

# 6 Views of third parties

## Contents

	<i>Page</i>
Introduction.....	129
Government departments .....	129
Department of Transport .....	129
Department of Economic Development .....	130
Department of the Environment for Northern Ireland.....	130
Ministry of Defence.....	131
The Scottish Office.....	131
Ferry companies and Eurotunnel .....	131
Brittany Ferries .....	131
Hoverspeed UK Ltd.....	132
Irish Continental Group .....	132
Sally Line .....	133
SeaFrance .....	133
Eurotunnel .....	135
Trade associations .....	136
British International Freight Association .....	136
British Ports Association .....	136
Chambre syndicale des transports routiers du Pas-de-Calais .....	136
Freight Transport Association Limited .....	137
Passenger Shipping Association Limited .....	137
The Road Haulage Association Ltd .....	138
Freight operators.....	139
Brit European Transport Ltd.....	139
Cavewood Limited .....	139
Denby Transport Limited .....	139
DFDS PLC.....	139
Groupe Norbert Dentressangle .....	139
Inter City Trucks Ltd .....	140
Richard Long Ltd .....	140
Securicor Omega Express Limited.....	141
Other freight operators .....	141
Travel trade.....	141
Association of British Tour Operators to France.....	141
Association of British Travel Agents Ltd .....	142
Eurolines (UK) Ltd .....	142
Shearings Limited .....	142
The Travel Market Limited .....	142
Harbour Board .....	143
Dover Harbour Board .....	143
Local government.....	144
Ashford Borough Council.....	144
Dover District Council .....	144
East Sussex County Council .....	144
Councillor David Rogers.....	144
Lewes District Council .....	145

Councillor Norman Baker .....	145
Newhaven Town Council .....	145
Thanet District Council .....	145
Trade unions .....	146
GMB .....	146
NUMAST .....	146
P&O NUMAST members .....	147
National Union of Rail, Maritime and Transport Workers .....	147
Transport Salaried Staffs' Association .....	148
Other organizations .....	148
The Automobile Association .....	148
The Camping and Caravanning Club .....	149
East Kent Initiative .....	149
Institute of Directors (Northern Ireland Division) .....	149
London & Continental Railways Limited .....	150
The Newhaven Economic Partnership Limited .....	150
Shepway Chamber of Commerce & Industry .....	150
Members of Parliament .....	150
Tim Rathbone MP .....	150
Joan Walley MP .....	150
Others .....	151
Mr M D Dunning .....	151
Professor R O Goss .....	151
Mr I Jamieson .....	152
P&O crew members .....	152
Mr A G Robinson .....	152
Mr C S J Roy .....	152
Dr Stefan Szymanski .....	152
Mr A H Willingham .....	153

## **Introduction**

6.1. We invited views on the proposed merger from Government departments, other ferry companies, Eurotunnel, trade associations, freight operators, the travel trade, DHB, local government, trade unions and other interested parties. This chapter summarizes the evidence we received.

## **Government departments**

### ***Department of Transport***

6.2. The Department of Transport (DOT), which gave written and oral evidence, told us that it was a stated aim of the DOT to improve choice, quality, value and accessibility for transport users by promoting competition and creating opportunities for transport providers. The DOT therefore placed importance on ensuring that there was a market framework in place which enabled fair competition between viable ferry and Tunnel operators and offered cheap, efficient and safe services for passengers and freight users across and within transport modes.

6.3. The DOT pointed out that the shipping industry was deregulated, apart from regulations on safety. It was open to any operator to provide a shipping service in and out of UK ports so long as it had properly certificated vessels and seafarers and had the permission of the harbour authority of the port that it used.

6.4. Under a 'golden share' arrangement the consent of the Secretary of State was required before Stena, which had inherited this responsibility from its predecessor, could dispose of the whole undertaking or a material part of its fleet (specified as 25 per cent or more of the book value) in any one

year. The arrangement had been introduced in 1984 for defence reasons, but defence requirements had changed since then and the golden share had become less important.

6.5. The DOT considered that, following the opening of the Tunnel, there would be a rationalization of the ferry services. There was a value in long-term stability, since this would encourage the investment in ships which would enable the ferry services to compete with the Tunnel by providing a high-quality and frequent service.

6.6. The DOT noted that, if the merger did not take place, P&O and Stena were the only two companies with the ability to lose capacity without removing a service. On the other hand, there would probably not be the demand to support two frequent services. There was always the possibility of entering a pooling arrangement, but past experience suggested that under a pooling arrangement there was difficulty in controlling the quality of the service being offered.

### ***Department of Economic Development***

6.7. The Department of Economic Development (DED) told us that it aimed to further the economic development of Northern Ireland by promoting new inward investment and encouraging the development and growth of home industry. It was also responsible for tourism in Northern Ireland.

6.8. The DED was concerned that the merger might lead to reduced competition between P&O and Stena on the Irish Sea services, thus resulting in higher prices for users. Transport costs were an important factor for Northern Ireland because two-thirds of its manufacturing output was exported, mostly through the ports. Larne and Belfast, through which P&O and Stena operated, accounted for over 70 per cent of the tonnage of goods in 1995. It was therefore important for existing industry and for the encouragement of new foreign investment that importing and exporting costs were kept as low as possible. The DED understood that P&O and Stena accounted for a substantial proportion of freight traffic and therefore the effect of increased prices was likely to be widespread. It could be total if as a result other operators felt able to raise their prices also.

6.9. Larne and Belfast were the main ports of entry for tourists and the DED was concerned that fares should be as low as possible in order to encourage visitors. If the proposed merger resulted in raised fares or kept them higher than necessary it would be against the economic interests of Northern Ireland.

6.10. The DED said that there had in the past been a suggestion based on the similarity of fare structures that there was co-operation between P&O and Stena on the Irish Sea. If there were already any tendency on the part of the companies to reduce competition on these two routes, this would be likely to be strengthened by a merger of the Channel operations.

### ***Department of the Environment for Northern Ireland***

6.11. The Department of the Environment for Northern Ireland was concerned about the risks to competition that the proposed merger might pose for operations on the Irish Sea. It told us that when Stena had moved its operation from Larne to Belfast in November 1995 there had been considerable concern over the impact the move might have on operations at the port of Larne and over the possible loss of business and employment at the port.

6.12. When Stena announced its plans for the HSS, which was introduced in July 1996, P&O responded by introducing the Jetliner in June 1996. At present customers enjoyed the benefit of high-speed travel from two of Northern Ireland's major ports and it was questionable whether both services would continue if the merger took place.

## ***Ministry of Defence***

6.13. The Ministry of Defence (MoD) told us that from its experience it was unlikely that the Short Sea ferries in question would be available for charter on the open market for defence purposes, as they would be fully committed to commercial operations. Whilst these vessels would be available under compulsory measures, their military usefulness was limited owing to port compatibility problems. The MoD said that, although it would not wish to lose potentially useful ships from the British register, the ships in question had restrictions which did not make them crucial for defence planning. The Government's policy in recent years had been to charter ships on the open market in times of need.

## ***The Scottish Office***

6.14. The Scottish Office told us that it had considered the implications of the merger for other ferry services around the UK operated by P&O and Stena. It did not expect that the merger of services in the English Channel would be likely to result in a reduced level of competition on routes across the Irish Sea North Channel such as Cairnryan-Larne, Ardrossan-Larne and Stranraer-Belfast.

6.15. In recent years competition on the North Channel services operated by P&O, Stena and Sea Containers had intensified. In 1996 both P&O and Stena introduced new high-speed vessels on these routes to compete with Sea Containers' high-speed SeaCat. In February 1997 Sea Containers announced that it would introduce a new Super SeaCat high-speed ferry in the summer on the Stranraer-Belfast crossing to compete with P&O's Jetliner service and Stena's HSS service.

6.16. The Scottish Office believed that, in these circumstances of continuing intense competition between the three operators, it was unlikely that the proposed merger would lead to a risk of co-operation and reduced competition between P&O and Stena on the Irish Sea North Channel services.

## **Ferry companies and Eurotunnel**

### ***Brittany Ferries***

6.17. Brittany Ferries would welcome a rationalization of services on the Short Sea routes and had no objections to the proposed merger if this led to an overall reduction in the considerable over-capacity there since the opening of the Tunnel.

6.18. A combination of uneconomic pricing and promotions with a liberal duty-free regime on the Short Sea routes had had an impact on both volumes and pricing on routes on the Western Channel. Brittany Ferries had withdrawn two ships from service, and all the companies operating services on the Western routes had suffered considerable losses in the past two years. If the current situation continued with excess capacity and uneconomic operations on the part of Eurotunnel and the Short Sea operators, the impact on Western Channel services would continue and further services would have to be withdrawn as uneconomic.

6.19. If, however, there was rationalization, reduction in capacity and more economic pricing, if only to the point where companies broke even, the situation in the Western Channel would stabilize.

