

**National Express Group PLC
and
ScotRail Limited**

A report on the merger situation



MONOPOLIES AND MERGERS COMMISSION

National Express Group PLC and ScotRail Limited

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**Presented to Parliament by the Secretary of State for
Trade and Industry by Command of Her Majesty
December 1997**

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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 ScotRail Railways Limited (ScotRail). The acquisition was made in consequence of NEG's successful bid for a franchise to operate ScotRail's passenger rail services for a period of seven years from 31 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 subsidiary Scottish Citylink Coaches Limited (Citylink) is the leading provider of long-distance coach services in Scotland. In 1996 Citylink's operating profit was £1.7 million on turnover of £11.3 million. In addition National Express Limited (NEL), NEG's principal coach subsidiary which operates mainly in England and Wales, operates cross-border services between England and Scotland.

1.3. ScotRail is the principal operator of passenger train services in Scotland. It also provides sleeper services between London and Scotland. Draft accounts for the year ended 31 March 1997 show its revenues as £[*] million on which it made an operating loss of £[*] million before subsidy of £285 million.

1.4. The majority of the coach routes of Citylink/NEL in Scotland overlap with ScotRail routes. The most important of these overlaps concern ScotRail's inter-urban routes-notably Edinburgh-Glasgow and routes between Edinburgh or Glasgow and Aberdeen or Inverness-and certain rural routes in the west and north of Scotland. On the inter-urban routes ScotRail's services are faster but less frequent than the coach services of Citylink/NEL. On most of the rural routes, however, the coach services are faster than the rail services, while frequencies are similar. Rail fares are considerably higher than coach fares on all the overlapping routes, though the actual price differentials vary.

1.5. Whilst precise information is not available, most of the passengers on the Citylink/NEL coach services are likely to be travelling for leisure purposes. About half of ScotRail's passengers, taking its network as a whole, travel for leisure purposes but the proportion is much higher on ScotRail's inter-urban and, especially, rural services. Taking full account of the range of evidence available we believe there is an element of competition between coach and rail services, principally for leisure passengers. This competition has been lost as a result of the merger.

1.6. There is some competition from other rail and bus/coach operators, and some regulatory restrictions on ScotRail's ability to alter service levels and fares. The significance of

*Figures omitted. See note on page iv.

these factors varies from route to route but in general they are not enough to prevent detriments of two kinds: first, increases in coach fares, and secondly, a loss of more vigorous competition which could have been expected to develop, following the franchising of ScotRail, had Citylink and ScotRail been in separate ownership. We consider that one or both of these detriments may be expected to arise in respect of nine overlapping routes which together account for over £40 million of annual revenue for NEG. We therefore conclude that the merger may be expected to lead to *(a)* coach fares above current levels; and *(b)* higher fares, a loss of innovation and a lower quality of both coach and rail services compared with the situation that would have prevailed in the absence of the merger.

1.7. We believe that behavioural undertakings would not be an adequate remedy, and that the divestment of ScotRail would be both undesirable and disproportionate to the adverse effects. Instead we recommend that NEG should be required to divest Citylink within six months to a purchaser or purchasers approved by the Director General of Fair Trading (DGFT). We further recommend that NEG should be prevented from increasing its scheduled coach services within Scotland, unless given consent to do so by the DGFT, for the period of the current ScotRail franchise agreement.