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Eurotunnel waits to see if watchdog will sink its ferries

If the tunnel operator loses its appeal, the French may ban British rivals

Kari West Published: 29 September 2013

Eurotunnel may be left with a €150m line it can't operate (Chris Ratcliffe)

WAVES buffeted the My Ferry Link ship as it carved a path across the English Channel towards Calais.

The distinctive red, white and blue ferries have become a familiar sight on the short crossing between Dover and northern France since they were snapped up in August 2012 by Eurotunnel from Sea France, the state-owned operator that plunged into administration.

The upstart quickly found its sea legs and has been a thorn in the side of its more established rivals, P&O and DFDS Seaways, by grabbing market share with keenly-priced deals.

Despite this hard-fought battle for passengers, Britain's Competition Commission wants to blow the ferry operation out of the water.

In June, the watchdog ruled that the Channel tunnel operator would have a stranglehold on traffic between Britain and northern France if it were allowed to run the ferries alongside its dominant subsea shuttle business.

The ruling was met with howls of derision by Jacques Gounon, chief executive of Eurotunnel, who dismissed the findings and immediately launched an appeal.

He noted the ships are subcontracted out to a workers' trust, which manages My Ferry Link. This complex deal saved the jobs of 600, mainly French, workers, while giving Eurotunnel another string to its bow. The ferry arm sails 16 times a day between Calais and Dover.

A huge amount is riding on the outcome for the Anglo-French business. The tribunal's final decision is due within the next few weeks.

If its appeal fails, Eurotunnel will be forced to quit the ferry business and sell two of its three ferries within six months.

This could prove more difficult than it appears. An earlier ruling by the French commercial court, which oversaw the liquidation of Sea France, stipulated that Eurotunnel could not sell the ships for at least five years.

So Gounon could be left with a €150m (£126m) business he can't operate, and ferries he can't sell until 2017 at the earliest.

Eurotunnel is listed on the Paris stock exchange, with a market value of €3.4bn. It employs more than 3,600 staff in Britain and France and last year generated revenues of almost €1bn.

The company has operated the Channel tunnel since it opened in 1994, and it has been used by more than 300m passengers. Le Shuttle rail service carries 2.5m cars and 1.5m trucks every year. Eurostar also uses the tunnel to run high-speed trains from London to Paris and Brussels.

Lawyers for the "chunnel" operator have this month challenged the Competition Commission's ruling at an appeal tribunal in London. Eurotunnel insists it was not given all the submissions from rivals, such as DFDS, during the original hearing.

"So it was quite difficult to mount a defence," Gounon said.

The commission's hardline approach was a surprise to the infrastructure company because it contradicted the French competition authority, which gave its blessing to the deal last November.

The British watchdog's rationale for blocking the deal raised some eyebrows initially. Reducing the number of players usually harms rather than improves competition.

However, the latest data shows why it was persuaded to make such a bold move.

In May, DFDS had 22.9% of the cross-Channel freight market; P&O had 28.8%; My Ferry Link had 9.5%; and Eurotunnel had 38.9%. Add the ferry arm to Eurotunnel's figures and it has a 48.4% share of the market.

Passenger data from the same month shows that DFDS captured 17.6%; P&O had 26.2%; Eurotunnel had 49.6%; and My Ferry Link grabbed 6.5%. The combined businesses would have 56.1%.

In its report, the Competition Commission highlighted Eurotunnel's dominance and expressed concern it would develop an even tighter grip on the market via the ferry business.

The commission also argued that the Sea France purchase was a defensive measure to prevent a rival from buying the ferries, and argued the ferry business would allow Eurotunnel to drive down prices and push out competitors.

"We have noted that Eurotunnel's rationale for the merger was largely based on removing DFDS from the short-sea market," it said.

"Were DFDS to exit the Dover-Calais route, this would result in the market-weakening aspect of the substantial lessening of competition we have identified."

Gounon dismissed this, and insisted that DFDS was "no weakling". The Danish ferry giant's accounts show it is in reasonably robust shape — it notched up £1.3bn of revenues last year and profits of £31m.

"Our strategy is to have a complementary business to the tunnel," Gounon claimed.

DFDS and P&O, which is owned by the government of Dubai, continue to argue that the dominant cross-Channel operator should not be allowed to tighten its grip.

They are also concerned that if Eurotunnel's ferries are barred from operating services at Dover it may lead to retaliation from the French. A ban on British ferries running services into Calais would be catastrophic.

P&O said: "We don't believe any competitor should be able to operate below cost, and we don't think the tunnel operator should own a ferry business.

"This is a way for one French company to prop up another French company to the detriment of P&O."

There is some evidence to suggest that Eurotunnel has decided to absorb losses in the short term in order to muscle in on the short-sea strait.

Eurotunnel's first-half figures reveal that My Ferry Link racked up a pre-tax loss of €19.3m in the period. However, the figures also suggest that the interloper has been offering good deals for customers.

The appeal tribunal has a tricky decision to make. But Gounon believes the situation is much simpler than the Competition Commission's view.

"We can't understand why they can go from three operators to two. But they are the experts," the chief executive said.

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