National Express Group PLC
and
Saltire Holdings Ltd

A report on the merger situation

MONOPOLIES AND MERGERS COMMISSION

National Express Group PLC and Saltire Holdings Ltd

A report on the merger situation

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[1]These members formed the group which was responsible for this report under the chairmanship of Mr J D Montgomery.

Note by the Department of Trade and Industry

In accordance with section 83(3) and (3A) of the Fair Trading Act 1973, the Secretary of State has excluded from the copies of the report, as laid before Parliament and as published, certain matters, publication of which appears to the Secretary of State to be against the public interest, or which he considers would not be in the public interest to disclose and which, in his opinion, would seriously and prejudicially affect certain interests. The omissions are indicated by a note in the text.

Contents

1 Summary

1.1. On 15 October 1993 the MMC were asked (see Appendix 1.1) to investigate and report on the acquisition by National Express Group PLC (NEG) of Saltire Holdings Ltd (Saltire), which had taken effect on 5 May 1993.

1.2. NEG, through its subsidiary National Express Ltd (NEL), is the dominant operator of scheduled coach services in Great Britain. It operates a network of services throughout England and Wales plus services from London to Glasgow/Edinburgh and beyond. Saltire's subsidiary, Scottish Citylink Coaches Ltd (SCC), operates a network of services throughout Scotland and, until the merger, also operated services between Glasgow/Edinburgh and London. NEL and SCC were the only two network operators of scheduled coach services; there were a large number of other operators, some being parts of substantial organizations, but none with more than a handful of point-to-point routes. We estimate that following the merger NEG, through its two subsidiaries, NEL and SCC, now accounts for about four-fifths of scheduled coach services in Great Britain, and conclude that a merger situation qualifying for investigation has been created.

1.3. We examined first the effects of the merger on services between Glasgow/Edinburgh and London and between Glasgow/Edinburgh and Aberdeen, the only two groups of routes where the merger has removed direct competition between the two companies. We then looked at the more general effects of merging the two networks.

1.4. On the Glasgow/Edinburgh to London routes NEL and SCC were the only operators before the merger. Both companies ran similar schedules and competition was mainly on convenience and comfort rather than price. Both companies' services were running with loadings of about one-third and were making losses. Since the merger SCC services have been amalgamated with NEL's to remove duplication and one extra service has been introduced. Loadings have improved and losses been reduced, thus improving the prospects for maintaining the service. Two new operators have started services since the merger on the London to Glasgow route at significantly lower fares but one has since withdrawn. It is too early to say whether the competition will establish itself on these routes but we do not consider that competition from other coach operators can in itself be relied on to constrain NEL's prices.

1.5. The main constraint, however, on NEL's ability to raise fares on these routes is competition from BR's InterCity East and West Coast operations and in particular their Apex and SuperApex fares. These heavily discounted tickets, which have to be booked one and two weeks in advance, are available in varying numbers on specified trains according to day of week and season but in large numbers overall; average daily numbers made available exceed the total scheduled coach capacity on the routes. We are satisfied that they provide effective competition, particularly for older passengers and students who form a large part of NEL's passengers. While impending privatization introduces some uncertainties we think the commercial pressures on rail franchisees will lead to a broadly similar approach by them to pricing structures in the period after privatization. Although there is a possibility that the privatized operators might increase their lowest fares and thereby lessen the pressure on NEL prices, we do not think that any expectation of change can be sufficiently firm to justify basing any conclusions on it.

1.6. On the Glasgow/Edinburgh to Aberdeen route the merger has resulted in some adjustment of services but with no loss of frequencies; prices have been adjusted to the level of the cheaper of the two services. Fife Scottish Omnibuses Ltd, a Stagecoach subsidiary, operates on part of the route. We looked at the effects on this route as part of the SCC intra-Scotland network. There are a number of smaller operators but none appears likely to be an effective constraint on NEG. ScotRail is not present on all routes and makes less use of price competition than InterCity. We have some concerns about the future level of prices on all these routes within Scotland but these arise from SCC's pre-existing dominant position and not from the effects of the merger.

1.7. We received a number of complaints about SCC's response to competitors, including allegations of aggressive behaviour on prices and scheduling, and about its privileged arrangements for ticket sales and access to stands at bus stations. While these caused us some concern we concluded that they were not attributable to the merger.

1.8. Effects of the merger on employment have been modest and NEG told us that it intends to maintain SCC to run its coach services within Scotland. We do not see any adverse effects on the use of outside contractors arising from the merger. We noted the views of the National Federation of Bus Users that the merger would benefit passengers by maintaining a viable alternative to rail travel.

1.9. We conclude that the creation of the merger situation does not operate nor may it be expected to operate against the public interest.

1.10. We have noted, however, a number of concerns about the effects which NEG's position as a single large network operator may have on its policies on prices and services, together with complaints from competitors about the privileged position that SCC already possessed in some respects and about earlier reactions to competition by the two companies. These concerns, however, arise primarily from the dominant positions already enjoyed by NEL and SCC and not from the merger situation itself. We therefore urge the Director General of Fair Trading to keep the scheduled coach services market under review; if the pricing or other behaviour of either NEL or SCC gives rise to concern, further action under the competition legislation could be considered.

2 The companies and the merger situation

2.1. In this chapter we first describe the creation of the merger situation between NEG and Saltire. We then summarize the history and activities of NEG and Saltire—and, in particular, the main Saltire subsidiary, SCC—before noting some immediate consequences of the merger. Finally we describe the financial status of the companies and the financial background to the merger.

Creation of the merger situation

2.2. On 5 May 1993 NEG made a recommended offer for the entire issued share capital of Saltire, with the object of acquiring SCC. On the same date, NEG received irrevocable acceptances of this offer from holders of approximately 93 per cent of Saltire's issued share capital. The offer was subject to the admission of new NEG shares, issued as part of the acquisition price (see paragraph 2.34), to the Official List. This condition was satisfied, also on 5 May 1993.

2.3. The total consideration payable by NEG for Saltire was £5.1 million. This was satisfied by the issue of the new NEG shares, loan notes and cash to the holders of Saltire shares. NEG shares were valued at £1.86 (closing middle market quotation on 29 April 1993).

NEG

2.4. The origins of NEG may be traced back to the creation, in 1968, of the National Bus Company (NBC) as a result of a Government initiative to bring together a large number of independent state-owned and privately-owned bus and coach companies into a more integrated national public transport system. The 'National' brand name was introduced for the NBC members' long-distance scheduled coach services in 1972. These services first used the 'National Express' title in 1974.

2.5. The Transport Act 1980 marked the first step towards the deregulation of the bus and coach industry. The frequency and general competitiveness of National Express services were significantly enhanced in the face of the new competition created by deregulation. In 1981 the brand name 'Rapide' was adopted for new premium services which used higher-specification coaches, with more on-board facilities, and provided more direct routes.

2.6. Following the deregulation of local bus services pursuant to the Transport Act 1985, the Government decided to sell NBC to the private sector, on a piecemeal basis, including all National Express services as a single entity. A large number of management buy-outs followed and in March 1988 the then management and employees instigated the buy-out of NEL.

2.7. Operating under the name National Express Holdings Ltd (NEHL), the new management began to diversify, making a number of acquisitions the costs of which, combined with their generally poor performance and the impact of the recession on the core business, caused the company's overall financial position to deteriorate from early 1990. This situation was made worse by an unsuccessful policy decision to compete aggressively for more business in Scotland (see Chapter 3).

2.8. On 23 July 1991 the shares in NEHL were acquired by a new management team with the support of institutional investors. National Express Group Ltd then became the new holding company for the group.

2.9. The new management, led by NEG's current Chief Executive and Deputy Chief Executive, began to refocus the group on its core activities. Unwanted or loss-making interests were divested, and fares increased. In addition, Speedlink Airport Services Ltd (Speedlink), an operator of scheduled coach services principally between Heathrow and Gatwick, was acquired as a complementary business in October 1991.

2.10. In December 1992 NEG arranged an offer and placing of shares (see paragraph 2.24). It has since developed its business through three acquisitions within the public transport sector, the following two purchases being made shortly after the acquisition of Saltire:

(a) in June 1993, for a sum of between £1.4 million and £2.1 million (see paragraph 2.37*(a)*), Eurolines (Nederland) BV (Eurolines (Nederland)). This was the company's first continental European acquisition and, like Eurolines (UK) Ltd (Eurolines (UK)) (an existing NEG subsidiary), a member of the Eurolines Organization of some 40 coach operators co-ordinating scheduled coach services between European countries; and

(b) in August 1993, for £27.1 million, East Midlands International Airport, the fourth largest regional airport in England in terms of the number of passengers handled.

Currently NEG thus comprises the four main divisional businesses described in paragraphs 2.11 to 2.14.

2.11. *UK Express Coach Services:* principally the NEL network of some 180 routes and 1,000 destinations. NEL organizes, markets and controls this network. The vehicles which NEL uses to operate its services are almost entirely contracted in from coach operators based throughout Great Britain.

2.12. *European Express Coach Services:* Eurolines (UK) and Eurolines (Nederland). Eurolines (UK) is the sole UK member of the Eurolines Organization and markets around 270 of that organization's scheduled coach services to over 400 continental European destinations; passengers may use the domestic NEL network to link into these services at Victoria Coach Station. Eurolines (Nederland), a key partner, has its headquarters in Amsterdam, one of the most important hubs in the Eurolines Organization network.

2.13. *Airport Coach Services:* principally the high-specification and frequent scheduled express services of Speedlink, together with lower-specification Jetlink services connecting Heathrow, Gatwick, Stansted and Luton airports, and the Flightline service between Gatwick and Victoria Coach Station. Airport Coach Services works closely with BAA plc and has its own ticket offices and other facilities at Heathrow, Gatwick and Stansted airports; by arrangement with the British Railways Board (BRB), since September 1992 it has also operated the Woking to Heathrow Railair Link. Unlike NEL and the two Eurolines companies, it owns and operates most of the coaches it uses, the majority of which are designed specifically to serve the airline customer market. Ancillary activities include the operation of seven coach 'diagrams' (see paragraph 3.22) for NEL and a coach brokerage service.

2.14. *Airport:* East Midlands International Airport Ltd, acquired in August 1993, which handled some 1.3 million passengers in the year to 31 March 1993. The airport serves primarily Derby, Nottingham, Leicester and Sheffield but we were told that approximately 12 million people lived within 90 minutes' travelling distance.

2.15. The group structure of NEG is shown in Appendix 2.1. NEG told us that its philosophy was to devolve executive responsibility for its operating subsidiaries to their Boards.

Saltire

2.16. The origins of Saltire and its main subsidiary, SCC, may be traced back to the state-owned Scottish Transport Group (STG). STG's bus and coach operating division, the Scottish Bus Group (SBG), was the major provider, through its constituent companies, of long-distance scheduled coach services within Scotland and between Scotland and London, and also operated other provincial cross-border services in conjunction with National Express. SBG launched 'Scottish Citylink' as the brand name for all its long-distance services in 1983.

2.17. In 1985, as part of a reorganization of SBG, SCC was established as a separate company. The responsibility for the planning and operation of the long-distance routes passed from the operating companies to SCC, which followed the model of National Express and contracted its services in, from the constituent companies of SBG.

2.18. Following the privatization of NBC and NEL, a similar proposal to sell off the constituent companies of SBG was implemented. Saltire was incorporated in February 1990 by the management and employees of SCC as a buy-out vehicle, began trading early in August 1990 and on the 30th of that month acquired the whole of the issued share capital of SCC.

2.19. The scheduled coach services provided by SCC are described in paragraph 3.31 *et seq.*

Consequences of the merger

2.20. NEG told us that immediately after the merger Bruce's Coaches Ltd (Bruce's Coaches), a contractor to SCC and subsidiary of Saltire, was sold on, together with NEG's operating subsidiary, Express Travel Ltd (ETL), to an associate company of British Bus PLC (British Bus) (see paragraph 4.66), for a total price of £1.2 million. We were told that the arrangement whereby NEG acquired Saltire rather than SCC alone and disposed of Bruce's Coaches in this way was necessitated by commercial considerations on the part of Saltire's shareholders (see paragraph 5.42).

2.21. NEG said that it understood that British Bus had subsequently merged and consolidated the businesses of Bruce's Coaches and ETL. It stated that the contract of Bruce's Coaches with SCC had been partially taken over by ETL, though otherwise very few contractual changes had resulted from the merger (see paragraph 5.20).

2.22. NEG stressed its specific intention that SCC should focus henceforth solely on the intra-Scotland business, and that SCC's management headquarters should remain at Buchanan Bus Station, Glasgow. It told us that the marketing, sales and support operations connected with SCC's former Anglo-Scottish services had been transferred to NEL's operations centre at Birmingham. These transfers accounted for the majority of the jobs lost within NEL and SCC as a result of the merger (see paragraph 5.41). NEG gave interim undertakings to the Secretary of State on 9 November 1993 not to integrate the business of SCC further into its own.

Financial status of the undertakings

NEG

2.23. As referred to in paragraph 2.7, NEHL was previously the holding company of the National Express group. NEHL was profitable up to the end of 1989. The 1990 results were affected by the recession and the decisions, taken by the then management team, to diversify from its core scheduled coach service business by acquiring additional businesses. NEHL incurred a loss after interest and tax of £3.2 million in 1990. Net tangible assets at the end of both 1989 and 1990 were negative at -£2.5 million and -£4.8 million respectively. In March 1991 the current Chief Executive and Deputy Chief Executive of NEG, with the backing of a number of development and venture capital investors, formed a new company called National Express Group Ltd. In July 1991 this company acquired the whole of the share capital of NEHL and became the new holding company for the group.

2.24. In December 1992 NEG arranged an offer and placing of some 27.8 million ordinary shares of 5p each at £1.65 per share. At the same time application was made for admission to the Official List of the London Stock Exchange. The offer and placing comprised the issue of 15.5 million new ordinary shares and the sale of 12.3 million ordinary shares by existing shareholders. The issue of 15.5 million new ordinary shares raised approximately £23.9 million (after expenses) in new cash.

£9.0 million was used by NEG to redeem its existing 10 per cent cumulative preference share capital. The remaining £14.9 million was available to fund ongoing developments and other new opportunities.

2.25. The issue of the 15.5 million new ordinary shares created a share premium account of approximately £23.1 million (after expenses). Application was made to the High Court for the creation of a new capital reserve out of the share premium account against which the goodwill in NEG's consolidated balance sheet was written off.

2.26. Table 2.1 sets out for the calendar years 1989 to 1993 the summarized financial position of NEG irrespective of changes in the legal corporate entity.

TABLE 2.1 **NEG: summarized financial position for the calendar years 1989 to 1993**

£'000

	1989	*1990*	*1991*	*1992*	*1993 estimate*
Capital employed	9,876	8,582	(3,671)	(3,263)	[
Net tangible assets	(2,498)	(4,848)	(11,041)	7,556	
Profit/(loss) on ordinary activities before interest and tax	4,230	(2,362)	(353)	6,909	*
Profit/(loss) on ordinary activities after interest and tax	1,971	(3,218)	(3,159)	4,392	]

Source: NEG.

More detailed balance sheet and profit and loss account information is given in Appendix 2.2, Tables 1 and 2.

2.27. The negative capital employed figures in 1991 and 1992 reflect:

(a) the relatively low level of fixed assets held by NEG because it purchases coach services from coach operators rather than owning its own coaches; and

(b) the effective write-down of asset values following the management buy-in in 1991.

The 1992 balance sheet also shows the effect of the December 1992 offer and placing of ordinary shares. The 1993 figures, which are estimates, reflect the acquisition of Saltire, Eurolines (Nederland) and East Midlands International Airport.

2.28. NEG told us that the profit improvements in 1992 and 1993 reflected the focusing of the business on core activities and the elimination of loss-making operations. The profit and loss on ordinary activities before interest and tax are stated after charging/(crediting) exceptional items as shown in Table 2.2.

TABLE 2.2 **NEG: exceptional items included in profit on ordinary activities before interest and tax**

£'000

	1990	*1991*	*1992*
Abortive refinancing costs	250	-	-
Costs incurred in connection with the purchase of NEHL	-	1,776	-
Loss on sale of subsidiary undertakings	-	3,922	-
Profit on sale of associated undertakings		(209)	(595)
Total	250	5,489	(595)

Source: NEG.

*Figures omitted. See note on page iv.

Saltire

2.29. The background to the formation of Saltire and its acquisition of SCC has been given in paragraph 2.18. Table 2.3 shows the summarized financial position of Saltire for the first five months of its operation in 1990 and for the years 1991 and 1992.

TABLE 2.3 **Saltire: summarized financial position for the years 1990 to 1992**

			£'000
	1990 (five months)	*1991*	*1992*
Capital employed	(900)	263	606
Net tangible assets	(312)	52	1,093
Profit on ordinary activities before interest and tax	73	484	930
Profit on ordinary activities after interest and tax	109	475	952

Source: NEG from Saltire's published accounts.

Further information on Saltire's balance sheet and profit and loss account is given in Appendix 2.2, Tables 3 and 4. The tangible assets include coaches owned and operated by Bruce's Coaches (see paragraph 2.20). Saltire's accounts show an intangible asset (goodwill) of £532,000 in 1990 and 1991 and £471,000 in 1992. The intangible asset represents the excess of the consideration given over the fair value of the identifiable net assets acquired from the take-over of SCC.

NEL

2.30. Except in 1990, NEL has been profitable in every year since its privatization. Table 2.4 shows the summarized financial position of NEL.

TABLE 2.4 **NEL: summarized financial position**

					£'000
	78 weeks to 18.12.89	*54 weeks to 31.12.90*	*Year to 31.12.91*	*Year to 31.12.92*	*Year to 31.12.93 estimate*
Capital employed	(4,688)	(1,450)	(3,519)	(1,828)	[
Net tangible assets	10,703	9,393	4,123	6,343	
Profit/(loss) on ordinary activities before interest and tax	10,582	(2,262)	6,822	3,269	*
Profit/(loss) on ordinary activities after interest and tax	7,157	(1,310)	4,830	2,370	]

Source: NEG.

Further balance sheet and profit and loss account details on NEL are given at Appendix 2.2, Tables 5 and 6.

SCC

2.31. Table 2.5 gives SCC's summarized financial position for the calendar years 1989 to 1993.

*Figures omitted. See note on page iv.

TABLE 2.5 **SCC: summarized financial position for calendar years 1989 to 1993**

£'000

	1989	*1990*	*1991*	*1992*	*1993* estimate*
Capital employed	(237)	(901)	(262)	(353)	[
Net tangible assets	903	(70)	378	1,329	
Profit/(loss) on ordinary activities before interest and tax	462	(2,489)	428	927	†
Profit/(loss) on ordinary activities after interest and tax	314	(1,972)	449	951	]

Source: NEG from SCC's published accounts.

*The 1993 estimates are not directly comparable with 1992 and prior years because from 5 May 1993 SCC became a subsidiary of NEG and the Scotland to London routes previously operated by SCC were integrated with NEG's operations.

Further information on SCC's balance sheet and profit and loss account is given in Appendix 2.2, Tables 7 and 8.

Financial background to the merger

2.32. NEG's corporate strategy and reasons for acquiring Saltire are described in paragraphs 5.2 to 5.8.

2.33. In considering the acquisition of SCC (through Saltire), the NEG Board estimated that in 1992 SCC would produce pre-tax profits of some £1.0 million on a turnover of £16.5 million. The NEG Board further speculated that the acquisition of SCC would result in additional profitability over the then aggregate profitability of the two businesses through:

(a) rationalization and some reduction of mileage operated;

(b) significant cost reductions through the elimination of duplicated administrative functions; and

(c) reduction in the level of marketing expenditure.

Potential annual savings from these factors were estimated at around £0.5 million.

2.34. The total consideration payable was £5.1 million (see paragraph 2.3). In addition to this consideration to Saltire shareholders, NEG incurred legal and professional fees of £0.5 million. This brought the total cost of the acquisition to £5.6 million. Details are given in Table 2.6.

TABLE 2.6 **NEG: cost of acquisition of Saltire**

	£ million
Consideration paid:	
Shares (1,798,811 shares @ 186p per share)	3.3
Loan notes	1.0
Cash	0.8
Total consideration to Saltire shareholders	5.1
Provision for NEG legal and professional fees*	0.5
Total cost	5.6

Source: NEG.

*NEG said that these were its estimated legal and professional fees up to the beginning of the MMC inquiry.

†Figures omitted. See note on page iv.

Basis of acquisition price

2.35. NEG told us that, in determining the offer price for Saltire, it followed its customary practice on acquisitions in relation to the earnings multiple used (the PE multiple). Saltire was acquired at 5.6 times historic post-tax earnings. Further details on the basis used for determining the acquisition price are given in Table 2.7.

TABLE 2.7 **NEG: basis used for determining Saltire acquisition price**

	£'000
Consideration paid (before expenses)	5,109
Earnings:	
Profit before tax for year ended 31 December 1992*	950
Actual tax charge	(35)
Profit after tax	915
PE multiple	5.6 times
The PE multiple based on a standard tax charge of 33% was	8.0 times

Source: NEG.

*As set out in page 7 of the circular to shareholders dated 5 May 1993.

NEG stated that the value of the net assets acquired from Saltire was relatively low because of the nature of its operation, involving the hire, rather than the purchase, of coaches. In this case the earnings multiple was the more relevant factor.

2.36. The acquisition of Saltire was anticipated by NEG to be earnings enhancing and NEG told us that this was likely to prove to be the case. NEG made the following points:

(*a*) NEG achieved a flotation on the basis of a PE multiple of 10. Following flotation the share price increased significantly with a consequent increase in the PE multiple.

(*b*) At the time of the Saltire acquisition the NEG share price was quoted on a multiple of approximately 13.7 times earnings.

NEG made an estimate of the effect of the Saltire acquisition on earnings per share (EPS) based on the year ended 31 December 1992 results. This is set out in Table 2.8.

TABLE 2.8 **NEG: estimated effect of Saltire acquisition on EPS using year ended 31 December 1992 results**

£'000

	NEG	*Saltire*	*Aggregate**
Pre-tax profit	6,818	950	7,653
Tax	(2,426)	(313)	(2,701)
Profit after tax	4,392	637	4,952
Shares in issue/issued	36.0m	1.8m	37.8m
EPS	12.2p		13.1p

Source: NEG.

*The aggregate results are after some minor adjustments.

2.37. The PE multiples used for NEG's two other acquisitions in 1993 were:

(a) *Eurolines (Nederland)*

Eurolines (Nederland)'s historic results reflected very high operator charges (the coach operators were former shareholders) which have, post-acquisition, been reduced to more normal levels. A base price of £1.4 million was set on historic earnings but a further payment was agreed if the results, based on the expectation of lower operator charges, and set as 'earn-out' targets, were achieved.
PE multiple on base consideration of £1.4 million: 5.6 times
PE multiple on maximum consideration of £2.1 million: 8.5 times

(b) *East Midlands International Airport*

A higher multiple was paid for East Midlands International Airport when compared with Saltire and Eurolines (Nederland), reflecting NEG's expectation of significantly greater earnings growth prospects for the regional airports sector and a substantial asset base to the business.
PE multiple on consideration of £27.1 million: 12.8 times

Goodwill arising on acquisition of Saltire

2.38. The value of goodwill arising on the acquisition of Saltire was computed by NEG at £5.06 million, as summarized in Table 2.9.

TABLE 2.9 **NEG: computation of goodwill arising on acquisition of Saltire**

	£'000
Assets acquired:	
Net assets on completion	1,093
Fair value adjustments such as write off of investment, provision for doubtful debts etc	517
Net assets acquired	576
Goodwill arising on acquisition	5,062
Total cost—see Table 2.6	5,638

Source: NEG.

NEG provided full details of the fair value adjustments shown as totalling £517,000.

2.39. The share premium arising from the issue of the consideration shares was approximately £3.3 million. NEG applied this amount, as allowed under section 131 of the Companies Act 1985, to reducing the goodwill arising on acquisition, leaving a balance of £1.8 million to be written off to reserves.

Profitability of Scotland to London routes

2.40. NEG told us that the Scotland to London routes were those listed in Appendix 2.3. It said that, for management purposes, it reviewed route profitability at the gross margin level. The gross margin was the total revenue less the direct costs, which were primarily coach hire charges. It was not part of NEG's normal accounting procedure to allocate overheads to routes. Route profitability was reviewed at the gross margin, or contribution, level. NEG said, however, that for in-house purposes it used an average overhead figure of 38p per vehicle mile as a rough guide in assessing route trading profits.

2.41. In reviewing route performance, NEG told us that it directed its management attention to the top ten and the bottom ten routes based on revenue earned, although the gross margins earned by routes were also reviewed. There was no rigid rule in relation to minimum revenue or contribution (gross margin) levels which must be achieved if a route was not to be discontinued. Equally relevant to any decision on a route were non-financial factors, such as the extent of feeder services at both ends of the route and the perceived need for comprehensive scheduled coach service coverage.

2.42. Although not part of normal accounting procedures for either company, analyses of sector profitability for calendar year 1992 were prepared for us as a special exercise. The analyses showed for each company the results for the Scotland to London routes compared with all other routes taken together, at both the gross margin and the net trading profit level. A summary of the analyses is given in Table 2.10.

TABLE 2.10 **NEL and SCC: summarized analysis of sector profitability, calendar year 1992**

£'000

	NEL				*SCC*			
	Scotland–London		*All other routes*		*Scotland–London*		*All other routes*	
	£'000	*%*	*£'000*	*%*	*£'000*	*%*	*£'000*	*%*
Total revenue*	4,595	100.0	88,127	100.0	3,035	100.0	11,059	100.0
Total direct costs	4,268	92.9	68,846	78.1	2,682	88.4	8,214	74.3
Gross margin	327	7.1	19,281	21.9	353	11.6	2,845	25.7
Total overheads†	812	17.7	15,591	17.7	891	29.4	991	9.0
Trading profit/(loss)	(485)	(10.6)	3,690	4.2	(538)	(17.8)	1,854	16.7

Source: NEG.

*NEL's direct income is recorded income from ticket sales. In practice its actual income exceeds this figure due to the loss of tickets etc. This surplus income is called 'pool add-back' and is allocated to routes according to their share of total income.

†All overhead charges are allocated to these routes according to their share of total income unless a more specific allocation is possible. For example, 100 per cent of the cost of SCC's London operations is allocated to the Scotland to London routes.

Note: The total revenue shown in the statutory accounts is higher than the total of the Scotland to London routes and all other routes taken together because income classified as 'non-route', such as discount card sales, is included in total revenue for statutory accounts purposes.

2.43. Both NEL and SCC incurred a trading loss on the Scotland to London routes in 1992. For both companies, direct costs took a much higher percentage of total revenue on the Scotland to London routes than on all the other routes taken together. The gross margin on the Scotland to London routes was around one-third of that earned on other routes. NEG told us that revenue on the Scotland to London routes was affected by strong price competition from British Rail's (BR)'s InterCity services (see Chapter 5). The lower revenues meant that direct costs represented a higher proportion of the revenue. NEG said that direct costs on the Scotland to London routes reflected NEL's use of double-deck coaches, which were more expensive to hire.

