

6 Views of third parties

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Introduction

6.1. We invited views on the acquisition from The Scottish Office, the DOT, SPTA and SPTE, local authorities, trade associations, bus operators and other interested parties. This chapter summarizes the evidence we received.

The Scottish Office

6.2. The Scottish Office submitted written evidence and attended a hearing. It explained that, bearing in mind the Minister's overall responsibility for transport policy within Scotland, it had a broad interest in developments in the Scottish bus market.

6.3. In pressing for a reference to the MMC The Scottish Office was concerned that there should be consistency of treatment with other similar cases which had been considered by the competition authorities. It pointed out that the merger would make FirstBus the largest UK bus group and would give it a dominant position in central Scotland. Within this bloc the merged company would have no competition of note. The impact of Stagecoach/Western Buses and British Bus/Clydeside would be from one direction only (to the west of Glasgow), and would present minimal competition.

6.4. In evidence to the MMC The Scottish Office emphasized that its main concern was to see continuity of bus services within the Glasgow area. If this could be achieved while retaining a sensible degree of competition then that was a desirable objective. Although it was conscious of the extent of FirstBus's territory across central Scotland, this did not necessarily imply that FirstBus would abuse its position. FirstBus was known to be seriously committed to growing the bus market and attracting customers away from cars. It had a good reputation for investing in new fleet and had attracted few complaints about fare increases. The Scottish Office was sceptical about the strength of actual competition purported to be exerted by operators in contiguous areas.

6.5. When asked to consider some form of divestment of operations to address any competition concerns, The Scottish Office stressed that for any such remedy to succeed it would be necessary to ensure that the divested operation was a viable entity, that a ready purchaser was available, that bus services were not disrupted and that bus users were assured continuity of services.

Department of Transport

6.6. The DOT referred to previous inquiries involving SBH and questioned the contention of its management that the operation, either as a whole or in parts, was actually or potentially unviable and that the protection of a larger group was therefore required. With a combined fleet of 1,266 vehicles in what was for the most part good bus operating territory, SBH should be capable of correcting any financial or operational problems of the group and making a success of running the company. SBH's latest financial results indicated that the group was at present producing a very respectable return on its turnover.

6.7. With regard to the merger, there was little doubt that, because of its size and market share in Glasgow, the choice of a partner by SBH was always going to be difficult. Previous inquiries had concluded that Stagecoach (while owning Western Buses) should not also own a share in SBH, and divestment was ordered. Of the other Scottish operators, it would have been preferable if SBH had gone to a group with no, or only a small, share of the Glasgow bus market. Better still would have been a sale to one of the second-tier groups which had no presence in Scotland.

6.8. The DOT thought the merging of the SBH companies based on Glasgow, with the adjoining FirstBus companies through central and south-east Scotland, appeared to give FirstBus an unacceptable geographical influence over its competitors and would also create a barrier to entry in these areas (which included the most populous part of Scotland). The DOT argued that if the merger was cleared some divestment would be required, at the very least, so that a buffer was created between FirstBus's operations in central and south-east Scotland and those in Glasgow. SBH's Kelvin operation appeared an obvious choice for divestment but the DOT understood that it had in the past been considered financially frail by some observers and it would not be in the interests of bus passengers if it failed. A further option might be to divest Kelvin, together with SBH's Parkhead depot. Again, if the divestment of parts of SBH's or FirstBus's operations was proposed, care was needed to ensure that purchase by an existing operator in the area did not adversely affect competition in the Glasgow bus market. Purchase by an outside third party would obviously be desirable.

Strathclyde Passenger Transport Authority and Executive

6.9. SPTA and SPTE submitted written evidence and statistical information and attended a hearing.

6.10. SPTA and SPTE said that they were encouraged by their initial meetings with FirstBus and welcomed FirstBus's apparent intention, together with SPTA, to develop bus services to benefit residents in the SPTA area. It welcomed the prospect of improved 'partnership arrangements' compared with SBH's previous management.

