6 Views of Mainline and Stagecoach

6.1. This chapter summarizes the views of Mainline and Stagecoach, which they provided in written submissions and in oral evidence to the MMC.

Mainline

Introduction

6.2. Mainline described itself as a medium-sized company, very innovative in the bus market and very committed to the partnership approach, with its employees running and controlling the business utilizing an ESOP mechanism. The employees were (apart from the 20 per cent Stagecoach shareholding) the owners and the company saw itself as having a different agenda from others in the industry. It was proud of its position in the community, aiming to secure jobs in an area of high unemployment and to turn around public transport in the region. It therefore looked to stimulating the market rather than ruthlessly cutting costs. Its financial objective was to make a profit sufficient to maintain jobs and employment rather than maximizing profit to give dividends to shareholders, since at the end of the day the shareholders were the employees.

6.3. On the bus industry generally Mainline pointed to the rapid growth of five or six major groups. As large single area operators-the successors to the NBC and local authority bus operations-were eliminated by acquisition by the national groups, so the prospect was created of a two-tier industry comprised solely of national groups and small independents. Mainline did not believe the small independents could pose any real competition to the national groups. It pointed out that new developments such as guided bus systems had come from the large single area operators. It believed the travelling public was better served through having a diversity of operators, hence the importance of companies such as Mainline retaining their independence.

Jurisdiction

6.4. Mainline's view was that its share and Board structure was such that Stagecoach could not exercise a `material influence' over the policy of Mainline. Accordingly Mainline did not see that a merger situation qualifying for investigation had been created. In particular it did not see that the additional factors which had helped the MMC find a qualifying merger in previous non-bus cases, such as fragmented share structure or strong commercial links, actually prevailed in the present case.

6.5. Stagecoach had acquired a holding of 20 per cent of the ordinary shares. This compared with the 26 per cent of ordinary shares held by an employee benefit trust and the 54 per cent of ordinary shares held by over 2,000 individual employees. At general meetings the management directors, through the special voting shares vested in them for five years, could pass or block any resolution other than those requiring special consent. Special consent was required from at least 75 per cent of ordinary shareholders on a number of matters, including any changes to share capital, variation of rights of different classes of shares, a major change in the nature of the business and acquisition of a holding of more than 25 per cent by persons other than employees or an employee trust. Accordingly, the employee trust with 26 per cent of the ordinary shares could effectively block such special consent resolutions. The Articles of Association of Mainline provided for a balance of power between employees, management and employee trust each of whom was potentially able to exercise greater influence in general meetings than Stagecoach. Mainline emphasized that on important issues the employees actively used their votes, citing the example of the ballot on the exchange of shares with Stagecoach where over 80 per cent of the employee shareholders voted.

6.6. With regard to Board structure, Mainline pointed out that Stagecoach's shareholding only enabled Stagecoach to appoint one director to the Board out of 12 potential directors (currently 11 were in post). The major influences on the policy of Mainline were the management directors who held special voting shares, counterbalanced by the employee directors the consent of two of whom was required for major strategic and operational decisions. Stagecoach's director was just one of three outside directors whose advice, while valued, could not persuade the Board to take action it would not otherwise wish to take.

6.7. As to the influence of the cost savings it hoped to achieve through its association with Stagecoach, these were not of central importance to Mainline, which could if necessary reach similar arrangements with other operators. Mainline said that if Stagecoach threatened to withdraw access to these savings this might trigger provisions to repurchase Stagecoach's shareholding. Mainline considered that effective mechanisms were included in its Articles of Association and in the Subscription Agreement to enable it to force such a sale to protect the long-term interests of the company. It did not see that Stagecoach could destabilize the company by threatening to sell its shares since for three years Stagecoach was covenanted not to dispose of its shareholding without Mainline's consent, and even in the event of a serious dispute, that disposal had to be to a Mainline employees' trust or Mainline employees. And after that three-year period it could still sell its shares only to a Mainline employees' trust or Mainline employees.

