6 Views of other interested parties and representative bodies

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Introduction

6.1. We sought the views of a wide range of interested parties and representative organizations. With the exception of the DETR, The Scottish Office, the Franchising Director and the Rail Regulator, whose views are recorded in Chapter 5, this chapter summarizes their views.

Bus and coach operators

Clydeside Buses Limited

6.2. Clydeside Buses Limited (Clydeside) said that it did not believe the merger would substantially affect competition in the short term, although there could be a change in the level of services provided in the longer term.

6.3. However, Clydeside had slight reservations about the merger. The company currently operated coach services on behalf of Citylink which competed with services operated by ScotRail. The extent of competition was limited, but Clydeside considered that if NEG decided to rationalize its coach and rail services to increase profitability, some of the competing services could be reduced or stopped. This could be detrimental to Clydeside if the reductions affected the level of coach services it operated for Citylink.

J W Coaches Ltd

6.4. J W Coaches Ltd considered that, the franchise having been awarded, the merger should be permitted. NEG should, however, be required to give undertakings to prevent it from abusing its monopoly of long-distance travel in Scotland and to ensure sufficient choice between modes of travel.

Strathtay Scottish Omnibuses Limited

6.5. Strathtay said that its bus operations in the ScotRail area comprised services within the City of Dundee; services connecting the City of Dundee with the coastal towns of Broughty Ferry, Monifieth, Carnoustie, Arbroath and Montrose; and services between the cities of Dundee and Perth. This route network accounted for about 60 per cent of Strathtay's overall business.

6.6. Strathtay said that nine of its services competed with NEG companies: seven operated on corridors competing with ScotRail, four with NEL, four with Citylink and three with Tayside Public Transport Company Limited.

6.7. Strathtay was concerned that fares abuses, disguised as marketing initiatives and funded through the substantial subsidies available under the franchising agreements, would seriously undermine competitive pricing policies in the market place.

6.8. Further pricing initiatives on coach and bus operations, and the significant market dominance of NEG-which supplied some 75 per cent of the passenger services provided by bus and rail operations in

Strathtay's operating area-would have serious effects on Strathtay's business. Such dominance would be likely to restrict the development of business in future and could result in the gradual elimination of other suppliers. NEG could, from its dominant market position, unfairly influence the levels of service provided and the prices charged, to the detriment of other operators.

6.9. In Strathtay's view, the merger should only be permitted if NEG were required to dispose of either its subsidiary, Tayside Public Transport Company Limited, or its control of those express coach services operated by NEL and Citylink that had a bearing on the local market in Tayside.

West Coast Motor Services Company

6.10. West Coast Motor Services Company (West Coast Motors), in which NEG has a 25 per cent interest, said that divestment of Citylink by NEG would have a substantial impact on the future of both local and long-distance bus and coach services. This was because the future of the Citylink network of services, provided on its behalf by numerous associate or local operators, would depend on the policy of the new owners. Failure to continue the network could seriously affect the provision of local bus and coach services, especially if local authorities were unable to meet the cost of providing alternative services.

6.11. There was no rail link to Campbeltown, but links between Glasgow and Oban were a good example of the road/rail split of passengers. In summer there was enough traffic to sustain both routes profitably, but in winter, despite poor passenger loadings, both maintained three services a day and neither made ends meet. It would be sensible for the two to integrate during the winter, with a timetable spread more evenly throughout the day and ticket interchange arrangements to give the public more choices without losing frequency. This was unlikely to happen if the services were not in common ownership.

Train operators

Great North Eastern Railway Limited

6.12. GNER said that it primarily ran services directed at the long-distance passenger travel market, including a number of rail services in Scotland which competed with those of ScotRail. It was unlikely that it would seek to develop its share of the shorter routes in competition with ScotRail, but it might wish to develop coach/rail links which would help to increase the number of journey opportunities available to the public.

6.13. GNER believed that it was in the public interest to protect operators' rights to develop integrated services across different modes of transport. This helped to create better travel opportunities and easier connections over longer distances. It considered that NEG might take advantage of its dominance in Scotland to restrict another operator's ability to develop such integrated links, or significantly to raise the cost of entry for a new operator.

