

# 4 The market

## Contents

	<i>Page</i>
Introduction .....	51
Rail services in Scotland .....	53
Coach services .....	57
Coach services in Scotland .....	57
Competition between rail and coach .....	61
Comparison of ScotRail and Citylink passengers .....	62
Overlapping routes .....	62
Glasgow-Edinburgh .....	65
Glasgow-Aberdeen .....	67
Edinburgh-Aberdeen .....	68
Glasgow and Edinburgh-Inverness .....	68
Rural routes .....	69
Glasgow-Greenock .....	69
Cross-border services .....	69
Transport integration .....	70

## Introduction

4.1. This chapter considers the markets affected by the merger. Our terms of reference refer to public transport passenger services within Scotland but we have considered the effects of the merger both within Scotland and on transport between England and Scotland.

4.2. As shown in Table 4.1, the bulk of passenger travel in Great Britain is made by private transport, predominantly by car. This is true also of Scotland, although both distance travelled by public transport and its share in the total amount of travel are somewhat higher in Scotland than the rest of Great Britain. It is likely that the higher share of public transport in Scotland is primarily attributable to more bus travel: bus km per head of population in 1994/95 were 50 per cent higher in Scotland than in Great Britain as a whole.

TABLE 4.1 Average distance travelled by mode of travel, 1993 to 1995, per person per year

	Great Britain		Scotland	
	Miles	% of total	Miles	% of total
<i>Private road vehicle</i>				
Car	5,008	77		
Private hire bus	108	2		
Motorcycle	32	-		
Van/lorry	288	4		
Other	38	1		
Sub-total	5,473	84	5,143	80
<i>Public transport</i>				
Local bus	258	4		
Non-local bus/coach	95	1		
Rail	347	5		
Taxi/minicab	39	1		
Other (including air)	62	1		
Sub-total	801	12	1,085	17
<i>Other</i>				
Pedal cycle	37	1	21	-
Walking	200	3	217	3
Total: all miles	6,511	100	6,466	100

Source: Transport Statistics Great Britain, 1996.

Note: Breakdown of private road vehicles and public transport not available for Scotland. Totals may not represent exact sum of constituents due to rounding.

4.3. Although the majority of total distance travelled is by car, in 1995/96 about 38 per cent of Scottish households did not have a car (see Table 4.2). The proportion without a car available is significantly higher than the UK average. The proportion varies across Scotland. In most areas (Strathclyde, Lothian, Fife, Tayside and Central accounting for 80 per cent of Scotland by population) the proportion with a car was below the 1991 average for Great Britain but in the more rural areas of mainland Scotland the proportion with a car was similar to or slightly above the average for Great Britain.<sup>1</sup> In the more rural regions of England, the proportion with a car is well above the national average (78 per cent in south-west England and 76 per cent in eastern England compared with 70 per cent for the UK in 1995/96). For journeys which are too far to walk, members of households without a car usually have a choice only between types of public transport. In addition, some persons in with-car households may not have access to a car for the trips they wish to make either because they do not have a driving licence or because the car is being used by another member of the household.

TABLE 4.2 Availability of cars, 1995/96

	per cent			
	No car	One car	Two cars	Three or more cars
Scotland	38	42	19	2
UK	30	46	21	3

Source: Regional Trends, 1997.

Note: Totals may not sum to 100 due to rounding.

4.4. In order to establish that this merger satisfies the share of supply test, Table 4.3 shows an analysis of the revenue derived from services on routes over 50 km by public transport (bus/coach, rail and air) within Scotland.<sup>2</sup> The following points concerning this table should be noted:

(a) Bus and coach revenue reflects estimated earnings on all routes over 50 km. A distinction may be

<sup>1</sup>Source: 1991 Census of Population data, quoted to us by NEG, showed that the proportion of households with a car in Borders, Dumfries & Galloway and Highland regions was about one percentage point above the average for Great Britain. The figure for Grampian was similar to the Great Britain average.

<sup>2</sup>Only journeys that begin and end within Scotland are included.

drawn between registered local bus services (which have stops no more than 24 km apart, are registered with the Traffic Commissioners and benefit from fuel duty rebate) and other (coach) services. However, it appears that in Scotland longer-distance journeys are typically made on services that are registered as local bus services, even if they are considered by the public as coach services. For instance, 72 per cent of Citylink's mileage is on services registered as local bus services. Table 4.3 therefore includes local registered bus services over 50 km in length as well as any other services over 50 km.<sup>1</sup> On this basis NEG is the second largest provider of services over 50 km in Scotland and its share of such revenue is estimated to be one-third.

- (b) Rail revenue represents estimated earnings on routes (including SPTE routes) where the route length exceeds 50 km. ScotRail's total 1996/97 revenue on such routes was £[#] million, of which £[#] million came from SPTE routes. NEG provided figures for ScotRail and we made estimates for the two other companies that carry passengers on such routes wholly within Scotland.
- (c) Air revenue reflects journeys by air of more than 50 km within Scotland. The bulk of such revenue is obtained from journeys between mainland Scotland and the islands.

The analysis reveals that, on this basis, ScotRail's share of public transport passenger revenue is about 55 per cent (20 per cent from SPTE routes and 35 per cent from others) while NEG's bus and coach interests account for 8 per cent, giving NEG a combined share of 63 per cent.

TABLE 4.3 Estimated passenger revenue on public transport routes over 50 km in Scotland

	<i>£ million</i>			
	<i>Bus/coach</i>	<i>Rail</i>	<i>Air</i>	<i>Total</i>
NEG group (pre-merger)*	[			
ScotRail				
Combined NEG group		<i>Figures omitted.</i>		
Other operators		<i>See note on page iv.</i>		
Total				]
NEG as % of total	33	94	0	63

*Source:* MMC based on figures supplied by BR Business Systems, NEG and other bus and air operators.

\*Includes Citylink, NEL and Highland Country Buses.

*Note:* Estimates relate to financial year 1996/97 or most recent period for which figures are available. Figures include revenue from local authorities in respect of travel at concessionary fares but exclude financial support from central and local Government.

4.5. Our terms of reference define public transport passenger services to exclude registered local bus services, but our analysis in Table 4.3 includes such services for the reason given in paragraph 4.4(a). If, however, registered local bus services were excluded from Table 4.3, bus/coach revenue would be lower and NEG's share of both bus/coach and total revenue would be higher.

4.6. The remainder of this chapter considers rail services in Scotland; coach services in Scotland; competition between rail and coach and between them and other transport modes; and the extent of competition on specific routes.

## Rail services in Scotland

4.7. ScotRail is described in paragraphs 3.50 to 3.57. It provides services throughout Scotland which NEG categorizes as:

- (a) inter-urban services connecting Scotland's principal towns and cities;

<sup>1</sup>Operators are not able to distinguish between revenue from passenger journeys less than 50 km and revenue from passenger journeys over 50 km.

#Figures omitted. See note on page iv.

- (b) rural services, which are long-distance services through rural areas;
- (c) services within the SPTE area, where under the terms of ScotRail's franchise fares are set by SPTE and revenue accrues to SPTE. NEG told us that ScotRail was in effect a contractor operating SPTE services to an agreed and detailed set of specifications;
- (d) urban services (excluding those operated within the SPTE area) mainly in the Edinburgh commuter area; and
- (e) sleeper services which run overnight between London Euston and Edinburgh, Glasgow, Aberdeen, Fort William and Inverness.

ScotRail's network is illustrated in Figure 4.1. Table 4.4 summarizes the number of journeys and revenue earned from each category of service. Further information is given in Appendix 4.1.

TABLE 4.4 ScotRail: passenger journeys and revenue earned in 1996/97

	<i>Journeys '000</i>	<i>Revenue £m</i>
Inter-urban	[	
Rural		
Urban	<i>Figures omitted.</i>	
SPTE	<i>See note</i>	
Sleepers	<i>on page iv.</i>	
Other		
		]

Source: NEG.

