

## Transcript summary Condor Ferries

### Background

1. Condor Ferries said that it started in 1963. Condor Ferries was the first operator of fast ferries between France and the Channel Islands. Since 1998, Condor Ferries had operated services between the UK and France carrying cars and passengers.
2. Condor Ferries said that its principal business was concerned with the Channel Islands. It operated five ferries. Three of its ferries were fast ferries, while the other two were conventional ferries that carry freight and passenger cars. Two of the fast ferries were 86 metres long and carried 750 passengers and 185 cars. These were based in Weymouth and Poole. Poole services were summer only. The third fast ferry was based in St Malo and carried 85 cars and 550 passengers. The two other vessels had 1,200 lane-meters capacity, which was the equivalent of about 65 13.6-metre trailers. One of the ferries could carry up to 500 passengers. Condor said that it moved about one million passengers a year and of the order of 240,000 cars. Of these figures, 100,000 passengers were moved on behalf of Brittany Ferries from Poole to Cherbourg.
3. Condor said that freight to the Channel Islands was principally unaccompanied.

### Barriers to entry

4. Condor said that the presence of two large ferry operators represented a barrier to entry since the establishment costs of those operations were likely to be written down. A new entrant would need to provide something that the others did not. So far as freight was concerned, timings could be particularly important because of the regulations about driver hours. Condor thought that there was spare capacity at certain times in Portsmouth. The facilities at Poole were slightly better than those at Weymouth. Southampton had not been considered by any of the major ferry companies although a freight service now existed between Southampton and Le Havre.
5. There was competition between the French ports for ferry operators. Le Havre was a good port for the movement of freight and compared favourably to Cherbourg. Condor said that there were advantages in having a mixed ferry but the fast ferry was more suitable for passenger transfer than bulk freight. Condor said that it expected to find other routes to operate across the channel in due course. Condor said that it could not understand why P&O had continued to run a service while publicly losing money. Condor said that if one assumed that a fast ferry cost £6 to £8million a year to operate then the sums suggest that it would be necessary to carry 60,000 to 80,000 cars to break even.

### Market definition

6. Condor said that it required to be competitive on price to encourage cars and passengers to use the St Malo route. Condor believed that transparent pricing helped market its services. Condor said that it tried to increase its prices by 5 or 10 per cent each year but was more successful in some years than others. Special offers were often required to retain volume. If necessary it reduced its prices quite substantially. On the Poole–Cherbourg route the volume dropped substantially when P&O and Brittany Ferries introduced additional tonnage on the Portsmouth–Caen and Portsmouth–Cherbourg routes respectively. No additional overall volume of traffic was carried.

7. It was possible that the further west one went on the Channel the less discounting was taking place. However, it was difficult to know whether the mix of travellers was changing. Certainly some operators believed that the low-cost airlines were making inroads into overall passenger volumes. Condor considered the market to be primarily sourced from the UK. Passenger Shipping Association statistics indicate that between 83 and 86 per cent of passengers on the Western Channel originated from the UK. Freight was very sensitive to price right along the Channel and a 5 per cent increase in price was likely to cause freight to move to other routes. However, regularity of sailings was important so that if one was missed another could be taken in 2 or 3 hours. Condor saw the whole of the Channel as a market for passengers with considerable competition amongst tour operators. The market for freight was similar but much depended on where the freight was destined. Most freight to Guernsey and Jersey was unaccompanied because of limitations on the size of trailer that could be taken on the roads.

## **Competition**

8. Condor saw both P&O and Brittany Ferries as competitors although it had good relations with both. It considered that the on-board service offered by Brittany Ferries was superior to that offered by P&O. However, it was extremely difficult to decide why people chose one ferry over another and why in some years overall passenger traffic was down. Low cost airlines were believed to be having an impact.
9. Prices were set at the start of each year based on the previous year and on the rates being charged by competitors right along the Channel. Condor said that it had daily, weekly and seasonal peaks and an appropriate price structure.

## **The proposed merger**

10. Condor said that it believed that Brittany Ferries cared about making a profit and that in the last few years may have managed to do so. Brittany Ferries would avoid the cost of start up if it took over the P&O ships. Other competitors would also be discouraged should this happen and if there was no reduction in route continuity. Condor thought that it would be difficult for a new entrant to enter the route and make a profit where P&O had failed to do so. It had been surprised that P&O had decided to completely withdraw from the Western Channel in view of the fact that it had to be making losses there for some years. If Brittany Ferries took over P&O's assets the barriers to entry that had previously been there with P&O would remain in place. Similarly, if Brittany Ferries decided not to enter the route the barriers to entry would be reduced. Condor said that P&O's decision to withdraw made the Western Channel less competitive. It was not aware of any other ferry operator actively considering entering the Portsmouth/Le Havre route.

## **The situation in the absence of a merger**

11. Condor thought that if Brittany Ferries acquired P&O's boats that it would run two conventional vessels to serve both the Portsmouth/Le Havre route and the Portsmouth/Cherbourg route. It thought that even if the transaction was not agreed, Brittany Ferries would try to enter the route. The departure of P&O represented the departure of its main competitor. If Brittany Ferries were able to take over the P&O ships it would probably be advantageous in terms of avoiding exit cost. If Brittany Ferries took over the route the barriers to entry would be exactly the same as with P&O in situ.