6.20. Brittany Ferries believed that the joint venture should be limited to the Short Sea routes and that it should be an independent business without any form of commercial link with the other ferry operations of either P&O or Stena. This should be a condition of the merger, supported by appropriate criteria. Such links would otherwise place the respective companies in a dominant position, accounting for nearly half of the total passenger and car market to and from continental Europe, and other companies might not be in a position to compete effectively.

### ***Hoverspeed UK Ltd***

6.21. Hoverspeed, which gave written and oral evidence, suggested that there were three unusual features of the Short Sea market at present. The first was a bizarre situation of surplus capacity, further exacerbated by one of the major players, Stena, putting more tonnage on the route in summer 1996. Secondly, two of the companies operating in the Short Sea market, Eurotunnel and SeaFrance, did not seem to have the same commercial constraints on them as the other operators. Thirdly, there was the dependence on duty-free sales, which accounted for 60 per cent of revenue; the loss of these sales in 1999 would present a major strategic problem.

6.22. If the proposed merger took place, Hoverspeed would expect capacity on the Short Sea routes to be reduced and prices to stabilize at current levels.

6.23. If the merger did not take place, aggressive low price promotions could be expected to continue until capacity was driven out of the market in a less orderly manner.

6.24. Hoverspeed believed the merger would result in a better balance between capacity and demand and that after the merger there would still be sufficient product choice for the travelling public. It therefore would support the merger so long as the position of other operators in the market was clearly protected. Hoverspeed's concern was that, whilst the new company would operate a fast ferry from Newhaven to Dieppe, it was not expected to do so on the Short Sea routes operated by Hoverspeed and Holyman; however, it could at any time start fast ferry services in direct competition to smaller niche operators with no incremental overhead expense and drive them out of business by predatory pricing.

6.25. Hoverspeed proposed that the new company should not be allowed to introduce fast ferries on the Short Sea routes without first obtaining the approval of the OFT.

### ***Irish Continental Group***

6.26. Irish Continental Group (ICG), which gave written and oral evidence, explained that its trading division, Irish Ferries, was one of the passenger ferry companies operating services between the island of Ireland and Great Britain. ICG had no concerns about the merger in the context of the English Channel and the more efficient use of ferry resources in that market. Its principal concern was that the joint venture might have an anti-competitive impact on ferry routes across the Irish Sea.

6.27. Competition on the Irish Sea routes was lively and had been particularly so over the last 12 to 18 months. ICG was in competition on the Central and Southern Corridors with Stena for passenger traffic and with P&O for freight; on the Northern Corridor P&O and Stena competed with each other for both passengers and freight. There had also been considerable investment in new ferries and in port facilities over the last 12 to 18 months. ICG pointed out that pricing had a major influence on the choice of route and that many freight operators utilized the Northern Corridor to save money on ferry costs, even when this incurred extra mileage.

6.28. ICG had a formal agreement with P&O to offer through-tickets from Ireland to continental Europe; this accounted for 65 per cent of its landbridge traffic routed via the Dover Straits. Smaller amounts of business were carried out in agreements with Eurotunnel and, for the North Sea, with North Sea Ferries and Scandinavian Seaways. The agreement with P&O worked particularly well; there was no conflict of interest on the Irish Sea Central and Southern Corridors for passenger traffic, and each company could offer a strong position on the crossing where the other was not operating.

6.29. ICG was concerned that P&O, Stena and P&O Stena Line might combine their marketing and other activities in a way which would be an abuse of power, leading to anti-competitive practices and dominance on the Irish Sea. It therefore proposed that the MMC should recommend the following undertakings, to be enforced through the OFT:

- (a) P&O, Stena and P&O Stena Line should be managed totally separately, with separate management structures and no common services, and they should deal independently in the market-place with suppliers.
- (b) They should not include or package the services of any other of the companies or advertise each other's services. In particular, the Irish Sea services of P&O and Stena must be marketed separately and not packaged with the P&O Stena Line operation on the English Channel.
- (c) They should not make joint offers.
- (d) Travel on any one of the three lines should not count for affinity points to be redeemed on any of the other lines.
- (e) Any further pooling arrangements between ferry companies should be reviewed and then monitored annually in the light of this merger.

### ***Sally Line***

6.30. Sally Line, which gave written and oral evidence before the commencement of its joint venture with Holyman in March 1997, told us that its pooling arrangement with the Belgian company RMT was to end on 1 March 1997, largely because of the adverse effects of the Channel Tunnel on the service to Dunkirk. Its new joint venture with Holyman would operate two fast craft and three freight vessels from Ramsgate to Ostend. There would also be one fast craft to Dunkirk. The distance of Ostend from the Tunnel and the speed of the fast craft services were good selling points.

6.31. There was substantial excess capacity on the cross-Channel routes, even though current passenger volumes were artificially high due to the low level of fares and other incentives designed specifically to encourage day-excursion and short-break travel. This additional traffic would be largely lost if duty-free concessions were abolished in 1999. The loss of these concessions would have a serious effect on the finances of the ferry companies, despite the mitigating strategy of converting all selling space to other goods at a far lower gross profit percentage; ticket prices, both passenger and freight, might have to double.

6.32. Sally Line noted that marketing presented many problems. It was increasingly difficult to obtain the services of travel agents, many of whom were not interested in putting ferry brochures on their racks. It had also been impossible to enter into promotional deals with large-circulation newspapers; P&O and Stena had an advantage because they could assure newspapers that they had sufficient capacity to handle a large response to the promotion.

6.33. Sally Line told us that it objected to the merger but that it was prepared to reconsider its objections if it received suitable assurances that the new company would not seek to drive out other ferry operators by predatory pricing. It also proposed that a monitoring system should be introduced to determine the relative movement of volume, and of market share, and ultimately the degree to which this movement could be considered to be 'unfair' in strict competitive terms.

### ***SeaFrance***

6.34. SeaFrance, which gave written and oral evidence, told us that it had established an independent service on the Dover-Calais route in 1996 under the brand name SeaFrance, creating a distinct service (the 'SeaFrance Concept'). This followed the termination of its pooling agreement with Stena which was operated between 1990 and 1995. As a consequence, SeaFrance had installed its own marketing and sales structure in the UK and upgraded its on-board services.

6.35. SeaFrance considered that it was the only significant independent ferry operator in direct competition with P&O and Stena on the Dover-Calais route. It argued that this route was a separate and unique market in the cross-Channel ferry sector which required specifically adapted vessels.

6.36. SeaFrance also pointed out that the Tunnel should be seen as a separate market because the degree of substitutability of services between ferries and Eurotunnel was small and would become smaller in the future due to a more pronounced segmentation of the market. There was therefore a continued need for a strong, competitive ferry service.

6.37. The company told us that it was resolutely opposed to the proposed merger and that it had also lodged complaints with the European Commission and the French competition authority, the Conseil de la Concurrence.

6.38. SeaFrance pointed out that, in spite of the large share of tourist and freight markets taken by Eurotunnel, there had been only a moderate reduction in ferry traffic in volume terms. There had been a very large increase in overall traffic on the Dover-Calais route, resulting from a sharp drop in rates, the pursuit of new marketing initiatives and some increase in the share which Dover-Calais held of cross-Channel traffic. The cut in rates combined with some increase in ferry capacity had led to a severe deterioration in financial performance; SeaFrance had met its losses by drawing on reserves. However, there could be further growth in the market in 1997 and 1998 which, when combined with some reduction in ferry capacity, could lead towards a sustainable position.

6.39. SeaFrance also noted that the market outlook was very uncertain and that the loss of duty-free sales from 1999 would have a serious negative effect. Because on-board sales accounted for 50 per cent of revenue and duty-free sales were 75 per cent of on-board sales, their loss would necessitate sharp increases in rates, which would be bound to dampen demand, requiring further rationalization of capacity.

6.40. The proposed merger would do little more than withdraw from the route the capacity which the two companies had introduced to the route in the last few years. Furthermore, most of the cost savings would arise from the withdrawal of ferries and this could be achieved on the basis of joint scheduling arrangements, which were much less restrictive than the merger. SeaFrance considered that the additional cost savings in administration and marketing were of a speculative nature.

6.41. Alternative forms of co-operation were available, which would not be irreversible and which would retain three operators in the market. After rationalization of capacity, rates could be expected to return to an economic level and effective competition would be maintained.

6.42. The merger would create a duopoly in the ferry sector between, on the one hand, the new ferry operator with over 80 per cent of the ferry market and, on the other hand, SeaFrance. By allowing the new ferry operator an integrated schedule, the merger would give a tremendous competitive advantage over SeaFrance in terms of frequency, in spite of the reduction in the number of vessels operated. If there was a P&O Stena Line vessel at the berth at any time of the day but a SeaFrance vessel only one-third of the time, and if P&O Stena Line received all the traffic arriving when one of its vessels was in port on its own, then P&O Stena Line would obtain five-sixths of the market and SeaFrance the remaining one-sixth. At the same time SeaFrance would have one-third of the ferries on the Dover-Calais route and would therefore have costs also of the order of one-third of the total. Moreover, with a gap of 1 hour between the departure of one SeaFrance vessel and the arrival of the next, consumers would tend to favour the high-frequency operator, on account of its wider choice of departure times and more frequent return sailing.

