

# 7 Views of third parties

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## **Introduction**

7.1. A wide range of third parties were invited to make representation to the CC. We contacted 236 tour operators, 61 cruise lines, 33 industry specialists (including members of the travel and trade press), 9 port authorities and shipyards and 9 professional associations. We received 29 replies. An advertisement was also placed in the press but no response was received. Twelve oral hearings were held, with: Bath Travel; Bolsover Cruise Club; Carnival Cruise Lines; The Consumers' Association; Deutsche Bank Alex Brown; First Choice; Fred Olsen; G P Wild International; Lloyds Cruise International; MyTravel; Saga Shipping Company and a leading cruise company. Their views and the written evidence we have received are summarized in this chapter.

## **Associations**

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

7.2. The Association of British Travel Agents (ABTA) is the UK trade association for tour operators and travel agents. ABTA members are responsible for over 90 per cent of package holidays sold in the UK. Mr Steven Bath, the President of ABTA, is also the Joint Managing Director of Bath Travel.

7.3. ABTA stated that it had no objection to the merger from either the public, or its members', point of view.

### ***The Consumers' Association***

7.4. The Consumers' Association (CA) is a registered charity that undertakes research into goods and services available to the public in the UK, with the aim of promoting the consumer's interests. Its research into holidays is published in *Holiday Which?*

7.5. CA believed that the product market was primarily the cruise market, but that this also constituted part of the wider holiday market: if a major cruise company were to exercise market power and increase its pricing, CA believed that customers would switch to other types of holidays.

7.6. CA stated that the relevant geographic market was the UK. It believed the key factor was how cruises were sold, not where they took place, as demonstrated by the growth of fly-cruising. It thought that the rationale behind the merger was defensive. Before the entrance of tour operators, premium brands dominated the market and, consequently, sales.

7.7. CA suggested that, as the increased capacity seemed to meet with increased demand, this might have indicated that the market was underserved.

7.8. It recognized that the merger could limit competition in the cruising market but believed that the market was open to new entrants. It said that entry was easier at the lower end, thus arguably restricting choice in the premium market, but that this was in part because the companies catering for the premium market achieved such high customer satisfaction.

7.9. CA stated that key determinants to success in the cruise sector were brand and links to distribution chains. It clarified that, while brand was important to consumers, the probability that they would cruise again with the same company was low, especially when considered against the high probability that they would take a cruise again. New entrants such as Airtours overcame their lack of brand awareness by utilizing their distribution channels.

7.10. CA noted that directional selling (focusing on particular cruise lines) by travel agents was increasing. It recognized that companies such as POPC overcame their lack of vertical integration by offering the independent, specialist travel agents large overrides in order to encourage the directional selling of their cruises. It also pointed out that stocking brands such as POPC increased customer choice when booking through vertically-integrated travel agents. CA also highlighted the difficulties that some less-established cruise firms have in securing racking space.

7.11. CA recognized that the general perception was that it would be difficult for tour operators to move into the premium market as the quality of their existing ships was lower than existing premium brands. There was no reason, however, why the mass-market companies could not overcome this problem by ordering better-quality ships.

7.12. CA also emphasized that smaller ships were still being built, indicating that there was demand for different styles of cruising.

### ***The Guild of Professional Cruise Agents***

7.13. The Guild of Professional Cruise Agents is a trade association representing specialist cruise travel agencies. It consulted its members and submitted the views of those who had responded.

7.14. The Cruise People Ltd (CPL) stated that Princess Cruises already constricted distribution channels and that the merger would be against the interests of the consumer. CPL explained that Princess Cruises prohibited the cross-border selling or buying of its cruises, refusing to accept UK credit cards or bookings from UK or European addresses. Customers are thus prevented from buying cruises at the lower US price. CPL believed that this constituted a restraint of trade. CPL argued that, in contrast, RCI had equalized its pricing between the USA and UK over the last five years. CPL believed that it would be against the consumer's interest if RCI were to adopt Princess Cruises' pricing strategies.

7.15. The Cruise Line Group said that it was in favour of the merger. It believed that the resulting economies of scale would enable both companies to increase the quality of their product, while lowering the price. It also stated that, as both companies had said that they intended to maintain all their existing brands and expand them into emerging markets, the merger would result in more choice for the consumer.

