

**P&O Princess Cruises plc
and
Royal Caribbean Cruises Ltd**

A report on the proposed merger



COMPETITION COMMISSION

P&O Princess Cruises plc and Royal Caribbean Cruises Ltd

A report on the proposed merger

**Presented to Parliament by the Secretary of State for
Trade and Industry by Command of Her Majesty
June 2002**

Members of the Competition Commission as at 20 May 2002


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¹These members formed the Group which was responsible for this report under the chairmanship of Mrs D P B Kingsmill.

Note by the Department of Trade and Industry

In accordance with section 83(3) and (3A) of the Fair Trading Act 1973, the Secretary of State has excluded from the copies of the report, as laid before Parliament and as published, certain matters, publication of which appears to the Secretary of State to be against the public interest, or which she considers would not be in the public interest to disclose and which, in her opinion, would seriously and prejudicially affect certain interests.

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Contents

	<i>Page</i>
Part I—Summary and Conclusions	
<i>Chapter</i> 1	Summary3
2	Conclusions.....5
 Part II—Background and evidence	
3	The industry background for cruise holidays.....27
4	The companies: history, finance and the proposed merger45
5	Analysis of the relevant market.....69
6	Views of main parties91
7	Views of third parties105
	List of signatories115
 <i>Appendices</i> (The numbering of the appendices indicates the chapters to which they relate.)	
1.1	The reference and conduct of the inquiry117
3.1	The largest cruise companies worldwide, 2001 and 2006.....118
3.2	POPC review of highlights of introduction and withdrawal of capacity and entry of new operators, 1995 to 2000120
3.3	Foreign holiday-making by UK customers, 1991 to 2000121
3.4	Ship ratings and categories: active ocean fleet, mid-2001.....122
3.5	Ocean-going cruise vessels: scheduled new buildings, 2002 to 2005.....127
3.6	Orders pending for ocean-going vessels, 2003 to 2006 inclusive.....129
3.7	Vessel redeployments130
3.8	International passenger demand, 2001 to 2007 (end 2001).....131
4.1	POPC: group profit and loss accounts, 1997 to 2001132
4.2	POPC: group balance sheets, 1997 to 2001133
4.3	POPC: group cash flow statements, 1997 to 2001134
4.4	RCCL: consolidated statements of operations, 1997 to 2001135
4.5	RCCL: consolidated balance sheets, 1997 to 2001.....136
4.6	RCCL: consolidated statements of cash flow, 1997 to 2001.....137
5.1	Assessing the profitability of an anticipated price rise by POPC and RCCL138
5.2	Indicators of the quality of on-board experience for ships of some cruise operators.....139
5.3	Items included in the price of some all-inclusive land-based operators.....145
5.4	Share of passengers transported, by major destinations, 2000146
	Glossary147

Part I

Summary and Conclusions

1 Summary

1.1. On 29 January 2002 the Secretary of State for Trade and Industry referred to the Competition Commission (CC) for investigation and report (under the merger provisions of the Fair Trading Act) the proposed merger between P&O Princess Cruises PLC (POPC) and Royal Caribbean Cruises Limited (RCCL). We were asked to report by 20 May 2002. Our terms of reference are at Appendix 1.1.

1.2. POPC was incorporated in July 2000 as part of a demerger that split The Peninsular and Oriental Steam Navigation Company (P&O) into two separately-quoted public companies. POPC is the holding company for all of the cruise lines formerly owned by P&O. It also owns a travel agency in the UK and land-travel and hotel subsidiaries in the USA.

1.3. POPC accounts for about 23 per cent of all cruises taken by UK customers. Most of them sail on P&O Cruises or Swan Hellenic, two lines that are focused very largely on the UK, though some choose Princess Cruises, another POPC line, which is based in Los Angeles and aimed mainly at North Americans.

1.4. RCCL, which is based in Miami, is the world's second largest cruise operator and owns two lines: Royal Caribbean International and Celebrity Cruises. It sails to a range of destinations, though its main focus is the Caribbean. Both its lines are focused mainly on North American customers, though around 3 per cent of their customers are drawn from the UK.

1.5. In May 2000, RCCL acquired a 17 per cent stake in the UK tour operator and travel agency, First Choice Holidays plc. The two companies also entered into a joint venture, Island Cruises, which began to offer cruises to British and European holidaymakers earlier this year.

1.6. The proposed transaction will involve POPC and RCCL being combined as a dual-listed company with its shares being quoted on both the London and New York Stock Exchanges. Both companies told us that all the cruise lines that they currently owned would continue to be operated as separate brands.

1.7. We began our inquiry by examining the considerable variety of cruise holidays that are provided to customers in the UK by operators from a wide range of countries. Although we were not able to reach a conclusion on the appropriate product market for our inquiry, we did all agree that the existence of a wider holiday market, and the availability of cruises of types other than those operated by POPC and RCCL, both constrained these companies' actions and limited commercial freedom—whether or not they were regarded as being in the same market. We also agreed that there were clear distinctions between the levels of quality and the national styles provided by different types of cruises, whether or not they constituted different markets.

1.8. We concluded that the geographic market for our inquiry was the UK, ie cruises taken by passengers drawn from this country, irrespective of whether they sailed on ships focused mainly on UK, US or European customers, or of whether they embarked here or flew to an overseas port.

1.9. We then examined a number of possible product market scenarios, ranging from a narrow to a broad definition. Although we found that the proposed merger might give rise to potential concerns in some of these markets, we also identified other factors that could offset or mitigate their effects.

1.10. The overall conclusion that we drew from our analysis was that the market for UK cruise customers was characterized by growth, variety and new entry, and that this could be expected to continue. The number of UK passengers carried more than tripled between 1990 and 2000 and around one-third of the berths provided in 2000 were being offered by operators that did not enter the business until 1995 or later. Furthermore, between one-third and one-quarter of UK passengers chose ships that were focused mainly on North American or mainland European customers rather than lines aimed at the domestic market. So, given this diversity and choice—and the widespread view among industry commentators that cruising capacity will continue to grow—we did not conclude that the proposed merger was likely to have a significant impact on competition.

1.11. Accordingly, we concluded that the proposed merger could not be expected to operate against the public interest.