



News Release

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ANTICIPATED ACQUISITION BY ARRIVA PLC OF THE BUS OPERATIONS OF SOVEREIGN BUS & COACH COMPANY LTD

Statement of issues

The Competition Commission (CC) has today published an issues statement as part of its inquiry into the anticipated acquisition by Arriva plc (Arriva) of the operations of Hertfordshire bus operator Sovereign Bus & Coach Company Ltd (Sovereign).

The inquiry was referred to the CC by the Office of Fair Trading (OFT) on 3 August 2004. The CC is required to publish its final report by 17 January 2005.

The CC has been asked to consider whether the proposed acquisition may be expected to result in a substantial lessening of competition within the market for bus services in Hertfordshire or any other market in the United Kingdom. According to the OFT, Arriva and Sovereign are the two largest bus operators in Hertfordshire.

The issues statement should not be seen as implying that the inquiry group (the Group) has identified any competition concerns—the CC has yet to reach any conclusions on this inquiry. The purpose of making the issues statement public is to inform all interested parties and give them an opportunity to raise any further points with the CC. Other information about the reference is on the CC web site.

The issues statement follows the initial process of gathering information, views and evidence and identifies clearly for all interested parties the specific questions and areas the inquiry will be examining. This will form the basis for the hearings with Arriva and other interested parties. The full issues statement is attached at the end of this release and raises issues concerning:

- A. The relevant market(s)
- B. Extent of overlap between Arriva and Sovereign services
- C. Existing competition between Arriva and Sovereign and the effects of the merger on that competition
- D. Potential competition and the effects of the merger on that competition

- E. Other effects on competition
- F. Possible new entry or expansion by existing bus operators
- G. Whether the merger may be expected to result in a substantial lessening of competition
- H. Customer benefits

If the Group considers that the merger may be expected to result in a substantial lessening of competition, it will consider whether and, if so, what remedies might be appropriate, issuing any remedies statement, should this be required, at about the time it publishes its provisional findings.

Anyone wishing to comment on any of the issues set out below is requested to do so by Tuesday 5 October 2004 in writing to:

Inquiry Secretary (Arriva/Sovereign)
Competition Commission
Victoria House
Southampton Row
LONDON
WC1B 4AD

Or email: A-S.Public@competition-commission.gsi.gov.uk

The CC will now continue to gather evidence in this inquiry and will publish its provisional findings according to the administrative timetable available on the CC's web site at www.competition-commission.org.uk/inquiries/current/arriva/index.htm.

Notes for editors

1. The Enterprise Act 2002 empowers the OFT to refer to the CC anticipated or completed mergers for investigation and report which create or enhance a 25 per cent share of supply in the UK (or a substantial part thereof) or where the UK turnover associated with the enterprise being acquired is over £70 million.
2. The Arriva/Sovereign Group consists of five members—[Diana Guy](#) (Chairman), Robert Bertram, Richard Holroyd, David Stark and Robert Turgoose—supported by the CC's staff.
3. Further information can be obtained from the CC's web site at: www.competition-commission.org.uk/inquiries/current/arriva/index.htm.
4. Enquiries should be directed to Francis Royle, Press Officer, 020 7271 0242, or Rory Taylor on 020 7271 0488/rory.taylor@competition-commission.gsi.gov.uk.
5. The full text of the OFT's referral of this case can be found on the OFT web site at www.of.gov.uk.