7.16. Mundy Cruising, Sealand Travel and Tappers Travel Service said that they had no concerns about the merger.

### ***The Passenger Shipping Association***

7.17. The PSA is the UK trade association for ferry and cruise companies. It did not express an opinion on the merger, as both parties are members. However, it submitted industry statistics that were used in the inquiry and included in Chapters 3, 4 and 5.

## **Cruise lines/competitors**

### ***Andrew Weir Shipping Limited***

7.18. Andrew Weir Shipping is a UK-based cargo company that operates globally. It offers cruises on its cargo ships, which each have a capacity of 12 passengers. It said that it had no view on the merger.

### ***Carnival Cruise Lines***

7.19. Carnival is the world's largest cruise holiday company and offers a broad range of cruise brands including: Carnival Cruise Lines; Holland America; Costa; Cunard Line; Seabourn Cruise Line; and Windstar Cruises. Carnival operates 43 ships around the world.

7.20. Carnival stated that cruises were part of the wider holiday market. It cited data illustrating the close similarities between cruises and other types of holidays in terms of price, destination, amenities, activities, excursions and the profiles of the customers. It supported its position by citing other independent sources with similar views.

7.21. Carnival recognized that there were perceived segments in the market: contemporary, premium and luxury. It argued that the distinctions between these segments were blurred, however, and companies might move into new segments. Moreover, one company might operate brands and ships that were classified in different segments.

7.22. It said that it would expect the merged company to operate separate brands which would compete against each other. It operated a similar policy with its brands. However, since the merger between Royal Caribbean and Celebrity, the two brands had lost something of their separate brand identities.

7.23. Carnival believed that cruise companies were subject to strong competitive pressure on pricing from land-based vacation alternatives and from other cruise operators.

7.24. Carnival set price points low enough to broaden the Carnival Cruise Lines market and to take market share from the broader vacation market.

7.25. It said that the high fixed costs of ships necessitated their sailing full and, therefore, prices tended to be set at a level that would maximize capacity utilization. It predicted that this pressure on pricing would increase with the extra capacity due to enter the market and the increased demand that would be needed to fill these additional berths. Carnival predicted that the merged company would, through synergies and lower-cost operations, be able to offer lower prices.

7.26. It argued that barriers to entry in the cruise sector were low. It cited the short period that new entrants, such as Thomson, Airtours, Preussag, Saga and Disney, had needed to establish themselves in the market. It qualified this statement by highlighting the limitation posed on companies by airlifts, although there was an increasing preponderance of 'drive-to' markets, particularly in the USA. If a company could not fly passengers to a destination then it could not launch its cruise there.

7.27. Carnival said that the entry of tour operators into the cruise sector had raised the profile of cruising as a holiday alternative and introduced many first-time cruisers to the sector.

7.28. It did not believe that RCCL's vertical integration with First Choice gave it a competitive advantage.

### ***Compagnie des Isles du Ponant***

7.29. Compagnie des Isles du Ponant is a French company operating two ships with capacities of 90 and 62 passengers. It said that it had no objection to the merger.

### ***Discoverer Reederei GmbH***

7.30. Discoverer Reederei GmbH and its marketing side, Society Expeditions Inc, are engaged in expeditionary cruising to remote areas. They said that they did not believe the merger would have any impact on their business.

### ***Fred Olsen Cruise Lines Ltd***

7.31. Fred Olsen is a UK-registered company jointly owned by two publicly-quoted Norwegian companies, Ganger Rolf ASA and Bonheur ASA. Its three liners offer cruises, mainly for the UK market, to the Mediterranean, Norway, the Baltics, the Canaries and the Caribbean. Fred Olsen is the only UK-based company to operate a full-year programme of ex-UK cruising.

7.32. It said that P&O Cruises, as the biggest provider of ex-UK cruises, was its most significant rival. It did not envisage a reduction in customer choice in the short term as a result of the merger, as both companies gained competitive advantages from marketing their product with differentiated brands. It believed that this policy would continue after the merger. This statement was qualified by its fear that

the merged operation could use its strength to exercise predatory pricing or exert undue influence on travel agents, forcing smaller cruise lines out of business. It argued that in these circumstances the merger would clearly result in a reduction in consumer choice in the medium to long term.

