6 Views of third parties

6.1. This chapter summarizes views received from the Scottish Office, the Department of Transport, the Traffic Commissioner for Scotland, local government, bus operators, associations and professional bodies, and trade unions. Some third parties combined their comments on this merger with those on the Stagecoach acquisition of a 20 per cent shareholding in SBH. Where it was possible to divide their evidence we have done so.

Scottish Office

6.2. The Scottish Office said that its policy was to seek to maximize opportunities for fair competition between bus operators. The merger of SBH and Kelvin reduced competition and extended SBH's area of dominance. The merger was undesirable, and the fact that it might provide an effective barrier to an aggressive incomer made it no less so. However, a divested Kelvin would be very vulnerable, particularly if Stagecoach were allowed to keep its 20 per cent holding in SBH, unless it could be supported or acquired by another strong company.

Department of Transport

6.3. The Department of Transport said that the SBH/Kelvin merger must be considered in the light of what had happened elsewhere in Scotland. Provided that there were other large groups in adjacent areas the merger would be acceptable as a counterweight to them.

Traffic Commissioner for Scotland

6.4. The Traffic Commissioner said that his main concern was for road safety. Kelvin had an elderly fleet of buses and suffered, the Commissioner suspected, from under-investment. In June 1994 the Traffic Commissioner had called the company to public inquiry because its buses were poorly maintained and had curtailed its operator's licence to terminate on 30 June 1995. If the licence were to be renewed, Kelvin would have to satisfy initially the Vehicle Inspectorate, and subsequently the Traffic Commissioner, that its maintenance standards had significantly improved. Kelvin was working hard towards this and the Commissioner did not wish to prejudge the outcome. However, he believed the company's progress would always be hampered by lack of investment. He therefore welcomed the merger with SBH which not only had higher maintenance standards but also offered a better financial base.

Local government

Strathclyde Regional Council

6.5. Strathclyde Regional Council gave written evidence and attended a hearing. It said that Strathclyde had one of the lowest rates of car ownership in Great Britain and the rail network, although the largest suburban network outside London, was oriented towards Glasgow city centre with large areas of the region not having ready access to a railway station. Most public transport journeys were therefore made by bus and although the existence of the rail network might help to mitigate the dangers of market dominance in some areas, in itself it was insufficient to allay fears of an abuse of monopoly powers by large bus operators.

6.6. The intense competition resulting from deregulation had been a mixed blessing, particularly in Glasgow. Main roads were choked and minor routes neglected, and the buses in use tended to be older. The predicted move towards a concentration of larger and fewer operators had taken longer than expected to arrive. The Regional Council was concerned about the changes of routes and timetables which were taking place daily and bewildering passengers, particularly tourists.

6.7. The Regional Council thought that although the new company resulting from the SBH/Kelvin merger would have a large share of the bus market in Strathclyde, the danger of its exploiting that situation would be countered by the interest of large national operators which were already competing in the area. The merger would therefore not be against the public interest. However, Stagecoach's acquisition of a 20 per cent shareholding in SBH could lead to excessive market dominance in some parts of Strathclyde to the possible long-term detriment of the travelling public and of the Regional Council's budget for subsidized local services and school transport.

Strathclyde Passenger Transport Executive

6.8. SPTE gave written evidence and attended a hearing. (See paragraph 3.17 for a description of this organization.) It said that it was responsible for seeing that an overall network of services, including rail, was provided to meet the total transport needs within the area of its responsibility. Strathclyde Regional Council determined the policies under which SPTE worked, and made the finance available to provide subsidies.

6.9. SPTE provided us with information on the tenders it had received for subsidized services over the last few years, many of which had been from small operators who tended to compete in this way rather than on commercial services. It told us that small operators were careful not to upset the large operators. In general the large operators had their own territories and there was little overlap between them.

