

APPENDIX 1.1
(referred to in paragraph 1.1)

Conduct of the inquiry

1. On 14 September 1988 the Department of Trade and Industry sent to the Commission the following reference:

Whereas it appears to the Secretary of State that it is or may be the fact that a merger situation qualifying for investigation, as defined in section 64(8) of the Fair Trading Act 1973 ('the Act'), has been created in that:

- (a) enterprises carried on by or under the control of Bass plc (of which one at least was carried on in the United Kingdom) have within the six months preceding the date of this reference ceased to be distinct from enterprises carried on by or under the control of International Thomson Organisation Limited; and
- (b) the value of the assets taken over exceeds £30 million;

Now, therefore, the Secretary of State in exercise of his powers under section 64 of the Act hereby refers the matter to the Monopolies and Mergers Commission for investigation and report within a period of three months beginning with the date of this reference.

(Signed) R E ALLEN
An Assistant Secretary

14 September 1988

Department of Trade and Industry

2. On 19 September 1988 Mr D G Richards, a Deputy Chairman of the Commission, acting under section 4 of the Fair Trading Act and Part II of Schedule 3 thereto, directed¹ that the functions of the Commission in relation to the reference should be discharged through a group consisting of six members of the Commission, including himself as Chairman. The composition of the group is indicated in the list of members which prefaces this report.

3. A press release about the reference was issued by the Commission on 20 September. Notices inviting interested parties to submit evidence to the Commission were placed in:

ABTA News
Daily Express
Daily Mirror
Financial Times

The Independent
Travel News
Travel Trades Gazette

4. In addition we sought evidence and views from Government departments; the Civil Aviation Authority; the Confederation of British Industry; the Trades Union Congress; trade associations; consumer organisations, and competitors and suppliers amongst the operators of air inclusive tours and in the civil aviation and retail travel industries. Evidence was received from a number of these parties and from other sources. It is summarised in Chapter 4.

5. We received written submissions from the Thomson Travel Group (TTG), and held a hearing at the Commission with TTG.

¹At this time Mr Richards was acting by direction of the Secretary of State under section 4 and paragraph 20 of Schedule 3 to the Act, as the Deputy Chairman who might exercise the functions of the Chairman in his absence.

6. We held a number of other hearings: with the Civil Aviation Authority; the Association of Independent Tour Operators; National Consumer Council; Consumers Association; and several air inclusive tour operators, airlines and travel agents. Members of staff met the staff of the Association of British Travel Agents.

7. Some of the evidence obtained in the course of our inquiry was of a confidential nature; our report contains only such information as we consider necessary for an understanding of our conclusions.

8. We should like to place on record our thanks to all those who helped us in our inquiry, and particularly to the representatives of TTG.

APPENDIX 2.1
(referred to in paragraph 2.18)

TTG: principal United Kingdom companies: financial data

	£ million				Total
	Tour operating		Airline	Retailing	
	Thomson Holidays	Portland Holidays	Britannia Airways	Lunn Poly	
<i>1983</i>					
1. Profit before interest payable	18.8	0.1	31.5	0.1	43.2
2. Profit after interest payable	18.8	0.1	26.3	0.1	42.3
3. Capital employed	22.0	2.5	96.3	3.7	95.3
4. ROCE (%) (1:3)	85.5	4.0	32.7	2.7	45.3
5. Sales	249.5	33.0	229.9	10.3	415.4
6. NMS (%) (2:5)	7.5	0.3	11.4	1.0	10.2
<i>1984</i>					
1. Profit before interest payable	12.0	2.4	27.2	0.4	34.7
2. Profit after interest payable	12.0	2.4	19.2	0.4	30.2
3. Capital employed	21.8	1.7	124.3	6.8	142.6
4. ROCE (%) (1:3)	55.0	141.2	21.9	5.9	24.3
5. Sales	304.3	41.9	236.3	16.2	478.6
6. NMS (%) (2:5)	3.9	5.7	8.1	2.5	6.3
<i>1985</i>					
1. Profit before interest payable	11.4	3.0	34.9	1.2	46.0
2. Profit after interest payable	11.4	3.0	25.4	1.2	38.7
3. Capital employed	21.4	1.0	180.1	11.0	208.6
4. ROCE (%) (1:3)	53.5	300.0	19.4	10.9	22.1
5. Sales	328.0	50.9	242.8	21.4	503.7
6. NMS (%) (2:5)	3.5	5.9	10.5	5.6	7.7
<i>1986</i>					
1. Profit before interest payable	13.7	2.4	41.5	2.0	57.6
2. Profit after interest payable	13.7	2.4	34.4	2.0	50.5
3. Capital employed	20.1	1.4	184.6	9.6	229.8
4. ROCE (%) (1:3)	68.2	171.4	22.5	20.8	25.1
5. Sales	537.5	60.3	292.1	21.6	721.2
6. NMS (%) (2:5)	2.5	4.0	11.8	9.3	7.0
<i>1987</i>					
1. Profit before interest payable	2.5	0.3	43.2	2.7	49.1
2. Profit after interest payable	1.7	0.3	37.0	2.7	41.8
3. Capital employed	20.0	2.1	168.6	8.1	215.7
4. ROCE (%) (1:3)	12.5	14.3	25.6	33.3	22.8
5. Sales	743.2	74.1	341.4	34.9	962.9
6. NMS (%) (2:5)	0.2	0.4	10.8	7.7	4.3

Source: TTG.

Notes:

1. *Capital employed.* This is the simple average of each year's opening and closing balances, and comprises shareholders' funds, long-term loans and deferred tax provisions. Goodwill has not been eliminated: the amount involved is not material.