6.43. There would be no scope either for rate cutting to compensate for the lesser frequency or for reducing the number of ferries, since three was the minimum to provide a competitive service; indeed there might be a case for an additional ferry. Without the attachment of conditions, SeaFrance might be forced to leave the market, particularly if faced with aggressive scheduling. There was no reason to believe that, because SeaFrance was a subsidiary of SNCF, the French Government would intervene to prevent closure. The same argument had been used when it was proposed to close the unprofitable Newhaven-Dieppe route in 1992. The French Government had not intervened on that occasion and, in spite of protests, the route had closed.

6.44. If a single operator took control of the ferry sector, it would be protected by very high barriers to entry and would be in an immensely strong position. It would operate in a duopoly with Eurotunnel, which was likely to recognize the need for a degree of interdependence, since in the absence of ferries it would be a virtual monopolist and liable to be regulated. There was likely to be a tacit agreement on rates, leading to much higher increases than would otherwise take place. Without measures to preserve healthy competition, the merger would therefore bring about a permanent restructuring of the cross-Channel ferry market to the detriment of consumer choice and economic progress in this sector.

6.45. Any prospective new entrant to the cross-Channel ferry market would face extremely high entry costs. It would have to introduce a large amount of capacity in order to compete against the joint venture's frequency of service. New ferries were very expensive, costing some £85 million each. Second-hand vessels might no longer be an option, because they would need to be converted for the very specific requirements of the Dover-Calais route, with large duty-free and amusement areas but no requirement for cabins. All conversions would have to meet the latest International Maritime Organisation regulations. In addition to the costs of ships, a new operator would incur a range of start-up costs. SeaFrance in 1996 had been a new name to the UK market and had spent some £2.7 million on media advertising and just under £2 million on other aspects of its marketing effort; this expenditure would be higher in 1997.

6.46. SeaFrance proposed that, if the merger went ahead, the MMC should control its anti-competitive effects by imposing conditions in terms of geographical scope, capacity and scheduling, duration and the use of brand names.

6.47. First, there appeared to be no justification for the scope of the merger to be wider than the Dover-Calais route. The enlargement of the geographical scope conferred additional power without providing any compensating benefits.

6.48. Secondly, SeaFrance proposed that there should be a restriction on the size of the merged fleet to ensure that it was less than twice the size of the next largest carrier. In effect, this would limit it to five vessels in competition with the three operated by SeaFrance.

6.49. Thirdly, there should be a harmonized scheduling between the operators on the Dover-Calais route to ensure a reasonable opportunity for each ferry operator to preserve a fair share of the market. This would also optimize the use of port facilities.

6.50. Fourthly, because there had been such radical changes in the market in recent years and the outlook was unclear, any exemption should be for a limited period of between two and three years. In present circumstances it would be wrong to allow a change in the structure of the market leading to a reduction in competition which would inevitably be permanent.

6.51. Fifthly, the merged undertaking should be marketed under a distinctive brand name which clearly separated it from the parent companies. In a situation where the parents continued to compete on other routes, the proposed name would create confusion for the public, suggesting that there was a single combined ferry operator covering most routes and with a predominant share on many of them.

### ***Eurotunnel***

6.52. Eurotunnel, which gave written and oral evidence (see also Chapter 4), told us that it saw the need for a reduction of capacity on the Short Sea crossings and would welcome the proposed merger. Contrary to economic and commercial logic, the opening of the Tunnel had coincided with an increase in the number of ships operating between Dover and Calais, and the number of sailings was too high for the volume of business. It seemed likely, however, that the ferries would retain their present volume: although Eurotunnel expected its share of the car market to reach 70 per cent in about 2001 and its share of the freight market to be about 50 per cent by then, both markets were forecast to grow in line with Eurotunnel's percentage share, so that the ferries' volume would stay much the same.

6.53. Eurotunnel would benefit from the joint venture: the removal of excess capacity together with an increase in demand would lead to some price increases, though probably not a significant increase in the overall level of prices. The cross-Channel market, however, would remain very competitive and there was always the possibility that price rises would attract new entrants, as had happened in the past.

6.54. Prices would also be affected by the withdrawal in 1999 of duty-free sales, which in 1996 were in the region of £100 million. It was unlikely that duty-free sales would be replaced by tax-paid sales, but there was expected to be a rise in ticket prices to compensate for the fall in the profit on sales, so that the average income per customer would eventually return to about the same level. The number of customers would fall in the short term; 15 to 25 per cent of Eurotunnel's customers were on day trips and about half of these journeys would not be made, but this fall would be made good over a number of years.

6.55. If the merger did not take place, Eurotunnel thought the current unsatisfactory situation would continue, with a very unstable market. It was difficult to see how the current operators would be able to organize a reduction of capacity short of the joint venture.

## **Trade associations**

### ***British International Freight Association***

6.56. The British International Freight Association believed that the current situation fostered uncertainty and instability and that this could lead in the longer term to one of the ferry operators deciding that the route was no longer viable for it. In that event the result would be the same as if the merger went ahead.

6.57. However, in view of the concern of its members that a merger would hinder proper competitive pricing policies, the Association put forward the proposal that the MMC should approve the merger only in conjunction with the introduction of safeguards to maintain competitive pricing. Provided pricing safeguards were introduced, the Association would not object to the merger taking place.

### ***British Ports Association***

6.58. The British Ports Association (BPA) told us that it represented 80 port authorities throughout the UK, including all the main cross-Channel ports.

6.59. The BPA believed that the ferry industry should be allowed the flexibility to respond to the changes in trading patterns that had resulted from the opening of the Tunnel, by concentrating its resources as effectively as possible, so that it could remain viable and at the same time offer the best possible service. The BPA was aware that the Tunnel, through the funding provided by the Government for the construction of a rail link, would be benefiting from national subsidy at the expense of the ferry and port industries.

6.60. The Tunnel represented a single and powerful competitor. The proposed merger would merely allow the ferry industry the same trading conditions as those which applied to the Tunnel.

### ***Chambre syndicale des transports routiers du Pas-de-Calais***

6.61. Chambre syndicale des transports routiers du Pas-de-Calais told us that it strongly opposed the merger because it would create a monopoly situation in the long term in maritime traffic between Calais and Dover. It had yet to be decided whether, following the fire, Le Shuttle should be withdrawn for freight traffic. If this happened the dominant position of P&O and Stena would be reinforced and price rises would follow. The merger would be prejudicial to commercial exchanges between the UK and overseas.

### ***Freight Transport Association Limited***

6.62. The FTA, which gave written and oral evidence, explained that the choice of mode and route for the transport of freight to the Continent was influenced by a wide range of factors. The aim was to provide the most cost-effective service, taking into account the destination, the price charged for getting the vehicle across, the frequency of the service and the availability of the service at times that fitted in with customers' requirements. Eurotunnel had been charging very competitive prices to win market share. It also had the advantages that the Tunnel was not affected by the weather and that operators were willing to try out a new service to see what it had to offer; in practice it was slightly quicker than the ferries but only marginally so. Dover had the major advantages that it had the shortest sea crossing, specialist facilities for freight operators and motorway links.

6.63. FTA members required a package covering price, capacity and service. The FTA recognized the pressure which Eurotunnel had placed on the ferry companies and was not opposed to the proposed merger. A managed rationalization of Channel ferry services was preferable to a price war leading to the loss of one or more service providers. An orderly merger would enable the new combined provider to achieve substantial operational cost savings, from which the user should benefit.

6.64. The FTA wanted conditions to be imposed on the merger to ensure that competition continued to exist between Tunnel and ferry operators. It was concerned that there should be no diminution of service levels, and in particular that services for the transport of dangerous goods and of livestock should be maintained at least at existing levels.

6.65. The FTA was also concerned about the risk that the merged company and Eurotunnel, in the absence of a viable alternative, could work together to ratchet prices up. It therefore believed that there should be a stated, lengthy period of price stability.

6.66. The new company should not be permitted to engage in further mergers or operational co-operation with other Channel ferry operators in either cross-Channel or North Sea routes.

6.67. Finally, the FTA expressed concern that the MMC report would precede the outcome of the safety inquiries following the fire in the Tunnel. If the resumption of Le Shuttle-Freight services was not agreed at that point, there would be a *de facto* monopoly in favour of the ferry companies until the matter was resolved, and the MMC report should be qualified by additional recommendations designed to protect users until a fully competitive environment was restored.

### ***Passenger Shipping Association Limited***

6.68. The Passenger Shipping Association Limited (PSA) told us that it was the trade association for passenger ferries operating to the Continent, the Republic of Ireland and on domestic routes and had 19 members, including all the ferry companies operating on the Short Sea routes. It had no involvement in freight.

6.69. The PSA said that for 1996, until the fire in November, Eurotunnel had accounted for 31.5 per cent of passengers and 39.8 per cent of cars on routes out of Kent. During this time the market had grown by 19.5 per cent for passengers and 22.3 per cent for cars, but a significant amount of this growth was day-trip travel. At the beginning of 1996, the pooling agreement between Stena and SNAT (now SeaFrance) came to an end. As a result, Stena increased its capacity and SeaFrance added one ship to the Dover-Calais route. There were currently 12 multi-purpose vessels operating on the Dover-Calais route compared with nine last year.