Operators of both train and bus/coach services

Stagecoach Holdings plc

6.14. Stagecoach believed the merger gave rise to a number of competition concerns. There was, in its view, an apparent inconsistency in the way in which public transport acquisitions were dealt with by the regulatory authorities. These were being redressed by the inquiry into the merger.

6.15. Stagecoach had formerly operated services on behalf of Citylink but no longer did so (though it still acted as a contractor to NEL in England). It had instead made a small payment to Citylink for it to deregister its interest in routes from Ayrshire to Glasgow and from Inverness to Aberdeen and had taken over and developed these routes. It intended to develop additional business on routes that linked areas where it had a strong local presence as a bus operator. The Stagecoach approach to longer journeys was, however, different from that of NEL and Citylink. Those companies operated through franchises or contracted services whereas Stagecoach had always owned its vehicle fleet and depot infrastructure. Nevertheless, if parts of Citylink came on to the market, Stagecoach would consider buying them because they could integrate well with Stagecoach's existing bus operations in Scotland.

6.16. Stagecoach's inter-urban services were different from NEG's operations, being essentially local extensions to an existing local bus infrastructure. They generally took longer than Citylink's services because they served intermediate communities, which were often off the main road, as well as the towns and cities at the two ends of the route. Buses and long-distance coaches were two distinct markets, although inter-urban bus services represented a point of overlap between them. Stagecoach was not trying to run a national network of services, either in Scotland or in the UK as a whole, and did not spend substantial sums on promoting a network, as NEG did.

6.17. Asked if other operators would be likely to move in if NEG's services in a particular area deteriorated or its fares went up, Stagecoach commented that there had been no sustained competitive entry against NEG in the 17 years since coach deregulation, even though NEG had had periods of weakness. This might be because the economics of the bus and coach industries were different. The break-even point of local bus services was low. Local services did not face a seasonal pattern of demand and the cost of vehicles was much lower than for coaches. The vehicles which Stagecoach was buying for its inter-urban services were up to half the price of those used on NEG's services: they were intended to be sufficiently comfortable for journeys of up to about an hour and a half but not more.

6.18. Stagecoach suggested that there was considerable competition between coach and rail services in Scotland. When asked to what extent a joint owner of coach and rail services would be able to exploit its position, for example by running down its coach services or increasing coach fares in order to attract more passengers to its rail services, Stagecoach said that it did not believe it would be a good strategy for NEG to run down its coach services in Scotland. It might, however, be an attractive proposition to sell Citylink at a premium price and then take advantage of the subsidized opportunities afforded by the rail franchise.

6.19. There was little opportunity for operators other than Citylink to enter potentially lucrative routes such as those between Edinburgh and Glasgow. Stagecoach did not operate local bus services in either centre at the time of the merger, although it had introduced some local services in Glasgow from April 1997. Citylink provided the frequency of service that meant the route was well supplied at very competitive prices. Were the fares much higher, and the rail service not good, there might be an opportunity to challenge on the route. Now, however, there were new trains operating at better frequencies.

6.20. Stagecoach thought ScotRail would benefit from the strength of the NEG management. It remained uncertain, however, how NEG would deal with the question of rail/bus integration given that it had bus operations in only a few areas in and around Dundee and Inverness.

Local authorities

Convention of Scottish Local Authorities

6.21. The Convention of Scottish Local Authorities (CoSLA) wrote on behalf of a number of Scottish local authorities that it had consulted.

6.22. CoSLA told us that the majority of responses, from authorities in the east coast and central areas and also south Scotland, inclined to the view that there was no significant competition concern about the merger. Any proposals for divestments within the NEG bus portfolio would, however, be likely to worsen competition, not least because the new operator of the route would be likely to be one of the other large bus companies (which might also be subject to competition investigations). The NEG coach network had many benefits-guaranteed connections at key points, single timetabling and through-ticketing, as well as promotional benefits.

6.23. A minority of respondents, notably Highland and Perth and Kinross Councils, had expressed concern about the merger, pointing out that almost all competition in their respective areas was from NEG. In order to fulfil the legally binding franchise commitments for rail services, NEG might be tempted to market its bus operations less favourably than its train services, leading to a decline in the provision of bus services. On the other hand, if the company intended to maintain its bus services after the expiry of the rail franchise, it might not actively promote its rail services.