2. *Profit.* This includes interest earned on amounts received from customers in advance of departures, which TTG regards as part of the operating profits of a travel business. It excludes capital profits.

3. The total column differs from the sum of the operating companies' results, mainly because of intra-group sales.

4. The fluctuation in Portland Holidays' ROCE are accentuated by its small capital base.

APPENDIX 2.2
(referred to in paragraph 2.23)

Horizon Travel: principal companies: financial data

	£000	
	<i>Tour operating</i>	<i>Airline</i>
	<i>Horizon Holidays</i>	<i>Orion Airways</i>
<i>1983</i>		
1. Profit before interest payable	6,413	5,300
2. Profit after interest payable	6,413	5,295
3. Capital employed	12,611	30,520
4. ROCE (%) (1:3)	50.9	17.4
5. Sales	98,540	53,214
6. NMS (%) (2:5)	6.5	10.0
<i>1984</i>		
1. Profit/(loss) before interest payable	(150)	6,066
2. Profit after interest payable	(150)	5,849
3. Capital employed	11,844	41,000
4. ROCE (%) (1:3)	(1.3)	14.8
5. Sales	113,286	71,477
6. NMS (%) (2:5)	(0.1)	8.2
<i>1985</i>		
1. Profit/(loss) before interest payable	(2,612)	5,328
2. Profit after interest payable	(2,612)	2,770
3. Capital employed	13,950	56,480
4. ROCE (%) (1:3)	(18.7)	9.4
5. Sales	86,507	62,170
6. NMS (%) (2:5)	(3.0)	4.5
<i>1986 (11 months)</i>		
1. Profit/(loss) before interest payable	(1,868)	6,312
2. Profit after interest payable	(1,868)	4,690
3. Capital employed	15,458	69,482
4. ROCE (%) (1:3)	(12.1)*	9.1*
5. Sales	135,235	68,702
6. NMS (%) (2:5)	(1.4)	6.8
<i>1987 (11 months)</i>		
1. Profit/(loss) before interest payable	(6,810)	5,142
2. Profit after interest payable	(6,810)	4,037
3. Capital employed	8,876	63,586
4. ROCE (%) (1:3)	(76.7)*	8.1*
5. Sales	177,796	86,816
6. NMS (%) (2:5)	(3.8)	4.7

Source: TTG

*Not annualised.

Notes:

1. *Capital employed.* This is the simple average of each year's opening and closing balances, and comprises shareholders' funds, long-term loans and deferred tax provisions. Adjustments have been made between the two companies in respect of aircraft owned by Horizon Holidays but used by Orion Airways.

2. *Profit or loss.* This includes interest receivable but excludes profits on aircraft disposals. It is stated before charging exceptional losses.

Tour industry organisation

Association of British Travel Agents (ABTA)

1. ABTA is the principal trade association for United Kingdom tour operators and retail travel agents and has a fundamental role in the inclusive tour industry. ABTA has 3,700 members of which approximately 700 are tour operators. Of this 700, about 100 could be regarded as full package holiday operators active in most of the main package holiday markets and whose brochures are available from most travel agents. There are at most 10 per cent of United Kingdom tour operators not in membership of ABTA. ABTA plays an important role in the inclusive tour industry both in relation to arrangements for the distribution of ABTA members' inclusive tour holidays and in bonding arrangements for tour operators to protect holidaymakers in the circumstance of financial failure by individual tour operators.

2. The ABTA arrangements covering the distribution of foreign inclusive tours, which is known as the 'stabiliser' scheme, require that tour operators in membership of ABTA selling foreign package holidays through travel agents may only do so through those travel agents in membership of ABTA. In turn ABTA member travel agents may only sell foreign inclusive tour holidays supplied by tour operators in membership of ABTA. The 'stabiliser' scheme was cleared by the Restrictive Practices Court in 1982 as not being against the public interest. ABTA also operates its own bonding scheme to protect holidaymakers against financial failure by tour operators. The ABTA scheme links in with the statutory system of bonding for air tours licensed by the CAA (see paragraph 4) but covers all types of inclusive tour by whatever mode of transport. Under the arrangements ABTA requires all members undertaking tour operations and selling any other travel and accommodation arrangements as a principal to provide financial bonds to ABTA which are based on the expected turnover of the individual operator.

Association of Independent Tour Operators (AITO)

3. AITO is an association of some 72 tour operators. Many of these companies are involved in specialist markets or particular segments of the foreign inclusive tour holiday market but some are involved in the mass package holiday market. AITO was originally formed to help member tour operators obtain more competitive rates for bonding and has developed primarily as a forum in which the smaller tour operators can discuss issues of common interest.

The Air Travel Organiser's Licence (ATOL) system

4. A statutory system for the protection of holidaymakers against the financial failure of air tour operators with whom they book either inclusive air holidays, or a seat on a charter flight, requires those companies, or individuals, selling air tour holidays, or charter airline seats, to the public as principals, but not agents, to hold an ATOL issued by the CAA which administers the arrangements. The CAA, acting under its statutory powers, requires ATOL holders to provide a bond which is an irrevocable guarantee provided by an approved bank or insurance company and the bond can be enforced in the event of the financial failure of the company in respect of which the bond is provided.

5. The CAA accepts bonds provided by ABTA as satisfying its requirements that ATOL holders should provide a bond. For licensable activities, therefore, ABTA holds its members' bonds as agents for the CAA. In the event of the failure of a tour operator the bond money is used to enable holidaymakers abroad to continue their holiday and to travel home as planned; and to repay those who have booked and paid for holidays but not been able to take them. A second line of protection for holidaymakers is the Air Travel Trust, also managed by the CAA, which will meet all claims which would properly have been payable from the bond if in the event it was insufficient.