6.11. Nevertheless, SPTA and SPTE expressed concern that a lack of effective competition to the north and east of Glasgow could result in FirstBus acting in future in a manner which might be against the public interest, with little opportunity to take preventive action. SPTA and SPTE pointed out that following the acquisition there was in effect only minimal competition between large operators over an area stretching from central Glasgow to the borders of Edinburgh. If FirstBus were to abuse its position, perhaps by raising fares or reducing the frequency of services within the network, there were no operators of a similar size prepared to offer significant competition within FirstBus's operating area. Whilst there were several smaller bus operators, in the Lanarkshire area for instance, these operators would be reluctant to compete too vigorously against such a powerful operator. Smaller operators would prefer to maintain the status quo by avoiding price competition and challenging FirstBus for new routes. Also none of the smaller operators had more than about 40 to 50 buses and none could provide an extended network.

6.12. SPTA and SPTE thought FirstBus was in a similarly strong position for tendered services where its presence could deter smaller operators. SPTA actively encouraged joint bids for tenders and it welcomed FirstBus's commitment, as part of its partnership agreement, to provide appropriate services to reflect SPTA's or Glasgow Council's policies and it hoped to build on this situation.

6.13. In a wider context, SPTA and SPTE believed there was a lack of competition between major bus operators because they acted in unison on general fare levels and on quality of service. The potential for competition nevertheless existed and had constrained such operators from moving to extremes. In the present case, SPTA and SPTE thought there was little competition from either small or large operators. The proximity of Stagecoach and British Bus was unlikely to keep FirstBus in check should it decide to abuse its position as a monopoly supplier. Both companies were restricted by having operational depots at the fringe of FirstBus's area of operation and new operators were unlikely to enter or be permitted to enter the market.

6.14. SPTA and SPTE added that within the SPTA area rail services provided some competition with bus services. SPTA and SPTE had invested heavily in the extensive rail network in the Glasgow area and bus and rail competed on selective routes, particularly on some of the radial corridors, for example to Cumbernauld, Hamilton, Motherwell and Kilmarnock. There was clearly an interaction in the Glasgow area where customers had a choice between bus and rail and SPTA was keen to develop rail and bus interlinking services where it could.

6.15. In conclusion, SPTA said that its concerns about the merger would be allayed to some extent if FirstBus were to agree, in conjunction with SPTA, to be bound by undertakings to:

- (a) participate in positive pro-active liaison with SPTA and contribute towards the development of transport strategies building on the attributes of all modes;
- (b) actively participate in provision and financing of bus priority measures;
- (c) acquire high-quality accessible buses with low floors and enhanced ancillary features;
- (d) adhere in principle to SPTA's principles regarding levels of service and fares with consultation prior to any significant changes;
- (e) participate in all multi-modal multi-journey ticket initiatives promoted by SPTE;
- (f) maintain in general the present network of FirstBus services within the passenger transport area accepting internal cross-subsidy where necessary to achieve this; and
- (g) maintain present unsubsidized services to the minimum standard set out in SPTA's guideline criteria.

6.16. SPTA suggested that such assurances should apply for a period of at least ten years and should be binding on any successive management. SPTA added that FirstBus had already expressed its willingness to abide by these conditions. SPTA was encouraged by the fact that FirstBus had willingly entered similar partnership initiatives in other parts of the country and it appeared to be fully committed to maintaining similar standards of service throughout its operations. SPTA provided details of the quality transport partnership entered into by FirstBus in October 1996 (see Appendix 5.1).

Unitary authorities

East Dunbartonshire Council

6.17. East Dunbartonshire Council stressed the need for the continued provision of effective public transport and high-quality bus services within East Dunbartonshire. The Council believed this could be best achieved by endorsing the conditions relevant to the merger suggested by SPTA (see paragraph 6.15).