6.10. The merger between SBH and Kelvin was likely to result in a rationalization in the supply of commercial bus services, particularly because of Kelvin's recent losses and the low profits of SBH. If this rationalization was achieved by reducing the excess provision which existed on many main routes, the result could be an enhanced service for the public with reduced congestion and fewer delays. If, however, the rationalization was achieved by reducing services on less well-used routes and/or at periods of lower demand, there would be adverse implications for passengers. The loss of such services could not be met by subsidized services because of financial constraints on the Regional Council. However, with operators such as Stagecoach (through Western Scottish), GRT (through Midland Bluebird and SMT) and British Bus (through Clydeside 2000) in a position to provide competing services in the region, the scope for widespread service reduction and/or excessive fare increases by SBH/Kelvin to the significant detriment of passengers was probably limited. However, if Stagecoach had a 20 per cent share of SBH, competition would be less and SPTE's fears regarding potential adverse effects would be heightened.

6.11. In general, providing there was significant remaining competition SPTE was not concerned over the merger between SBH and Kelvin. In fact by strengthening Kelvin it could make the company better able to resist competition from other operators. If Kelvin had not been acquired by SBH it would have been likely to go out of business. SPTE would then have been concerned that a national operator might have moved into the area and cut down on services and charged higher fares. Such an operator would be likely to concentrate its resources primarily on other, more profitable areas of the country whereas an indigenous company like SBH, with staff and vehicles already in the area, would not.

Other local authorities

6.12. We invited local authorities in the relevant area to give views. *Cunninghame District Council*, *Inverclyde District Council* and *Kilmarnock & Loudoun District Council* told us that the merger had no implications for their districts and therefore they did not wish to comment.

6.13. *Bearsden & Milngavie District Council* said that the merger should not be allowed to continue. Widening of choice was one of the principal benefits envisaged for the consumer at the time of bus deregulation but subsequent mergers had restricted choice. There was a danger that this merger would cut down services even further.

6.14. *Monklands District Council* noted that 50 per cent of Monklands' households had no car. It said that Kelvin was a major employer in the district but SBH had disappeared from many, if not all, of Monklands' internal routes with the result that there would be virtually no route duplication within the proposed new company. The Council had no objections to the proposed merger provided that SBH gave assurances on the future of the Kelvin depot at Airdrie; that the rural routes which provided vital links to Monklands' villages were maintained (and possibly enhanced and extended); and that current services became more efficient and reliable, making their use a realistic option for the public.

Bus operators in Strathclyde region

6.15. We invited bus operators with services in Strathclyde region to comment on actual and potential competition in the local bus market and to give their views on the merger. We received 23 responses. Some operators were also invited to hearings.

A & J Ballantyne

6.16. A & J Ballantyne (Ballantyne), which operates in the Motherwell district, said that it had been forced to abandon a route in Monklands because of harassment by a Kelvin driver. Its only concern over the SBH/Kelvin merger was that any changes to times or routes of buses that the company made should be introduced to benefit the public rather than just to coincide with Ballantyne's.

Bowman's Coaches (Mull) Ltd

6.17. Bowman's Coaches (Mull) Ltd, which operates in the Argyll & Bute district, said that the merger would be detrimental to the travelling public in the long term. A safeguard which it would like to see introduced would be tighter control by the Traffic Commissioner in relating services to need.

British Bus plc and Clydeside 2000 plc

6.18. British Bus, one of the emerging large operators, attended a hearing together with the Managing Director of its subsidiary company, Clydeside 2000, whose main operating area is to the west of Glasgow. Clydeside 2000 had become an employee-owned company in 1991. Since then it had experienced financial difficulties and in November 1994 had been acquired by British Bus.

6.19. British Bus told us that its long-term strategy was to continue as an independent transport operator. It believed that the UK bus industry would polarize at a considerable rate over the next few years until there were six or fewer large operators. It would be the medium-sized operators which would be squeezed out: smaller ones would continue to offer some competition. Within towns there was really only room for one large operator but within the major conurbations and their environs, eg Glasgow, it would be possible for two companies to operate side by side. British Bus aimed to have a presence in all major conurbations. Nationally, there was at present little head-to-head competition between the major operators.

