6 Conclusions

The reference

6.1. Under the reference (see Appendix 1.1) dated 31 March 1994 (made under section 59 of the Fair Trading Act 1993-the Act), we are required to investigate and report on whether the transfer to Johnston Press plc (Johnston) of the UK newspapers of Halifax Courier Holdings Ltd (Halifax) may be expected to operate against the public interest. In considering a reference made under section 59 of the Act, we are required to take 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 proposed acquisition

6.2. This is an agreed acquisition. Halifax is a publisher of provincial newspapers in West Yorkshire. It also publishes newspapers in the Isle of Man which is not part of the UK and therefore does not fall within our terms of reference. Halifax's chief publication is a daily evening paid-for newspaper, the Halifax *Evening Courier* (which had an average circulation of some 34,000 in 1993). In the UK, it also publishes three weekly paid-for newspapers-the *Brighouse Echo*, the *Hebden Bridge Times* and the *Todmorden News*, each with a circulation of below 10,000-and *Calderdale News*, a weekly free newspaper. Total circulation per week of the UK titles is some 270,000. The paid-for newspapers are all currently broadsheets: the *Calderdale News* is a tabloid paper.

6.3. Halifax is a private company, with about 60 shareholders most of whom are descendants of the early family shareholders. Its group turnover was almost £10 million in 1993, with pre-tax profits of £2.7 million. On the figures available, Halifax's profitability, relative to assets or sales, compares favourably with that of the newspaper industry as a whole. The turnover of The Halifax Courier Ltd (Halifax Courier), the subsidiary which publishes the newspapers listed above, was some £6.7 million with pre-tax profits of £1.1 million. Its management accounts show each of its papers to be profitable.

6.4. Johnston is a Scottish-based newspaper group which publishes regional weekly newspapers in Scotland and England. It publishes 63 newspapers (incorporating over 70 newspaper titles) of which 34 are paid-for and the remainder are free newspapers. Johnston does not own any daily newspapers. Its group member in West Yorkshire, Yorkshire Weekly Newspaper Group, publishes 12 newspapers including the *Wakefield Express*, a weekly paid-for newspaper with a circulation of some 31,000, four other weekly paid-for newspapers and seven free newspapers: a total circulation of some 300,000. In 1993 Johnston installed a new web-offset press into its Wakefield printing centre which enabled its Yorkshire newspapers to carry full colour; other new technology was introduced which allowed full page make-up to be used for all its Yorkshire titles. Replacement of old presses with modern higher-capacity machines has led to concentration of production in fewer centres, with satellite offices handling editorial and advertising sales.

6.5. Although a listed public company, Johnston family interests still control some 45 per cent of Johnston's shares. Its turnover (including some non-newspaper interests) was £86 million in 1993, with profit before tax and interest of £12 million.

6.6. As stated in paragraph 2.18, Halifax's shareholders are being offered a total of up to £37.01 million for the whole of Halifax. The offer values Halifax's trading activities (including those in the Isle of Man) at £29.4 million. In addition, a special dividend would be paid to Halifax's shareholders out of its surplus cash and realized investments.

6.7. Johnston told us that the proposed acquisition of Halifax would extend the geographical coverage of Johnston's activities in Yorkshire, and to the Isle of Man. It regarded Halifax as a high-quality, established company with a strong market position in the areas in which it operated. If the acquisition were to proceed, the increased presence of the enlarged Johnston group in the North of England was expected to bring both local printing and marketing benefits to Johnston's operation in the region and to those of Halifax's newspapers.

6.8. Halifax told us that it believed Johnston had a similar ethos to its own. There were limited opportunities for Halifax to purchase other local and national newspapers at an acceptable price level, while, with each succeeding generation, the families of the original shareholders were becoming more and more widely dispersed. The increasing diversity of shareholding in Halifax as a private company would require, in the medium term, a solution to the lack of marketability of the Halifax shares.

6.9. Johnston had stated its intention that Halifax would retain its identity but operate as an integral part of the Johnston group, that (subject to normal commercial considerations) there would be no redundancies as a result of the proposed acquisition and that the rights and security of Halifax's employees would not be affected by the acquisition. Halifax believed, therefore, that Johnston would preserve Halifax's tradition of independence and editorial control. The Managing Director of Halifax would join the Johnston Board, while the Managing Director of the Yorkshire Weekly Newspaper Group and three Johnston directors would join the reconstituted Halifax Board alongside two existing Halifax directors.