East Lothian Council

6.18. East Lothian Council considered that as SBH did not, and was unlikely to, provide either commercial or subsidized bus services in East Lothian, bus services in its area were unlikely to be affected by the merger. However, the Council thought it worth noting that FirstBus had at present a virtual monopoly in the majority of East Lothian for the provision of commercial and supported bus services. This position weakened the public's choice of bus services and routes and could lead to higher fares than would exist in a more competitive market. It might also lead to higher tender prices when the Council sought to support bus routes. Whilst not directly affected by the merger, the Council thought the merger was likely to result in less choice and higher fares for bus users in the Strathclyde area.

Edinburgh City Council

6.19. Edinburgh City Council told us that as SBH neither operated nor tendered for supported bus services within the Edinburgh area, the effect of the merger in the area would be at most marginal, and would have no significant impact on either service quality or fares. It added, however, that it was possible that the enlarged FirstBus group might be in a stronger position to purchase new vehicles. If this was the case, the Edinburgh area might benefit indirectly by more new buses joining local FirstBus fleets than would have been the case if the merger had not taken place. As for competition between LRT and Midland Bluebird or Lowland, the main bus operators in the Edinburgh area, the Council said that competition had stabilized at a lower level since SMT had reduced its presence in Edinburgh in December 1994.

Falkirk Council

6.20. Falkirk Council explained, as background to the present inquiry, that it had already lost some competitors for contract bus services through the merger of SMT with Midland Bluebird. It now had a choice of only four other bus operators with vehicles which met DIPTAC¹ standards and only two of these were within the Council area: one was a small operator based in the Stirling area and the other was Kelvin (part of SBH). The Council had a larger selection of nine operators for school bus contracts, but only six of these were based in the Council area. In 1996 Midland Bluebird was the only tenderer for five of the sixteen local bus contracts. Midland Bluebird was also the only significant operator of commercial local bus services within the Falkirk Council area, apart from three routes which were partly operated in conjunction with Kelvin or Stagecoach.

6.21. Considering possible remedies, Falkirk thought that if FirstBus was required to divest itself of Midland Bluebird, certain points should be borne in mind. Falkirk Bus Station was owned by Midland Bluebird and could not be sold until the end of 1997 (as part of privatization agreements). It was important

¹Disabled Persons Transport Advisory Committee.

that the bus station was sold with the operating company, although it could be sold later, and that changes at divestment should not be made worse by loss of operational property. Falkirk's other concern was that care should be taken in considering a purchaser for Midland Bluebird. Sale to Stagecoach would simply exchange an east/west near monopoly for a north/south monopoly and should be actively discouraged.

Glasgow City Council

6.22. Glasgow City Council said that its principal concerns regarding the acquisition were that, if implemented, FirstBus would have 55 per cent of the bus market within the SPTA area and it would transfer policy control of a major Glasgow-based company outwith the city. The Council stressed the importance of effective public transport to the city. The quality of bus services was of particular concern because a number of policy objectives, such as the development of the city centre millennium plan, and route action plans were dependent upon partnership with local bus operators, if they were to become fully effective. The Council had therefore liaised closely with SPTA regarding the merger. After meeting with FirstBus, they had concluded that the acquisition of SBH could offer an improved partnership. The Council and SPT were encouraged by FirstBus's constructive attitude to proposals to heighten the quality and effectiveness of public transport in the city. Nevertheless, rather than relying on purely voluntary arrangements, the Council reiterated that FirstBus should be required as a condition of the merger to ensure that it complied with the undertakings suggested by SPTA (see paragraph 6.15).

6.23. The Council added that positive discussions had taken place between both SPTA and the Council in relation to these conditions and a memorandum of agreement had been signed in relation to a £21 million capital investment by FirstBus over the next two years. Quite clearly a large measure of goodwill had therefore already been established in relation to FirstBus's contribution to improving the quality of passenger transport within the area. The Council was a party to the quality partnership with FirstBus (see Appendix 5.1).

Midlothian Council

6.24. Midlothian Council said that because SBH did not operate bus services within the Midlothian area the merger was unlikely to affect competition in the foreseeable future. It was possible that the merger might result in a marginal improvement in the range and quality of services in the Midlothian area as FirstBus, which operated bus services within the area, might benefit from being an even larger group.

