4th January 2005

Mr John Doyle
Inquiry Coordinator
Competition Commission
Victoria House
Southampton Row
London
WC1B 4AD

Dear Mr Doyle

Re: Brittany Ferries and P&O Ferries Merger Inquiry

Thank you for your letter of 20th December inviting comments on the proposed acquisition by Brittany Ferries of certain assets used by P&O Ferries to supply ferry services between Portsmouth and Le Havre.

I am pleased to have the opportunity to raise the very serious concerns that we have as a business relating to this proposal.

1. The Relevant Market

I am pleased to note that the Terms of Reference for the Inquiry specify "...the supply of ferry services on the Western Channel." In my opinion it is absolutely correct to identify the Western Channel market as distinct from the general market for ferry travel to France (i.e. including short-sea services). In my experience, there are relatively few clients who would easily switch to a Dover to Calais crossing from a Portsmouth to Le Havre crossing.

I might expect Brittany Ferries to argue for a broader definition of the market and suggest that price competition on the Dover to Calais route would act as a brake on future price increases on Western Channel services. In my view, this is only true to a very limited extent. Dover is not a convenient departure point for many UK travellers and Calais is perceived as too distant for those travelling to the west coast of France. Travel times and costs are particularly important to our clients, many of whom are travelling on a tight budget.

I would also suggest that Brittany Ferries' own actions in recent years tend to contradict any potential argument that short-sea competition impacts significantly on Western Channel pricing policy. Since 2002, our own short-sea rates have remained relatively stable whilst rates on Western Channel routes have increased much more significantly. It is clear that Western Channel ferry services operate within a fairly distinct market, influenced very little by the activity on the short-sea.

3. Competition within the Market for Western Channel Ferry Services

Competition within the market as defined (i.e. the market for Western Channel ferry services) has been very strong over recent years. Clients perceive the service offered by each operator to be broadly similar. Although each operator's marketing communications attempt to differentiate their products on the basis of service rather than price, the reality in my view is that each operator is known to offer high levels of service and choices are therefore made very substantially on the basis of price.

Although prices have increased as stated above, our clients have benefited tremendously from promotional fares offered by both Brittany Ferries and P&O in recent years. These promotional prices have generally been offered by P&O in the first place but have generally been matched by Brittany Ferries resulting in better value for clients on both services.

Comparative statistics for bookings received during the 2004 season and those received to-date for 2005 support the view that the market is very price led. In 2004, Brittany Ferries and P&O prices were very similar, being based on an 'open' competitive market. For 2005, P&O prices remain at similar levels but Brittany Ferries have removed promotional fares (in the knowledge, I contend, that they would soon have control of P&O services and didn't need to compete in the same way this year).

Our figures for 2005 show that despite the considerable reduction in capacity on P&O services from Portsmouth, the stronger competitive price position of the Le Havre route has enabled P&O to gain share at the expense of Brittany Ferries' Caen service in particular.

4. Barriers to Entry

Although I don't profess to be a shipping expert and my comments are made more as an outside observer of the industry, I would suggest that barriers to entry within the market are very substantial.

Not only are there significant costs involved in buying or leasing appropriate ships but any potential entrant would need the cooperation of the necessary port authorities. Brittany Ferries will be aware that the reductions in capacity already announced by P&O, particularly with the withdrawal of services to Cherbourg, create a potential opening for competitors. Following P&O's announcement, the port of Cherbourg will have been keen to invite new operators in but Brittany Ferries have already acted to reduce this likelihood by re-organising their own schedule to offer a very limited service to Cherbourg themselves.

Clearly for tour operators such as ourselves we have no option but to buy-in the services of the ferry operators and for cost reasons cannot vertically integrate to protect ourselves against potential price increases from our ferry suppliers.

5. The Effect of the Acquisition on Customers and Suppliers

I believe that the proposed acquisition will have a potentially negative impact on our commercial relationship with Brittany Ferries. Although I will deal with the impact of price increases towards the end consumer in section 6 below, there is a very strong likelihood that our own commercial terms with the operator could deteriorate quite quickly.

I have had dealings with Brittany Ferries for many years and I know that their stated ambition has always been to reduce the differential between these ITX rates and public fares. This ambition has been constrained, until now, by the competition offered by P&O.

Also of concern is the proportion of space made available to ITX operators through Brittany Ferries' revenue management system. This system already limits space on each crossing which is made available to ITX operators, effectively protecting space which might otherwise be sold at full brochure prices. For a number of years, Brittany Ferries have limited this space and then offered tour operators the opportunity to purchase crossings at full brochure price if ITX space became unavailable. As this is commercially unattractive for us, we have always declined this and simply switch sold clients to one of P&O's services.

Once Brittany Ferries have an effective monopoly of Western Channel services the balance of power between our company as customer and Brittany Ferries as supplier will change irreversibly and it will become impossible to resist a weakening of our commercial terms. It seems clear that we will see a reduction in the differential between our own ITX rates and public fares, effectively forcing us to increase prices to our clients to protect margins. We are also likely to see a reduction in capacity made available to tour operators at ITX rates with little alternative but to accept space at public prices much of the time, again forcing up our own prices.

6. The Effect on Prices and Variety and Quality of Services

In terms of service quality, I anticipate very little change. Both operators currently offer a very high standard of service and although this has undoubtedly improved in recent years at least in part due to competitive pressures, I don't anticipate Brittany Ferries' standards slipping significantly once they have the monopoly.

Variety of service will quite possibly reduce in time as Brittany Ferries attempt to consolidate their services on the Western Channel in future years. It is my understanding that the lease on the ships operating to and from Le Havre is due to expire within the next couple of years and I don't anticipate a renewal. Their take-over of the route is almost certainly a short-term move to block a potential new entrant at this time rather than a long-term commitment to the service.

The most important issue however is that it is absolutely clear, without any question, that consumer prices will increase as a result of the proposed acquisition.

As discussed in section 3, above, Brittany Ferries' rates for the 2005 season have increased substantially. During rate negotiations for 2005 I was extremely surprised at Brittany Ferries' sudden disinterest in their competitive position against P&O on the Western Channel. All became clear with the announcement of P&O's withdrawal from Cherbourg and the proposed take-over by Brittany Ferries of the Le Havre route.

Although I was advised verbally that Brittany Ferries would honour P&O-negotiated rates for all bookings made on the Le Havre service prior to its official take-over by Brittany Ferries, I was also advised that post-acquisition, our rates for the Le Havre service would increase to match Brittany Ferries' rates for their Portsmouth to Caen service. This would result in a considerable price increase for our clients who are currently booking Le Havre over Caen due to the price differential.

7. Conclusion

It is my understanding that under the terms of reference of the Inquiry, the Competition Commission is required to make a judgement about whether or not the proposed acquisition may be expected to result in a substantial lessening of competition within the market for Western Channel ferry services.

It is my very clear opinion that the proposed acquisition will, indeed, lessen competition very substantially, leading to a significant reduction in the bargaining power of tour operators in particular and, in turn, leading to higher prices and eventually reduced choice for consumers.

I would strongly urge the Commission to prevent the proposed acquisition from going ahead.

If I can provide any further information at any time please don't hesitate to contact me.

Yours sincerely