

Harbour Shipping Limited- Hearing summary

Background

- 1 Harbour Shipping Limited was a wholly owned subsidiary of Star Cargo Plc. Harbour Shipping was involved in the movement of freight across Europe. The company had been trading for 22 years. It did not have its own haulage business or run its own transport. Its function was to seek areas in the market place that the ferry companies were not interested in and to provide ferry services through its own service. Its customers were television companies, removals business, arts and fine antiques as well as general haulage of tankers, fridge motors etc. Its customers were small to medium sized firms that shipped on an ad hoc basis and as such were able to utilise Harbour Shipping and reduce their costs. Harbour Shipping employed a transport company named Sealane Freight (part of Star Cargo) which had 16 of its own units.
- 2 Harbour Shipping was rarely involved in unaccompanied freight and it represented only 5 per cent of the Sealane Freight traffic. It covered all the routes around Europe and all the routes in and out of the UK. The Western Channel had declined in importance in recent years and the rates on offer on the Short Sea crossing were such that traffic had been drawn away from the Western Channel. However, it was still important to those customers who wished to run down to southern France or down to Spain. Portsmouth/Le Havre was one of the popular routes operated by the ferry services and as such was one of the most expensive routes through the Western Channel. Harbour Shipping did not think that the traffic through Le Havre could be dispersed to other routes. It thought that the proposed acquisition, which would remove P&O as a competitor, could leave Brittany Ferries with the opportunity to be more aggressive in its pricing. However, Harbour Shipping thought that Brittany Ferries would control its pricing because of the competitive rates available in the South East.
- 3 Harbour Shipping said that the day and night rates on the Western Channel varied. Because of the volume of sailings at night the night sailings were able to command higher revenue. Harbour Shipping said that it would not generally advise clients to use Portsmouth/Le Havre on a cost basis but might do so on the basis of route, time delivery and road services. Caen and Cherbourg were not as well suited as Le Havre. Portsmouth was attractive to some clients who came from the west side of England or from the north. Portsmouth was also favoured by some clients because it avoided traffic problems around London and the M25 and made a saving on the overall mileage and the timing of the driver. Harbour Shipping said that last year it placed 1600 to 1700 pieces of freight through P&O and 1300 to 1400 with Brittany Ferries. Harbour Shipping said prices were set by the ferry companies on the basis of volumes. However, this might be adjusted downward during the course of the year to ensure traffic volumes.

Market and prices

- 4 Harbour Shipping thought that if the prices on the Portsmouth/Le Havre route went up by 5 to 10 per cent then some of the traffic would move to other routes; primarily the South East. Harbour Shipping was of the view that all the ferry companies on the Western Channel were operating on very slim margins but even with the removal of P&O the rates on the Short Sea

crossing would still mean that rates were kept down. If the rate increase was over 10 per cent then Harbour Shipping expected a major switch to take place. Driver's rest periods were, also, becoming more important in the context of routes because of the new Directive.

- 5 Harbour Shipping felt that the Western Channel was part of a much wider UK and continental ferry market. However, it considered that accompanied and unaccompanied freight were not part of the same market. Accompanied freight was part of the general trend which required delivery by the following day. Unaccompanied was not time sensitive and over the last 10 years had dropped dramatically in volume.

Competition

- 6 Harbour Shipping said that it utilised the Channel Tunnel. Many of its customers were price sensitive but some were not. It attracted small and medium-sized businesses on the basis of the service and competitive rates it was able to offer. Harbour Shipping said that it was in an ongoing discussion with the ferry companies about the rates that it paid. If it used a single ferry operator it would be able to command lower rates. However, this was not practical and its bargaining power was, therefore, eroded. On the other hand, Harbour Shipping was well known to Brittany Ferries and P&O and there was an understanding of what Harbour Shipping was capable of in terms of freight volumes. It handled some work with Transmanche but Newhaven was a difficult port to get to and from.

Barriers to entry

- 7 Harbour Shipping said that the main requirement for a ferry was to have two or even four reliable ferries so that the ferry service could be relied upon by freight hauliers. It would also be difficult to obtain berths in some ports. Harbour Shipping said that competition from low cost air lines and the decline in passenger traffic across the Channel suggested that a freight only or predominantly freight service might be the most appropriate type of service for a new entrant.

The merger

- 8 Harbour Shipping said that it was surprised that P&O had taken so long to decide that it could not make a living from the Western Channel. It would prefer to have two ferry operators on the route but would wish to support Brittany Ferries rather than see the service cease. Harbour Shipping did not expect rates to rise.

The counterfactual

- 9 Harbour Shipping said that if the acquisition did not go ahead it did not expect that another ferry company would enter the Portsmouth/Le Havre route. Rather it thought that the route would close. The P&O ferries were old and not particularly suitable for the route and Harbour Shipping thought that they would go out for sale or charter elsewhere. Without the acquisition Brittany Ferries were not likely to enter the route. Freight companies were already considering what action they might take should the acquisition not be agreed. The most likely action was for freight traffic to move to the South East although that route was struggling, in terms of capacity, to cope.

- 10 The Portsmouth/Le Havre route was predominantly a freight route with a small period in the summer and also in the run-up to Christmas when passenger traffic was active. Harbour Shipping said that it did not expect the rates in the Western Channel to rise because of the severe competition from the Short Sea crossing. The cost of transporting freight across the Channel had remained virtually unchanged for the last five years.