ARRIVA/SOVEREIGN MERGER INQUIRY

Statement of Issues

A. The relevant market(s)

1. Whether it is appropriate to regard the supply of bus services on point-to-point routes in Hertfordshire as a relevant market or markets or whether, on the other hand, such services can be regarded as part of a wider market, which includes rail as well as private transport (particularly cars) and taxis. Relevant considerations include:
 - (a) Whether bus and rail services which overlap on point-to-point flows can be regarded as separate, complementary markets or as effective competing substitutes on such flows.
 - (b) Whether the market can be segmented by journey purpose, for example between journeys for leisure, commuting and business purposes, by time of day (eg peak vs off-peak), or by reference to any other variable.
 - (c) The extent to which prices of bus services relative to the cost to the user of private transport or taxis affect their relative use (the cross-price elasticity of demand between public and private transport).
 - (d) The extent of any divergent trends in price of bus services, relative to the cost to the user of private transport or taxis.
 - (e) The extent to which users of public transport in Hertfordshire do or do not have private cars available.
 - (f) Other factors affecting the use of public and private transport, for example convenience, congestion, journey time, frequency (among other components of a 'generalized cost' of a journey).
 - (g) Whether there are any notable characteristics of Hertfordshire, such as significant levels of car ownership, congestion, availability of convenient parking at low or no charge, or propensity of passengers for taxi-sharing.

2. Whether markets should be defined by reference to networks of routes as well as or instead of point-to-point flows or routes. Relevant considerations include:
 - (a) On the demand side, whether and, if so, to what extent bus services forming part of a wider transport network deliver value to users above and beyond the service provided on particular point-to-point flows.
 - (b) Whether supply-side considerations, in particular the ease and speed with which established bus operators can alter their existing routes, imply that markets should be defined more broadly than individual flows or routes; and, if so, how broad a network of routes should be considered.
3. Consequently, what is the appropriate geographical market when examining competition between bus services and between bus and other modes of transport.
4. Whether it is appropriate to identify a separate relevant market for the supply of tendered bus services or whether these services should be considered together with commercial services.

B. Extent of overlap between ARRIVA and Sovereign services

5. The OFT in its decision document referred to overlaps between five of Sovereign's six services and 15 of ARRIVA's services on flows varying from 1 or 2 kilometres within town to several kilometres on the inter-urban flows, with no competing bus services on several of these flows and on others just one competing bus or rail service. We are considering the criteria for identifying overlaps that could potentially give rise to competition concerns if the merger goes ahead, for example:
 - (a) The extent to which point-to-point routes that serve neighbouring but not directly overlapping areas or flows may compete with one another.

- (b) Whether other particular criteria might be appropriate for identifying point-to-point flows where there may be a substantial lessening of competition—for example, a particular minimum level of revenue or passenger numbers, either in absolute terms or relative to the revenue or passenger numbers on the relevant route taken as a whole; and, if so, what those minimum levels ought to be.

C. Existing competition between ARRIVA and Sovereign and the effects of the merger on that competition

6. Whether and, if so, to what extent there is effective competition at present between ARRIVA and Sovereign, whatever may be regarded as the current overlaps between their respective bus services and whether the overlaps are considered individually or in aggregate, taking account, for example, of:
- (a) the reasons for passengers' choice of service, including the extent to which this is based on differences in fares or service frequencies or other levels of quality of service (for example, punctuality, reliability, safety, driver friendliness and route knowledge, on-board comfort) as between ARRIVA and Sovereign services; and
- (b) the extent to which competition between ARRIVA and Sovereign affected their fares or level of quality of service (before the announcement of the proposed merger on 23 June 2004).
7. Whether any loss of such competition as a result of the proposed merger may be expected, in the absence of other constraints, to induce ARRIVA to change fares or service quality, on overlap flows and/or on non-overlap flows in Hertfordshire.
8. Whether the presence of another bus and/or rail operator on particular flows is sufficient to ensure no substantial lessening of competition after the merger, or

whether this may depend on the service frequency or identity of that operator or those operators—for example, whether one of the major bus groups in the UK rather than smaller, more local bus operators and/or the current rail operator—or require the presence of a number of bus operators and/or the current rail operator.

9. Whether and, if so, to what extent ARRIVA's or Sovereign's bus services compete at present with other modes of transport (eg rail) on particular flows or routes.
10. Whether there is effective competition between ARRIVA and Sovereign in bidding for tendered bus services and, if so, whether there would continue to be effective competition among other bus operators to provide such services following completion of the proposed merger.