6.20. After British Bus had purchased Clydeside 2000 it had sold Thornliebank, one of the company's five depots, to Stagecoach. However, the sale did not mean that British Bus had no plans to acquire a greater share of the Glasgow market: in fact expansion in the area was part of its long-term objective. In the short term, however, it wished to improve Clydeside 2000's profitability and Thornliebank, the smallest of its depots in terms of turnover, was poorly located with high overheads. Clydeside 2000 now had an agreement to rent part of the maintenance facilities for 18 months (until May 1996) and its head office was still on the premises. If the level of operations there was not maintained the buses and head office would probably be moved to another depot. When British Bus wished to expand in the area it could do so from another location.

6.21. British Bus regarded the Stagecoach registrations in Glasgow (see paragraph 4.53) as a serious attempt to enter that market. Stagecoach had chosen the most lucrative of SBH's routes in the south-west of Glasgow. If it were to put in 60 buses, this could be enough to reduce substantially SBH's profits of around £2 million a year. Having weakened SBH, Stagecoach would then expand.

6.22. If, as a result of the Stagecoach/SBH inquiry, Stagecoach had to divest its holding in SBH, British Bus expected that Stagecoach would resume competition with SBH. Provided the MMC's recommendation did not preclude it from doing so, British Bus itself might then make overtures with a view to acquiring part of SBH. If SBH did not respond, British Bus would consider increasing the competition in Glasgow at the same time as Stagecoach did.

6.23. British Bus agreed that the people of Glasgow might have been better served if one of the big national operators, rather than SBH, had taken over Kelvin. British Bus itself would have been delighted to acquire Kelvin and would still be interested in doing so if, as a result of the MMC's inquiry, SBH were required to divest. But British Bus made clear that it had no objection to the merger. In the long term British Bus intended to expand into the Glasgow market and while the merger might delay that move, it would not prevent it.

6.24. Clydeside 2000 said that although each local operator had its own `patch' there had been competition between SBH and Kelvin in certain areas and it expected the merger to lead to rationalization of services in these areas. Although in the short term this might disadvantage passengers because buses were less frequent, in the long term it would be beneficial because the new company would become stronger and therefore able to invest in new vehicles, better levels of service and better trained drivers.

Clyde Coast Coaches Ltd

6.25. Clyde Coast Coaches Ltd, which operates in the district of Cunninghame, was not concerned over the SBH/Kelvin merger, provided that the company remained within its present operating area.

Golden Eagle Coaches

6.26. Golden Eagle Coaches, which operates in the Monklands district, said that the fierce competition since deregulation had caused it to stop some local services. It had no concerns over the SBH/Kelvin merger (with or without the Stagecoach shareholding) which it believed would strengthen the company against competition.

Govan Minibus Company

6.27. Govan Minibus Company (Govan), which operates in the Glasgow City and Renfrew districts, said that the company had been started in 1991 to provide services in areas not served by the larger operators. It had expanded where it thought there were opportunities to provide convenient services at a reasonable price. Immediately after Govan commenced operations SBH had started to offer intense competition on two of its routes and this incident had been the subject of an Office of Fair Trading (OFT) inquiry. SBH had subsequently withdrawn from the two routes. In May 1994 Govan had decided to compete on a Govan-Paisley route where SBH was the sole operator. Since then SBH had competed fiercely and had introduced up to five untimetabled buses a day on the route. Govan said that duplication of buses was justified only if the passenger traffic warranted it and this particular route was now considerably overbussed. The economies of scale resulting from the merger with Kelvin together with the involvement of Stagecoach would enable SBH to put even more buses on to the route to the detriment of the passengers.

GRT Bus Group PLC

6.28. GRT, one of the emerging large operators, had acquired Midland Bluebird in September 1990 (see paragraph 4.43). At a hearing it told us it envisaged that over the next five years public transport would benefit from the initiatives which were taking place at present and this would ultimately reverse the decline in passenger numbers. GRT hoped to work closely with local councils to improve the services offered and attract the public away from private cars and on to buses. Strathclyde was a region where such improvements were already taking place, although at a slower pace than in some other areas.