#### 4.8. Two other TOCs provide services within Scotland:

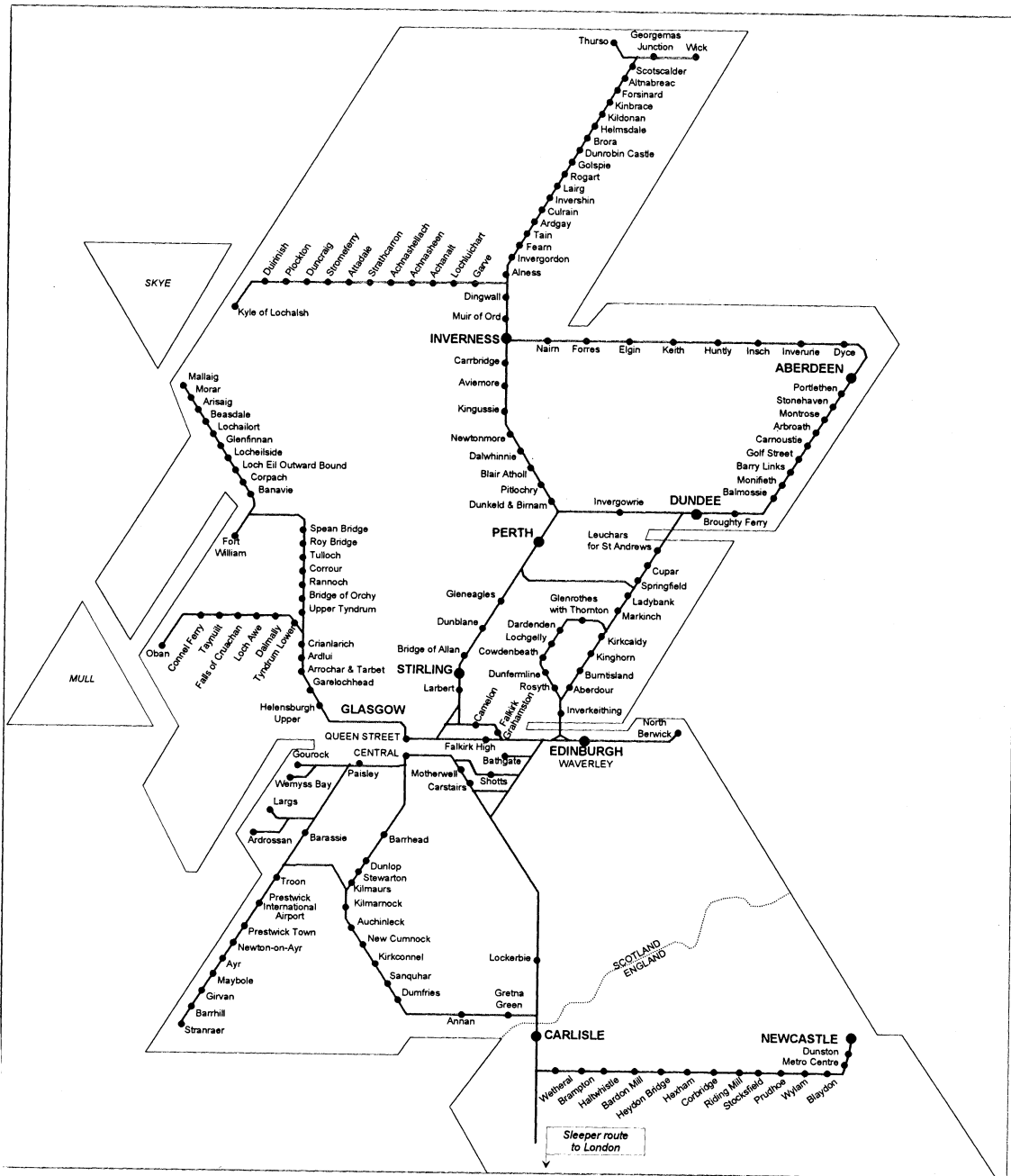
- (a) GNER provides services from London to Edinburgh, some of which continue to Glasgow, Aberdeen or Inverness. GNER thus overlaps with ScotRail on the inter-urban routes from Edinburgh to Glasgow, Aberdeen and Inverness and also on the sleeper routes from London to these cities.
- (b) Virgin CrossCountry provides one service per weekday from south-west England to Aberdeen via Edinburgh and two services per weekday from south-west England to Edinburgh via Glasgow (Virgin told us that the Glasgow-Edinburgh elements of these services were effectively rolling stock positioning movements to or from the Edinburgh maintenance depot and that a change in maintenance requirements would result in a reduction to one service per weekday from June 1998). Virgin West Coast also provides services from London to Glasgow which overlap with ScotRail's sleeper services.

4.9. Under the terms of its franchise agreement, its licence and its access agreements with Railtrack, ScotRail's services are regulated by the Franchising Director (or SPTE) and the Rail Regulator (see Appendix 3.6). For the discussion in this chapter, the most important aspects of regulation are as follows:

- (a) Minimum levels of service are set out in the PSR which is included in the franchise agreement. ScotRail's current level of service is very similar to the PSR, which was based on the timetable at the time the PSR was set. The main exception to this is on the Glasgow-Edinburgh route where ScotRail operates a half-hourly service after 7.15 pm on weekdays when the PSR only requires an hourly service; before 7.15 pm ScotRail operates 29 services on weekdays compared with 27 in the PSR. ScotRail also operates 16 weekday services from Aberdeen to Edinburgh compared with 14 in the PSR but on other routes it operates no more than one additional service over that in the PSR. NEG is also contractually committed to making some improvements in the level of service, in particular increasing the frequency of the daytime service on the Glasgow-Edinburgh route to every 15 minutes from May 2000: these commitments are also part of the franchise agreement.

FIGURE 4.1

### ScotRail's routes



Source: MMC.

Note: Most SPTE routes are not shown.

- (b) On almost all point-to-point flows, there is compulsory interavailability of tickets (this means that tickets are valid on any TOC's service between the two points<sup>1</sup>) and a lead operator is designated who sets the interavailable fares. The lead operator is normally the provider of the largest number of services between the two points. Revenue from interavailable tickets is subsequently allocated between operators through a settlement system broadly in relation to the number of passengers travelling on each TOC's services. For substantially all journeys within Scotland, ScotRail is the lead operator and thus sets the interavailable fares.<sup>2</sup> The other operators (GNER and Virgin) may, however, set dedicated fares for tickets which are valid on their trains only. The rules state that the lead operator (ScotRail in this case) may set dedicated fares for first-class and advance-purchase tickets only (this is to prevent it undermining interavailability). The existence of dedicated fares may allow some price competition, notwithstanding compulsory interavailability of tickets (revenue from dedicated fares is retained by the TOC which sets them).
- (c) Some fares are subject to price control by the Franchising Director. On journeys where British Rail offered a Saver fare in June 1995, increases in this fare must be no greater than the increase in the RPI until the end of 1998, and RPI-1 thereafter. On some shorter journeys, no Saver fare is offered and the ordinary return fare is capped instead. The standard-class seven-day season ticket is also price-capped. Cheaper fares with validity restrictions<sup>3</sup> (such as SuperSaver, APEX and cheap day return) and also fares for first-class travel are not subject to price regulation and thus ScotRail, like other TOCs, has the freedom to increase the price of these tickets. NEG considered that in practice such fares were subject to indirect regulatory constraint because of the need to retain a sensible commercial relationship with the levels of directly regulated fares. There is a different, more extensive approach in the Edinburgh commuter area where price control is applied to a tariff basket including all standard-class season tickets and unrestricted single and return fares.
- (d) The Rail Regulator has moderated competition by restricting entry by other TOCs or new entrants in order to help ensure the successful launch of the franchise. Up to 31 March 1999, entry is not permitted on point-to-point flows nominated by a TOC (a flow can be nominated provided it is material, which in the case of ScotRail is defined as representing more than 0.13 per cent of revenue). This does not prevent competition from existing operators (GNER and Virgin) on flows where they already operate. Current policy is that, from 1 April 1999, new entry will be allowed on flows where there is existing competition (that is, where GNER and/or Virgin already operate) and the restrictions on the other flows will also be loosened: ScotRail will be able to nominate a new list of flows and new entry will be allowed up to a threshold level (expected to be 20 per cent of aggregate revenue on those flows).<sup>4</sup> Flows where there is already competition can be nominated and the shares of competitors on those flows (including GNER and Virgin) are expected to count towards the threshold.

