

Hearing summary - Stena

Background

- 1 Stena Line ("Stena") began the hearing by pointing out that it did not have up to date knowledge of the Western Channel: it withdrew its services in 1996 (almost a decade ago) and had never since considered returning to routes on which it had made consistent heavy losses. Stena did not currently operate on the Western Channel or the Short Sea and none of the management involved on the operational side of its Western Channel services were still at Stena. With that caveat, it said it would assist the Competition Commission as best it could from its general knowledge of the ferry industry in Europe.
- 2 Stena said that it currently ran 19 ferry routes in Northern Europe, serving Scandinavia and on the North Sea and the Irish Sea. It did not currently operate on the Western Channel and had not done so since 1996. Between 1991 and 1996 Stena was active on the Southampton-Cherbourg route, but closed it in 1996 because of consistent heavy losses. Stena made particularly heavy losses in the final year of operation and the route never made a profit. Stena had closed its head offices in Ashford, Kent, last year and relocated staff to operational centres at Holyhead and Dublin.

Barriers to entry

- 3 Stena said the essential requirements for a new entrant to ferry operations were whether there were suitable berths and ships available. Stena thought that, assuming P&O ceased its Western Channel operations, both suitable ships and berths were likely to be available, although it emphasised that it did not have detailed current market knowledge. On the other hand, Stena believed entry on to the Portsmouth/Le Havre route would be very difficult due to the presence of Brittany Ferries as a strong and long-established competitor which could rely on the loyalty and support it derived from its public sector ownership in France. Stena said that in 1991 it had initially wanted to run a Portsmouth/Cherbourg service but was not able to do so because there were no suitable berths available at the time at Portsmouth. By "suitable berths" Stena meant available berths at peak crossing times which will be attractive to the market. For that reason Stena instead opened operations from Southampton. Stena was not aware of the current position on berths in the Channel except that there it believed there was a certain amount of spare capacity at Dover/Calais. Stena believed it should be possible to obtain a suitable ship for operating on the Western Channel (either through purchase or charter) within approximately six months. However, new builds were tending to be designed more for freight than passengers whereas, historically, good passenger facilities had been essential for operating on the Western Channel.

The Market

- 4 Stena said it did not see any particular difficulty in general in entering the market as a combined freight and passenger service. Stena said that one of the reasons it withdrew from the Western Channel was that, on top of five years of losses which were heavier than anticipated even in the start-up period, it saw no prospect of the route becoming profitable given the end of duty free on-board sales, the particularly seasonal nature of tourist passenger travel on the Western Channel, and the predicted impact of the Channel Tunnel and the effect it had in concentrating business on the Short Sea.
- 5 Stena said that, at a strategic level, it generally required its individual routes to make a profit and if they did not then Stena closed or disposed of them. However, Stena did take a long term view of routes in making such decisions. The Stena Southampton/Cherbourg route was based on a business plan projected to be profitable, but this had soon proved not to be the case. There was no real volume growth in freight or tourism and competition was strong, both from the other carriers on the better situated routes out of Portsmouth on the Western Channel, and from the Short Sea routes.

Market definition

- 6 Stena said that it could not comment in detail on the Western Channel market but its experience on the Irish Sea had been that it was constantly under pressure from competitors. The rates it charged now were much the same as those it charged in 2000 (i.e., a reduction in real terms). Moreover, Stena believed that the Irish Sea was crossed by a significant number of business travellers and "friends and family" travellers. Stena thought that the Western Channel was unlikely to have such a

significant proportion of these travellers. The capacity available on the Short Sea routes, with the addition of Channel Tunnel and the reaction of Short Sea ferry operators in seeking to compete against the Channel Tunnel, added further downward pressure on rates. In relation to tourist passengers, Stena emphasised that in many cases these customers were effectively purchasing the transport element of holidays in France, and thus ferry services had to be viewed in competition with other transport modes, such as low cost carriers with linked hire-car services, which also provided access to holidays in France.

- 7 Stena said that, since the end of duty free, on-board sales were not a major factor in the profitability of a route but more an aspect of the quality of service and the on-board experience. Stena agreed that a 5 to 10 per cent increase in fares would be a significant increase and likely to lead to a shift in customers, and that increases of such size did not generally occur on the markets where it was active. Stena said that it did not have current knowledge of the Western Channel but it believed that a significant proportion of freight traffic on the Western Channel was agricultural exports from Brittany. Consequently, this traffic was more likely to use the Western Channel routes. However, there is not an equivalent demand for freight from the UK to be delivered to Brittany and thus the route taken by lorries returning from the UK to France would depend on the origin and eventual destination of the load they were carrying and, as such, might mean that they crossed via Dover in order to reduce the time for delivery to other parts of Europe. It was likely that there would be a constant pressure on freight rates on the Western Channel from the Short Sea because of this option. Additionally, Stena stated that freight coming from regions of France other than Brittany (e.g., Paris or more southern areas) would be less influenced by the proximity of Western Channel crossings than freight originating from Brittany, and thus would consider Short Sea crossings in competition with Western Channel crossings. Stena did not offer a view on whether unaccompanied traffic constituted a separate market from accompanied traffic on the Western Channel. Stena stated that in its view the Short Sea crossing was very sensitive to price both with regard to passenger and freight traffic, and referred the Competition Commission to the evidence it supplied in its 2003 inquiry into Stena's proposed acquisition of P&O's routes on the Irish Sea.

The counterfactual

- 8 Stena said it was not concerned about the proposed acquisition and had no plans to return to the Western Channel. Given the losses it had suffered on Southampton/Cherbourg, the increasing pressure of competitive factors such as low cost carriers, the Tunnel and the loss of revenues from duty free, Stena was surprised that P&O had taken so long to decide to close its Western Channel routes. Stena said that it expected P&O to exit the routes even if the arrangement with Brittany Ferries did not proceed. Stena did not think that the routes were sufficiently viable to be attractive to a new entrant if Brittany Ferries did not proceed unless such an entrant already had a presence in Short Sea markets and could thus minimise set-up costs for sales, marketing etc. Although Stena did not think such a new entrant was likely, it did not rule out a new entrant being able to tailor a business model to the demands of the Western Channel markets and achieve profitability given the passenger and freight capacity being given up by P&O's route closures. Stena said it was not surprised at the outcome of the P&O fundamental review.
- 9 Stena did not see that there was a great deal of difference in the competitive situation between a scenario where P&O exited its Western Channel routes and a scenario where Brittany Ferries took over some of the P&O assets. The only possible disadvantage might be the hiatus in the service being suspended before a start-up by a new entrant as by then the traffic that had been using that route might have found different options. Stena thought that if Brittany Ferries entered the route it would reduce even further the possibility that any other ferry company would try to do so, due to the fact that Brittany would pick up some of the capacity made available by P&O's exit, and the fact that Brittany was already well-established in the Western Channel. Stena noted that allegations of Brittany Ferries having financial subsidies had been made in the past, and this might be an explanation for why Brittany Ferries was able to survive on the Western Channel where Stena (and now P&O) had been unable to do so. Stena thought that it should be possible for P&O to dispose of its ships within six months.