2.44. NEG told us that, comparing the two companies' services previously provided on the Scotland to London routes with the merged service, there had been a modest reduction in the number of coach departures, although some small increase in frequency of service had been introduced. Average load factors had improved from around 30 to 50 per cent. At the gross margin level, NEL's results on the Scotland to London routes for accounting periods 6 to 10 of 1993 (16 May 1993 to 2 October 1993) show a considerable improvement compared with the results for the same period in 1992. The results for all other routes show little change between 1992 and 1993: a [‡] increase in the revenue per mile is offset by a similar increase in direct costs. Details are given in Table 2.11, and also in Appendix 2.4.

‡Figure omitted. See note on page iv.

TABLE 2.11 **NEL: Scotland to London route profitability compared with all other routes, 1992 and 1993**

	Total miles '000	*Total revenue £'000*	*Total cost* £'000*	*Actual gross margin £'000*	*Percentage gross margin*	*Revenue per mile £*	*Cost per mile £*	*Gross margin per mile £*
Scotland to London routes								
Accounting periods 6 to 10 1992 (NEL only)	1,508	2,038	1,735	303	14.9	1.35	1.15	0.20
Accounting periods 6 to 10 1993 (merged operation)	2,222	[		*Figures omitted. See note on page iv.*				]
All other routes								
Accounting periods 6 to 10 1992 (NEL only)	24,582	37,741	27,718	10,023	26.6	1.54	1.13	0.41
Accounting periods 6 to 10 1993 (NEL only)	23,322	[		*Figures omitted. See note on page iv.*				]

Source: NEG.

*Total cost is the total scheduled and duplicate coach hire costs plus sales commission of 9 per cent of revenue (being the approximate rate of commission).

Table 2.11 illustrates the effect of the merger on NEL's Scotland to London route profitability pre- and post-merger. The gross margin has improved by some [†] percentage points, [*Details omitted. See note on page iv.*] against a [†] per cent increase in turnover. The improvement is due partly to a marginal increase in the revenue per mile but, most significantly, to the [†] per mile reduction in cost, in part due to the replacement of double-deck by single-deck coaches on certain cross-border routes, bringing the margin up from 20p per mile in 1992 (periods 6 to 10) to [†] per mile in the same period of 1993.

2.45. NEG suggested that the information given in Table 2.11 did not reflect two factors which, in its view, were significant, namely:

(a) the figures for 1992 did not include SCC's results; and

(b) the selection of accounting periods 6 to 10 gave undue emphasis to high-season profitability.

Table 2.12 compares the combined figures for NEL and SCC for 1992 on the Scotland to London routes with the NEL figures (ie post-merger) for 1993. Comparative figures for the combined NEL and SCC operations covering accounting periods 1 to 10 1992 and 1 to 10 1993 are also given.

† Figures omitted. See note on page iv.

TABLE 2.12 **NEL and SCC: Scotland to London route profitability comparisons, 1992 and 1993**

	Total miles '000	*Total revenue £'000*	*Total cost £'000*	*Actual gross margin £'000*	*Percentage gross margin*	*Revenue per mile £*	*Cost per mile £*	*Gross margin per mile £*
Accounting periods 6 to 10 1992:								
NEL	1,508	2,038	1,735	303	14.9	1.35	1.15	0.20
SCC	1,292	1,457	1,037	420	28.8	1.13	0.80	0.33
Combined	2,800	3,495	2,772	723	20.7	1.25	0.99	0.26
Accounting periods 6 to 10 1993:								
Merged operation	2,222	[		*Figures omitted. See note on page iv.*				]
Percentage increase/ (decrease) 1993 over 1992	(20.6)	[		*Figures omitted. See note on page iv.*				]
Comparison of periods 1 to 10 1992 and 1993:								
NEL + SCC 1 to 10 1992	5,340	5,968	5,234	734	12.3	1.12	0.98	0.14
NEL + SCC 1 to 10 1993	4,221	[		*Figures omitted. See note on page iv.*				]
Percentage increase/ (decrease) 1993 over 1992	(26.5)	[		*Figures omitted. See note on page iv.*				]

Source: NEG.

Table 2.12 shows that the difference between the periods 6 to 10 pre- and post-merger margins is reduced, compared with those shown in Table 2.11. This appears to be due, in part at least, to the impact on the 1992 figures of SCC's lower revenue per mile being more than offset by its lower costs. NEG told us that the 1992 fares were substantially the same for both NEL and SCC and that the reason for the lower rate of increase in margins per mile was that passenger numbers and, therefore, revenues were falling on the Scotland to London services. The increase in gross margin of [*] per mile (periods 6 to 10) had only been achieved by reducing mileage and costs on overlapping services, to offset the fall in total revenues. As noted in paragraph 2.40, NEG said that, as a rough guide in assessing route trading profits, it used an average overhead figure of 38p per vehicle mile. Using this figure as a guide, the Scotland to London routes show that in periods 6 to 10 the trading loss per mile fell from 12p per mile in 1992 to [*] per mile in 1993.

Profitability of SCC's intra-Scotland routes

2.46. The SCC operations before the merger comprised the Scotland to London services and also services which were carried on wholly within Scotland—the intra-Scotland routes. As shown in Table 2.10, the intra-Scotland routes in 1992 earned substantial gross margins and trading profits. NEG told us that since the acquisition, the operation of SCC's former intra-Scotland routes had remained virtually unchanged. Table 2.13 compares the results achieved by SCC in periods 6 to 10 1992 on its intra-Scotland routes with the intra-Scotland results for periods 6 to 10 1993.

*Figures omitted. See note on page iv.

TABLE 2.13 **SCC: comparison of intra-Scotland route profitability, 1992 and 1993**

	Total miles '000	*Total revenue £'000*	*Total cost £'000*	*Actual gross margin £'000*	*Percentage gross margin*	*Revenue per mile £*	*Cost per mile £*	*Gross margin per mile £*
Accounting periods 6 to 10 1992	2,870	3,143	2,275	868	27.6	1.10	0.79	0.30
Accounting periods 6 to 10 1993	2,965	[		*Figures omitted. See note on page iv.*				]
Percentage increase 1993 over 1992	3.3	[		*Figures omitted. See note on page iv.*				]

Source: NEG.

Table 2.13 shows that in the post-merger periods 6 to 10 the profitability on the intra-Scotland routes showed considerable improvement over the same period in 1992. Revenue per mile increased by [*] per cent. This is a rate of increase some [*] times the fare increase which was introduced on these routes in May 1993 (see paragraph 3.39). NEG said that a 6 per cent increase in passengers accounted for the balance of the growth. Cost increases had been contained to [*] per cent. These combined factors contributed to a substantial [*] per cent increase in the gross margin per mile.

*Figures omitted. See note on page iv.

3 The market for scheduled coach services in Great Britain

Contents

Paragraph

Long-distance travel

3.1. Scheduled coach services form part of the long-distance passenger travel sector. The other main modes of transport are railways, airlines and private vehicles. The second half of the

20th century has witnessed the rise of the private motor car and the relative decline of public transport, but demand for long-distance public transport has been much less affected by the overall trends, even among those with car availability.

3.2. The Department of Transport (DOT) collects and publishes information on long-distance travel in the form of the National Travel Survey. Table 3.1, using data from the survey, shows the proportion of passenger journeys for each transport mode by journey distance; the information relates to residents in Great Britain.

TABLE 3.1 **Long-distance journeys by transport mode: Great Britain residents**

	50–100 miles	*100–200 miles*	*Over 200 miles*	*per cent* *Total*
Coach	1.0	0.7	0.4	2.1
Rail	6.8	2.9	1.5	11.2
Car/van	54.0	20.4	5.6	80.0
Other	4.1	1.3	1.3	6.7
Total	65.9	25.3	8.8	100.0

Source: National Travel Survey, 1989/91.

The DOT told us that because of the limited sample size the figures for individual modes or category of journey should be seen as indicative rather than precise estimates.

3.3. Table 3.2, relating to Scotland only, is based on the same data source, although because of the limited sample size it is not possible to break down the figures by length of journey.

TABLE 3.2 **Passenger journeys by transport mode: Scotland residents**

	%
Coach	3.6
Rail	10.1
Car/van	78.9
Other	7.4
Total	100.0

Source: National Travel Survey, 1989/91.

3.4. Although the Great Britain figures do not include origins and destinations, they can be used to indicate some general features of long-distance travel. Car journeys are by far the most important mode of travel, with 80 per cent of the total in Great Britain, whereas rail accounts for only 11.2 per cent and coaches only 2.1 per cent. The share of car journeys in the total declines as the length of journey increases and this is particularly noticeable for journeys over 200 miles. Conversely the share of rail and coach journeys increases with distance. Coach also increases its share of total journeys relative to rail as journey distance increases, one explanatory factor being the importance of rail commuting in journeys between 50 and 100 miles. The breakdown for Scotland by mode of travel is similar to that of Great Britain as a whole, except that the share of coach is distinctly larger (for total journeys) at 3.6 per cent compared with the Great Britain figure of 2.1 per cent.

Competition between modes of transport

3.5. BR has carried out market research into passengers' preferences for different transport modes. It has identified its own main strength as being in journeys between 150 and 300 miles. For longer journeys air becomes increasingly important; for shorter journeys car is the preferred mode.

3.6. BR divides passengers into the two categories of business and leisure. Its research indicates that business travellers are less price-sensitive than leisure travellers and that for the latter price is usually a significant, but not necessarily the main, influence on their choice of transport mode, which is usually made between coach and rail for non-car journeys. BR does not see coach as a significant competitor in the business sector, where transport by car provides the main competition. In the leisure sector, however, it does see coach as a significant competitor, even though the largest share of total journeys is still that of the car. This view is borne out by, for example, its market research into the preferences of passengers travelling between Edinburgh and London. Table 3.3 sets out the shares of transport modes for leisure travellers on this route in 1991.

TABLE 3.3 **Shares of transport modes for leisure travellers on the Edinburgh to London route, 1991**

	%
Rail	30
Air	17
Car	41
Coach	12
Total	100

Source: BR.

BR said that these shares had remained relatively stable over time.

3.7. NEG's view of competition between transport modes is similar to that of BR. It identifies the main role for scheduled coach services as being in the leisure sector and sees rail as its main competitor there. It does not regard air services as in competition with coaches, even at the lower end of the range of air fares. Like BR, NEG points to the major role played by the car, and its consequent importance in competition to public transport.

Coach versus bus

3.8. Bus services are not generally in competition with coach services, partly because bus routes are much shorter and speeds much lower than for coach services and partly because of major differences in the vehicles used. The vehicles used for coach services have markedly different designs, technical specifications and operational lives reflecting the different uses to which they are put. They generally have higher-power engines and different gear and suspension systems designed to carry passengers over long distances at relatively higher speeds; different technical specifications (including storage provision and a high interior specification in terms of seating and the provision of on-board amenities); and shorter operational lives. The operational life of a bus will be in the region of 18 years whereas it is uncommon to find a front-line coach still operational after a period of ten years. Buses and coaches are thus not real substitutes for each other, with buses generally operating urban services within 20 miles of the depot.

3.9. Some inter-urban bus services come much nearer to having the characteristics of coach services, in that their routes are longer and offer a higher standard of comfort than more local bus services. However, they stop much more frequently than long-distance coaches, and in most cases there is still a difference in the standard of passenger comfort.

The reference services

3.10. The services named in the reference to the MMC (as set out in Appendix 1.1) are the scheduled coach services in Great Britain.

3.11. Separate data on scheduled coach services have not been available from Government sources since 1984. Passenger and revenue data are now merged with those for all non-local bus services, where hire and contract operations predominate, with the result that variations in scheduled coach services alone cannot be identified. In the absence of such data, we collected our own statistics in order to establish the volume of scheduled services and the shares of individual coach operators.

3.12. There are a number of ways in which the supply of coach services may be measured. The main ones are vehicle miles, passenger miles, number of seats and number of vehicle journeys. All have their intrinsic advantages and disadvantages and some have problems of data availability.

3.13. The measure we chose was vehicle miles. Measuring scheduled coach services in terms of vehicle miles clearly provides an estimate of supply for the purposes of the reference; it has relatively few data problems; and it parallels the approach adopted by the MMC for bus inquiries. The main problems with using vehicle miles as a measure are twofold. First, it takes no account of differences in coach loadings between different coach operators; and secondly, it ignores differing coach capacities, which can in practice vary substantially between operators.

3.14. We undertook a telephone questionnaire to determine the vehicle miles run by operators of scheduled coach services in Great Britain. Table 3.4 shows the shares of services based on vehicle miles supplied by 27 operators, and by NEG for NEL and SCC. (The share for SCC was calculated after the transfer to NEL of SCC's Scotland to London routes, which, at the time of the merger, accounted for about one-quarter of SCC's operations.)

TABLE 3.4 **Shares of operators of long-distance scheduled coach services in Great Britain, October 1993 (based on vehicle miles)**

Operator	%	
NEL	67	
SCC	10	
NEG		77
Others		
Top 5		13
Next 5		5
Other 17		5
		100

Source: MMC survey.

3.15. In considering what may be the share of long-distance scheduled coach services of NEL/SCC we have to take into account the figures in Table 3.4 and the existence of small operators who may not have been included in our survey, as well as the measurement problems referred to in paragraph 3.13. As regards the two measurement problems, differing coach capacities may lead to an underestimate of NEL/SCC's share, while the effect of differences in loadings is unclear. We do not think that the use of vehicle miles is likely to involve any substantial overestimate of the NEL/SCC share. We therefore consider that NEL/SCC's share of long-distance scheduled coach services is likely to be of the order of 80 per cent.

3.16. In the prospectus issued in November 1992 in connection with its share flotation, NEG itself claimed that NEL had approximately 75 per cent of the scheduled coach market in Great Britain, based on knowledge of its own vehicle mileage and an estimate of the vehicle mileage of its competitors compiled from their published timetables.

Scheduled coach services in Great Britain

Passenger profiles

3.17. Neither NEL nor SCC has in the past kept detailed information on the profile of coach passengers on specific routes. But NEL has independent market research on the passenger profile across its network as a whole. This shows that 17 per cent of its passengers (in 1993) were of socio-economic groups AB, 42 per cent were C1, and 35 per cent C2DE. (6 per cent of all passengers could not be classified by the researchers.) Of the total, 25 per cent were students and 17 per cent were retired. NEG expected that NEL and SCC had much the same passenger profile, except for SCC's commuter services, which carry a higher proportion of business travellers.

3.18. From time to time, BR conducts special surveys amongst its customers on the Scotland to London routes. Research commissioned by InterCity West Coast (InterCity (WC)) indicated that 18 per cent of its passengers were C2DE. InterCity East Coast (InterCity (EC)) told us that the comparable figure for its passengers was approximately 15 per cent. As might be expected the proportion was rather higher for those buying Apex tickets.

NEL

3.19. NEL organizes, controls and markets a network of scheduled coach services in England and Wales. Its network, both prior to the merger and at the time of our inquiry, included more than 180 routes and over 1,000 destinations.

3.20. NEL's network is based around seven hubs: London, Birmingham, Manchester, Leeds, Bristol, Heathrow and Glasgow. The most important of these is London, through which approximately 40 per cent of all routes pass. NEL's main base in London is Victoria Coach Station, which is owned by London Regional Transport Ltd. NEL is charged a departure fee per coach using the station. NEL accounts for approximately 60 per cent of Victoria Coach Station departures (see paragraph 4.98), a similar proportion to the pre-merger position.

3.21. NEL publishes two timetables a year, covering the winter and summer seasons. Historically, the summer season is busier overall, the most important months being July to September. Demand for coach services has particular peaks at Easter, the Summer Bank Holiday, Christmas and, especially in Scotland, New Year's Eve.

Operating contracts

3.22. NEL does not own or operate any coaches itself but instead contracts with other coach companies. Contracts relate to particular diagrams (ie the detailed timing and sequence of services to be provided by the contractor) and are for a fixed price regardless of the number of passengers carried. NEG said that this use of independent coach operators enabled it to concentrate on the marketing, control and quality assurance of its services without requiring it to make capital investment in coaches.

3.23. Before the merger NEL had contracts with 57 coach operators, including its ETL and Speedlink subsidiaries, and although the number of contractors is now lower, NEL claimed that the reduction had nothing to do with the merger. Each operator is contracted to run a specified number of coaches on specified routes. NEL's contractual arrangements with coach operators provide it with substantial flexibility to vary capacity. Long-term contracts, typically of one to three years' duration, are signed with operators to provide the core timetable services, and these specify the diagrams. These contracts normally provide for mileage reductions at NEL's option of up to 20 per cent, exercisable twice per year. Long-term contracts specify that scheduled coaches must be in the National Express livery and must satisfy detailed NEL standards. Contractors are, however, free to use these coaches for their own purposes when they are not required for the NEL contracted services.

3.24. The contractor is responsible for all running costs, including the employment of drivers, hostesses/stewards, fuel and insurance cover. NEL also lays down a detailed specification, maintenance standards and other requirements, including the provision of on-board refreshments and toilet facilities. For most contractors, the contract business for NEL is only a minor part of their overall business.

3.25. Besides these main long-term contracts, NEL has different arrangements for duplicate coach services to meet peaks in demand. It said that it was relatively easy, even at extremely short notice, to secure adequate additional duplicate capacity to meet both regular and exceptional demand. It generally pays lower rates for these duplicate services than for the main contracted services because they are often not in National Express livery and duplicate contracts allow contractors the opportunity to utilize fully spare capacity. As in the case of the main services, all operating costs are the responsibility of the contractor.

3.26. NEG told us that NEL had a list of approximately 400 contractors that it considered suitable for duplicate services. Duplicates form an important element of NEL's operation: meeting the highest demands on a single peak day could involve as many as 550 duplicate coaches. They account for approximately 15 per cent of the total miles covered by NEL.

Fares and fare structure

3.27. NEL's current fare structure, adopted on 1 November 1993, offers three types of ticket. Standard tickets are required for any travel on Fridays, and Saturdays in July and August; Economy tickets are applicable on other days. Advance Purchase Savers provide a lower-price form of ticket but have to be purchased at least seven days in advance of the date of outward travel and require that both outward and return travel times are confirmed at the time of reservation. Discount cards are available, principally for those over the age of 60, under the age of 26, or in full-time education. The cards cost £7, and entitle the holder to discounts of up to 30 per cent off normal fares (ie Standard and Economy). NEG told us that NEL sought to maintain a certain structure of fares with relationships between them as set out in Table 3.5. The undiscounted Economy Return fare is taken as the base. NEG told us that the target fare structure was applicable to almost all the fares on most routes, the main exceptions being those services between London and Yorkshire, the North-East and Scotland, on each of which competition, principally from BR, prevented application of the normal structure. It said that NEL aimed to achieve a 30 per cent differential below BR fares; this was achieved in most cases, the exceptions being on some of those routes where BR's Apex and SuperApex fares were available.

TABLE 3.5 **NEL's target fare structure**

	Economy			*Standard*		
	Single	*Return*	*Advance*	*Single*	*Return*	*Advance*
Undiscounted	95	100	80	115	120	95
Discounted	65	70	N/A	80	85	N/A

Source: NEL.

Note: The undiscounted Economy Return fare has been assigned '100' as a base case.

3.28. All categories of ticket type except for Advance Purchase Savers can be purchased up to the time of departure, subject to seats being available on the service's coaches or a duplicate. Return tickets (except for Advance Purchase Savers) may be purchased without stipulating the date and time of the return journey. All these tickets can be cancelled prior to travel and qualify for refund in accordance with the published standard conditions.

3.29. Until March 1993 a Standby fare was also available. NEG told us that this was discontinued partly to enable NEL's cheaper tickets to be marketed on terms directly competitive to BR's and partly because of operational problems that had been encountered in ensuring that Standby passengers were not given the seats of others with reserved tickets who were to board at later pick-up points.

3.30. Between 1989 and 1993 NEL's fares increased by 15 per cent more than inflation. The main increases occurred in 1990, when fares were increased twice, in February and in May, following heavy financial losses. Fares were also increased significantly in 1991. NEG told us that if fare increases were considered over a longer period, for example from 1986 to the present, the overall increase would be shown to be much nearer that of inflation. NEG said that as far as it was able given the competitive conditions it had sought to increase fares in line with inflation after the fare increase of 1991.

SCC

3.31. Like NEL, SCC contracts out coach operation. At present it has 14 contracted coach operators. Prior to the merger it had contracts with seven coach operators on routes which overlapped with NEL. Except for Bruce's Coaches (see paragraphs 2.20 and 2.21), they all continue to operate the same routes, although two are now contracted to NEL for London services. NEG told us that SCC's contracting system was simpler than that of NEL's, reflecting its smaller network. SCC contracts are generally awarded for each timetable period of approximately six months and consist of a letter of award together with a schedule of diagrams and details of routes, mileage and payment terms. Exceptionally, longer fixed-term contracts have been given to contractors investing in new vehicles in order to operate the required services. Such contracts are held by Western Scottish Buses Ltd, Strathtay Scottish Omnibuses Ltd and Eastern Scottish Omnibuses Ltd. NEG said that SCC would probably continue to operate mainly on the basis of the short-term contracts for the time being but may gradually move to longer-term contracts.

Scotland to London services

3.32. Prior to the merger SCC operated services linking London with Glasgow and Edinburgh and Aberdeen (via Glasgow). These services are described in paragraph 3.56 *et seq.*

3.33. SCC also separately operated a lower-cost, lower-fare service under the name London Liner between Airdrie and London (King's Cross) going via Glasgow. This service continues to run.

Services within Scotland

3.34. SCC's long-distance services cover ten routes and form a network of long-distance coach services covering the major towns and cities in Scotland. High-frequency services go from Glasgow and Edinburgh to Perth, Dundee, Aberdeen and Inverness, and low-frequency services operate on the Campbeltown, Oban, Isle of Skye, Ullapool and Thurso routes. Connections are made with a number of ferry services to the Western Isles and to Orkney. Tickets for these services can be bought in advance or from the driver, but are 'freesale', ie seat reservations cannot be made.

3.35. SCC also has a number of 'commuter' services that link Ayrshire, Inverclyde and Glasgow airport with Glasgow and Edinburgh; East Kilbride, Hamilton and Motherwell with Edinburgh; and the high-frequency service linking Glasgow and Edinburgh. All of these services are 'freesale' with a high percentage of tickets being purchased from the driver or at the bus station.

3.36. In addition SCC has a number of 'summer link' services catering for people spending a week or two at the seaside. With the exception of services to Blackpool, which operate daily for up to four months in a year, the 'summer link' services operate only at weekends. The longer journeys operate overnight from Scotland on Friday night, returning from the resort on Saturday night. Vehicles operating these services do not normally carry SCC livery.

Fares and fare structure

3.37. Prior to the merger SCC's fare structure and the conditions attached to the fare categories for the Scotland to London services were very similar to those of NEL, as described in paragraph 3.62.

3.38. On the intra-Scotland routes SCC offered Single, Day Return, Economy Return and Period Return fares. Before 1993 there was no fixed relationship between the different categories of fare. NEG told us that, prior to the merger, SCC had already planned to introduce a new, consistent fare structure, based on the Economy Return. Under this structure Single fares were to be approximately 75 per cent of the Economy Return, Day Returns were to be approximately the same, and Period Returns were to be 25 per cent higher. This fare structure has since been introduced.

3.39. NEG also told us that SCC's plans had included an average increase in fares of 3.5 per cent. The new fares were published on 9 April 1993 and introduced as planned on 24 May 1993, after the merger. Fares increases varied considerably between routes. For the Glasgow to Aberdeen route the increase was 2.6 per cent, for Edinburgh to Aberdeen 2.8 per cent, and for the Edinburgh to Glasgow route there was no increase. Among the above-average fares increases were those for the Glasgow to Inverness (5.3 per cent) and Inverness to Thurso (4.2 per cent) routes.

Quality of service

3.40. The principal means of determining the reliability of NEL services since 1990 has been the regular analysis of timekeeping on individual journeys. The scheduled and actual arrival and departure times of the individual services are monitored and recorded at key locations on the network. Where instances of regular late operations are identified, remedial action is taken. SCC operates a similar system.

3.41. NEG claimed that vehicle reliability was improving, with the number of miles operated between breakdowns increasing. It said that its monitoring system highlighted the more effective contractors and also those where improvement was required.

3.42. SCC's monitoring was less sophisticated before the merger. NEG told us that the more formal approach used by NEL would be introduced during 1994.

3.43. In the five-month period June to October 1993, during which some 5 million passengers were carried, over 8,000 complaints were made relating to NEL's services and of these about 500 related to cross-border and Scottish services. NEG said that complaints were passed to line management for action and that, where appropriate, those relevant to contractors were fed back to them for review and remedial action. As with operational deficiencies revealed by the monitoring system, a consistently high level of customer complaint could lead to the termination of a contract.

3.44. The number of complaints received by NEG (including SCC) in the six months following the merger totalled 23. NEL told us that it had taken action to deal with these. Details are set out in paragraph 5.21.

Information provision and marketing

NEL

3.45. NEL owns or operates 17 booking outlets at major bus stations, at which tickets for any NEL service may be bought. These outlets are open every day of the week for up to 12 hours per day. Speedlink and Eurolines (UK), NEL's sister companies, also sell its tickets.

3.46. NEL has some 2,000 ticket agents, of which 1,250 are travel agents, generally high street independents and small regional groups. Three-quarters of all agents have Viewdata direct access to NEL's 'EXTRA' Reservation System. Smaller agents without direct access telephone NEL for reservations to be made on their behalf with immediate confirmation. Agents normally earn a flat 10 per cent commission on sales, and a 50p booking fee paid for each reservation.

3.47. Termini ticket offices such as Victoria Coach Station operate on the same basis as the ticket agents.

3.48. NEL advertises 32 local telephone 'phone-in' services across England and Wales. Information is available in BT and Thompson directories. All calls, normally paid at local call rates, are handled by five regional centres which answer enquiries and take credit card sales.

3.49. Passengers in England and Wales normally pre-book, and direct sales by the driver or other NEL bus station staff at the time of boarding thus represent a small proportion of total sales.

SCC

3.50. SCC operates travel centres in Edinburgh and Perth. It has always offered tickets for services of NEL and other operators of cross-border services. Until May 1993 SCC controlled Buchanan Bus Station, Glasgow, and provided information on the services of all operators using it.

3.51. Tickets for all SCC services may be purchased from travel agents and other outlets such as tourist information centres. We were told that agents acted on a commission basis with incentive schemes increasing the level of commission on sales over a pre-set target. Agents were free to sell other operators' tickets.

3.52. Offices at Scottish bus stations act as ticket agents on the same basis as travel agents and are free to sell other operators' tickets.

3.53. Telephone credit card sales are handled by SCC's Glasgow telephone reservation centre.

3.54. All these sales channels were used prior to the merger principally for the sale of tickets for cross-border services. Unlike the position in England and Wales, the majority of ticket sales for intra-Scotland journeys are either from the driver at the time of boarding, from a 'stance conductor' at the bus station, or from the station booking office just prior to departure.

