

# 6 Views of third parties

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## Introduction

6.1. In addition to the main parties, we sought the views of some 140 companies and organizations associated with the film processing industry. As well as other film processing laboratories, these included distributors, representative organizations, producers, service providers, studios and television companies. The following is a summary of their views.

## Film processing laboratories

6.2. Five film processing laboratories wrote expressing their views. RFL and Soho Images each

additionally attended a hearing.

### ***Rank Film Laboratories Limited***

6.3. RFL saw the various film processing activities as discrete services which, though interrelated, should be considered separately. These were release printing of 35mm feature films and release printing of commercials (where the laboratory produced the required number of copies of the feature or commercial), 35mm feature front-end work, commercials front-end work, 16mm processing for television and sound services.

6.4. Its main business related to 35mm feature release printing which, it estimated, accounted for some 90 per cent of its work. It had release print contracts with four Hollywood studios: Columbia, Paramount, Universal and MGM. It also had a non-exclusive release print contract with Fox, but had not in fact done any work for Fox for some 18 months (see paragraph 4.28). Its sales of 35mm feature release prints accounted for some 44 per cent of UK production (for use in the UK and abroad) in this sector of the film processing industry. This sector had been growing in recent years and RFL saw continued growth, brought about in part by the greater number of blockbuster films being released by the Hollywood studios, and the tendency for films to be released in both the USA and Europe simultaneously. The growth in the number of cinema screens (RFL estimated that there would be some 22,200 in Europe by the end of 1997, an increase of 7 per cent over the last two years) was also an important contributory factor in the growth of the 35mm release print sector.

6.5. RFL had invested heavily in recent years to restructure its operations and now believed that it was highly competitive, particularly in the 35mm feature release print sector on which the company had concentrated its efforts. It had a 23 per cent share of 35mm feature front-end processing (measured in terms of its share of negative developing only). The 16mm processing sector was not, however, so buoyant and RFL confirmed that in March 1997 it had announced its withdrawal from this market sector. Despite having an estimated share of 27 per cent<sup>1</sup> of the sector, it had been unable to compete on price with Metrocolor and had found it impossible to make a profit. In the past five years it had closed down two laboratories, one in Glasgow and one in Manchester, and sold a third, situated in Leeds, to Henderson. The Leeds laboratory was a small one which handled about 2 million feet of film in 1996. RFL had also now ceased its 16mm processing operations at its Denham laboratory.

6.6. RFL confirmed that it was no longer operating to any significant degree in the commercials front-end and commercials release printing sectors. It was not targeting either sector and only undertook work if approached to do so. In essence, RFL had left the commercials sector when RSA had become the subject of a management buy-out and had subsequently been acquired by Carlton and renamed CSA. The work formerly done by RFL had now passed to Technicolor. RFL currently had no plans to re-enter the commercials sectors of the market.

6.7. RFL was not in favour of the proposed merger for various reasons. It saw a merged Technicolor/Metrocolor as potentially damaging to RFL's interests because of the link between the merger and the contract for TWE's processing work. It was also concerned that the demise of Metrocolor, a company which had been seen in the industry as a low-cost, aggressive competitor, would damage the public interest. There could well be a significant effect on competition were the merger to proceed, since smaller independent producers, for whom Metrocolor had traditionally provided processing services, would be faced with less choice. RFL could service only a small amount of the independent producers' work, because of the company's concentration on work for the Hollywood studios. In future years, RFL was likely to devote even more resources to servicing the Hollywood studios.

6.8. The merger would also consolidate Technicolor's position in the European market. Technicolor London and its sister company Technicolor Rome co-ordinated their work, both catering for the international market and each taking advantage of, for example, favourable exchange rate movements and lower film stock prices in Rome, to decide which facility should undertake which work. Technicolor was therefore able to have regard to lower prices and the capacity available in Rome when submitting bids for processing work. This gave Technicolor a considerable advantage over its competitors. An

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<sup>1</sup>RFL's estimate, based on its knowledge of the market. It relates to 16mm negative developing only.

example of this was the loss by RFL of Fox's work, primarily to Technicolor (Rome). RFL was also concerned about the wider international implications of the proposed merger and in particular about the ability of other Carlton Group companies to take advantage of the merged company's strength in film processing.