7.33. Fred Olsen said that the impact of the merger would be most acutely felt in the US market, as it would serve to put POPC/RCCL in a more competitive position with Carnival. It recognized the possibility that, post-merger, RCCL might start moving some of its ships to the UK, especially if there was a surplus of capacity in the US market. It estimated that the process of moving a ship into a different market would take about 18 months.

7.34. It did not believe that the merged company would be able to increase price. It argued that the leisure market was too competitive to support such price increases, as cruises competed with a wide range of other leisure products for customers' disposable income.

7.35. Fred Olsen argued that there was a possibility that the merged company could practise predatory pricing. The merged companies' lower fixed costs could enable them to set lower prices below real costs. This would put unfair pressure on the smaller operators that operated at higher fixed costs and thus had limited price flexibility.

7.36. It raised concerns over POPC's relationship with travel agents post-merger. It believed that travel agents were already biased towards POPC as it was a large and recognizable brand that offered good rates of commission; the merged company could offer even higher rates of commission as a deterrent to the travel agent promoting smaller cruise lines. It argued that this scenario occurred in the USA post-11 September.

7.37. It did not believe that there were significant barriers to entry at the lower end of the cruise market as long as the entrant had a strong brand.

### ***Orient-Express Trains & Cruises***

7.38. Orient-Express Trains & Cruises predominantly offers holidays by train, but also operates one ship running river cruises in Burma. It said that it did not believe the merger would adversely affect customers, as there were many alternative products on the market.

### ***Saga Shipping Company Limited***

7.39. Saga Holidays operates specifically for the over-50s. Saga owns one 580-berth cruise ship and recently purchased a new cruise ship. It also charters space on other vessels and stocks other cruise lines. It operates independently of other travel agencies or contractors. Saga Cruises differentiates itself from other premium cruise operators by using a high staff:customer ratio, single-sitting dining and spacious facilities.

7.40. Saga said that the merged company would have a combined fleet that was more than capable of dominating the UK market. It highlighted the potential for the merged company to exercise its enhanced buyer power over suppliers, to the detriment of smaller cruise companies. The supply of slots at ports was a particular concern.

7.41. Saga argued that smaller companies were already disadvantaged, as the port authorities exercised a near-monopoly and gave preferential treatment to larger firms. This situation would be heightened by the combined buying power of the merged company. It said that this effect could be replicated in other areas such as marine insurance and bunker oil.

7.42. Saga thought that the competitive advantage the merged company would gain from the RCCL vertical integration with First Choice needed to be investigated. It envisaged a situation where the merged company could use its critical mass to lower prices artificially in the UK market, to push smaller competitors out. In the long term this would lead to a reduction in consumer choice.

## *A competitor cruise line*

7.43. A competitor cruise line argued that the relevant cruise market for the inquiry was the national UK market, ie cruises supplied to UK-based customers.

7.44. It said that there was a separate market for premium cruises in the UK. Premium cruise customers would not switch to a mass-market cruise or a land-based holiday if there were a small but significant change in price. It cited POPC's launch of the new Ocean Village brand, aimed at the contemporary market, as confirmation not only of the distinction between the premium and standard markets, but also that this distinction was recognized by POPC.

7.45. Moreover, it explained that it did not set its prices in relation to mass-market cruise companies or land-based holidays. It said that it set its prices based on the competitive activity of its core competitors in the premium market.

7.46. It argued that the merging parties had an extremely high market share of both the UK premium market and the UK cruise market as a whole. This market share would increase when the new capacity came on-stream. Moreover the new capacity would bring the weighted average age of P&O cruises fleet to under five years. It said that the merger would lead to a reduction in competition as the size, style and age of the merged entities' fleet would be unchallengeable by other lines.

7.47. It said that POPC and RCCL were each other's strongest competitors in the UK. The merger would therefore reduce competition and choice in the premium market.

7.48. It predicted that POPC/RCCL and Carnival would continue to act as industry price leaders. The effect of having two rather than three price leaders would lead to greater coordination of yield management and hence a more stable pricing environment, with less discounting.

