

*Case No IV/M.0334 -
Costa Crociere /
Chargeurs / Accor*

Only the Italian text is authentic.
Unofficial English Translation

**REGULATION (EEC) No 4064/89
MERGER PROCEDURE**

Article 6(1)(b) NON-OPPOSITION
Date: 19.07.1993

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COMMISSION OF THE EUROPEAN COMMUNITIES
DIRECTORATE GENERAL IV - COMPETITION

Merger Task Force

Brussels, 19.07.1993

PUBLIC VERSION

MERGER PROCEDURE -
Article 6(1)b decision

Unofficial English Translation

To the notifying parties

Dear Sirs,

Subject: Case No. IV/M.334 - Costa Crociere/Chargeurs/Accor
Notification of 17.06.1993 pursuant to Article 4 of Council Regulation
(EEC) No. 4064/89

1. This operation concerns the acquisition by Chargeurs and Accor of a stake in Costa Crociere, to which they will also transfer their joint subsidiary Compagnie Française de Croisières (Croisières Paquet). Costa Crociere, previously controlled by Il Ponte, will thereby become a joint venture.
2. After examination of the notification, the Commission has concluded that the notified concentration falls within the scope of Council Regulation No. 4064/89 and does not raise serious doubts as to its compatibility with the common market.

I. THE PARTIES

3. Il Ponte SpA is an Italian financial company whose main activity is the management of its 40.8% shareholding in Costa Crociere SpA, the rest of the shares being widely held. It controls Costa Crociere by virtue of an agreement signed with some shareholders on 29 October 1990 and renewed on 16 December 1992.

Costa Crociere SpA is an Italian group of companies, principally active in the cruise sector. It owns seven ships that operate mainly in the Mediterranean and in the Caribbean.

4. Accor SA is a French group operating mainly in the hotel, restaurant, tour, travel and theme park sectors.

Chargeurs SA is a French group whose activities comprise mainly textile production, communications and transport.

Compagnie Française de Croisières SA (usually known as Croisières Paquet) is a jointly controlled subsidiary of Accor and Chargeurs which operates cruises in Scandinavia, the Far East, the Indian Ocean and the Caribbean.

II. JOINT VENTURE

5. On 10 May 1993, Il Ponte, Accor and Chargeurs signed an agreement whereby the capital of Costa Crociere would be increased and underwritten by Accor and Chargeurs who would pay partly with the transfer of the joint subsidiary Croisières Paquet and the rest in cash.

The new shareholding structure would reduce Il Ponte's stake in Costa Crociere to 32.2% and would confer on Accor and Chargeurs a shareholding of 11.8% each. The remainder of the equity will continue to be widely spread amongst small shareholders.

6. On 20 May 1993, the existing agreement between Il Ponte and some shareholders affording Il Ponte control of Costa Crociere was enlarged to include Accor and Chargeurs. According to this agreement, there will be a pool of shareholders accounting for 53.3% of the equity and thereby holding blocking rights at the shareholders' meeting. The members of the pool will jointly decide on Costa's annual budget, business plan, commercial strategy, investment policy, increases of capital, transfer of shares and the nomination of directors to the board.

The common position within the pool is reached by a majority of 80% of those shares that the shareholders have included in the pool. Since Il Ponte holds 27% out of 53.3% and Accor and Chargeurs together have 19.8%, this provision means in practice that all strategic decisions will need the approval of the three main shareholders.

7. As a result of the above mentioned elements, it can be concluded that Il Ponte, Accor and Chargeurs will jointly control Costa Crociere which will in turn control Croisières Paquet.

III. CONCENTRATION

8. Costa Crociere is a fully fledged company operating in the market with all the assets and personnel necessary to carry out its activities. After the change in its shareholding structure, it will continue to perform on a lasting basis all the functions of an autonomous economic entity. Furthermore, its duration is unlimited.