6.9. In RFL's view, were Metrocolor to continue as a separate company, it would remain a very effective low-cost competitor. It thought it likely that there would be other potential buyers for Metrocolor. Metrocolor had astounded the industry for many years by its ability to attract work by competitive pricing and still return a profit. The purchase of Metrocolor was not, however, part of RFL's current thinking, but it was something which it would wish to consider if TWE wanted to discuss a sale.

### ***Soho Images Ltd***

6.10. Soho Images told us that it provided the full range of film processing services, although it had no in-house facilities for sound services, which were subcontracted locally as necessary to specialist suppliers. The company was now trading profitably having concentrated on the commercials front-end market in which it had been successful, and in relation to which its central London location close to advertisers was a considerable asset. Soho Images was now the market leader in this sector, estimating its share of the market for commercials at over 50 per cent. It had invested heavily in new technology and, in part at least, owed its position to its high-technology approach. Soho Images saw increasing competition both from the merged company and from the smaller companies like CFS and Todd-AO. It did not think that concerns about the merger leading to increased prices for commercials front-end processing were well founded. There was ample competition, and quality and value-for-money were more important considerations than price alone. It was increasing its overall capacity from 1.4 million to 2 million feet a week and was now seeking to expand its activities in other market sectors, principally 35mm commercials release printing and 16mm processing work where its high-technology approach gave it an edge, and where there were opportunities created by RFL's recent withdrawal. Its general approach was to offer a comprehensive value-for-money service which was paying off, even though, for example, in the price-sensitive commercials release print sector, it did not wish to match prices quoted by CFS and Technicolor.

6.11. Soho Images told us that it had no objection to the proposed merger. Were the merger to proceed, there would still be effective competition in all of the film processing sectors and it did not believe that the merger would lead either to a deterioration in service or an increase in prices. Soho Images said that by increasing capacity it would be able to accommodate all Metrocolor's 16mm customers should they wish to switch away from the merged company. As it had itself demonstrated with regard to commercials front-end processing, it was relatively easy for a new company that had the necessary machinery and contacts to enter the market. For a small operation the start-up costs were not high and the necessary equipment for negative developing could be bought for about £100,000, though suitable premises would also be needed. The same applied to the other market sectors as well, apart from 35mm feature release printing.

6.12. The industry had two distinct aspects. 35mm feature release printing essentially used technology which had not changed over the past 60 years or so although the speed and capacity of processing machinery had greatly increased. In all other areas technology had advanced, and was continuing to advance, as laboratories and customers alike came to appreciate the flexibility and value for money it afforded. There had already been considerable investment in computer-based technology in the industry and, in Soho Images' view, film laboratories that neglected to embrace technological change were doomed to fail. For front-end work, film makers were increasingly looking to receive their output in video form, a medium that lent itself to electronic transfer, saving both time and production costs. The new techniques had already made substantial inroads into the use of 16mm film, and Soho Images saw the further decline of this sector as inevitable. Soho Images had been the first laboratory to introduce video rushes for television, and now some 95 per cent of 35mm front-end commercials work was done in this way. Telecine transfer to video rushes also allowed much more effective editing, especially when linked to computerized cutting and matching. Computerized post-production facilities also opened up the prospect of simulated creative work which would come to supercede difficult effects previously shot on location.

6.13. Soho Images confirmed that there was fierce competition in all sectors of film processing. This was particularly true of commercials releases, which were extremely time-sensitive. In general, there was overcapacity which had had the effect of keeping prices down. In 16mm processing, prices were the lowest for two years, with six laboratories competing for business. The same was true of the 35mm sector. There was also a measure of competition from European laboratories which could become more significant if exchange rate movements gave them a clear price advantage. In these circumstances distributors might well get bulk release prints processed in a continental European, rather than a British, laboratory.

6.14. In Soho Images' view, Metrocolor would be hard pressed to remain operational in the absence of the work it processed on behalf of its parent company, TWE. Without this work it was not a viable business and for this reason alone Soho Images thought it most unlikely that another purchaser could be found if the proposed merger were not to proceed. In these circumstances, the most likely outcome was that TWE would close the company as part of its cost-cutting measures. Technicolor's bid for Metrocolor appeared to be based on a strategy to get more capacity in order to compete with RFL for 35mm work. Soho Images confirmed that it was not itself interested in buying Metrocolor, other than for an extremely nominal sum.