Timetables

3.55. Both NEL and SCC produce biannual timetables for the summer and winter schedules and these are generally available at reference points such as libraries, bus termini and information offices.

Scheduled services on which NEL and SCC overlapped

3.56. There are only five groups of routes on which both NEL and SCC operated services before the merger. These were the cross-border routes from Edinburgh to London and from Glasgow to London, and, within Scotland, the routes from Edinburgh to Aberdeen, Glasgow to Aberdeen, and Edinburgh to Glasgow. NEL's services to Aberdeen formed part of its services to and from a number of destinations in England. The NEL Edinburgh/Glasgow link merely formed part of a few services from London to Edinburgh via Glasgow; there was no separate fare for the Edinburgh to Glasgow section, and it was not marketed as a separate route. We shall now consider the pre-merger services and fares and the changes resulting from the merger.

Scotland to London routes

3.57. On the route from Edinburgh to London NEL had been operating two daily journeys under its winter 1992/93 schedule, with an extra journey on Fridays and Sundays. NEL told us that for summer 1993 it withdrew those extra journeys because the timing of each, leaving at midday, was not popular with passengers. SCC also had two journeys per day to Edinburgh. As a result of the merger NEL rationalized its services: there were now no services under the SCC name, and NEL continued to run two services a day as in the planned summer 1993 timetable. The services now ran via Livingston and Milton Keynes, instead of via Oxford (for the daytime service) and Cambridge (for the night-time service).

3.58. While the number of services between Edinburgh and London has thus been halved, the number of coach departures has fallen by a little less. We were told that the average number of weekly departures was 29 in the period from November 1992 to April 1993 (excluding any SCC duplicates, the number of which was not recorded) and fell to 18 for the period May to September 1993. This fall was reflected in the number of coaches used.

3.59. On the Glasgow to London route NEL ran three services daily before the merger, with an extra service on Fridays and Sundays. It had planned to continue this for the summer 1993 schedule.

SCC also ran five services on the route. Since the merger NEL has been running six daily journeys with an extra journey on Fridays and Sundays as before. In addition there is now a daily journey from London to Perth and Aberdeen that used to go via Glasgow but now goes direct.

3.60. NEL told us that its basic approach to the rationalization of the services on the Scotland to London routes was to consolidate services that were timed to depart at the same or nearly the same time; the new schedule was designed to give an hourly frequency at times of high demand through the addition of two coaches (at 10.00 and 22.00), and hence to provide passengers with a more regular and convenient service. A simplified form of the timetables operated by NEL and SCC before the merger, and that operating after the merger, is set out in Appendix 3.1.

3.61. All the services on these routes have operated under the NEL livery from the beginning of December 1993. NEG told us that it was introducing the higher NEL quality standards to the ex-SCC services.

3.62. Before the merger differences between NEL and SCC fares were small; where there was a difference fares were then harmonized on the lower of the two fares. There has been no increase in fares on these routes since the merger (see paragraph 5.14). The full range of fares currently available for the Glasgow to London and Edinburgh to London routes is as set out in Table 3.6. The fare in each category is the same for each of these two routes.

TABLE 3.6 **NEL/SCC fares for journeys between Glasgow/Edinburgh and London and between Aberdeen and Glasgow/Edinburgh, November 1993**

	Full fare					*Discount card fare*		
	Econ/Stan Single	*Economy Return*	*Standard Return*	*Econ/Stan Advance Single*	*Econ/Stan Advance Return*	*Econ/Stan Single*	*Economy Return*	*Standard Return*
NEL/SCC								
Glasgow–London	29.50	36.00	38.00	23.00	25.00	20.50	25.00	26.50
Edinburgh–London	29.50	36.00	38.00	23.00	25.00	20.50	25.00	26.50
Aberdeen–Glasgow	11.70	15.50	19.50	-	-	8.20	10.90	13.70
Aberdeen–Edinburgh	11.00	14.70	18.50	-	-	7.70	10.30	13.00
London Liner								
Glasgow–London	15.00	22.00						
Edinburgh–London	15.00	22.00						

Source: NEG.

3.63. NEG told us that in June 1993 it carried out a survey of around 1,000 passenger journeys on the Scotland to London routes in order to determine the breakdown of ticket types. The main results of the survey were that the proportion of tickets issued in connection with a discount card was 21 per cent; Advance Purchase tickets formed 23 per cent of the total; and single tickets constituted 19 per cent.

Intra-Scotland services

3.64. The main services on the routes between Aberdeen and Edinburgh/Glasgow before the merger were those of SCC. NEL's services were aimed mainly at feeding passengers on to its services to a number of destinations in England, and provided only for travel south in the morning and north in the afternoon. The departure times of northbound services were relatively uncertain as they depended upon the arrival of the coaches from across the border.

3.65. SCC provided seven services a day from Aberdeen to Edinburgh at two-hourly intervals, travelling via Perth. Intervening hours were generally served by a connection at Perth. NEL's schedule for winter 1992/93 had included four services daily from Aberdeen and three from Perth, with one or two additional services on particular days of the week, but NEG told us that for the summer 1993 schedule it had planned before the merger to reduce the number of services to two per day from Aberdeen and one from Perth. As a result of the merger, one of the NEL services from Aberdeen had been removed, but the SCC schedule remained as before. The services continued to run under the two separate names.

3.66. On the Aberdeen to Glasgow route SCC ran eight direct services a day before the merger at two-hourly intervals. The intervening hours were generally served by a connection at Perth. NEL's schedule for winter 1992/93 had included six services from Aberdeen, two from Perth and three from Dundee. But NEG told us that for the summer 1993 schedule it had already planned to reduce the number of services from Aberdeen to three and the number from Dundee to one, while retaining two services from Perth and adding one service from Aberdeen to Cumbernauld. Following the merger the SCC timetable was maintained as before, and only minor changes were made to the planned NEL schedules, amounting to the loss of approximately one service, together with some amendments to routeings.

3.67. The reductions in services after the 1992/93 winter season are reflected in the number of coach departures. The average number of weekly departures on the Aberdeen to Edinburgh route was 144 in the period November 1992 to April 1993 and fell to 115 in the period May to September 1993. Similarly on the Aberdeen to Glasgow route weekly departures were 160 in the first period and fell to 138 in the second period. Most of the difference, however, is attributable to the changes that were planned by NEL before the merger took place. The number of coaches used on the Aberdeen to Edinburgh route (for NEL and SCC combined) fell from 18 in the winter season of 1992/93 to 17 according to the plans for summer 1993, compared with 16 for the number employed after the merger. On the Aberdeen to Glasgow route the number of coaches used has been 28, 22 and 16 for the same three periods respectively.

3.68. NEG told us that its approach to the rationalization of services on these routes was to ensure that NEL and SCC coaches were not running the same routes simultaneously (so far as was consistent with the needs of NEL's cross-border services) and to make sure that there were no gaps in the combined service.

3.69. NEG told us that it was its policy following the merger to set the level of fares on the intra-Scotland services at the level of the lower-priced operator prior to the merger. Except in one minor case, no fares had been increased. The SCC fares used in this comparison were those incorporating the average increase of approximately 3.5 per cent that had been planned by SCC before the merger (as described in paragraph 3.39). Since May 1993 the Economy Return fare has been £15.50 for the Aberdeen to Glasgow route and £14.70 for the Aberdeen to Edinburgh route.

3.70. One further effect of the merger is the interchangeability of tickets that now exists between NEL and SCC, which means that passengers from Aberdeen or intermediate points may now choose to take an NEL service southbound if that is more convenient, without the risk of a long delay in Glasgow or Edinburgh awaiting the arrival of the NEL cross-border service for the return journey.

Competition between coach operators

3.71. To commence a scheduled coach service the potential operator of the coaches needs to obtain a coach operator's licence. All coach operators are required to maintain a licence, irrespective of whether or not they offer scheduled services. In other respects the provision of coach services is not regulated in the same way that bus services are. The essential difference for the purpose of regulation between coach and bus services is that the latter have stops less than 15 miles apart as the crow flies. Whereas an operator wishing to operate a particular bus service has to give 42 days' notice to the Traffic Commissioners (as also for any change to an existing service), a coach operator can commence a new service or make changes to an existing one as and when he wishes. (Some NEL and SCC services have, however, been registered with the Traffic Commissioners for part of the route, as this qualifies the operator for a rebate of fuel duty which is only available on registered bus services.)

3.72. Following the Transport Act 1985 both coach and bus operations fall within the scope of UK competition law. A dialogue between the bus and coach industry and the Office of Fair Trading (OFT) has been developed to ensure that the general approach of the competition authorities to potentially restrictive trade practices is communicated to the industry. A number of investigations under the Competition Act 1980 have provided further detailed guidance on the approach of the authorities. There is now a widespread expectation in the industry that the OFT would take action against certain types of agreement between operators, in particular any relating to fares. A timetable agreement would probably be regarded as acceptable unless it restricted an operator's freedom to run additional buses. The OFT does not regard agreements on interchangeability of tickets as restrictive in themselves.

Competition between NEL and SCC up to the time of the merger

3.73. Until 1989 NEL operated no cross-border services (with one minor exception) between Scotland and London: those services listed in its timetable were those of SCC, and were offered by NEL pursuant to an agreement between the two companies entered into in October 1986 (Appendix 3.2). NEL's timetable stated clearly that such services were those of SCC and were subject to SCC's prices and conditions. This agreement was registered under the Restrictive Trade Practices Act 1976. It came to an end in October 1989, at which time the Director General of Fair Trading exercised his discretion not to refer the agreement to the Restrictive Practices Court, as he had in respect of all such agreements notified to him after deregulation which subsequently had the restrictions in them ended.

3.74. In August 1989, in order to be certain of being able to offer a continued service into Scotland after the impending privatization of SBG, NEL acquired the cross-border, and certain intra-Scotland, routes from Stagecoach Ltd. It operated these routes from October 1989 to August 1991 under the brand name 'Caledonian Express Stagecoach' and, subsequently, as 'Caledonian Express' until November 1992.

3.75. NEG told us that it had been its intention at the time of the Stagecoach acquisition that the intra-Scotland services should be geared to cross-border times at Glasgow and Edinburgh with a two-hourly pattern of service. However, SCC then announced an hourly service from both Glasgow and Edinburgh to Aberdeen whereas previously it had alternated with Stagecoach each hour. NEL then also decided to offer an hourly service, effectively doubling the overall mileage offered, compared with the period before October 1989. Fares remained broadly as they had been under the previous agreement between NEL and SCC.

3.76. Timetables for intra-Scotland services were very fluid in the initial period following 29 October 1989. Both companies operated at the same, or very similar, times, which meant that customers were served by two coaches simultaneously but that there would then be a gap of one hour before the next two. Subsequently, for winter 1990, NEL adjusted the times of its services so as not to compete directly with SCC.

3.77. In October 1989 NEL also introduced a two-hourly service from Perth through to Inverness, and from Inverness to Wick and Thurso three times per day. For summer 1990 it introduced other internal services, from Glasgow to Campbeltown, Oban, Fort William and Skye. There was also a brief attempt to operate a service from Inverness to Fort William. All these routes were withdrawn at the end of September 1990.

3.78. NEG told us that competition had disastrous financial consequences for both companies. In 1991, having previously tried to match NEL on all routes to and from Scotland, SCC withdrew from many of the provincial cross-border routes. In a similar exercise, in April 1991, NEL withdrew from many routes within Scotland and instead began featuring some SCC services (eg Glasgow to Edinburgh) in its timetables. It conducted a further review of intra-Scotland operations in September/October 1992, on the basis of which it made further service withdrawals which left only its 'feeder' routes starting from Aberdeen and travelling across the border via Glasgow or Edinburgh.

3.79. There was no comparable period of competition between SCC and NEL on the Scotland to London routes as occurred in the case of the intra-Scotland routes. When NEL bought the Stagecoach operations in 1989, Stagecoach was operating one service each way during the day and one at night, with an extra daytime journey on certain days. This was increased by NEL to four daily journeys in addition to the one night-time journey but the service was subsequently levelled off to three daily journeys and one at night, with SCC services running for the most part with similar frequencies and similar times.

3.80. Late in 1992, after discussing with the OFT the possibility of operating with NEL a pooled cross-border service, SCC made a tentative approach to NEL which led, ultimately, to the acquisition which forms the subject of the present report.

3.81. NEG told us that in the months leading up to the merger, competition between NEL and SCC continued to the extent that there were a number of services, both cross-border and intra-Scotland, that operated on similar routes at similar times. On the Scotland to London routes NEL and SCC were operating a similar schedule (though SCC's service to Glasgow was somewhat more frequent), but on the intra-Scotland routes SCC was the major operator and NEL services were limited in certain ways (see paragraph 3.64). The quality of service provided by NEL was generally somewhat higher than that of SCC. The structure of fares was similar. NEG told us that competition between NEL and SCC on the Scotland to London routes was conducted on the basis of service quality and passenger convenience rather than on price.

Other competitors

3.82. On the Scotland to London routes there is currently only one coach operator that provides direct competition to NEL, and that is a small company called Silver Choice, which began its service on 1 November 1993. It operates a service twice a day between Glasgow and London. In October 1993 Gem Travel (Coaches) (Gem) introduced an each-way service but this has since been withdrawn (see paragraph 3.112).

3.83. In England and Wales as a whole there is a substantial number of coach operators in addition to NEL. Appendix 3.3 sets out a list provided by NEG. Of the 27 operators on the list, 17 are direct competitors of NEL in that they operate on one or more of the same routes. Among those that operate on other routes are a number of substantial bus companies, for example Stagecoach Holdings PLC, Badgerline Holdings Plc and British Bus. NEL is, however, the only operator in England and Wales that provides a national network of scheduled coach services. It said that competition was acute on a number of routes, for example London to Newcastle/Durham and London to Leeds/Bradford, on each of which Abbot's (trading as Blue Line) was the main competitor, and on the routes from London to Avon and Somerset, where there were three significant competitors (Bakers Dolphin, Berry's and Turner's). As to the Oxford to London service, NEG said that it withdrew because it could not match the services provided by two locally-based operators, City of Oxford Buses (trading as Oxford CityLink) and Thames Transit (trading as Oxford Tube).

3.84. On the intra-Scotland routes SCC has a number of competitors, as shown in Figure 3.1. None of these competitors has more than two routes that overlap with SCC. The largest of these operators are Fife Scottish Omnibuses Ltd (Fife Scottish), which is a subsidiary of Stagecoach, and Midland Bluebird Ltd, a subsidiary of GRT Holdings PLC, both of which operate on the Aberdeen to Glasgow/Edinburgh routes.

3.85. In England and Wales and in Scotland there are also many minor operators providing commuter and other scheduled coach services serving local needs.

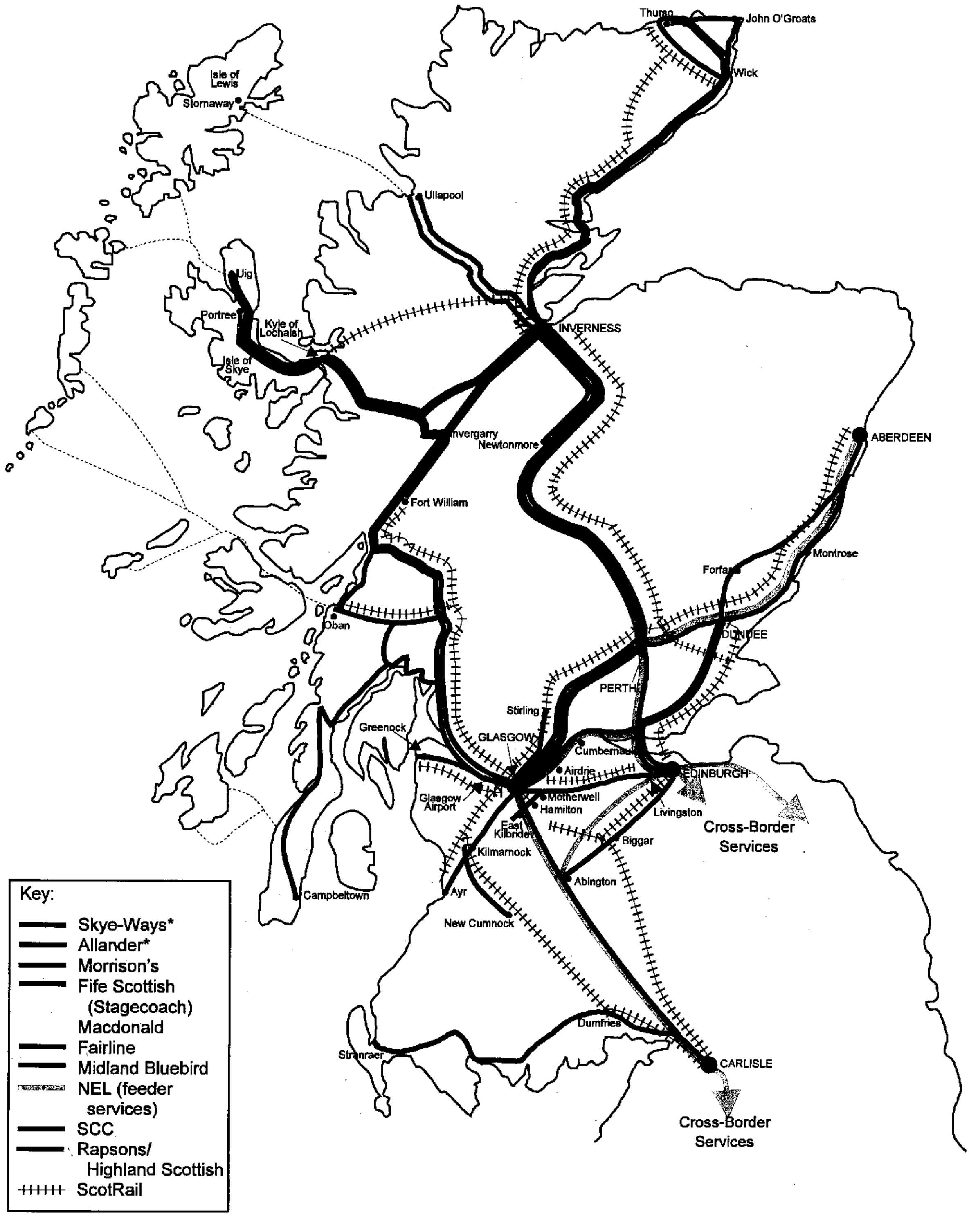
Competition between coach and rail

Scotland to London routes

3.86. Both NEG and BR told us that they considered that long-distance rail travel was generally seen by passengers as more attractive than coach travel in terms of timing and certain other facilities. BR's research indicated that its strengths were speed, punctuality and comfort. In the view of NEG, these advantages meant that, at the same prices for rail and coach, practically all passengers would

FIGURE 3.1

SCC network, summer 1993, showing competing rail and scheduled coach services



Source: NEG and MMC.

*Inverness to Glasgow operated by Allander and Skye-Ways jointly.

prefer to travel by rail. Coach travel had to be priced at a substantial discount to rail travel in order to compensate passengers for the disadvantages inherent in travelling by road.

3.87. As one way of assessing the extent of the competitive disadvantage faced by coach operators on the Scotland to London routes, NEL commissioned market research in November/December 1992 to determine the trade-off between price and journey time. Passengers were asked first to compare a four-hour journey costing £22 with a five-hour journey costing £20, and secondly to make the same comparison except that the four-hour journey cost £25. The results indicated that 90 per cent of coach passengers would be at least 'quite likely', 70 per cent at least 'very likely', and 52 per cent 'very likely indeed' to choose the £22 fare taking 4 hours in preference to the slower journey costing £20. Taking the second comparison, 82 per cent of coach passengers would be at least 'quite likely', 44 per cent at least 'very likely', and 25 per cent 'very likely indeed' to choose the faster but more costly alternative.

3.88. On the Scotland to London routes most rail journeys take distinctly less time than coach journeys. NEG told us that its coaches took between 6 hours 50 minutes and 8 hours 35 minutes between London and Edinburgh or Glasgow depending on route and stops. By comparison many trains from London to Edinburgh take about 4 hours 30 minutes, those to Glasgow around 5 hours 30 minutes, and some take less. NEG foresaw that the time advantage of rail over coach travel would significantly increase in the near future as a result of proposed regulatory changes affecting road travel. First, the progressive introduction between 1994 and 1996 of a maximum 65 mph speed limit for coaches, in compliance with EC requirements, would increase journey times on the Scotland to London services by an estimated 40 minutes. Secondly, the current Government proposal to prohibit coaches from the outside lane of the motorway would effectively reduce a coach's maximum speed to 56 mph in practice, as this lower limit would from 1996 be applicable to heavy goods vehicles, which were already banned from the outside lane of the motorway, and coaches would be unable to overtake them (see paragraph 5.4).

3.89. Both NEG and BR accepted that, broadly speaking, BR sets a fare structure and coach operators adjust to it. Coach and rail are seen to be in competition primarily in the leisure sector.

Pricing policy of BR

3.90. BR told us that its business strategy had shifted from a focus on cost-cutting and optimizing its operational side to marketing activity and income growth. It now undertook an earnings analysis to determine how much revenue each train was generating, broken down by ticket type. This information allowed it to price its tickets selectively and to target particular passenger markets.

3.91. Competition between rail and coach services has increased over the last three years on the cross-border routes, both via the east coast and the west coast. InterCity told us that it had introduced cheaper types of ticket in order to increase its revenue by filling seats which would otherwise remain empty, with, however, the minimum net abstraction from existing revenues.

3.92. InterCity (EC) and (WC) have a number of cheaper tickets, known as Saver, SuperSaver, Apex and SuperApex. Saver and SuperSaver can be purchased either immediately before travel or in advance. There are restrictions on the periods when SuperSavers can be used for travel to or from London and they cannot be used on a Friday or on a few other peak days. Neither Saver nor SuperSaver tickets are limited by a quota.

3.93. Apex fares were introduced on to the Glasgow to London route in 1987 and on the Edinburgh to London route in 1990 as a test-market exercise and, having proved successful, were extended to all InterCity services nationally over 150 miles. SuperApex was introduced in 1992 on the Glasgow/ Edinburgh to London routes and is now used in addition to Apex, but more selectively. At the time of its introduction BR said that the SuperApex ticket was aimed at filling empty seats, which were found mostly on early morning and late evening services.

3.94. The introduction of SuperApex on the cross-border routes meant that the lowest rail fare at that time was below both the standard and economy coach fare.

3.95. Both Apex and SuperApex are sold selectively and the number of seats made available is determined through BR's system for controlling capacity by means of computer reservations. From its train counts BR is able to observe the extent of spare capacity on particular trains and it then assigns quotas for Apex and SuperApex seats. BR said that both types of ticket were principally aimed at travellers who would not otherwise use rail. The number of seats made available at these fares varies by train, by day of week, by time of year and by journey leg.

3.96. The conditions of use for Apex and SuperApex fares are that reservations must be made in both directions, with penalties applied for changes to reservations and refunds only in exceptional cases, eg when an Apex ticket is completely unused and returned to BR prior to the date of the outward travel.

3.97. SuperApex fares are made available in more limited numbers than Apex fares and are confined to specific services in each direction. At less busy times of the year, SuperApex seats are normally available up to 14 days before train departure except for particularly busy days, eg Fridays/Mondays.

3.98. In addition to offering the full range of BR tickets, InterCity enters into promotions with third parties from time to time to offer discounted fares, eg the 1991 and 1992 national promotion with Boots and the 1993 national promotion with Shell. The offer is usually 'two for the price of one' on Saver and SuperSaver fares and the number of seats is quota-controlled. As with Apex and SuperApex, the main aim of the promotions is to attract passengers who would not otherwise travel by rail.

3.99. BR also makes discounted fares widely available to people over 60 years of age and to those aged between 16 and 23. To obtain discounts, railcards have to be purchased. They are valid for a year, cost £16, and generally entitle the holder to a discount of around one-third.

Price competition between NEL and BR

3.100. NEG told us that as a general strategy NEL and SCC sought to set their fares at levels 30 per cent or more lower than the comparable tickets for competing rail services and at the same time to match other coach operators' fares. The broad commercial strategy was that a tangible advantage should be offered over BR and that NEL and SCC should remain competitive with other coach operators. NEG told us that in practice, because of its own cost base and BR's low prices, it found it difficult to achieve the 30 per cent differential on many routes, including the Scotland to London ones.

3.101. The main competing fares of BR and NEL are the SuperApex and Advance Purchase (respectively) at the cheapest level and the Apex and Economy fares at the next higher level. The BR Apex fare has remained constant since January 1991 and the SuperApex fare has not increased since its introduction in May 1992. The main coach and rail return fares (excluding First Class) on the Edinburgh/Glasgow to London routes are shown in Table 3.7.

TABLE 3.7 **BR and NEL return fares on the Edinburgh/Glasgow to London routes**

Rail			*Coach*		
Type of return ticket	*Price* £	*Discounted price* £	*Type of return ticket*	*Price* £	*Discounted price* £
Standard Open	122	80.50	Standard	38	26.50
Saver	69	45.55	Economy	36	25.00
SuperSaver	59	38.95	Advance Purchase	25	-
Apex	44	-			
SuperApex	29	-			

Source: BR and NEL.

InterCity (WC) also offers Advance and SuperAdvance return tickets, which have the same price as Savers and SuperSavers respectively.

3.102. NEG told us that since the late 1980s, and in particular since the introduction of SuperApex tickets, the increasingly competitive policies of BR had had a major impact upon its pricing strategies and had made competition more intense between rail and coach services.

3.103. NEG said that, at first, the introduction of Apex fares did not have very much effect on the demand for coach services since their availability was not widely publicized. But with greater publicity as well as extended availability to all trains, there was a significant impact on the loadings of NEL coaches on competing routes. NEG calculated that the number of coach passengers fell by 32 per cent between 1991 and 1992 on its Glasgow to London route and by almost 30 per cent on the Edinburgh to London route. This compared with a fall in NEL's passenger numbers over the whole network of 11 per cent.

Capacity and ticket sales: rail versus coach

3.104. We analysed data provided to us by InterCity (EC) and (WC) relating to the services between Scotland and London. The services of InterCity (EC) run from King's Cross station on the east coast route to Edinburgh, and some go on to Glasgow or Aberdeen. InterCity (WC) services start at Euston station and take the west coast route to Glasgow. Apex tickets are available on nearly all east coast services, but SuperApex tickets on only a few, a substantial proportion of which are early morning trains. On the west coast route Apex tickets are available on nearly all trains, and SuperApex are available on most.

3.105. A comparison of capacity (ie the quota of seats made available) with sales shows that approximately half of Apex seats available were filled in the period April to December 1993. The comparable figure for SuperApex was similar, though this varied by time of day, with the heaviest period being between 8 am and 4 pm.

3.106. Both capacity and sales of Apex and SuperApex seats vary considerably by time of day, day of the week, and season. On average, however, the daily number of seats made available at Apex and SuperApex fares is larger than NEG's daily scheduled capacity and not all the Apex and SuperApex seats are filled.