6.8. Furthermore the clawbacks under the terms of the Share Sale Agreement at the time of the employee buy-out also made a sale of a controlling interest in Mainline not profitable to Mainline shareholders before 16 November 1998 and significantly deterred any sale before 16 November 2003.

6.9. In conclusion Mainline asserted that the arrangements with Stagecoach had not materially affected the original principles behind the employee buy-out. Mainline continued to be managed as a partnership between management and workforce representatives, and neither side would accept interference by Stagecoach to benefit Stagecoach and its investment at the cost of services and jobs provided by Mainline.

The aims of the share exchange

6.10. Mainline saw the overall purpose of entering into the arrangement with Stagecoach as being to maintain its independence as an employee-owned company in the long term.

6.11. It believed the link-up with Stagecoach would provide a number of major advantages. The share exchange would strengthen Mainline's ability to withstand predatory competition from one of the national groups in its core markets in South Yorkshire through improving its financial status, and through the standing of the company with which it was now associated. With the emergence of large groups nationally Mainline had been forced to confront the issue of whether it could preserve its independence against this market trend, particularly when it had seen other employee buy-outs such as Yorkshire Rider sell out to the major groups. Its financial position had not permitted significant long-term investment or provided the financial strength needed to resist prolonged competitive assault. It had originally pursued the notion of joint arrangements with other large independent companies outside the major groups but as this proved fruitless it had turned to an alliance with one of the major national groups.

6.12. Following initial contacts between Stagecoach and some of Mainline's directors the Mainline Board agreed to enter into arrangements which would allow Stagecoach a financial stake in the business without, as Mainline saw it, permitting Stagecoach to control the development or operational strategies of the business.

6.13. Other advantages from the transaction were that it would enable Mainline to benefit from Stagecoach's experience to improve operational efficiency and to take advantage of Stagecoach's purchasing, training and other arrangements; and would provide a potential outlet for some of Mainline's support services. (Mainline said at the hearing in December 1994, however, that the cost savings which it hoped would result from the link had not yet begun to materialize.) The holding of Stagecoach shares had strengthened Mainline's balance sheet, and its ability to pledge those shares as security had enabled it to increase its bank overdraft substantially from what had previously, in Mainline's view, been an absurdly low level for a company of its size.

6.14. The advantage of the acquisition to Stagecoach was that that company would gain an involvement in an urban area, its experience hitherto having been in smaller towns and rural areas. In addition Stagecoach would benefit from Mainline's experience in certain other matters, for example Supertram and employee share ownership plans.

Effect on competition in the market

6.15. Mainline said that the Stagecoach subsidiary, East Midland, was not viewed as an active competitor since it predominantly operated in a different area from Mainline and was a different type of operator. East Midland operated predominantly infrequent, inter-urban services of 15 miles or more whilst Mainline predominantly operated frequent, short-distance services within the South Yorkshire conurbation and its commuter belt of eight miles radius or less.

6.16. The area of overlap was extremely limited. Out of a total of 330 services operated by Mainline, East Midland only operated on the routes of 20 Mainline services. Mainline made clear that it had neither been suggested nor countenanced that Mainline should withdraw from any services in order to benefit East Midland, or vice versa. Nor had any liaison on fare levels, tendering policies or other matters been undertaken or proposed. It stated that Stagecoach would not influence in any way Mainline's operating policies, in particular in regard to East Midland.

6.17. In response to questions, Mainline said that up to the time of the share exchange with Stagecoach nothing had happened to change the view, expressed by Mainline's predecessor company SYT in the 1990 inquiry (paragraphs 4.59, 6.16 and 6.30 of that report), that potential competition from East Midland was an important constraint on SYT. Mainline agreed that the threat of competition was one of the principal factors which kept a bus company on its toes and that Stagecoach, with its local knowledge gained via East Midland, was in a good position to compete in South Yorkshire.