North Lanarkshire Council

6.25. North Lanarkshire Council said that, as a constituent member of SPTA, it fully supported the referral of the merger to the MMC. In practical terms, SBH, trading as Kelvin, was already the major operator in much of the North Lanarkshire area. The only significant change resulting from the merger would be in the northern part of the area where Midland Bluebird ran a complementary through service. On the face of it, the change was unlikely therefore to have any substantial effect on competition or on the level of fares, provided the frequency of services was maintained on routes formerly run by two separate operators.

6.26. The Council thought there might be positive benefits in terms of range and quality of service, because a quality partnership could be established between the local authority and the main bus operator. The only caveat was that with so many of the routes being radial, in and out of Glasgow, rationalization of services within Glasgow and East Dunbartonshire could take place which could have a knock-on effect on services within North Lanarkshire.

Scottish Borders Council

6.27. Scottish Borders Council said that its concerns about the inquiry centred on tendering for local bus services between Peebles and Lanark. Lowland was the only operator based in the Tweeddale area with more than two vehicles. The Council therefore relied on operators based outwith its area to provide competition for tenders.

6.28. Following the acquisition of Lowland and SMT by FirstBus, and the subsequent restructuring of these subsidiaries together with a third subsidiary, Midland Bluebird, which reduced SMT to a trading name, one competitor had already been removed. SBH's Kelvin subsidiary had previously tendered for local bus services in the Scottish Borders area. If the merger was approved another possible competitor would be removed.

South Lanarkshire Council

6.29. South Lanarkshire Council said that its views were completely aligned with those expressed by SPTA and SPTE (see paragraphs 6.9 to 6.16).

Stirling Council and Clackmannanshire Council

6.30. In a joint submission Stirling Council and Clackmannanshire Council explained that SBH operated only limited commercial services and failed to tender for other services within their areas. The vast majority of commercial services in both areas was provided by Midland Bluebird, another FirstBus subsidiary, and a small number of independent operators. The proposed merger would therefore have very little effect on the Stirling and Clackmannanshire areas.

6.31. In a wider context, the Councils considered that the merger had features which were both for and against the public interest. The primary advantages of a large group were, first, that economies of scale could allow marginally profitable services to remain in commercial operation, with no need for local authority financial support, and secondly, that greater resources might be available for investing in improving service quality, both independently and in partnership with local authorities. The primary disadvantage, from the Councils' perspective, was that there might be less competition for tendered services and consequently that tender prices might increase. The Councils therefore recommended that as a safeguard some method of intra-group competition should be required for tendered services.

West Lothian Council

6.32. West Lothian Council thought the merger was unlikely to have any detrimental effect on competition or fare levels within its area. Indeed, the Council foresaw substantial benefits since buses from SBH's depot at Airdrie could run through to West Lothian and permit joint operation with buses to and from Bathgate—a positive feature of earlier acquisitions which had resulted in direct services from Falkirk to Livingston.

6.33. The Council added that it was somewhat surprised by the referral of the acquisition to the MMC since major companies such as Stagecoach and Cowie operated in the Glasgow area as well as FirstBus.

Trade associations

Association of Local Bus Company Managers

6.34. The Association of Local Bus Company Managers said that it had no direct membership in the reference area and therefore no specific points to raise in respect of the merger. It had always maintained the view that the acquisition of bus operating companies by the larger bus groups both reduced competition available to passengers and threatened the continued existence of small bus operating companies. Larger groups now had sufficient resources to eliminate any small operators they considered were depriving them of potential revenue and they avoided competition with other large operators by having separate monopolistic territories.

Scottish Association for Public Transport

6.35. The Scottish Association for Public Transport (SAPT) believed the main public interest issue in bus mergers lay in ensuring that they created a more favourable shift towards public transport and that they provided a viable alternative and effective competition to the use of the private motor car.