6.70. Eurotunnel and over-capacity on the Dover-Calais route had resulted in severe price competition, reducing fares to an extent which seriously threatened the profitability of both P&O and Stena and all other cross-Channel routes. For example, the average rate for car and passengers had dropped from about £63 in 1993 to £25 in 1996, although this also reflected a decline in holidays in France and the increase in day trippers. The reduced prices on the Dover-Calais route had also affected the rates on the North Sea and on the Western Channel.

6.71. The advent of Le Shuttle gave customers an alternative choice in their mode of transport to France. It also increased capacity. Rather than offering a coherent alternative to Le Shuttle, the ferry operators had been competing even more aggressively. The proposed merger would bring stability into the market and enable the operators to offer a clear alternative to Le Shuttle.

6.72. There were at present five passenger ferry companies operating from Kent and the PSA did not envisage any likely new entrants. However, entry into the market was relatively easy, the main barrier being access to the distribution system. The PSA believed that without the proposed merger the present level of service would be unsustainable and there were likely to be ship withdrawals or even company closures. This could result in Eurotunnel no longer having a serious competitor on the sea routes from Kent and in reduced customer choice.

6.73. The PSA said that a possible alternative to the merger would be a pooling and marketing agreement between the companies with both retaining their separate brands. However, this would not lead to the same cost savings as a merger. Another alternative was for SeaFrance to be included in the agreement so that all three companies operating conventional vessels on the Dover-Calais route would be in the merged company.

6.74. The PSA acknowledged that the merger would result in a loss of employment but believed that this loss would be carried out in a more regulated manner than if the present aggressive competition was to continue.

6.75. Of the PSA's members, only SeaFrance opposed the merger. The other companies, whilst making some provisos, considered it a sensible step towards rationalization and a return to stability in pricing.

### ***The Road Haulage Association Ltd***

6.76. The Road Haulage Association Ltd (RHA) took a neutral position on the proposed merger. On the one hand there were undoubtedly benefits to be gained by the travelling public from the integration of assets, including timetable co-ordination and interavailability of tickets. The merger would result in an overall reduction of costs, which was in the long-term interests of consumers. The RHA wished to see in place a long-term viable alternative to the Channel Tunnel, both to ensure real competition and to cater for those cargoes not acceptable to Eurotunnel.

6.77. On the other hand, there was a great concern about the effect of the merger on prices. The opening of the Tunnel had been very good news for the international haulier because, apart from providing a new service with its own benefits, it effectively terminated the virtual duopoly previously enjoyed by P&O and Sealink and reflected in a continuous upward movement of freight tariffs until Eurotunnel began its sales campaign. The RHA was concerned, on the basis of previous experience, that the new company would seek to exploit its dominant position and that there could be direct collusion between the new company and Eurotunnel to put in place very significant price increases.

6.78. If the joint venture were permitted to proceed, the RHA wished to see safeguards put in place to ensure that the possibility of collusion was minimized and competition maximized. A regulator should be appointed to ensure fair competition, both among ferry companies and between those companies and Eurotunnel, and in particular to prevent collusion between service providers to secure unwarranted tariff increases. In addition, the new company should not be able to apply excessive pressure on port operators to prevent other ferry companies from introducing competitive ferry services.

## **Freight operators**

### ***Brit European Transport Ltd***

6.79. Brit European Transport Ltd (BET) said that the current competition in prices had been felt most sharply by the most peripheral cross-Channel routes where the volumes were lower and some smaller services were closing down. The combined effect of the merger and the reductions in capacity already announced by other operators might be too severe. Following the fire in the Tunnel the present ferry services had struggled to cope and, if there was a major service failure after the proposed merger, exports could not be shipped out of the country without major delay.

6.80. In addition, after the merger, Eurotunnel and the new company would have the greater part of the market and too much market power.

6.81. For these reasons, BET believed the merger should be refused.

### ***Cavewood Limited***

6.82. Cavewood Limited told us that for over 25 years it had been a major operator across the Channel. It currently booked over 400 sea freights a week, over 80 per cent of which were Short Sea. The company had observed the changing balance between rates and services over many years and considered that a merger between P&O and Stena would be a major threat to competitive pricing.

### ***Denby Transport Limited***

6.83. Denby Transport Limited said that the merger should be disallowed, since it was a permanent, irreversible solution to what might well turn out to be a temporary problem. To give a period of stability, P&O and Stena should be given permission to co-ordinate capacity and prices for three years, subject to strict scrutiny by the OFT.

### ***DFDS PLC***

6.84. DFDS PLC was in favour of the proposed merger, as it was linked to a sizeable reduction of capacity. Since the opening of the Tunnel there had been a huge over-capacity on the ferries and rates had fallen to an uneconomic level for both the ferries and Eurotunnel. Passenger and freight traffic had been attracted from Western Channel and North Sea ports, undermining the viability of these regional services. Environmentally, this had led to an unnaturally heavy traffic flow via Kent, putting huge pressure on the motorway infrastructure.

6.85. The merger would provide more balanced competition to Eurotunnel and ensure a future choice of service and rate stability. The closure of the Tunnel after the fire illustrated how important it was for the country to have a viable alternative route.

### ***Groupe Norbert Dentressangle***

6.86. Groupe Norbert Dentressangle (GND), a French freight operator, told us that in 1996 it had made more than 120,000 Channel crossings: approximately 80,000 across the Straits of Dover and 40,000 from the ports in the west of the Channel. It was opposed to the merger.

6.87. GND said that the Channel Tunnel had contributed to a steady fall in cross-Channel freight charges and a significant improvement in the standard of service, to the benefit of users and their customers and, in more general terms, to trade between Great Britain and the Continent. However, GND was concerned about the ferry companies' attempts to streamline their operations by cutting cross-Channel capacity and raising freight charges.

6.88. After the agreement between Stena and SNAT ended in January 1996 the ferry operators discussed carrying capacity and pricing policies. In the west of the Channel this had led to a substantial reduction in cross-Channel carrying capacity. P&O Southampton had ceased operating two ferries and at the same time Stena had stopped running the Cherbourg-Portsmouth line. Brittany had also reduced the frequency of its sailings. This reduction in capacity had resulted in poor standards of service and high increases in P&O's ferry charges. Its charges to GND had increased by 38 per cent for loaded vehicles and 18 per cent for empty. GND was concerned that it was no longer able to negotiate prices by using the competition between operators. Its only alternative was to divert vehicles to the Straits of Dover.

6.89. GND said that at the Straits of Dover the balance of power between ferry operators and customers was unstable because of SeaFrance's uncertain future and the proposed merger between P&O and Stena. There was a potential risk therefore that the merger would leave only two operators able to offer GND a good service, namely Eurotunnel and the merged P&O and Stena. The instability had been aggravated by the Tunnel fire and the cessation of Eurotunnel's freight service for several months. If the fire had happened after the merger, the new company would have been in a dominant position and able to increase freight charges. Therefore, from GND's point of view, it would be undesirable to allow the possibility of there being only two operators across the Straits in the medium term.

6.90. GND believed that the rationalization of cross-Channel capacity and the revision of freight charges needed to be gradual and consequently that it was vital to maintain a level of competition between the operators.

### ***Inter City Trucks Ltd***

6.91. Inter City Trucks Ltd (ICT) said that for many years the two dominant players, Townsend and Sealink, had acted in unison, both increasing their fares on the same day. Both operators had considered the UK to be a premium market. Rates in markets distant from the Channel ports as well as in France and Belgium were generally cheaper than the UK. This had prompted ICT to open a French subsidiary in order to gain lower cross-Channel freight charges.

6.92. The Channel Tunnel had played a large part in stabilizing the market, as had the division of the Sealink organization into SeaFrance and Stena. Presently, Eurotunnel and SeaFrance were the prime influences on the market-place. ICT questioned why, in the knowledge that the Tunnel was under construction, P&O had invested heavily in new ferries and Stena had purchased the Sealink UK organization, if both companies did not believe they had a future as independent operators.

6.93. The future of the Tunnel after the fire in terms of freight was uncertain. The recommencement of freight services depended on the repair to the damaged Tunnel and an agreement on a safer operating system which might require the redesign of the shuttle wagons. Unless the situation was clear, ICT believed the merger should not be allowed to go ahead.

6.94. ICT was doubtful about the prospects for the UK freight industry and cross-Channel trade, particularly if the merger went ahead without sufficient safeguards. P&O and Stena should be asked to consider a degree of co-operation including scheduling of ferries, interchange of tickets between operators and technical co-operation, on a trial basis until the Eurotunnel position was clarified. Assurances should be sought from the port authorities on both sides of the Channel to encourage new entrants into the market to help create a fully competitive situation. Only with these safeguards should the merger be allowed.

