

Dear Mr Doyle,

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

I refer to my email to you dated 6 January 2005 enclosing Eurotunnel's response to the Competition Commission's letter dated 15 December 2004. Following the publication of the Competition Commission's Statement of Issues on 26 January 2005, Eurotunnel would like to make some additional observations regarding market definition.

Eurotunnel operates a Cross-Channel FOCA/CAFO Fixed Link. Eurotunnel's experience is that in both in passenger and freight, Eurotunnel cannot operate in isolation from either the other geographic sea routes between the United Kingdom and the Continent or the other modes of transport:-

Freight Traffic

There is a clear movement between the various modes of freight transport including rail freight, roll on and roll off, unaccompanied and containerised freight transport between the UK and the Continent. We have seen several customers switch between these modes of transport and also switch geographically between the short straits segment and other continental access routes. Price is as a significant a factor as is transit time (which becomes less relevant according to the distance from the sea port from which the original freight is sent). Customers regularly refer to prices of other modes of transport and other channels in negotiations with Eurotunnel. It should be noted that in relation to freight, the EC Commission's merger decision clearing P&O' acquisition of Stena's share in their joint venture in August 2002, found the appropriate geographic market as being all Anglo/Continental routes.

Passenger Traffic

One only needs to look at a continental holidays brochure, for example for camping in France/Spain, to see that in comparison with several years ago, where only short straits travel was offered, the travel offering now distinguishes between:-

- Passenger travel by rail
- Sea crossings both in short straits and on Western channel including direct to Spain
- Sea crossings from other parts of the United Kingdom direct to the Continent (including Scotland, North East and North West)
- Air travel (whether with or without car rental)

We have evidence of customers switching back and forth between the Western channel, North Sea and short straits crossings depending on relative price differentials.

In addition many customers have now defected to low cost airlines. Low cost airlines have made the competition more direct by the attractive "car rental" rates that they advertise in conjunction with car hire companies. This service appeals to customers who would like the use a car while in Europe due to

personal choice or need. This has clearly made the airlines a more direct competitor than was previously the case.

In terms of passenger rail, we note that the original traffic forecasts for Eurostar were framed in the context of a UK to Continent market and not a narrow point to point London / Paris or London / Brussels market. We are competing with rail passenger traffic not only on terms of price and service but also in terms of destination. Clearly we have only one immediate destination to offer and are finding that we are not only losing out to rail passengers on this route, but that in fact, new destinations are being developed which compete with our services (long weekends to other European Cities rather than short breaks to France)

We hope that the Competition Commission will consider the above points when examining the proposal, recognising that a narrow geographic market definition would be inconsistent with prior EC Commission reasoning and Eurotunnel's own practical experience.

Should you require further information from Eurotunnel, please do not hesitate to let me know

Kind Regards

Ken Morrison
Senior Legal Adviser
Eurotunnel