6.10. Halifax has had to maintain a high standard of journalism to retain the appeal both of its daily and weekly titles to its local readers and we would expect Johnston also to have to maintain these standards. Halifax may well, however, obtain a number of benefits from its acquisition by a group with larger capital resources, including further investment in or rationalization of computer systems, and there may be other scope for cost savings. Johnston has been successful in its existing operations in introducing modern technology and improving efficiency in collaboration with its staff, and by means of natural wastage and retraining rather than redundancy. Johnston told us, however, that it intended to maintain Halifax's printing facilities, although a large part of the press there was some 17 years old. The Wakefield press, although only recently installed, could not produce the Halifax titles without additional shifts being worked, and, given the distance between Wakefield and Calderdale, it would not be possible to achieve the rapid distribution required for the several editions of the *Evening Courier*.

The relevant market

6.11. Local newspapers in their nature are aimed, in both their editorial and advertising content, at local markets. Over 95 per cent of Halifax's sales are in Calderdale where it accounts for some three-quarters of all local and regional newspapers sold. Even within Calderdale, Halifax's separate weekly newspapers serve the small and distinct local areas of Todmorden, Hebden Bridge and Brighouse, each very conscious of its own identity, achieving a particularly high degree of penetration in the first two of these towns (see Table 3.9). Other regional and local newspapers sold in Calderdale include the *Yorkshire Post* (owned by United Provincial Newspapers) and *Yorkshire on Sunday* (owned by Westminster Press), but these have a wider area both of readership and news coverage than Halifax. Overlap with neighbouring local papers is greatest in those districts of Calderdale nearest other towns: for example, with the *Huddersfield Daily Examiner* (owned by Trinity Holdings) in Brighouse and Elland, with the *Bradford Telegraph & Argus* (owned by Westminster Press) in Queensbury, and with a number of Lancashire papers in Todmorden. There is one other independently-owned free newspaper (purely an advertising publication) distributed in Calderdale.

6.12. Johnston has a similarly strong position with the *Wakefield Express* in Wakefield, some 17 miles from Halifax. There is no overlap between the circulation areas of Halifax and Johnston, nor are their circulation areas contiguous (see Figure 3.1).

6.13. As discussed in Chapter 3, readership of local newspapers has declined over the last few years, a decline that has also been experienced by Halifax's newspapers in Calderdale and (to a lesser extent) the Johnston publications. Over the longer term, a degree of competition would appear to have developed with other media, for example local radio, and there is a prospect of emerging competition with cable television, although local newspapers are likely to retain strong local appeal in close-knit communities such as the towns of Halifax and Wakefield: both Halifax and Johnston saw other media as a serious competitive threat.

Public interest issues

6.14. We have considered the possible effect of the proposed acquisition on the public interest under three headings:

(a) accurate presentation of news and free expression of opinion;

(b) concentration of ownership and competition for readers and advertisers; and

(c) employment and related matters.

6.15. In considering these issues it is notable, as Chapter 4 indicates, that in response to our advertisement for comments and to our letters to advertisers, other newspaper publishers and local authorities in the area we received very little expression of concern and considerable expression of support for the proposed acquisition. The absence of significant opposition may itself be attributed to the assurances Johnston has given as to the management of Halifax, and its record in managing other local newspapers.

Accurate presentation of news and free expression of opinion

6.16. Johnston told us that it allowed its editors a large measure of journalistic freedom, editors being appointed by local management after consultation with the group, and once in office having virtually complete control of the editorial content of their publications. The group had no political standpoint, although its editors were free to address political issues as and when they arose, particularly when they had special local significance. In the specific context of the current merger, we were assured that Halifax would retain its identity, albeit as an integral part of the Johnston group.

6.17. It was noticeable that we received no criticism of Johnston's editorial policy. We were impressed by Johnston's policy of allowing its local editors great independence, a policy which we believe will be effective in maintaining the local character of each of Halifax's titles and hence their appeal to readers in the areas they each serve. Johnston stated that it does not have any intention to discontinue any of the separate titles acquired, nor on the figures we have seen would it be in its interests to do so. Given the absence of any overlap between the newspapers of the two groups, the acquisition does not affect the diversity of opinion available for readers. We do not therefore believe the merger will have any adverse effect on accurate presentation of news or free expression of opinion.

Concentration of ownership and competition for readers and advertisers

6.18. In previous reports on newspaper mergers we have considered the effect on concentration with respect, first, to owners of national newspapers acquiring regional newspapers-not the case here; second, to increases in national concentration of ownership of local newspapers; and third, to increases in local concentration of ownership of local newspapers. We are, therefore, concerned only with the last two of these issues.

6.19. This is a significant merger for Johnston. Although it has made a number of other acquisitions since 1970, the proposed merger with Halifax, at a cost of almost £30 million, would represent by far its largest single acquisition. It is also its first acquisition of a daily newspaper, and its first that falls within the criteria of the Act for investigation by the MMC. After the proposed acquisition Johnston would still, however, account for only about 2.5 per cent of local newspapers published each week in the UK-considerably less than each of the five main publishers (Thomson 9 per cent, Northcliffe 9 per cent, UPN 8 per cent, Reed 7 per cent and Westminster 6 per cent) which together account for about 40 per cent of local newspapers circulated per week. The increase in national concentration of ownership of local newspapers cannot therefore be regarded as significant in this case.

