

**National Express Group PLC
and
Central Trains Limited**

A report on the merger situation



MONOPOLIES AND MERGERS COMMISSION

National Express Group PLC and Central Trains Limited

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**Presented to Parliament by the Secretary of State for
Trade and Industry by Command of Her Majesty
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¹These members formed the Group which was responsible for this report under the chairmanship of Sir Graeme Odgers.

Note by the Department of Trade and Industry

In accordance with section 83(3) and (3A) of the Fair Trading Act 1973, the Secretary of State has excluded from the copies of the report, as laid before Parliament and as published, certain matters, publication of which appears to the Secretary of State to be against the public interest, or which she considers would not be in the public interest to disclose and which, in her opinion, would seriously and prejudicially affect certain interests. The omissions are indicated by a note in the text.

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Part I

Summary and Conclusions

1 Summary

1.1. Under the reference (see Appendix 1.1) we are required to investigate the merger in February 1997 whereby National Express Group PLC (NEG) acquired Central Trains Limited (Central Trains). The acquisition was made in consequence of NEG's successful bid for a franchise to operate Central Trains' passenger rail services for a period of seven years and one month from 2 March 1997.

1.2. NEG was formed in 1988 by a management buyout of the National Bus Company's scheduled long-distance coach service business. It became a publicly quoted company in 1992 and has subsequently made acquisitions of airports, further coach activities, bus companies and train operating companies. In 1996 it made an operating profit of £62 million on turnover of £483 million. NEG's coach services are operated mainly by its subsidiary National Express Limited (NEL). NEG also owns the leading bus company in the West Midlands, West Midlands Travel Limited (WMT). In 1996 NEL made an operating profit of £7 million on turnover of £106 million, while WMT's operating profit was £38 million on turnover of £178 million.

1.3. Central Trains was formerly part of the Regional Railways business sector of the British Railways Board. Its services comprise an urban network centred on Birmingham and operated on behalf of the West Midlands Passenger Transport Executive (Centro); inter-urban services centred on the Midlands; and urban/rural services covering a wide area of central England and into Wales. Draft accounts for the year ended 31 March 1997 show Central Trains' revenues as £[*] million on which it made an operating loss of £[*] million before subsidy of £196 million.

1.4. One set of issues in this inquiry arises from the common ownership of Central Trains and WMT and affects the West Midlands area. WMT has a very strong position in the West Midlands market for bus services and will be the operator of the new Midland Metro light rail service between Birmingham and Wolverhampton which is due to begin operating in 1998. The extent of competition between bus services and the rail services of Central Trains is, however, quite limited and the same will be true of competition between the Midland Metro and rail services. Moreover NEG is under an obligation to deliver the level of rail services which Centro has specified in detail in the franchise agreement. Centro sets the fares for these services and takes the revenue (subject only to an arrangement whereby NEG shares in any incremental revenue above a defined threshold). Centro also obtained assurances from NEG related to its WMT bus services and to multi-modal services, which were incorporated in the franchise agreement, in order to prevent abuses which Centro feared might otherwise result from the merger. We expect NEG to comply with these assurances. For all these reasons we do not expect NEG to exercise additional market power in the West Midlands passenger

*Figures omitted. See note on page iv.

transport market as a result of the merger.

1.5. A second set of issues arises from the combination of ownership of Central Trains and NEL and, to a lesser extent, two other train operating companies which NEG owns. These affect areas mainly outside the West Midlands. There are 12 point-to-point journeys on which there are significant overlaps between the services of Central Trains and the other NEG subsidiaries. We believe, taking full account of the range of evidence available, that there is an element of competition for leisure passengers between coach and rail services. Because of competition from other train operating companies (not owned by NEG) and bus operators, however, the merger has not given NEG opportunities to exploit its market position in relation to the great majority of the overlapping flows. There are two possible exceptions, together accounting for £1 million of annual revenue for NEG, where NEG might be able to increase coach and, to a lesser extent, rail fares as a result of the merger but on the evidence we do not expect that it will do so.

1.6. We believe that some benefits will result from the merger in the form of initiatives to promote transport integration in the West Midlands.

1.7. We conclude that the merger does not, and may not be expected to, operate against the public interest.