D. Potential competition and the effects of the merger on that competition

11. Whether the proposed merger between ARRIVA, the leading bus operator in Hertfordshire, and Sovereign, Hertfordshire's second largest bus operator according to the OFT, would eliminate the most likely entrant on each other's routes and thereby remove a substantial competitive constraint.
12. Whether and, if so, to what extent Sovereign has sought or would wish to provide additional services on existing ARRIVA routes in Hertfordshire. Relevant factors for consideration could include both the intentions of Sovereign's parent company (Blazefield Holdings Ltd) with regard to operations in the Home Counties, and possible capacity constraints at the Stevenage and/or Hatfield depots currently used by Sovereign.

13. Whether the proposed merger would reduce the prospect of entry or expansion in Hertfordshire by third parties, and thereby remove a substantial competitive constraint.

E. Other effects on competition

14. Whether, following completion of the proposed merger, ARRIVA would be in a stronger position to offer multi-service ticketing products for use only on ARRIVA services throughout Hertfordshire, and whether this would deter use of other bus operators' services or of joint ticketing schemes with other operators, reducing the effectiveness of competition from other operators and inhibiting entry.
15. Whether there would be an effect on competition resulting from a change in the management of Stevenage bus station (which we have been told has for the past eight years or so been managed by Sovereign on behalf of Stevenage Borough Council).

F. Possible new entry or expansion by existing bus operators

16. Whether prospects for entry by new operators or expansion by existing operators would be sufficient to counteract any substantial lessening of competition which might arise as a result of the merger. Relevant considerations include:
 - (a) Whether there are barriers to entry by new operators or expansion by existing operators, either in respect of limited entry/expansion on to specific overlap flows or to compete with ARRIVA's network more widely, for example:
 - (i) The possibility of retaliation by ARRIVA against any threat of entry.
 - (ii) The strength of ARRIVA's marketing and its ability to offer connections to other parts of its network, both in Hertfordshire and more generally.

- (iii) Difficulty in finding either a suitable existing depot or a site for a new depot (given, in particular, the need to obtain planning permission) at a reasonable cost such as might be required by a new entrant with a fleet of, say, five or more buses.
 - (iv) The cost of the required investment in buses of a suitable age and type.
 - (v) A shortage of bus drivers.
 - (vi) The cost of training and retaining suitable staff (eg engineers).
- (b) The apparent historical tendency of major bus operators in normal circumstances not to encroach on each other's spheres of influence and so to avoid head-to-head competition.
- (c) The potential for public sector support for tendered services and/or concessionary fares schemes to foster entry by new operators or expansion by existing operators.
- (d) Any recent new entry/expansion on commercial bus routes in Hertfordshire; also exit from such routes.
- (e) Whether the merger may be expected to raise barriers to entry and/or expansion.

G. Whether the merger may be expected to result in a substantial lessening of competition

17. In the light of its analysis of the above issues, the Group must consider whether the merger may be expected to result in a substantial lessening of competition.
18. In doing so, the Group will need to consider the 'counterfactual'—what may be expected to happen should the merger not proceed—including the prospects for Sovereign continuing or exiting from its existing operations and, alternatively, the

likelihood of future acquisition of Sovereign by another bus operator; and the competitive effects of these possibilities.

19. If the Group does identify a substantial lessening of competition, it would be required to consider appropriate remedies to any such substantial lessening of competition or any adverse effects—for example on levels of quality of service or fares—that may result, and to take into account any customer benefits resulting from the merger.

H. Customer benefits

20. Although the Group will not consider possible remedies until it has reached any such provisional finding, it would nonetheless welcome comments at this stage on any customer benefits (which may extend beyond only consumer benefits) directly attributable to the merger to be taken into account in considering any possible remedies. In this context the Group may wish to consider:

- (a)* Whether the merger may be expected to bring benefits to passengers as regards innovative ticketing products or a wider or more stable network of destinations that would not otherwise occur.

- (b)* Any other benefits to passengers resulting from the merger.

I. Possible remedies

21. Again, although the Group will not consider possible remedies until it has reached any provisional finding on whether the proposed merger may be expected to result in a substantial lessening of competition, it would welcome comments on whether any structural or behavioural remedies would be appropriate, taking customer benefits into account.