

Rail franchises: A guide for potential bidders

This updated guide (which supersedes the document *Rail Franchises: Q&As*, last updated in April 2014) is published to assist franchise bidders and other stakeholders by explaining the Competition and Market Authority's (CMA) approach to reviewing the award of rail franchises under its merger control duties.

This updated guide reflects developments to streamline the CMA's review process and ensure close coordination between the CMA and the franchise awarding body. Alongside this guide, the CMA is [publishing guidance](#) on its methodology for reviewing franchise awards.

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1. The CMA's role in franchise awards

The CMA is an independent non-ministerial department with a statutory duty to promote competition for the benefit of consumers.

Under section 66(3) of the Railways Act 1993, entering into a rail franchise agreement constitutes an acquisition of control of an enterprise under the merger control provisions of the Enterprise Act 2002 (EA02). The CMA therefore has a statutory role in reviewing the award of rail franchises, which it aims to complete prior to the start of a new franchise.

The CMA's role is to assess whether a franchise award could give rise to competition concerns. Its review seeks to protect passengers from fare increases

and/or degradation of services which might arise where the successful bidder for a rail franchise already operates rail, bus or coach services on the same routes. For example, in relation to rail services, franchisees compete on certain routes by offering cheaper dedicated tickets to passengers and these fares may be increased or withdrawn once the services come under common ownership.

Passenger rail services in the UK are procured under a variety of models. In some cases, the franchisee retains the fare revenue and has significant freedom in setting unregulated fares (such as the Northern or South Western franchises). In others, the franchisee may bear little or no revenue risk (such as the Thameslink, Southern and Great Northern franchise in which the DfT takes almost all the fare revenue and imposes significant restrictions on the operator's commercial freedom, with the operator being paid a management fee). Concessions may also be awarded, under which the awarding body retains control over price and operational service levels, as well as customer-facing and marketing activities (such as Crossrail¹).

Models closer to the latter end of the spectrum may not qualify for investigation, and are likely to raise fewer competition concerns, other things being equal.

The CMA has published a [guide to UK Merger Assessment](#), available on Gov.uk.

2. How and when bidders or prospective bidders for rail franchises should contact the CMA

All bidders are encouraged to enter into pre-notification discussions with the CMA shortly after having submitted their bids. The CMA has a standing rail mergers team, and is open to having preliminary discussions with bidders at an earlier stage, particularly around the review timetable or the CMA's process.

Although the CMA will only ultimately conduct a formal merger investigation into the winning bid, pre-notification with all bidders will allow the investigation timetable to commence as soon as the winner is announced.² The CMA believes that, in practice, this process is necessary, given the relatively short timescale between selecting the winning bid and the start of operations. Bidders should commence formal pre-notification four to six weeks prior to the expected date of the award.³

¹ [MTR Corporation \(Crossrail\) / Crossrail merger inquiry](#) (2015).

² Where the winning bid meets the jurisdictional thresholds for notification under the European Merger Regulation, the CMA's timetable will not begin before the European Commission has taken a decision on reference to the UK (see Question 6 below).

³ In some cases, there may be sufficient time between the announcement and the commencement to conduct part of the pre-notification in this period, but this depends on the timing of the various stages of the award and the extent of potential competition concerns. Therefore the CMA does not consider there to be an appropriate 'one size fits all' timetable; bidders are encouraged to discuss this with the CMA.

Generally, pre-notification will involve bidders providing the CMA with a draft Merger Notice for discussion, with the aim of producing a final Merger Notice that allows the CMA's investigation to begin in the event the bidder is awarded the franchise.

General guidance on the CMA's procedures and a template Merger Notice for parties to complete are available on Gov.uk: [Mergers - the CMA's jurisdiction and procedure: CMA2](#).

In order to limit the information required and to assist the CMA's preliminary analysis, the CMA encourages each individual bidder to discuss with it as early as possible what information should be provided in the Merger Notice about the overlaps between the bidder's existing bus, coach and train services and the rail franchise route(s), taking account of the specific facts of each bidder's case.⁴ For example, it may be possible for bidders to provide detailed information only for the overlaps which are more likely to raise competition concerns.

Where there are no overlaps between a bidder's existing services and the rail franchise routes, the bidder is asked to inform the CMA of this position in writing. If the franchise is awarded to this bidder, the bidder is free to decide whether to formally notify the franchise award to the CMA given the voluntary merger regime in the UK.⁵ For example, the CMA did not investigate the 2016 award of the East Anglia franchise to Abellio.

The CMA is conscious that some bidders are potential new entrants to the UK or have not been awarded a franchise in the current bidding round. The CMA is particularly keen to engage with such bidders as part of its work to ensure a healthy franchise bidding market.

