

24-03

1 July 2003

NEWSQUEST/INM MERGER INQUIRY

Issues Statement

The Competition Commission has today sent Issues letters to Newsquest Media Group Limited (Newsquest) and Independent News & Media (UK) Limited (INM) as part of its inquiry into the transfer of 23 titles in the London area from INM to Newsquest. Newsquest is a wholly owned subsidiary of Gannett Co., Inc. An issues letter is always sent to main parties before the Competition Commission has reached any conclusions and is designed to highlight those matters which have been identified by the investigating group for further consideration and to ensure nothing has been missed. This Statement of Issues is being made public to inform all interested parties should there be any further points they wish to raise with the Competition Commission about whether any matters operate or may be expected to operate against the public interest.

The Competition Commission is required to report on whether the proposed transfers may be expected to operate against the public interest, taking into account all matters which appear in the circumstances to be relevant, and in particular the need for accurate presentation of news and free expression of opinion. If the Competition Commission should find that the transfer might operate against the public interest, it is

required to consider whether any (and, if so, what) conditions might be attached to any consent to the transfer to prevent the transfer operating against the public interest.

The full statement of the issues relevant to our consideration of whether the transfer may be expected to operate against the public interest is attached. These relate to:

- Financial issues
- Competition issues
 - Market definition
 - Effect on market shares – national, regional and local
 - Effect on competition
 - Prospects for entry
- Effect on editorial content
- Employment and efficiency
- Possible benefits
- Consequential effects on price, quality, choice and the public interest
- Only in the event of an adverse finding, possible conditions

Anyone wishing to comment on any of the above points is requested to do so within the next few days, by writing to:

The Inquiry Secretary (Newsquest/INM)
Competition Commission
New Court
48 Carey Street
London WC2A 2JT

Catherine.Abbott@competition-commission.gsi.gov.uk

Notes to editors

1. The reference concerning the proposed acquisition by Newsquest of the INM newspapers was made under the Fair Trading Act 1973 (sections 57-62) on 20 May 2003 (see DTI press Notice P/2003/302).
2. The inquiry is being chaired by Professor Paul Geroski, a Deputy Chairman of the Commission and an economist by profession. He is joined by Peter Freeman, a competition lawyer, Richard Holroyd, a business consultant, Professor Donald Treford, a former newspaper editor and a member of the Newspaper Panel and Martyn Webster, an accountant.
3. Further information can be found on the Commission's website <http://www.competition-commission.org.uk>
4. Inquiries should be directed to: Francis Royle, Press Officer, tel: 0207 271 0242

NEWSQUEST/INM MERGER INQUIRY

Statement of Issues

Financial issues

1. The main financial issues we will wish to consider are:
 - (a) Reasons for the transfer and the prospects for the INM divisions and their separate titles if the transfers did not go ahead.
 - (b) Rationale for the price: is it justified by the titles' prospects and the synergies available to Gannett.
 - (c) How robust are Gannett's plans for developing the titles post merger, including whether any excessive purchasing price could require cost savings to be achieved by lower quality for readers or advertisers or by higher cover or advertising prices.
 - (d) The prospects for individual titles following the transfers; and
 - (e) The effect of the acquisition on Newsquest/Gannett's financial position.

Competition issues

Market definition

2. Main issues as to definition of the relevant market are:
 - (a) Whether local newspapers can be regarded as a separate market from regional newspapers (eg the *Evening Standard* and *Metro*) or national newspapers.

(b) Whether daily/Sunday publications can be regarded as a separate market from weekly publications or paid-for publications separate from free publications in any such categories.

(c) The extent of competition from other media.

3. We may also need to consider relevant geographical markets, eg the extent to which they can be regarded as local given, for example, readers preference for borough or more local news and advertising coverage, and advertisers' targeting of local areas; and/or in certain contexts regional (eg London-wide) or national.

Effect on market shares

National effects

4. As regards national concentration, the effect of this acquisition would, on figures we have seen to date, increase Gannett's share of regional/local newspapers from 15.4 per cent to about 16.4 per cent. The share of the UK market accounted for by the leading 4 publishers would increase from 73.6 per cent to 74.6 per cent a result of the merger. However, this merger affects only weekly local newspapers. The merger would increase Gannett's share of weekly sales from 20.2 to 22.5 per cent; and the share of leading 4 publishers of weekly local newspapers from 69.1 per cent to 71.4 per cent.