6.29. GRT believed that in the long term the number of medium-sized operators in the UK was likely to diminish and between five and ten large operators would evolve. It was nevertheless likely that several hundred small operators (with between 5 and 75 buses) would continue to serve local markets. This development paralleled that of the retail sector where large national companies had thrived alongside hundreds of smaller, more locally-oriented shops. Over the last few years the larger operators had been gaining market share principally by acquisition. Because of this, competition between them had in many cases been limited to skirmishes on the fringe, rather than all-out competition on all fronts for each other's passengers. In the future, however, as acquisition opportunities decreased, there was likely to be more direct competition between them. GRT would like to increase its geographical spread, and since buying Midland Bluebird had acquired companies in other regions of the UK. GRT believed Glasgow had been overbussed since deregulation and was not currently an area where a start-up from a new base would be attractive.

6.30. Although Midland Bluebird operated services from Falkirk and Stirling into Glasgow which passed through areas where SBH and Kelvin operated, it was very much the minority operator there. Less than 6 per cent of GRT's turnover came from Strathclyde region. GRT was unaware of any anti-competitive behaviour by either SBH or Kelvin.

6.31. GRT had no concerns about the SBH/Kelvin merger. Without it Kelvin would have been acquired by another operator or would have gone out of business. There did not appear to have been a resulting reduction in competition but it was likely that the supply of buses in the area would now be better matched to demand. If the merged SBH/Kelvin scaled back services too far, GRT would be looking for opportunities to expand into its territory. GRT would not be in favour of divestment of Kelvin by SBH, as it did not believe the merger to be against the public interest. The merger had, in GRT's opinion, strengthened the competitive position of Kelvin and as a result the combined organization would be stronger and a more effective competitor in what was a very competitive market served by many operators.

Lippen Coaches

6.32. Lippen Coaches, which operates in the Glasgow City and Renfrew districts, said that both SBH and Kelvin worked to high professional standards and it was unaware of any anti-competitive behaviour by either of them. It had no concerns over the merger but, in general, it would like some form of protection for the smaller operators to be introduced.

McGill's Bus Service Limited

6.33. McGill's Bus Service Limited, which operates in the Glasgow City and Renfrew districts, said that it had enjoyed a professional relationship with SBH for many years and thought it unlikely that this would change. It had no fears of predatory competition as a result of the SBH/Kelvin merger and the subsequent Stagecoach shareholding. Its only real concern was that, following deregulation, small low-cost operators had picked good routes and creamed off the passengers from existing services. Such competition was wasteful and diluted essential revenues required, *inter alia*, to reinvest in new buses to sustain high-quality local bus service operations.

Oban & District Buses Ltd

6.34. Oban & District Buses Ltd, which operates in the district of Argyll & Bute, said that the merger between SBH and Kelvin had obviously reduced competition in the areas concerned. The small independent operators in those areas were likely to be squeezed out as there was now less scope for them to compete with one large company than there had been with two medium-sized ones which in turn were competing with each other.

Puma Coaches

6.35. Puma Coaches (Puma), which operates in the Glasgow City district, alleged that SBH and GCT ran empty buses simply to spoil Puma's service. They also carried out other anti-competitive practices including `blocking in' at termini and bus stops. In April 1993 Puma had started a local service after requests from residents. However, SBH had rerouted a service on to Puma's route and it had been forced to withdraw. The merged SBH/Kelvin would have a monopoly in Glasgow as a result of the merger. A closer watch should be kept on SBH to monitor its behaviour towards smaller operators.

Thomas Rowe & Sons

6.36. Thomas Rowe & Sons (Rowe) operates services in the Cumnock & Doon Valley district. Whilst it did not think that the merged SBH/Kelvin would move into its area, it feared that the merger might force smaller operators out of the Glasgow/Lanarkshire area and into the rural areas and tendered business which Rowe needed to maintain its business. SBH/Kelvin should be required to show that any contracts it undertook or routes it operated were commercially viable and not undertaken to squeeze out other operators.