7.49. It believed that POPC and RCCL individually and collectively had almost all of the strongest brands in the market. Therefore, through brand loyalty, it commanded a significant customer base, which it viewed as unlikely to switch away from the brands controlled by the merged company. It said that this provided the merged company with the incentive and the opportunity to raise prices, coordinate capacity and impose exclusionary relations with travel agents.

7.50. It recognized the argument that any increase in price was to a certain extent constrained by the necessity of sailing with 100 per cent capacity, as the marginal cost of the extra passenger was low, whereas the fixed costs of a ship were high and the ship indivisible. It countered this argument with two points, the first relating to enhanced price discrimination and price dispersion, and the second relating to the avoidable costs of a planned price rise across a fleet. The first point was that price discrimination was already a key feature of price competition in cruising. A reduction in the number of premium operators would be likely to facilitate enhanced price discrimination and price dispersion, so average prices and hence profits would be increased without losing marginal customers. The second point was that, while ships were indivisible, fleets were divisible; thus, when a cruise company as a whole was considered, the marginal cost was not zero. If the merged company planned to raise prices across its fleet, it could adjust capacity in advance to ensure that it operated fewer ships. This reduction in supply would be relative to the level of supply that would occur in a growing market. The reduction in capacity would lead to an overall reduction in fixed costs, while the price increases would create higher revenue. Furthermore it argued that the capacity reduction needed to facilitate price rises would not necessarily have to occur by the company laying up ships. The merged entity could reduce capacity by not building ships that otherwise would have been built in a competitive market. It could relocate ships to other destinations or market segments, thus reducing supply in the segment where prices are being raised; or it could increase prices only for one nationality on ships with dual nationality, thus filling excess berths from the lower-priced market if necessary. The overall effect of such a policy would be that, even if revenues were to fall as a result of a price rise, the significant cost savings achieved by the reduction in capacity would render a price rise very profitable.

7.51. It argued that barriers to entry in the premium market were high. It cited brand awareness; the capital required for new builds; the need for links with distribution channels; and the economies of scale existing operators had as the most significant barriers. Moreover, it said, the greater size of the combined entity would enhance its negotiating power with ports for berths, shipyards for new builds and airlines for charters, to the detriment of smaller companies and potential new entrants.

7.52. It recognized the potential for capacity coordination in relation to the global supply of new ships and capacity to the UK market by the merged entity, and Carnival in terms of deployment, pricing and long-term additions.

7.53. It argued that post-Panamax ships had become key hardware for competing in the premium cruise market, as it were more attractive to customers and were significantly more profitable to operate. In 2003 the merged company would own 65 per cent of the total berths on Post Panamax ships with the remaining 35 per cent owned by Carnival. It did not believe that any other existing or new operators had the capital, brand name or distribution links to successfully operate Post Panamax ships. Competition would therefore be further reduced in the premium market.

7.54. It believed that the strength of the portfolio of the brands offered by the merged company could enable them to negotiate an exclusivity (or lock-out) arrangement with travel agents. These arrangements could either be explicit, with the clear exclusion of other companies, or implicit, giving POPC/RCCL increased racking space at the expense of other companies. This would result in a reduction in consumer choice and possible price increases or increased distribution costs for competitors.

7.55. It said that the merged company's potential to dominate the distribution chains was heightened by RCCL's vertical integration with First Choice.

## **Industry specialists**

### ***Carolyn Baird and Roger Cartwright***

7.56. Carolyn Baird is the Director of the Centre for Tourism and Interpretation at Perth College, University of the Highlands and Islands Millennium Institute. She and Roger Cartwright are the authors of *The Development and Growth of the Cruise Industry*.

7.57. They believed that the merger would benefit the UK customer, both in terms of price and product choice.

7.58. They said that cruise companies competed within the wider holiday market. Consequently any increase in price by the merged company would again lead to consumers switching to an alternative holiday. They argued that this price sensitivity was particularly acute since 11 September. Cost reduction in the cruise industry could be achieved only through economies of scale, as any reduction in the level of service would lead to customers switching brands. They believed that the proposed merger would enable POPC and RCCL to achieve such economies of scale and pass savings to the consumer.