6.36. In the absence of comprehensive regulation, SAPT thought that larger bus companies, such as FirstBus, were likely to offer more competition with the motor car. Their overheads, information provision, innovation and marketing could be considerably superior to marginally profitable small bus companies who saw their role as providing for a declining bus market. Larger companies were also better placed to assist local authorities in traffic management and land use planning to enlarge the bus market and benefit consumers. They were also more alert to opportunities for integrating bus, rail and light rail operations in urbanized areas such as Greater Glasgow. The result was better services for public transport users and greater success in attracting car owners to consider other means of transport.

6.37. SAPT told us that its members' comments had been particularly supportive of the improved services and high-quality modern buses provided by larger bus companies in Scotland, including FirstBus and Stagecoach. FirstBus had also shown an interest in improving bus/rail interchanges and through-ticketing. In contrast, comments on SBH (prior to the Kelvin merger) had been severely critical, as had their comments on many other small operators, of ageing buses, poor maintenance records and a lack of visible publicity, partly forced on companies by low or negative profitability. The merger was therefore likely to bring the benefits of lower overheads and a greater exposure to innovative management, raising levels of profitability and fleet investment.

6.38. On balance, SAPT recommended that the merger should be approved, subject to the merged company accepting the principles of a 'quality partnership' framework, to be negotiated with SPTA for improving bus services in the Glasgow area, and satisfying a wide number of criteria designed to encourage greater use of public transport. SAPT stressed that an effective quality partnership required a measure of bus re-regulation.

6.39. In addition, SAPT argued that any potential abuse of monopoly power would be lessened by:

- (a) consistent monitoring by regulatory bodies;
- (b) a requirement for fares to rise at less than the rate of inflation; an expanded commitment to the use of multi-modal Zonecards, including an early introduction of Daycards; and
- (c) a right for SPTA to organize other bids for loss-making bus services where contracts could otherwise only be relet to SBH/FirstBus at substantially increased cost.

Bus operators

Clydeside Buses Limited

6.40. Clydeside, a subsidiary of Cowie, told us that it operated 260 buses in west central Scotland, including routes into Glasgow which were also served by SBH. It had an obvious interest in the outcome of the inquiry. Clydeside also competed with SBH for tenders offered by SPTE in the area. Other competitors for tenders included Kelvin and GCT, both also owned by SBH.

6.41. Local operators competed not only on frequency of service but also on other factors such as driver awareness, on publicity and on fare levels. Clydeside added, however, that there were other factors affecting patronage which were common to both companies, such as the concessionary fare scheme and the acceptance of the SPTE Zonocard.

6.42. Clydeside thought it was too early yet to give any indication of what effect the acquisition would have on the level and quality of service throughout central Scotland. Changes could be expected since FirstBus now owned-in addition to SBH-Midland Bluebird, SMT and Lowland, which gave it a dominant position throughout the whole central Scotland area. Clydeside had not as yet witnessed any significant consolidation

of services in this area as a result of the acquisition, nor had it experienced any other measures considered anti-competitive or against its commercial interests. Whilst it had no objection to the acquisition on the basis of current information, and accepted that customers could benefit from a more rapid fleet replacement, it nevertheless preferred to reserve its final judgment to a future date when any changes imposed by FirstBus were more apparent.

6.43. In subsequent evidence, Clydeside added that on previous occasions when one relatively large company had acquired one relatively small company, there had been opportunities taken for any service which effectively duplicated another and therefore wasted resources to be consolidated. In virtually all cases there had been no perceivable loss of network to customers. It was also true that on previous occasions there had been definite benefits from such an acquisition with economies of scale giving greater investment in new vehicles, staff training and service integration allowing through-ticketing. Finally, a recently announced partnership initiative between FirstBus, SPTA and Glasgow City Council could be expected to offer additional benefits to bus passengers in the area, and this initiative would be put in jeopardy should the acquisition not proceed.

