

FIRSTGROUP/SCOTRAIL MERGER INQUIRY

Submission from Scottish Association for Public Transport

6 February 2004

Thank you for your letter of 20th January 2004. We appreciate the opportunity to contribute to your investigation of the First Group bid for ScotRail. I can confirm that we have no objection to any of our material being made public and attributed to our Association.

Our initial submission to the OFT is appended to this letter. Please accept this as our submission to your investigation, with the following additional comments.

I note the four considerations (a) to (d) in your letter which you suggest we comment on.

An additional factor which must be considered is Government transport policy.

Transport policy

Both UK government and Scottish Executive have a policy of transport integration. Indeed the foreword to *Scotland's Transport* (September 2003), written by Nicol Stephen, Minister for Transport in the Scottish Executive, states "We are committed to improving our transport infrastructure, putting in place an integrated transport system."

It is an essential requirement of any public transport network to be able to cater for journeys involving connections between more than one point-to-point route. Transport integration brings benefits to public transport users, summarised in our appended response to the OFT.

The network benefits of a fully integrated transport system is most graphically shown by comparing Swiss transport usage with Scottish transport statistics. Swiss rail usage is now more than three times higher than Scottish rail usage per head of population, despite car ownership being higher in Switzerland.

Competition in transport

It is a national objective to achieve a shift from car use to public transport. The car constitutes the main competition with public transport on all routes in Scotland. The government has accepted that an integrated public transport system is the best way to achieve this shift.

The government support for ScotRail services, currently over £200 million annually, confirms the importance of providing a quality rail service in Scotland, for commuter traffic, inter-city travel, and also for remoter communities in the Highlands. The financial support for ScotRail, coupled with fuel duty rebate for bus operators, underlines the fact that public transport provision in Scotland is a subsidised service providing socially inclusive transport for those without cars, and providing alternative transport for those with access to cars. Public transport does not operate as a fully competitive market independent of private transport. Furthermore, as rail transport is funded on a different basis from bus transport, bus and rail do not compete on a level playing field. In an integrated transport system, they should not compete at all.

Competing bus operators, following bus deregulation, have driven down costs but failed to reverse the decline in bus usage. Area bus franchising or exclusive bus quality contracts can keep costs competitive through the franchising process, while making possible the benefits of establishing an integrated transport network.. We see franchising or bus quality contracts as being the way ahead for bus services, with encouragement of bus/rail co-ordination to increase the overall usage of public transport towards the level achieved in Switzerland.

In the OFT's conclusions on the First Group bid for ScotRail, the main OFT concern is to preserve or intensify bus competition against ScotRail train services. In this view of public transport based on competition rather than integration, timetable co-ordination and through ticketing arrangements between ScotRail and individual bus operators can be held to be anti-competitive. This view is incompatible with establishing an integrated transport system.

We hope that the successful ScotRail franchise bidder can make swift progress towards establishing an integrated transport system in Scotland, and that the Competition Commission's conclusions are compatible with this objective.

Yours sincerely,

Dr. John McCormick
Chairman
Scottish Association for Public Transport

Submission to OFT of Scottish Association for Public Transport

First Group bid for ScotRail franchise

Introduction:

The Scottish Association for Public Transport (SAPT) is an independent transport interest group established over 30 years ago to campaign for an integrated public transport system. Our Association is affiliated to Transport 2000, Transform Scotland and the Environmental Transport Association.

This statement sets out our Association's views on the possible competition issues arising from First Group's bid for the ScotRail franchise, given that First Group is the predominant bus operator in the Glasgow and Aberdeen areas, with a significant presence also around Edinburgh.

Competition and Integration:

In recent years the bus regulatory framework has been based on the 1986 deregulation of bus services, and the Transport Act (2000), and Transport (Scotland) Act 2001 which introduced the concept of Quality Partnerships and Contracts.

The present Government has a policy of integrated transport with targets to increase bus, tram and train usage, with the objectives of reducing car traffic, road congestion and atmospheric pollution and CO₂ emissions.

