DOVER
HARBOUR BOARD

Richard.Willcox@doverport.co.uk

Our Ref: RPW/jaf 05 January 2005

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

Dear Mr. Doyle,

Brittany Ferries and P&O Ferries Merger Inquiry (ref: CR/136/04)

I refer to your letter and attachments of 15 December 2004, seeking views from interested parties concerning this proposed merger. I will use your list of issues as a guide.

a) The relevant market

The Competition Commission, and its predecessors, has undertaken a number of inquiries into the provision of ferry services between the United Kingdom and continental Europe over the years. Some of these have concerned freight services, some tourist services and some both. In almost all of these inquiries the Port of Dover has felt (although it has not always gone on record) that the market being investigated has been drawn very narrowly. Even before the advent of the Channel Tunnel, there was always a degree of competition between the Western Channel routes and the Short-Sea routes as well as some competition between the Short-Sea routes and the North Sea routes. It has long been accepted that ferry pricing on the Short-Sea routes, and especially on the Dover – Calais route, set the standard for other routes. While others could and did charge differently for their crossings, these were always with an eye to the prices at Dover. The Channel Tunnel seems to have taken over this role as the prime price setter in recent years.

Indeed, one could now say that the market is even larger. For tourist traffic, the choice is not only all of the ferry routes and the Channel Tunnel, but also conventional package holidays and the use of low-cost airlines using fly-drive facilities. This latter has certainly eaten into the Dover tourist traffic, both coach and self-drive. While I would not seriously suggest that the market be drawn as widely as to encompass the low-cost airline operations, I do feel that just looking at the Western Channel may be too narrow a view.

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Similarly for freight there is a great overlap in traffic using all of the ferry routes into Europe. Although some markets will be a natural one for the Western Channel routes (such as vegetables from Brittany and Normandy), there is also a great deal of traffic which can and will swap from one route to another. Most hauliers are very adept at calculating the expected overall cost of a given journey using alternative routings, and choosing the cheapest. The ferry crossing is a significant but not overwhelming part of the calculation. As one example, some fresh produce comes to the United Kingdom by ferry on lorries having been landed in Antwerp, rather than be landed directly at a UK port (possibly Dover). Some of this is produce that previously came direct to the UK. Once again, the edges of the market are very unclear and a very narrow view may not always be in the best interest of all of the potential customers.

b) Competition within the product and geographic markets identified in the terms of reference, and any other market definition you may consider relevant

We have no direct knowledge of the competition within the market identified within the terms of reference, other than the very competitive brochure pricing for tourist services, offers made in press advertisements and the like. Equally, the freight market is reportedly very competitive but only by hearsay.

Taking a wider market definition, allowing the merger would be expected to help P&O Ferries return to profitability. Its Western Channel routes have reportedly been loss making for a number of years and this has undoubtedly affected the company's ability and willingness to invest in ships and services at Dover. Overall, a ferry industry with a number of more equal and medium sized players would be expected to be more competitive than one with a single dominant carrier. Thus P&O Ferries, Norfolkline, SeaFrance and Brittany Ferries operating with broadly similar sized services would seem a better solution than a very large P&O Ferries with a number of much smaller operators filling in niche opportunities. Having one monopoly supplier (Eurotunnel) is already destabilising the market as it struggles to make financial sense of a completely uneconomic position.

c) Barriers to entry to such services

I can only speak for the United Kingdom end of any ferry services, but UK law gives any operators the right to enter ports (subject to facilities being available and the payment of dues). In similar fashion, second hand ferries always seem to be available on the market and new ferries can be built relatively quickly. Thus entry to the market would seem to be relatively easy. In practice this is more so for freight than for tourist traffic, largely because of the marketing required to attract customers. However, SpeedFerries has started up a tourist only operation from Dover to Boulogne during 2004 with no backing from a larger shipping group and has used the Easy Jet model of Internet booking and extensive media coverage (and largely through editorial cover at no cost!).

Looking specifically at Dover rather than the reference routes (because that is where I have the knowledge) a large number of entries and exits have been made over the last 20 years or so. These include as exits:

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- European Ferries
- P&O Normandy Ferries
- Sealink
- SeaSpeed
- Sealink (UK) Ltd
- Stena Line
- Schiaffino
- SNCB [Belgian state railway ferries]

New entrants have included:

- P&O Ferries (in a number of guises)
- Norfolkline
- Hoverspeed
- SeaFrance (as a separate entity from its role in Sealink)
- SpeedFerries

Dover 20 years ago operated regular tourist and freight ferry services to Boulogne, Calais, Dunkerque, Ostend and Zeebrugge. Over the years this reduced to combined services to Calais and a freight only service to Zeebrugge. Currently there are freight and tourist services to Calais and Dunkerque and a tourist service to Boulogne. The market seems as active as it ever was with operators and services constantly changing.

d) The effect of the proposed acquisition on customers and suppliers

Because of the relative ease of entry to and exit from the industry, together with the relative transparency of pricing, then competition between players, either directly or through the peripheral overlaps in the markets, will ensure that enough (and probably too much) capacity is supplied over the medium term. History tells us that every time a player tries to reduce the capacity of the market, then another will either enter the market or an existing player will expand its capacity. The demands of the market will always be met as long as the price achieved allows the players to remain in the market place. Indeed, some of the marginal freight-only services which come and go base their economics on the supply of very cheap excess shipping capacity.

e) The effect on the level of prices and variety and quality of services

In the short-term it can be expected that the Western Channel services will be reduced in capacity as, at current capacity levels and prices, it seems that there is not enough income to make the services profitable. While all of the operators will undoubtedly attempt to increase either vessel utilisation or price or both, shortage of capacity or high pricing will encourage new entrants. The presence of the Channel Tunnel and its influence on both overall capacity and as the ultimate price setter should not be underestimated.

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I regret that the majority of this letter appears to be opinion or conjecture rather than hard facts. This is due, in part, to the timing of your letter and the Christmas break intervening in the production of this reply. If you have any further queries then please do not hesitate to contact me.

The Port of Dover is content that its views, as expressed in this letter, may be viewed on your website and attributed to this organisation.

Yours sincerely,

Richard Willcox
Director of Finance

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Harbour House, Marine Parade, Dover, Kent CT17 9BU   Tel: 01304 240400   Fax: 01304 240465   www.doverport.co.uk