### ***Simon Champion, Deutsche Bank Alex Brown***

7.59. Simon Champion is a leisure analyst at Deutsche Bank Alex Brown. He has written extensively on the cruise industry, and on 11 December 2001 published a note on the proposed merger between POPC and RCCL.

7.60. He said that cruising was part of the wider holiday market. He believed that cruising had initially been a separate market, as its customer base had consisted of dedicated cruisers who would not consider alternatives. The expansion of capacity, however, had forced companies to market to new customers who would consider cruising as one of their holiday options. This had led to the democratization of cruising and had moved it into the wider holiday market.

7.61. Mr Champion drew distinctions between the luxury sector, the premium sector and fly-cruises to the Mediterranean. Consequently, he did not recognize any interchange between the customers of these sectors. He did not believe that POPC would wish to enter the budget market for fear that it would dilute its brand.

7.62. He viewed the European cruise market as being in its infancy. He believed that the merged company intended to put its new ships into the European market and that this was part of the motivation behind the joint venture in southern Europe.

7.63. He explained that it was difficult for cruise companies to lay up ships, as the fixed costs were too high. However, after 11 September, Princess Cruises had laid up one of its ships.

7.64. Mr Champion identified barriers to entry to the cruise sector. He argued that brand was the least significant barrier to entry. Any company with a transferable brand image could enter the market. He stated that any company with the backing for the significant capital investment needed to build or buy ships could enter the market. He could not see how any company without scale could successfully enter the market.

7.65. He expected that smaller companies, such as Star/NCL, would have difficulty securing racking space in travel agents. Moreover he argued that directional selling by tour operators had increased over the past three years.

7.66. He said that the merged company would create cost synergies in excess of \$100 million, but he did not believe that the cost savings would lead to lower prices.

7.67. He stated that the practice of lowering prices early to fill capacity quickly was more common in the US market. This was, however, an indicator of healthy competition within the US market. UK customers would find it difficult to buy a cruise at the US price.

### ***G P Wild International Ltd***

7.68. G P Wild International (G P Wild) is a management, marketing and economic consultancy practice covering sectors such as cruising, ports, shipping and shipbuilding.

7.69. It stated that cruising was part of the wider holiday market and thus competed on price against all holidays. It did not believe that the merged company would be able to raise prices, as there were too many alternatives to cruising. It stated that the cruise industry competed on marginal pricing to fill capacity and then focused on maximizing revenue on board. In the low season, the price points on many brands might be found to be similar.

7.70. G P Wild argued that some customers might alternate between the luxury and premium or premium and budget segments of the market depending on the economic environment. Moreover it quoted the results of a Mintel survey of consumer taste. The survey indicated that there were no fundamental differences in the tastes and preferences of US and British cruisers.

7.71. G P Wild stated there were no significant barriers to entry to the cruise market. Entrants must, however, have the support of a highly capitalized group.

7.72. It said that the UK market was at present constrained by limited supply. It predicted that over the next ten years the UK cruise industry would continue to grow as cruise companies moved extra capacity into the market. Similar growth would occur in the underdeveloped European markets as a result of capacity movements.

7.73. It said that ownership of a post-Panamax ship, such as those operated by POPC and RCCL, would give those companies a significant competitive advantage in the Caribbean. The ships run with low unit costs and could therefore enable companies to offer lower prices while still remaining profitable. This could result in downward pressure on prices in the Caribbean, forcing out smaller companies with higher unit costs.

7.74. G P Wild stated that the merger would create a company of broadly equal size to Carnival in terms of capacity. It recognized that the merger would create economies of scale and increased efficiency for both companies. It did not believe that the merged company would have enhanced powers over travel agents.

7.75. G P Wild said that the predicted figures for direct Internet bookings had increased from an estimated 10 to 15 per cent in the late 1990s to predictions of 40 per cent this year.

## ***Lloyds Cruise International***

7.76. *Lloyd's Cruise International* (LCI) is a bimonthly trade publication published by Informa.

7.77. It said that there was a national (ie UK) source market for cruising. Within some large cruise operators, customers moved from lower- to higher-end brands. There was some concern among suppliers, such as the shipyards and equipment manufacturers, that the merged company could force prices down.