6.18. There was competition from other operators on almost all the routes operated both by East Midland and Mainline. Yorkshire Traction had recently acquired two significant independent operators in Sheffield, Andrews and South Riding, and Mainline believed it was interested in expanding its services in Sheffield. The last acquisition had, significantly, occurred after the announcement of Mainline's association with Stagecoach.

6.19. Mainline said that since deregulation it had consistently met extensive competition from smaller independent operators in its core market. Such operators, typically with a fleet size of 100 vehicles or below, concentrated on operating low-cost services, either where larger operators could not compete cost-effectively, or more usually on the major corridors.

6.20. It noted in passing that the expectations of the MMC in their 1990 report had not materialized. There was now more rather than less competition.

6.21. Regarding the effects of the association on its competitive behaviour, Mainline said that its concern had been to be able to withstand aggression from the major bus operators. It was aware of two major groups who had made exploratory approaches to independent operators in its area, and it had therefore been sensible to consider the possibility of a new entrant coming in to eliminate Mainline. It recognized that it could not do anything to stop small operators coming in. Whilst such operators did disappear from the market, they were quickly replaced by others. The low costs of entry with second-hand vehicles, together with the prospect of being purchased on attractive terms if they proved a sufficient nuisance to the incumbent operator, were always attracting new entrants.

6.22. Mainline saw its marketing strategy as being to expand the whole market for public transport. It had lost a third of its passengers in the last eight years, most of them to cars. If it could recover a significant proportion of passengers lost it would make a substantial difference to Mainline's results. In addition it had to counter the competitive effects of Supertram. When fully operational Mainline advised that it had been estimated that Supertram would take 20 per cent of the Sheffield passenger market. Mainline's marketing was therefore becoming more ambitious and more varied. A variety of promotions were currently being

undertaken as it sought to stimulate the market. Not only Mainline would benefit from that, but it believed other bus operators would as well.

6.23. Mainline submitted that it offered a better quality of service to passengers than its competitors and drew attention to independent data from SYPTE in support of this claim (see paragraph 4.46). A reliable, high-quality service, it considered, was needed to promote the use of buses and the growth of the market.

The public interest

6.24. Mainline considered that the acquisition of a 20 per cent shareholding by Stagecoach had no adverse effects on the public interest. Stagecoach would not be in a position to dictate policy to the Mainline Board and there were no risks of a reduction in competition leading to poor customer service or higher fares. East Midland and Mainline in reality operated in different markets and heavy competition from other operators (small independents and Yorkshire Traction), as well as competition from the car and other transport modes, would oblige Mainline to maintain competitive fares and reliable, efficient services.

6.25. Mainline rejected allegations by Sheffield Omnibus that Mainline was deliberately cutting fares to an uneconomic level, with the ultimate goal of driving Sheffield Omnibus out of the market (see paragraph 5.32). It was concerned to stimulate the market, and its Red Saver scheme was part of that. Mainline was trying a number of different promotions: some of these were on routes where not only Sheffield Omnibus but other operators ran services, while others were in areas where Sheffield Omnibus had no presence. It certainly did not regard its Red Saver scheme as uneconomic: it had been very successful in stimulating more custom. While it seemed to have caused revenue to be a little lower than it would otherwise have been, Mainline was satisfied with progress and intended to continue the promotion for a further period. As to the suggestion that Mainline was out to acquire Sheffield Omnibus in a manner which would avoid merger control by the competition authorities, Mainline did not see how this could happen given the OFT scrutiny it was under (see paragraph 3.14). It had certainly made an offer for the whole company but that was after being approached by one of Sheffield Omnibus's directors who had advised that the earlier proposition of a minority shareholding, proposed when there had been a suggestion of a joint venture elsewhere in the UK, would have to be increased to a bid for the whole company. If the offer had gone through, Mainline had intended to keep on some of the Sheffield Omnibus services and terminate the rest. This would have reduced congestion, a serious problem in Sheffield. Mainline would have had to notify the OFT of the intended acquisition, in accordance with the 1994 undertakings given following the SYT report, and would have sought to persuade the OFT that the acquisition was in the public interest.