9. As far as the competitive relationship between the parties is concerned, with the transfer by Accor and Chargeurs of their joint subsidiary Croisières Paquet to Costa Crociere, all the activities of the three shareholders in the cruise sector will be carried out by Costa. Regarding the businesses of the three parent companies themselves, the fact that they operate in very different sectors shows that there will be no coordination of their competitive behaviour by means of this operation.
10. The only theoretical possibility of coordination could arise between Accor and Costa Crociere. The former provides, amongst other services, many related to the tourism market in the widest sense (hotels, hotel catering, tour operators, travel agencies and theme parks).

The direct link between the activities of Accor and Costa is to be found in the hotel sector, since some cruise holidays include one or more nights in a hotel. However, this seems to be only a hypothetical possibility because there are a limited number of destinations for Costa's and Paquet's ships where Accor owns hotels and, in the past, the actual number of Paquet's passengers that stayed in Accor's hotels was very low.

11. As a result, it is considered that the present operation does not have as its object or effect the coordination of the competitive behaviour of undertakings which remain independent. It therefore constitutes a concentration in the sense of Article 3 of Regulation 4064/89.

IV. COMMUNITY DIMENSION

12. The present operation has a Community dimension within the meaning of Article 1(2) of the Regulation. The combined aggregate worldwide turnover of Costa Crociere, Accor and Chargeurs exceeded 8 billion ECU in 1992.

Accor and Chargeurs attained a Community-wide turnover of more than 250 million ECU, of which they did not achieve more than two-thirds within one and the same Member State.

V. COMPATIBILITY WITH THE COMMON MARKET

The product market

13. The core business of both Costa and Paquet is the provision of cruise holidays. Paquet sometimes adds to these trips the possibility of staying at a hotel or doing a tour inland. The latter activities represent 20% of its overall turnover.
14. Cruises are organised leisure trips which can be identified by the "holiday concept": a journey on a ship (which includes accommodation and meals), entertainment on board and sightseeing. In most cases they are advertised in special brochures, although usually sold through travel agents like other organised holidays.
15. In order to determine whether the relevant market to be considered should be the cruises alone or a wider one comprising organised leisure trips of all kinds, a very widespread inquiry has been carried out in travel agencies, tour operators and

cruise operators in the eight Member States where the parties are - even marginally - present. The results of this enquiry could be summarised as follows:

- 15.1. When choosing to take a holiday on a cruise, the priorities of customers are usually: firstly, the holiday concept described above -; secondly, the quality of the service; thirdly, the countries to be visited and, finally, as a fourth criterion, the price.
- 15.2. With respect to the foreseeable reaction of consumers to a 10% increase in the prices of cruises, it was found that around 50% of the total number of cruise holidaymakers are very loyal and would not switch to another form of organised trip even with higher increases of prices. This tendency is even clearer in the higher range of cruises where passengers are very selective and less budget-constrained. As to the remaining 50% of cruise customers, many responses indicated that some would consider other options, in particular organised holidays in a village or club (combination of hotel, sports and entertainment) or tours in exotic destinations.
- 15.3. On average, tour and cruise operators and travel agents tend to regard cruises as a segment within the wider organised holidays market.
16. The above elements show that although some tour operators and most travel agencies offer both cruises and other package holidays, from the point of view of the consumer - taking into account both categories described above - the overall result is that some substitutability exists between cruises and other types of holidays (in the medium-high range) but that it is limited. Therefore, the analysis of the present transaction will focus on the narrowest possible market, i.e. the cruises. Since it does not lead to the creation of a dominant position at that level, the precise definition of the market can be left open.