Cowie Group plc

6.44. Cowie, as owner of Clydeside (see paragraphs 6.40 to 6.43), expressed an interest in bus operations in the Glasgow area. As a competitive operator to FirstBus, Cowie was aware of the keen competition between FirstBus and other operators and of the high quality of service it provided to passengers. FirstBus had the resources and apparent determination to provide frequent services on good-quality modern buses to meet passenger demand. In those areas of the country where it already competed with FirstBus, Cowie was conscious of keen competition to its services in respect of frequency, price and ever-improving bus quality. Accordingly it presumed that FirstBus would imbue SBH with the same culture and this would benefit bus passengers in the area generally.

Dart Buses Limited

6.45. Dart Buses Limited (Dart) explained that it was a recently-formed independent bus company, owned entirely by personnel formerly connected with Clydeside. Its current network of services, nearly all minibuses, was centred on Paisley, where its main competitor was Clydeside. Some of its services extended to Glasgow where it competed with SBH. Though at present there was little commercial overlap between itself and SBH, Dart was keen to develop its tendered services business and other interests in time. Dart pointed out that historically SBH had shown fierce resistance to any operator that had chosen to compete with it. Such competitive action had included SBH operating additional services as a defensive tactic, reducing its fares and expanding into new operating areas, again with cheap fares. In Renfrewshire SBH operated a substantial number of tendered (mostly school) bus services. Local operators were aware of the threat of transferring these buses to other areas at other times if a confrontation developed. Dart emphasized that it was concerned about the potential threat posed by SBH's market strength rather than any actual examples of predatory behaviour. It believed that operational constraints should be placed upon SBH where it competed with other operators until such time as its market share in the Greater Glasgow area could be reduced to an acceptable level.

6.46. One major factor assisting SBH in the Glasgow area was the structure and pricing of SPTE's sponsored multi-modal Zonocard ticketing system, which Dart believed worked against the public interest and specifically to the advantage of SBH and other established large operators.

6.47. Dart thought the deficiencies of the scheme stemmed from the voluntary nature of participation in the scheme and the constant potential threat by dominant operators to leave it unless their conditions were satisfied. In general this resulted in higher pricing to leave room for similar 'uni-modal' tickets offered by single large operators, for example SBL's Transcard range of tickets. It had also resulted in the withdrawal of availability of a 'one-zone' Zonocard from public sale. Such limitations offered considerable protection for the largest bus operators and placed others, like Dart, at a very real disadvantage and was against the public interest. The situation was worse in the Glasgow City where the structure of the Zonocard gave still more protection to SBH from competing operators due to a biased zone and pricing structure, which rendered the ticket still more unattractive in relation to Transcard, and which in turn could be priced to SBH's advantage,

creating an effective bar for new operators entering the Glasgow commercial bus market. Dart complained that such a structure was against the public interest.

6.48. It was impossible for small operators to bring effective changes to Zonocard pricing or structure because of the voluntary nature of participation in the scheme for all bus operators. Accordingly, Dart argued that SBH should be compelled to remain in the Zonocard scheme in perpetuity, an equitable pricing formula should be devised, a single-zone ticket should be reintroduced, and the anomalous zone structure for Glasgow City should be standardized with the rest of the conurbation.

6.49. In conclusion, Dart explained that at present it was little troubled by SBH and SBH's ultimate ownership might not alter that situation. Dart's decisions about where to develop its business had taken account of SBH's earlier competitive action elsewhere. Whilst it noted the high price paid by FirstBus for SBH, and believed this might curb certain future unrealistic excesses, it also believed further steps were still needed to safeguard the public interest and to promote a healthy level of competition, in particular:

- (a) FirstBus should enter agreements to restrict unjustified competition whilst it retained a high market share in Greater Glasgow; and
- (b) FirstBus should be compelled to remain in the SPTE-sponsored Zonocard scheme, with a reduced influence on pricing matters. A single-zone ticket should be restored whilst the zoning and pricing anomalies in the City of Glasgow should be eliminated.