4.10. The Rail Regulator told us that there were few, if any, infrastructure constraints that would inhibit the introduction of new services within Scotland. However, he also told us that the availability of suitable rolling stock was relatively limited in the short term and this could act as a constraint on the development of new services: it was not yet clear to what extent this constraint would be relaxed as new trains began to be delivered towards the end of the decade and the existing rolling stock leases were renegotiated.

---

<sup>1</sup>This is subject to the services being on a permitted route. Permitted routes are defined in the *National Routeing Guide* and include the shortest route by distance, through services and certain other services.

<sup>2</sup>SPTE sets fares in the SPTE area.

<sup>3</sup>ScotRail's Saver tickets are not subject to validity restrictions.

<sup>4</sup>Flows with existing competition count towards this threshold if nominated.

## Coach services

4.11. Until 1980 coach services in the UK were regulated, with a single operator holding a monopoly on each route. Deregulation occurred in 1980 and was followed by a sharp increase in competition.<sup>1</sup> In England and Wales, a consortium of independent operators established an alternative network to that of National Express but this consortium collapsed in 1982 and subsequently there has been no sustained entry by coach operators on a significant network basis. The National Express network was at that time part of the state-owned NBC but was subsequently the subject of a management buyout, which became NEG (see paragraphs 3.2 to 3.4).

4.12. The history of events in Scotland since deregulation has been somewhat different. Bus and coach services within Scotland and those between London and Scotland were under the control of the SBG, also state-owned. Entry into coach services following deregulation was more successful in Scotland partly because the SBG reacted more slowly to deregulation than National Express. Entrants included Stagecoach on the Aberdeen-Glasgow and London-Scotland routes and Newtons on the Inverness-Glasgow/Edinburgh route. The SBG established a central marketing organization and common livery (branded Citylink) for its coaches in 1983 and took over Newtons in 1985. NEG's predecessor (National Express Holdings Limited) acquired the express coaching activities of Stagecoach in 1989 and competed with Citylink until 1993, although competition was strongest between 1989 and 1992. NEG acquired Citylink, which had been privatized by sale to Saltire, in 1993 and this merger was referred to the MMC which reported that the merger was not against the public interest.<sup>2</sup> Although Stagecoach sold its coaching activities in 1989 and at that time concentrated on local bus services, it has subsequently launched a number of inter-urban bus services (see paragraph 4.18(a)).

4.13. In the Saltire report, the MMC estimated NEG's share of distance travelled by coaches in Great Britain at 77 per cent, with the next ten companies sharing 18 per cent and the remaining companies 5 per cent.<sup>3</sup> During our recent inquiry into the merger of NEG and MML,<sup>4</sup> NEG said that there was likely to have been only a slight reduction in its share since then.

## Coach services in Scotland

4.14. NEG told us that its Citylink subsidiary provided coach services throughout Scotland. Citylink's operations comprise:

- (a) shuttle services across central Scotland, including the high-frequency service between Glasgow and Edinburgh and the Gourock-Glasgow Airport-Glasgow service. Reservations cannot be made on these services;
- (b) long-distance services within Scotland: together with the Glasgow-Edinburgh shuttle, these cover the equivalent of ScotRail's inter-urban and rural services; and
- (c) cross-border services including seasonal services to Blackpool and certain other seaside resorts and the London Liner coach service to London.

Table 4.5 shows a breakdown of Citylink's passenger numbers and revenue in 1996. Figure 4.2 shows a map of Citylink's network, with ScotRail's inter-urban and rural services also shown.

---

<sup>1</sup>Registered local bus services were not deregulated until 1986.

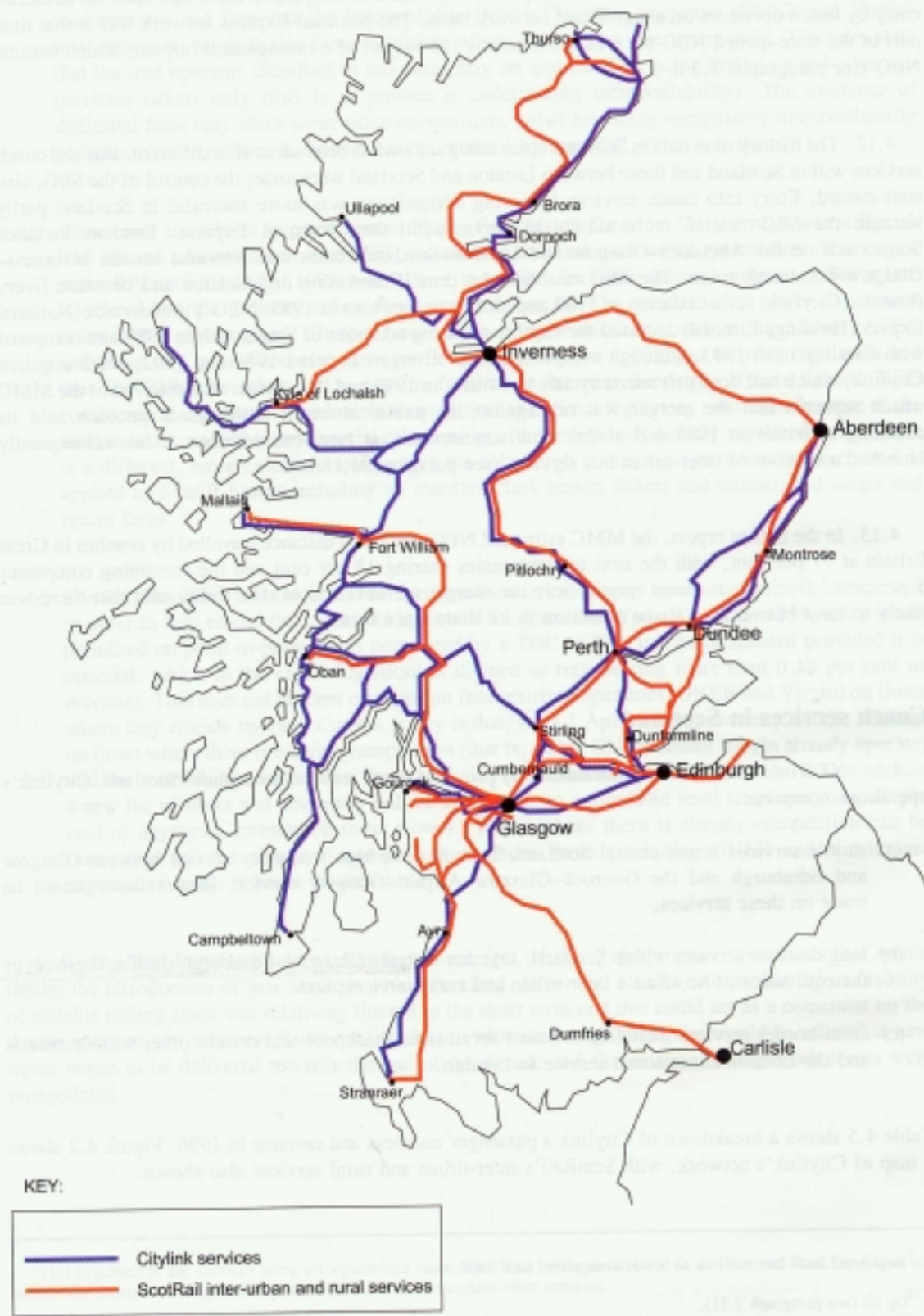
<sup>2</sup>Op cit (see paragraph 2.21).