7.78. LCI cited a discussion of the issues arising from consolidation within the industry, by a panel of luxury cruise companies at the annual cruise conference in Miami. The discussion concluded that products within the luxury segment of the cruise market were sufficiently different that a merger in the premium market would not be likely to affect the luxury market seriously. LCI recognized that there was some sensitivity in the industry over the possible growth of Internet sales, as the cruise companies did not want to alienate the travel agents.

## ***Travel Weekly***

7.79. *Travel Weekly* is a travel industry newspaper with an average circulation of 23,570 per week.

7.80. It believed that the combination of the second and third biggest cruise lines would reduce competition and lead to possible price increases. It said that the merger with RCCL could alienate POPC's existing customer base, which is wealthier and more traditional than that of RCCL. It raised concerns over the loss of a blue-chip UK company and the potential loss of jobs resulting from the merger. It also said that in the long term the merger might force travel agents to accept smaller commissions.

7.81. *Travel Weekly* raised the possibility of a counter-merger between Star Cruises and Carnival. This, it argued, would be in response to the POPC/RCCL merger and serve further to reduce competition in the industry.

## **Shipbuilders**

### ***Euroyards***

7.82. Euroyards is a European Economic Interest Grouping based in Brussels and incorporated in 1992. Its members are: Chantiers de l'Atlantique, Alstom Martine, France; Fincantieri SpA, Italy; Howaldtswerke-Deutsche Werft, Germany; Izar Construcciones Navales SA, Spain; Jos L Meyer GmbH, Germany; and Kværner Masa-Yards Inc, Finland. Euroyards made representations on behalf of all its members. Individual members submitted data that forms part of Chapter 5.

7.83. Euroyards said that its members had supported the growth in capacity in the industry by providing increasingly sophisticated ships for the market. Cruise shipbuilding formed a significant part of the shipyards' overall turnover; moreover, it provided significant income for secondary industries working with the shipyards.

7.84. Euroyards said that the merger would significantly alter the development logic of the cruise shipbuilding market.

7.85. It raised concerns that, post-merger, 80 per cent of the demand for new cruise ships would come from two rather than three companies, which would give them greater negotiating strength against the shipyards. The merged company's enhanced power in dealing with the leisure and travel industry as well as with the final passenger demand would most likely result in an overall reduction in new building.

7.86. Howaldtswerke-Deutsche Werft made an additional submission stating that, over the previous years, despite what it considered to be extremely high profits for an overall decreasing number of cruise companies, cruise ships generally had been built either with subsidies and/or at a loss to the shipyard.

## **Tour operators/travel agents**

### ***Bath Travel***

7.87. Bath Travel (Bath) is a privately-owned cruise specialist with 65 retail outlets in central southern England. The company is a founder member of ABTA; Stephen Bath (Joint Managing Director) is the Association's current President.

7.88. Bath provided 7 per cent of POPC's travel agency revenue in 2001. Conversely, POPC represented 22 per cent of Bath's total business.

7.89. Bath expressed its strong support for the merger, which it believed would facilitate further growth in the UK cruise market. It said that the merger would not lead to a reduction in consumer choice. This was because cruising was part of the wider holiday market and there were many holiday alternatives available to the consumer. Bath believed that the merger would have more effect on the US market than the UK. Consequently it did not expect any significant impact in the UK.

7.90. Bath said that prices for Caribbean cruises were not likely to rise in the UK as a result of the merger, because UK customers already paid more than their US counterparts.

7.91. It argued that, post-merger, it would be important for POPC to keep some ships wholly British, as it was unlikely that Bath's customers would choose to travel on a predominantly US ship.

7.92. Bath explained that it operated a scheme to sub-charter Britannia Airways planes to fly its customers from Bournemouth to POPC's ships in the Caribbean. The scheme was run with the co-operation of POPC, which ensured that anyone wishing to fly from Bournemouth to the Caribbean had to book through Bath. Bath had also extended this scheme to include Fred Olsen.

### ***Bolsover Cruise Club***

7.93. Bolsover Cruise Club (BCC) is a specialist cruise travel agent with a customer base of nearly 40,000. It sells only premium and luxury cruises, not tour-operator cruises.