Stagecoach Holdings plc

6.37. Stagecoach, whose subsidiary Western Scottish with its headquarters in Kilmarnock operates in a wide area to the south and south-west of Glasgow, gave written and oral evidence. It confirmed to us that it had corresponded with the OFT about the SBH/Kelvin merger before the matter had been referred to the MMC. Stagecoach had been opposed to the merger on grounds of reduction in existing and potential competition. Anticipating SBH's likely claim that the Stagecoach registrations in Glasgow (see paragraph 4.53) indicated potential competition with a merged SBH/Kelvin, it pointed out that the planned size of its Thornliebank operation (a build-up to 60 buses) would not have made much impact on SBH with its 1,300 buses. Stagecoach had fully intended to operate the services, however, ear-marking 18 new buses from within the group and envisaging a start-up investment in buses and the depot of some £11 million. There had been no question of using the project to force SBH to enter negotiations.

6.38. Stagecoach was concerned that the process of privatization, in Scotland and elsewhere, was creating groupings of bus companies with an unfair competitive advantage because of the favourable terms of the employee buy-outs. Now that the SBH/Kelvin merger had been completed, however, Stagecoach thought divestment as a result of any conclusions the MMC might reach would be damaging to the public interest because of the missed opportunity to restore Kelvin to profitability, the loss of synergistic benefits (including investment in fleet replacement) from amalgamation with SBH, and last but not least the likely opposition of both SBH and Kelvin employee shareholders. Stagecoach had earlier prepared a bid for Kelvin [*Details omitted. See note on page iv.*]. This intended bid might, in Stagecoach's view, have succeeded if the SBH/Kelvin merger had been referred to the MMC *before* the Kelvin employees voted on the SBH offer for their shares. Stagecoach had been advised that an understanding reached earlier between Kelvin and SBH (see paragraph 3.45) was not an obstacle to a merger with Stagecoach. SBH was able to move quickly because it was free from the obligations that applied to a listed company. The shared ethos of employee ownership in SBH and Kelvin also made the transaction easy to carry through.

6.39. It was reasonable to say that Kelvin was worth more to SBH than it was to Stagecoach because of the depot and route rationalizations which could be achieved. The merger would not significantly diminish competition because there had been none before in any real sense. The overall effect of the SBH/Kelvin merger wold be a gain in profitability for both operations. Depending on the policies adopted for fleet replacement and fares, there could be a favourable impact on both the volume and quality of the service offered.

6.40. If Kelvin was divested from SBH, Stagecoach believed it would inevitably be acquired by one of the major groups. In that event, the degree of competition in the Glasgow area would not be greatly different from the present situation. Given the pressure for growth in the industry, any purchaser would have to pay a substantial price, absorbing resources which could otherwise be used for reinvestment in Kelvin.

Weir's Tours Ltd

6.41. Weir's Tours Ltd (Weirs), which attended a hearing, told us that it ran commercial and tendered services within Strathclyde region. It had competed with Kelvin in the west of Dunbartonshire until the latter withdrew from the area in October 1992 after Weirs had taken most of Kelvin's revenue by increasing the frequency of the buses on the route and providing a reliable service. Weirs' services in Dunbartonshire now connected with Kelvin's but did not compete with them.

6.42. Weirs thought SBH was an efficient and competent company which engaged in fair competition. It had seen no difference in the attitude of the two companies since their association and had no concerns over the merger, which it believed would stabilize the market. If the merger was not allowed to stand, Weirs thought both companies would be more vulnerable to take-over by one of the large operators, which might then attempt to eliminate the small operators.

Whitelaws Coaches

6.43. Whitelaws Coaches, which operates in the districts of Hamilton, Clydesdale, East Kilbride and Motherwell, said that it had a joint timetable with Kelvin on some routes. It was concerned that a combined SBH/Kelvin might attempt to increase the number of buses on the joint routes and it would like to see a safeguard on the merger which would prevent this happening.

Other local operators

6.44. Another operator said that SBH and Kelvin had both overbussed certain areas in order to drive out new entrants. The fear of their operating in a similar manner in the operator's existing area had prevented it from expanding its operations. It thought that within the next four years SBH and Kelvin would be running most of the services in the region and smaller companies would find it difficult stay in business. If the merger were allowed to stand the new company's route registrations and cancellation of services should be restricted.

