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ACQUISITION BY BAI OF CERTAIN ASSETS OF P&O

DEPLOYED ON THE PORTSMOUTH/LE HAVRE ROUTE –

RESPONSE OF P&O TO THE OFT'S "SUPPLEMENTARY QUESTIONS FOR P&O"

OF 22 OCTOBER 2004

29 October 2004

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ACQUISITION BY BAI OF CERTAIN ASSETS OF P&O DEPLOYED ON THE PORTSMOUTH/LE HAVRE ROUTE – RESPONSE OF P&O TO THE OFT'S "SUPPLEMENTARY QUESTIONS FOR P&O" OF 22 OCTOBER 2004

Material confidential to P&O is marked in blue in the electronic version.

1. **PLEASE EXPLAIN THE DATA YOU HAVE PROVIDED AT ANNEX 11, FOR EXAMPLE, TO WHAT DOES THE DATA REFER? AND WHAT ARE THE UNITS? ETC. PLEASE EXPLAIN HOW THIS DATA REPRESENTS EVIDENCE OF SWITCHING. IF THESE ARE VOLUME CHANGES, ARE THE PARTIES AWARE OF WHERE THE VOLUMES WERE SWITCHED TO?**

1.1 The tables in Annex 11 should be read as follows. The columns "Portsmouth (2003)", "Portsmouth (2004)" refer to freight carryings measured in units[1] for each customer in the year in question on P&O's Anglo/French Western Channel freight routes (i.e. Portsmouth/Cherbourg and Portsmouth/Le Havre[2]). The columns "Short Sea (2003)" and "Short Sea (2004)" refer to freight carryings in the year in question on P&O's Short French Sea freight route: namely Dover/Calais. The columns "Portsmouth (var)" and "Short Sea (var)" refer to the variations (positive or negative) in the number of units carried for a given customer on P&O's Western Channel and Dover/Calais freight routes between 2003 and 2004. The column "customer" identifies the name of the relevant P&O customer using both P&O's Western Channel and Dover/Calais services[3].

1.2 The tables in Annex 11 suggest that substantial switches of volumes are made by customers between the two sectors, but it is not recorded whether such switches were purely driven by competitive factors such as price or by logistics requirements or by a combination of the two. Annex 11 demonstrates that a very substantial number of customers have dual accounts on both the Western Channel and the Short Sea. Annex 11 further indicates that with average Western Channel annual volumes per customer being very small, it would be easy to absorb such volumes on the Short Sea where there exists substantial excess freight capacity. Annex 11 therefore suggests that substantial switching in freight volumes per customer between the Western Channel and Short French Sea can and does take place and this is supported by P&O's empirical experience as an operator.

1.3 We submitted on 12 October 2004, as a confidential annex under separate cover, specific examples of evidence of customer switching (to go in Annex 11). We will supplement this evidence with our response to question 2 below.

2. **PLEASE PROVIDE ANY FURTHER EVIDENCE YOU MAY HAVE OF CUSTOMERS (FREIGHT AND TOURIST) SWITCHING BETWEEN THE SHORT SEA AND THE WESTERN CHANNEL.**

2.1 This issue is being considered further in relation to tourist and freight but at this stage the following tourist information is relevant.

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1 A freight unit comprises either a driver accompanied rigid lorry or articulated lorry or a non-driver accompanied trailer.

2 Portsmouth/Bilbao is not included and Portsmouth/Caen is a fastcraft service, which does not carry freight. P&O's Rosslare/Cherbourg route is also excluded.

3 In the parties' joint opening submission, P&O stated on page 23 that some 80% of its top 50 Western Channel freight customers were also customers of its Dover/Calais service.

The colour coded map set out below contains an analysis of the purchasing patterns of P&O customers who have utilised both Western Channel and Short French Sea P&O tourist services over 2002, 2003 and 2004. Over 2002 and 2003, the sample of customers had bought a majority of their services on the Western Channel. The colour coded map illustrates that in 2004 the same customer base switched to a **majority** of Short French Sea services over those on the Western Channel. The map indicates the intensity of their switching by geographic catchment area. It is notable that the highest concentration of switches is in postcodes BH, SO, PO, GO and BN, all of which have a greater proximity to Western Channel services ex-Portsmouth than to Dover[4].

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[4] The analysis does not cover the destination of the tourist travellers in the sample, but there is no reason why the destination mix would differ materially from previous years.

The figure below indicates that UK drive times for Dover/Calais are surprisingly long, with a majority (over 30 per cent.) being in excess of three hours. This indicates that tourists are not bound to maritime routes that are nearest to them geographically, but rather than they will drive considerable distances to achieve their optimal route.

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3. **[CONFIDENTIAL – CONTAINS BUSINESS SECRETS]**

4. **[CONFIDENTIAL – CONTAINS BUSINESS SECRETS]**

5. **[CONFIDENTIAL – CONTAINS BUSINESS SECRETS]**

6. **[CONFIDENTIAL – CONTAINS BUSINESS SECRETS]**

Appendix 1 – UBS report of 16 August 2004 (provided separately in a hard copy)