The Go-Ahead Group PLC

6.50. Go-Ahead referred to the two earlier MMC reports involving SBH (see paragraph 2.20). Whilst these reports provided background information on market shares in the Strathclyde region only, it believed the present merger should be considered in a wider context in view of the other regional bus companies, formerly within the Scottish Bus Group, but now acquired by various processes by FirstBus. Whilst there was no doubt that significant benefits could be obtained from the resulting cost reduction opportunities offered, the grouping of companies created a major new regional influence. Taken together with SBH, the merged enterprise would be one of considerable influence in the region.

Irvine's Coaches

6.51. Irvine's Coaches, of Carlisle, said that it had no objection to the merger.

McColls Coaches

6.52. McColl's Coaches, of Alexandria, considered the merger against the public interest and thought it might enable FirstBus to eliminate competing smaller operators from the Glasgow bus market.

McGill's Bus Service Ltd

6.53. McGill's Bus Service, of Barrhead, supported the merger and thought it was unlikely to raise any competition or public interest concerns.

McKindless Express

6.54. McKindless Express, of Wishaw, said that it had no objections to the merger.

Stagecoach Holdings plc

6.55. Stagecoach urged the MMC to consider two issues which it considered of particular relevance to the inquiry:

- (a) FirstBus's record of high fares in major UK cities where it was the market leader, that is in Aberdeen since 1989, in Bristol since 1988, in Leeds/Bradford since 1994, in Manchester since early 1996, and Sheffield where it had a minority interest in the Mainline Partnership;
- (b) the apparent decision to include Argyll and Bute and the Ayrshires within the central Scotland reference area, but to exclude Falkirk, Clackmannanshire, Stirling, Lothians, Scottish Borders and Edinburgh, all areas with significant populations where FirstBus was also the largest bus operator. FirstBus had apparently offered to divest certain routes, for example in and around Falkirk, to enable the merger to go ahead. If FirstBus was prepared to make concessions and offer undertakings it was equally important to consider the effects these might have on adjacent areas.

6.56. Stagecoach pointed out that the merger would give FirstBus a major presence in three of the four largest Scottish cities; it might also have designs on Dundee, the fourth largest city. FirstBus was obviously prepared to pay a high price to achieve this position. Stagecoach considered that FirstBus had paid too much for SBH and that the price could only be justified on the premise that Strathclyde would remain a monopoly for FirstBus. It considered that there were public interest implications, particularly for listed companies, in overpaying because listed companies were expected to achieve returns on capital employed of at least 15 per cent. Stagecoach believed this pressure would create additional incentives for fare increases in excess of inflation.

6.57. Stagecoach argued that a merger on such a large scale, which combined the first- and second-largest bus operations in Scotland, should be conditional on written undertakings from FirstBus on fares and services, failing which possible divestment of part of the joint companies' operations (although Stagecoach presumed it would not necessarily be allowed to bid for such divestment itself), which would help to ensure competition in the Greater Glasgow area. Any suggestion that FirstBus would be kept in check by Stagecoach's modest operations on the Clyde coast or by British Bus's (Cowie's) operations around Greenock and Paisley were deliberately overstated to divert attention from the real issue of concentration of ownership in the Greater Glasgow area.

6.58. Stagecoach was concerned at FirstBus's announcement of fare rises on SBH's routes. Stagecoach's research on bus fares indicated that FirstBus's fare increases throughout the country were usually considerably above the RPI. Whilst such fares policies might encourage market entry in the longer term, in the short term they would adversely affect passengers and passenger numbers. Stagecoach added that if FirstBus's high fares policy was sustained over a number of years it would seriously consider entering the Glasgow market with a low fares policy. Stagecoach stressed, however, that there were difficulties in challenging an incumbent operator of the size of FirstBus which was fully able to respond to incursions into its operating area.

6.59. Stagecoach acknowledged its self-interest in commenting on hypothetical remedies. That said, it believed that any of the large SBH depots, or a combination of two or more, were capable of viable divestment. To exclude Stagecoach and/or British Bus from the bidding could leave FirstBus still with a relatively strong position, perhaps with benign competitors in tacit work-sharing and fares policies against the public interest. The relative balance of power in Scotland seemed lopsided with FirstBus two or three times larger than any of its peers. Divestment to larger groups was, it thought, more likely to lead to sustained competition among the larger groups than was divestment excluding certain groups. Stagecoach also hoped SPTA would encourage competition in regulating the local bus market, rather than granting what was in effect a franchise monopoly to the incumbent operator.