6.24. Highland Council recognized that the merger could provide an opportunity for through-ticketing and for improved co-ordination with those Citylink bus routes which did not parallel rail routes, but on balance was not in favour of the merger.

Public Transport Unit (advising Aberdeen City Council, Aberdeenshire Council and The Moray Council)

6.25. The Public Transport Unit (PTU) explained that it provided public transport advice to the three unitary councils covering north-east Scotland.

6.26. The PTU said that whilst the respective authorities would be concerned if the merger were adversely to affect the present level of services and fares provided by Citylink and ScotRail, there was no evidence to support the view that the merger was operating, or would be likely to operate, against the public interest. It might encourage closer integration of existing public transport services and the further development of public transport initiatives to offer more effective competition to the car for longer-distance travel requirements. On balance, the PTU saw no grounds to oppose the merger.

6.27. If the merger was allowed, the PTU considered that it might be desirable to safeguard the existing service and fare levels on Citylink services between Aberdeen and Edinburgh/Glasgow, with any proposed changes perhaps being regulated and subject to consultation with local authorities.

Angus Council

6.28. Angus Council commented that the local bus services in Angus did not generally compete directly with ScotRail services. Strathtay (see paragraphs 6.5 to 6.9) operated the Tayway service between Arbroath and Dundee on a commercial basis and, whilst this corridor was also served by ScotRail, the frequency of the current rail service was not sufficient to attract significant numbers of local passengers.

6.29. In the event that improvements in the current rail timetable between Montrose and Dundee led to any significant switching of passengers from bus to train on this route, the commercial viability of the Tayway corridor could be adversely affected, perhaps resulting in fewer bus services to communities in that part of Angus not directly served by rail.

Argyll and Bute Council

6.30. Argyll and Bute Council said that within Argyll and Bute a number of bus services was provided by Citylink or its associated companies. This brought the benefits of co-ordinated timetabling, including links with ferry services, in the west coast corridor.

6.31. On the one hand the council was concerned that, if the merger were to be permitted and NEG retained Citylink, there would be potential for a monopoly in regard to the Glasgow/Oban bus and rail services. The lack of competition could lead to either a reduction in the services provided or increased fares. On the other hand, if NEG were to be required to sell Citylink as a condition of the merger, there would be some risk that the present Citylink services could be fragmented and that the co-ordinated timetabling, crucial in an area where there was insufficient traffic to justify dedicated ferry-related services, could be prejudiced. There could also be some small-scale implications for local employment.

6.32. If the merger were to be allowed, and particularly if there were no accompanying divestment of Citylink, the council considered that NEG should be required to undertake to maintain current service levels, fares and timetabling arrangements for its services in the western corridor. Similar conditions should be imposed in respect of rail services between Glasgow and Oban. Communities in rural areas such as Argyll and Bute, where public transport links were of primary importance, should not be disadvantaged as a result of the merger.

South Ayrshire Council

6.33. South Ayrshire Council had no real concerns about the merger with regard to the nature and level of competition within the bus and rail markets in its area. The council was, however, concerned that any requirement for NEG to divest itself of any of its bus operations could lead to further instability in an already very competitive market.

Clackmannanshire Council

6.34. Clackmannanshire Council pointed out that there were no rail services either from or to Clackmannanshire. Potential rail travellers had to access services by using other modes, so the council was keenly aware of the importance of efficient multi-modal travel and particularly a need for better co-ordination of bus and rail timetabling.

6.35. The council added that evidence that bus and rail served different markets was perhaps demonstrated by changes in demand in recent years. At a time when car ownership in Clackmannanshire had been growing rapidly, the number of bus trips taken by Clackmannanshire residents had been falling, but the number of rail journeys had remained fairly static. The main public transport competition for NEG's inter-urban bus services was from other operators of inter-urban bus services. Where inter-urban bus services were in competition with rail the bus services were generally much slower and cheaper, so that bus and rail services both competed with car travel in different ways. The greatest threat to price, frequency, range and quality of rail services would be if demand fell. The future market for rail services would be significantly affected by factors outside the control of bus and rail operators, such as growing road congestion, fuel price increases and land-use changes. These factors all affected bus and rail services in different ways.