3.107. By comparison the combined daily capacity of NEL and SCC before the merger on the Scotland to London routes was around 1,300 seats (excluding duplicate coaches); after the merger this fell to around 900. Average daily sales in 1993 following the merger were around 450 seats, of which approximately a quarter were Advance Purchase and slightly less were discounted tickets.

Intra-Scotland routes

3.108. ScotRail told us that it did not perceive coach services as a significant competitor in the long-distance sector, and that it was not its policy to enter into price competition with coach operators. This policy was always under review, however, and ScotRail would react strongly if it felt that its market was threatened.

3.109. Within Scotland, ScotRail said that it perceived the primary areas of competition on three routes: Inverness to Wick/Thurso, Edinburgh/Glasgow to Inverness and Glasgow to Fort William/Oban, where rail was relatively slow. It saw less of a competitive threat from scheduled coach services on the routes between Edinburgh and Glasgow, Glasgow and Aberdeen, and Edinburgh and Aberdeen.

3.110. One reason why competition with scheduled coach services is less for ScotRail than for InterCity is that ScotRail feels that it needs to approach filling spare capacity with care because of adverse customer perceptions of high loadings on its trains. It said that in those cases where it did have significant spare capacity, its pricing initiatives were aimed solely at revenue maximization and were not a deliberate competitive strategy aimed against coach services. Among its price initiatives were a special Apex ticket between Glasgow/Edinburgh and Inverness; local Railcards for residents on rural routes; Shopper fares on the Glasgow to Fort William/Oban route; and a Capitalcard fare to Edinburgh.

Entry and barriers to entry

Entry into the market in the recent past

3.111. Deregulation in 1980 proved to be a spur to new entry into the scheduled coach market in England and Wales. There was a burst of competition from the private sector, which contested many routes with NEL. A rival national network was set up by British Coachways, but this collapsed within two years of its creation, and many of the other entrants withdrew from the market, re-establishing NEL's pre-eminent position.

3.112. On the intra-Scotland routes there are a number of competing coach operators (see Figure 3.1) and changes of route are not infrequent. On the Scotland to London routes, on the other hand, there have been only two operators apart from NEL, SCC and Silver Choice over the last several years. A company called Knightrider commenced a service in 1991 but withdrew in 1992; it became a contractor to SCC. In October 1993 a service was begun by Gem, an operator based in Birmingham, but was withdrawn after only two months of operation (see paragraph 4.51). Gem operated two services on Friday and two on Sunday on a route from Edinburgh via Glasgow and Birmingham to London. It charged £20 for a return from Edinburgh/Glasgow to London, a fare £5 less than the cheapest NEL fare.

Barriers to entry

3.113. There are a number of possible barriers to entry into the scheduled coach services market. We shall discuss them one by one.

Ticket sales network

3.114. NEL is the only scheduled coach operator to have a national network of ticket agencies. It agreed that a new large-scale entrant would have to undertake a significant investment in developing a rival network of distribution. It contended, however, that most rival operators only sought corridors of operation and were not therefore constrained by the absence of a ticketing network.

3.115. On the basis of past experience it would appear that new entrants can establish themselves on individual routes but that it would be extremely difficult for a competitor to establish a similar national network.

Access to coach terminals

3.116. A problem may arise for a new entrant if it wishes to operate at peak periods and all the stands at the terminal have already been allocated. A second problem may arise if a major operator, for example NEL, is allotted more desirable stands than are made available to other operators.

3.117. Victoria Coach Station told us that it had no prime stands. But several coach operators mentioned that at Buchanan Bus Station, Glasgow, the allocation of prime stands to NEL/SCC gave it an unfair advantage over competitors who were allocated less prominent stands, away from the station entrance (see paragraph 4.36). One said that NEG had recently renegotiated exclusive rights to stands with Strathclyde Passenger Transport Executive (SPTE), which was now assuming control of the bus station. (SPTE's account of these negotiations and stand allocation at Buchanan Bus Station is given in paragraph 4.122.)

3.118. In Edinburgh the St Andrew Square Bus Station was owned until January 1994 by STG, and the northern part was leased to SCC. Lothian Regional Council (Lothian RC) has now taken control of managing the bus station and has agreed to lease certain office accommodation to SCC including SCC's present ticket office. Lothian RC stressed that, unlike at Buchanan Bus Station, no operator had the right to use particular stands and all had to pay departure fees.

3.119. The pricing structure for coach departures may also favour the large operator. At Victoria Coach Station a 12 per cent discount is offered to operators with over 1,500 departures per year.

Brand name

3.120. In the market for scheduled coach services brand names can be important and may be widely recognized. NEL has undertaken considerable expenditure to make its brand name and livery known to the general public and the value of the brand forms an important part of the goodwill of the business.

A national network

3.121. NEL is the only scheduled coach operator that can offer a national network and it is thus likely to attract passengers who wish to undertake complex journey patterns. Of those who arrive at Victoria Coach Station on an NEL coach, 28 per cent will be continuing their journey to another destination.

3.122. NEG told us that as a result of its extensive network and the interdependence of routes NEL maintained services that varied considerably in profitability when looked at individually and absorbed losses on routes that contributed to the network.

Possible retaliation by NEL

3.123. Potential entrants may be deterred if they expect the incumbent operator on a route to retaliate strongly in response to the setting up of a new service. Such deterrence is more effective if an operator gains a reputation for an aggressive response. Retaliation may take the form of a reduction of fares or an increase in frequency of service, as well as a number of other potentially anti-competitive practices. A number of coach operators told us (see paragraphs 4.55 and 4.59) of occasions when NEL had retaliated against new entrants through major price reductions. NEG said (see paragraphs 5.31 and 5.32) that NEL did not have such a policy of retaliation, and provided examples of competitors against whom it had not retaliated.

4 Views of third parties

4.1. We invited views from Government departments, coach operators and contractors, BRB, consumer groups, coach trade and user bodies, travel agents, tourist boards, Scottish regional transport authorities and other interested organizations. This chapter summarizes the evidence we received.

Government departments

Department of Transport

4.2. The DOT explained that the deregulation of the coach industry in 1980 had produced an immediate burst of competition from the private sector. This had quickly faded and in a short time NEL had emerged as the only true national operator of scheduled coach services. Though there were a number of important competitors on individual routes, usually from a provincial city centre to London, no other operator had produced a national network to rival NEL. The DOT said that NEL's domination of the market gave it some cause for concern; it was therefore glad that the present inquiry was being undertaken.

4.3. The DOT pointed out that deregulation had made it easier for new operators to enter the scheduled coach market. If an operator had a licence and could satisfy various safety requirements it could start a service. The DOT suggested that a new entrant could face two main problems, these being lack of access to a national ticket-selling network and restricted access to certain bus stations. The DOT explained that the Transport Act 1985 had extended competition legislation to cover access to bus stations, and that the OFT was able to monitor bus stations to ensure that these were not being operated in an anti-competitive manner.

4.4. The DOT said that on long routes rail travel was the main competitor to scheduled coach services. Though the business traveller was more likely to choose rail than coach travel, coach and rail competed for the leisure traveller, mainly on price. BR had, through the introduction of its Apex and SuperApex fares, shown that it was prepared to compete directly with coach services on price. The DOT thought BR was not indulging in predatory pricing but was setting its fares at a market level to improve both its short- and long-term net revenue.

4.5. Asked about the impact of future privatization of the rail network, the DOT said that present services would be operated by a number of different franchisees. A regulator had been appointed to protect the interests of passengers and to promote competition. The DOT expected that under the new regime competition with coach services would either continue at its present level or increase slightly.

4.6. The DOT added that a number of road passenger transport operators had shown an interest in bidding for rail franchises. It thought that common ownership of rail and coach services might bring some benefits, particularly in areas of the country where coach services complemented rather than competed with rail services.

4.7. Finally, the DOT pointed out that, if the acquisition of a rail franchise raised competition issues, it could qualify for investigation as a merger under the Fair Trading Act.

The Scottish Office

4.8. The Scottish Office provided background information to assist us with our inquiry but declined to comment on the merger.

Competing Scottish coach operators

Allander Coaches Ltd

4.9. Allander Coaches Ltd (Allander) runs a Glasgow to Inverness return service jointly with Skye-Ways Express Coaches (Skye-Ways), in competition with a similar service run by SCC. Allander said that it competed with other scheduled coach operators by offering a non-stop service and by providing higher vehicle standards. Allander thought the merger would affect competition by allowing NEL to feed passengers from cross-border services on to Scottish services with special through fares. The merged group would also have sufficient power to cut fares on selected routes and drive out competitors, if it so wished.

4.10. Allander complained that the allocation of prime stances at Buchanan Bus Station, Glasgow, to NEL/SCC gave an unfair competitive advantage over other coach operators who were allocated less prominent stances, away from the station entrance. Allander argued that it was losing ticket sales because many passengers were unaware that there were alternative services to those operated by NEL/SCC. Also, ticketing arrangements were very much to NEL/SCC's advantage. Although Allander's tickets were now available from a new information desk run by SPTE this was much smaller than NEL/SCC's nearby ticket office and did not provide sufficient advertising space for independent operators to promote their services.

Fairline Coaches Ltd

4.11. Fairline Coaches Ltd (Fairline) operated as a contractor to SCC on coach services between Glasgow Airport and Buchanan Bus Station from 1991 to 1993. After NEL's acquisition of SCC in May 1993 Fairline said that it was informed that if it wished to continue providing the service under contract it would have to buy two new coaches from SCC, at prices which Fairline considered excessive. Fairline declined and said that it was forced to withdraw from the service immediately. On 14 July 1993 Fairline started its own services on the same route in direct competition with SCC's services.

4.12. Fairline complained that SCC immediately engaged in unfair competitive practices to try to discourage passengers from using Fairline's alternative service. Fairline alleged that SCC's tactics included not running coaches to timetable and blocking the stances at the airport to prevent Fairline coaches from pulling in and picking up passengers.

4.13. Fairline said that although SCC's tactics moderated after Fairline complained to the Traffic Commissioner this could be temporary and took account of a fall in passenger numbers using the service over the winter months.

4.14. Fairline argued that SCC was acting against the public interest. Smaller operators found it very difficult to compete on an equal basis with operators having the combined resources of NEL/SCC. Fairline could not identify any benefits from the merger. On the contrary, it thought that the merger would result in loss of choice of operator, less frequent services, higher prices (particularly on rural services), the withdrawal of unprofitable services, and contractors being further squeezed on prices, which could adversely affect the safety of their vehicles.

4.15. Fairline suggested that the Traffic Commissioner, or a separate independent body, should monitor NEL/SCC's activities to ensure that it competed fairly with other operators, and should have the power to divest the company of its services if it found that it was using unfair operating tactics.

Fife Scottish Omnibuses Ltd

4.16. Fife Scottish is a bus and coach operator and a subsidiary of Stagecoach Holdings PLC (Stagecoach) (see paragraphs 4.32 to 4.35). At present it competes with SCC on long-distance coach services between Dundee and Edinburgh, and Dundee and Glasgow. Fife Scottish also provides contract coach services to SCC on other routes.

4.17. Fife Scottish said that it competed with SCC on frequency of service, price and on differences in routes. Where journey times were reasonably comparable between operators on similar routes, pricing provided the major element of competition. Many coach customers, particularly students and pensioners, were sensitive to price differences amongst coach operators. Fife Scottish added that as barriers to entry to the bus and coach industry were low there were plenty of opportunities for newcomers.

4.18. Asked about ticket sales, Fife Scottish said that an operator did not need to have a large number of ticket agents. In the case of Fife Scottish most ticket sales took place on the vehicles themselves or at termination points through agency agreements with the bus station operators. Seats could not be pre-booked. Fife Scottish added that in the past it had experienced difficulties in selling tickets at Buchanan Bus Station. Now that control of this bus station had passed to the local transport authority the position had improved and Fife Scottish was confident that its tickets could now be sold on an equal basis with its competitors'.

4.19. Fife Scottish said that coach operators faced competition from rail services, particularly on the longer-distance routes. It thought that if rail operators were unable to maintain their Apex and SuperApex fares following privatization this could well increase demand for coach travel.

4.20. Fife Scottish thought the merger was unlikely to operate against the public interest and would not affect competitors or contractors of NEL and SCC in any material way. It said that there could be benefits to the consumer in that the quality of service offered by SCC would most likely improve. Prices were unlikely to be affected because of existing price competition with discounted rail travel and with other coach operators. If NEL were to withdraw services from remote areas of Scotland, Fife Scottish felt sure that there would be other operators keen to replace it in those areas. It thought that NEL would be unlikely to reduce the number of SCC ticket agents in remote areas if to do so would reduce its revenue.

William Macdonald & Co

4.21. William Macdonald & Co (Macdonald) told us that it ran scheduled return coach services from Ullapool to Inverness and competed with SCC on a similar route. Macdonald said that it was disadvantaged in practical terms by existing arrangements for stances at Ullapool pier, where coaches met passengers from the Isle of Lewis ferry. Only two operators were allowed a stance on the pier, though Macdonald thought there was space available for a third operator. The two prime stances on the pier were allocated to two of Macdonald's competitors. Macdonald complained that its applications for a stance at the pier were not being treated equally with those of other operators, and that its passengers were inconvenienced as a result.

Morrison's Coaches

4.22. Morrison's Coaches (Morrison's) competes with SCC on coach services between Inverness and Thurso, in the far north of Scotland.

4.23. Morrison's said that it competed with other operators on price and comfort. Morrison's complained that the merger would create a combined group well able to price other operators out of the market, thus creating an even greater monopoly of services.

Skye-Ways Express Coaches

4.24. Skye-Ways runs nine scheduled coach services within Scotland. It competes with NEL/SCC on three routes to Glasgow: from the Isle of Skye, Fort William and Inverness. Skye-Ways runs its Glasgow to Inverness service jointly with Allander (see paragraphs 4.9 and 4.10).

4.25. Skye-Ways said that it competed with other coach operators on frequency, quality of service and price. It did not see ScotRail as a major competitor. Rail routes did not correspond with coach routes; fares were considerably more expensive and, in some cases, rail journeys took longer than by coach. Skye-Ways thought that several rural lines might close as a result of rail privatization which could benefit local coach operators. BR was, however, a serious competitor on longer routes, eg London to Inverness where its Apex fares competed directly with coach services on price and offered reduced journey times. Skye-Ways added that air travel was also a major competitor on these routes.

4.26. Asked about its ticket arrangements, Skye-Ways said that it sold tickets directly from its own offices. It had had an arrangement with NEL to sell its tickets at Buchanan Bus Station, Glasgow; this arrangement had now been transferred to SPTE. Skye-Ways was agent for NEL in Kyle of Lochalsh and Inverness.

4.27. Skye-Ways explained that ticket agents were an essential part of a scheduled coach operation and were particularly important for sales of tickets on cross-border routes. It could not compete with NEL/SCC on cross-border routes as NEL/SCC was able to collect additional passengers under dual ticketing arrangements. Skye-Ways pointed out that administering agents was expensive; the merger might enable the combined company to reduce the number of its agents in certain areas.

4.28. Skye-Ways said that it opposed the merger. A combination of NEL and SCC would create a much larger group than existed before privatization and this would operate against the public interest. The combined group would have the necessary financial resources to act against smaller independent operators by charging lower fares on routes where such operators ran competing services.

4.29. Skye-Ways also thought control of SCC should stay in Scottish hands rather than pass to an English company which might not give priority to its Scottish activities. Skye-Ways thought this view had already been partly borne out by the transfer of a number of operational activities from Scotland to NEL's offices in Manchester and Birmingham.

4.30. Skye-Ways said that its main complaint was that it, and other independent operators, were seriously disadvantaged by NEL/SCC in its use of Buchanan Bus Station, Glasgow. Both NEL and SCC had exclusive rights, renegotiated with SPTE, to the front coach arrival and departure stances at the station. This, and the proximity of the ticket office and other station facilities to these stances, gave NEL/SCC an unfair advantage over other operators who were allocated stances at the rear of the station, far removed from the main entrance. Skye-Ways said that passengers entering the station could be forgiven for thinking that only NEL/SCC coach services operated from the station. Prime advertising space was also allocated to NEL/SCC. Skye-Ways added that its west coast services continued to use front stances despite the lapse of an agreement with NEL/SCC to that effect. Its Inverness service was allocated a back stance.

4.31. Skye-Ways added that the ticketing arrangements at the station had improved somewhat since SPTE had opened an information desk, which also sold tickets. The main purpose of the desk was, however, to distribute information; it did not allow sufficient space for independent operators to advertise their services and it was only manned by one or two persons, in contrast to the nearby NEL/SCC ticket office which had five to six desks permanently manned throughout the day. Skye-Ways added that though SPTE had said that it would open and run a single ticket office at the station, which would sell all operators' tickets on an equal basis, this might not be operational until some time in 1994.

Stagecoach Holdings PLC

4.32. Stagecoach said that it was not strictly a competitor with NEL/SCC since its own inter-urban bus services were not comparable with limited stop long-distance express services. A subsidiary of Stagecoach, Fife Scottish (see paragraphs 4.16 to 4.20), did, however, compete directly with express coach services run by NEL/SCC.

4.33. Stagecoach thought that the acquisition operated in the public interest. NEL was seen as a long-term player in the industry and this brought positive benefits to both passengers and operators. The public would benefit from the establishment of a more comprehensive, national coach network. NEL was also trying to improve standards amongst contractors, with more emphasis on maintaining quality and providing value for money.

4.34. On the negative side, Stagecoach said that some contractors might be concerned by remarks attributed to NEG since its flotation that NEL intended to increase its margins by squeezing the rates per mile paid to contractors.

4.35. As to competition between coach and rail travel, Stagecoach pointed out that it had always been unhappy with the unfair allocation of certain subsidies between BR and coach operators. Regional Councils in Scotland generally allowed concessionary fares only on part journeys within their region, whereas BR benefited from a full subsidy on the whole journey. Stagecoach added that it had seen some signs that BR was reconsidering its long-distance fares in relation to competition from coaches. Stagecoach said that it agreed with a reported criticism of BR by NEL that a level playing field could only be established when the process of privatization was completed and the basis of continuing subsidies was equalized.

Weir's Tours Ltd

4.36. Weir's Tours Ltd (Weir's) operates on one route (Glasgow to Blackpool) in competition with NEL. Weir's said that it disputed NEL's claim that BR's InterCity services were its main source of competition and argued that NEL's main competition in Scotland was in fact from independent Scottish coach operators. Weir's feared that NEL/SCC would be able to target routes and cut fares to drive out competition, if it so wished. Weir's also supported Skye-Ways' and Allander's complaints about the preferential allocation of stances at Buchanan Bus Station to NEL/SCC (see paragraphs 4.10, 4.30 and 4.31) and the unequal treatment of operators' present ticketing arrangements at the station. Weir's added that it knew of five other operators who had a similar complaint about the allocation of stances at Buchanan Bus Station.

Non-competing Scottish coach operators

4.37. We received views from three non-competing Scottish coach operators. Two said that they expected the merger to operate to the benefit of rather than against the public interest, by strengthening the merged company and improving the image of coach travel in competition with rail and air alternatives. The combined group would be better able to market and advertise its services. The public would also benefit from higher-quality vehicles, whilst fares, quality of service and range of choice would continue to respond to competition. One of these operators added that any possible abuse by the combined company would encourage new entrants into the market. A third operator, whilst making no formal representation, said that it would not favour any development which might reduce the scope for competition or discourage new entry.

Scottish coach contractors

Clydeside 2000 PLC

4.38. Clydeside 2000 PLC (Clydeside) is a major Scottish bus company with over 300 vehicles. An employee-owned company, it came into existence following the privatization of SBG.

4.39. Clydeside said that it operated scheduled coach services as a contractor for SCC on two separate routes, Gourock to Glasgow to Edinburgh and Glasgow to Blackpool (summer only). It also carried out a certain amount of *ad hoc* duplication work on behalf of SCC. Clydeside added that coach operations were not one of its core activities: it preferred to run local bus services.

4.40. Clydeside said that scheduled coach operators competed not only amongst themselves but also with rail and air travel. This was particularly true for the long-distance routes between London and Scotland where competition between different modes of transport was intense. Clydeside added that rail privatization might create even greater opportunities for competition between rail and coach travel, particularly in Scotland where rail services could be improved.

4.41. Clydeside pointed out that previous competition between NEL and SCC on London to Scotland routes was short-lived. Market forces soon forced both companies to rationalize their services. Clydeside thought that though customers did not readily distinguish between different coach operators, gaps still existed for different qualities of services between coach operators.

4.42. Clydeside thought that the merger might benefit both companies by allowing them to further rationalize their services. In Scotland SCC was the major operator, so this would have little effect. Rationalization would give the combined company a simpler and stronger identity and allow it to compete more effectively with other forms of transport.

4.43. Asked about the effect the merger might have on SCC's services to remote areas of Scotland, Clydeside said that it could see no reason why NEL would want to withdraw these services. Similarly, it thought NEL would be unlikely to want to reduce the number of ticket agents in these areas.

4.44. Clydeside said that a possible detriment resulting from the merger could be that NEL would try to obtain better terms from contractors, but Clydeside added that that risk was already present.

Others

4.45. In addition to Clydeside (with which we held a hearing), we sought views from a further 13 providers of contract scheduled coach services to NEL/SCC in Scotland, of which six replied.

4.46. Four of the contractors who commented thought the merger would have very little effect on competition amongst scheduled coach operators in Scotland. Three of these contractors pointed out that coach operators competed with rail, car and air travel rather than amongst themselves. Two contractors added that, as barriers to entry to the coach industry were very low, new competitors could easily enter the market. One contractor thought that rail franchising would increase competition, in the same way that competition from air services had increased, particularly on routes between Scotland and London.

4.47. One contractor, however, argued that other coach operators would find it more difficult to compete with an NEL/SCC group because of the size and power of the combined group.

4.48. Two contractors thought the merger would enable NEL to offer a more rational and comprehensive timetable to the public, with a greater choice of direct links to other parts of the country. Another contractor said that the merger was in the interests of both the public and coach operators. The merger had increased confidence amongst coach contractors and had encouraged them to invest in their businesses. This had corresponded with an increase in passenger loadings and earnings per mile, improved availability of information and service connections for ongoing travel, and a more professional approach to the running of operations.

4.49. One contractor considered that payments to contractors had been more prompt since the merger. Another contractor feared that the merger would lead to a reduction in fees paid to contractors and the imposition of restrictions on the types of vehicles which contractors could use for their services.

Gem Travel (Coaches)

4.50. Gem wrote that it was a recent entrant to the London to Scotland coach market, offering a twice-daily return service on Fridays and Sundays from Brighton via London, Birmingham and other stops to Glasgow and Edinburgh. It stated that it would have no objections to the proposed merger as long as it brought some benefits to customers.

4.51. Subsequently we were told that Gem had withdrawn its Glasgow/Edinburgh service and we therefore asked Gem for confirmation, and for background details. Gem said that as a small operator, with limited financial resources, competing against a public company with strong financial backing, the odds had been weighted against it from the start. It had encountered obstacles most of the way. In particular, Gem complained that it was allocated stances at Glasgow and Edinburgh bus stations and Victoria Coach Station well away from the main pick-up points for London to Glasgow services. This meant that to have any chance of picking up passengers required a great deal of advertising. Gem had also found reluctance among other coach companies to become involved in running the service in any type of partnership without being paid in advance. This eventually caused Gem cash-flow problems and it was forced to withdraw its services after only a short time of operation, having incurred a deficit of £8,000.

Competing coach operators in England and Wales

Yorkshire Travel Ltd

4.52. Yorkshire Travel Ltd (Yorkshire Travel) said that on 5 November 1993 it had started operating scheduled coach services to Victoria Coach Station from various points in West and South Yorkshire, in competition with similar services run by other operators, including NEL.

4.53. Yorkshire Travel told us that it had experienced considerable difficulties in both the marketing and timetabling of its services at Victoria Coach Station. Although that station claimed to sell all operators' tickets on an equal basis, in practice this was not so. Only NEL tickets were allowed on the sales counter together with a visual display unit linked to NEL's computerized booking system. Staff had to leave their seats to go to a back table to complete other operators' tickets by hand. No logical explanation had been given by Victoria Coach Station as to why other operators' tickets could not also be placed at each serving window. Yorkshire Travel alleged that, at peak queuing times, unless a customer asked for a ticket for a specific operator, he was automatically sold an NEL ticket. Poor sales returns, as a result, had forced Yorkshire Travel to alter its original timetablings in an attempt to gain more passengers. Had it anticipated such low ticket sales from Victoria Coach Station it would not have set up its services.

4.54. Yorkshire Travel also pointed out that it had encountered difficulties in securing ticket agents. Students were a major source of passengers, especially at weekends. At Sheffield University, however, despite providing references from South Yorkshire Passenger Transport Executive and offering a bond, Yorkshire Travel had been denied access to the student union travel shop, an NEL ticket outlet. Leeds University informed Yorkshire Travel that it received 15 per cent commission on NEL ticket sales, whereas normal commission rates were 10 per cent. Yorkshire Travel was attempting to find other outlets for its ticket sales but had encountered the problem of a minimum sales requirement set by NEL for its agents and hence had not been very successful. NEL had begun a substantial advertising campaign in *The Yorkshire Post*, listing all its ticket agents in the whole of the Yorkshire area; and any press release issued by NEL automatically received free widespread press (and other media) coverage. For its part, Yorkshire Travel had already spent some £5,000 on advertising in the local press and student magazines.

4.55. As to pricing, Yorkshire Travel complained that NEL had introduced massive fare cuts on those routes where it competed with Yorkshire Travel, or with other operators. From its knowledge as a former NEL contractor on its own routes, Yorkshire Travel argued that NEL's new fares could not be viable. NEL gave the elimination of competition top priority in order to maintain its profits and satisfy its shareholders. Yorkshire Travel considered that NEL's action was both anti-competitive and an abuse of its monopoly power.

4.56. Yorkshire Travel further complained that NEL was receiving hundreds of thousands of pounds annually from the DOT in the form of fuel duty rebate in respect of fuel which contractors had purchased for local registered bus services, and which NEL was not entitled to. Contractors were not informed by NEL that a service, or part of a service, was registrable or that a rebate was being claimed. No mention was made in the standard operator's agreement that payments for fuel duty rebate for local mileage operated formed part of the consideration as to the contract rates for a diagram. Nevertheless contractors were required by NEL to keep detailed records of mileages and fuel costs to facilitate NEL's claims for the rebate. Yorkshire Travel argued that NEL was unfairly benefiting from a subsidy to which it was not entitled, and that the merger would only serve to compound this situation.

Others

4.57. We received views from a further seven coach operators which competed with NEL on routes within England and Wales.

4.58. Two operators thought that the merger would result in positive benefits to the public, principally by enabling NEL to provide a sustainable national coach network as an attractive alternative to rail travel. Passengers would find it easier to obtain full information on services and to make bookings through NEL's increased network of agents. The merger would enhance price, availability, range of choice and quality of service, though there might be some short-term rationalization of services. These operators added that if NEL were to under-supply or over-price, other operators could easily enter the market in its place. Another operator said that it would have no objections to the merger as long as it benefited customers.

