

## Treatment of bus:rail substitutability in previous reports

1. During the Midland Mainline (MML) inquiry<sup>1</sup> we took the view that the price of rail travel would impact on coach passenger numbers, and vice versa. We came to this conclusion taking into account values of cross-elasticity of demand (the extent to which demand for coach services would respond to increases in the prices of rail services and vice versa) together with evidence that most coach passengers chose to travel by coach because of lower fares and that coach fares were based on a discount from rail fares. Considerations applying to competition between longer distance coach and rail services would not, however, necessarily apply to competition between shorter-distance or local bus and rail services, although some services such as express buses may have characteristics common to both.
2. There is less evidence on the extent to which local bus and rail can be regarded as in the same market, although this has been discussed in a number of previous reports. In previous inquiries into mergers between companies operating local bus services, the CC has often said that the relevant local bus markets are not significantly affected by rail competition: but this has reflected the circumstances of each previous case. In all those inquiries, only a very small proportion of bus routes affected overlapped with rail services. Bus companies on the other hand have argued in a number of CC inquiries into bus mergers that there is competition between bus and rail services.
3. A number of bus merger reports from the CC have referred specifically to the Strathclyde area. For example, the 1995 Stagecoach: SBH report<sup>2</sup> referred to 'an element of competition' on local buses from other modes. It acknowledged that the SPT's ZoneCard had reduced demand for travel on bus services and increased that for rail, and that subsidized rail and underground fares also limit what bus operators could charge passengers who did not use a ZoneCard. But it noted an SPT study that only a limited number of bus routes (13, of which five were operated by Kelvin and SBH, now both part of FirstGroup) competed head-on with rail; that rail did not have the network coverage to compete with bus; and that for most journeys the choice between the two was clear-cut and not influenced by marginal differences in price. Hence the inquiry report saw the main potential competition to partners in the merged bus company being from other major bus operators.
4. Paragraph 2.43 of the 1997 First Bus: SBH report<sup>3</sup> noted:

FirstBus has argued that the [rail] network is a highly effective competitor to bus services in SBH's area of operation. In support of this argument it provided a calculation to show that 69 per cent of total SBH bus mileage [some 140 services] is in competition with equivalent rail services. The extent of this competition is not, however, clear. FirstBus compared links between rail stations with bus services that passed within a mile of those stations. We doubt that very many of those who use the bus would necessarily see these as close

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<sup>1</sup> *National Express Group PLC and Midland Main Line Limited: a report on the merger situation*, Cm 3495, December 1996.

<sup>2</sup> *Stagecoach Holdings plc and S B Holdings Limited: a report on the merger situation*, Cm 2845, April 1995.

<sup>3</sup> *FirstBus plc and S B Holdings Limited: a report on the merger situation*, Cm 3531, January 1997.

substitutes.<sup>4</sup> More generally, given the different characteristics of rail and bus travel, particularly relative frequencies, journey times, relative prices and the location of bus stops and stations, it does not follow that passengers regard the two modes as competitive alternatives, therefore switching between them on the basis of changes in fares. Indeed we have seen no convincing evidence of material price competition between bus and rail.

This led to the conclusion in paragraph 2.92 of that report: 'we do not believe there is sufficient evidence to lead us to the existence of material competition'. The context of that report was again, however, whether competition from rail was sufficiently extensive to prevent the adverse effects of any loss of competition or potential competition between bus operators in the area as a whole.

5. We have carried out one previous investigation of a merger involving a local bus and local train operator. In the 1997 National Express: Central Trains<sup>5</sup> report, we also took the view there was relatively little substitutability between train and local bus services in the West Midlands. The rail network in parts of Scotland, particularly in Strathclyde is, however, more extensive and located closer to residential areas than in the West Midlands. A conclusion in relation to West Midlands would not necessarily apply to Scotland, in particular to Strathclyde.

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<sup>4</sup>Elsewhere in the report, the CC accepted that 'there are a large number of routes for which, in the broadest sense, a rail alternative exists, but ... the use of a radius of a mile is likely greatly to exaggerate the number of journeys for which passengers see rail as a good substitute for bus'. Entire journey time, including easier access to stops was one reason for this, but FirstGroup said that most people in Glasgow resided within half a mile of a station.

<sup>5</sup>*National Express Group PLC and Central Trains Limited: A report on the merger situation*, Cm 3774, December 1997.