

### **The potential for future entry**

1. We considered the potential for future entry to the wagon maintenance market. In particular, the question arises as to whether the various barriers to entry and expansion could be overcome, either through a large customer sponsoring entry, or through an existing maintainer of passenger carriages diversifying into the maintenance of freight wagons. These two potential avenues of entry are discussed below.
2. When discussing the potential for future entry, it is important to consider the incentives that exist for entry, that is, the amount of profit that a new entrant might expect to be able to make upon entering the market. Since (a) the wagon maintenance market is relatively small, (b) it is not currently experiencing significant growth, and (c) the largest third-party maintenance supplier (Marcroft) is itself not making significant profits, it is our view that a potential entrant would not expect to make substantial profits by entering this market.

### **Sponsored entry**

3. Sponsored entry would involve a current customer effectively helping a new entrant to enter the market with the express intention of supplying maintenance services to that customer. Therefore, sponsored entry could be viewed in some ways as a halfway measure between outsourcing and setting up an in-house maintenance division. Three key examples of sponsored entry have been observed in recent years:
  - (a) Brett Aggregates sponsored entry by Channel Commercials, along with assistance and oversight provided by Steele.
  - (b) In a related market, Freightliner sponsored entry by LNWR in order to maintain its locomotive fleet.

(c) According to EWS, Arlington was sponsored by GE Rail Services.

4. [REDACTED] sponsoring entry has not been without complications. [REDACTED]
5. Freightliner assisted LNWR in entering the market by guaranteeing the company a [REDACTED] contract to maintain Freightliner's locomotives and assisting in obtaining a lease on a rail-connected site to use as a base of operations. [REDACTED] Freightliner has recently acquired the lease on the site previously used by LNWR and told us that it intended to carry out locomotive maintenance (but not freight wagon maintenance) on the site itself. In relation to its experience of sponsoring entry, Freightliner stated that, '[i]t has not worked. It is a precedent for what we are now talking about in wagons.'
6. Whilst Arlington confirmed to us that around [REDACTED] per cent of its revenue has been generated by work performed for GE Rail Services, this does not appear to be an example of sponsored entry. Arlington stated that it presented GE Rail with a proposal for business, which was successful. The majority of its work in the market thus far has consisted of performing routine maintenance on an ad hoc basis, and has focused in particular on the replacement of wheelsets in the field. However, they have not yet succeeded in breaking into the planned maintenance market.
7. The evidence relating to sponsored entry does not suggest that it is a strategy which would be expected to provide sufficient competition to EWS to constrain it from exploiting its post-merger market power.

### **Potential for entry by passenger wagon maintainers**

8. The potential for market entry by passenger (transit) maintenance companies has also been assessed by us. In relation to market definition, we concluded that, on balance, it appears likely that transit maintenance companies possess the necessary skills to provide freight maintenance services. However, the comparatively low

revenues available in the freight maintenance market make it unattractive for transit maintenance companies to diversify into freight maintenance.

9. The above is a starting point to assess the barriers that passenger carriage maintainers face regarding entry to the freight maintenance market. Even if prices were significantly above their current level, it appears unlikely that passenger carriage maintainers would enter the market. If upon entering, they switch resources from passenger carriages to freight wagons then there will be a significant opportunity cost of those resources. Bombardier noted that ‘companies which currently perform passenger train and locomotive maintenance would only take on wagon maintenance to recover overhead, applying under-utilized resource, rather than expanding resource levels to take on an incremental business type’. It also said ‘[i]t is difficult to envisage a scenario in which a party with no existing interest in the sector making a business case which could justify the start-up investment’. The differences in scale between the two types of maintenance (freight maintenance estimated at £[redacted] million as compared with a much larger passenger carriage maintenance market of around £500 million), would appear to confirm Bombardier’s view.
  
10. Finally, [redacted] representative in its hearing with us said that ‘I have been begging the passenger operators to maintain our wagon fleet around the locations we want for four years. They are not interested in the work. They have not the capacity to do it. That they could do the work is without question. Whether they have the capacity for the work or whether or not they want the work—these are franchise customers—is quite another.’

### **Other possible entrants**

11. There are unlikely to be new entrants from outside the pool of rolling stock maintenance companies, at least on a significant scale. Only EWS have alluded to

the possibility of such entry by general rail engineering firms. No other respondent has raised the possibility of entry from outside the rail industry.