6.26. Mainline considered that it was an efficient operator, quoting as an example its use of a Canadian computerized system which had been introduced for scheduling drivers in 1987. It believed the proper comparison for it as an operator (see paragraph 3.20) was not with Metropolitan counties' data, which contained a mix of urban and rural areas, but with a city operator. On that basis it considered that its costs were lower than a number of comparable operators.

6.27. Mainline confirmed to us that it had, in the course of our inquiry, taken an 11 per cent stake in Northern Bus, one of its small competitors, with an option to double its shares in ten years' time or earlier if a third party made an offer for the whole of Northern Bus. Mainline said that its purpose in making the investment was to ensure that it would get to know if a third party were to seek to expand into Sheffield by purchasing Northern Bus. Moreover Northern Bus had lower costs than Mainline and could profitably operate some of the routes covered by Mainline's `key routes' covenant with SYPTA which were unprofitable for Mainline.

6.28. Mainline saw it as in the public interest that it should continue as an independent operator providing competitive, integrated services in a single geographical area. The arrangement with Stagecoach was an essential part of Mainline's strategy to preserve its operations and to survive as an independent company. If Stagecoach were forced to divest its investment and terminate the association, Mainline would potentially be seen as vulnerable. This might well result in Mainline being forced out of the market by short-term aggressive competition.

Possible remedies

6.29. Invited to comment on remedies which might, hypothetically, be recommended by the MMC in the event of their making an adverse public interest finding, Mainline said that a divestment of Stagecoach's shareholding would immediately lead to Mainline reconsidering its strategy. The likely outcome would be for it to seek an alternative arrangement with a similarly large group. It did not consider that in the developing state of the industry the major groups would be content to leave its operating area alone. Mainline firmly believed it needed an insurance policy, not to attack the smaller independents in its area but to ensure that it could keep the major groups at bay.

6.30. A remedy preventing Stagecoach from increasing its stake in Mainline above 20 per cent would cause Mainline no problem if it were limited to around five years. The terms of Mainline's buy-out agreement would in any event effectively rule out the sale of a controlling interest in Mainline during that period. If on the other hand the freeze were permanent it was possible that other people might see an opportunity to exploit the situation.

6.31. With regard to a remedy involving undertakings not to engage in anti-competitive practices, Mainline stated that it did not engage in anti-competitive activities such as predatory pricing. Its only concern with behavioural undertakings would be if they inhibited it from achieving its objective of moving to a reasonable profit.

Stagecoach

Introduction

6.32. Stagecoach saw itself as a high-growth company which had rapidly expanded and which saw great opportunities for expansion overseas. It had progressively increased the profitability targets for its subsidiaries as it explored the margins which needed to be earned. It also drew attention to its relative efficiency in operating costs, submitting that its UK operations achieved cost levels significantly below the national average (Stagecoach assessed the difference at around 20 per cent). Companies that had been privatized, Stagecoach observed, had tended to be making an operating profit of somewhere between 2 and 5 per cent of turnover. Stagecoach felt those companies needed to do much better if they were to provide sufficient profits to replace ageing bus fleets and to provide a return to shareholders. It had started with a target of 10 per cent, increasing it to 15 per cent and in some cases had raised the target to 18 per cent. Some subsidiaries had shown that they could exceed 18 per cent but Stagecoach had started freezing fares at the companies concerned.

6.33. On the bus industry generally Stagecoach thought the emerging national scene would be of six or seven larger players with a healthy sector of independents. For the present there were still ample opportunities for the emerging large groups to grow by acquisition and improving efficiency in the acquired companies. In perhaps 18 months' time, however, Stagecoach believed quoted companies would be under a lot of pressure from the Stock Market to get more growth and they would have to do this by competition. They would take a fresh look at markets and consider how good their passenger networks were. At that time those with strong networks but weak balance sheets would become very vulnerable to competition.

