

6 Views of third parties

6.1. This chapter summarizes views received from the Scottish Office, the DOT, the Traffic Commissioner for Scotland, local government, bus operators and associations and professional bodies. Some third parties combined their comments on Stagecoach's shareholding in SBH with those on the SBH/Kelvin merger. 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 maximize opportunities for fair competition in the provision of bus services, and it had raised no objection to outside bids for Kelvin and Clydeside 2000 in 1994 which had introduced the prospect of challenges to SBH's dominant position in Glasgow.

6.3. Its understanding was that Stagecoach's 20 per cent stake in SBH gave it operational control. The increase in Stagecoach's market share in Scotland arising from this was not, in itself, a cause for concern to the Scottish Office and superficially the shareholding would have little overall effect on competition within Glasgow. Nevertheless, it would remove from the field a potentially strong additional competitor to SBH.

Department of Transport

6.4. The DOT said that it was uneasy about the acquisition by Stagecoach of a 20 per cent interest in SBH, as it had been about Stagecoach's similar investment in Mainline. On the question of mergers between bus companies operating in contiguous areas, the DOT said that the reforms stemming from the Transport Act 1985 included the breaking down of the NBC into smaller units which were privatized separately, with rules designed to prevent any purchaser from acquiring contiguous companies. The philosophy behind that policy was that too much market power would inhibit the development of a competitive industry and of the resulting benefits to costs, fares and subsidies for uneconomic services. Since the initial privatization of the NBC, however, apart from London where the regulatory regime was different, the DOT had had a locus in relation to acquisitions only where one of the parties was a bus company currently owned by a local authority. Otherwise, the 1985 Act clearly gave the role to the competition authorities.

6.5. The need in 1985 had been to change the attitude towards bus operation that had been created by the Road Traffic Act 1930. To do that, fragmentation of the NBC was essential, as well as removing it from public ownership, freeing entry into the market and introducing competition for subsidy. Now that the new regime was generally understood, the increasing size of some companies might not in itself be undesirable (there might be economies of scale, and network advantages to passengers), but making markets less contestable, and reducing the number of bidders for subsidy contracts (with implications for local authority expenditure), would be undesirable. For that reason, the DOT was more wary when companies grew by acquiring contiguous companies than when there was a wide spread across the country.

6.6. At present the large operators-Badgerline, British Bus, Go-Ahead, GRT, MTL, Stagecoach, Transit Holdings Ltd and West Midlands Travel-appeared to be well balanced geographically. Of these Stagecoach, in particular, had a strong idea of what it wanted to do, namely to reduce costs, buy new vehicles, provide new inter-urban services to feed into the railways, and achieve a 10 to 15 per cent return on all operations. Stagecoach's strategy included the bulk purchase of buses (with savings on price from the manufacturers and lower maintenance costs) and a firm corporate image (to aid transfer of buses between subsidiaries). None of this was against the Government's policy-that bus services outside London should be provided by private operators without any quantity regulation.

6.7. What concerned the DOT about Stagecoach was that its actions throughout the country could be interpreted as an attempt to secure local monopolies, by purchasing other operators or persuading them to withdraw from local bus operations. Such a monopoly did not necessarily work against the public interest—a single-operator network might be more stable and more easily accessible to the passenger. But without at least a realistic threat of competition the monopoly could very easily be exploited, and costs (and thus fares) could begin to rise. It was relevant that deregulation had produced a dramatic reduction in costs—down by 41 per cent in real terms per vehicle kilometre—to the benefit of passengers and the providers of subsidy. The purchase of a 20 per cent share in SBH could reduce competition without any of the benefits that might accrue from true integration.

Traffic Commissioner for Scotland

6.8. The Traffic Commissioner noted that since the reference had been made, Stagecoach had acquired A1 Buses, an Ayrshire bus co-operative based in Ardrossan. This, added to its earlier acquisition of Western Scottish, increased Stagecoach's predominance on the west coast.

6.9. From the Traffic Commissioner's point of view Stagecoach had a good record of investment and vehicle maintenance and he had no objection to its shareholding in SBH.

Local government

Strathclyde Regional Council

6.10. 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.

6.11. 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.

6.12. The Regional Council thought that Stagecoach's acquisition of a 20 per cent shareholding in SBH could lead to excessive market dominance in some parts of Strathclyde. The company's record outside the conurbation, after taking over Western Scottish, was not reassuring and the Council was afraid that it would withdraw commercial services to the 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

6.13. 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.