6.36. The council considered that the merger should be allowed to proceed and that safeguards on the quality and efficiency of the rail service operation were best handled through the terms of the ScotRail franchise agreement.

Cumbria County Council

6.37. Cumbria County Council noted that competition between NEG and ScotRail within Cumbria was limited to travel between Glasgow and Carlisle and the sleeper service between Carlisle and London. The council was concerned that the removal of competition as a result of the merger might have an adverse effect on fares or service levels, and NEG should be asked to give assurances that would satisfy this concern.

The City of Edinburgh Council

6.38. The City of Edinburgh Council saw the merger as an opportunity to provide an integrated public transport service and additional benefits to passengers such as through-ticketing to places not served by the rail network. The council noted that bus and rail served different sectors of the market and types of journey. Whilst trains were convenient for point-to-point journeys, buses gave greater flexibility in the exact origin and destinations in towns and cities.

6.39. In the council's view, although the merger might create some difficulties, for example a reduction in the level of coach services on routes parallel with ScotRail routes, the benefits would outweigh any disadvantages. Although some reductions in Citylink's services might occur, the council believed that strong competition from the other major operators as well as many smaller bus and coach operators should ensure that services were continued.

Falkirk Council

6.40. Falkirk Council said that Citylink did not currently operate any services within its area. However, residents of Falkirk could travel by local bus services to connect with the Citylink network, which provided services to destinations not currently on the ScotRail network. If Citylink were to reduce its level of operations or increase its prices, there would be an adverse effect on the choice of mode of travel.

6.41. The council also drew attention to the availability of through-ticketing arrangements, allowing Citylink passengers to transfer to the NEL network for journeys south of the border, and discount fare schemes for both students and senior citizens. It was concerned that the future of such facilities might be under threat if NEG were required to divest itself of Citylink.

6.42. The council commented that there was potential for NEG to become a monopoly provider of bus and rail services in Falkirk and other areas of the central belt if it acquired all or part of Midland Bluebird from FirstBus. This could have an effect on fares and frequency of services and possibly an adverse effect on employment in the area.

Glasgow City Council

6.43. Glasgow City Council had no direct observations on the merger. It confirmed that there was no competition issue in the Glasgow area arising from NEG operating both rail and coach services which would cause the council concern.

The Highland Council

6.44. The Highland Council believed that the merger was against the public interest. There was a danger that in order to fulfil the legally binding commitments for the rail franchise NEG might be tempted to market the bus/coach services less aggressively, ultimately leading to their decline. Alternatively, NEG, mindful that the rail franchise was for seven years only, might not promote all rail services enthusiastically, especially if it intended to maintain bus services at the end of the franchise period.

6.45. There were large differentials between the cost of rail and coach travel and, whilst it could not predict post-merger fare levels, the council pointed out that there was scope for increases in coach fares.

North Lanarkshire Council

6.46. North Lanarkshire Council did not oppose the merger which, in its view, gave rise to no material competition issues. However, it believed that the already competitive bus market could be destabilized if NEG were to be required to divest itself of part of its operation. In the council's view, any divestment would be detrimental to the public interest.

Midlothian Council

6.47. Midlothian Council said that the merger would have only a minimal effect on residents in its area as NEG bus services operating in Midlothian were limited and there were no rail services.

6.48. It believed that the merger had the potential to improve services through integration and the provision of through-ticketing and that, subject to safeguards on the levels of service provision and fares, the merger should be allowed to proceed.

The Moray Council

6.49. The Moray Council said that from its point of view the key issue related to the Aberdeen-Inverness rail link which passed through the county. In rural areas like Moray any change which might affect the level or extent of the rail network needed to be viewed with caution. If the merger were to be allowed, the council hoped there would be sufficient safeguards to maintain at least the present standard of service.

West Lothian Council

6.50. West Lothian Council was firmly committed to a policy of integrated transport and welcomed the opportunity afforded by the merger for Citylink to act as a feeder to rail routes rather than engage in futile and unnecessary competition. The council said that it would like a seamless transition between coach and rail travel, with through-ticketing and a wider number of destinations served by public transport.

