Channel Freight Ferries Limited

Statement to the Competition Commission
31 January 2005

Channel Freight Ferries Ltd[1] is a UK registered company, and a wholly owned subsidiary of Clarksons plc[2]. We operate a twice daily freight ferry service between Radicatel (20 miles upstream of Le Havre on River Seine) and Southampton. The creation of the business was planned for two years with large investments having been made at both ports before the start of service on January 19th 2004. Our aim is to provide a mainly unaccompanied service of the sort widely seen on the North Sea and Thames and, to a lesser extent, Irish Sea. This sort of service has not existed on the English Channel, west of Dover/Folkestone, in recent years but we believe demand for our service will grow for many reasons including the large distance savings we offer, restrictions imposed on drivers by the Working Time Directive, road congestion and truck operating costs as well as EC aims to reduce truck miles by transferring to other modes which favour longer sea routes like CFF's.

We have not yet reached break-even or profit but aim to, in due course. Our business is growing and our customers are pleased with the service we offer. We receive no subsidies, state aid, regional grants or other interventions.

The market in which we operate is the Western Channel to France, being all routes west of Dover/Folkestone. In terms of passenger cars, this market (1.2m, 2003) is roughly the same size as the whole UK - Irish Sea market (1.4m, 2002) The market is dominated by two major players - P&O and Brittany Ferries operating multi-purpose ferries which carry cars, passengers, buses and accompanied and unaccompanied freight. The only other operators in this market are Transmanche and Hoverspeed from Newhaven to Dieppe and Channel Freight Ferries. Because most of the traffic on the Western Channel is carried on multipurpose ferries, the different traffic types carried are inextricably linked.

On Tuesday 28th September 2004, P&O announced they will end all their services on the Western Channel - France market[3]. This announcement and subsequent events lead us to believe that at least one of P&O's closed routes (Portsmouth-Le Havre) is being merged into Brittany Ferries. Combined with barriers to entry (see below), and in the absence of any other new entrant, Brittany can be expected to take over most, if not all of P&O's surrendered traffic. If that is the case, Brittany Ferries will control about 90% of each of the traffic categories of Cars, Passengers and Freight, on the Western Channel (by sea).

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1 Reg no 4711368, Reg office 12 Camomile St, London EC3A 7BP. Website: www.channelfreight.com .
2 Quoted on UK stock exchange. Website : www.clarksons.com
3 See attachments

P&O's announcement states: *"Pride of Portsmouth and Pride of Le Havre to be chartered out to Brittany Ferries with their crew and related shore staff, subject inter alia to contract and regulatory approval"* and *"the closure of all Western Channel routes except Portsmouth to Bilbao"*. It is widely reported in the press that Brittany have agreed to take over P&O staff in Le Havre and reached agreement with the Port of Le Havre, and Portsmouth, to operate the Portsmouth - Le Havre route until the end of 2007 (the end of the vessel charters). Brittany already have their own establishment in Portsmouth to service their routes to Caen and St Malo. As far as we can see no other operators have been offered the opportunity to establish themselves on the route; the speed with which P&O and Brittany have made their arrangements would appear to prevent this. However, It has been reported in the press that the Port of Le Havre had been approached by other interested parties. The only modern suitable ferry terminal in Le Havre is the one currently used by P&O, whose current sailing schedule would preclude another operator being able to successfully operate there.

In 2005 Brittany plans to expand their Portsmouth to Cherbourg route, which they started in a limited way in 2004. In 2004 P&O operated multi-purpose ferry and a fast craft, in the summer, on this route. Is this also, effectively, a merger? Even if not, it should be taken into account when calculating market shares and dominance.

Barriers to entry for any new operator are high. Very large sums are required to fund customer credit and for operating cashflow whilst a business is built; forward payments on vessels are required and ferry businesses have high fixed costs. Port and linkspan space (slots), at commercially viable times, are limited on both sides of the Channel, particularly if Brittany take over the Portsmouth-Le Havre route and as they establish a larger presence of Portsmouth-Cherbourg. These two developments alone would use up most/all of P&Os current slots. In this case, as far as I am aware, there would then be no slots available at Poole or Portsmouth, and Southampton is not well placed for passenger services - as failures in Southampton and shifting to Portsmouth for passenger routes from here to France have proved. Newhaven is served by Transmanche and Hoverspeed. Ports like Weymouth and Shoreham are not suitable. Brittany operate from Plymouth. On the French side there are some slots available at Cherbourg and perhaps a fast craft berth at Caen. Le Havre would be occupied by Brittany, Radicatel is not a passenger port and Dieppe is served by Transmanche and Hoverspeed. So it would be extremely difficult, if not impossible, for any new players to enter the market.

Suitable vessels are also in very short supply.

Our concern is that Brittany's >90% dominance of the freight, passenger and car market place will allow them a virtual monopoly and so they will be able to increase their prices. Apart from this sort of dominance being anti-competitive it can allow Brittany, for example, to use it's extra revenues to subsidise and therefore lower the freight fares it may choose to charge to a competitors freight customers in order to drive the competitor out of business. The eventual result of this would be higher prices being charged by the monopoly ferry company to the transporter/haulier. (Pricing in the ferry market is opaque. It is based on bilateral negotiations between individual customers and the ferry company concerned and results in agreed terms on specific routes). Additionally this dominant position and range of routes can allow the offering of lower rates to customers in exchange for an agreement by the customer to use only one supplier. Customers may take the view they ought to be more supportive of the dominant player than they otherwise would have been in order to avoid this pressure. In the most extreme case a ferry operator with this sort of dominance can use ferry rates either to discriminate against or support transporters/hauliers.

We understand that a recent ruling by the Competition Commission prevented the Liverpool-Dublin services of P&O being merged into Stena. In that case we understand the Central Corridor Irish Sea market segment (Cars) is much smaller than the Western Channel market; also that Stena's dominance, had the merger been permitted, would have been significantly less than 90%. [23(4) of Act]

Please let me know if I can be of any further assistance.

Yours sincerely

Simon Taylor
Managing Director
e-mail: simontaylor@channelfreight.com