4.59. Three other operators objected strongly to the merger because they thought that it would severely reduce competition in the express coach market. These operators complained that NEL had in the past tried to force smaller competitors out of business through predatory pricing, adjusting services, and using its extensive advertising and ticketing resources to its advantage. It had sought to acquire larger competing companies. Two operators cited Scotland to London routes as examples where NEL had forced out smaller competitors and now virtually controlled these routes. These operators feared that a reduction in competition would give NEL further scope to increase its charges and reduce choice of services which would not be in the public interest. One of these contractors also complained that it had been forced to cease operations to and from a provincial bus station leased by NEL, whilst another complained that smaller operators, without the necessary traffic volume, were further disadvantaged by being unable to negotiate reduced departure charges at Victoria Coach Station.

4.60. Another coach operator said that, whilst it did not wish to make specific representations, it thought that it was generally in the best interests of the travelling public to have as wide a choice of coach operator as possible.

Non-competing coach operators in England and Wales

4.61. Thirteen non-competing coach operators in England and Wales submitted their views and comments on the merger. Seven of the operators said that they saw positive benefits from the merger.

The merger would enable NEL to provide a comprehensive network of long-distance routes throughout the country, allowing it to rationalize its services and reduce wasteful duplication. Passengers would benefit from higher standards of service and possible economies. Several of these operators pointed out that the merger was unlikely to affect competition among coach operators and could improve NEL's competitive position against its main (subsidized) rival, BR.

4.62. One operator said that it opposed the merger because it would further concentrate bus and coach operations into the hands of about five large operators, which was against what the Government had in mind when it implemented its bus and coach privatization programme. Another operator said that the merger would enable NEL to concentrate on its more profitable services and cut back on other services which would not be to the benefit of the travelling public.

4.63. Four operators expressed views neither for nor against the merger. One said that it would be unaffected by the merger; one said that the merger would prevent competition in Scotland but NEL could be kept competitive by BR; one said that the merger would help the combined group to compete with heavily subsidized rail travel; and one operator pointed out that, unless a service was aimed at a specialist market, entry to the scheduled coach market was virtually impossible without a substantial network of agencies to sell tickets.

English coach contractors

4.64. We sought the views of four providers of contract scheduled coach services to NEL on Scotland to London routes, of which three replied.

British Bus PLC

4.65. British Bus said that it operated 2,300 buses and 150 coaches throughout the UK and was made up of ten principal operating companies. Other than contractual arrangements for coach operations (within England, cross-border and within Scotland) for NEL there was no other connection or relationship between the two groups.

4.66. British Bus told us that it had acquired from NEL on 5 May 1993 Bruce's Coaches, a subsidiary of Saltire and contractor to SCC, and ETL, a subsidiary of, and contractor to, NEL. British Bus said that it had closed down Bruce's Coaches on 22 May 1993 on completion of the NEL/SCC diagrams for winter 1992/93. British Bus explained that on acquisition, Bruce's Coaches was making significant losses. The reduction in revenue from the contraction of the SCC network, as a consequence of the merger, would have made a commercial restructuring of the business impossible. Further, the premises were in such a serious state of disrepair that the new owner was to have them demolished and built anew. British Bus added that a significant number of Bruce's Coaches' staff had left the company in the period between acquisition and closure. At the time of the closure there were 48 staff in post.

4.67. British Bus said that it was uncertain as to what effect the merger might have on competition. It was clear, however, that there were other operators setting up in competition with NEL on main inter-city services, though these operators did not provide the country-wide coverage enjoyed by NEL passengers.

4.68. Asked about competition from rail, British Bus said that it considered that coach and rail markets were different in several ways and would remain so after privatization of the railways. British Bus thought that if new rail franchisees were able to reduce their costs substantially and improve reliability they would attract more passengers away from coach travel. In addition, if the proposed 65 mph speed limit and exclusion from the outside lane of motorways for coaches was implemented the effect that this would have on coach journey times would also drive passengers to rail travel.

4.69. British Bus pointed out that many major bus and coach operators would be interested in the opportunities presented by rail privatization. In the event that bus and coach operators were successful in becoming rail franchisees, healthy competition would result in certain areas. British Bus stressed that rail privatization presented the opportunity to have an integrated transport system throughout the country; this opportunity should not be missed.

Others

4.70. One contractor thought that the merger would further enable NEL to reduce its services and concentrate on its more profitable routes, to the detriment of the travelling public. Another contractor said that it was impossible to state with any certainty what the effect of the merger would be. This contractor pointed out that more operators were setting up competing services with NEL; time would determine the success or otherwise of these new entrants.

British Railways Board

4.71. We approached BRB for its views. It told us that three of its divisions—InterCity (EC), InterCity (WC) and ScotRail—would be responding separately. Their individual views are summarized below.

InterCity East Coast

4.72. InterCity (EC) said that it competed directly with scheduled coach services in certain areas of its operations, particularly leisure travel. The principal competition was on its core route between London and Edinburgh, with secondary competition between London and Glasgow and London to West Yorkshire and North-East England. InterCity (EC) added that it did not regard itself as being in competition with coaches for internal Scottish journeys. Although it served the internal Scottish market (eg Edinburgh to Aberdeen, Glasgow to Edinburgh, Edinburgh to Inverness), such services were incremental to its central activities.

4.73. InterCity (EC) explained that rail's strength was in journeys between 150 and 300 miles. For longer distances air travel came to the fore, while for shorter journeys car travel had the major market share. InterCity (EC) thought that competition from coach travel was not necessarily affected by distance because price was normally the predeterminant factor for coach travel.

4.74. InterCity (EC) stressed that whilst its markets overlapped with coach travel to some extent in the leisure market, there was no overlap in the business market. In the business market air travel dominated, with a 70 per cent market share of journeys between London and Edinburgh. The leisure market was far more price-sensitive than the business market; price-cutting usually produced an immediate financial benefit. Car travel had the largest share of the leisure market with an over 40 per cent share of journeys from Edinburgh to London.

4.75. InterCity (EC) said that competition between rail and coach services had increased over the last three years. InterCity (EC) had been active in introducing lower fares to increase its revenue by filling seats which would otherwise be empty, without any abstraction from its existing revenue. InterCity (EC) had noted that its moves to offer greater value to potential customers had generally been followed by NEL and SCC reducing the costs of their fares. InterCity (EC) explained that the major change in structure of its low-cost fares had been the extension of its Apex, and later SuperApex, fares between Scotland and London and intermediate destinations. InterCity (EC) added, however, that Apex fares were only valid on journeys over 150 miles; they were also limited to specific quotas, and subject to advance reservation and the use of specific services. InterCity (EC) had also participated in occasional two-for-the-price-of-one promotions with retailers.

4.76. InterCity (EC) added that though its main competition with coach travel was through its Apex fares, its higher-priced Saver and SuperSaver fares could still be regarded as competitive with coach travel. These tickets offered greater flexibility to customers as there was usually no pre-booking requirement. InterCity (EC) pointed out that full fares were principally aimed at the business market; non-standard fares accounted for over 90 per cent of InterCity (EC)'s Anglo-Scottish business.

4.77. Asked about the possible effects of rail privatization on its fare structure, InterCity (EC) felt that it was bound to have some impact. In the short term there might be some confusion in the market-place as to what fares were available. InterCity (EC) thought that future licensees would continue with Apex fares. Overall, InterCity (EC) thought that it was unlikely to lose market share as a result of privatization.

InterCity West Coast

4.78. InterCity (WC) explained that it was responsible for running long-distance rail services between London Euston and the West Midlands, Liverpool, Manchester, North Wales, the North-West and Glasgow. InterCity (WC) also ran overnight sleeper services to Edinburgh, Aberdeen, Inverness and Fort William.

4.79. InterCity (WC) said that it competed with NEL on all of these routes. InterCity (WC) pointed out, however, that though it was in direct competition with long-distance coach companies, coach competition was its smallest competitor, with a smaller overall market share than rail. Car and domestic air travel had the largest shares of the long-distance travel market.

4.80. InterCity (WC) added that, whilst changes in the market were difficult to quantify, over the last three years coach competition had decreased slightly and the number of domestic flights had increased. InterCity (WC) said that it only competed with coach travel in the leisure market. In the business market competition to rail came from private and company cars and domestic flights.

4.81. InterCity (WC) explained that competition between itself and NEL had become more fierce over the last three years mainly because the introduction of Apex and SuperApex tickets and other rail products (Advance and SuperAdvance) had narrowed the price gap between rail and coach travel.

4.82. InterCity (WC) told us that the main changes to its fare structure over the last few years had been the extension of Apex and Advance tickets to cover all west coast routes, except services to and from London and the West Midlands.

4.83. InterCity (WC) added that Apex tickets were first introduced between Glasgow and London; it was their success on this route that had resulted in Apex developing into a nationally available product for journeys of 150 miles or more. InterCity (WC) explained that Apex, SuperApex, Advance and SuperAdvance tickets were available for use on all its Anglo-Scottish services. InterCity (WC) had also taken part in various special offers to customers including two-for-the-price-of-one joint ticket promotions with retailers.

ScotRail

4.84. ScotRail said that it perceived coach travel as a threat, albeit a minor one, on long-distance journeys within Scotland, in both the business and leisure markets. ScotRail's research had shown that car travel continued to dominate both markets, with rail second and coach travel a poor third. ScotRail said that on some of its routes (eg Glasgow/Edinburgh to Inverness) there was an overlap between rail and coach travel in the leisure market. On some of these routes coaches had a frequency and journey-time advantage over rail. ScotRail said that coach travel posed a lesser competitive threat to its key inter-urban services operating between Edinburgh, Glasgow and Aberdeen.

4.85. ScotRail explained that it was not its policy to enter into price competition with coach operators. In general, ScotRail had limited spare capacity. Only 1 per cent of its seats on the Glasgow/Edinburgh to Inverness route were offered for ScotRail Apex fares. ScotRail's policy had been to optimize its income from existing passengers by building loyalty and improving quality.

4.86. Nevertheless, ScotRail said that it offered a number of discount fares and special deals which were competitive with coach prices. These included local Railcards in rural areas, Apex fares between Glasgow/Edinburgh and Inverness, and limited-period Shopper fares. These offers were in addition to Saver and SuperSaver fares available on journeys of more than 50 miles. ScotRail added that it had also joined with InterCity on various two-for-the-price-of-one ticket promotions. ScotRail pointed out that most of these initiatives were not introduced as direct price competition with coaches. Instead they were conceived as part of a strategy to increase total revenue on certain routes and to fill spare capacity during winter months.

4.87. ScotRail concluded, however, by saying that with the changes taking place within the rail industry its attitude towards coach competition could change in the future. ScotRail kept its policies under review and it would react strongly if it felt that its markets were being threatened.

Other organizations

The National Federation of Bus Users

4.88. The National Federation of Bus Users (NFBU) said that the substantial differences in price between long-distance travel by coach and by train had created sufficient demand to support a competitive market for the cheaper coach travel. Consumers had benefited from this competition both in terms of fare levels and quality of service.

4.89. The NFBU pointed out that BR's recently introduced Apex and SuperApex tickets were, however, in many cases almost as cheap as coach fares and provided a quicker service. The NFBU thought that if a passenger was prepared to travel off-peak and book in advance, BR's fares could tempt many former coach passengers to travel by rail, apart perhaps from students and elderly passengers who were still unable to afford the relatively small extra cost to go by train, or who felt safer to travel by coach.

4.90. The NFBU pointed out that one coach operator had already withdrawn its express services between Newcastle and London because of reduced demand caused both by the recession and by competition from cheap train travel. The NFBU thought that if this could happen on such a busy route it was much more likely to happen on journeys from Scotland, and in Scotland itself, and could result in few coach services on these routes. In the circumstances, the NFBU argued, a merger between NEL and SCC could be seen as a direct response to competition from rail which made good practical sense both for passengers and for the companies themselves.

4.91. The NFBU added that it had recently carried out a survey of coach services on a number of selected routes in England and Scotland, mainly operated by NEL but also several operated by SCC and Stagecoach. The survey had also included interviews with 29 passengers on NEL services.

4.92. The NFBU said that its survey had found that the quality of service provided by NEL and SCC was generally high. Coach interiors were clean, attractive and warm with comfortable seats. Passengers could usually get two seats to themselves if they so wished. The standards of driving were very good and both drivers and hostesses (where provided) were in almost all cases smart, welcoming, friendly and helpful. Refreshments at low prices were offered at regular intervals on longer routes and luggage facilities were good.

4.93. The NFBU pointed out that in most cases coach journey times were usually significantly longer than by train. Coaches were also often delayed by traffic congestion. The NFBU added, however, that when one particular coach was an hour late because of a breakdown staff went to a great deal of effort to inform passengers and minimize the inconvenience caused by the delay. Rail passengers seldom got the same quality of treatment when a train broke down.

4.94. The NFBU mentioned that all the passengers interviewed thought that NEL's fares were reasonable and provided good value for money. The NFBU added that most of the passengers on these services were either elderly or under 25 years old, groups in society for whom lower fares and a more relaxed style of travel were more important than journey times.

4.95. The NFBU said that its survey showed that Stagecoach was providing a highly efficient, carefully supervised, high-frequency and low-fare operation between Glasgow, Dundee and Edinburgh with new, smart and comfortable vehicles, which competed effectively with SCC services. The Stagecoach services were running with full coaches in the middle of a Saturday and included passengers from all age groups.

4.96. The NFBU concluded by saying that it had found passengers at both Dundee and Glasgow confused by the number of different coach companies operating between these cities, with different liveries and ticketing procedures. The NFBU's own experience showed that this confusion was understandable. SCC and NEL had continued to operate separate services since the merger though they accepted each other's tickets. To add to the complication, passengers from outside Scotland bought clearly-marked NEL tickets in advance but Scottish passengers bought their tickets on the coach, with coach contractors apparently using their own company tickets. The NFBU thought that the sooner the operations of NEL and SCC were fused and one clear identity established the better.

London Regional Passengers Committee

4.97. London Regional Passengers Committee (LRPC) said that though its remit did not include commercially-operated coach services, it was nonetheless concerned that a merger which resulted in a reduction in competition in the coach market could have the effect of lessening pressure on coach manufacturers to provide fully accessible vehicles for wheelchair passengers. This, in LRPC's view, would not be in the best interests of disabled people.

Victoria Coach Station

4.98. Victoria Coach Station, owned since 1988 by London Regional Transport, told us that operators other than NEL were only slowly taking advantage of their entitlement to use the facilities at Victoria Coach Station, which had previously been used only by NBC subsidiaries. NEL presently accounted for nearly 60 per cent of departure slots at Victoria Coach Station, with its sister company, Eurolines (UK), accounting for about a further 7 per cent. At present there were sufficient departure slots throughout the day to meet all operators' requirements, though the busiest (1800 hours) slot was nearly full.

4.99. Victoria Coach Station said that it was actively trying to recruit additional operators. One, Silver Choice, had just begun a twice-daily service to Scotland. Another, Yorkshire Travel, had recently started a service between London and Dewsbury, three times a day. There had also been a recent growth in the number of operators providing services between Victoria Coach Station and the Continent, particularly to Poland.

4.100. Victoria Coach Station added that it was concerned that the GreenLine coach stops at the nearby Colonnade represented unfair competition: GreenLine's departure fees were considerably lower than those at Victoria Coach Station and had enabled it to attract existing operators away from Victoria Coach Station. Elsewhere in London, main departure points included Marble Arch and the Victoria Embankment, though almost anywhere suitable from a practical point of view could be used, owing to the lack of relevant regulation.

4.101. Victoria Coach Station explained that its ticketing staff were instructed to ensure that passengers buying tickets there who did not specify a particular operator were made fully aware at the time of buying a ticket if there was a choice of operators on any given route. It admitted, however, that because only a few operators apart from NEL had a computerized reservation system, there was a potential tendency for ticket clerks to take the easy option and not mention alternative (non-NEL) services. If ticket clerks were already using NEL's reservation system, it took time to transfer to another system, or to use manual charting. Sales of other operators' tickets could be diminished as a result. Both Silver Choice and Yorkshire Travel were experiencing difficulties with sales from the

South. Victoria Coach Station said that to address this problem it was arranging to introduce its own ticket to facilitate the booking of small operators' services.

4.102. Victoria Coach Station added that smaller operators could also be disadvantaged by having no other sales outlets in London or South-East England. London Coastal Ticket Agency Network, which had previously sold tickets for any coach operator using Victoria Coach Station, was no longer in existence. Victoria Coach Station thought that it was prohibitively expensive for a small operator to set up its own network of agents.

Association of British Travel Agents

4.103. The Association of British Travel Agents (ABTA) said that it had about 2,500 members, with over 7,000 retail shops, and represented about 90 per cent of high street travel agents. Roughly 2,000 of these outlets handled scheduled coach service bookings. Agents deducted a commission (usually 10 per cent) which varied little between different coach operators.

4.104. ABTA added that most NEL and SCC bookings were processed via a direct computer link to the operators. Bookings with other coach operators were carried out over the telephone. ABTA thought it would not be difficult for a new coach operator to sell its services through travel agents. Travel agents would welcome a new operator if they thought its services were competitive and it allowed a satisfactory commission.

4.105. ABTA pointed out that NEL and SCC were already effectively monopolists in their own areas. The merger would undoubtedly make the new operation even more monopolistic which, whilst competing with other forms of travel, eg rail and air, might not necessarily be in the public interest.

4.106. ABTA mentioned that immediately prior to the acquisition there was effectively no competition on coach routes between Scotland and London, or within Scotland, and this situation was unlikely to change. ABTA said that there were certain routes which might have sufficient passenger numbers to sustain competition, eg London to Glasgow and to Edinburgh, but, on past evidence, it thought new entrants would be reluctant to enter the market because NEL would try to price any new competitors out of the market. ABTA added that on one of the few long-distance routes that had competition, London to Dublin, there had been a significant lowering of fare levels. NEL and SCC had in the past competed strongly on their Scotland to London routes and this had resulted in a considerable reduction in fares on these routes.

4.107. ABTA said that coach travel competed with other forms of transport, particularly with rail for leisure travel. The public soon became aware of alternatives for cheaper or more effective journeys. BR's Apex and SuperApex fares provided very strong price competition and had already succeeded in taking passengers away from coaches, although these reduced fares were only available on journeys over 150 miles. Coach and rail pricing initiatives had often followed each other and this had been to the customers' benefit. ABTA pointed out that under its Code of Conduct its agents were directed to give impartial and unbiased advice to their clients about the advantages and disadvantages of various methods of travel. This included not only whether two coach operators operated on the same route, but also whether the journey could be undertaken by other forms of transport, eg rail or air.

4.108. ABTA accepted that there would be certain benefits from the merger. NEL had developed coach services in England and Wales and the acquisition would extend this to Scotland. The merger would result in standardization of ticket validities and discounts, which would be less confusing to the public. It would also give NEL better opportunity to co-ordinate connection times and give greater flexibility to operational demands.

4.109. ABTA was, however, concerned that the merger might affect the appointment of Scottish agents. SCC had always been flexible in its attitude to the appointment of agents, often appointing agents in remote areas on the basis of social need. ABTA thought that NEL might discontinue this policy and would appoint agents merely on the basis of a minimum turnover requirement. Many Scottish coach users were remote from major city centres and preferred to book through their local agent rather than having to make long-distance telephone calls or credit card bookings. These were often elderly people who, for various reasons, preferred to travel by coach even if the option of rail was available. ABTA argued that any attempt by NEL to reduce the numbers of these agents would clearly not be in the public interest.

Edinburgh Travel Centre

4.110. Edinburgh Travel Centre (ETC) thought the merger was unlikely to affect the public interest greatly. Competition still existed on coach routes between Scotland and London. Scottish routes operated by SCC had not changed since the merger. Possible benefits from the merger were that discount cards could now be used for both companies, and Advance Purchase Savers had been introduced on most routes. ETC added that a possible disbenefit to Scottish travel agents was the transfer of the enquiry point for NEL services from Perth to Birmingham. SCC, however, continued to deal with queries from Glasgow.

Scottish Tourist Board

4.111. The Scottish Tourist Board (STB) said that it would be concerned at any possible deterioration in Anglo-Scottish coach services resulting from the merger. The STB suggested that a possible safeguard could be that consideration should be given to the inclusion of coach services within the remit of the Transport Users Consultative Committee.

Convention of Scottish Local Authorities

4.112. The Convention of Scottish Local Authorities said that it had no objections to the merger. The Convention, however, drew to the MMC's attention its Roads and Transportation Committee's comment that, with the increasing number of mergers and take-overs, the element of competition in the provision of transport services—one of the aims of deregulation legislation—was being eroded. Representatives from remote areas of Scotland were concerned about the maintenance of service levels should there be only one operator in their area.

Scottish regional transport authorities

Borders Regional Council

4.113. Borders Regional Council (Borders) said that, as there were no rail services within the region, it was highly dependent on express coaches services for long-distance travel. Borders explained that at present the region had the worst service it had had for many decades. Competition and deregulation had eroded operators' profit margins and had divided available traffic too thinly for viability.

4.114. Borders argued that competition between NEL and SCC, which had followed the forced break-up of their joint operations in 1989, had been detrimental to the interests of passengers, despite the lower fares which had prevailed.

4.115. Borders concluded that the merger had already shown signs of restoring some of the facilities which had been lost. Although higher fares might follow, Borders thought the merger would nevertheless be to the overall benefit of the area.

Fife Regional Council

4.116. Fife Regional Council (Fife) said that, whilst the merger was unlikely to have any immediate significant impact on express bus users in Fife, it noted that, on certain corridors through Fife, NEL would be the sole provider of such services.

4.117. Fife added that in principle it was concerned that the possible negative effects of this, and similar mergers, both for bus users and for the local authority, might be decreased levels of service, higher fares, and increasing financial support for local services arising from a lack of competitive tendering. Fife, therefore, suggested that any bus and coach mergers which eliminated competition in even a small geographic area should be subject to safeguards to combat any disbenefits.

Grampian Regional Council

4.118. Grampian Regional Council (Grampian) said that NEL and SCC had previously operated competing services from Aberdeen to Glasgow and to Edinburgh and to destinations south. Subsequent to the merger, services had been progressively rationalized. Grampian explained that whilst this had led to a reduction in the total number of journeys operated there had been no substantive reduction in the level and quality of service provided. In the majority of cases service rationalization had had the effect of providing a more balanced and regular service pattern by removing competitive duplication. There was no evidence that fares had increased unreasonably.

4.119. Grampian concluded that on the basis of its current experience it had no objections to the merger. It added, however, that it was concerned that the merger would create an effective monopoly situation. Whilst an operator might be discouraged from abusing a monopoly situation by the prospect of rival operators entering the market, it was questionable whether this form of restraint would apply on routes not considered sufficiently attractive to other operators. Rail services continued to provide competition on major long-distance routes, but existing scheduled coach services also provided an important local and inter-regional transport link for a number of communities within Grampian for which no direct alternative services existed. Grampian was concerned that the merger could, at some date, result in passenger disbenefits in these areas through localized reductions in the quality and level of service and/or fare increases. Grampian recommended that the MMC should consider safeguards to protect these communities against such an eventuality.

Highland Regional Council

4.120. Highland Regional Council (Highland) pointed out that, unlike other regions of Scotland, the competitive position in Highland Region was hardly affected by the merger, the only change being that the twice-daily Inverness to London coach service formerly operated by SCC was now operated by NEL (though still advertised by SCC). So far as this through service was concerned, there were no other coach competitors. Highland added that the main competition for coach operators was BR's through service from Inverness to London.

Strathclyde Passenger Transport Executive

4.121. SPTE said that as its responsibilities related only to local transport the proposed merger would have very little impact on its activities. The merged company did, however, use bus stations owned by SPTE at Buchanan Street in Glasgow and in Hamilton. SPTE thought that the acquisition was unlikely to have any adverse effects on the travelling public or other operators. It added that, on a wider front, the merged company competed with BR over many of its routes, particularly on routes between Scotland and England, and that this competition might increase following rail privatization.

4.122. Commenting on complaints by coach operators about the allocation of stands at Buchanan Bus Station (see paragraph 3.117), SPTE said that when it acquired the 'Head Lease' there was a sub-lease of the whole bus station to SCC with two and a half years to run. There was also a management agreement for SCC's parent company to manage the station. SPTE wished to proceed with a major refurbishment of the entire station, to prepare part of the office accommodation for its own occupation, and to reorganize the use of the station in order to encourage additional operators to use it. SPTE would have been unable to put these proposals into effect as long as the sub-lease and management agreement remained in force. To be able to proceed at an early date it was necessary to negotiate an end to the existing sub-lease and management agreement. In these negotiations SCC agreed to give up a large part of the station buildings, retaining some office premises, a booking office and the use of certain stands, subject to SPTE having the right to allocate such stands to other operators when they were not required to meet the needs of SCC or its associated companies. SPTE added that there had been no allocation of advertising space to NEL/SCC. When the station refurbishment was completed, consideration would be given to the letting of advertising space, but no commitments had been entered into.

The Traffic Commissioner: Scottish Traffic Area

4.123. The Traffic Commissioner said that he had only very limited responsibility for express coach travel and that he had no evidence to suggest that the merger had, or would have, any adverse effects on the public interest.

Alan Howes Associates

4.124. Alan Howes Associates (AHA) are consultants in transportation, public transport and leisure transport development. Mr Alan Howes was, from December 1987 to March 1991, Managing Director of SCC—a period spanning its privatization and subsequent management/employee buy-out.

4.125. AHA pointed out that prior to the merger SCC was the only real competitor to NEL on scheduled coach routes from London to Edinburgh and to Glasgow. Both companies had in the past competed on prices though SCC had found it difficult to compete effectively with a company ten times its own size.

4.126. AHA thought the removal of competition would enable NEL to raise its fares and reduce the frequency of its services on these routes, though it admitted that rationalization might also produce savings which could enable NEL to reduce its fares, if it so wished.

4.127. AHA said that three factors made entry to the scheduled coach market difficult: one was access to bus stations; the second was access to ticket sales; and the third was NEL and SCC's dominance in England and Wales and Scotland respectively and the fact that both were well-known names.

4.128. AHA added that access to bus stations was becoming less of a problem in Scotland since the local transport authorities had taken control of bus stations and the OFT had taken a more active part in monitoring activities at bus stations. There were still, however, locations in England where NEL's control of bus stations effectively deterred new entrants.

4.129. AHA argued that access to ticket agents was a major barrier to new entrants. The setting up of a comprehensive network of ticket sales agents in a particular area involved heavy costs. It was expensive to support an agency network of any size as agents had to be trained and supported and notified of changes to services. Only a company the size of NEL was able to support a national network. To support a national network a coach company needed to be at least the size of SCC, preferably larger.

4.130. AHA said that a network of agents was vital for the advance booking of tickets. Most scheduled routes had a significant proportion of tickets bought in advance. Pre-booking, as opposed to buying a ticket on a bus or at a bus station, was important in the public mind and also to operators in helping them to plan capacities. Passengers with cross-route journeys which involved changes of vehicle were particularly keen to pre-book.

