

## 6 Conclusions

6.1. We are required by section 59(3) of the Fair Trading Act 1973 to report whether the proposed transfer of the nine newspapers of Parrett & Neves Ltd (P & N) and of the assets necessary to the continuation of those newspapers as separate newspapers and of plant and premises used in their publication, to EMAP PLC (EMAP), 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.

### **Circumstances of the application for consent to transfer of the newspapers**

6.2. We have been told by P & N that while its weekly paid-for newspaper publishing subsidiary, Associated Kent Newspapers Ltd (AKN), had not been unprofitable in recent years competition from other media, particularly the growth of free newspapers, had depressed circulation and eroded its market share of advertising. In these circumstances, AKN required to be supported by other activities and since, because of the nature of newspaper publishing in Kent, the chances of expansion by acquisition were remote, the only alternative was to launch new titles. P & N therefore launched three free newspapers in Maidstone, Tunbridge Wells and Canterbury but after 18 months or so losses were still running at an unacceptably high level and all three were discontinued.

6.3. In these circumstances and because of the directors' desire to protect the long-term security of the shareholders of both families, it was then considered expedient to consider the disposal of the company's newspaper interests and a number of possible purchasers were invited to tender for AKN.

6.4. Of the eight offers which were received, three were at a level which met P & N's expectations. The company told us it decided to accept the bid from EMAP which, while it was not the highest financial offer, met two of the three criteria which had been set by management and a consensus of shareholders by providing security for staff as well as the continuance, and probable development, of the newspaper titles.

6.5. We are satisfied that the Board of P & N intends to sell its newspaper business and the associated assets. Should the present proposal fail P & N has told us it will seek another purchaser.

### **The offer from EMAP**

6.6. EMAP told us that it has for some time had a high regard for P & N and its ability to publish successful paid-for newspapers in growing and competitive markets. It believed that the growth of AKN had, however, been restricted by its lack of free newspapers in its portfolio.

6.7. It was EMAP's intention not only to retain all of the existing AKN titles, but to look to increase the number of publications competing in the marketplace by launching additional free newspapers. This, EMAP suggested, would benefit the consumer in two ways: by utilising some of the strengths and experiences of the paid-for newspapers' editorial staff to produce quality free newspapers; and to make the publishing operations of AKN more efficient allowing it to compete aggressively for advertising with consequent customer benefits.

## The issues

### Employment

6.8. EMAP suggested there would be opportunities for further employment consequent upon the acquisition. Opportunities would also be created for existing staff of both EMAP and AKN.

6.9. We have no reason to believe that the proposed merger would result in redundancies and have noted that one at least of the alternative proposals suggested a substantial level of redundancies and the closure of plants.

6.10. SOGAT '82 told us in a written submission that when Senews was taken over by EMAP, it experienced difficulties in maintaining previously established collective bargaining agreements. Recognition, particularly in clerical areas, was unilaterally withdrawn. SOGAT '82 told us that the matter is presently being considered by the Advisory, Conciliation and Arbitration Service (ACAS).

6.11. EMAP responded to this complaint by explaining its decentralised management philosophy of talking and listening to individual employees on a one-to-one basis. EMAP confirmed that it recognised the right of each individual to belong to a trade union if he or she so wishes, but explained that it neither operates nor encourages centrally negotiated agreements. EMAP told us that it believes that its employees enjoy their work and are often able to meet their career aspirations. The success of its share scheme was cited as a testimony to the investment employees wished to make in EMAP. We are satisfied that EMAP allows its staff to join unions if they wish. The question of the nature of collective bargaining arrangements is a matter for EMAP, its employees and unions.

6.12. We conclude that the merger would not be likely to result in adverse effects on employment.

### Accurate presentation of news and free expression of opinion

6.13. EMAP reminded us of its evidence during a previous inquiry<sup>1</sup> that editorial freedom had always been the group's policy. Its editors were allowed a 'free hand in their respective areas and the only common policy was that they avoid anything obscene or vulgar and in politics and religion should give a fair balance to everyone'. Editors are given the authority and responsibility for their newspaper editorial and EMAP told us that its view is that newspapers must stay in tune with the needs of readers and advertisers to maintain circulation and that editors are best placed to ensure that this happens.

6.14. We have no reason to doubt EMAP's statement of the extent of editorial freedom within the EMAP group, which we accepted in respect of the previous inquiry<sup>1</sup> and which has not been contested by any third party. We are satisfied that the transfer would not be likely to lead EMAP to change its policy of allowing its editors a high degree of editorial independence. We noted that an alternative proposal envisaged economies from events being covered by representatives of more than one title which would reduce the diversity of opinion.

### Competition between newspapers and concentration of ownership

6.15. EMAP already publishes four weekly free newspapers and one weekly paid-for newspaper in East Kent but, as the map at Appendix 8 indicates, there is no overlap between EMAP's existing titles and the publications it is seeking to acquire.

6.16. Since EMAP has assured us that it intends to retain the AKN titles and indeed may add further weekly paid-for titles, we are satisfied that the proposed merger will not reduce the number of local newspapers in Kent and may even increase the number of weekly titles available to the local population.