6.51. There was some concern that lack of competition might cause fares to rise and that a cosy monopoly might develop, but the council believed that the stringent controls required under the rail franchise agreement, and the necessity to generate both revenue and profit, would act as a regulating influence.

Strathclyde Passenger Transport Executive

6.52. SPTE, also reflecting the views of SPTA, said that in its view no competition issue arose from NEG's operation of both rail and coach services in the Strathclyde area. However, whilst SPTE was not concerned about rail/coach competition, it considered that any requirement for NEG to divest itself of its coach operations in the Strathclyde area as a condition of the merger could act to limit competition between coach operators and further destabilize the bus and coach market.

6.53. SPTE saw rail and coach services as separate markets with potential for integration and co-ordination, rather than as operating in any monopolistic way. NEG did not have any significant coach operation in the Strathclyde area. SPTE was not persuaded that divestment by NEG of Citylink would be in the public interest. In its view, service safeguards, which could be monitored by the regulatory authorities, were a preferable solution. Nor would SPTE favour disposal of the ScotRail franchise by NEG. It was satisfied with the safeguards in the franchise agreement and the relationship it had established with NEG.

Trade union movement

Scottish Trades Union Congress

6.54. The Scottish Trades Union Congress (STUC) believed that ScotRail and Citylink competed to a significant extent and that NEG's ownership of both companies could reduce consumer choice by inhibiting competition within Scotland and on services between Scotland and London. If the merger were to be allowed, NEG should undertake to maintain current service provision and fare structures on both ScotRail and Citylink services, and both should be required to continue to develop for customers the widest possible choice of travel alternatives.

6.55. The STUC was concerned that ScotRail, under NEG ownership, might not develop rail links to Glasgow and Edinburgh airports, primarily because these would compete with a Citylink service to Glasgow Airport and because NEL also operated coach services from Scotland to Manchester, Heathrow and Gatwick airports.

6.56. The STUC recognized that overnight sleeper train services and long-distance overnight coach services operated in different sectors of the travel market, but believed that there was potential for competition between them on services between Scotland and London. In the past, trains had provided overnight seating accommodation at budget prices, in competition with the long-distance coach services. There was clearly potential for a similar service to be provided in future, but the STUC thought it was unlikely that ScotRail would offer it whilst under the same ownership as the coach services. The merger therefore limited potential consumer choice.

6.57. NEG also owned, or had a share in, a number of local bus/coach operators in rural areas of Scotland. Whilst the STUC was unable to identify, in the context of the merger, any direct competition issues arising from NEG's involvement in those companies, it considered that Citylink could take advantage of the generally lower wages applicable in the rural areas to improve its competitive position against those ScotRail services which were seen as the most economically fragile.

6.58. The STUC said that barriers to enter the bus/coach market were formidable. Since bus deregulation, a number of services had been launched in competition with those provided by Citylink. Almost none had survived. Even those long-distance services introduced by larger operators such as Stagecoach tended to operate on different routes. The high price of both new and second-hand coaches also militated against entry into the market.

National Union of Rail, Maritime & Transport Workers

6.59. The National Union of Rail, Maritime & Transport Workers (RMT) was concerned that NEG, with its control of both bus/coach and rail services, could shut down some of the rail services in order to make way for buses. It was also concerned that the concentration of bus/rail ownership could give rise to pricing policies that were against the public interest.

6.60. The RMT noted that staff levels in both NEG and ScotRail had fallen significantly in recent years. Any further cuts in rail staff would result in the service becoming increasingly unattractive to passengers, on both safety and comfort grounds, and would lead to further pressures for the substitution of trains by buses.

6.61. In the RMT's view, an undertaking by NEG to maintain all its current coach and rail services should be a condition of the merger being allowed to proceed.

Transport Salaried Staffs' Association

6.62. The Transport Salaried Staffs' Association (TSSA) told us that, in its experience, the immediate policy of rail franchisees on acquiring a TOC was to review staffing levels with a view to improving profit margins. Given the rigorous economies implemented by BRB prior to franchising, the TSSA was concerned that the scale of economies sought by franchisees could be detrimental to the quality and even threaten the level of service to which the new operator was committed. In the TSSA's view, any undertakings by the merged organization to maintain the quality and level of services should not be undermined by excessive staff economies.