5. Although the effects on national market shares seem to be limited, we noted in a previous report some further indications that the existing structure of the UK local/regional newspaper industry may not be fully competitive, as a result, for example, of linkages between publishers, which included among others:

(a) Various exchanges of titles between the major players to assist in building up regional clusters of titles;

(b) A joint bid at one point for Regional Independent Media Holdings plc (RIM);

(c) Joint investment in internet facilities;

(d) Use of each others' printing and distribution facilities;

(e) An apparent tendency to avoid each others' operating areas when launching new titles; and

(f) Allegations of anti-competitive behaviour.

6. Taken together with the current high degree of concentration, we noted in a previous report that the structure of the local newspaper market in the UK could be of concern in future. We will wish to consider whether these concerns are aggravated by the present merger.

Regional effects

7. On some figures we have seen, the transfer could increase Newsquest's share of local newspapers in London (excluding, therefore, *Metro* and *Evening Standard*) from 35 to 49 per cent and the share of the top two companies from 79 to 92 per cent. We may need to consider the implications of such market shares in London, and whether, therefore, a strengthened duopoly would emerge in London as a result of the merger and whether the duopolists would display a conscious parallelism that would dampen competition for readers and/or advertisers between them.

8. Aside, therefore, from the effect of the transfers on overlap areas, we may need to consider whether the transfers have implications for 'clustering' of titles, ie whether:

- (a) The transfer of existing strong market positions to Newsquest, which already has a big presence in significant parts of London, as well as the creation of new strong market positions would add to or reinforce that presence;
- (b) These strengthened market positions might increase barriers to entry to the market and intensify any desire among major publishers to 'live and let live', sharing the market on a geographical basis and avoiding head to head competition in the same local areas; and
- (c) Whether the merger could eliminate potential competition between INM and Newsquest in non-overlap areas, as well as any effect on actual competition in overlap areas.

Local effects

9. The effect of the transfers varies by locality. In some parts of London, only Newsquest of the two main parties was previously present, in others only INM, but very high market shares result from the transfers of some titles in some areas.

- (a) Over the INM circulation area as a whole, on current estimates Newsquest's market share would increase from 21 to 57 per cent; from 36 to 72 per cent South of the Thames, 11 to 47 per cent North of the Thames.
- (b) In some areas in South London shares of over 50 or even over 75 per cent would result in many areas (and in some cases almost 100 per cent). The localised effect in individual areas is therefore significantly greater than it would appear from, for example, shares in London or the INM area as a whole.
- (c) More limited pockets of market share of 50-75 per cent result in North London.
- (d) Such increases in shares arise with about half of the circulation of the titles acquired; and in major centres of population.

Effect on competition

10. In considering the effect on competition, we may also need to consider:

- (a) The relevance in this case of any distinction between ‘core’ and ‘non-core’ areas of particular titles – whether a large market share may be less relevant at the periphery of an operating area or if an individual area accounts for a relatively small proportion of a titles circulation –given how extensive the number of such areas are and how close they are to each other.
- (b) Similarly, in defining any ‘core’ areas, the relevance of ‘household penetration rates’ used in previous reports, particularly for paid-for titles which can be very low.
- (c) Whether, even where there is overlap, product differentiation limits competition (whether INM, for example, could be regarded as being ‘more local’ in its circulation areas, readership or advertising)?
- (d) How extensive linkages are between individual titles being transferred – eg common head offices, advertising departments, and bundled selling of advertising in titles etc - and whether it is meaningful to consider effect on market shares by individual titles.

11. Previous inquiries have also shown a prevalence of negotiated prices, with extensive discounts from ratecards, suggesting a market in which it may be relatively easy to practise price discrimination by distinguishing those most vulnerable customers less able to use alternative forms of advertising.