7.94. BCC stated that the cruise market was separate from the general holiday market. Moreover it asserted that the premium cruise market and the tour operators' cruise market were separate, with no movement of customers between them. It made a similar distinction between US-style and UK-style cruises. It said that Star/NCL was moving away from the premium market towards the contemporary.

7.95. Cruise prices did not vary significantly over time. Prices were consistent from the first brochure edition to the final pre-sailing price. Discounting was a marketing tool to attract consumer interest but had little bearing on price.

7.96. BCC said that barriers to entry in the cruise market were high. It cited brand awareness as the biggest one. It said that the level of complaints from its customers about the quality of premium cruises had risen. Its customers were dissatisfied with the increasing homogeneity of ships and the decreasing attention to detail. It estimated that 20 per cent of its customers cruised twice a year. The average cruise passenger would take at least one other holiday a year.

7.97. There was already limited choice in the cruise market because of the strength of POPC's brands. BCC did not view Star/NCL or any of the Carnival brands as significant UK players. It considered the consumer as limited in choice to one of the two principal POPC brands, RCI and Celebrity, or Fred Olsen.

7.98. BCC said that the merger would lead to an even greater reduction in consumer choice. It did not believe that the merged company would maintain all the separate brands. Before the merger of RCI and Celebrity Cruises Inc, these were two separate brands offering different products, whereas the combined company now offered two brands but with nearly identical products. BCC raised concerns that POPC would create another lower-priced brand that would change the focus of its loyal customers from brand to price.

## ***Colchester Travel***

7.99. Colchester Travel (CT), an independent travel agency, made representations to the CC on behalf of CARTA (The Campaign for Real Travel Agents), an association of independent travel agents.

7.100. CT stated that it welcomed the merger, as it believed it would increase the choices available to UK customers. It believed that the strength of POPC in the UK would balance well with the weakness of the RCCL brands outside the USA. The merged group would be better equipped to withstand competition from other cruise groupings that were more US focused, with whom they found relationships less productive.

7.101. CT had received a high level of support from POPC's marketing and sales teams. It expected that this would continue and be more effective when applied to a greater capacity. This would make the cruise market more accessible to customers. It added, however, that any merger involving the transfer of financial responsibility and/or ownership from a predominantly UK base would, in the long term, lead to the erosion of UK customers' and retailers' interests.

## ***Cruise Savers International***

7.102. Cruise Savers International claimed to be one of the largest independent cruise sellers in the UK. It believed that the merger would increase choice for the consumer and that it would increase competition in a market that was already highly competitive.

## ***First Choice Holidays plc***

7.103. First Choice is a leading integrated holiday group, including tour operation, travel agency and aircraft charter operation. RCCL has a 17 per cent shareholding in First Choice and a right to nominate one of its ten main board directors. In addition, each has a 50 per cent share in a joint venture: Island Cruises. Island Cruises started operating a 1,680-berth cruise ship in Europe in April 2002.

7.104. First Choice said that cruises were part of the wider holiday market. It differentiated, however, between the tour operators' holiday market and cruises, and the premium holiday market and cruises. First Choice did not see its cruises competing with premium brand cruises, and accordingly did not set its prices with reference to them. Rather they competed with land-based air-inclusive tours and were priced by reference to these products: as such, First Choice viewed its principal competitors as the budget cruising business of Airtours and Thomson.

7.105. First Choice believed that there were few barriers to entry in the tour operators' cruise market. It said that because of the ready availability of ships and the pre-existence of brand and air routes, any tour operator could be operational in the cruise market within a year. Moreover, it saw no reason why other tour operators, such as Thomas Cook, could not operate joint ventures with other cruise operators. First Choice thought that there were greater barriers to entry in the premium market, the most significant of which it believed to be the building of new ships.

7.106. It said that, from its perspective, the merger would have little or no impact on the competitive landscape.

7.107. First Choice addressed concerns that, post-merger, the combined company could dominate its distribution channel through RCCL's links with First Choice. Richard Fain, RCCL's nominated director on First Choice's main plc board, was only one of ten directors. The role of the main plc board was to consider strategic policies for the First Choice Group as a whole; it did not consider the marketing of cruises within the retail division, which was an operational matter.