3. The CMA's merger review process

The CMA aims to engage with bidders on competition issues as part of the pre-award process (ie pre-notification) to allow sufficient time for a Phase 1 review to be completed prior to the start of the franchise. Depending on timetables, this may mean that a complete Merger Notice needs to be submitted as soon as the winning bid is announced. In other cases, some elements of the pre-notification process may take place post-award depending on the time period between award of the franchise and commencement. Once the CMA deems that a Merger Notice is complete, with

⁴ The CMA notes that, for the purposes of making their bid as requested in the invitation to tender, bidders will generally already have conducted an assessment of the possible competition concerns their bid could give rise to. The CMA expects that this assessment will further reduce the burden on bidders in pre-notification discussions with the CMA.

⁵ This does not apply to notification to the European Commission where the winning bid meets the jurisdictional thresholds under the EU Merger Regulation.

all relevant data provided, the CMA will start its statutory 40 working day review period.

During the review, the CMA will assess the impact of the franchise award on competition (details of the approach to the assessment are set out in Question 4 below).

The CMA will seek the views of local authorities, competitors and customer groups in the course of its review. As set out at Question 5 below, the CMA will work closely with Department for Transport (DfT), Transport Scotland (TS) or Transport for Wales (TfW) as well as devolved regional administrations with a role in the franchising process. If additional information is required, the CMA will send further information requests to the franchisee during the course of the investigation.

The franchisee will be provided with a 'state of play' update between days 15 and 20 of the investigation. If the CMA has identified potential competition concerns, an 'issues meeting' will be held with the franchisee around day 25 of the investigation. The CMA will announce its decision by no later than day 40 of the investigation.⁶

If the CMA finds that there is a realistic prospect of a substantial lessening of competition at the end of its Phase 1 review, the franchisee has the opportunity to offer undertakings in lieu of being referred to a Phase 2 inquiry.⁷ In order to be accepted, any offered undertaking must address the competition concerns identified in a clear-cut and readily implementable manner. For example, in the CMA's 2017 review of the award of the South Western Franchise, a fare cap on the rail route between London and Exeter was agreed with the winning bidder in lieu of being referred for a Phase 2 inquiry.

The CMA is fully aware of the tight timescales involved in the rail franchise process, especially between the announcement of the winning bid and the start of the services. The CMA recommends that, where relevant, bidders and their legal advisers consider possible undertakings in lieu of a reference to Phase 2 as early as possible in the process and ideally during pre-notification. The CMA case team is open to engage in early discussions with bidders on possible undertakings. This will maximise the chances of acceptance of undertakings that are offered at the end of the CMA's Phase 1 investigation, should the franchise award give rise to competition concerns.⁸

⁶ Where the review of a franchise award is referred back to the UK by the European Commission, the CMA is required to reach its decision by day 45 (see question 6 below).

⁷ See [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), chapter 8.

⁸ See [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), paragraph 8.7.

If undertakings cannot be agreed in circumstances where competition concerns arise, a Phase 2 inquiry will take place.

4. How the CMA assesses the effect of a rail franchise award on competition

As a starting point for the analysis, the CMA will identify point-to-point journeys (described as 'flows') on which the rail services of new franchise overlap with the existing transport services provided by the winning bidder.

The CMA will examine whether fare increases and/or degradation of services might arise where the successful bidder for a rail franchise already operates rail, bus, tram or coach services on the same flows and routes.⁹

Where a significant number of overlaps are identified, the CMA will apply a series of filters for prioritisation purposes in order to focus its analysis on the flows most likely to raise competition concerns.

The analysis of flows prioritised for further assessment will consider factors including how closely the overlapping services competed prior to the franchise award, the extent to which pricing and service decisions are constrained by regulation, the number of current and potential competing operators and local factors affecting competition.

Competition concerns are more likely to arise where the transport services coming under common ownership competed closely prior to the franchise award, where there are few competitors and where regulation provides only a limited constraint on fare setting and service provision.

Detailed guidance on the CMA's methodology for reviewing franchise awards is published alongside this guide. This is a draft for consultation, and the CMA [welcomes comments on it](#).

5. Information sharing between the CMA and DfT, TS and TfW, and the confidentiality of a bidder's commercially sensitive information

It is important for the CMA and the franchise awarding body to work closely together to ensure that the CMA merger review and franchise award timetables are aligned as

⁹ Flows form part of longer routes and the CMA will consider whether competition is affected at the route level as well as the flow level.

far as possible, to enable industry knowledge to be shared and to avoid duplication in the information requested from bidders.

