ACQUISITIONS (CRUISE LINES): THE CARNIVAL CASE

Subject: Acquisitions

Industry: Cruise Lines

Parties: Carnival Corporation
P & O Princess plc

Source: Commission Statement IP/02/552, dated 11 April 2002

(Note. This case has some interesting ramifications, in that it is not only closely related to a more or less simultaneous proposal by Royal Caribbean Cruises to acquire P & O Princess, but also on account of the participation of three different competition authorities, from the United Kingdom, the United States and the European Communities respectively, responsible for dealing with the case.)

The Commission has decided to open an in-depth investigation into the proposed acquisition of the British cruise operator P&O Princess plc by the US-based cruise operator Carnival Corporation. Current information suggests that there are serious concerns, particularly in relation to the parties' strong position in the cruise sector in the United Kingdom, Germany and possibly other European countries.

Carnival is a company active world-wide in maritime cruise operation, offering a broad range of cruise brands through Carnival Cruise Lines, Holland America Line, Costa Cruises, Cunard Line, Seabourn Cruise Line and Windstar Cruises. Carnival operates around 40 ships in various destinations around the world.

P&O Princess is also a company active world-wide, mainly in maritime cruise operation, with around 20 ships, marketed under the following brands: Princess Cruises, P&O Cruises, Swan Hellenic, Aida Cruises, Seetours, and A'Rosa. P&O Princess has also activities in riverine cruises.

On 16 December 2001, Carnival announced a unilateral pre-conditional offer to acquire all the shares of P&O Princess.

The Commission's preliminary investigations indicate that the operation raises serious concerns regarding the market for oceanic cruises in the United Kingdom and Germany where the operation is likely to lead to the creation or strengthening of a dominant position. The Commission will also investigate the cruise sector in Spain, Italy and France, where the combined entity would have a strong position but with minimal overlaps.

In the course of the Commission's market investigation, some concerns have also been raised as to the detrimental effect that Carnival's bid could eventually have on certain vertically related markets linked to the ocean cruise industry, primarily

the ship-building business, the ports sector and travel agencies. These concerns will be further assessed in the in-depth investigation.

In view of the serious doubts on the compatibility of the operation with the common market and the functioning of the EEA Agreement, the Commission decided to initiate proceedings in accordance with the Merger Regulation. The Commission has now four months to reach a final decision on the notified transaction. The initiation of the formal investigation procedure is a procedural step and is without prejudice to the final outcome.

UK referral request

The competition authorities of the United Kingdom have requested referral of the case pursuant to Article 9 of the EC Merger Regulation in so far as the merger affects competition in the market for the supply of cruise holidays in the United Kingdom. The Commission considers that the formal conditions for such a referral are met as the proposed operation threatens to create a dominant position on a distinct market within the United Kingdom. It has in such circumstances discretion whether to refer the examination of such a distinct market to the Member State or whether to open proceedings itself. The Commission has carefully weighed the arguments for and against such a referral, and in particular the fact that the rival bid for P&O Princess, launched by Royal Caribbean is currently under investigation in the United Kingdom. However, as the Commission's own preliminary investigation revealed that the operation proposed by Carnival also raised competition concerns in other Member States, the Commission considers that in these circumstances it is more appropriate not to fragment the case and not to conduct parallel investigations in Europe.

Under the referral provisions of the EC Merger Regulation (Article 9), the Commission had the option in this case to either refer the part of the case to the United Kingdom Competition Authorities or to open a detailed investigation itself, including the markets which are the subject of the request. Under the bilateral agreement of 1991 on antitrust co-operation between the European Community and the United States of America, the Commission and the Federal Trade Commission have been cooperating and will continue to do so. (This cooperation was facilitated by Carnival's consent to direct exchange of confidential information submitted by it in the course of both procedures.) The Commission has also been in fruitful contact with the United Kingdom's Competition Commission to which the Secretary for Trade and Industry has referred the United Kingdom's investigation of Royal Caribbean's bid. ■

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