Jurisdiction

6.34. Stagecoach submitted that there was no qualifying merger situation. It did not agree that Stagecoach, or its Board representative, was able now or would in the future be able to exercise a material influence over the policy of Mainline.

6.35. It did not accept that in this case circumstances existed, in relation to voting rights or other links between the two parties, such as had led the MMC in previous cases of minority shareholdings to conclude that a qualifying merger existed. Stagecoach pointed out that it had only a 20 per cent voting shareholding, which could be blocked by a 26 per cent voting shareholding in an employee benefit trust, and a 54 per cent voting shareholding by the employee shareholders as individuals. In terms of the Board, Stagecoach had one

non-executive director on a Board of up to 12, of which four were executive directors and four represented employee interests, both groups having special powers in regard to major strategic and operational decisions. Nor could Stagecoach, given Mainline's employee ownership nature, act malevolently by, for instance, placing its shareholding with one or more unfriendly buyers.

The aims of the share exchange

6.36. Stagecoach's strategic objectives in making the acquisition were set out in its flotation prospectus issued in April 1993. This stated that there would be opportunities to make further acquisitions of UK private sector bus companies and that a carefully targeted UK acquisition programme should ensure the continuation of Stagecoach's strong growth. In line with that strategy, and following more than a decade of developing a principally suburban and rural bus services business, Stagecoach had more recently expanded its interests into the larger conurbations of the UK. The share exchange with Mainline was part of that approach.

6.37. In certain circumstances, for example Greater Manchester, Stagecoach had been prepared to launch a start-up operation. It did not consider that it would be appropriate for a listed company, however, to launch a large number of similar initiatives in the UK or elsewhere at the same time. For that reason Stagecoach's approach had been to consider a balanced combination of market entry by each of the following routes:

- merger and acquisition (eg London, Tyne & Wear, Cleveland, Humberside);

- share exchange (Sheffield and Greater Glasgow); and

- start-up (Inverness, Perth, Stockport-Manchester, Hong Kong).

6.38. Stagecoach's vision for the future was to be a company with £1 billion of turnover by the year 2000. It expected the UK proportion of its business, which was currently 90 per cent, to fall towards 50 per cent, although it might remain as high as 60 per cent or more. Stagecoach could already see signs that the pace of growth in the UK market, achieved through privatization and consolidation of the market, was slowing down. Its current market share in the UK was about 12 per cent, and it saw a need for some further growth in the UK market to establish the necessary critical mass to sustain its global expansion and business development into such areas as rapid transit systems. By the year 2000 Stagecoach aimed to have a UK market share of around 20 per cent.

6.39. If the market share of the companies in which it had a 20 per cent shareholding was taken into account then Stagecoach's current UK market share rose to 13 per cent or 17 per cent, depending on whether one counted part of those companies' market shares (pro rata to Stagecoach's shareholding) or the whole. Stagecoach, however, would not include these companies (in whole or in part) in any consideration of its market share.

6.40. Its interest in Mainline had arisen from an initial contact in May 1994 between Stagecoach and some of Mainline's directors, and the share exchange was completed in September 1994. Stagecoach saw the acquisition as an opportunity to get value for its shareholders. It had been able to buy into Mainline at an attractive price, equating to some 10p per £1 of turnover and with a sensibly sized shareholding. (Stagecoach said that the average price paid for acquisitions in the industry during the second half of 1994 was around 80p per £1 of turnover.) By helping Mainline to improve its profitability Stagecoach could achieve an uplift in the value of its holding to the benefit of Stagecoach's shareholders. It saw the investment as part of a long-term association.