The geographic reference market

17. Cruise destinations offered worldwide are mainly in the Caribbean (72% of the overall offer), the Mediterranean (8%), Northern Europe (4%) and a variety of other places such as Alaska or the Far East (16% in all).
18. However, the definition of the market should be based on the area where conditions of competition are homogeneous from the demand point of view, which implies that the definition of the market should focus on the options available to consumers when making a reservation of a cruise or a package holiday in general. This is the area where cruise operators compete for customers, regardless of the final destination of the trip. In fact, a cruise or tour operator providing a holiday in the Caribbean does not compete in the Caribbean itself but in those countries where that journey is offered to possible clients.
19. From this perspective, the market for cruises and package holidays as a whole seems to be national, at least in the case of the Community. The following factors support this conclusion:

- 19.1. Different types of journeys are offered in the different Member States and prices vary accordingly. For example, in Germany and the UK the average price for organised holidays can be up to 20% lower than in other Member States.
- 19.2. The market presence of cruise and tour operators varies considerably from one country to another. Often domestic operators have a strong position in their own country and a weak or no position in other States.
- 19.3. Preferences of consumers are not the same. For example, whereas in France or Germany more than 110,000 passengers went on a cruise holiday in 1992, in Spain this figure was only 15,000. At the same time, whereas more than 65% of Italian, French or Spanish passengers would prefer the Mediterranean, this percentage would not exceed 30% in the case of German or British tourists.
- 19.4. Organised holidays need local adaptations in terms of the language of the tourist guides, the geographical point of departure, etc.
- 19.5. In order to sell cruises and other organised holidays in a given country, the prerequisite is to carry out advertising campaigns targeting consumers in that country and to create a national distribution network through domestic travel agents and special brochures.

Although it is possible to conceive that a passenger, dissatisfied with the offer of organised holidays in his country, could try to book a trip offered in another country, this seems to be an exceptional situation. Therefore, it is to be concluded that the markets for cruises and other package holidays are still predominantly of a national character.

Assessment

20. In Western Europe, 50 million people booked an organised holiday in 1992, of which 600,000 went on a cruise holiday (1.2%). Figures show that the cruise segment has had a stable growth of 10% per year since 1970 and this trend is expected to continue in the coming years.
21. As a result of the transaction, the parties will hold a 22% share of the overall cruise sector in the Community (in terms of number of passengers transported). In the narrowest possible market (cruise holidays offered in each Member State) the market position attained by the parties will exceed 10% in the following countries: Italy (around 55%), Spain (around 36%) and France (around 45%). However, since Paquet does not operate in Italy and has a marginal presence in Spain (around 3%), the country where there is significant increase of market share is France, where Costa accounts for about 28% and Paquet about 17%.
22. In the French market there are five competitors with market shares ranging from 15% to 5%. Some of them also operate in other Member States. The presence of these cruise operators is such as to constrain possible attempts of the parties to raise prices. At the same time, certain competitive pressure could also be expected from those holidays identified as the closest - although limited alternatives (a holiday in a village or club).

At the same time, barriers to entry in the cruise market do not seem to be very high, at least for well-established tour operators with a wide distribution network and sufficient financial resources. This seems to be confirmed by the fact that Club Med, which only launched cruise services operating one ship in 1990 to which it added a second ship at the end of 1992 -, had already attained a 5% market share in France in 1992. Furthermore, cruise operators present in other countries could start offering their services on the French market, since creating a marketing and distribution network is not considered, in the majority of the answers received, to be difficult to achieve. This tendency could be favoured by the fact that the growth rate of the cruise market throughout the Community is higher than for other organised leisure holidays.

23. As a result of the rationalisation brought about by the operation, some of the services could be offered at lower prices, thus matching the price levels of other organised holidays. Nevertheless, the competitive environment described above is such as to prevent any economically profitable predatory pricing policy.
24. With respect to the possible vertical integration of the parties in the French market for the fact that Accor owns the travel agency group Wagons-Lits, no significant effect can be expected because Wagons-Lits does not have an appreciable share of the widely dispersed travel agencies market in France.

VI. CONCLUSION

25. The findings described show that the proposed concentration will not create or strengthen a dominant position as a result of which effective competition would be significantly impeded in the common market or a substantial part of it.

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For the above reasons, the Commission has decided not to oppose the notified concentration and to declare it compatible with the common market. This decision is adopted in application of Article 6(1)b of Council Regulation No. 4064/89.

For the Commission