Based on best continental practice in Switzerland, Holland, Germany and Austria, an integrated transport system should provide:

- Public transport network with an appropriate standard of service defined for each area
- Service on each particular route usually provided by one franchised or municipal operator
- Connections between bus, train or ferry timetabled at strategic interchange nodes
- Multi-modal tickets allowing through journeys by rail, bus and ferry
- Feeder bus services, where appropriate, to maximise the use of the publicly-funded rail, underground and tram networks
- Zonal tickets in urban areas covering journeys by all public transport

This differs from transport provision in Britain where the concept of competition between bus operators, and between bus, tram and train is held in some quarters to be the way to promote lower fares and better quality services, and to attract more people to travel by public transport.

The benefit of the continental approach is proved by comparing public transport usage in equivalent countries with the British figures. For instance rail usage, measured by passenger journeys per head of population, is three times higher in Switzerland than in Scotland, despite car ownership levels also being higher in Switzerland than in Scotland. Given the high public subsidy (over £ 200 million per year) of the ScotRail franchise, the relatively low rail usage should be a subject of concern for policymakers.

At the end of the day, a high level of use of public transport is the ultimate measure of consumer satisfaction, and of successful government transport and competition policy. This is clearly not being achieved in Britain, based on international comparisons.

SAPT would welcome an opportunity to discuss these transport and competition issues further with the Office of Fair Trading, should this be of interest to you.

FIRST GROUP SCOTRAIL FRANCHISE BID:

SAPT accepts that the Office of Fair Trading is required to apply the existing regulations when considering the issues raised by the First Group bid for the ScotRail franchise.

Nevertheless, we hope that First Group, along with other ScotRail bidders, will offer integrated ticketing and bus/rail coordination schemes in its ScotRail franchise bid, as a means of moving towards delivering the Government's integrated transport policy.

Successful and reliable bus/rail coordination, which has seldom before been achieved in Britain, though commonplace in other countries, will increase overall usage of public transport and reduce road congestion and the Scottish Executive's subsidy level for ScotRail.

COMPETITION ISSUES:

There are three competition issues arising from the First Group bid:

1. **Competition for the ScotRail franchise:** Debarring First Group from bidding for the ScotRail franchise will reduce the bidders to only two (National Express and Arriva), thereby itself reducing competition for the rail service and potentially increasing the cost of the franchise to the Scottish Executive
2. **Bus/ Train Competition:** In many areas ScotRail trains and First Group buses provide alternative services particularly in the Strathclyde PTE area. First Group would effectively have a monopoly in some of these areas if awarded the franchise. However, as Strathclyde PTE specify service and fare levels on rail services in its area, this would be unlikely to have any effect on rail services or fares. (In Aberdeen, the limited extent of local rail services mean this is unlikely to be a major issue.)
3. **Bus Feeder Competition:** It could be argued that, if successful in bidding for the Scotrail franchise, First Group would be in a position to organise through ticketing and bus/rail connections between First Group buses and ScotRail trains while excluding other bus operators. This does raise the possibility of unfair competition.

As bus/rail co-ordination is a fundamental feature of a properly integrated transport system, agreeing through ticketing and bus/rail coordination arrangements should be available to all bus operators on an equal footing, and indeed encouraged, as part of the ScotRail franchise conditions. This needs to be enshrined in the ScotRail franchise conditions, ensuring that any unfair conditions imposed by First Group on other bus operators would infringe the franchise conditions and could be challenged. (All bus/rail co-ordination schemes should be subject to performance monitoring to ensure that advertised connections are maintained to a specified level).

CONCLUSIONS:

- **SAPT do not believe that awarding the ScotRail franchise to First Group would be against the public interest or would lead to unfair competition, provided all bus operators have equal opportunities to develop bus/rail coordination and through multi-modal ticket schemes with ScotRail.**
- **Debarring First Group from bidding for the ScotRail franchise would reduce competition for the franchise to only two bidders, and could therefore lead to more expensive or less attractive franchise bids, against the public interest**

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