- *Strength of competition from other publishers in affected areas*

12. The figures for market share above are based simply on circulation of newspapers.

- (a) We have noted that publications vary substantially in length and content and in some cases the competitor publications are shorter and geographically more focussed on a particular part of a borough, or in other cases oriented to a wider regional area. We would therefore need to consider whether in certain areas the effects on competition may be understated by looking at effects on share of number of newspapers.
- (b) We may also need to consider whether the transfers could adversely affect competition from existing competitors: for example whether competitors could be adversely affected by competition with a much larger merged group, able to underprice or base its revenue solely on advertising.

Prospects for entry

13. On barriers to entry, we may need to consider:

- (a) Whether, as suggested in previous reports, prospects of entry are greatest where another major operator has a presence in all or part of a particular area. It currently appears that of the main publishers, only Trinity Mirror has a significant presence in any part of the INM area.

- (b) Whether the merger, by strengthening Newsquest's position and increasing the number of Newsquest titles in certain areas, could reduce the prospects for major publishers entering markets where they were not already present.

14. As regards entry by smaller 'entrepreneurs', although the costs of entry, particularly for free-sheets may appear low, the Johnston/Trinity report noted the following difficulties in smaller entrepreneurs competing for major groups:

- (a) Lack of economies of scale in purchasing, production and administration;
- (b) Greater difficulty in raising finance on the same terms as larger groups;
- (c) In general, inability to offer advertising packages;
- (d) Inability to pool editorial resources;
- (e) Vulnerability to response by incumbents (eg lowering prices to all or some advertisers or launching additional titles); and
- (f) Dependence on other publishers for high quality colour printing.

15. The report noted that 'entry into monopoly markets occupied by forceful and alert incumbents which already own several titles may be much more difficult', and, similarly, into a market with only one publisher. We may need to consider whether such considerations apply in this case, including:

- (a) Extent of previous entry. We are aware of some examples of recent entry in London, but these may be regional rather than local;
- (b) On the other hand, we may need to consider whether the prospect of such entry is enhanced by the large newspaper circulation in the relevant areas.

Effect of the acquisition on editorial content

16. As noted above, section 59 (3) of the Fair Trading Act 1973 requires the Commission to consider in a newspaper reference 'the need for accurate presentation of news and free expression of opinion', in addition to other public interest matters.

17. Among particular issues are:

- (a) Effect of the acquisition on the content of individual titles.
- (b) Effect on accurate presentation of news, free expression of opinion and editorial policies of these titles.
- (c) The effect on diversity of opinion eg whether current divergence in editorial slant under different ownership has benefits to the community which could be affected by the transfers; this would include differences in the depth of coverage of issues and differences in policy toward publishing letters from political parties.

Employment and efficiency

18. We may need to consider the effect of the transfers on efficiency and employment and whether the transfer has adverse implications for members of pension schemes.

Possible benefits

19. We may need to consider first whether there could be benefits from the merger (for example, on costs, or the ability to offer wider advertising packages), and then whether these benefits could not be achieved in other ways and would be sufficient to offset any adverse effects of the merger.

Consequential effects on price, quality and choice and the public interest

20. On the basis of the above, therefore, the group will need to assess the effect on competition and:

- (a) Whether as a result of the merger Newsquest would be able to increase advertising rates/reduce discounts and/or discount more selectively to the detriment of some or all advertisers and/or intermediaries (the ability to differentiate between advertisers may be relevant to this), or increase prices to readers (in the case of paid for publications).
- (b) Whether the merger would lead to reduction in choice or quality of local newspapers for readers or advertisers, including
 - Reduction in range of newspapers available (including any prospect of discontinuation of current very localised editions) or their diversity.
 - Other aspects of quality to readers or advertisers including choice in positioning of advertisements within newspapers.

21. In the light of the above the Group will need to consider whether the transfers may be expected to operate against the public interest.

Possible conditions

22. As noted above, conditions arise only in the event of an adverse finding.

- (a) Possible structural remedies may include:
 - Not to allow the transfers as a whole. Or
 - Not to allow transfer of certain titles or divisions where the transfers might give rise to high market shares in particular localities, but subject to possible consequences from separating the titles, eg on the viability of and prospect for the titles.

- (b) We may also, however, wish to consider any other remedies, including possible behavioural remedies, that may be advanced by the parties to the transfers, or by others, which might address possible adverse effects of the proposed merger on advertisers, readers or others.