6.14. 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.

6.15. The merger between SBH and Kelvin was likely to result in a rationalization in the supply of commercial bus services but, with large national operators in a position to provide competing services in the region, the detriments would be limited. However, if Stagecoach had a 20 per cent share of SBH, the large operators would be unlikely to compete and SPTE's fears regarding potential adverse effects would be heightened. SPTE believed SBH had accepted the shareholding in the hope that it would prevent Stagecoach from competing with it. Although the shareholding would enable Stagecoach to improve SBH's efficiency it would also give it the ability to influence services and raise fares when it suited Stagecoach to do so. In the Kilmarnock area, after reducing competition Stagecoach had withdrawn some commercial services and suggested to members of the public that if they wanted the services restored they should press the local authorities to provide subsidies for them. The risk to the public interest of the Stagecoach shareholding in SBH was too great, although without it SBH would face the threat of competition from outside.

Other local authorities

6.16. We invited the local authorities in the reference area to give views and the comments we received are summarized below.

6.17. *Bearsden & Milngavie District Council* was opposed to the Stagecoach shareholding. 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 the Stagecoach shareholding in SBH would cut down services even further.

6.18. *City of Glasgow District Council* expressed concern over the growth of Stagecoach in recent years. The Government's justification for deregulation had been that increased competition would improve the general level of service but the recent trend towards mergers and acquisitions had done just the opposite. Public transport was important in the district because Glasgow suffered from high levels of urban deprivation and unemployment and, with relatively low car ownership, there was a high dependency on public transport. At peak times some 39 per cent of commuters to central Glasgow travelled by bus. It was important that safeguards were put in place to improve the overall quality of service. They should cover enhancement of modal interchangeability; maintenance of non-commercial routes; maintenance of service reliability and stability; minimal fare increases; improvement of vehicle standards; and provision of passenger information services.

6.19. *Cunninghame District Council* expressed concern about Stagecoach's continuing policy of acquisition in the local area. After taking over Western Scottish and Arran Transport it had now acquired A1 Buses with a direct detrimental effect on competition in the area.

6.20. *Inverclyde District Council* thought that Stagecoach's shareholding might have long-term adverse effects on competition, cost-effectiveness and standards of local bus services.

6.21. *Kilmarnock & Loudon District Council* said that services in its district had, until recently, been provided primarily by Western Scottish, together with a number of small operators. Stagecoach's acquisition of Western Scottish and subsequently A1 Buses meant that there would be no meaningful local competition and Stagecoach would be a significant operator throughout the whole of central Scotland. The Council thought the continuing process of acquisition by Stagecoach was contrary to the Government's stated intention at the time of deregulation. Its concern was that the company would maintain only commercially viable services. If the shareholding were retained, Stagecoach should be required to give safeguards regarding minimum level of service provision which should not drop below current levels.

6.22. *Monklands District Council* had no objections to the shareholding provided that Stagecoach 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 the shareholding would prevent the chaotic route duplication and 'bus chasing' which had occurred elsewhere in the UK once Stagecoach had become involved in a new market area. The Council expressed reservations about Stagecoach acquiring any further shareholding in SBH, as this might jeopardize the existence of Airdrie depot.

6.23. *Renfrew District Council* noted that Stagecoach's acquisitions of Western Scottish and A1 Buses had given it a dominant position in Ayrshire. It was concerned about the effect that Stagecoach's shareholding in SBH might have on future competition in Glasgow and Ayrshire and the possible resulting implications for the Renfrew district which bounded these areas. The Council emphasized the importance of a healthy bus industry with no single dominant operator so as to ensure competition for registered local services and school contract services.

Bus operators in Strathclyde region

6.24. 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 Stagecoach's shareholding. We received 23 responses. Some operators were also invited to hearings.

Bowman's Coaches (Mull) Ltd

6.25. Bowman's Coaches (Mull) Ltd, which operates in the Argyll & Bute district, said that Stagecoach's shareholding in SBH would lead to a monopoly. It was possible that Stagecoach had too large a share of the overall services throughout the country. 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

6.26. 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.

6.27. British Bus told us that its long-term strategy was to continue as an independent transport operator. It believed 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.

6.28. 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.