4.131. AHA added that whilst there had been new entrants to the market, very few had stayed in operation for long because of the difficulty in establishing a sales network. Also, by the time any operators reached a size where they could be a possible threat, NEL or SCC had sought to buy them out.

4.132. AHA said that NEL/SCC's main competition on the London to Edinburgh/Glasgow routes now came from BR's Apex and SuperApex fares, though the availability of these tickets was limited. Price competition from rail was not particularly effective on other routes from Scotland to other destinations in England or on services within Scotland. AHA doubted whether potential franchisees for the London to Edinburgh/Glasgow routes would be able to sustain the level of price competition after BR privatization. AHA thought that if BR did ease price competition NEL might well improve the quality and frequency of its services on these routes, and also put up its fares to follow BR's example. This might give more scope for other operators to enter the market at a lower price level.

4.133. AHA foresaw no danger of a reduction in services to remote areas of Scotland as a result of the merger. There was scope for new entrants in these areas provided they could overcome any difficulties over ticketing. Some smaller settlements in less remote areas might, however, suffer from a reduction of services and rerouteings, particularly in respect of night services to and from London. AHA added that NEL might rationalize NEL/SCC agents within the remoter areas but it did not think customers would be greatly inconvenienced because of such changes.

4.134. AHA was concerned, however, that contractors might find their fees squeezed, as there would be only one buyer of their services rather than two. In practice, however, only a few operators, mainly in central Scotland, had the option of contracting to both parties and neither SCC nor NEL was known to be generous in the rates it paid. Similarly, adverse effects might be experienced by sales agents who at one time benefited from competition between the two companies.

4.135. Asked about possible safeguards, AHA suggested that NEL could be asked to limit the number of its services north of Glasgow and Edinburgh or that it could be required to make joint ticketing arrangements available to other operators.

Individuals

4.136. *Mr J Clark*, of Scone, told us that he had been in correspondence with NEL before the merger about poor timekeeping on NEL's Scottish internal services. NEL's poor reliability had cost him dearly in taxi fares etc, and even in work, by adversely affecting his reputation for reliability at a time when he was still a self-employed person. Currently he was a mature student travelling daily between Dundee and Perth.

4.137. Mr Clark copied to us another letter which he had sent recently to NEL containing a number of other complaints about NEL. These included giving him inaccurate information about NEL's long-distance route network between Scotland and England; NEL staff at Perth, Glasgow and Birmingham being unable to provide up-to-date information on long-distance coach arrival times, taking account of known delays en route; and NEL being grossly inefficient, indeed late, in issuing him with his three-year student discount card. Mr Clark also complained that since the merger NEL had combined some of its services with those of SCC, effectively halving capacity on some routes.

4.138. Mr Clark concluded by saying that he thought it was very easy for NEL to get away with the provision of a poor service, because the C2DE passengers it sought to attract were not always best able to articulate their dissatisfaction. Those better educated and able to express themselves had a duty to do what they could. Indeed there was a more universal duty—he had chosen to use public transport for environmental reasons, and it was no great inconvenience to adapt to reasonable bus schedules. When the schedules could not be relied upon, however, people were forced to use their own cars, to the detriment of everybody.

4.139. *Mr D Merchant*, of Wigan, said that the merger would not create a monopoly for express travel services between England and Scotland, nor would it introduce any features detrimental to the travelling public.

4.140. Mr Merchant considered that cross-border coach services competed mainly with cars, which carried by far the greatest number of travellers, followed by BR, which was aggressively marketing a selection of lower-priced fares designed to attract existing coach passengers to rail. In addition, coach deregulation allowed other operators to compete on the same or similar routes as NEL, if they so wished.

4.141. Mr Merchant thought that the merger would produce positive benefits to the travelling public by extending NEL's network in Scotland. Passengers would now be able to travel directly from England to many more destinations within Scotland, on a single ticket, and with improvements in connecting services. Passengers would also benefit from concessionary fares available to students and senior citizens for journeys throughout the network.

4.142. *Mr A S Whitehill,* a driver for Fairline, said that the acquisition of SCC by NEL would have a detrimental effect on competition amongst express coach operators within Scotland. Mr Whitehill feared that NEL would use its economic muscle to control or eliminate existing competitors or new entrants as and when they appeared.

4.143. Mr Whitehill argued that NEL's acquisition of SCC clearly demonstrated that NEL was prepared to pay over the odds to control routes in Scotland, rather than investing money in coaches and drivers to compete with SCC on its routes.

4.144. As an example, Mr Whitehill said that when Fairline started its own scheduled services in July 1993 between Buchanan Bus Station and Glasgow Airport in competition with SCC (which had been acquired by NEL in May 1993), SCC sought to drive Fairline's services off the road rather than compete fairly. Initially this action took the form of SCC hiring extra coaches from existing contractors, many of which ran at unscheduled times. SCC had also tried to buy off Fairline with offers of lucrative contract routes. SCC's obstructive behaviour only ceased after protracted correspondence and investigation by the Traffic Commissioner. Mr Whitehill added that many other smaller operators would have been driven out of business by the time it had taken to resolve the matter. Even larger operators might be unwilling to enter into competition knowing that SCC would employ such tactics without incurring any long-term capital costs.

4.145. Mr Whitehill concluded by saying that if the aim of the break-up of SBG was to increase competition amongst bus and coach operators within Scotland, this had failed, as the result had been the creation of a huge national operator handing out concessions to compliant local contractors.

5 Evidence of National Express Group

5.1. In this chapter we first summarize the reasons for the merger. We then describe NEG's comments on the changes subsequently made to the few SCC services which formerly overlapped or competed with NEG's, and on other relevant matters. Finally we describe NEG's further views on the effects of the merger.

Reasons for the merger

5.2. We have described in Chapters 2 and 3 the historical background to the operation of intra-Scotland and cross-border services by NEL and SCC. NEG told us that, in 1992, as a result of the adverse impact of BR's heavily discounted fares (see paragraph 3.103), together with increases in operating costs, both operators incurred losses, equivalent to some 11 per cent of NEL's revenue from Scotland to London services (after allocation of proportionate overheads and pool add-back) and some 18 per cent of SCC's revenue from these services. Faced with the need to reduce frequencies and quality in order to preserve the future viability of the services, initially SCC approached the OFT about a merging of the parties' Anglo-Scottish operations, both to save costs and (in order to stem the tide of defections to rail travel) to standardize and improve service quality. SCC's subsequent tentative approach to NEL led, ultimately, to the agreed merger between NEG and Saltire.

5.3. Other factors influenced the thinking of the parties, including the purchase of the 'Head Lease' for Buchanan Bus Station by SPTE with effect from 15 March 1993. NEG said that SPTE had been putting pressure on NEL to surrender the lease of its on-site travel office and authorize SPTE to sell NEL tickets on a commission basis, under threat of a significant rental increase if it declined to do so.

5.4. In addition, the parties foresaw that the time advantage of rail over coach travel would significantly increase in the near future as a result of proposed regulatory changes affecting road travel. First, the progressive introduction between 1994 and 1996 of a maximum 65 mph speed limit for coaches, in compliance with EC requirements, would increase journey times on the Scotland to London services by an estimated 40 minutes. Secondly, and more seriously, the current Government proposal to prohibit coaches from the outside lane of the motorway would effectively reduce a coach's maximum speed to 56 mph in practice, as this lower limit would from 1996 be applicable to heavy goods vehicles, which were already banned from the outside lane of the motorway. NEG was currently lobbying strenuously against this particular proposal. In NEG's view, the proposed regulatory changes would accentuate the inherent time disadvantage faced by coach operators in competing with BR. Consequently, at the same time as increasing operating costs they would lead to further pressure to reduce, or at least hold, fares on the Scotland to London services. Alternatively, the non-viability of these services might lead to their withdrawal.

5.5. In announcing the acquisition on 5 May 1993 NEG also drew attention to its small presence within Scotland and, consequently, its restricted and very limited ability to source passengers there, in comparison with its English and Welsh customer base. It stated that the acquisition would deliver three specific benefits to NEG in that it would:

(a) enable NEG to compete more effectively with BR on cross-border routes;

(b) significantly broaden NEG's customer base and the geographical spread of its services; and

(c) substantially enhance profitability, through the addition of SCC's higher-margin services within Scotland, together with operational synergies.

5.6. In a further statement issued on 15 October, noting the reference to the MMC, NEG commented that SCC's cross-border routes represented rather less than one-third of SCC's business and had been loss-making for some time. Those routes, now operated by NEL, formed a relatively insignificant element of NEG's UK coach operations. NEG believed strongly that these routes were in direct competition with BR's services on the same routes, and that the acquisition had not resulted in any significant reduction in competition, and would result in no adverse consequences for consumers. Similarly, the MMC would conclude that the limited reduction in competition within Scotland would result in no adverse consequences for consumers, as barriers to new entry were very low (see further, paragraphs 5.25 and 5.26).

Corporate strategy

5.7. NEG also explained that the acquisition of SCC accorded with its corporate strategy. Conscious of the commercial threats to NEL's future, in particular the aggressive stance adopted by BR, and of the volatility of its earnings, the management of NEG had sought to broaden the operational base of the group and to shift the public perception of NEG as solely a coach operator to that of NEG as a provider of mass passenger surface transport. The strategy of improving NEG's financial risk profile had progressed through its recent acquisitions (see paragraph 2.10).

5.8. The acquisition of SCC had brought within NEG a complementary business, the profits of which were almost exclusively derived from its intra-Scotland services. These services, in general, had more affinity with limited-stop bus services than with NEL's operations in England and Wales. Indeed the comparatively robust profitability of these services constituted the principal reason why NEG decided to acquire Saltire. As a result of this and NEG's other acquisitions in 1993, NEL formed an ever less significant element within NEG. In the future NEG's strategy would be further focused on acquisitions in areas involved in the mass transport of people.

Changes to SCC services

5.9. We have referred in Chapter 2 to the importance attached by NEG to maintaining the Scottish identity of SCC, as a separate operation close to its market, and to the limited organizational changes made to SCC since the merger. The following paragraphs describe NEG's comments on the changes it has introduced to the SCC services directly affected by the merger.

The Scotland to London services

5.10. Details of the changes made by NEG to the Scotland to London services since the merger have been set out in Chapter 3. NEG commented that it had consolidated its own and SCC's services on these routes to remove wasteful overlapping services. Whereas prior to the merger both its and SCC's coaches, departing at similar times, were, on an annualized average basis, only around one-third full, now all of these coaches were about one-half full.

5.11. Nevertheless, NEG made it clear that service frequency had been increased at times of high demand. For example, the summer 1993 timetable offered a 10.00 am departure to Glasgow to fill the previous gap between the 9.00 am and 11.00 am departures. As a result, the choice of departure times, from both London and Scotland, was greater than it had been before the merger.

5.12. The consolidation of services had led to one inconvenience for certain passengers accustomed to using the former SCC service stopping at Biggar. This was because NEL services followed an alternative route between Edinburgh and Carlisle, stopping instead at Livingston. However, following local representations, on 1 November a further stop was introduced to serve Biggar passengers, at nearby Abington. By comparison with the previous separate winter timetables of NEL and SCC, the first combined winter schedule, effective from 1 November, maintained an enhanced service for passengers.

5.13. NEG said that NEL was progressively standardizing its product quality and introducing various improvements to its cross-border services. All these services were now marketed by NEL. All the coaches bore the NEL livery, and offered NEL's 'Rapide' standards of in-coach amenities. Improvements under consideration or already on trial included:

- free newspapers;
- improved food services;
- more leg-room; and
- improved passenger check-in at Victoria Coach Station as from 1 January 1994.

The aim was to provide a higher quality of service to compete with BR in every aspect other than speed of the journey, which lay outside NEL's control.

5.14. As to fares, NEG told us that competition between NEL and SCC on the cross-border routes had been conducted on the basis of service quality and passenger convenience, rather than on price. Differences in the operators' fare structures were minor, both having increasingly been set by reference to BR's fare structure. Thus, although the NEL and SCC fare structures had been co-ordinated, consumers had not been adversely affected. Indeed, where different, the lower of the two operators' fares had been taken as the basis for harmonization. No fare had increased as a result of the merger. Nor could it, because of the aggressive competition from BR. Moreover, in the longer term NEL proposed to introduce a family fare package which would offer passengers significant savings. Participation in occasional promotions was also likely.

The intra-Scotland services

5.15. As described in Chapter 3, by the time of the merger the only NEL services competing with SCC's intra-Scotland services were those which departed from Aberdeen and travelled via Glasgow/Edinburgh to various English destinations. These services provided only partial competition to SCC, for a number of reasons.

5.16. Apart from their low frequency, the NEL services tended to travel south only in the morning and north only in the afternoon. Their chief weakness, however, was that the scheduled departure times of northbound journeys from Glasgow and Edinburgh had, in practice, to be flexible, because they depended on the arrival of services from the south. Passengers wishing to avoid this uncertainty would therefore have opted for an SCC service; and since SCC and NEL tickets were not interchangeable, they would generally also choose SCC for the southbound journey. As a result, in practice NEL carried few intra-Scotland passengers.

5.17. NEG told us that none of SCC's extensive intra-Scotland network of scheduled long-distance and commuter services other than its Aberdeen to Glasgow/Edinburgh routes had been affected in any way by the merger. These routes, too, remained intact, subject only to minor modifications to the timetable arising from the addition of NEL's Aberdeen to England services. So far as consistent with NEL's English service scheduling, these modifications were designed to ensure both that NEL and SCC coaches were not operating along the same route simultaneously, and that gaps between the combined services were adequately filled. The NEL and SCC services continued to run in their respective liveries.

5.18. NEG added that SCC passengers were already beginning to benefit in two respects as a result of the merger. First, quality improvements had been introduced at NEL's instigation as part of a continuing programme of service enhancement. Secondly, there was now interchangeability between SCC and NEL tickets: passengers from Aberdeen could now choose to take an NEL service, if that was more convenient, without fear of being stranded in Glasgow or Edinburgh awaiting the arrival of a northbound NEL coach for the return journey.

5.19. As to fares, NEG explained that the increases in the price of SCC services within Scotland which had occurred since the merger (see paragraph 3.39) had been put in place by the previous management of SCC. NEG's policy since the merger had been to align the fares of NEL and SCC on the Aberdeen to Glasgow/Edinburgh services, as on the cross-border services, downwards to those of the lower-priced operator. Thus, some fares had been reduced, whilst none (with one minor exception) had been increased by NEG.

Arrangements with contractors

5.20. NEG told us that, apart from changes arising from the sale of Bruce's Coaches and ETL, rather than as a result of the merger, very few contractual changes had occurred. Two contractors had been awarded NEL contracts for London services in substitution for those which they had had with SCC. Otherwise, those coach operators previously contracted to SCC or to NEL on the routes directly affected by the merger continued to operate those routes. In general, SCC's contractual arrangements had been somewhat less formal than NEL's, consisting of a letter of appointment for a six-month timetable period, together with a service diagram detailing route, mileage and payment. NEG expected that SCC would continue with short-term contracts for the time being but may gradually move to longer-term contracts.

Complaints

5.21. NEG said that, contrary to normal expectations (if only because of people's dislike of change), in the case of its merger with SCC it was striking how few concerns had been voiced by passengers. Of the 23 passenger complaints received by NEG (including SCC) since the merger, the most significant was that referred to in paragraph 5.12, which was remedied by the introduction of the stop at Abington from 1 November. Other criticisms, about the routes of the Aberdeen to Glasgow/Edinburgh and Glasgow to Edinburgh services, had all been answered by SCC's 1 November timetable; while new coaches had been introduced on 1 November in response to complaints about the use of SCC coaches, regarded as inferior to NEL's.

5.22. Commenting on the complaint by Fairline (see paragraphs 4.11 to 4.13), NEG described the matter as a regrettable muddle which had occurred as a consequence of somewhat inadequate documentation inherited from the previous SCC management. NEG had quite genuinely tried to achieve a satisfactory resolution with Fairline.

5.23. In line with Glasgow Airport Authority's aspirations to upgrade the service to and from Buchanan Bus Station, the previous SCC management had ordered two new vehicles to operate the service with effect from the start of the summer 1993 timetable. When NEG acquired SCC on 5 May it found that Fairline, which had the 'rolling understanding' type of contract with SCC, renewable after each timetable period, was unaware of this and had itself ordered new vehicles for the route. The following week SCC began discussions with Fairline, which lasted some 10 to 15 days, aimed at trying to keep that company on the route. Fairline was invited by SCC to buy the two new vehicles and to continue to operate the route at substantially increased rates of remuneration. There were also discussions about Fairline being given additional contract work so that it would achieve a satisfactory rate of return overall, if not on the airport service alone. Fairline felt unable to accept such proposals, however, and SCC had therefore allocated the route to an operator able to purchase the vehicles, so that SCC could meet its commitment to Glasgow Airport Authority to start the new service on 24 May.

5.24. NEG said that some six weeks later Fairline registered a competing service between the airport and Buchanan Bus Station, on what NEG described as the classic bus company approach, with departures timed five minutes in front of SCC's. As a tactical response SCC, while continuing to run its vehicles at the scheduled time, had increased the layover time of the vehicles at the airport, to equalize the probability of passengers seeing an SCC or a Fairline coach. NEG said that it would dispute any comment that it had blocked the stances: these were patrolled by airport police, and NEG was certainly not aware of any complaint by the airport authority. In reply to a subsequent letter from the Traffic Commissioner, SCC had supplied the Commissioner with tachograph and other evidence of the detailed movements of its vehicles. It had heard nothing further. It had, however, withdrawn the tactical approach described, pending consideration of an alternative competitive response which would be made in due course.

Scope for new competition

5.25. NEG was of the view that barriers to entry were extremely low for scheduled coach operations and believed that if it were to increase its prices on any route beyond what it described as an economically justifiable level, or were to allow its quality standards to slip, new entry would occur at a greater rate than at present.

5.26. NEG pointed out that no regulatory approval was necessary prior to commencing a scheduled long-distance coach service, provided only that the potential operator of the coaches had a coach operator's licence. Nor was access to coach stations generally an issue: all the termini used on the Scotland to London routes were required by general UK competition law (which applied to bus and coach stations following the Transport Act 1985) to afford access, and most had spare capacity. A new entrant needed only minimal expenditure on launch advertising and leaflets, as evidenced by the successful launch of Silver Choice. Other start-up costs were also low, particularly as it was possible to contract other coach operators to provide scheduled coach services, and engineering and depot facilities could be rented. Moreover, the majority of a new entrant's start-up cost would be recoverable if it were subsequently to exit the market.

The effects of the merger

5.27. NEG argued that, in the light of the foregoing, no material adverse effects may be expected to arise as a result of the merger, and that, consequently, the merger may not be expected to operate against the public interest. The merger would not lead to any rise in fares; the quality and frequency of services would improve rather than suffer; and on the cross-border routes the merger would be pro-competitive, enhancing NEL's ability to compete with BR. There would be no adverse effect on any other operator, or any contractor, of scheduled coach services.

The Scotland to London services

5.28. NEG maintained that there had been no effective competition on price between NEL and SCC during the four years in which both had operated cross-border services (see paragraph 5.14). For so long as BR continued to market its services to discretionary travellers, which it clearly had every intention of doing, there would be no opportunity to raise coach fares. Indeed this realization had prompted the merger: the only way which NEL and SCC could see to increase the long-term viability of the cross-border routes was to reduce costs, either by service cuts or by consolidating their respective services.

5.29. While no specific plans had been drawn up, and service cuts would have been resisted for as long as possible, neither NEL nor SCC could have long continued to operate coaches which were, on average, no more than one-third full. The merger had therefore protected the continuation of some services that would otherwise have had no long-term future. Furthermore, the parties' cross-border services had been enhanced by increasing the number of daily departure times each way (see paragraph 5.11).

5.30. In addition, by replacing SCC coaches of comparatively variable standard with coaches to the Rapide standards already offered by NEL, NEG had improved the quality of the cross-border services overall. NEG emphasized that, as a nationally recognized brand, Rapide connoted particular standards of quality which NEL was at pains to uphold at all times wherever applicable throughout its network. There was thus no scope for NEL, even if it were so minded, to reduce the quality of the cross-border services. In any event, any hope which NEL had of winning the battle for passengers with BR must depend not only on price but also on quality of service.

5.31. So far as other operators of scheduled coach services were concerned, recent entry on the cross-border routes, in particular that by Silver Choice, together with the competitive pressure exerted by BR, demonstrated that NEL lacked the market power necessary for any predatory pricing policy to be effective. Nor, categorically, was it NEL's policy or practice to retaliate against new entrants in such a manner.

5.32. In support of this assertion NEG gave us several examples of competitors to whom it had made no competitive response. It explained that, typically, NEL spent some time analysing the effect, extent and likely permanence of competition before taking a commercial decision whether and, if so, how to respond. In some situations NEL had responded, normally by reducing fares; often, however, it would simply be uneconomic to match competitors' low fares, because of the comparatively substantially higher overheads which NEL had to bear. In any event, for the avoidance of doubt, NEL did not behave anti-competitively in responding to competition.

5.33. NEG added that, in any case, NEL's low profitability and the financial strength of a number of its actual and potential competitors such as Stagecoach, Badgerline and West Midlands Travel (the owner of Central Liner) suggested that any such policy of retaliation would simply not be credible. Accordingly NEG did not believe that any possible response NEL could make to new competition would deter entry.

5.34. NEG therefore submitted that no adverse consequences may be expected to arise in respect of the cross-border routes; and that the merger had resulted in one crucial benefit, namely the continuation of a viable, cheap alternative to rail as a means of travelling between Scotland and London.

The intra-Scotland services

5.35. NEG submitted that the issue here was whether the co-ordination of services between Glasgow/Edinburgh and Aberdeen (on the more easterly of the two SCC routes—see Figure 3.1) may be expected to operate against the public interest. In its submission, no adverse consequences may be expected to arise as a result of such co-ordination.

5.36. First, SCC would continue to be restrained in its pricing, principally by the threat of new entry. There could be no doubt that, were SCC to attempt to impose unjustifiable fare increases on the Aberdeen services, public demand for an alternative service would quickly be satisfied by the entry of a further operator. Stagecoach, in particular, already operated halfway to Aberdeen; and Midland Bluebird, Grampian Transport and Mairs, all subsidiaries of GRT Holdings PLC, would also be well placed to extend their services, were there a demand. There was thus no possibility that SCC could use the merger to increase its fares on the Aberdeen routes, still less to impose more general increases on all its services, and it would not be doing so.

5.37. As already described (paragraph 5.16), before the merger the majority of passengers on the Aberdeen routes preferred the punctuality of SCC to the greater luxury or through-ticketing offered by NEL. The effect of the merger, in introducing interchangeability between NEL and SCC tickets, was to extend the choice of services available to passengers on those routes. Moreover the frequency of the services had actually been increased (see paragraph 5.17).

5.38. So far as quality of service was concerned, the interchangeability of tickets, albeit an indirect consequence of the merger, had resulted in some NEL passengers travelling on comparatively inferior SCC coaches. However, it was NEG's intention to raise the standards of SCC's vehicles when the operators' contracts allowed. This would apply not only on the Aberdeen services but throughout Scotland. Clearly, therefore, the merger would not result in any deterioration in quality.

5.39. In the view of NEG, no adverse consequences may be expected to arise in respect of the intra-Scotland routes; while enhanced ticketing flexibility and NEL's higher service standards would be to the benefit of passengers.

Contractors

5.40. As to the effects of the merger on contractors, NEG stated that no material adjustments to arrangements with NEL or SCC contractors had been made to their detriment (see paragraph 5.20), nor would they be. Existing contracts would be reviewed according to the standard procedure upon expiry, and new contracts awarded on the basis of satisfactory past performance.

Employment

5.41. As mentioned above (paragraph 5.9), NEG has introduced few organizational changes to the Scottish operations since the merger. We were told that such economies as were available related chiefly to SCC's separate agency network, including promotions, sales and ticketing, and supervisory staff specifically associated with selling SCC's products in London and the South. In total, around 25 job losses had arisen directly from the merger, subsequent to which, however, a handful of new jobs had been created through some growth and the acquisition of a travel centre in Perth. In addition, as pre-planned by the previous SCC management, 17 staff at Buchanan Bus Station had been transferred to SPTE on 17 May. The current SCC establishment comprised 86 staff, compared with a combined total of some 130 SCC and NEL staff prior to the merger. NEG told us that it judged this level of establishment to be about right, and that it contemplated no further action in this area at present.

5.42. As to the closure of Bruce's Coaches, NEG pointed out that this resulted from the acquisition of that company by an associate company of British Bus. The only connection that existed with the acquisition by NEG of SCC was that the vendors of SCC wished, for commercial reasons, to sell SCC's holding company prior to their disposal of Bruce's Coaches, which was therefore sold a moment after NEG's acquisition of Saltire.

Summary

5.43. NEG maintained, in summary, that no material adverse effects had arisen to date as a result of the merger, and that none were likely to arise. The merger had been greeted altogether favourably by customers, both within Scotland and on Anglo-Scottish routes. And NEG would be able to provide more effective competition with BR than would have been possible without the merger. All of these matters pointed to the conclusion that the acquisition of SCC by NEG may not be expected to operate against the public interest.

6 Conclusions

The merger situation

6.1. Under the reference dated 15 October 1993 (see Appendix 1.1) made under the provisions of sections 64, 68 and 69(2) of the Fair Trading Act 1973 (the Act), we are required to investigate and report whether a merger situation qualifying for investigation has been created in that enterprises carried on by or under the control of Saltire Holdings Ltd (Saltire) (incorporated in the UK) had within the six months preceding the date of the reference ceased to be distinct from enterprises carried on by or under the control of National Express Group PLC (NEG).

6.2. As described more fully in paragraphs 2.2 and 2.3, it was announced on 5 May 1993 that NEG had received irrevocable acceptances from over 90 per cent of shareholders of an offer to acquire Saltire. The offer valued Saltire at £5.1 million. It became unconditional on the admission to the Official List of the new NEG shares issued in connection with the acquisition, also on 5 May. NEG therefore acquired control of Saltire on that date and the two enterprises then ceased to be distinct.

6.3. Our terms of reference also refer to the test specified in section 64(1)*(a)* of the Act (the market share test) in respect of the supply of scheduled coach services in Great Britain. We are required by the relevant statutory provisions to be satisfied that, as a result of the enterprises of Saltire and NEG having ceased to be distinct, NEG supplies at least one-quarter of scheduled coach services in Great Britain or, if this was already the case, that the supply of these services by NEG was enhanced.