<sup>3</sup>This figure is not comparable with that (for Scotland) in Table 4.3 since it excludes all bus services, while Table 4.3 includes bus routes over 50 km. In addition, Table 4.3 is based on revenue earned rather than vehicle distance travelled.

<sup>4</sup>Op cit (see paragraph 2.23).

FIGURE 4.2

### ScotRail and Citylink in Scotland



Source: MMC.

Note: The routes of NEL services, ScotRail sleeper services and the majority of ScotRail urban and SPTE services are not shown.

TABLE 4.5 **Citylink: passenger numbers and revenue earned in 1996**

	<i>Passengers '000</i>	<i>Revenue £m</i>
Central Scotland shuttle services	[	
Long-distance	<i>Figures omitted.</i>	
Holiday	<i>See note</i>	
Glasgow-London	<i>on page iv.</i>	
Other		
Total		]

Source: NEG.

4.15. NEL provides coach services from points in England to Glasgow and Edinburgh. Some of these services continue from Glasgow to one or more of Perth, Dundee, Aberdeen and Inverness. The Scottish section of these services is shown in Citylink's timetable and, where possible, Citylink's services are timed to facilitate transfers to and from NEL services. Two other subsidiaries of NEG, Highland Country Buses and TayBus, also operate in Scotland (see paragraphs 3.21 and 3.22).

4.16. Neither Citylink nor NEL is an operator of coaches: their vehicles are contracted in from coach operators. The functions of Citylink and NEL include the organization, pricing, marketing and co-ordination of the networks of scheduled coach services, as explained in more detail in Chapter 3. Highland Country Buses and TayBus are conventional bus companies which operate their own buses.

4.17. There are, however, some differences between NEL and Citylink, reflecting the shorter distances typical of Citylink services and in particular the high frequency (every quarter of an hour) of Citylink's Glasgow-Edinburgh service:

- (a) As shown in Table 4.6, a much higher proportion of Citylink's tickets than NEL's are purchased at the time of departure and a much lower proportion are purchased from travel agents.

TABLE 4.6 **Citylink and NEL: place of purchase of tickets, 1996**

	<i>per cent</i>	
	<i>Citylink</i>	<i>NEL</i>
Third party agents	11	69
NEL telesales centre	-	9
Citylink/NEL ticket outlets at bus stations	19	19
Other operators' retail outlets at bus stations	14	-
On departure (tickets purchased from the driver or other personnel on the stand)	<u>56</u>	<u>3</u>
Total	100	100

Source: NEG.

Note: All figures are approximate. We were also told that about 25 per cent of NEL passengers bought their tickets on the day of departure in January to April 1997. NEL figures refer to all services, not just those in Scotland.

- (b) 72 per cent of Citylink's mileage is on services registered as local bus services, compared with 25 per cent of NEL's mileage.

4.18. NEG told us that there were in Scotland about 20 other operators of bus and coach services over distances longer than 50 km.<sup>1</sup> The majority of these companies operate over shorter distances with more frequent stops than Citylink and with less comfortable vehicles. Some provide a service that may be more

<sup>1</sup>NEL has a 25 per cent stake in two of them (see paragraph 3.14).

comparable to Citylink:

- (a) Stagecoach, through its subsidiaries Fife Scottish, Bluebird and Western Buses, provides inter-urban services (mostly branded Stagecoach Express) from Dundee to Edinburgh and Glasgow, from Aberdeen to Inverness and from Ayrshire to Glasgow and Edinburgh. In the cases of Aberdeen-Inverness and Ayrshire-Glasgow, Stagecoach had previously been an operator of coaches for Citylink and took over the route from Citylink as Stagecoach thought it could market the services more effectively itself. Stagecoach told us that it had made a small payment to Citylink to deregister on these routes. Stagecoach's Dundee services compete with Citylink and are considered further below. The express services of Stagecoach have expanded rapidly in recent years (from about 1.6 million passengers in 1993 to 2.7 million in 1996).
- (b) FirstBus, through its subsidiaries Midland Bluebird and Lowland, operates on some longer routes, including Glasgow-Stirling-Dunfermline, Edinburgh-Stirling and Edinburgh to/from the border towns.
- (c) In the rural areas some operators, including Rapson's, W MacDonald & Co and Morrison's, operate on routes of comparable length to Citylink.

None of these operators has a network that comes close to matching Citylink's coverage of Scotland as a whole.

4.19. Regulatory barriers to entry into the coach and bus market are low. No regulatory approval is required to enter as a coach operator, and there is also no difficulty in registering a new bus service in order to benefit from fuel duty rebate. Moreover, the capital costs of launching a service are low: coaches can be leased or purchased on the second-hand market and, if entry is unsuccessful, the vehicles may be put to alternative use or sold. NEG told us that competitors had access to stands at all the bus stations used by Citylink (only one of which was managed by Citylink). NEG also pointed out that the majority of tickets for Citylink's services were sold at the time of departure (see paragraph 4.17(a)) and argued that competing operators would not require an extensive network of ticketing and sales agents.

4.20. In the MML inquiry, it was concluded that NEL had competitive strengths that created difficulties for new entrants. These included the benefits that NEL derived from its network of services and sales agents. Sales agents are much less important to Citylink than NEL (see Table 4.6) but Citylink too has a network of services: NEG told us that the main points of interconnection on Citylink's services were Inverness, Fort William, Perth and Glasgow. Perth in particular is an important interchange for services between Glasgow/Edinburgh and Aberdeen/Inverness. NEG was not able to say what proportion of Citylink's passengers made a connection in the course of their journey but said that it was lower than that on NEL's services (about 28 per cent of passengers).

4.21. Another competitive feature mentioned in the MML report that was considered to discourage entry was NEL's reputation for responding to lower fares introduced by its competitors by reducing its own prices. In the current case, NEG told us that Citylink had been compelled to cut its fares in response to competition from Stagecoach on the routes from Glasgow and Edinburgh to Dundee. NEG considered that there was no evidence that its reputation for matching fares was a material barrier to entry for the major bus companies as only one of ten large bus companies surveyed by the MMC during the MML inquiry rated fear of retaliation as a barrier to entry that was of medium importance to very important. Although almost all of the respondents to that survey said that they would not consider operating in competition with NEL, NEG did not consider that this particular aspect of the survey evidence was sufficient to support a conclusion that entry would not occur.

4.22. Other potential barriers to entry that were mentioned in the MML inquiry survey included a perception among potential entrants that there was only room for one operator on each route (rated as of medium importance to very important by four out of ten of the larger companies surveyed) and inadequate brand recognition (rated as of medium importance to very important by two of the larger companies). NEG did not consider that recognition of its Citylink brand constituted a barrier to entry; in NEG's view passengers chose bus and coach operators on their merits and Stagecoach would not have been able to achieve rapid growth in its new inter-urban services (see paragraph 4.18(a)) if customers were reluctant to try new services.

## Competition between rail and coach

4.23. This section considers general evidence relating to competition between rail and coach. Individual routes are discussed later in the chapter.