### ***Richard Long Ltd***

6.95. Richard Long Ltd (Richard Long) told us that it was a small international haulage company operating 20 vehicles and travelling to the Continent each week. It was concerned about the impact of the merger on small haulage businesses. Currently it was able to negotiate reasonable terms, but with no competition, ferry companies would be able to charge what they wanted. Most haulage companies operated on tight margins, and it was feared that many could be put out of business.

6.96. Richard Long was concerned that P&O would have total control of running the Dover-Zeebrugge, Dover-Calais, Newhaven-Dieppe, Portsmouth-Caen, Portsmouth-Le Havre and Portsmouth-Cherbourg routes. Other ferry companies such as Truckline, SeaFrance and Sally Line on the south coast offered a very limited service, unlike the regular services currently operated by both P&O and Stena. With Le Shuttle likely to be out of operation until June 1997 and with no guarantee of it ever opening again to freight travel, the merger would leave haulage operators with little choice.

### ***Securicor Omega Express Limited***

6.97. Securicor Omega Express Limited thought the present structure would be unsustainable when the Tunnel was fully back in operation and that the merger should be allowed to proceed.

### ***Other freight operators***

6.98. Two other freight operators submitted written evidence. Both considered that the proposed merger was against the public interest and should not be allowed to proceed.

6.99. The first company said that over the last decade P&O and Stena had progressively invested in larger, more efficient and more economical ferries. Competition between them, together with the opening of the Tunnel, had produced choice, competitive pricing and a much improved service to the transport industry. A merger would reduce competition and lead to increases in prices and a deterioration in service.

6.100. Without competition between the ferry operators, transport operators would be at the mercy of the new company for any periods when the Tunnel was not available and for services which the Tunnel did not provide, in particular shipments of unaccompanied trailers.

6.101. The company was also concerned that, since P&O through its many door-to-door transport operations was competing directly with private transport companies, it would be in the position of controlling the ferry rates paid by competitors and at the same time competing for business from their customers.

6.102. The second company believed that, in view of the existing size of the market and expected growth levels in the future, a minimum of two major ferry operators, in addition to the Tunnel, was necessary. In addition, the continued participation of the smaller operators, notably SeaFrance, was in the interests of competition.

6.103. The company considered that the pricing policies adopted by the ferry operators were structured in a way that did not allow revenues to reflect investment; the major European-based road freight operators benefited disproportionately from low freight rates. It believed that the benefits arising from a merger would not filter through to customers and that the pricing structure might be particularly unfavourable for types of vehicle or cargo which Eurotunnel was unable to take.

## **Travel trade**

### ***Association of British Tour Operators to France***

6.104. The Association of British Tour Operators to France considered that the proposed merger was unlikely to be detrimental to the travelling public. For some time there had been a great deal of uncertainty concerning fares, and the Association was very keen to see a return to a more stable trading situation, which this merger would help to provide.

6.105. The Association thought it very unlikely that a monopoly situation would be created by the merger, since the Tunnel, SeaFrance and Hoverspeed would provide competition on the route and an adequate choice of services.

### ***Association of British Travel Agents Ltd***

6.106. The Association of British Travel Agents Ltd said that, given the competition from the Channel Tunnel, the merger of P&O and Stena should not be opposed.

### ***Eurolines (UK) Ltd***

6.107. Eurolines (UK) Ltd, which operates international coach services throughout Europe, recognized that the current over-capacity on the cross-Channel routes was unsustainable in the longer term. Any merger, however, should be conditional on there being at least an hourly frequency 24 hours a day in both directions. Undertakings should be given about the quality and safety of the ferries used. The new company should confirm that it would respect the existing contract rates given by P&O and Stena to their customers for a minimum period of three years from the date of the merger, and there should be no price increases during the first three years above the annual rise in the retail price index.

### ***Shearings Limited***

6.108. Shearings Limited (Shearings), which told us that it used the Dover-Calais route for all but one of its continental coach tours, expressed a number of concerns about the proposed merger. First, as far as Shearings was concerned, the merger would create a virtual monopoly. The scale of the company's operations, with up to 50 coach reservations required at the same time slot, precluded the use of Le Shuttle or other ferry operators; other means of transport such as Hovercraft did not have the necessary coach-carrying capacity or facilities.

6.109. The merger would reduce the number of sailings. Shearings already struggled for reservations at holiday periods, and a reduction in sailings would make the situation worse. There would also be less flexibility to adjust timings once tours and routes were planned. It would become even more difficult for one mode of crossing to meet the increased demand when the other was incapacitated.

6.110. The company was concerned about the effect of the merger on prices. Only with the emergence of Le Shuttle as a strong player in the last 18 months had coach operators had an alternative carrier and prices had become keener. Any increase in fares would leave coach travel less competitive compared with air travel. The company recognized that there had to be a minimum level of costs at which neither ferry nor train could operate economically and that prices were currently below this for both modes. Whilst the merger would reduce costs further, it did not address the fundamental problem of the unrealistic financial position in which Eurotunnel was operating.

### ***The Travel Market Limited***

6.111. The Travel Market Limited had been totally opposed to any merger in the past but supported the proposed merger, in view of the tremendous impact of Eurotunnel on the ferry business. P&O and Stena would be unable to sustain existing services at today's fare levels, whereas the merger would produce very large savings with only a small reduction in services. There were still enough alternative operators around to give the public a choice of route and ensure that prices would remain competitive. The fire in the Tunnel had shown that a substantial ferry service needed to be maintained for the benefit of exporters.

## **Harbour Board**

### ***Dover Harbour Board***

6.112. DHB, which provided written and oral evidence, pointed out that it had a clear commercial interest in the survival of a substantial ferry business based at Dover. It also considered that it was in the wider national interest to prevent a Channel Tunnel monopoly emerging, to provide a strategic alternative to the Channel Tunnel and also to prevent further acceleration in local unemployment and economic decline.

6.113. Capacity in the cross-Channel transport market had been massively increased by the progressive opening of Eurotunnel's shuttle services. This threw into chaos a market already prone to instability, as was reflected in the paradoxical and significant increase in ferry capacity seen at Dover in 1995 and 1996 at a time when carryings and prices were falling. If ferries were to be constructed for the cross-Channel routes when the present fleet required replacement, operators must be able to forecast profits to justify this investment. Given that the market's revenue needed to be shared with Eurotunnel, survival for the ferries must mean cost reduction through withdrawal of capacity.

6.114. The merger had a number of advantages. It was on offer now; until this proposal was announced, few in the industry had any idea of how the market was to be returned to stability, but quick action was now possible. Prices would probably stabilize or move up towards a more economic level. DHB also thought that all cross-Channel routes were affected by the level of prices on the Short Sea routes and that other routes would benefit if the Short Sea routes were more profitable.

6.115. DHB thought it a disadvantage that involvement in the merger did not extend beyond P&O and Stena. The merged company would control less than half of cross-Channel capacity. Its announced capacity withdrawals would contribute towards stability, but a further reduction in capacity would still be needed.

6.116. If the merger did not go ahead, DHB thought market forces would probably find a resolution in a more direct and brutal fashion: one operator would probably decide or be forced to withdraw from the market altogether. P&O and Stena might aim at the same level of cost savings by withdrawing ships from Dover and other routes but this could lead to a downward spiral of lower frequency and quality of service and profitability.

6.117. DHB considered that interchangeability of tickets between ferry operators was not a better alternative to a merger. This approach had been tried before but had led to a pooling of revenue and a limitation on competition not very different from the effects of a merger. Moreover the cost savings were lower, since the ferry companies maintained separate head offices.

6.118. Any new entrant would face competition from both Eurotunnel and the merged company. On the other hand, subject to space constraints, DHB already had a statutory duty to give all potential users open access to the harbour and in some respects the merger would make it easier for new ferry companies to enter the market (the situation might be similar in Calais). DHB would have available spare berth capacity for ferries. It would be able to offer SeaFrance improved berthing arrangements; it could also, for example, accommodate a new entrant operating fast craft during the peak holiday season. There would be space in the terminal building for a ticket office. There would also be spare ticketing booths, since DHB would expect to allocate fewer booths to the new company than the 12 currently occupied by P&O and Stena; the situation with freight checking-in booths would be similar. The berthing space freed by the proposed joint venture could also be used for freight.

6.119. DHB considered that, in view of the urgent need for rationalization, the proposed merger should be allowed to go ahead as the means of providing a viable and sustainable ferry service.

## **Local government**

### ***Ashford Borough Council***

6.120. Ashford Borough Council considered that the proposed merger would not be in the public interest, especially with regard to east Kent.

6.121. First, the reduction in employment of crews and support staff resulting from rationalization of the ferry fleet would be unwelcome in parts of east Kent already suffering from serious unemployment. Secondly, the loss of 350 jobs at Stena's head office in Ashford would, following other closures in the town, add to the difficulties of re-employment and discourage inward investment. Thirdly, rationalization of the ferry fleet could make almost insurmountable the problems of coping with road traffic in east Kent if one of the two ways of crossing the Channel was out of action.