6.45. A second operator said that Kelvin had previously put extra buses on to its route to run in front of this company's buses. It was opposed to the SBH/Kelvin merger because increasing the size of the company increased its ability to put the small operators out of business.

6.46. A third operator said that it had had a good working relationship with Kelvin since deregulation. Although it had not seen any anti-competitive practices from Kelvin or SBH in the past, it was no longer possible for this operator to compete with SBH in, for example, Glasgow City without fear of reprisals in its `home' districts. It was concerned that once SBH and Kelvin had integrated their operations the new company would be able to quote `blanket prices' for tendered services, eg one price for a large number of school contracts or subsidized local services across the Glasgow conurbation. The merged SBH/Kelvin would be able, for example, to use a bus on a commercial service to pick up a number of schoolchildren as part of its normal route at no extra cost, or to reroute an existing commercial service at minimal cost, compared with other operators which would have to meet the full cost of the contract. This would enable the new company to compete for tenders at prices which other operators could not match. SBH was already doing this in the district of Glasgow City and it would easily be able to incorporate schools and routes in Kelvin's area. If the merger was to continue the companies should be required to tender as two separate entities.

6.47. As far as commercial services were concerned, the high capital investment necessary to reinvest in the merged company's fleet would make it difficult for SBH/Kelvin to compete aggressively. However, the operator was concerned that the Stagecoach shareholding would enable it to do this.

Other large operators

6.48. We asked four emerging large operators which do not at present have interests in Strathclyde-Badgerline, Go-Ahead, MTL and West Midlands Travel-whether they had contemplated setting up operations in the region. They all said that they had not, and that the merger had made no difference to their thoughts on the subject.

Associations and professional bodies

Confederation of Passenger Transport UK-Scotland

6.49. The Confederation (previously known as the Bus and Coach Council) told us that as both SBH and Kelvin were members of the Confederation it thought it improper to comment on the merger.

National Federation of Bus Users

6.50. The Federation is a voluntary organization set up in 1985 to protect and promote the interests of bus users. It said that the SBH/Kelvin merger would be more likely to benefit than to disbenefit consumers, largely because it would *reduce* competition. The high level of competition with many buses on main routes, which began even before deregulation, had not produced a network of services which were as attractive and easy to use as they should be.

6.51. The merger would enable the companies concerned to focus attention and resources on producing a more passenger-friendly network instead of simply duplicating each other's services. It would reduce the level of competition but, judging from the number of operators running services in the area, there would still be enough competition from other operators to keep the merged company alert.

Scottish Association for Public Transport

6.52. The Scottish Association for Public Transport, a group which campaigns for coherent and environmentally sensitive transport policies, believed that a reversion to a smaller number of bus operators-compared with intense competition yielding minimal or negative profit margins-offered better prospects for buses (and public transport generally) to make significant inroads into the share of the market held by private cars, and to identify opportunities for sustained increases in passenger numbers.

6.53. The Association thought the SBH/Kelvin merger, together with the Stagecoach shareholding, would be acceptable subject to undertakings. Measures should be taken to monitor excess profits and the merged company should be required to participate in Zonecard ticketing at fares no greater than they were at present and to increase fares at specified rates below inflation rates. It should also restrict maximum adult `on-vehicle' fares to not more than 50p for distances below three miles with 10p increments for distances greater than three miles (with annual revisions to be agreed by the MMC).

Trade unions

Scottish Trades Union Congress

6.54. The Scottish TUC told us that it represented transport unions and other workers and their families across the whole of Scotland, including Strathclyde. It thought the SBH/Kelvin merger would secure passenger services and maintain employee ownership and was preferable to the acquisition of Kelvin by a large operator from outside the region, which would be likely if SBH were forced to divest. The Scottish TUC did not believe the merger would have a significant impact on transport competition in the operating area. The bus industry in Strathclyde competed with subsidized rail and the underground, as well as with private cars and taxis.

P H DEAN *(Chairman)*

A G ARMSTRONG

N F MATTHEWS

M R PROSSER

S EILON, being a member of the Group, dissents from the conclusion for the reasons set out in the note of dissent included in this report.

A J NIEDUSZYNSKI *(Secretary)*

29 March 1995