6.41. Part of the arrangement was that Mainline representatives would sit on the Boards of two Stagecoach subsidiaries in other parts of England. Stagecoach believed this would expose them to comparisons which would help them improve efficiency and returns. It believed the lesson would be that fares needed to be lower and the quality of services higher in the reference area. At the same time Mainline would undoubtedly benefit in its purchasing from the association with Stagecoach. In turn Stagecoach hoped that Mainline's experience of operating in a major conurbation would help Stagecoach improve its knowledge of metropolitan operations, and would assist its consideration of related passenger transport

modes such as tram-based systems. Stagecoach also hoped to benefit from Mainline's experience as an ESOP-controlled company, as Stagecoach developed the ESOP principle for its own organization.

6.42. Stagecoach confirmed that in the longer term it would be interested in acquiring the whole of Mainline if it became available. But at the same time it saw the current association as having its own rationale and took the view that there were a number of possibilities in the longer term, including the flotation of a consortium of ESOP companies.

Effect on competition in the market

6.43. Stagecoach asserted that there was no competition between the two parties within the relevant service markets operated by Mainline and East Midland since they operated in distinct markets. Mainline provided predominantly local bus services which merely overlapped in places with inter-urban services operated by East Midland. In geographical terms, East Midland operated local bus services in North Derbyshire and North Nottinghamshire where Mainline overlapped as very much a minority operator with inter-urban services. The reverse occurred in South Yorkshire. There had been quite a lot of competition for tendered business in the past, particularly at the time of the World Student Games in 1991, and East Midland had won a number of tenders in competition with Mainline by putting in bids at very low margins, but tenders were not a major element in the business of either company.

6.44. Asked about SYT's statements in the 1990 report about the importance of potential competition from East Midland, Stagecoach said that that view had not been realistic because at the time the turnover of the Stagecoach group was only about twice that of SYT. Stagecoach had not had any plans at that time to expand in South Yorkshire. As to the future there was, as noted in paragraph 6.33, a prospect of increased competition developing in the industry generally in about 18 months' time but Stagecoach would have to consider what were the most attractive options open to it at that stage.

6.45. Asked whether, given Stagecoach's reputation, other operators would be deterred from entering the South Yorkshire market as a result of the share exchange, Stagecoach said that according to the other operators this was the case: the MMC would have to ask them. What was clear was that Mainline had been very vulnerable to both small and large competitors because of its weak trading and that the association with Stagecoach had reduced this vulnerability.

The public interest

6.46. Stagecoach believed the association between Mainline and Stagecoach worked in favour of the public interest and not against it.

6.47. Stagecoach identified a number of factors to substantiate the view that the association was beneficial. The market for local bus services, as measured by the number of annual passenger journeys in the UK, had been in significant decline since 1985/86. Stagecoach had not experienced such a decline in volumes, perhaps in part because it had been essentially a `provincial' rather than `urban' bus operator. At the same time Stagecoach had worked hard to improve the performance of its companies through investment in new vehicles and economies of scale, innovation in services and improved timetabling, initiatives in fares policy, and streamlining of management and overhead costs. This had succeeded in arresting passenger shrinkage. Stagecoach was convinced that urban bus networks could be improved in quality, performance and product, but it needed greater experience of urban operations to determine what improvements and what impact on passenger shrinkage could be achieved. The association with Mainline was one way to gain this.

6.48. Stagecoach believed the MMC should recognize the benefits in pricing and quality that would come from a more efficiently managed bus company, with savings in running costs and overheads shared with customers to reduce the fare increases that would otherwise take place.

6.49. On the impact on competition, Stagecoach reminded the MMC that there was a lack of barriers to market entry in the industry. Stagecoach itself had been a small operator and it saw a role for such players as a competitive spur. If these operators were efficient and if they invested properly, then Stagecoach saw no

reason why they should not make money since the reference area was a high-volume market. But in practice small operators tended to concentrate on the busy corridors, rather than being innovative, and they did not reinvest. As the market evolved so there would be a move to market pricing for routes, and the high margins on the high-volume routes which these small operators benefited from would be squeezed. Bus companies would come to focus more on route pricing and less on across-the-board price increases. Stagecoach was already starting to do this. On concerns expressed about some of the damaging effects of competition, Stagecoach did not believe there was overbussing as such. In its view if there were too many buses on a particular route this was because the route had simply been over-priced.