6.29. British Bus regarded the Stagecoach registrations in Glasgow (see paragraph 4.49) 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. The shareholding was a means by which Stagecoach could, at low cost, ultimately acquire the whole company. The 20 per cent made it the largest single shareholder and, with a place on the Board, Mr Souter would know when the company was going to be sold and had a right to match any bid. It was possible that Stagecoach would now encourage SBH to acquire more territory knowing that this would weaken SBH and reduce its purchase price. However, British Bus thought it more likely that Stagecoach would just allow SBH to carry on running its present services in the knowledge that it was there to be acquired whenever Stagecoach wanted it.

6.30. A benefit to SBH would be that Stagecoach was likely to eliminate any cross-subsidization of routes which might exist at present as Mr Souter would probably take an active part on the Board and review any unprofitable routes.

6.31. The Stagecoach shareholding would probably lead to the elimination of competition in Strathclyde region. Small local operators would be forced out of business and larger operators which might have been interested in entering the area had told British Bus that they would be deterred from doing so by Stagecoach's presence. British Bus itself was prepared to take on almost any operator if necessary. However, it would be foolish for British Bus to seek to expand at the expense of SBH now that Stagecoach was behind it because of the retaliation which could be expected to follow.

6.32. British Bus could not envisage any safeguards which would completely alleviate its concerns over the Stagecoach holding. Restricting the holding to 20 per cent would partly do this but behavioural remedies, such as those recommended by the MMC in their inquiry into the merger with Lancaster City Transport Limited, would be ineffective.

6.33. If, as a result of the inquiry, Stagecoach had to divest its holding in SBH, British Bus expected that Stagecoach would increase the number of buses it had in the area and 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 have to consider increasing the competition in Glasgow if and when Stagecoach did, to protect its own market share.

6.34. Clydeside 2000 said that the probable reduction in competition as a result of the Stagecoach shareholding would further consolidate services and limit the commercial opportunities available to other operators. Stagecoach should not be allowed to acquire a controlling interest in SBH.

Golden Eagle Coaches

6.35. 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 thought the Stagecoach shareholding would eventually lead to a complete take-over of SBH by Stagecoach in accordance with the 'law of the jungle' which deregulation had introduced.

Govan Minibus Company

6.36. Govan Minibus Company (Govan), which operates in the districts of Glasgow City and Renfrew, 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 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

6.37. GRT, one of the emerging large operators, had acquired Midland Bluebird in September 1990, SMT in October 1994 and Reiver in November 1994 (see paragraph 4.41). 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.

6.38. 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.

6.39. Although Midland Bluebird operated services from Falkirk and Stirling into Glasgow which passed through areas where SBH operated, it was very much the minority operator there. Less than 6 per cent of GRT's turnover came from Strathclyde region.

6.40. GRT believed that SBH, with its culture as an employee-owned company, would remain distinct from Stagecoach. The Stagecoach shareholding in SBH would not make it less likely that other operators would enter the area. GRT itself would not be deterred from expanding in the Glasgow market when it saw the opportunity. The only effect the shareholding would have on GRT was to prevent it from acquiring SBH itself but in any case that would have been an unrealistic proposition. GRT would continue to seek to maximize its market share in the area with its existing routes. It was not concerned about the 20 per cent shareholding or the possibility of Stagecoach owning the whole of SBH.

McGill's Bus Service Ltd

6.41. McGill's Bus Service Ltd, 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 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

6.42. Oban & District Buses Ltd, which operates in the district of Argyll & Bute, said that the shareholding was likely to reduce competition in the areas concerned still further. Stagecoach should not be allowed to acquire a controlling interest in SBH.

Puma Coaches

6.43. 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 local residents. However, SBH had rerouted a service on to Puma's route and it had been

forced to withdraw. Now that it had a shareholding, Stagecoach was likely to take over SBH completely and, as a result, there would no longer be a market for other bus operators in the area. Stagecoach was on the verge of going into direct competition with SBH on some of its most lucrative routes in Glasgow before it was offered a 20 per cent shareholding in SBH. The timing of this merited close investigation.

Thomas Rowe & Sons

6.44. Thomas Rowe & Sons (Rowe) operates services in the Cumnock & Doon Valley district. Western Scottish competed with Rowe on all but one of its routes and Rowe said that since being taken over by Stagecoach the company had acted in an anti-competitive manner. Rowe was afraid that Stagecoach's shareholding would enable SBH to squeeze out the competition. SBH could then charge what fares it liked and run services as it pleased, without the need to operate by public demand.