6.17. One of the newspaper groups which competes in the Kent area, the Kent Messenger Group (KMG), told us that it believed it was realistic to assume that EMAP, which had become a large and formidable force in the provincial

<sup>1</sup> Cm 120—A report on the proposed transfer of Courier Press (Holdings) Ltd to EMAP PLC dated 6 March 1987.

newspaper market, would attempt to dominate coverage of the Kent market by filling the narrow corridor (see Appendix 8) between the area of its existing titles and by establishing aggressive free newspapers which would not show a suitable return on the investment involved for a number of years. KMG suggested there was already fierce competition between all newspapers in Kent which provided the public with good value for money. It considered that hitherto a balance of fair competition between all the publications had been maintained, because all resources had been drawn from the area and cuts in advertising rates and increases in the number of free newspapers had been limited by the resources which were available locally. KMG therefore suggested it was not in the public interest for the Commission to 'condone competition where a major group which was determined to dominate the Kent market could introduce almost unlimited reduction in advertising rates for an unlimited period and arrange for an almost unlimited number of freely distributed newspapers'. If this occurred, KMG suggested the financial margins of all newspapers in the area would be cut resulting in the sale of more titles, some of which would fall to established groups and so increase the concentration of press ownership.

6.18. EMAP told us that it had indeed introduced two new free newspapers into Kent and would consider introducing others into the circulation area of the AKN newspapers if these were acquired. It denied that it would cross-subsidise its newspaper business from its other activities but accepted that, while it had no intention of specifically driving anybody out of business, the efficiency with which it runs its operations might result in the revenue of its competitors diminishing in certain areas.

6.19. We have considered the views of KMG which were supported latterly by the Adscene Group PLC, another newspaper proprietor with titles circulating in East Kent. We have also taken into account the concern expressed by others who gave evidence to us that the proposed transfer represented a further concentration of ownership of local newspapers and specifically a reduction of the number of independent newspapers which would be available in Kent.

6.20. There can be little doubt that, for various reasons often concerned with the difficulty of continuing to run small family companies, existing independent newspaper titles are likely to continue to come up for sale. As a result, it is also likely that there will be some degree of further concentration in this market. The proposed transfer will, as we show in Chapter 3, marginally increase EMAP's share of such newspapers on a national basis.

6.21. In each case it is necessary to balance the varying individual factors by looking at the effect on competition of a proposed merger on a local level as well as the regional and national levels. We have to balance, at a time when local paid-for newspapers are facing increasing competition from free newspapers and other media, the advantages that come from association with a substantial and prosperous group, and the longer-term dangers to the free expression of opinion that may come, whatever the policies of the present management, from excessive concentration of ownership of any medium.

6.22. We note the point made by KMG that once a small newspaper company has been acquired by a larger group, the titles are unlikely to become available in the future for acquisition by any other small group seeking growth. But at present it is still possible for small companies to grow. EMAP is an example of such growth and with its relatively wide range of activities is able to sustain its paid-for newspapers at a time when other newspapers are being closed and competition from other media is increasing.

#### **Unfair competition**

6.23. It is a consequence of the growth of the variety of media that are now available to advertisers that, in order to maintain their competitive position, proprietors of numbers of local newspapers will offer central facilities for regional advertising. Such facilities have the advantage of being convenient and may lead to volume discounts. These arrangements are unlikely to be anti-competitive.

If, however, advertisers were offered uneconomic rates or if loss-making free newspapers were sustained in business for long periods of time simply in order to reduce competition from other newspapers, this might be anti-competitive. (See paragraph 6.25.)

6.24. In the course of its evidence, KMG drew attention to EMAP's introduction of two new free newspapers in Ashford and told us that one of these newspapers was rate cutting at levels below basic production costs in its attempt to steal market share. When we put this suggestion to EMAP it told us most publishers, including for example KMG, will attempt to secure market leadership by rate cutting during the launch period and EMAP was no exception to this. Discounts are given whenever appropriate. It was confirmed that EMAP intends to ensure that its Ashford free newspapers eventually trade profitably, although this may take a year or two to achieve. Moreover EMAP told us that each of its newspaper companies is profitable in its own right.

6.25. It is not within our terms of reference to investigate the rate-cutting allegations. Rate cutting is a feature of competition between newspapers and we have no reason to believe that EMAP intends in the future to compete unfairly in East Kent or elsewhere. A remedy exists, however, for any person who believes he is being subjected to unfair competition to complain to the Director General of Fair Trading under the Competition Act 1980.

6.26. In the case of the proposed transfer we believe that the advantages that are likely to result from the transfer of P & N newspapers and assets to EMAP, a successful owner of paid-for newspapers which we believe will maintain the autonomy of the titles, outweighs any possible disadvantages from the small increase in concentration at the regional and national level which is involved. The transfer will maintain the AKN titles as alternative sources of news in East Kent and competition in that area may be improved for both readers and advertisers.

## Conclusion

6.27. We conclude that the transfer of the newspapers of which Parrett & Neves Ltd is proprietor and of the plant and premises used in their publication to EMAP PLC may be expected not to operate against the public interest.

D G RICHARDS (*Chairman*)

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S N BURBRIDGE (*Secretary*)

22 July 1988