7.108. First Choice thought that, even if RCCL cruises were the only ones to be sold through First Choice retail outlets (and this was not its intention), other cruise companies would not be materially affected. First Choice was responsible for only a minimal amount (1% per cent) of cruises sold in the UK (excluding its own brand). The most significant effect of such an exclusivity arrangement would be the risk to RCCL of alienating the other three leading mass market multiple UK travel agents.

7.109. First Choice said that, while there were no formal retail agreements between RCCL and First Choice Retail Division, First Choice was committed to making a positive effort to sell RCCL cruises. It argued that, while this could in theory have a small detrimental effect on the sales of other premium cruise brands, in its opinion the promotion of RCCL had grown the market and led to an increase in customer awareness and overall sales of cruises.

7.110. One of the incentives for its strategic relationship with RCCL was the opportunity to operate a cruising joint venture, Island Cruises. First Choice recognized that RCCL needed to enter the budget cruise market through a joint venture: it did not have the distribution channels, the brand or the access to airlift to operate alone in the budget market.

7.111. First Choice said that all tour operators practised directional selling; beyond this, relationships between operators were symmetrical, with no single operator favouring another. It said that the non-vertically-integrated cruise operators did not suffer from limited access to the selling arm of the tour operators. Moreover, 60 per cent of cruises were sold through independent cruise agents to whom all cruise operators had equal access.

7.112. If the joint venture were successful, First Choice might consider adding extra capacity. However, its approach was cautious because, while capacity was easily filled during the summer, it was more challenging when the market moved from the Mediterranean to the Caribbean in the winter, where First Choice had to compete with strong US companies.

### ***MyTravel Group PLC***

7.113. MyTravel (formerly Airtours Group) consists of distribution and tour operator brands. These include Airtours as the principal tour operators and Going Places as the main high street travel agency chain. In 2001, over half of the group's £5,089 million turnover was generated in the UK.

7.114. MyTravel said that cruising was part of the wider holiday market. It argued that there were subsectors within the cruise sector, and that Airtours was in a different subsector from the premium brands such as POPC and RCCL. It did not believe that a non-premium brand could move into the premium subsector; a premium cruise company could, however, move into the budget subsector.

7.115. It said that the cruise sector was characterized by supply-side substitutability: ships could easily be moved between geographic markets. It argued that barriers to entry in the cruise sector were low, citing the recent entry of tour operators.

7.116. Unlike premium cruise brands, MyTravel did not feel constrained on price by its brand image. It explained that it lowered its prices until it filled its capacity. It believed that the incoming increase in supply would exceed the present trend of increase in demand.

7.117. It highlighted the fact that the merged company would have a 40 per cent market share within the Caribbean, and expressed concerns that if overcapacity in the Caribbean occurred, companies would move their ships to the European market.

7.118. MyTravel said that there was no difference between sales of Carnival cruises that it had sold when vertically integrated with Carnival and sales after the integration had ceased. This was because of the comparative weakness of the Carnival brand in the UK, which had made it difficult to sell.

7.119. It argued that, while with the increase in direct sales and Internet booking, cruise companies were becoming less dependent on travel agents, travel agents were still very important and remained the key distribution channel for holidays within the UK. RCCL's potential link-up with POPC, when combined with the vertical integration of First Choice, could mean that the combined entity enjoyed a competitive advantage in respect of the sale and distribution of Caribbean Cruises.

### ***Page & Moy Ltd***

7.120. Page & Moy is a worldwide tour operating and travel agency business. It submitted data which forms part of the market chapter, but offered no opinion on the merger.

### ***Thomas Cook UK Ltd***

7.121. Thomas Cook is an integrated leisure group encompassing tour operators, airlines, hotels, travel and incoming agencies. It had no opinion on the merger.

### ***TUI UK***

7.122. Thomson Travel Group was renamed as TUI Northern Europe on 3 April 2002. The UK division incorporates Lunn Poly, Thomson Holidays, Team Lincoln, Travel House Group, Manchester Flights and others. TUI UK said that it had no opinion on the merger.

D P B KINGSMILL (*Chairman*)

A T CLOTHIER

P F HAZELL

P KLEMPERER

E J SEDDON

R FOSTER (*Secretary*)

20 May 2002