Weir's Tours Ltd

6.45. Weir's Tours Ltd (Weirs), which attended a hearing, told us that it ran commercial and tendered services within Strathclyde region. It thought SBH was an efficient and competent company which engaged in fair competition. Weirs had been given assurances by SBH that the Stagecoach shareholding would not change the way the company operated or affect Weirs' business. From SBH's point of view it would stabilize the market. Stagecoach's shareholding meant that it would not pose a threat to SBH as a competitor. If the 20 per cent were to be divested a bus war between SBH and the large operators would be likely. Weirs said that small operators would like to see it made impossible for buses to be run free as had been done elsewhere in the UK. It was a weapon with which they were unable to compete.

Whitelaws Coaches

6.46. Whitelaws Coaches (Whitelaws), 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. Whitelaws had no dealings with Stagecoach but thought its shareholding in SBH would make SBH larger and even more difficult to compete with.

Other local operators

6.47. One local operator said that Stagecoach's shareholding in SBH was bad for the market. The operator was concerned that a large bus operator might run buses in front of its own and put it out of business. Stagecoach should not be allowed to increase its shareholding above 20 per cent.

6.48. A second local operator said that it was normal practice for Stagecoach buses to wait until another operator's bus came into sight and then set off in front of it. It believed this occurred in south Ayrshire. If Stagecoach began services in this company's general area, provided it operated only in the urban areas in which the company operated and the services were not too parallel, they could co-exist. If the Stagecoach shareholding in SBH grew beyond 20 per cent this operator would have grave doubts about continuing as a local bus operator bearing in mind what had happened in Ayrshire and, allegedly, in other parts of the country.

Other large operators

6.49. We asked six other large operators with interests elsewhere in the UK whether they had considered entering the Glasgow market themselves. Their views were as follows.

6.50. *Badgerline* had not contemplated entering Strathclyde region. It regarded Stagecoach's shareholding in SBH as effectively a controlling interest and viewed it as if it were a 100 per cent holding.

6.51. *Cowie Group plc*, which has interests in other transport sectors besides buses, said that it had not contemplated entering the region. Stagecoach's shareholding in SBH did not change its perception of the opportunities in the Glasgow market.

6.52. *Go-Ahead* had not contemplated entering the Glasgow market and the Stagecoach shareholding ruled out any further interest it might have had in the region. It considered that the shareholding acted to inhibit expansion by other bus operating groups.

6.53. *MTL* had not contemplated entering the region. SBH already had a dominant position and Stagecoach's shareholding did not change MTL's views. Without knowing how and why the shareholding had been taken it was impossible for MTL to be specific about the effects. In general Stagecoach was investing heavily in new vehicles and improved quality of service and the customer was clearly benefiting from this. These strengths and Stagecoach's professionalism could be used through a device such as the 20 per cent shareholding to improve SBH's performance with clear benefits to the public. However, if the holding was used unreasonably to eliminate local competition to Stagecoach's advantage, it would obviously not benefit the public.

6.54. *West Midlands Travel* had not contemplated entering the region and the Stagecoach shareholding did not alter its view of the market there. It had no specific comments on this inquiry. In general, West Midlands Travel thought that consolidation of groups to take advantage of economies of scale made sense and was a natural evolution in the industry.

6.55. *The Yorkshire Traction Company Limited* (Yorkshire Traction) had in the past (before the two current merger situations) contemplated entering the Glasgow market by company acquisitions. It had become aware that the area was dominated by large operators. In view of this and bearing in mind that the acquisitions it had been contemplating were relatively small, Yorkshire Traction had believed that the possibility of being successful in the market was remote. The Stagecoach shareholding would mean that opportunities in the future would naturally be less.

Associations and professional bodies

National Federation of Bus Users

6.56. The National Federation of Bus Users is a voluntary organization set up in 1985 to protect and promote the interests of bus users. It welcomed Stagecoach's shareholding in SBH because the Stagecoach reputation for high quality standards suggested that it would have a positive influence on the operation of buses in Glasgow. Current management attitudes at SBH did not appear to be as positively oriented towards passenger care as they were at Stagecoach. The Federation appreciated that the involvement of Stagecoach in Strathclyde buses would significantly reduce the competition, but given the past and present experience of competition in the Glasgow area, it still thought the overall result would be for the benefit of the travelling public both in the short and long term.

Scottish Association for Public Transport

6.57. 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.

6.58. 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 Zonocard 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).

P H DEAN (*Chairman*)

A G ARMSTRONG

S EILON

N F MATTHEWS

M R PROSSER

A J NIEDUSZYNSKI (*Secretary*)

29 March 1995