### ***Dover District Council***

6.122. Dover District Council supported the proposed merger in order to preserve employment in the ferry industry operating out of Dover. The competitive prices now on offer had probably helped both to increase cross-Channel traffic and to direct traffic on to the Short Sea routes operating out of Dover. It was therefore in the interests of employment in the port of Dover and overall in Dover and east Kent for significant competition to remain on these routes.

### ***East Sussex County Council***

6.123. East Sussex County Council pointed out that the Newhaven-Dieppe route was vital to the economic interest of East Sussex. It provided the only direct transport link between East Sussex and mainland Europe. It made possible the strong ties that had developed between East Sussex and Upper Normandy. Much employment in Newhaven was directly related to the port; without this nucleus, other manufacturing industries would decline or move out and it would be extremely difficult to attract any inward investment. The port itself was reliant on the ferry operator because the ferry operator bore most of the cost of deep water dredging.

6.124. On the basis of information currently available to it, the Council believed that the proposed merger could meet the Council's objectives for a strong ferry operator on the Newhaven-Dieppe route, able to sustain and develop the route in competition with other cross-Channel routes and operators, and able to facilitate much-needed port improvement at Newhaven.

6.125. The Council had a programme for the regeneration of the port, including a new access road and other proposals, but stressed that Government and European funding for the regeneration programme would be in jeopardy if a decision about the future operation of the ferry service was taken after March 1997.

### ***Councillor David Rogers***

6.126. Councillor David Rogers, Chair of the Policy and Resources Committee of East Sussex County Council, wrote separately to say that the long-term future of Newhaven port depended upon improvements to allow it to handle larger, faster vessels and that currently it was envisaged that a new outer harbour would be required, along the lines of the new facilities already in place in Dieppe. Funding had been secured for a new access road to serve the improved port, but one of the conditions was that, before construction of the road began, planning approval for the redevelopment of the port should be secured. The port owner, Sea Containers, had submitted a planning application but would not commit itself to the construction works without a long-term commitment to an agreed level of port use by the principal port operator, and this commitment could not be given until the MMC had reported on the proposed merger. An important sequence of events, critical to Newhaven's economic future, therefore hinged on the outcome of the MMC's deliberations.

### ***Lewes District Council***

6.127. Lewes District Council considered that the ferry service between Newhaven and Dieppe was of significant strategic importance both for the regions of Sussex and Normandy and for the continued development of economic trade between the UK and mainland Europe. The proposed programme for the regeneration of Newhaven was to ensure that the town retained a strong manufacturing base allied to the commercial activity generated by the port. The Council believed it was in the future interests of the Newhaven-Dieppe ferry route for the existing competitive structure to be rationalized so that the operator of the ferry service had the resources and commitment to sustain a competitive Short Sea ferry crossing, and that the proposed merger should strengthen the financial infrastructure underpinning the ferry service.

### ***Councillor Norman Baker***

6.128. The Leader of Lewes District Council, Councillor Norman Baker, also wrote separately to confirm his support for the proposed merger. Councillor Baker requested the MMC to issue their report earlier than the proposed deadline of 6 March 1997 to enable the ferry companies to implement proposals to operate a fast ferry service in the summer season of 1997 and enable urgent and important decisions to be taken on funding for the regeneration of Newhaven.

### ***Newhaven Town Council***

6.129. Newhaven Town Council wrote to support the proposed merger. The Council said that the Newhaven-Dieppe ferry route was vital for the economies of Newhaven, East Sussex and West Sussex and considered that the proposed merger was the only way forward in order to compete successfully with the Channel Tunnel.

6.130. The total number of passengers and vehicles using the Newhaven-Dieppe route had declined in 1996. If the proposed merger did not go ahead, it was likely that Stena would be unable to face a continuing decline in passenger and vehicle numbers. If Stena left Newhaven, the economic development and regeneration of the town would be in jeopardy.

### ***Thanet District Council***

6.131. Thanet District Council was opposed to the merger because of its likely impact on the port of Ramsgate and on future employment prospects in Thanet. The Council's regeneration plans for the area included a new approach road to Ramsgate harbour for which it had recently secured funding of over £30 million.

6.132. The Belgium Government's intention to withdraw the RMT Ostend-Ramsgate ferry line by the end of February 1997 could have had a serious effect on port traffic and have resulted in a loss of Belgian and French tourists. However, Sally Line's agreement with Holyman would replace RMT ferries with a fast catamaran service from 1 March 1997. The Council told us that Sally Line was struggling to maintain its regular ferry service between Dunkirk and Ramsgate. The failure so far of the Channel Tunnel to pay interest on its loans promoted unfair financial competition. This had forced Sally Line to offer reduced prices which were uneconomic, making it increasingly difficult to run a viable operation.

6.133. Sally Line had led in the unaccompanied freight method of transporting goods across the Channel—a system whereby the truck cabin was uncoupled and the trailer was pulled aboard the ferry, unaccompanied by its cabin and driver. Dover port, which had previously been uninterested in competing for this market, had recently begun operating the unaccompanied freight system because of the impact of the Channel Tunnel's success in attracting freight.

6.134. The merger would result in loss of employment in Thanet. It could also place such a commercial strain on current ferry operators in Ramsgate that the new Sally/Holyman investment might be considered unviable, and the operators might either have to cut services or withdraw altogether. This would damage Thanet's regeneration plans and the Council's hope that a successful, thriving port at Ramsgate would lead to jobs for Thanet's 8,000 unemployed.

## **Trade unions**

### ***GMB***

6.135. The GMB, which provided written and oral evidence, told the MMC that it was the sole union recognized by P&O for the purposes of representing the shore-based personnel employed by the company at Dover. Soon after the merger proposals had been announced, it had convened a meeting to consult the workforce. The decision taken at the meeting was to support the merger, for the following reasons.

6.136. Eurotunnel was the market leader and the ferry companies needed to devise a structure which would enable them to provide effective competition. A strong ferry company operating out of the port of Dover and providing a quality service would provide a counterbalance to the Tunnel and maintain customer choice. After the proposed merger, prices would stabilize or even rise, enabling the company to pay for an improved quality of service.

6.137. It was known that the merger would lead to job losses, although P&O had not yet spoken to the union about the likely number of redundancies. Out of a combined workforce in P&O and Stena of 5,500, the union understood that approximately 1,000 jobs could be lost, mostly from seagoing staff.

6.138. If, however, the merger did not take place, the impact on jobs was likely to be much greater. The fierce price-cutting war could not be sustained and the logical consequence of the present trend would be that one or both of P&O and Stena would eventually withdraw from the Short Sea routes. This would have a devastating effect on Dover, with large-scale redundancies not only within the ferry companies but also within companies supplying and servicing the ferries and among shops and businesses within Dover. Since it had been estimated that one private sector job in four in Dover was dependent on the port, the end result would be even higher levels of unemployment than those which were already being experienced.

6.139. The GMB and the workforce at P&O supported the proposed merger, in spite of the short-term job losses, on the basis that it was in the long-term interest of the community of Dover to create a strong ferry company. People in Dover would find it difficult to understand if this merger with assets of £400 million was disallowed, whilst Eurotunnel with a capital value of £12 billion continued to trade when it was not even servicing its own debt.

### ***NUMAST***

6.140. NUMAST told us that it represented about 500 masters and officers serving with P&O and Stena from the ports of Dover and Newhaven.

6.141. NUMAST said that within a year of commencing operations, Eurotunnel had gained more than 40 per cent of cross-Channel business. The opening of the Tunnel had led to changes in both P&O's and Stena's methods of operation, had ended improvements to terms and conditions of service and, in some cases, had reduced the employment packages to officers serving on these routes.

6.142. The opening of the Tunnel and the consequent 'fares war' had destabilized what had been a lean and profitable industry. NUMAST believed that the Government had endorsed essentially unfair competition from the Tunnel by providing inequitably high infrastructure support, such as road and rail links, and by high grant support designed to encourage rail freight through the Tunnel. For example, less than a week before the P&O and Stena announcement, it was declared that an increase in freight

subsidies had led to a new Channel Tunnel rail freight service. The Tunnel had effectively been able to finance its participation in the fares war by operating free from the repayments on its £9 billion debts. In contrast, the UK ferry industry also had to compete with foreign ships which benefited from significant state support. It also faced the additional expense of implementing the stricter safety standards agreed by the UK Government for ferries operating in north-west European waters.

6.143. NUMAST said that the developments now taking place in the ferry sector could potentially damage the local and national economy and the UK maritime industry in general. It believed that urgent action was required by the Government.

6.144. There was little information available to enable NUMAST to assess the impact of the merger on the employment of officers or what the alternatives were to a merger. NUMAST would not be opposed to the proposed merger if it resulted in future stable employment without detriment to terms and conditions of employment of officers.

### ***P&O NUMAST members***

6.145. In addition to its own comments on the proposed merger, NUMAST submitted the views of P&O NUMAST members. They were concerned that the decrease in competition on the Short Sea routes resulting from the merger would enable the remaining operators to increase fares, especially at peak times. This would be particularly likely when the Channel Tunnel again reached its maximum capacity and no longer needed to charge low rates in order to increase its market share. The French Government-subsidized operator, SeaFrance, was unlikely to have sufficient capacity or market appeal to create a significant downward pressure on prices. The cost of transporting freight was also likely to rise. The rates charged on Short Sea routes affected the cost of using other coastal departure points. Therefore the increase borne by the public and freight carriers, as a result of the merger, would not just be confined to the Dover Short Sea routes.