Transport consultants

Passenger Transport Networks

6.63. Passenger Transport Networks (PTN) is a transport consultancy specializing in strategic planning and market analysis for public transport. It took the view that the award of the ScotRail franchise to NEG, which owned substantial bus interests in the ScotRail area, raised acute concerns about monopolistic behaviour. It saw no advantage, however, in requiring the divestment of the ScotRail franchise, because of the turmoil this would cause, or the divestment of Citylink, which could damage the Anglo-Scottish coach operations. It proposed that reporting requirements should be imposed to ensure that NEG could not play off ScotRail and Citylink in order to maximize profit at the expense of the public.

6.64. PTN commented that the merger had highlighted major weaknesses and anomalies in the institutional structure of public transport following the piecemeal sale of the nationalized bus companies and the sale of rail franchises. It believed that a new planning role for public authorities and a radical overhaul of the regulatory system were needed if the Government's objective of offering `seamless' journeys by public transport were to be achieved. It wished to see a thorough review of the structure of the public transport market and provision for sensible co-ordination to take place where this was plainly in the public interest.

Symonds Travers Morgan

6.65. Symonds Travers Morgan (STM) took the view that an integrated transport system benefited passengers provided that they were protected from the operator's monopoly power. STM would therefore welcome any requirement imposed on NEG to improve the ease of multi-modal journeys, including those not undertaken on its own services.

6.66. Citylink provided a comprehensive coach service throughout Scotland. NEG's acquisition of ScotRail offered, therefore, opportunities for improved co-ordination of its coach and rail services through common timetabling, ticketing, etc. However, ScotRail was almost the least dependent on fare revenues of all TOCs and so had an incentive to drive down costs and service to the lowest possible level and make its money from Government subsidy, rather than build up rail patronage at the expense of its coach operations. ScotRail also probably faced less competition than other TOCs.

6.67. If the merger were allowed to proceed, STM believed that tight safeguards on integration and maintenance of services, including through-ticketing and timetabling, should be imposed.

Other associations and interest groups

Aberdeen Chamber of Commerce

6.68. Aberdeen Chamber of Commerce did not believe that the merger would be likely to operate against the public interest. It anticipated some minimal beneficial effect on employment and also improvements in the frequency, range and quality of the services provided. It saw no competition issues, but would be concerned if the monopoly were to erode the possibilities for lower-cost, long-distance travel. It was likely, however, in that event, that other bus operators would seek to increase their own market shares.

Fife Chamber of Commerce and Industry

6.69. Fife Chamber of Commerce and Industry considered that an anti-competitive situation would arise in Fife as a result of the merger.

6.70. One Chamber member, a bus operator, felt particularly that the control of Citylink as well as ScotRail by NEG was too much of a monopoly for the population density of central Scotland.

Glasgow Chamber of Commerce

6.71. Glasgow Chamber of Commerce, whilst not conversant with the details of the merger, took the view that NEG should not be allowed to reduce the present level of service, including the level of service to employees, to a point where there was an adverse effect on business and its ability to operate in the most effective manner. Price increases should be kept in line with the level of inflation for an agreed number of years.

The Association of British Travel Agents Ltd

6.72. The Association of British Travel Agents Ltd (ABTA) took the view that NEG, through Citylink, had a virtual monopoly of scheduled coach services in Scotland. ScotRail operated a cohesive network of long-distance and commuter rail routes in Scotland. Hitherto, these two modes of transport had provided the main competition in public transport.

6.73. In ABTA's view, in order to meet the requirements of the Rail Regulator, NEG would need to focus its operations in Scotland exclusively on the rail sector. Where there was a requirement to increase either revenue or passenger numbers, this might be more easily achieved if coach services operating parallel to rail routes were not actively marketed.

6.74. ABTA was concerned that through-ticketing and interavailability of rail tickets were being undermined by the introduction of new, operator-exclusive, ticket types. NEL operated Anglo-Scottish coach services whose passengers were being targeted by the long-distance rail operators, GNER and Virgin. ABTA was sceptical that NEG would encourage rail passengers on to its competitors' services by providing cheap through-tickets or a co-ordinated timetable.