### ***Bucks Motion Picture Laboratories Limited***

6.15. Bucks said that it was active in four film processing sectors: 35mm feature front-end processing and feature release printing, 35mm commercials release printing and 16mm processing. Its biggest business was in 35mm feature release printing.

6.16. In the company's view, it would be difficult for a totally new company to enter the market because of the need for substantial set-up costs (in the order of £3 million) and the knowledge and expertise required. Reputation and personal contacts were important in establishing a business relationship between the client and the laboratory, but once established, price and service were the most important factors in selecting a laboratory.

6.17. Bucks considered that the proposed merger did not raise any public interest or competition concerns. There was a totally international market with numerous other laboratories, both in Europe and the USA, providing adequate competition.

### ***Colour Film Services Ltd***

6.18. CFS was concerned that the proposed merger would greatly enhance Technicolor's ability to purchase both raw film stock and processing chemicals in bulk. As there were only two major suppliers of raw film stock, CFS feared that smaller companies like itself would be forced to pay a premium for their material. It also feared that Technicolor's enhanced strength would make it difficult for smaller companies to increase their prices in line with inflation.

6.19. CFS was concerned that Technicolor could pursue a policy of reduced prices over a sustained period, which could have severe repercussions on the smaller independent laboratories. It was in no doubt that Technicolor was determined to dominate the UK film processing industry and the proposed merger would greatly reduce customer choice within the next five years.

### ***Todd-AO Filmatic Limited***

6.20. Todd-AO told us that it had been established as the result of the purchase, by the Todd-AO Corporation of America, of the British company, Filmatic Laboratories Ltd in May 1996. Todd-AO had ambitious plans for expansion, had invested some £2.5 million in the business, moved into a new purpose-built factory in Camden, north London, and merged its film processing operation with its extensive video facilities. Its new operation now covered the whole range of film processing requirements.

6.21. It was not opposed to the proposed merger. It recognized, however, that it could only compete with companies such as Technicolor and RFL by restructuring its film processing operation and

combining these with an extensive range of video services. The need to match prices was important.

6.22. The company claimed that the historic loyalty of customers to particular companies and their personnel had changed. This was partly because of budget constraints and particularly because of the acceptance of lower quality thresholds among broadcasters.

### **Cinema advertisers**

6.23. One cinema advertiser, Pearl & Dean, submitted views to the inquiry.

#### ***Pearl & Dean Cinemas Ltd***

6.24. Pearl & Dean, which currently accounts for some 20 per cent of the cinema advertising market, was not concerned about the proposed merger *per se*, but was worried about Carlton's growing predominance in the cinema industry generally and, in particular, the market power that CSA could exert by exploiting processing facilities owned by the Carlton group.

6.25. Cinema advertising production costs had been falling in recent years and this had enabled Pearl & Dean to attract new clients. However, its major competitor, CSA, which controlled some 80 per cent of the market, had been promoting its services aggressively. It was offering 'free' production deals to secure business whereby the cost of production was deducted from the net value of the contract with the advertising agency. If CSA further reduced production costs to levels which Pearl & Dean was unable to match, this would effectively provide cinemas with greater revenue, giving CSA an unfair competitive advantage.

### **Distributors**

6.26. We wrote to 32 film distributors, of which three responded with their comments.

#### ***Buena Vista International (UK) Limited***

6.27. Buena Vista International (UK) Limited confirmed that Technicolor provided almost all of the laboratory services required by the company. It considered Technicolor to be the only UK-based laboratory currently equipped to meet its 35mm feature release print processing needs, both in terms of quality and capacity. Buena Vista International (UK) Limited saw no adverse effect on its business resulting from the proposed merger; in fact the increased capacity which would accrue to Technicolor after the merger would help it meet the often extremely tight deadlines common in the industry.