6.146. Allowing the merger to go ahead would result in a considerable reduction in ferry tonnage operating from Dover and the remaining vessels would have to carry larger loads. Although this effect might only be short-term because of a possible reduction in market size, it would result in overcrowding which would affect passenger comfort. Since more departures would be fully booked, the choice of travelling times would also be reduced.

6.147. P&O and Stena had announced that the merger and subsequent rationalization would result in about 1,000 redundancies. The actual number of job losses would possibly be in excess of 2,000 because a large percentage of existing staff were on fixed-term contracts or temporary. This would have a detrimental effect on the local economy because of the loss of salaries and because the various shore-side businesses that relied on the ferry industry would have to implement cut-backs.

6.148. The P&O members were particularly concerned about the imposition of live-on-board work routines (week on, week off) on the Dover-Calais route which would be detrimental to safety, the quality of service provided and the quality of life of seagoing staff. These routines had been linked to the new company by P&O's management in order to achieve further cost savings on the vessels; however, the Dover-Calais route was not suitable for such a system.

6.149. The P&O NUMAST members were opposed to the merger unless the extent of cut-backs was modified, the terms and conditions of employment of remaining staff preserved and the proposal to implement live-on-board work routines withdrawn.

### ***National Union of Rail, Maritime and Transport Workers***

6.150. The RMT Union, which represents deck, engine and catering grades employed in the UK and Irish shipping industries, expressed concern about the future of the cross-Channel ferry trade in view of the continuing losses suffered by the ferry companies. The RMT Union noted that crewing costs had been squeezed as a result. There had been 4,000 seafaring redundancies in the Kent ports since 1990.

This was predominantly because of more demanding shift patterns which essentially meant reduced leave for the crews and more time spent on board the ships. Stena now had 2.17 crews per ship instead of the four crews operating in 1991.

6.151. The RMT Union said that in addition to the 5,500 seafarers employed there were a number of other jobs in and around the Kent ports which were dependent on the ferry industry. It had been estimated that one in five jobs in the town of Dover was directly connected to the industry. Rationalization of the ferry operations at Dover would result in a significant number of job losses.

6.152. It was important that a healthy ferry industry should continue and that the ferry fleet should not be reduced to such a low level due to commercial reasons that the nation found itself unable to cope in an emergency such as the recent Channel Tunnel fire.

6.153. Alongside the Tunnel, passengers and business interests needed a safe, reliable and high-quality ferry service. With the additional prospect of the abolition of duty-free sales, there was a real danger that the rationalization process would leave the ferry industry unable to compete effectively as an alternative method of travel across the Channel. It was increasingly likely that, whether or not the merger took place, the Government would need to consider granting assistance to the Short Sea ferry operations if they were not to be irrevocably damaged by competition from the Channel Tunnel.

6.154. The RMT Union recognized that, if the merger did not take place, the two companies could independently downsize significantly more than a merged operation would. Worse still, one of the companies could completely withdraw from the business.

6.155. The RMT Union could support the proposed merger if two conditions were laid down. First, the MMC should set down minimum service requirements, which would ensure that a significant ferry fleet was left in place. Secondly, the MMC should lay down criteria to ensure that all prospective employees of the new company were dealt with in a fair and non-discriminatory manner; at present the RMT Union was concerned that Stena employees would not be given the same opportunities as their P&O counterparts.

### ***Transport Salaried Staffs' Association***

6.156. The Transport Salaried Staffs' Association (TSSA) which represented 200 shore-based staff, administrators and managers in P&O and Stena, was concerned about future employment prospects. It understood that the proposed merger would result in a loss of about 200 jobs among shore-based staff, and 1,000 jobs overall.

6.157. The TSSA told us that its members did not share the ferry companies' view that cross-Channel services would not expand in the medium term, or their apprehension about the Channel Tunnel traffic. Should the merger go ahead as a necessary commercial move, it was important that P&O and Stena staff received equal treatment over terms and conditions. Any P&O and Stena shore-based staff who transferred to the new company should do so under the Transfer of Undertakings (Protection of Employment) Regulations and should be treated equally and fairly in any selection for jobs with the new company. Failure to do this would damage staff morale and be detrimental to the service.

### **Other organizations**

#### ***The Automobile Association***

6.158. The Automobile Association (AA), which gave written and oral evidence, presented views drawn from its consumer affairs experience and its practical experience in providing tickets for 60,000 vehicles a year, spread across all the Channel routes and operators.

6.159. The AA said that travellers across the Channel were currently benefiting from temporary excess capacity. Whilst it welcomed the short-term benefits of price competition, it recognized that sooner or later there would need to be structural adjustments to achieve sustainable pricing and to support

future investment. There was considerable scope for reducing costs by cutting out duplicated overheads and for achieving higher capacity utilization rates.

6.160. The AA would not welcome a duopoly under which a merged ferry operator and the Tunnel moved prices in tandem higher than free competition might permit, but thought this was unlikely to happen as other ferry companies would continue to operate and entry to the market was not difficult.

6.161. If the merger did not proceed, the AA thought commercially-run ferry operations would withdraw from the market at some point, having first withdrawn unsocial hours services and other services with limited carryings. The AA said that it would not welcome this and therefore supported the proposed merger.

6.162. The AA asked the MMC to protect the interest of consumers by recommending a requirement for round-the-clock provision of ferry services.

### ***The Camping and Caravanning Club***

6.163. The Camping and Caravanning Club reported that over the past three years the fierce competition on the Short Sea routes had produced good prices for the customer but had created considerable confusion for travellers wanting to choose the best route, the best price and the best time to book their fares. Many people who booked their crossings early in the year to obtain particular crossings found themselves paying more than those customers who took a chance and booked late. This was a disadvantage for people such as caravanners and motor caravanners who had to book early to ensure that adequate space was available for them. In addition it was becoming uneconomic for travel agents and tour operators to develop further products using these routes.

6.164. If the merger did not proceed, the Club believed that confusion over the services being offered would continue and that the lowering of prices would reduce the availability of sailings on the Short Sea routes to the detriment of customers. The smaller companies would be forced out of the market.

6.165. The Club believed that the proposed merger was a positive step which would restore order to the market.

### ***East Kent Initiative***

6.166. The East Kent Initiative (EKI), a partnership between the public sector and private sector, considered that the UK economy required a viable and strong ferry industry on the Short Sea cross-Channel routes. This was necessary to ensure effective competition with the Channel Tunnel, provision of an alternative system with sufficient capacity to deal with any interruption in Channel Tunnel operations, and effective consumer choice by having a variety of forms of Channel crossing. The EKI strongly believed that these aims could be best achieved by allowing the proposed merger, subject to conditions to allow other existing operators and any future operators equal opportunity to provide cross-Channel services.

6.167. Approval of the proposed merger would also secure for east Kent the maximum amount of local employment from the ferry industry. This was a vital consideration in an area already suffering from high unemployment.

### ***Institute of Directors (Northern Ireland Division)***

6.168. The Northern Ireland Division of the Institute of Directors wrote to say that, while the proposed merger might be acceptable in terms of the number of operators on English Channel routes, it was concerned about the effect of the merger on the price and quality of service across the Irish Sea. Should the merger be allowed to proceed, the Institute wished to see safeguards in order to maintain the choice of routes on offer across the Irish Sea, especially for freight traffic. The Institute also wished to

see fares offered at a rate per mile no higher than those offered to users of ferry services across the English Channel.

### ***London & Continental Railways Limited***

6.169. London & Continental Railways Limited, the owner of Eurostar (UK) Ltd, said that it had no grounds to oppose the proposed merger. It noted that airports, airlines, P&O, Stena and (at terminals only) Eurotunnel were able to take substantial financial advantage of duty-free sales. This facility was not, however, available to Eurostar, which it regarded as discriminatory and a constraint on fair competition between transport modes serving similar markets.

### ***The Newhaven Economic Partnership Limited***

6.170. The Newhaven Economic Partnership Limited, which comprised 16 member organizations including East Sussex County Council, Lewes District Council, Newhaven Town Council, Sea Containers (Newhaven Port and Properties Ltd), Stena and local companies, wrote to support the proposed merger. It considered that the merger would create a strong and committed ferry company with the resources to sustain a competitive Short Sea ferry crossing.

### ***Shepway Chamber of Commerce & Industry***

6.171. Shepway Chamber of Commerce & Industry fully supported the proposed merger. If Kent was to continue to offer reliable and efficient cross-Channel travel and a choice of modes of transport to residents of the UK and the Continent, it was vital that ferry operators as well as the Tunnel should remain viable in the long term and that the position of Dover should be upheld as the only port able to provide the necessary competition with the Tunnel.