6.75. ABTA was also concerned by the possibility that NEG would seek to sell both rail and coach tickets through its current retail outlets. ABTA felt that the development of exclusive promotions and direct-sale ticket types would threaten the provision of comprehensive and impartial advice to passengers through the travel agency network.

6.76. On balance, ABTA believed that the merger would operate against the public interest unless stringent safeguards were put in place for coach passengers, namely the preservation of the existing network and current fare structure.

Institute of Transport Administration

6.77. The Institute of Transport Administration was unable to offer support or otherwise for the merger. It had no reason, however, to believe that the merger would operate against the public interest.

The Friends of the Far North Line

6.78. The Friends of the Far North Line had no objection to the merger provided that the PSR was adhered to and that the substitution of buses for rail services was not allowed. It regarded bus and rail services as complementary, rather than competitive, although it recognized that some intermediate bus services to Inverness, operated by Stagecoach, were in competition with the rail services.

Rail Users' Consultative Committee for Scotland

6.79. The RUCCS welcomed the merger, which it believed would provide opportunities for the co-ordination and integration of public transport throughout large areas of Scotland. The introduction of through-ticketing, interavailable fares and other benefits would give passengers greater choice and easier access to information about public transport services.

6.80. The RUCCS considered that there was extensive competition between coach and rail transport, particularly on services operating in a 5- to 50-mile radius. There were numerous operators, particularly on major transport corridors like Edinburgh-Glasgow. Barriers to entry to the coach market were low and there were opportunities for those who wished to start up coach operations.

6.81. In welcoming the merger, the RUCCS considered that there should nevertheless be safeguards for passengers. NEG had given undertakings on service frequency and fares but the RUCCS believed that the undertakings could be extended to cover the quality of service as well. It was also important that the timetabling information available to the merged group should be made available to other companies for the benefit of passengers. Any significant changes in bus operations should be monitored and NEG required to explain fully what its proposals for change were, and why they were being put forward.

6.82. The RUCCS did not favour approval of the merger being conditional on NEG being required to divest either ScotRail or Citylink. In its view, divestment of either would be detrimental to passenger services in Scotland.

6.83. One RUCCS member submitted views opposing the merger on the grounds that the monopoly situation arising from it could have a considerable adverse effect on the level of prices and the frequency, range and quality of services offered to rail passengers. According to the RUCCS, there had been no support for this dissenting view at a public meeting.

The Railway Forum

6.84. The Railway Forum has been recently established to represent the interests of all parts of the railway industry and has some 30 members including Railtrack and the owners of 17 TOCs. NEG is a member. A principal objective of the Forum is to promote policies which will encourage the development of business and trading opportunities for rail-based transport.

6.85. The Forum told us that the shares of the public transport market held by rail and bus had declined over a long period, and now stood at 5 per cent and 6 per cent respectively, as against the principal competitors-cars and light vans-with a market share of some 86 per cent. The rail industry was seeking to reverse a historic decline and was still in a relatively weak market position. The need for TOCs both to co-operate and compete was a principle behind the Railways Act, and this was also applicable to the co-ordination of bus and rail services so that they could offer a comprehensive and effective public transport network.

6.86. The Forum noted that the 25 TOCs were managed by 12 companies, seven of which were also bus operators or had a significant shareholding by a bus operator. This clearly had the potential to bring benefits to passengers in terms of co-ordinated bus and rail services, ticketing and information, and such developments were already happening on a number of routes.

6.87. The rail industry was already heavily regulated compared with its competitors and there needed to be a balance between protecting the interests of the consumer and encouraging the growth of the industry. In the Forum's view, the key issues in determining where the public interest lay on rail regulatory issues included:

(a) the effect on transport policy objectives, which supported an increase in rail market share;

(b) the effect on levels of provision of public transport and its quality;

(c) the effect on the environment; and

(d) relief of road congestion.

Scottish Association for Public Transport

6.88. The Scottish Association for Public Transport (SAPT), although supportive of the merger, expressed concern that it could have adverse effects on some travel corridors, particularly those between main centres in Scotland, by encouraging NEG, whilst observing the minimum requirements set out in the franchise agreement, to seek to shift a higher proportion of total traffic from rail to coach. In the SAPT's view, it was essential that there should be equality of treatment for both rail and bus/coach services and, in particular, in the frameworks affecting choices between car use and public transport.