4.24. The recent MMC report on MML discussed a wide range of evidence relevant to the question of the extent of competition between rail and coach services. As regards evidence of actual pricing strategies, the MML report referred to the following:

- (a) Coach prices had to be set below rail prices because of slower speed, disadvantages of comfort and convenience and often lower frequencies. NEG's evidence to the MML inquiry referred to a 30 per cent discount for coach fares compared with rail fares to reflect these factors. In the current inquiry, NEG did not quote any particular discount figure appropriate for Citylink's services compared with ScotRail.<sup>1</sup>
- (b) Following coach deregulation in the early 1980s, there was a significant reduction in coach fares and increase in passenger numbers; one study<sup>2</sup> suggested that about half of the newly-generated coach demand on some services in the East Midlands was accounted for by transfer from rail. Moreover, the response to this from BRB was centred on its fares policy and included the introduction of rail Saver tickets. Another study carried out in 1988 by Steer Davies Gleave suggested that the introduction of Saver tickets had attracted passengers primarily from the coach rather than the car.
- (c) The introduction of APEX and SuperAPEX rail fares in the early 1990s had been associated with a loss of coach passengers on London-Scotland routes and NEG's 1992 Annual Report and Accounts had referred to APEX fares as being targeted primarily at coach services, although NEG subsequently said that this comment was limited to certain parts of the country and did not pertain to medium-distance routes such as those considered in the MML inquiry. Survey evidence of APEX users had shown that a significant proportion (around 17 or 18 per cent) would have travelled by coach had it not been for the availability of the low APEX fare.

4.25. The MML report also considered a range of evidence regarding the price elasticities of demand for and between coach and rail.<sup>3</sup> A study by the Institute for Transport Studies (ITS), which was commissioned by the MMC, reviewed a large amount of empirical evidence and suggested elasticities for leisure passengers on the MML routes, as shown in Table 4.7.<sup>4</sup>

TABLE 4.7 ITS suggested elasticities for leisure passengers on MML routes

<i>Effect on demand for</i>	<i>per cent</i>	
	<i>1% increase in price of: Rail</i>	<i>Coach</i>
Rail	-0.90*	0.14
Coach	0.3	-1.1

*Source:* ITS.

\*This reflected an elasticity of -0.74 for travel to London and -1.06 for travel from London.

The figures in the table suggest that a 1 per cent rise in rail prices to leisure passengers reduces rail demand by 0.9 per cent and increases coach demand by 0.3 per cent; and also that a 1 per cent rise in coach prices reduces coach demand by 1.1 per cent and increases rail demand by 0.14 per cent. ITS reviewed a large

<sup>1</sup>Actual fares between some major destinations are shown in Table 4.11. See also paragraph 4.31.

<sup>2</sup>*Deregulation of Express Coach Services in Britain*, R P Kilvington and A K Cross, Oxford studies in Transport, Gower, 1986.

<sup>3</sup>The cross-price elasticity of demand for coach services with respect to rail services is defined as the proportionate change in demand for coach services divided by the associated proportionate change in rail price. The own-price elasticity of demand is the proportionate change in demand divided by the proportionate change in price of that service.

<sup>4</sup>The ITS study also considered the impact of changes in frequency and journey time on demand: its findings on these aspects are not included in the table.

amount of empirical evidence from studies of rail and coach demand throughout Great Britain: generally, the evidence on which ITS relied was not specific to the MML routes. ITS considered that the rail own-price elasticity for trips to London was lower than for trips from London, which it thought could be because egress from central London rail stations was good whereas driving conditions in central London were bad. ITS's suggested rail own-price elasticity for trips from London was -1.06 (see footnote to Table 4.7) and this may be appropriate for journeys not involving London at all.

4.26. The level of cross-price elasticity on a particular journey will depend, among other things, on the relative volume of rail and coach passengers—the volume of rail passengers is generally higher than coach—and can be expected to vary across different flows. The MML report also includes a discussion of the ITS findings: NEG's consultants suggested in particular that, for MML, the impact of changes in rail prices on rail demand was greater and on coach demand less than suggested in the table. NEG told us that other researchers had concluded that own-price elasticities exceeded one (NEG referred to a figure of -1.17 reported in a widely-cited study). In NEG's view, British Rail had, in the years before privatization, taken a sophisticated approach to marketing and pricing and it was therefore unlikely that higher prices to leisure passengers would have generated higher revenue and profits as implied by ITS's suggested figure of -0.9. NEG also said that, since elasticities were route specific and varied through time, it had strong reservations as to whether studies referring to other routes (particularly if dated) provided any useful information as to current cross-price elasticities on the main overlapping coach/rail journeys.

4.27. Cross-price elasticities are relevant to the incentives facing an owner of both rail and coach services, as positive cross-price elasticities would imply that there is an element of competition between rail and coach where they serve common routes. In the absence of other constraints (such as actual and potential competition in rail and/or coach services and price regulation), this element of competition would be one factor that deterred independent operators of rail and coach services from increasing fares. The loss of this element of competition would mean that a common owner would have the incentive to raise prices above the level that would be chosen under independent ownership. This may occur even though the effect of increases in rail and coach prices is also to cause some passengers to switch to car travel and others not to travel.

### ***Comparison of ScotRail and Citylink passengers***

4.28. Table 4.8 shows information on journey purpose of Citylink and ScotRail passengers; Table 4.9 shows some further data on occupation, sex and age of passengers. The source of the Citylink data is a May 1997 survey of 880 passengers mainly on the Glasgow-Edinburgh route: NEG told us that the results might not be representative of other routes. ScotRail figures are shown for all routes and for each of the main overlapping routes (which are discussed individually below).

4.29. Comparison of the figures for the Glasgow-Edinburgh route shows higher proportions of ScotRail than Citylink passengers travelling to work and on business but a lower proportion engaged in leisure pursuits (other than shopping). Table 4.9 shows in particular the higher proportion of Citylink passengers that are students.

### **Overlapping routes**

4.30. As shown in Figure 4.2, many of NEG's coach services connect points that are also served by the inter-urban and rural routes of ScotRail. We describe this as an overlap between the coach and rail services. Table 4.10 provides a summary of the revenue and number of passengers (which reflect journeys over part of the route as well as the whole route), the existence of rail or coach competition, Citylink/NEL and ScotRail journey times and the frequency of operation on the overlapping routes. NEG was not able to provide a breakdown of Citylink's passenger numbers or revenue by point-to-point flow and thus the table shows only figures for the whole route. ScotRail has no significant overlaps with Highland Country Buses<sup>1</sup> or TayBus.<sup>2</sup>

---

<sup>1</sup>Highland Country Buses operates between Thurso and Wick, as do Citylink and ScotRail as part of their Inverness-Thurso services (see paragraphs 4.51 to 4.56).

<sup>2</sup>TayBus provides a service between the centre of Dundee and Broughty Ferry, as does ScotRail.

TABLE 4.8 **Citylink and ScotRail: journey purpose on certain routes**

	<i>per cent</i>									
	<i>To/from work</i>	<i>To/from school/college</i>	<i>Employers' business</i>	<i>Personal business</i>	<i>Shopping</i>	<i>Visiting friends/relatives</i>	<i>Holiday or day out</i>	<i>Other leisure</i>	<i>Don't know or no answer</i>	<i>Total</i>
<i>Citylink</i>										
Glasgow-Edinburgh	13	14	2	4	11	29	17	9	2	100*
<i>ScotRail (multiple response possible)</i>										
Glasgow-Edinburgh	21	4	17	6	13	18	12	9	0	100#
Glasgow or Edinburgh-Inverness	9	2	11	7	4	30	34	4	2	103#
Glasgow or Edinburgh-Aberdeen	20	6	16	5	7	27	15	6	1	103#
West Highland	3	1	1	8	4	13	63	11	0	104#
Inverness-Wick and Thurso	7	1	5	4	5	20	58	4	1	105#
Inverness-Kyle	2	0	2	2	3	6	75	12	1	103#
All routes	18	6	10	7	12	22	21	7	1	104#

Source: NEG.

\*Figures do not sum to 100 due to rounding.

#May exceed 100 due to multiple response.

