Accompanied‡					
Unaccompanied‡					
Total§					
<i>Liverpool–Dublin</i>					
Accompanied‡					
Unaccompanied‡					
Total§					
<i>Fleetwood–Larne¶</i>				✂	
Accompanied‡					
Unaccompanied‡					
Total§					
<i>Cairnryan–Larne</i>					
Accompanied‡					
Unaccompanied‡					
Total§					
<i>Stranraer–Belfast ropax</i>					
Accompanied					
Unaccompanied					
Total†					
<i>Stranraer–Belfast HSS</i>					
Accompanied					
Unaccompanied					
Total†					

Source: Annexes 1 to 4.

\*Includes any sailings (eg weekend) not classified as peak.

†Total includes trade cars.

‡Excludes transactions with P&O Ferrymasters (a haulier owned by P&O).

§Total includes P&O Ferrymasters, trade cars, containers and other traffic.

¶Including Liverpool–Larne.

Note: Average price equals average revenue per unit.

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8. We considered a variety of other evidence on prices paid by individual customers of Stena and P&O. This showed a great deal of variation in prices paid by individual customers, although there was a general tendency for larger customers to pay lower prices.

### **Price trends**

9. We also considered evidence on actual trends since 1996 in average prices (not inflation adjusted) for both accompanied and unaccompanied traffic on the crossings of Stena and P&O. [

] but no other trends were particularly evident. We also noted that there was no particularly clear link between capacity and average prices, in particular that the large increase in Holyhead–Dublin capacity that occurred when Irish Ferries introduced the *Ulysses* did not have an appreciable downward effect on prices. [



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FIGURE 1

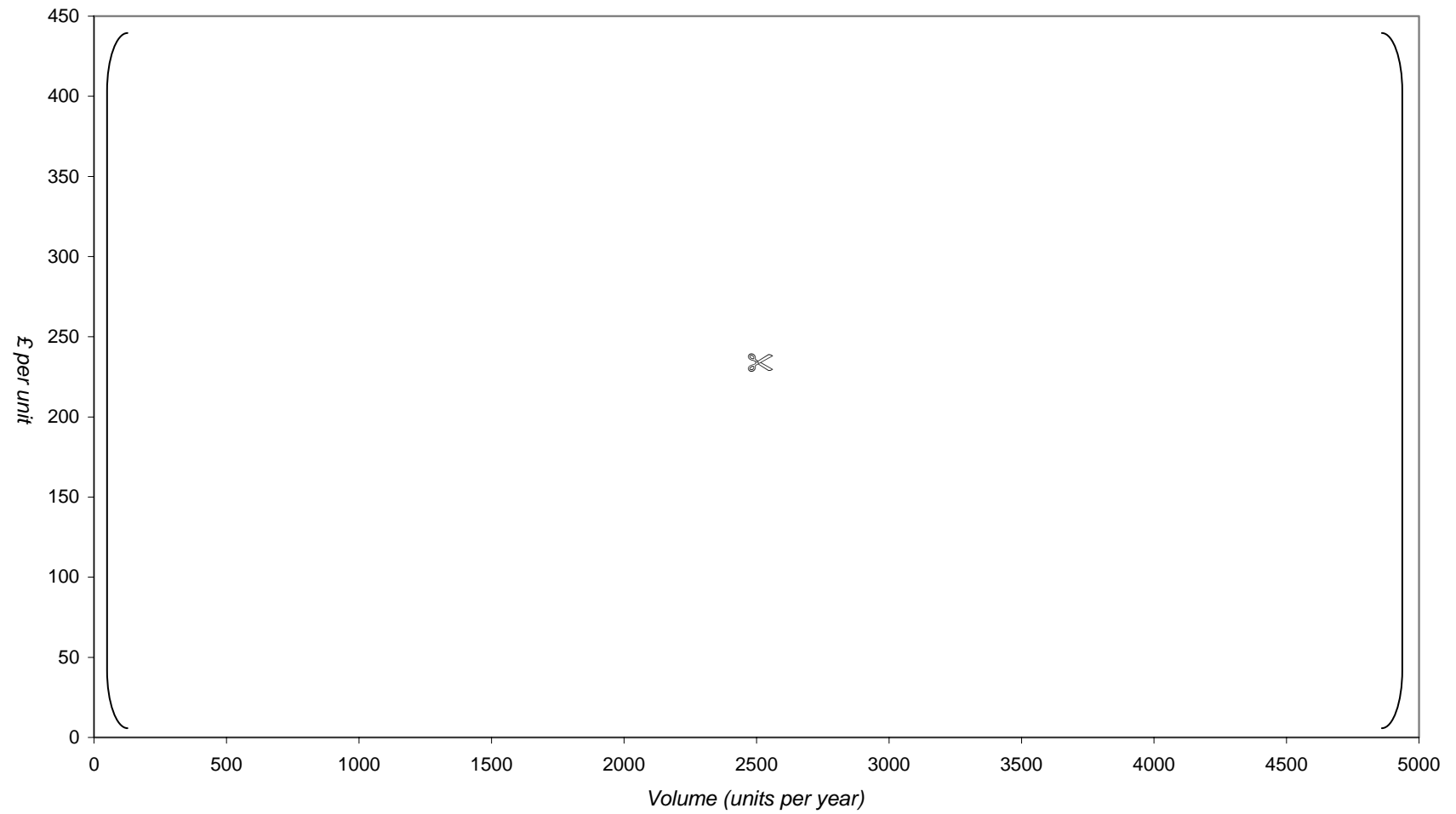


FIGURE 2