6.50. Stagecoach believed that sharing its experience with Mainline in financing necessary replacement and expansion investment was preferable to `bus wars'. Stagecoach's success had been to invest more than anybody else, to use investment to get costs down, and to get efficiency and productivity up. While `bus wars' might give some short-term benefits to the public in the form of more choice and usually a reduction in fares, the long-term result was that once the unsuccessful competitors were out of the picture the successful party would be forced to increase pricing to recoup previous losses and the whole sequence of new entrants attracted by high fares would recommence.

6.51. Stagecoach told us that it had understood from Mainline that it had no plans for capital expenditure: because its financial position was weak it preferred to keep money in the bank to pay off the deferred consideration for the buy-out when it fell due. Stagecoach thought this a false economy and had persuaded Mainline to invest in new vehicles.

6.52. On the allegations by Sheffield Omnibus, notably that Stagecoach had advised Mainline on a business strategy of concentrating on attacking the competition, starting with Sheffield Omnibus, Stagecoach denied that it had suggested this. It had alerted Mainline to the interest of one of Sheffield Omnibus's directors in selling his investment and had made some observations to that director on the Sheffield situation-that the profit clawback provision in Mainline's buy-out agreement with SYPTA limited the incentive for Mainline to earn large profits; that in Stagecoach's view Mainline should improve the quality of its service by investing in new buses (Stagecoach considered parts of the fleet obsolescent); and that Stagecoach believed there were a number of high-volume corridors in Sheffield where prices were too high and Mainline could therefore improve its performance by cutting prices. Stagecoach considered that it would be foolish for Mainline to retrench and lose market share in order to increase profits in the short term.

6.53. Lastly, Stagecoach drew attention to the quality of the different players in the market. The emerging national groups, as long-term players committed to the industry, provided the best records in terms of investment, and employee terms and conditions. By comparison the smaller operators often provided a much lower-quality vehicle and employee package, and many seemed to lack a long-term commitment to the industry and the public it served. Stagecoach questioned whether it would be in the public interest for Mainline to continue to be decimated by small operators who were not long-term players and did not provide comprehensive networks but sought to cream off revenue from the best routes running old buses.

Possible remedies

6.54. Turning to remedies which might, hypothetically, be recommended by the MMC in the event of their making an adverse public interest finding, Stagecoach considered that if it were compelled to sell its shareholdings in Mainline, Mainline would look for another buyer. Such a buyer, Stagecoach believed, would be readily found. If Stagecoach were forced to divest it was unlikely that it would seek to enter the South Yorkshire market in another way, first because Mainline would seek another partner quickly and secondly because it would be in Stagecoach's own interest to seek a good price for its shareholding and that might well require restrictive covenants to be given to the actual purchaser regarding Stagecoach's intentions in South Yorkshire.

6.55. Stagecoach would be unhappy about a restriction being put on its ability to increase its stake in Mainline above 20 per cent. In the short term this might not cause difficulty because such an increase was in any case constrained by its agreement with Mainline. In the longer term it would not want a restriction which might inhibit the association developing and prevent Stagecoach reacting to changes in the market in order to serve its shareholders' interests. Stagecoach said that it would seek guidance from the OFT before acquiring a controlling interest in Mainline.

6.56. With regard to the imposition of undertakings not to engage in anti-competitive practices, Stagecoach pointed out that it kept to the law anyway, and predatory pricing was illegal. As to capping fare increases, Stagecoach would not want to see its association with Mainline saddled with something that did not make financial sense.

P H DEAN *(Chairman)*

A G ARMSTRONG

J D MONTGOMERY

L PRIESTLEY

A ROBINSON

A J NIEDUSZYNSKI *(Secretary)*

9 February 1995