TABLE 4.9 **Citylink and ScotRail: occupation, sex and age on certain routes**

	<i>per cent</i>										
						<i>Age</i>					
	<i>Working*</i>	<i>Student</i>	<i>Housewife</i>	<i>Retired</i>	<i>Not working</i>	<i>Male</i>	<i>Female</i>	<i>16-23 (16-25)#</i>	<i>24-34 (26-35)#</i>	<i>35-59 (36-59)#</i>	<i>60+</i>
<i>Citylink</i>											
Glasgow-Edinburgh	46	30	6	11	7	46	54	41	23	21	15
<i>ScotRail</i>											
Glasgow-Edinburgh	69	15	4	9	3	47	53	20	31	38	9
Glasgow or Edinburgh-Inverness	62	12	6	16	3	44	56	19	22	39	20
Glasgow or Edinburgh-Aberdeen	66	17	5	7	4	51	49	26	25	41	8
West Highland	57	17	4	18	4	53	47	24	22	35	19
Inverness-Wick and Thurso	55	22	7	11	5	48	52	24	22	39	15
Inverness-Kyle	48	17	2	28	5	45	55	19	16	32	33
All routes	62	17	5	11	4	47	53	25	25	37	13

Source: NEG.

\*Employed full-time or part-time or self-employed.

#Age range for Citylink (if different to ScotRail).

TABLE 4.10 ScotRail and Citylink/NEL: overlapping rail and coach routes

Route	ScotRail*			NEG#			Coach competition	Frequency				Journey time		
	Revenue £'000 1996/97	Passengers '000 1996/97	ScotRail as % of rail	Revenue £'000 1996	Passengers '000 1996	Operator		ScotRail	Other TOCs	NEG coach	Other coach	ScotRail minutes End-to-end journey	NEG coach minutes	
Glasgow-Edinburgh	[		95	[		Citylink	No	38	11	64			50-62	70-75
Glasgow-Aberdeen			100			Citylink, NEL	Note 2	16		19		Note 2	150-186	190-260
Edinburgh-Aberdeen			65			Citylink, NEL	Note 3	9	4	14		Note 3	148-167	210-250
Glasgow-Inverness			100			Citylink, NEL	Note 4	7		17			200-224	215-275
Edinburgh-Inverness			80			Citylink, NEL	Note 5	7	1	13			212-253	231-273
<i>Glasg/Ed-Inverness</i>	<i>Figures omitted.</i>			<i>Figures omitted.</i>										
Glasgow-Oban	<i>See note</i>			<i>See note</i>			Citylink	No		4			177-189	175-195
Glasgow-Fort William	<i>on page iv.</i>			<i>on page iv.</i>			Note 1	No		4			217-231	175-195
<i>Glasg-Oban/Ft William</i>			100											
Inverness-Thurso			100			Citylink	Yes (note 6)	3		4		1	219-223	160-205
Inverness-Kyle			100			Note 1	No	4		3			150-153	115-125
Glasgow-Stranraer			100			Citylink, Ulsterbus	7		2				128-155	160
Glasgow-Gourock**		]	100		]	Citylink	Note 7	50		18			40-54	68-74

Source: MMC based on information provided by NEG.

\*ScotRail revenue and passenger numbers include all categories of tickets, and business as well as leisure passengers.

#Revenue and passengers are for Citylink only. NEL's services are Glasgow-Inverness (3 a day)/Aberdeen (3)/Dundee (1)/Perth(1), Edinburgh-Dundee (1) and Stirling-Aberdeen (1). NEL's total revenue from journeys within Scotland in 1996 was £[ ## ].

~ In some cases a change of train or bus may be involved. NEG frequencies include Citylink, NEL and other operators shown.

ÐThe coach route is via Perth; the train route is via Kirkcaldy and Tay Bridge. There is a rail service from Edinburgh to Perth via Stirling (revenue £[ ## ] passengers [ ## ]) not included above, and the train route from Edinburgh to Inverness is also via Perth. There is one coach service a day from Edinburgh to Stirling.

ðSome rail services continue to Mallaig and there is also a Fort William-Mallaig coach service. There is also one rail and one coach service a day between Edinburgh and Fort William.

ßRail figures include Fort William-Mallaig.

\*\*The rail service is an SPT service. Rail revenue and passenger numbers include Glasgow-Wemyss Bay.

Notes:

1. The Glasgow-Fort William and Inverness-Kyle services are provided by Citylink and Skyways. The Fort William-Mallaig service operates for three months in the summer only and is operated by Citylink and Shiel Coaches.

2. There is competition from Stagecoach Express on journeys between Glasgow and Dundee (Stagecoach, however, follows a different route): both Citylink and Stagecoach have about 23 journeys a day, the majority of Citylink's taking 135 minutes and Stagecoach's 140 minutes. There is also competition on some short stretches of the route: Glasgow-Stirling from FirstBus; Glasgow-Cumbernauld from Stagecoach and FirstBus (Cumbernauld is served by SPT rail and is not on the main line). Between Perth and Aberdeen there is also competition on some stretches: from Stagecoach and Strathgairn between Dundee and Perth; from Stagecoach between Aberdeen and Montrose; from Strathgairn between Montrose and Dundee and between Dundee-Forfar-Brechin.

3. There is competition from Stagecoach Express on journeys between Edinburgh and Dundee (Stagecoach, however, follows a different route from Citylink although similar to ScotRail's): Citylink has 16 journeys a day and Stagecoach 20; the majority of Citylink's journeys take 130 minutes and Stagecoach's 112 minutes. There is competition from Stagecoach and FirstBus on the Edinburgh-Dunfermline section. See note 2 regarding competition on the route between Perth and Aberdeen.

4. Competition on Glasgow-Cumbernauld and Glasgow-Stirling journeys (see note 2). Competition from Stagecoach between Perth and Pitlochry.

5. Competition on Edinburgh-Dunfermline (see note 3) and Perth-Pitlochry (see note 4) stretches only.

6. Competition over the whole route from Morrisons and between Inverness and Brora from Stagecoach. Stagecoach provides four services a day to Brora and 12 to Dornoch.

7. Competition from Bus Argyll between Glasgow and Greenock.

##Figures omitted. See note on page iv.

4.31. Table 4.11 shows a comparison of rail and coach fares for some journeys within Scotland. ScotRail's Saver fares are valid for travel at any time and are comparable with Citylink's standard return. SuperSaver rail fares are not valid for travel on Fridays and other peak days and are comparable with Citylink's Economy return. ScotRail's APEX fares must be booked at least 48 hours in advance and must specify travelling times: the availability of APEX fares is limited and alterations cannot be made once the ticket is booked (its conditions are thus considerably more restrictive than Citylink's Economy return). ScotRail's cheap day return is not valid during morning peaks and is comparable with Citylink's off-peak day return. Comparison of fares in the table shows some variation across journeys: where an APEX rail fare is available, the cheapest coach fare is between 65 and 80 per cent of the APEX fare; where a rail cheap day return fare is available, the cheapest coach fare is 60 to 70 per cent of the cheap day return fare; in other cases the cheapest coach fare is 40 to 60 per cent of the cheapest rail fare.

4.32. The following paragraphs deal with each main overlapping route individually.

### ***Glasgow-Edinburgh***

4.33. ScotRail operates a half-hourly service during the day between Glasgow Queen Street and Edinburgh via Falkirk. Both GNER and Virgin operate on a longer route between Glasgow Central and Edinburgh although their services are part of long-distance operations between the south of England and Scotland. Neither GNER nor Virgin currently offers dedicated fares on the route between Glasgow and Edinburgh and their combined share of revenue in 1996/97 was 5 per cent compared with 95 per cent for ScotRail. As shown in Table 4.10, GNER and Virgin operate a total of 11 services per weekday compared with 38 for ScotRail.

4.34. NEG argued that the competitive threat from GNER (which operates 9 of the 11 services mentioned above) was greater than it might at first appear since GNER was an aggressive competitor and would increasingly be considering ways to fill any spare capacity, as currently existed on its Glasgow-Edinburgh service. GNER told us that there was some limited scope for competing on price but that it had no current intention to do this. GNER also told us that it was a long-distance travel operator with limited rolling stock and hence had no short-term ability to improve the frequency of its service; although it intended to purchase some additional rolling stock (tilting trains), this could not be in service until 2000. Railtrack has indicated its intention to examine the possibility of electrifying some additional track which would reduce the journey time of GNER's electric trains (currently about 10 minutes longer than that of ScotRail's diesels) but GNER said that this was a longer-term infrastructure option which had got no further than being discussed. In addition, GNER said that there were contractual difficulties in GNER operating over the shorter route as its PSR committed it to stop its trains at Motherwell which was not on the shorter route. NEG also said that GNER's intercity trains were perceived by consumers as being of higher quality than those of ScotRail.