Whitelaws Coaches Earls Tours

6.60. Whitelaws Coaches Earls Tours, of Stonehouse, said that it had no objection to the merger. It currently had a good working relationship with SBH and it hoped this would remain.

A small bus operator

6.61. Another small bus operator in the Glasgow area said that it had lived in harmony with SBH for a number of years and, if it remained its present size, and continued operating bus routes in the areas in which it currently operated, it had no reason to believe this situation would not continue. SBH had never been guilty of charging anti-competitively low fares. However, it believed that as long as it competed with an operator as large as FirstBus it had very little opportunity to develop its business purely as a bus operator.

6.62. Being a large operator, SBH could tender for schools contracts or tendered local bus services with a blanket price covering a large number of contracts. For example, since SBH operated many commercial bus services to most areas in the Glasgow conurbation it could carry schoolchildren on existing services at minimal cost, compared with an operator which had to provide a bus specially to fulfil the contract, at a higher cost. The resultant economies of scale meant that SBH could provide dedicated school buses where necessary, even if the individual cost of providing the service was higher than a competing operator's costs and it was therefore able to tender a lower total aggregated price for a large number of contracts. This resulted in SBH gaining many contracts with a blanket tender price, thus excluding other operators.

6.63. The operator suggested that such anti-competitive action could be countered to some extent by limiting SBH subsidiaries to tendering only in their pre-merger areas, for example Kelvin in Lanarkshire and Dunbartonshire and SBL in the city of Glasgow. [

Details omitted. See note on page iv.

] Behaviour of this kind acted as a severe deterrent to independent bus operators such as itself which operated many tendered services and restricted its ability to compete head on with SBH companies on commercial routes.

6.64. To combat this situation, the operator had thought of operating a 'satellite' business away from its normal area of operation and outside SBH's sphere of influence. However, it would now be impossible to run such an operation in most of central and eastern Scotland because FirstBus, as owner of Midland Bluebird, SMT and Lowland, provided most of the buses there, and could easily retaliate in the operator's present operating area through the auspices of SBH.

6.65. The operator complained that even as a niche operator, operating on routes not previously provided by SBH, it was still not in a strong position to expand its commercial network. The economies of bus operation meant that with an average profit margin of 10 per cent, with fixed costs, SBH only needed to take 10 per cent of the small operator's passengers to eliminate all the small operator's profit. In fact, faced with competition, SBH could operate more buses and introduce lower fares and could conceivably make a small operator's routes unprofitable even if it meant carrying no passengers at all. SBH could sustain such a situation for as long as necessary with its greater financial reserves. This hardly encouraged smaller operators to develop more commercial routes.

Bus users

6.66. Eight SBH users wrote in with their views. Seven opposed the merger. Four complained about the loss of competition resulting from the merger, with two expressing concern at the dominant position FirstBus would enjoy in central Scotland. Five users complained about a deterioration in services since the merger: some bus services had been curtailed whilst others had been cut altogether. Two of these users drew attention to the absence of SBH buses now running to Southern General Hospital. Two users complained about the inflexibility of SBH's travelcards, whilst one complained about the increase in price of SBH's 'Granny' card. One user thought SBH was extremely slow in dealing with complaints. Another thought concerns about lack of competition could be met by requiring FirstBus to divest itself of either Kelvin or Strathclyde Buses.

6.67. One user thought the merger would bring positive benefits. Bus users would be better served by having SBH under the aegis of one of the larger bus groups. FirstBus was clearly willing to invest in new vehicles and in the long term users were likely to benefit from improved standards of quality.

P H DEAN (*Chairman*)

A FORSTER

D M G NEWBERY

J A REES

P A BOYS (*Secretary*)

23 December 1996