6.172. Rationalization by the ferry companies was inevitable because of substantial surplus capacity, but the market was expected to continue to grow and to return to a state of equilibrium by about the year 2000. Although there would be job losses if the merger took place, it would in the long term provide greater security of employment and greater stability on rates.

## **Members of Parliament**

### ***Tim Rathbone MP***

6.173. Mr Rathbone, MP for Lewes, wrote in support of the points made by Newhaven Town Council (paragraphs 6.129 and 6.130). He said that anything which inhibited the successful continuation and expansion of the Newhaven-Dieppe ferry service would be contrary to the future economic welfare of the port and town of Newhaven and of the surrounding area. Mr Rathbone believed that the proposed merger would be beneficial to Newhaven and to Sussex and that it would further good trade and relations with France.

### ***Joan Walley MP***

6.174. Ms Walley, MP for Stoke on Trent North, said that although the proposed merger was necessary to provide viable competition to the Channel Tunnel, it must not be used as an excuse to reduce the industry further for the sake of expedient short-term gain. She urged us to take account of the wider effects the merger would have on the local community and the likely resulting job losses in the shipping industry and businesses dependent on the ferry industry. Because of the inherent danger in the industry Ms Walley was concerned that rationalization of the combined workforce by the merged company might increase the level of risk associated with this means of travel. Public safety and confidence must not be jeopardized at the cost of economic rationalization. For the above reasons, and to

prevent unfair and discriminatory employment procedures developing, Ms Walley believed that the merged company should implement non-discriminatory employment procedures not only on grounds of race and sex but also between the workforce of the two companies, with P&O, the larger shareholder, not unduly benefiting its own workforce.

## **Others**

### ***Mr M D Dunning***

6.175. Mr Dunning, a current employee of Stena at Dover, told us that the problems encountered by the Channel Tunnel after the fire presented only a short-term advantage. Restoration of full service in the Tunnel would impact further on the market share of the ferry companies.

6.176. Mr Dunning believed that the proposed merger was effectively a take-over by P&O. A clause in the Memorandum of Understanding of October 1996 (see paragraph 3.74) allowed either party to acquire the shareholding of the other after the year 2002, which would effectively create a monopoly situation. Because of Stena's financial situation and ageing tonnage, it was likely that P&O would succeed.

6.177. There was also concern about the already high unemployment in Dover. Its infrastructure was not capable of absorbing further job losses resulting from the merger.

6.178. Mr Dunning told us that Stena had begun a voluntary redundancy scheme, but that P&O had not. The October 1996 announcement stated that management and staff of P&O Stena Line would be drawn from the two existing businesses on the basis of experience and ability. However, this could not be assured if only Stena employees were made redundant. Many current Stena employees were ex-P&O staff who were involved in the 1988/89 industrial dispute. Mr Dunning believed therefore that the current situation was discriminatory.

6.179. Mr Dunning felt that P&O and Stena should be allowed to co-operate short of a full merger. This would be in the interest of the workforce, smaller operators on the Channel and the local community.

### ***Professor R O Goss***

6.180. Professor Goss said that it was unlikely that the proposed merger would lead to any cost reductions, since there were no economies of fleet size in shipping. On the contrary, the merger was more likely to lead to a duopoly on cross-Channel services which, by constraining competition, would result in higher fares on both sea and rail modes. The situation was unlikely to be relieved by competition from new ferry operators because the ferry ramps at Dover and Calais were of a different design from those used at most other ports with ro/ro terminals, and also DHB could make entry difficult.

6.181. The ferry operators thought they could undercut the Channel Tunnel because of their lower overall costs. However, they had ignored the differences in cost structure and the implications for pricing. Mistaken investments often led to low profits and especially when, in this instance, the ferry operators cut prices in order to meet the new entrant. If the merger was not allowed then, Professor Goss felt, P&O and Stena would be free to develop services in other parts of the world (after some modifications to the ships' ramps).

6.182. Professor Goss said that the ferry operators had had long warnings of the Tunnel's advent. They mistakenly invested in new and larger ships, and made incorrect pricing decisions when the Tunnel opened. Professor Goss felt therefore that the ferry operators should not be helped at the expense of the public and neither should the Tunnel, which represented sunk capital.

### ***Mr I Jamieson***

6.183. Mr Jamieson wrote as a regular traveller across the Channel to point out that, whereas in 1996 P&O's fares on the Portsmouth-Cherbourg route were the same as for its Dover route, in 1997 P&O had reduced fares by between 5 and 40 per cent on the Dover route, where there was still competition, but had increased fares by between 15 and 40 per cent on the Cherbourg route, where there was no competition since the withdrawal of Stena from its Southampton-Cherbourg route.

6.184. Mr Jamieson believed that the merger was against the interests of the travelling public and would result in considerable further increases in fares.

### ***P&O crew members***

6.185. A group of P&O crew members wrote to express concern about the effects of the merger on employment, customer service and safety standards. They told us that P&O had proposed a reduction in crew for Dover-Calais vessels of 2.17 crews per ship (working a live-on-board system) as opposed to the current 3.6 crews per ship. The loss of the *Pride of Bruges* would also result in the loss of a complete ship's crew.

6.186. There was concern that the implementation of the live-on-board system would mean crews working more hours a day leading to a deterioration in customer service and a decrease in safety standards. For example, Calais sailings were very demanding, in and out of port on five trips a day and at times in harsh weather. As the week progressed, there was a danger of the crew becoming more fatigued due to the workload.

6.187. With no serious competition in Dover, fares to customers would rise, and no other ferry operators would be large enough to compete with a merged P&O and Stena. The P&O crew members believed that the proposed merger was a step to a complete take-over by P&O.

### ***Mr A G Robinson***

6.188. Mr Robinson, who lived in Deal, frequently used the Dover-Calais ferries and had experience in the ports industry. He objected to the merger on the grounds that more competition was needed on the Dover-Calais route, where the charges per mile were some of the highest in the world. He said that the Tunnel could not meet the needs of those who for a variety of reasons wanted to cross by ship and there would always be a demand for ferry services. Mr Robinson did not support the argument that P&O and Stena would only be able to survive if there was no competition. If these companies went out of business other operators would be pleased to provide a ferry service.

### ***Mr C S J Roy***

6.189. Mr Roy from Dorset considered that, in view of the high percentage of cross-Channel traffic which the Tunnel was likely to attract, it would be totally uneconomical for two ferry companies to survive on the remainder of the traffic. The withdrawal of P&O would do further damage to the British merchant fleet.

### ***Dr Stefan Szymanski***

6.190. Dr Szymanski, who had written a number of papers and articles on the cross-Channel market, gave oral evidence. He told us that studies carried out before the Tunnel opened had indicated that the marginal cost of operating a tunnel should be substantially below the marginal cost of operating a ferry. Although a tunnel had very high fixed costs which had to be incurred before it could operate, the costs of running trains through it were relatively low; a ferry service, on the other hand, had relatively low fixed

costs but relatively high operating costs. In a paper<sup>1</sup> written in 1990 by John Kay, Alan Manning and Stefan Szymanski of London Business School and Birkbeck College, it had been estimated that the Tunnel would have a marginal cost around one-tenth that of the ferries, but Dr Szymanski now thought the ratio of operating costs was probably in the region of 2:1 or 3:1 in favour of the Tunnel. Economic theory suggested that Eurotunnel would maximize profits by keeping prices low and utilizing its capacity, with the result that it would gain a large share of the market, but that the ferry service would find it very difficult to make profits.

6.191. For the purposes of this model it had been assumed that there would be only one ferry operator. This was because the ferry service looked very marginal. If there was not a very sustainable service with one operator, it had not been worth studying in depth the situation with two or three operators.

6.192. A further study had suggested that, on the basis of brochure prices, fares on the Dover-Calais route had risen between 1985 and 1993 by somewhere in the region of 30 to 40 per cent; the ferry companies, however, had questioned this calculation, arguing that only about 50 per cent of traffic had travelled at brochure prices. Dr Szymanski had pointed out that the only new factor in 1985 had been the announcement that the Tunnel was to be built and that this could have led to a period of diminished threat of intervention from the regulatory authorities. Profits had gone up substantially in real terms over that period.

6.193. The cross-Channel market had grown considerably, with the ferry companies attracting large amounts of duty-free traffic. The Tunnel's capacity, on the other hand, had been lower than expected and its capacity utilization had been low. Eurotunnel did not seem to have been successful in shifting traffic to off-peak periods. If there was a constraint on the Tunnel's capacity, the argument for keeping prices low would no longer apply.

### ***Mr A H Willingham***

6.194. Mr Willingham from Lincolnshire, who was a frequent traveller to Northern Ireland, was concerned about the effect that the merger might have on Irish Sea services. When he had attempted in late 1996 to make a booking for a crossing in March 1997, prices and brochures were unavailable; he was told that this was because of the proposed merger. Whilst he believed that a merger of their English Channel operations was the only thing the companies could do to combat competition from Eurotunnel, he was concerned that the merger should be restricted solely to this business and should not include North Channel crossings, since this would result in complete absence of competition and unchecked fare increases.

---

<sup>1</sup>See footnote to paragraph 2.62.