4.35. Citylink currently operates a service every 15 minutes during the daytime (06.00 to 20.00) on weekdays: the majority of its services take 70 minutes compared with 50 minutes for most of ScotRail's. Citylink's service follows the motorway and thus overlaps ScotRail's for journeys between Glasgow and Edinburgh but not for journeys involving intermediate points. There are currently no competitors providing a direct coach service between Glasgow and Edinburgh. NEG argued, however, that it would be easy for FirstBus and Stagecoach to start to provide a service as they had operating bases on the route and accordingly could expand their services at little cost.

4.36. In the survey of Citylink's passengers (mainly on the Glasgow-Edinburgh route) referred to in paragraph 4.28, 38 per cent of respondents said that they had seriously considered train as an alternative means of transport, compared with 12 per cent for the car and 5 per cent for the bus, while 42 per cent of passengers had not seriously considered an alternative. 66 per cent of the coach passengers did not have access to a car on a regular basis. 71 per cent of the Citylink passengers surveyed considered that the cheap price of the coach was very important in relation to their decision to travel by coach (in addition 69 per cent considered a direct service very important).

4.37. For off-peak travel, Table 4.11 shows that the coach is about 30 per cent cheaper, but for peak travellers the differential is greater (coach is about half the rail price).

TABLE 4.11 ScotRail and Citylink: comparison of adult return rail and coach fares

	Rail fares				Coach fares				Cheapest coach ticket as % of cheapest	
	Saver	SuperSaver	APEX	Cheap day return	Standard return %	Economy return %	Day return	Off-peak day return	ScotRail ticket Day return	Other
Glasgow-Edinburgh	13.20*			8.00	6.50		6.50	5.50	69	49
Glasgow-Stirling	7.30*			5.80	4.80	3.90	3.90		67	53
Glasgow-Perth	15.30				11.00	8.80	8.80			58
Glasgow-Dundee	26.50	20.40			10.00	10.00	7.50		37	49
Glasgow-Aberdeen	42.30	38.00	25.00#		21.50	17.00	17.00			74
Edinburgh-Perth	13.30			9.70	7.30	5.90	5.90		61	44
Edinburgh-Dundee	16.40	14.50			9.00	9.00	7.00		48	62
Edinburgh-Aberdeen	42.30	35.00	25.00#		21.00	16.50	16.50			72
Glasgow-Inverness	34.90	33.00	21.00~		21.00	16.00	13.00		65	80
Edinburgh-Inverness	34.90	33.00	21.00~		20.00	16.00	16.00			80
Glasgow-Oban	22.20				16.80		12.80		58	76
Glasgow-Fort William	29.60				16.80		12.80		43	57
Inverness-Thurso	20.60				14.30	11.50	11.50			56
Inverness-Kyle	23.30				14.00		10.40		45	60

Source: MMC.

\*Standard day return: no Saver available.

#ScotRail only APEX £23, GNER Daypex £17.

~ ScotRail only APEX £20, GNER Daypex £15.

Note: Discounts are available to children under 16 (50 per cent on rail and about 30 per cent on coach). Discounts are also available to holders of railcards and coach cards, which can be purchased by students and senior citizens (34 per cent on rail and about 30 per cent on coach).

## ***Glasgow-Aberdeen***

4.38.ScotRail operates a service approximately hourly from Glasgow to Aberdeen which stops at Stirling, Perth and Dundee (and also various points between Dundee and Aberdeen). There is no other rail operator on this route (apart from the section between Dundee and Aberdeen which forms part of the Edinburgh-Aberdeen route and is discussed below) and entry is not permitted before 1 April 1999. From that date entry may be possible under the moderation of competition arrangements (see paragraph 4.9(d)).

4.39.Citylink also operates an approximately hourly service following a similar route to ScotRail: on some of these services it is necessary to change at Perth. These services of Citylink take substantially longer than ScotRail's services to complete the journey to Aberdeen (about 260 minutes compared with around 160 minutes for most of ScotRail's services; the hourly Citylink services take about 135 minutes to Dundee compared with ScotRail's 85 minutes). Citylink and NEL also operate six faster services (three of these are Citylink and three NEL) which stop only at Dundee and take about 190 minutes to Aberdeen and 105 minutes to Dundee.

4.40.NEG coaches face competition on various parts of the route. Stagecoach provides competition on journeys between Glasgow and Dundee and Citylink has responded to this by offering a special promotional day return fare of £7.50 (less than the £8.80 day return fare for the shorter journey to Perth). Stagecoach's service takes around 140 minutes to Dundee, compared with 135 minutes for the majority of Citylink's services, but follows a different route to Dundee (through Fife) and does not compete with NEG coaches on journeys involving intermediate points. As indicated in note 2 to Table 4.10, NEG also faces competition from bus services on some shorter sections of the route, including Glasgow-Stirling from Midland Bluebird (currently part of FirstBus) and Perth-Dundee from Bluebird (Stagecoach) and Strathtay (Yorkshire Traction). These bus services are significantly slower than all the Citylink services; Stagecoach told us that its Perth-Dundee service was a stopping service that did not provide effective competition for NEG's more direct service.

4.41.NEG services do not currently face competition from direct services on other parts of the route including journeys between Glasgow and Aberdeen, Glasgow and Perth, and Dundee and Aberdeen. NEG argued that it would be easy for other operators to enter on these sections, in particular Stagecoach which already had bases in Perth and Aberdeen as well as Dundee and Glasgow and could easily extend its existing Glasgow-Dundee service. Stagecoach told us that, having sold its Aberdeen-Glasgow express business to NEG in 1989, it had no plans to enter on these sections unless, for example, NEG was required to divest Citylink.

4.42.Tables 4.8 and 4.9 show a breakdown of ScotRail's passengers on the Glasgow-Aberdeen route by journey purpose, occupation, sex and age. NEG also provided us with details of pricing research carried out by the Oxford Research Agency on the Glasgow-Aberdeen route in June 1995. This showed that 11 per cent of rail passengers questioned had considered bus/coach as an alternative mode, compared with 17 per cent who had considered the car (51 per cent had a car available for the journey).<sup>1</sup> The research also suggested that 12 per cent of respondents to this question would switch to bus/coach if the rail price went up a little and 25 per cent if the rail price went up a lot. NEG's consultants (NERA) commented that simple questioning of this type might elicit biased responses since respondents might not really have thought through how they would alter their behaviour, might tend to react against price increases instinctively and might also see personal benefit in overstating their response in order to dissuade the operator from raising fares. In addition we note that a further source of bias may have arisen because those questioned only seem to have been asked about switching from train to car or bus/coach or continuing to travel by rail and do not seem to have been given the option of not travelling at all.

4.43.There are also three air services a day between Glasgow and Aberdeen, with a journey time of 55 minutes. NEG told us that the services were particularly attractive to business users but did not at present compete directly for leisure travellers as they offered few low-priced promotional tickets. NEG thought, however, that it was quite possible that such competition would develop in future (for instance,

---

<sup>1</sup>There were 479 respondents.

in response to a rise in rail leisure fares) and pointed out that low-priced tickets on the Glasgow-London journey had developed only in recent years but were now very important.

### ***Edinburgh-Aberdeen***

4.44.ScotRail operates nine services a day on this route; GNER also operates three services and Virgin one. Neither GNER nor Virgin plans to increase the frequency of its service. ScotRail accounts for about 65 per cent of revenue, GNER for 28 per cent and Virgin 7 per cent. Both ScotRail and GNER have introduced dedicated advance-purchase fares for travel to Aberdeen and other points between Dundee and Aberdeen. GNER has not at present introduced dedicated fares that do not require advance purchase and its dedicated advance-purchase fares (Daypex) require return travel on the same day. NEG told us that about 55 per cent of passengers on the Aberdeen-Edinburgh rail route travelled on day return tickets.

