



News Release

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CC PUBLISHES FINAL REPORT ON FIRSTGROUP/SCOTTISH RAIL FRANCHISE

The Competition Commission (CC) has published its final report into the proposed transfer to FirstGroup plc (FirstGroup) of the Scottish rail franchise (the merger).

The report concludes that the merger may be expected to result in a substantial lessening of competition and adverse effects such as higher bus fares and poorer services for, and a reduction in the choice of service available to, passengers on some bus routes, mainly in the Glasgow and Edinburgh areas. But it also details matters for inclusion in behavioural undertakings designed to remedy these effects. FirstGroup will be asked to agree to these undertakings, which will also remedy the wider effects arising from FirstGroup becoming the largest public transport operator in Scotland.

The undertakings will restrict FirstGroup's ability to raise fares, or to reduce or alter services on routes of concern identified by the CC. The CC will soon finalize these undertakings with FirstGroup.

As such, it is not expected that there would be a requirement to impose structural remedies such as blocking the merger or requiring the divestment of any of FirstGroup's bus operations.

The report confirms the conclusions made in the CC's provisional report, published in April, after taking account of points made in response. FirstGroup has recently been nominated as preferred bidder for the franchise by the Scottish Executive and SRA.

Chairman of the Inquiry Group, and Chairman of the CC, Professor Paul Geroski commented:

'We have concluded that, should FirstGroup take control of the Scottish rail franchise as planned, it would lead to a substantial lessening of competition. As this could have an adverse effect on some passengers on a small number of routes, mainly in the Glasgow and Edinburgh areas, we've identified these behavioural undertakings as the most effective and appropriate way to deal with these concerns. We believe that they will ensure that passengers do not lose out as a result of the merger.'

FirstGroup operates a wide range of bus services in Scotland and following its bid to take over the Scottish rail franchise, currently operated by ScotRail Railways Ltd (a subsidiary of

National Express Group (NEG)), in January 2004 the Office of Fair Trading (OFT) asked the CC to consider the merger.

The CC's inquiry group began a detailed investigation, including a number of hearings in Scotland with interested and affected parties, a customer survey and detailed research into journeys for which passengers would have a choice of rail or FirstGroup bus services (overlap flows). It has found that the acquisition could be expected to lead to a substantial lessening of competition because it would:

- reduce competition on overlap flows on a small number of FirstGroup's bus routes in the Glasgow and Edinburgh areas (noting that, over the life of the rail franchise, other routes may give rise to concern);
- enable FirstGroup to switch some passengers from bus to rail by reduction in frequency, increased fares or reconfiguration of routes, which it would be expected to do;
- allow FirstGroup to introduce its own multi-modal ticket scheme, confined to its own services, and to influence the setting of fares of, for example, multi-operator, multi-modal ZoneCards, and to favour its own bus operation in provision of information at railway stations, to the disadvantage of other operators, which it would also be expected to do; and
- in our view, be likely to lead to higher bus fares, poorer service and reduction in choice of service available to passengers on the overlapping bus routes mainly in the Glasgow and Edinburgh areas, but also elsewhere in Scotland.

The CC does not expect that this substantial lessening of competition would be offset by other competitive constraints, in particular by entry or expansion by other operators; nor by undertakings currently in force in relation to FirstGroup's bus operation in Scotland.

The CC will therefore seek to obtain undertakings from FirstGroup that will require restrictions on altering fares and changing services on those routes identified as being of concern by the CC. FirstGroup will also be required to allow other bus operators in Scotland to participate in multi-modal ticket schemes on fair and reasonable terms; to provide fair and accurate advice about its competitors multi-modal tickets and sell these impartially; to restrict its influence in setting the terms and conditions of multi-modal schemes and to display information about other operators' bus services.

An independent monitor will be appointed to oversee compliance with these requirements.

The CC's full report is published today on its web site, www.competition-commission.org.uk.

Notes for editors

1. The FirstGroup/ScotRail Inquiry Group consists of four members—Professor Paul Geroski (Chairman of the CC from the start of May 2004), Robert Bertram, Chris Goodall and Charles Henderson—supported by the CC's staff.
2. Further information can be obtained from the CC's web site at: www.competition-commission.org.uk/inquiries/current/first/index.htm.

3. Enquiries should be directed to Francis Royle, Press Officer, 020 7271 0242, or Rory Taylor on 020 7271 0488/rory.taylor@competition-commission.gov.uk.
4. The full text of the OFT's referral of this case can be found on the OFT web site at <http://www.of.gov.uk/Business/Mergers+EA02/Decisions/Clearances+and+referrals/First+Group+Plc.htm>. There is also a link to this from the CC web site.