6.20. As regards the effect on local concentration of ownership, we have noted that there is no overlap between Halifax's sales concentrated in Calderdale and Johnston's sales concentrated in Wakefield, nor are the areas contiguous. There is therefore no increase in concentration or effect on competition or choice within any local area currently supplied by either company.

6.21. We considered whether there may be a distinction between effects on readers and effects on advertisers, with a more regional aspect to advertising: whether, for example, by extending Johnston's distribution throughout a region the merger could put it at an advantage compared with newspapers distributed in more limited areas. Most of Halifax's advertising would, however, seem to be of a local, rather than regional, nature. Moreover, after the acquisition Johnston would still account for less than 20 per cent (see Table 3.11) of local newspapers circulated each week in West Yorkshire as a whole (including free newspapers) with a relatively weak presence in areas such as Kirklees, and with other major groups also represented in the area. Such a position would be insufficient in our view to give rise to any risk of adverse effects.

6.22. Previous reports have discussed effects on potential, as well as actual, competition. We considered whether the merger could be regarded as reducing potential competition between Halifax and Johnston's Wakefield operation. We are aware of relatively few recent instances of major newspaper groups entering into competition with other operators well established in local areas, and both Johnston and Halifax believed it was most unlikely that they would have sought directly to compete with each other: we would therefore regard the effect on potential competition as somewhat speculative in this case. There are, moreover, other newspapers established elsewhere in West Yorkshire, including the *Yorkshire Post* and *Yorkshire Evening Post*, daily newspapers in Bradford and Huddersfield, and weekly newspapers in Bradford, Dewsbury, Leeds, Spenborough, Wharfedale and Huddersfield, many of them being subsidiaries of other leading newspaper groups: none has previously sought to compete in Calderdale, but they may be equally likely potential entrants, should Johnston abuse the position acquired from Halifax. Similarly, it is difficult to regard Halifax as a main source of potential competition to Johnston in Wakefield. The acquisition would not, therefore, in our view, have a significant effect on potential competition in Calderdale or Wakefield.

6.23. Adverse effects on price or quality are most likely to be expected if a merger reduces competition. In this case, there would be no effect on competition or market structure. We considered, nevertheless, whether Johnston, by or as a result of acquiring an already strong position in Calderdale, may abuse it. Johnston told us that its policy was to maintain low cover prices and low advertising rates, and we found no evidence that its prices, to readers or advertisers, are any higher elsewhere in West Yorkshire than those of Halifax in Calderdale, although it has a strong market position in these areas. Indeed, over the last two years Johnston's cover prices in West Yorkshire have been largely unchanged while Halifax's cover prices have increased. Johnston referred also to its record following other acquisitions, for example of T R Beckett Ltd in Sussex: it had made either no increases or at most modest increases in prices to readers and advertisers, made no major editorial changes, and had continued to publish almost all the titles acquired.

6.24. After the proposed acquisition Johnston would have to earn a return on its investment in Halifax, which it can only do by maintaining its appeal to local readers and advertisers. Halifax is already a profitable operation. Unreasonable increases in price to readers or advertisers, or reduction in quality to increase profitability further, would put its circulation and advertising levels seriously at risk, and provide an opportunity for other newspaper groups, established in adjacent areas, to compete more directly in Calderdale. In our view, therefore, there is no evidence to suggest that Johnston has the intention or ability to seek to abuse its position in Calderdale following the merger.

Effect on employment

6.25. We did not receive any adverse comments on the acquisition from trade unions or Halifax's workforce. We have noted above that Johnston has stated that Halifax's newspapers and printing facilities would be maintained, that there would be no redundancies as a result of the proposed acquisition and that the rights and security of Halifax's employees would not be affected. This assurance is subject to normal commercial considerations, but given Johnston's need to maintain the identity of the newspapers acquired and its existing record as a proprietor of local newspapers, coupled with its past success in introducing cost savings without compulsory redundancies, there is no reason to expect significant adverse effects on employment resulting from the merger.

Conclusion on the proposed transfer

6.26. In our view, therefore, we do not believe that the acquisition of the UK newspapers of Halifax will give rise to adverse effects on the accurate presentation of news, or free expression of opinion; on competition or choice; or on employment. We therefore conclude that the proposed transfer may not be expected to operate against the public interest.

D GOYDER *(Chairman)*

J MONTGOMERY

S EILON

R KERNOHAN

P GIBBINGS

A J NIEDUSZYNSKI *(Secretary)*

25 May 1994