The Scottish Council Development and Industry

6.89. The Scottish Council Development and Industry (SCDI) was not opposed to the merger, which it saw as an opportunity for closer co-ordination between rail and bus services. The SCDI saw passenger benefits in comprehensive information on services, coherent timetabling, through-ticketing and discount fare structures.

6.90. The SCDI considered that NEG should be required to run its bus and rail operations as separate companies in order to preserve the benefits of competition between the two companies. NEG should not be allowed to expand one service to the detriment of the other.

Individuals

Mrs H M Campbell

6.91. Mrs Campbell said that if the merger were to be allowed the enlarged company should retain its current arrangements for concessionary fares, so that those who currently benefited from reduced travel costs were not disadvantaged.

Mr P Giles

6.92. Mr Giles considered that the merger gave NEG a virtual monopoly on the Glasgow-Dundee, Glasgow-Aberdeen and Glasgow-Inverness routes. This would allow NEG to reduce the level of train services and to increase prices, while holding down coach fares as a deterrent against new entrants to the market. Mr Giles believed that any reduction in rail services would damage the tourism industry in Scotland with consequent risks to employment.

6.93. Mr Giles suggested that any future increase in charges by Railtrack might be welcomed by the merged company and could be used by it as an argument for reducing train services in order to achieve greater use of its coach services. In this regard, the situation was even more critical north of Inverness where traffic was much lighter and there was a constant fear of railway line closures.

6.94. In view of the inability of some people to travel by coach, Mr Giles believed that the following safeguards would be appropriate in order to protect the public interest:

(a) a ceiling should be set for the differential between standard coach and rail fares; and

(b) a limit should be imposed on the relative frequency of coach and rail services in order to secure a minimum service on critical rail routes.

Cllr E J Howie

6.95. Ms Howie, a member of Perth & Kinross Council writing personally, argued that the merger had already been shown to be against the public interest. Citylink's services between Glasgow and Pitlochry had recently been cut from 12 to 8 a day at a time when an increase in services during the summer season would have been expected. The alternative single journey by rail cost almost three times as much: £17.40 rather than £6.60.

Mr C C Maclean

6.96. Mr Maclean supported the merger. In his view, ScotRail had already benefited from NEG's management input. There was no conflict of interest because the coach and rail operations were two entirely separate businesses.

Mr I L Pearson

6.97. Mr Pearson believed that any benefits from the common ownership of ScotRail and Citylink would flow to NEG and not to the consumer. The need to maintain competitive pricing between the two modes would disappear over time and NEG would have an incentive to use the monopoly situation to maximize profits. It would be necessary to improve ScotRail's performance in order to protect NEG's financial position and its shareholders' investments. Since most of ScotRail's costs were outside NEG's control, the transfer of revenue from a competing mode (Citylink) would be an attractive solution. Common ownership would therefore result in less choice and higher costs for the consumer. Any greater integration of public transport attributed to the merger would be at the expense of competition between coach and rail services, with one mode being made subservient to the other in order to serve the interests of the common owner.

6.98. Mr Pearson said that the ownership of both ScotRail and Citylink coach services made NEG virtually the only long-distance travel operator in Scotland. In his view, it was important that coach and rail services were returned to separate ownership. To that end, he believed that NEG should be required to dispose of all its coach services to the north of Edinburgh and Glasgow and that, whilst it retained the ScotRail franchise, it should not be allowed to run coach services between Edinburgh and Glasgow or register local bus services to achieve the same end. Similarly, local bus companies owned by NEG should not be allowed to run coach services whilst NEG retained the rail franchise. Mr Pearson also believed that NEG should not be permitted to impose conditions that might restrict the sale of coach tickets by a ScotRail or NEL ticket agent or to offer any inducement which might be deemed as establishing sole rights with an agent.

A member of the public

6.99. One correspondent considered that there was a fundamental conflict of interest within NEG between its ScotRail and Citylink businesses. Given that it was much easier and cheaper to increase capacity or introduce new destinations on the bus/coach network, it was unlikely that NEG would invest in ScotRail routes matched by those of Citylink. Similarly, its investment in Citylink services militated against improvement of the quality of train services.