6.4. As explained in paragraph 3.11, there are no published statistics relating to scheduled coach services which enable market shares to be calculated accurately. It is generally accepted in the industry, however, that NEG's subsidiary, National Express Ltd (NEL), is by far the largest supplier of scheduled coach services. It is followed by Scottish Citylink Coaches Ltd (SCC), formerly a subsidiary of Saltire and since the merger a subsidiary (through Monarch Coaches Ltd—see Appendix 2.1) of NEG, and then by a number of medium-sized operators on several routes who are often themselves subsidiaries of larger companies. There are also some small operators present only on one or two routes. We noted that the prospectus issued by NEG in November 1992, in connection with its flotation and listing, stated that NEG believed NEL supplied 75 per cent of the scheduled coach services in Great Britain, estimated on the basis of vehicle miles. From information provided by NEG and other coach operators in Great Britain, we have estimated NEG's share of scheduled coach services in Great Britain in October 1993, in terms of vehicle miles. As set out in Table 3.4, this indicates shares for its two subsidiaries of 67 per cent for NEL and of 10 per cent for SCC, giving a combined share for NEG of just under four-fifths of the total market. We recognize that the vehicle mile measure is not a precise method of measuring market share. However, we are satisfied that NEG's share of scheduled coach services in Great Britain before the acquisition was well above one-quarter and that this share has been enhanced as a result of the acquisition by the share of the market held by Saltire. We note also that NEG did not question the existence of a merger situation qualifying for investigation.

6.5. We therefore conclude that the market share test is satisfied in respect of the supply of scheduled coach services in Great Britain and that a merger situation qualifying for investigation has been created. We have therefore to consider whether the creation of this merger situation operates or may be expected to operate against the public interest.

The market for scheduled coach services in Great Britain

Scheduled coach operations by NEL and SCC

6.6. Largely for historic reasons, stemming from the decision to privatize the long-distance scheduled coach service operations of the National Bus Company as an entity, NEG, through its subsidiary NEL, is the dominant operator of scheduled coach services in England and Wales and the only one with a network of long-distance trunk routes, focused on seven hub bus stations including Victoria Coach Station in London.

6.7. SCC's operations are within Scotland, where it operates a country-wide network of long-distance routes covering all the major towns on the mainland and the Isle of Skye. It has been retained within the NEG organization after the merger with operational responsibility for these routes, although its long-distance Scotland to London routes have been transferred to NEL.

6.8. Unlike their competitors, neither NEL nor SCC operates coaches directly. They handle the scheduling, booking and advertising arrangements for their services but contract out the actual running of the services to other bus or coach operators, who frequently run scheduled bus services or non-scheduled coach services but do not offer scheduled coach services in competition with NEL or SCC. Under the terms of the arrangements with contractors NEL and SCC bear the risk of failing to fill the seats.

6.9. NEL contracts typically run for one to three years and specify both the 'diagrams' (the detailed timing and sequence of services to be run) and detailed operational requirements, covering, for example, maintenance, staffing and the on-board services to be provided. Staff and coaches must be in NEL livery. At the time of the merger NEL had contracts with almost 60 operators. In addition NEL can call on up to 400 other operators at relatively short notice to provide duplicate coaches—which play an important part in meeting demand at peak periods (see paragraphs 3.25 and 3.26). SCC had similar arrangements, but with only 14 operators, reflecting its smaller network, typically less formal and for only six-month periods.

6.10. NEL's fare structure as adopted on 1 November 1993 is relatively simple and is described more fully in paragraphs 3.27 and 3.28. The base fare is the Economy Return, available except on Fridays, and Saturdays in July or August, when Standard fares are charged. Advance Purchase Savers provide discounts of about one-fifth but have to be booked at least a week in advance for specified journeys. Discount cards for over-60s, young people and students offer discounts of up to 30 per cent but not on Advance Purchase Savers. SCC's fare structure on the Scotland to London routes was similar to NEL's (see paragraph 3.62). On intra-Scotland routes it offered Single, Day Return, Economy Return and Period Return fares with no pre-booking requirements. Most tickets for travel within Scotland are sold on the day at the bus station or by the driver; the majority of NEL tickets are pre-booked.

6.11. Since 1989 NEL's fares have increased by 15 per cent more than inflation, primarily as a result of increases in 1990/91 to retrieve the significant losses incurred by NEHL. NEG told us that since then it had aimed to keep fare increases in line with inflation where competition allowed. No increase had been possible on its Scotland to London routes.

6.12. Shortly before the merger SCC announced an average increase of 3.5 per cent in fares, to take effect at the start of the summer season. Fares on the Glasgow/Edinburgh to Aberdeen services were increased by just over 2.5 per cent. NEG told us that following the merger fares on these routes had been adjusted to the lower of the two operators' fares and that some fares had thus been reduced. Other fares within Scotland had not been affected by the merger.

Scheduled services on which NEL and SCC overlapped

6.13. Before the merger the main areas of overlap between the two companies' operations were, first, on the long-distance routes between Scotland (Edinburgh/Glasgow) and London and, secondly, within Scotland, on the Glasgow/Edinburgh to Aberdeen routes. On both sets of routes active competition between the two companies dated from August 1989, when NEL purchased the cross-border and some intra-Scotland routes of Stagecoach Ltd, which at that time withdrew completely from coach services in Scotland although it has subsequently re-entered on routes between Dundee and Glasgow/Edinburgh (see paragraph 6.20).

6.14. SCC for a number of years ran services from both Edinburgh and Glasgow to London; immediately before the merger its summer timetable offered five services through the day to and from Glasgow (plus two lower-grade, lower-price services under the London Liner name) and one evening and one morning service to and from Edinburgh. Immediately before the merger NEL ran four services spread through the day from Glasgow and two services from Edinburgh, and the same services in the opposite direction, all with almost identical timings to those of SCC and very similar fares.

6.15. On the Glasgow/Edinburgh to Aberdeen routes NEL's 1989 acquisition of Stagecoach services seems to have initiated a period of strong competition, with SCC and NEL increasing services and matching departure timings on these routes and with NEL operating some new services, which were all withdrawn in September 1990, when the period of intense competition appears to have ended. Over the following three years NEL reduced its services from Aberdeen, Dundee and Perth while SCC services remained broadly unchanged. Immediately before the merger SCC ran a full daily service to and from Aberdeen, Dundee and Perth; NEL ran a limited number of services southwards in the morning and northwards in the afternoon, timed to connect with the London to Scotland services.

Developments since the merger

6.16. Since the merger took place all the marketing, sales and support operations connected with SCC's Scotland to London services have been moved from Glasgow to NEL's operations centre at Birmingham. The operation of SCC's Scotland to London routes has been transferred to NEL. The operational management of SCC's services within Scotland has remained in Glasgow and it has become responsible for marketing all NEG services in Scotland.

6.17. Before the merger neither operator was achieving loads sufficient to make its Scotland to London routes profitable. Since the merger NEL has taken over the running of SCC services, removed one of the overlapping services where the two companies were both running coaches at the same time and improved scheduling by introducing two new services on the Glasgow to London route. With this consolidation of services NEL's loadings and gross margins on the routes have improved through the recent high season, although when account is taken of overheads, the route does not yet appear to have moved into profit (see paragraphs 2.40 to 2.45). NEG has given undertakings to the Secretary of State that no further steps will be taken to merge the operation of the two businesses pending the outcome of this inquiry.

Other operators of scheduled services

6.18. NEG gave us details of about 20 operators in England and Wales operating services in competition with NEL and about a dozen operators providing services to and from London which do not directly compete with its own operations (Appendix 3.3). There are perhaps half a dozen substantial operators of scheduled coach services in competition with NEL, including Blue Line on the London to North-East routes, and competitors on the Avon and Somerset routes. Of the smaller operators, some operate on perhaps a single route, others only a single service on a route. No other operator, however, offers an extensive network of services, let alone a national network.

6.19. Although a number of competitors run over parts of the route, on the Scotland to London routes, from 1989 until the merger, SCC and NEL were the only continuing operators over the whole length of the route. Since the merger two small operators have entered on the London to Glasgow route. In October 1993 Gem Travel (Coaches) (Gem) introduced a single service each way on Fridays and Sundays only which has since been withdrawn. A month later Silver Choice started, and continues to operate, a twice-daily Glasgow to London service timed directly against the NEL service.

6.20. In Scotland we were told of nine other operators of services competing against SCC on various routes throughout the country, of which Fife Scottish Omnibuses Ltd (Fife Scottish), a Stagecoach subsidiary, operates between Dundee and Glasgow/Edinburgh. As well as competition on routes from Glasgow and Edinburgh there are other operators on routes out of Inverness to Wick and Ullapool and on an airport coach service between Glasgow and Glasgow Airport.

Competition to scheduled coach services

6.21. The long-distance traveller has a choice of air, rail or coach services or the private car. In terms of the total number of journeys made the car is the most important but for longer journeys tends to be less attractive. Given the relative pricing, air tends to be in competition only on the longer journeys and an option primarily for the business user. Scheduled coach services are in competition with rail at the lower end of the price range, particularly for the leisure and student markets.

6.22. NEG provided us with the results of a passenger survey which suggested that, given the shorter journey times and greater convenience and comfort of rail, most passengers would choose rail over coach travel for longer distances given equal prices; lower British Rail (BR) fares therefore have a direct effect on the level of fares that a coach operator can charge. NEG told us that it aimed to keep its fares 30 per cent below the lowest rail fares available but that this was not always achievable. Over recent years BR has engaged in a more active marketing policy, to maximize income, particularly on InterCity routes, where operating subsidies are no longer available, and has developed a varied pricing structure with fares selectively targeted at different types of passenger and discount cards for over-60s and students. This can be seen on the Scotland to London routes, where NEL is in competition with both InterCity West Coast (InterCity (WC)) and InterCity East Coast (InterCity (EC)).

6.23. Currently the BR and NEL fare structures on the Edinburgh/Glasgow to London routes are as follows:

TABLE 6.1 **BR and NEL return fares on the Edinburgh/Glasgow to London routes**

Rail			*Coach*		
Type of return ticket	*Price* £	*Railcard price* £	*Type of return ticket*	*Price* £	*Discount card price* £
Standard Open	112	80.50	Standard	38	26.50
Saver	69	44.55	Economy	36	25.00
SuperSaver	59	38.95	Advance Purchase	25	-
Apex	44	-			
SuperApex	29	-			

Source: BR and NEG.

On the Glasgow/Edinburgh to London routes the most heavily discounted Apex and SuperApex fares were introduced in 1987 and 1992 respectively. (Saver and SuperSaver tickets, which are available on all services in unrestricted numbers, are in the same price range when purchased with a railcard by students and over-60s.) Fare levels and the availability of cheaper seats have to be adjusted to avoid siphoning revenue from higher-yielding ticket sales. Only limited numbers of the Apex and particularly SuperApex seats are made available and they have to be booked 7 days and 14 days respectively in advance. Apex seats are available on nearly all trains but SuperApex only on the least popular.

6.24. The numbers of both types of ticket made available vary considerably by time of day, day of week and season; on average, however, the daily number of seats made available at Apex and SuperApex fares is larger than NEG's daily scheduled capacity and not all the Apex or SuperApex seats are filled.

6.25. NEG produced evidence showing a correlation between the introduction of Apex rail tickets on various routes and a fall of coach passengers (see paragraph 3.103) and it seems clear that they have had a direct effect on coach ticket sales.

6.26. On intra-Scotland routes the competition from rail appears less of a constraint on coach fares, in part because of the limited rail network. There is direct competition on the Edinburgh/Glasgow to Inverness line and onward to Wick/Thurso, and on the Glasgow to Fort William/Oban line and the Edinburgh–Glasgow–Aberdeen triangle. The perceived time advantage for rail, however, is generally less (and on some routes is non-existent). ScotRail told us that because its trains were so much smaller filling of spare capacity was a less important objective and mainly a winter problem. Given ScotRail's substantial revenue shortfall overall, most fare incentives were introduced to maximize revenue rather than being directly targeted against coach competition.

Barriers to entry

6.27. Licensing requirements for scheduled coach services, in contrast to those for bus services, relate only to operating standards and there is no requirement to register coach services (unless the operator wants to claim fuel duty rebate over part of the route). For the new entrant second-hand coaches are widely available at reasonable cost and there is no difficulty in recruiting drivers. For an existing operator a single new service will need only modest expenditure on leaflets and publicity. Regulatory and direct cost barriers to entry are therefore low. These costs, however, relate to the introduction of a point-to-point service to London or another major centre, where the majority of users can be expected to come from the originating town.

6.28. Although access to bus stations does not appear generally to be a problem there have been some complaints that SCC tends to enjoy a benefit from priority access to more convenient stands, for example in Glasgow and Ullapool, and that its on-site ticket-selling arrangements have a higher profile, making it more difficult for smaller operators to attract customers.

6.29. An operator who wishes to set up a more extensive network of services, and possibly to encourage feeder traffic on to his own services from other operators, will face significant investment in particular for setting up arrangements for selling tickets and providing publicity for his services. This may be more difficult if an existing operator has already established his own network arrangements. There is no historic precedent for an operator building up a network, since both NEL and SCC began as operating divisions within the National Bus Company and Scottish Bus Group respectively and were then privatized in that form. In the current market there is no evidence of any other operator moving to develop a network.

6.30. A barrier for all potential entrants is the likelihood of retaliation by an incumbent operator to match fares and schedules. We were given some examples of such action by SCC before the merger on the Skye to Glasgow route and on the Glasgow Airport service. NEG told us that it was not its policy nor its invariable practice to react if a competitor cut prices, and produced some examples of initiatives to which it had failed to respond, including the post-merger entry by Silver Choice and Gem on the London to Glasgow route. There are, however, some important routes where fares have been matched and it seems reasonable for a new entrant to assume that both its fares and its timings are likely to be matched by the merged company.

The public interest

6.31. In considering the effects of the merger on the public interest we examine first the extent to which it has reduced competition in the provision of scheduled coach services, and whether this is likely to result in higher prices or reduced levels or quality of service. We then consider other possible adverse effects and whether there are any benefits to the public interest arising from the merger.

6.32. NEG told us that its aims in undertaking the acquisition were to enhance profitability through the addition of SCC's higher-margin services in Scotland; to widen its customer base and geographic spread; and to compete more effectively with BR on the cross-border routes.

6.33. Before the merger, as outlined in paragraph 6.13, NEL and SCC were both operating long-distance services between London and Glasgow/Edinburgh and within Scotland both operated services between Glasgow/Edinburgh and Perth, Dundee and Aberdeen. These were the only two areas of direct overlap. We therefore consider them in turn.

The Scotland to London routes

6.34. At the time of the merger NEL and SCC were running virtually the same schedule of services on the routes between Glasgow/Edinburgh and London, with each running a morning and evening service to and from Edinburgh and with more frequent services on the Glasgow routes (although SCC also operated its twice-daily London Liner service from Glasgow to King's Cross at a single cheaper fare). In recent years competition had been on scheduling and quality of service rather than fares. As a result of the merger, where two services were being operated at around the same time one has been removed, and one further service has been added on the Glasgow routes. All services are run under the NEL livery. Where fares differed they have been aligned with the lower fare. NEG told us that it intended to bring all the coaches used up to the NEL 'Rapide' standard.

6.35. It therefore appears to us that the immediate effects of the merger on these routes have been marginally beneficial in maintaining and potentially improving frequency and quality of service.

6.36. The more important issue, however, is whether there will be any constraints on the merged company's ability to raise fares on these routes in the future, either from other competitors or from BR, and whether service standards are likely to decline. We discuss first competition from other coach operators. There is no evidence that before the merger SCC was competing on price on these routes nor of any attempt by it in recent years to gain market share through price. NEG told us that in so far as it affected these routes the merger was defensive; both NEL and SCC were making losses on the routes before the merger and they do not yet appear to have moved into profit. Since the merger there have been two new entrants on the Glasgow to London route at lower fares but one has already withdrawn. NEL has not so far responded to the lower prices of the other entrant, Silver Choice, and it is too early to say whether this will happen or indeed whether the competitor's operations are viable given that there does not appear to have been enough business on the route to support full services by two operators. It seems likely that if NEL were to increase its prices substantially this or another competitor would see this as an opportunity. Given, however, the absence of any sustained competition from new entrants in the past we are not convinced that such competition would be sustainable or that one or even several of such ventures would provide an effective constraint on NEL's ability to maintain a higher level of prices in the longer term.

6.37. NEG, however, argued strongly that the main constraint on its ability to put up fares on these routes was the pricing policy of BR and particularly the level and availability of Apex and SuperApex fares on InterCity (EC) and InterCity (WC). We accept that these do at present provide an alternative for a sufficient number of potential coach passengers to act as a constraint on NEL's pricing and that, in particular, BR's SuperApex return fare of £29 constrains NEL's cheapest (Advance Purchase) fare. Given the advantage of time and convenience of rail we think that with the current Advance Purchase fare at £25, NEL has little scope at the moment, with present BR fare levels, for any significant upward adjustment of fares. Should the new EU speed limit on coaches be combined with a ban on coaches using the fast lane on motorways, the time advantage for the railways will be much increased.

6.38. We would, moreover, expect the present InterCity (EC) management to continue to develop its policy of commercial pricing in order to maximize capacity usage and thus to maintain the pressure on NEL's fares. Impending privatization obviously introduces uncertainties. The two competing InterCity groups are, however, to be franchised in their present form and it seems likely that the same commercial pressures on franchisees will lead to a broadly similar approach to pricing structures in the period after privatization. Although there is a possibility that the privatized operators might increase their lowest fares and thereby lessen the pressure on NEL's prices, we do not think that any expectation of change can be sufficiently firm to justify basing any conclusions on it.

6.39. We have also considered possible effects on quality and volume of service on these routes. NEL's decisions will depend ultimately on demand and profitability, taking into account both traffic on the routes themselves and their contribution to the network. The merger has not introduced any incentive to cut these routes back; on the contrary by increasing loadings and profitability it is likely to have improved their medium-term prospects.

The Scottish routes

6.40. On the Scottish routes too the immediate effect of the merger has been some harmonization of services and alignment of fares on the lower of the two fares offered before (see paragraph 3.69). NEL ran only a few services and the extent to which they competed with SCC was limited by the fact that, as feeder services, their timings were set to fit in with those of the cross-border services, and in the northward direction were therefore also subject to possible delays. The immediate effects of the merger have therefore been small.

6.41. In considering the longer-term effects, we think these routes are best considered in the context of SCC's network, where since privatization in Scotland it has been the dominant coach operator and the only one with a route network. We have looked as before at the prospects for competition from BR (ScotRail) and from other coach operators.

6.42. For a number of reasons BR is likely to be a less effective constraint on NEG's fare strategy on these routes than the InterCity operators on the cross-border routes. InterCity (EC) runs a few trains through to Inverness and to Aberdeen but these, like the old NEL services, were linked to the through London services. ScotRail is not present on all scheduled coach routes and on a number of these routes on which it does compete it has no advantage of time or convenience over coach. ScotRail does not see coach as a significant competitor and uses pricing promotions sparingly; its preferred strategy is to contain its financial deficit by maximizing its revenue.

6.43. There are no other coach operators that cover the whole of the Glasgow/Edinburgh to Aberdeen routes but Fife Scottish operates south of Dundee. There are a number of other established operators at present competing on different parts of the SCC network—and most of them have been doing so for a number of years—but few appear to have substantial resources and we understand that one at least has been discussing with SCC a joint operation on the Glasgow to Isle of Skye route. If SCC were to attempt to raise prices substantially we would expect that other operators would wish to enter; some potential entrants, however, will be SCC actual or potential contractors and this might well act as a disincentive to entry by them. SCC has advantages in selling tickets and in access to bus stands which strengthen its position versus competitors. The network has been profitable; NEG told us that the earnings from the network were the chief attraction of the acquisition. It is possible also that SCC will be seen as a result of the acquisition as a more effective competitor and with deeper pockets. Overall we cannot be confident that competition from other operators is likely to act as a major constraint on SCC's ability to raise prices in the future, although we think the presence of Fife Scottish may provide some deterrence, particularly on the routes directly affected by the merger. Our concerns, however, arise from SCC's dominant position in Scotland, which existed before the merger, and not from the circumstances of the merger.

6.44. A number of those who submitted evidence about the merger expressed concerns about aspects of SCC's behaviour, including predatory pricing and other forms of aggressive behaviour on routes in which it was in competition with Skye-Ways Express Coaches and on the Glasgow Airport service, and that it had privileged access to stands at Buchanan Bus Station in Glasgow and in Ullapool and advantages in selling tickets not open to other operators, all of which gave it an unfair advantage in competition from other operators. Our initial examination of these complaints suggested some grounds for concern. We did not consider it appropriate to investigate them in detail because all appeared to relate to SCC's market position before the merger. We revert to them, however, at the end of our report.

Other effects of the merger

Effects on the use of contractors

6.45. We considered the effects of the merger on the use of outside contractors. The unification of the NEL/SCC timetables on the Scotland to London and on the Edinburgh/Glasgow to Aberdeen routes has removed some work for contractors, which may be somewhat offset by increased hiring of duplicate coaches. However, SCC told us that the changes had been absorbed as part of the renegotiation of 'diagrams'[1] which had led to some reallocation of work. One contractor has withdrawn. SCC's arrangements for contractors in the past have been somewhat less formal than NEL's, consisting usually of letters of appointment for a timetable period, and we were told that SCC may now gradually move to NEL's system of longer-term contracts. Overall the reduction of potential choice might be expected to put NEG as a whole in a stronger negotiating position *vis-à-vis* contractors. On the other hand most contractors appear to have other coach or bus activities and not to be wholly dependent on NEG. On balance we do not see any changes arising from the merger resulting in adverse effects on the contracting of services.

Effects on employment

6.46. NEG has introduced few organizational changes since the merger. The arrangements for selling tickets for SCC cross-border routes and general marketing, sales and support activities have been transferred to NEL's Birmingham headquarters, but otherwise SCC operations in Glasgow have been left unchanged. The net effect has been job losses of about 20. NEG has given undertakings to the Secretary of State not to make further changes until the outcome of our inquiry. NEG told us that while further consideration would be given to company structure and costs associated with maintaining SCC as a separate limited company, the intention was to retain it as a separate operational entity close to its market.

6.47. We note that as part of the acquisition arrangements NEG disposed of SCC's coach operating subsidy, Bruce's Coaches Ltd (Bruce's Coaches), to an associate company of British Bus PLC (British Bus) and that Bruce's Coaches' depot was subsequently closed down. British Bus told us that it had found the operation in poor condition; a number of staff had left before closure but there were 48 redundancies of staff in post at closure. We do not think that the disposal of Bruce's Coaches can reasonably be taken into account in deciding whether the merger operates against the public interest.

Benefits of the merger

6.48. The acquisition has established a country-wide network with the advantages of scheduling and interchangeability of tickets that this provides for through travellers, particularly those using the London to Scotland routes for onward travel. It may also have improved the prospects of the London to Scotland routes, at least in the short term. There seems likely to be upgrading of some SCC services and, more generally, SCC operations within Scotland may benefit from the management input from NEG and from central marketing and support. We noted that the merger was strongly supported by the National Federation of Bus Users (NFBU) as maintaining a viable alternative to rail travel of particular benefit to less affluent consumers.

General effects

6.49. In considering the general effects of the merger we recognize that, even though the direct competition eliminated may only have been on a small number of routes, the merger has brought together the two largest coach operators in Great Britain, each the only one with a comprehensive network in its area, and has resulted in one comprehensive network covering Great Britain. We have noted above the benefits to the public of this network. But the network is also a powerful advantage

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[1]See paragraph 6.9.

to the incumbent. As an established network operator NEG has various advantages in timetabling, feeder services, through-ticketing, ticket sales arrangements and access to stands. SCC was the only existing operator with a base which offered a prospect (admittedly slim) of developing as an alternative network operator to NEL. We think it unlikely that any major operator can now develop to provide a serious alternative to its operations. Moreover, with NEG's resources and expertise behind it, SCC may be seen as a more effective operator in Scotland.

6.50. Competition in this market seems to be locally generated on individual routes and while some entry can be expected on this basis there seems little likelihood of a new major route network being created in present circumstances in an industry offering few prospects of growth. SCC appears already to have occupied a very similar role in Scotland towards other operators as NEL has in England and Wales. The present NEL and SCC networks exist as a result of privatization decisions, not of a process of competition or organic growth. While therefore there is a potential competitive loss from bringing the networks together, we do not think that the prospects for competition in the absence of the merger would have been so much stronger that we would be justified in basing on these grounds any finding that the merger situation may be expected to operate against the public interest.

Conclusions

6.51. Accordingly, having considered the effects of the merger, we do not find that the acquisition itself has led or may be expected to lead to effects adverse to the public interest in terms of either prices or levels and quality of service. We recognize the potential benefits of the merger to which the NFBU has drawn our attention. We therefore conclude that the creation of the merger situation does not operate and may not be expected to operate against the public interest.

6.52. We have, however, noted above a number of concerns about the competitive constraints on NEG and have also been concerned about the possible future direction of NEG's policies on prices and services, as the single large network operator. We have also noted the complaints from competitors about the privileged position that SCC enjoys in some respects, eg on access to stands, and about reactions from the two companies in the past to competition from other operators. The merged company is even better placed to continue such policies if it so wishes and is also in a stronger position *vis-à-vis* contractors to ensure that it extracts its full share of profit from the operators.

6.53. We are clear, however, that these concerns arise primarily from the dominant positions already enjoyed by NEL and SCC and not from the merger situation itself. They therefore fall outside the scope of our present inquiry. We urge the Director General of Fair Trading, however, to keep the scheduled coach services market under review; if the pricing or other behaviour of either NEL or SCC gives rise to concern, further action under the competition legislation could be considered.

J D MONTGOMERY *(Chairman)*

A G ARMSTRONG

C M BLIGHT

S EILON

L M ROUSE

A J NIEDUSZYNSKI *(Secretary)*

21 January 1994

APPENDIX 1.1

(referred to in paragraphs 1.1, 3.10 and 6.1)

The reference and conduct of the inquiry

1. On 15 October 1993 the Department of Trade and Industry sent to the MMC the following reference:

> Whereas it appears to the Secretary of State that it is or may be the fact that a merger situation qualifying for investigation, as defined in section 64(8) of the Fair Trading Act 1973 ('the Act'), has been created in that:
>
> *(a)* enterprises carried on by or under the control of Saltire Holdings Ltd (incorporated in the United Kingdom) have within the six months preceding the date of this reference ceased to be distinct from enterprises carried on by or under the control of National Express Group PLC, and
>
> *(b)* as a result, the condition specified in section 64 (3) of the Act prevails, or does so to a greater extent, with respect to the supply of scheduled coach services in Great Britain.
>
> Now, therefore, the Secretary of State, in exercise of his powers under sections 64, 68 and 69(2) of the Act, hereby refers to the Monopolies and Mergers Commission ('the Commission') for investigation and report within a period ending on 21 January 1994 the following questions:
>
> (i) whether a merger situation qualifying for investigation has been created as a result of the matter described in paragraph *(a)* above; and
>
> (ii) if so, whether the creation of that situation operates, or may be expected to operate, against the public interest.
>
> In relation to the question in paragraph (i) above, the Commission shall exclude from consideration one of paragraphs *(a)* and *(b)* of section 64(1) of the Act if they find the other satisfied.
>
> 15 October 1993
>
> *(Signed)* JOHN ALTY
> *An Assistant Secretary in the*
> *Department of Trade and Industry*

2. The composition of the group of members responsible for the present investigation and report is indicated in the list of members in the preface.

