

Executive summary

1. On 3 August 2005 the Office of Fair Trading (OFT) referred to the Competition Commission (CC) the proposed acquisition of the Thameslink and Great Northern (TGN) rail franchise by the National Express Group plc (NEG). The OFT cited as a reason for making the reference the impact of the proposed merger on competition for the supply of passenger transport services between central London and Gatwick. We are required to consider whether the acquisition might be expected to result in a substantial lessening of competition within any market or markets in the UK. We are required to report by 17 January 2006.
2. NEG is one of the largest public transport companies in the UK. It currently operates a number of rail franchises, including the Gatwick Express, One, Midland Mainline and Silverlink County (Silverlink), as well as a network of coach services. NEG is one of five shortlisted bidders for the new TGN rail franchise, which comprises: Thameslink, which runs principally between Bedford and Brighton passing through King's Cross, stations in the City and Gatwick; and Great Northern, which runs from Hertfordshire, Cambridgeshire and Norfolk principally to King's Cross. Thameslink is currently operated by GOVIA. Great Northern is currently operated by a subsidiary of NEG. NEG also runs coach services nationally, and its subsidiary, National Express Limited (NEL), operates about three-quarters of the vehicle miles of scheduled coach services in the UK.
3. Our analysis focused on the overlaps between the TGN franchise and other rail franchises and coach services operated by NEG. Rail franchises with routes which overlap with the TGN franchise are: the Gatwick Express which runs a non-stop service between Gatwick and London; New Southern Railway Limited (Southern), which overlaps on a number of flows between Brighton and London, including Gatwick to London; Midland Mainline, which overlaps on a number of flows between

Bedford and London; and One, which overlaps between Cambridge and London, and Cambridge and Ely.

4. Apart from the London–Gatwick overlap, we identified a total of 47 overlaps between the TGN franchise and NEG’s existing coach and rail services. Seventeen of these were new overlaps that would result from NEG’s acquisition of the TGN franchise, while the remainder were pre-existing overlaps—that is, overlaps arising from the current operation by NEG of the Great Northern franchise with services provided by three of NEG’s other franchises, One, Midland Mainline and Central Trains (Central).
5. On the London–Gatwick flow we considered whether NEG would have any scope or incentive to raise prices or reduce service quality or frequency, were it to be awarded the TGN franchise. We provisionally find that there is some competition between the Gatwick Express and the Thameslink service, and a greater degree of competition between the Gatwick Express and Southern services. However, we do not expect there to be a substantial lessening of competition on the London–Gatwick flow as a result of the award of the TGN franchise to NEG, because NEG would be constrained by the wider impact of a fare increase on the profitability of the Thameslink route as a whole, and in particular the effects of regulated fares and of fares on other flows on the route; and by the contractual constraints on changes to levels of service.
6. On the London to Luton, Luton Airport and Bedford flows, the Thameslink services overlap with NEG’s Midland Mainline services. However, almost all fares are interavailable, and between 30 and 87 per cent are regulated. Given the constraints on capacity, there is little incentive for Midland Mainline to seek to attract additional passengers on to these short sections of much longer inter-city routes. Competition between Midland Mainline and Thameslink is limited. We do not expect that NEG

would be able to increase prices or reduce service quality if it were awarded the TGN franchise. We therefore do not expect there to be any substantial lessening of competition on these flows arising from the merger.

7. On the London–Cambridge flow, there is a pre-existing overlap between NEG’s Great Northern and One services, which are to become part of the TGN franchise. We looked at whether, if the TGN franchise were to be awarded to another rail operator, there might be an incentive for One to reduce fares, especially off-peak, to attract passengers away from TGN. However, we do not expect there to be any substantial lessening of competition on the London–Cambridge flow arising from the merger, because of the following existing constraints on such a strategy: the One service is slower and may be less convenient for some leisure passengers; there are capacity constraints on One services; there would be a knock-on effect on fares on other flows on the same route and on the profitability of the One route as a whole; and there would be the possibility of a competitive response from TGN.
8. We examined each of the remaining new and pre-existing overlaps. We do not expect there to be any substantial lessening of competition arising from the merger in respect of these overlaps.
9. Our provisional finding, therefore, is that were NEG to acquire the TGN franchise, we would not expect there to be a substantial lessening of competition within any market or markets within the UK.