The CMA and the franchise awarding bodies have therefore taken a number of steps in recent investigations to ensure that they coordinate closely, enabling the effective sharing of industry knowledge and a faster and less burdensome investigation process. Where relevant, the CMA will also engage with relevant regional devolved bodies with a role in the franchise award process. All discussions between the CMA and the franchise awarding bodies and the sharing of any commercially sensitive information is on a confidential basis. In particular, as a competition authority, the CMA is concerned to ensure the integrity of bidding processes and so would treat information it receives from bidders/and the franchise awarding bodies in that context as being especially commercially sensitive.

6. Circumstances in which bidders should notify the European Commission of a rail franchise bid

In some cases, bidders for rail franchises will also currently meet the jurisdictional thresholds for mandatory notification to the European Commission under the EU Merger Regulation (EUMR).¹⁰ It is the responsibility of bidders to consider whether the EUMR applies in their respective cases and to contact the European Commission for pre-notification discussions where appropriate.

As stated in the CMA's jurisdictional and procedural guidance,¹¹ mergers with an EU dimension that might be considered to have a particular impact on competition in the UK should be brought directly to the attention of the CMA at the earliest possible stage, in addition to making the mandatory notification to the European Commission. The CMA considers this to apply to any UK rail franchise.

The CMA expects that there will be strong reasons for a referral of rail franchise mergers back to the UK where they may have a significant impact on competition, since rail franchises concern only the UK and remedies may not be open to the European Commission given that the affected markets may not be a substantial part of the common market. Bidders may therefore wish to consider making a pre-notification request under Article 4(4) EUMR for referral back to the CMA, in cases where the appropriate tests are satisfied. The CMA is willing to discuss the possibility of such a request in more detail on an individual basis.

¹⁰ This situation is likely to change following the UK's exit from the European Union.

¹¹ *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), paragraph 18.12.

7. Information that bidders should provide to the CMA

The winning bidder will be expected to notify the CMA using the Merger Notice template (see Question 3 above). The template sets out the categories of information required for the purposes of a merger investigation and should be read in conjunction with the CMA's guidance on its assessment of rail franchise awards, which provides more detail on the information required. Parties are free to supply the required information using the Merger Notice template or to provide a submission in a written format of their choosing, accompanied by a completed Merger Notice indicating clearly where in that submission the required information can be found.¹²

The CMA is conscious that the information required for it to conduct its assessment is likely to vary depending on the case. As set out in Question 2, the CMA therefore welcomes informal discussions on an individual basis in pre-notification to determine the information required in order to conduct its assessment.

8. When interim measures are necessary

The CMA has the power to impose initial enforcement orders (IEO) in both anticipated and completed mergers.¹³ An IEO requires merging parties to hold their business activities separate during the course of the CMA's investigation.

An IEO will only be necessary in circumstances where the franchise commences prior to the conclusion of the CMA's merger investigation (for example, if the award is referred for a Phase 2 inquiry). As set out in Question 2, the CMA intends that engagement with bidders on competition issues as part of the pre-award process (ie pre-notification) will allow sufficient time for a Phase 1 review to be completed prior to commencement of the franchise.

In circumstances where an IEO is required, the CMA will ensure that the IEO will not prevent the franchisee from meeting its obligations under the franchise agreement¹⁴ upon commencement of the franchise.¹⁵ The IEO will instead focus on ensuring that there is no unnecessary integration nor any alteration to the supply terms for the overlapping franchise network and the franchisee's activities unless in the ordinary course of business. In light of the exceptional circumstances presented by rail franchise cases, the CMA will tailor its template IEO to ensure that the franchisee is able to meet its obligations under the franchise agreement. The CMA will also

¹² See paragraph 17 of the preamble to the Merger Notice.

¹³ Section 72 of EA02 (as amended by the Enterprise and Regulatory Reform Act 2013). Further information on the CMA's approach to initial enforcement orders is in paragraphs 7.28 to 7.31 and Annexe C of [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2).

¹⁴ 'Obligations' in this context includes all provisions under the franchise agreement to which the franchisee is subject.

¹⁵ For example, Arriva commenced the operation of the Northern franchise during the CMA's Phase 2 inquiry in 2016.

consider on a case by case basis any derogation requests to ensure that the franchise can be run on the most efficient basis provided that the granting of any such request will not hinder the CMA's ability to remedy any competition concerns identified.¹⁶

¹⁶ For example, see the [IEO issued for Arriva's award of the Northern Rail Franchise](#).

Contacting the CMA to discuss the merger investigation process as it applies to rail franchises

Please contact the Merger Unit's rail franchise team using the contact details set out below.

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London
WC1B 4AD

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