3. Notices inviting interested parties to submit evidence to the MMC were placed in:

Aberdeen Press & Journal	*Daily Record*
Bus and Coach Buyer	*Dundee Evening Telegraph*
Coach and Bus Weekly	*Glasgow Herald*

4. In addition we sought evidence from Government departments, trade unions, trade associations, consumer groups, travel agents, tourist boards, Scottish regional transport authorities, British Railways Board, coach operators and contractors. Written evidence was received from many of these parties and we held hearings with eight of them. Five of the hearings were held in Glasgow.

5. We received written submissions from NEG, with which we also held two hearings.

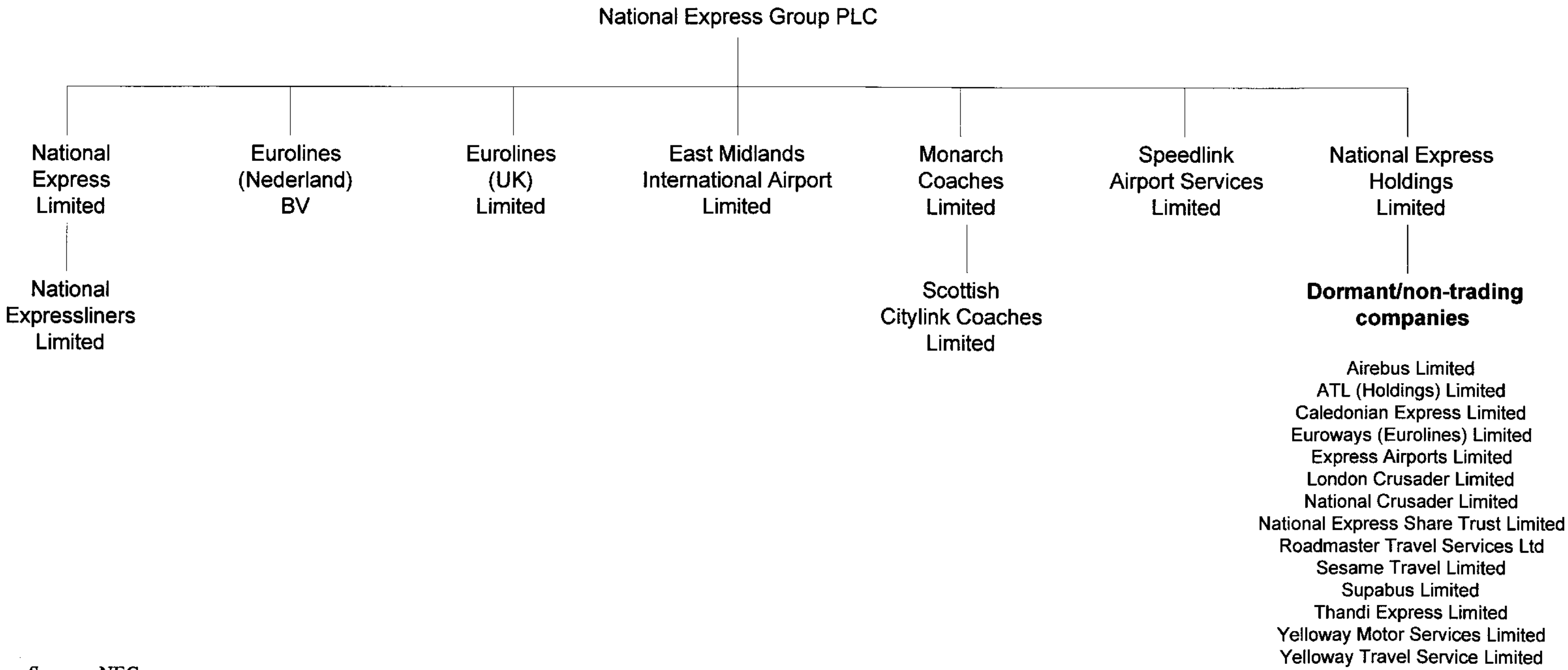
6. Members of the group, accompanied by staff, visited Buchanan Bus Station, Glasgow. Members of staff also visited Victoria Coach Station, London.

7. Some of the evidence obtained in the course of our inquiry was of a commercially confidential nature and our report contains only such information as we consider necessary for a proper understanding of our conclusions.

8. We should like to thank all those who helped us in our inquiry, particularly NEG.

APPENDIX 2.1
(*referred to in paragraphs 2.15 and 6.4*)

NEG: group structure



Source: NEG.

APPENDIX 2.2

(referred to in paragraphs 2.26, 2.29, 2.30 and 2.31)

Financial accounts of NEG, Saltire, NEL and SCC

TABLE 1 **NEG: consolidated balance sheet for calendar years***

£'000

	1989	*1990*	*1991†*	*1992*	*1993 estimate*
Fixed assets					
Tangible assets	17,965	14,681	6,061‡	6,984	[
Investment properties	1,925	1,725	-	-	
Investments in associated undertakings	691	532	587	46	
	20,581	16,938	6,648	7,030	
Current assets and liabilities					
Stocks	2,737	2,281	1,525	908	
Debtors	12,248	10,234	10,514	10,426	
Creditors falling due in one year	(25,690)	(20,871)	(22,358)	(21,627)	
Capital employed	9,876	8,582	(3,671)	(3,263)	
Bank deposits and cash less loans and overdrafts	(4,764)	(8,429)	1,491	17,922	
Unsecured loans/loan notes	(195)	(65)	(5,723)	(4,185)	
Obligations under finance lease agreements	(3,383)	(2,174)	(736)	(1,946)	
Creditors falling due after one year	(2,216)	(1,478)	(887)	-	§
Provisions	(1,816)	(1,284)	(1,515)	(972)	
Net tangible assets	(2,498)	(4,848)	(11,041)	7,556	
Shareholders' funds					
Share capital:					
Ordinary shares	263	263	1,000	1,801	
Cumulative preference shares	-	-	9,000	-	
Share premium account	-	-	-	154	
Revaluation reserve	1,720	1,720	-	-	
Capital reserve	-	-	-	65	
Goodwill write-off reserve	(9,297)	(11,688)	(22,536)	-	
Profit and loss account	4,816	4,857	1,495	5,536	
	(2,498)	(4,848)	(11,041)	7,556	]

Source: NEG.

*NEG follows a 13 four-week accounting convention with a Saturday week-ending. The accounting year therefore sometimes ends a few days into the following year.

†Up to 23 July 1991 NEHL was the holding company for the National Express group of companies. At that date the shares in NEHL were acquired by National Express Group Ltd which then became the new holding company for the group. The group company was floated in December 1992.

‡Assets and liabilities acquired from NEHL in July 1991 were incorporated in the accounts at 'fair value' to the group.

[*Details omitted. See note on page iv.*]

§Figures omitted. See note on page iv.

TABLE 2 **NEG: consolidated profit and loss account for calendar years***

£'000

	1989	*1990*	*1991*	*1992*	*1993 estimate*
Turnover:					
Continuing operations	91,049	106,759	113,824	117,139	[
Discontinued operations	17,053	19,007	10,804	3,489	
Total	108,102	125,766	124,628	120,628	
Profit/(loss) on ordinary activities before interest and tax	4,230	(2,362)	(353)	6,909	
Net interest receivable/(payable)	(526)	(1,844)	(889)	(91)	‡
Tax credit/(charge)	(1,733)	988	(1,917)	(2,426)	
Profit/(loss) on ordinary activities after interest and tax	1,971	(3,218)	(3,159)	4,392	
Extraordinary items after tax†	-	-	(2,643)	-	
Dividends	(202)	-	(394)	(850)	
Retained profit/(loss) for year	1,769	(3,218)	(6,196)	3,542	]

Source: NEG.

*NEG follows a 13 four-week accounting convention with a Saturday week-ending. The accounting year therefore sometimes ends a few days into the following year.

†The extraordinary item in 1991 comprised a provision for the costs expected to arise from the sale or closure of Carlton PSV, a coach dealership, together with the write-off through the P&L of goodwill amounting to £909,000 previously charged directly to reserves.

TABLE 3 **Saltire: consolidated balance sheet for calendar years**

£'000

	1990 (five months)	*1991*	*1992*
Fixed assets			
Tangible assets	156	1,021	1,416
Investments	-	186	246
	156	1,207	1,662
Current assets and liabilities			
Stocks	43	36	59
Debtors	1,295	1,279	1,370
Creditors falling due within one year	(2,394)	(2,259)	(2,485)
Capital employed	(900)	263	606
Bank deposits and cash less loans and overdrafts	588	130	704
Loan to connected company	-	-	38
Obligations under finance leases	-	(341)	(235)
Provisions	-	-	(20)
Net tangible assets	(312)	52	1,093
Intangible asset	532	532	471
	220	584	1,564
Shareholders' funds			
Ordinary shares	111	111	111
Profit and loss account	109	473	1,453
	220	584	1,564

Source: NEG from Saltire's published accounts.

‡Figures omitted. See note on page iv.

TABLE 4 **Saltire: consolidated profit and loss account for calendar years**

£'000

	1990 (five months)	*1991*	*1992*
Turnover	10,065	16,619	16,569
Profit on ordinary activities before interest and tax	73	484	930
Net interest receivable/(payable)	36	(18)	8
Tax credit	-	9	14
Profit on ordinary activities after interest and tax	109	475	952
Dividends	-	(83)	-
Retained profit for the year	109	392	952

Source: NEG from Saltire's published accounts.

TABLE 5 **NEL: balance sheet**

£'000

	78 weeks to 18.12.89	*54 weeks to 31.12.90*	*Year to 31.12.91*	*Year to 31.12.92*	*Year to 31.12.93 estimate*
Fixed assets					
Tangible assets	2,324	2,443	2,408	2,540	[
Investments in subsidiary and associated undertakings	50	70	50	50	
	2,374	2,513	2,458	2,590	
Current assets and liabilities					
Stocks	221	227	-	-	
Debtors	7,282	7,567	7,238	7,706	
Creditors falling due in one year	(14,565)	(11,757)	(13,215)	(12,124)	
Capital employed	(4,688)	(1,450)	(3,519)	(1,828)	
Due from group and subsidiary undertakings	20,585	19,097	12,578	12,323	
Due to group and subsidiary undertakings	(4,021)	(5,977)	(1,501)	(1,671)	
Bank deposits and cash less loans and overdrafts	(1,100)	(2,258)	(2,327)	(1,601)	*
Obligations under finance lease agreements	(61)	(19)	(257)	(228)	
Provisions	(12)	-	(851)	(652)	
Net tangible assets	10,703	9,393	4,123	6,343	
Shareholders' funds					
Ordinary shares	2,386	2,386	2,386	2,386	
Revaluation reserve	1,567	1,567	1,526	1,511	
Profit and loss account	6,750	5,440	211	2,446	
	10,703	9,393	4,123	6,343	]

Source: NEG.

*Figures omitted. See note on page iv.

TABLE 6 **NEL: profit and loss account**

					£'000
	78 weeks to 18.12.89	*54 weeks to 31.12.90*	*Year to 31.12.91*	*Year to 31.12.92*	*Year to 31.12.93 estimate*
Turnover	138,076	95,938	96,772	94,288	[
Profit/(loss) on ordinary activities before interest and tax	10,582	(2,262)	6,822	3,269	
Net interest receivable/(payable)	554	267	(387)	(56)	†
Tax credit/(charge)	(3,979)	685	(1,605)	(843)	
Profit/(loss) on ordinary activities after interest and tax	7,157	(1,310)	4,830	2,370	
Dividends	(650)	-	(10,100)	(150)	
Retained profit/(loss) for year	6,507	(1,310)	(5,270)	2,220	]

Source: NEG.

TABLE 7 **SCC: balance sheet for calendar years**

					£'000
	1989	*1990*	*1991*	*1992*	*1993 estimate*
Fixed assets					
Tangible assets	215	156	197	372	[
	215	156	197	372	
Current assets and liabilities					
Stocks	24	43	33	30	
Debtors	1,646	1,294	1,169	1,267	
Creditors falling due within one year	(2,122)	(2,394)	(1,661)	(2,022)	
Capital employed	(237)	(901)	(262)	(353)	
Bank deposits and cash less loans and overdrafts	387	490	327	808	
Owed by holding company	1,076	341	594	163	
Owed by group undertakings	129	-	155	745	†
Owed to group companies	(452)	-	(436)	(34)	
Net tangible assets	903	(70)	378	1,329	
Shareholders' funds					
Share capital*	-	1,068	1,068	1,068	
Capital reserve	30	-	-	-	
Revaluation reserve	76	-	-	-	
Profit/(loss) account	797	(1,138)	(690)	261	
	903	(70)	378	1,329	]

Source: NEG from SCC's published accounts.

*On 28 August 1990 the authorized share capital was increased to 1,300,000 ordinary shares of £1 each and 1,068,151 shares were issued at par for cash.

† Figures omitted. See note on page iv.

TABLE 8 **SCC: profit and loss account for calendar years**

£'000

	1989	*1990*	*1991*	*1992*	*1993 estimate*
Turnover	19,614	17,516	15,496	15,530	[
Profit/(loss) on ordinary activities before interest and tax	462	(2,489)	428	927	
Net interest receivable	2	33	28	62	*
Tax credit/(charge)	(150)	484	(7)	(38)	
Profit/(loss) on ordinary activities after interest and tax	314	(1,972)	449	951	
Retained profit/(loss) for year	314	(1,972)	449	951	]

Source: NEG from SCC's published accounts.

*Figures omitted. See note on page iv.

APPENDIX 2.3

(referred to in paragraph 2.40)

Cross-border routes: Scotland to London[1]

NEL

Perth–Glasgow–London
Glasgow–Preston–London
Inverness–Perth–Glasgow–London
Aberdeen–Dundee–Edinburgh–London
St Andrews–Edinburgh–London
Aberdeen–Dundee–Perth–London
Aberdeen–Dundee–Edinburgh–Oxford–London
Dundee–Edinburgh–Oxford–London
Aberdeen–Dundee–Perth–Glasgow–London
Glasgow–London Non-Stop
Glenrothes–Edinburgh–London
Glasgow–London–Gatwick
Glasgow–Heathrow–Gatwick
Falkirk–Glasgow–Coventry–London

SCC

Kilmarnock–Glasgow–Birmingham–London
Aberdeen–Dundee–Perth–Glasgow–London–Gatwick
Aberdeen–Dundee–Perth–Glasgow–Manchester–Birmingham–London
Inverness–Perth–Glasgow–London
Aberdeen–Dundee–Edinburgh–Cambridge–London
Bathgate–Edinburgh–Birmingham–London
Aberdeen–Dundee–Edinburgh–London
Dundee–Edinburgh–London

Source: NEG.

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[1]NEG stated that these routes constituted all those incorporating the Glasgow/Edinburgh to London services operated by NEL or SCC over some period between January 1992 and January 1994.

(referred to in paragraph 2.44)

NEG: Scotland to London route profitability, 1992 and 1993

	Total miles '000	*Total revenue £'000*	*Total cost* £'000*	*Actual gross margin £'000*	*Gross margin %*	*Revenue per mile £*	*Cost per mile £*	*Gross margin per mile £*
(a) NEL accounting periods 6 to 10—year 1992 Scotland to London routes								
Period 6	248	289	279	10	3.5	1.17	1.13	0.04
7	243	324	285	39	12.0	1.33	1.17	0.16
8	339	528	395	133	25.2	1.56	1.17	0.39
9	391	516	437	79	15.3	1.32	1.12	0.20
10	287	381	339	42	11.0	1.33	1.18	0.15
Total 6 to 10	1,508	2,038	1,735	303	14.9	1.35	1.15	0.20
Results for NEL network as a whole including Scotland to London routes Periods 6 to 10 1992	26,090	39,779	29,453	10,326	26.0	1.52	1.13	0.39
Results for NEL network as a whole excluding Scotland to London routes Periods 6 to 10 1992	24,582	37,741	27,718	10,023	26.6	1.54	1.13	0.41
(b) NEL accounting periods 6 to 10—year 1993 Scotland to London routes								
Period 6	325	[						
7	424							
8	511							
9	543							
10	419							
Total 6 to 10	2,222							
Results for NEL network as a whole including Scotland to London routes Periods 6 to 10 1993	25,544				*Figures omitted. See note on page iv.*			
Results for NEL network as a whole excluding Scotland to London routes Periods 6 to 10 1993	23,322							]

Source: NEG.

*Total cost is the total scheduled and duplicate coach hire costs plus sales commission of 9 per cent of revenue (approximate commission rate).

APPENDIX 3.1

(referred to in paragraph 3.60)

Scotland to London services: schedules before and after the merger

1. Table 1 sets out the services that NEL had planned before the merger as its summer 1993 schedule.

TABLE 1

Edinburgh					1030	2230
Glasgow	0900	1100	1500	2300		
Milton Keynes	1535		2220	0505	1700	0500
London	1650	1750	2335	0620	1815	0615
London	1030	1230	1830	2300	1100	2300
Milton Keynes		1340	1940	0010	1210	0010
Glasgow	1720	2025	0310	0625		
Edinburgh					1845	0645

Source: NEG.

Note: All services daily, except for the 1500 service from Glasgow and the 1830 service from London, operating only on Fridays and Sundays.

2. Table 2 sets out in similar fashion the summer 1993 schedule planned by SCC.

TABLE 2

Edinburgh							1100	2230
Glasgow	0900	1100	1300	2100	2300	2300		
Milton Keynes		1715	1935		0605	0635		
London	1655	1825	2040		0710	0745	1900	0715
Heathrow				0530				
Heathrow					2215			
London	0900	1100	1300	2145		2300	1000	2200
Milton Keynes	1010	1210		2255		2340		
Glasgow	1625	1825	2055	0640	0640	0640		
Edinburgh							1800	0650

Source: NEG.

Note: All services daily.

3. The combined service actually run by NEL/SCC in summer 1993 is set out in Table 3.

TABLE 3

Edinburgh									1030	2230
Glasgow	0900	1000	1100	1300	1500	2100	2200	2300		
Milton Keynes			1715	1935	2220			0505	1700	0500
London	1710	1650	1825	2040	2335		0600	0620	1815	0625
Heathrow						0515				
Heathrow						2215				
London	0900	1100	1200	1300	1830		2200	2300	1100	2230
Milton Keynes	1010	1210			1940			0010	1210	2320
Glasgow	1625	1825	2010	1950	0310	0645	0600	0625	-	-
Edinburgh									1845	0630

Source: NEG.

Note: All services daily, except for the 1500 service from Glasgow and the 1830 service from London, operating only on Fridays and Sundays.

APPENDIX 3.2
(referred to in paragraph 3.73)

Abstract of 1986 to 1989 agreement between SCC and NEL

AGREEMENT BETWEEN SCOTTISH CITYLINK COACHES LTD AND NATIONAL EXPRESS LTD

WHEREAS both Scottish Citylink Coaches Ltd and National Express Ltd operate road passenger transport services along or near to a common route or common routes and it is desired to co-ordinate the terms and conditions upon which such services are operated for the benefit and convenience of the public travelling thereon
THEREFORE THE PARTIES HERETO AGREE AS FOLLOWS:—

(One) The service or services with which this Agreement is concerned are those set out and detailed on Schedule A annexed and signed as relative hereto.

(Two) The terms and conditions shall be such as may be agreed from time to time between the two parties by an exchange of signed Memoranda, a copy of which is attached as Schedule B, and shall cover the topics listed hereafter:

a Duration of Agreement
b Timetables
c Fares
d Mileage
e Vehicle Livery
f Journeys to be operated by each party
g Revenue sharing arrangements

SCOTTISH CITYLINK COACHES LTD/NATIONAL EXPRESS LTD OPERATING AGREEMENT: SCHEDULE A

Services affected

PART I

(a) Network Services

370	Edinburgh–Gloucester
372	Aberdeen–Middlesbrough
374	Glasgow–Hull
375	Dundee–Rugby
	Aberdeen–Leeds
378	Perth–Peterborough
380	Aberdeen–Huddersfield
535	Glasgow–Sheffield
537	Glasgow–Kettering
547	Glasgow–Penzance
548	Inverness/Aberdeen/Glasgow–Manchester
806	Aberdeen–Plymouth
807	Glasgow–Stoke-on-Trent
	Inverness–Liverpool
808	Edinburgh–Coventry
	Aberdeen–Cardiff

	Dundee–Southampton
	Glasgow–Haverfordwest
818	Greenock–Blackpool
892	Edinburgh–Blackpool
893	Edinburgh–Blackpool via Morecambe
376	Cambridge–Glasgow (involves Premier Travel Services)

(b) National Cross Border 'Bucket and Spade' Services

348	Newcastle–Heads of Ayr

(c) Tourist Trail

750	Edinburgh–London via east coast
751	Edinburgh–London via west coast
752	York–London

PART II

(a) Summerlink Services

841	Stirling–Whitley Bay
842	Leven–Bridlington (Overnight)
843	Leven–Bridlington (Day)
844	Stirling–Bridlington (Overnight)
845	Stirling–Bridlington (Day)
846	Aberdeen–Bridlington
847	Dundee–Skegness
848	Leven–Skegness
849	Stirling–Skegness
851	Greenock–Clacton
852	Johnstone–Lowestoft
853	Aberdeen–Lowestoft
854	Bathgate–Lowestoft
856	Dumbarton–Dover
857	Dundee–Eastbourne
858	Stirling–Weymouth
859	Edinburgh–Weymouth
861	Ayr–Paignton
862	Edinburgh–Paignton
863	Dundee–Paignton
864	Glasgow–Newquay
865	Ardrossan–Bideford
871	Dalkeith–Llandudno
872	Glasgow–Llandudno (Overnight)
873	Glasgow–Llandudno (Day)
874	Glasgow–Southport
875	Edinburgh–Southport
881	Linlithgow–Blackpool
882	Barrhead–Blackpool
883	Dumbarton–Blackpool
884	Kirkintilloch–Blackpool
885	Stirling–Blackpool
886	Ardrossan–Blackpool
887	Aberdeen–Blackpool
888	St Andrews–Blackpool

890	Whitburn–Blackpool
894	Dalkeith–Blackpool
895	St Andrews–Morecambe
896	Stirling–Morecambe
897	Greenock–Morecambe
898	Ardrossan–Morecambe
899	Edinburgh–Morecambe

(b) Irish Services

349	Middlesbrough–Belfast
920	London–Belfast (Overnight)
921	London–Belfast (Day)
922	London–Londonderry
923	Birmingham–Belfast (Day)
924	Birmingham–Belfast (Overnight)

SCOTTISH CITYLINK COACHES LTD/NATIONAL EXPRESS LTD
OPERATING MEMORANDA: SCHEDULE B

The following Memoranda sets out the terms and conditions in respect of an Agreement between Scottish Citylink Coaches Ltd having its registered office at Buchanan Bus Station, Killermont Street, GLASGOW G2 3NP and National Express Ltd having their registered office at 1 Vernon Road, Edgbaston, Birmingham B16 9SJ in respect of the operation of long distance coach service(s) as set out in Schedule A of the Agreement between the two parties.

Duration of Agreement

This Agreement was current as at the 25th July 1986 and may be terminated by either party giving the other 6 months notice (the period of which notice will terminate to coincide with either the last Saturday in April or October) or such other period as may be mutually agreed. The terms of the Agreement may be mutually varied following discussion. In these circumstances a subsequent memoranda would be issued in the event of material change.

Timetable

The routing, pick up points and timings are as set out ... and will be determined mutually. These can be varied mutually at any time subject where applicable to prescribed time periods as contained in current statutes.

Fares

These are determined by both parties and are as set out ... They can be varied mutually by both parties at any time. The fares for travel wholly within Scotland will be determined by Scottish Citylink Coaches Ltd. The fares for travel wholly within England and Wales will be determined by National Express Ltd. The fares for travel between points in England and Wales involving cross border travel to and from Scotland will be determined by both parties.

Mileage

Mileage for each journey will be agreed jointly and will form the basis of Pool Accountancy Returns. Mileage from depot to/from terminal points will not qualify. The entitlements of the parties are as follows:—
Scottish Citylink Coaches Ltd will be entitled to operation equal to the mileage North of Carlisle, Carter Bar and Berwick-upon-Tweed, according to the actual line of route of each individual journey. National Express Ltd will be entitled to operation equal to the mileage South of Carlisle, Carter Bar and Berwick-upon-Tweed, according to the actual line of route of each individual journey.

Vehicle Livery

Vehicles used to operate the scheduled timetable journeys shall be in the defined livery of either Scottish Citylink Coaches Ltd or National Express Ltd in accordance with the actual ownership of each vehicle.

Journeys to be Operated by Each Party

Allocation of journeys to be agreed mutually.

Revenue Sharing Arrangements

(i) Ticket Sales

Tickets for the agreed service(s) will be sold by each party or their agents in advance as well as by each party's drivers on the journeys in question. Drivers or other designated staff will either record cash taken through a suitable register or alternatively collect all pre-purchased tickets from passengers. Each party will document all such revenue and resultant totals of same supported by waybills including details of register sales and/or collected vouchers will be sent to the designated Pool Accountant on an agreed 4 weekly basis.

(ii) Distribution of Monies

As the commercial risk is shared between both parties revenue collected is distributed on the same basis as mileage run by the parties. Before distribution there shall be a deduction of 15% of the gross revenue to cover agents' commission and servicing. Other sums may also be deducted by mutual agreement in order to cover all pool expenditures e.g. publicity and pool accountancy items. This distribution will be carried out on a four weekly basis.

Pool Accountancy (Responsibility)

For the services contained in Part I of the Schedule the designated Pool Accountant is National Express Ltd, and for Part II of the Schedule the designated Pool Accountant is Scottish Citylink Coaches Ltd.

Freedom of Action

No provision in this Agreement shall prevent either party from operating any such service or services in any area as it commercially sees fit at any time.

APPENDIX 3.3

(referred to in paragraphs 3.83 and 6.18)

Competitors of NEL in England and Wales

Abbot's (based in Blackpool)
Abbot's (based in North Yorkshire)
Bakers Dolphin (based in Avon)
Bere Regis Coaches (based in Dorchester)
Berry's (based in Taunton)
Brylaine Travel (based in Boston)
Cambridge Coach Services
Central Liner (based in Birmingham)
*City of Oxford (trading as Oxford CityLink)
Cleveland Coaches (based in Stockton)
East Yorkshire Travel
Elseys Coaches (based in Spalding)
Excelsior (based in Bournemouth)
Flights (based in Birmingham)
Gem Travel (based in Birmingham)
*Green Line (a group of operators in the London commuter area)
*Luton and District Buses
*Maidstone and District (trading as Invictaway)
New Bharat (based in Southall)
*Reading Transport (trading as Goldline)
*Southend Transport (subsidiary of British Bus)
Swanbrook (based in Cheltenham)
*Thames Transit (trading as Oxford Tube)
*Thamesway (subsidiary of Badgerline)
Turner's (based in Bristol)
*United Counties (trading as Coachlinks) (a subsidiary of Stagecoach)
Yeomans Canyon (based in Hereford)

The operators that have an asterisk do not compete directly with NEL in that they do not operate on any of the same routes.

Source: NEG.

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