4.45.Citylink and NEL provide an approximately hourly service with 14 journeys per weekday via Perth and Dundee (the rail line goes via Fife). A number of these require a change in Perth. Citylink faces competition from Stagecoach Express for journeys between Edinburgh and Dundee and there is also competition from slower bus services on some shorter sections of the route (see note 3 to Table 4.10). NEG has two fast services to Dundee (one NEL, one Citylink) which take 100 minutes, the others taking about 130 minutes while Stagecoach's service takes 112 minutes (ScotRail services take between 74 and 92 minutes to Dundee).

4.46.Similar pricing research to that for Glasgow-Aberdeen was carried out. 13 per cent of respondents had considered bus/coach as an alternative mode and 16 per cent car. 10 per cent of respondents indicated that they would switch to bus/coach if the rail price went up a little and 30 per cent if the price went up a lot: NERA's comments (see paragraph 4.42) also applied to this research.

4.47.There are two air services a day with a journey time of 40 to 70 minutes.

### ***Glasgow and Edinburgh-Inverness***

4.48.ScotRail provides four direct services from Edinburgh and three from Glasgow: the number of services is increased to seven from both Edinburgh and Glasgow if allowance is made for changing at Perth. GNER provides one direct service a day from Edinburgh to Inverness and also offers Daypex fares on this service. The direct train services take about 210 minutes and those which involve changing trains about 230 minutes.

4.49.Citylink and NEL provide a total of 17 coach services a day from Glasgow and 13 from Edinburgh (in both cases some involve a change at Perth). The main service from Glasgow includes four fast Citylink coaches (taking 215 minutes) and three NEL coaches (taking 246 minutes). The main service from Edinburgh includes three fast Citylink services (231 minutes),<sup>1</sup> four slower Citylink services (250 to 273 minutes) and three services which involve taking a Citylink coach to Perth and then changing to NEL (251 minutes). There is competition from other coach services on some sections of the route (see notes 4 and 5 to Table 4.10) including from Stagecoach (Bluebird) between Perth and Pitlochry. Stagecoach said that its Perth-Pitlochry service was a stopping service that did not compete with Citylink's direct service. NEG noted that Stagecoach had a base in Inverness and was a potential competitor on other parts of the route. Stagecoach said that it had previously operated some other parts of the route but had found it could not compete with the established service of Citylink.

4.50.There are two or three air services a day from Glasgow to Inverness, taking 45 to 55 minutes, and one flight a day from Edinburgh to Inverness.

---

<sup>1</sup>There are two additional fast services on Fridays, one of which is non-stop and takes 200 minutes.

## ***Rural routes***

4.51. ScotRail and NEG also overlap on the following main rural routes: Glasgow-Oban, Glasgow and Edinburgh-Fort William, Inverness-Thurso and Inverness-Kyle of Lochalsh. In most cases the routes followed are different, at least in part, so that some coach journeys involving intermediate stops cannot be made by rail and vice versa. The Inverness-Kyle route is entirely different so the overlap is only on end-to-end journeys.

4.52. No other rail operators serve these routes. Entry is not permitted before 1 April 1999, although it may be possible from that date.

4.53. NEG faces some competition from other bus/coach operators only on the Inverness-Thurso route (see note 6 to Table 4.10).

4.54. NEG pointed out that on three of these rural routes the train was materially slower than the coach, whilst on the other one (Glasgow-Oban) it was no faster, and frequencies were similar. But since train fares were substantially higher (see Table 4.11), NEG submitted that it was not tenable to argue that slower and more expensive ScotRail services provided an important competitive constraint on its coach services.

4.55. On the rural routes, the cheapest rail fare is the Saver fare which is subject to price control (see paragraph 4.9(c)).

4.56. Both ScotRail and Citylink provide services between Glasgow and Stranraer, connecting with the ferry to Belfast. However, Citylink's service is operated in the summer months only and its passenger revenue from the coach service in 1996 was only £[ \* ]. NEG told us that the principal year-round coach operator on this route was Ulsterbus.

## ***Glasgow-Greenock***

4.57. Citylink provides a half-hourly coach service between Glasgow and Glasgow Airport and this extends on an hourly basis to Greenock and Gourock. ScotRail provides a rail service between Gourock and Glasgow (with a bus link to the airport). SPTE sets fares and service levels for rail services on this route and receives the fare revenue.

4.58. Citylink faces competition from Bus Argyll Group which operates between Glasgow and Greenock (the greater part of Citylink's route).

## **Cross-border services**

4.59. ScotRail provides one sleeper service a night<sup>1</sup> between London and Glasgow, Edinburgh, Aberdeen, Inverness and Fort William. NEG also provides direct coach services between London and Glasgow, Edinburgh, Aberdeen and Inverness.<sup>2</sup>

4.60. The main operators of direct (daytime) rail services between London and Scotland are GNER (which provides direct services to Edinburgh, Glasgow, Aberdeen and Inverness) and Virgin (which provides direct services to Glasgow). ScotRail's share of rail revenue is low as regards journeys between London and Edinburgh (9 per cent compared with 91 per cent for GNER) and for journeys between London and Glasgow (18 per cent). These revenue shares take account of the supplement payable for

---

<sup>1</sup>Not on Saturday night.

<sup>2</sup>Some intermediate points, including Dundee, are also served by both ScotRail and NEL.

\*Figure omitted. See note on page iv.

sleeper berths. NEG pointed out that ScotRail's share of revenue might additionally be overstated as claims for a reallocation of revenue had been made by both GNER and Virgin.

4.61. As shown in Table 4.12, ScotRail's APEX sleeper fare is substantially higher than both NEL's fares and the APEX fares of GNER and Virgin.

TABLE 4.12 Train and coach journey return fares between London and Scotland, summer 1997

£

<i>Scottish destination</i>	<i>ScotRail APEX*</i>	<i>Virgin APEX</i>	<i>GNER APEX</i>	<i>NEL standard return</i>	<i>NEL advance return</i>
Edinburgh	69		34	26#	26#
Glasgow	69	25	34	26	26
Aberdeen	89		60	49	40
Inverness	89		60	49	40

Source: NEG.

\*Valid until 27 September 1997.

#Daytime fare. The night-time fare is £29.99 (including discounts on eating out and travel, tourist maps of London and Edinburgh, and a free drink voucher).

4.62. NEG told us that NEL provided a total of 378 coach seats a day between London and Scotland and ScotRail provided 456<sup>1</sup> sleeper berths. NEG's total capacity was very small compared with that of GNER which ran 20 trains a day from London to Scotland and that of Virgin which ran seven. NEG also said that air travel was competitive for both business and leisure travellers (particularly given the substantial growth in discounted air fares) and it estimated that air capacity was also large (about 10,000 seats a day) compared with the combined total capacity of NEL and ScotRail.

4.63. NEG considered that its coach services between London and Scotland competed substantially more directly with the discounted rail fares offered by Virgin and GNER than with the materially more expensive and very limited capacity ScotRail sleeper services.

4.64. ScotRail's and NEL's services coincide also between Glasgow and Carlisle. However, the main direct rail service between these cities is provided by Virgin (ScotRail's service is via Dumfries) and ScotRail's share of point-to-point revenue is only about 2 per cent.

## Transport integration

4.65. A number of those providing evidence (including the DETR, the Rail Regulator and NEG) told us of the advantages of increased transport integration. In August 1997, the Government issued a consultation paper on transport policy (see Appendix 4.2) and NEG told us of a number of initiatives to which it was committed as part of its ScotRail franchise: these initiatives are listed in Appendix 4.3.

<sup>1</sup>Including 36 on the Fort William service.