#### ***Polygram Film International Limited***

6.28. Polygram confirmed that the film processing market was global in extent and that it commissioned release prints from French, German and Australian film processing laboratories. Its preference was, however, to use British laboratories whenever possible because their proximity made it easier to ensure effective quality control. The strength of the pound against other currencies was the main reason why an overseas laboratory would be used.

#### ***Squirrel Films Distribution Ltd***

6.29. Squirrel Films Distribution Ltd (Squirrel Films) wrote to express its concern at the proposed merger.

6.30. Squirrel Films believed that the aim of the proposed merger was to enable Technicolor to remove a competitor, Metrocolor. In its view, this would not improve the already limited

competitiveness of the market. The merger would act to reduce the choice of laboratories in London: for 35mm feature film processing the choice would be either RFL or Technicolor.

6.31. In the company's experience, Technicolor would not be prepared to undertake certain work unless the profit margins were substantial. The reduction in the number of service suppliers which the proposed merger would cause could lead to a position in which the only alternative for companies like Squirrel Films would be to use overseas laboratory services.

### **Representative organizations**

6.32. Several film organizations wrote to us about the proposed merger. PACT and the AFVPA jointly with the IPA, also attended hearings.

### ***Advertising Film and Videotape Producers Association***

6.33. The AFVPA told us that it represented 136 British commercials' production companies which together were responsible for the production of over 95 per cent of UK television and cinema commercials.

6.34. The AFVPA, which appeared at a joint hearing with the IPA (see paragraphs 6.38 and 6.39), said that personal contacts were the main consideration in choosing a processing laboratory for commercials front-end processing. Quality of service and price were next in order of importance. Soho Images had been very successful over the past three years because it was ideally situated within the advertising community, and in its marketing and general approach it had developed a great deal of rapport with the production companies. Its quality of work was very high and compared favourably with that of Metrocolor which had fallen off over the past two years. The AFVPA confirmed that prices had remained stable in recent years and that there was no evidence of under-capacity in this sector. It doubted, however, whether Soho Images, in particular, and the other smaller laboratories would be able to maintain their market share of the sector in the face of an aggressive pricing policy from the merged company.

6.35. The AFVPA was concerned about the effect of the proposed merger on the prices of commercials release prints. It said that one of its priorities had been the control of costs within the British film production industry. It believed that British companies would neither be able to retain their market nor attract overseas contracts, unless they were able to produce commercials at competitive prices. Laboratory costs were an important element of overall production costs and the AFVPA expressed concern that the proposed merger would increase the cost of commercials release printing, which was a particularly price-sensitive market.

6.36. The AFVPA pointed out that the Metrocolor site had development potential and feared that Technicolor intended to close the laboratory down if the proposed merger were allowed to proceed. The film industry was heavily dependent on the trust established between film maker and laboratory, and closure of the Metrocolor operation would severely disadvantage many independent film makers who had built up close relationships with the company and its key staff over the years. The closure of the Metrocolor facility would reduce choice, particularly in the 16mm processing sector of the market, and the reduction of processing capacity would lead to increased prices. The AFVPA also feared that over time the merged company could give up 16mm processing completely.

6.37. In the AFVPA's view, the proposed merger should not therefore be allowed to proceed.

### ***Institute of Practitioners in Advertising***

6.38. The IPA represented 213 corporate members handling some 80 per cent of advertising business, valued at nearly £6 billion in 1996, placed by agencies.

6.39. In its view the proposed merger would be prejudicial to the public interest. The market for film processing services was already controlled by a limited number of companies and the IPA was concerned

that the proposed merger would lead to a significant decline in service standards and a reduction in price competition. Like the AFVPA (see paragraph 6.36), the IPA membership were concerned about the possible closure of the Metrocolor laboratory at Highbury. This would reduce capacity in the market and tend to force prices up. It also raised concerns about the availability of processing facilities for IPA members' intensely time-sensitive work.

### ***The Moving Image Society***

6.40. The Moving Image Society said that as a non-commercial organization it considered that it was unable to comment on the proposed merger. Its main concern was the maintenance of technical standards in the film industry and it considered that the proposed merger would not make any significant difference to these one way or another.

### ***Producers Alliance for Cinema and Television Ltd***

6.41. PACT said that its members included 95 per cent of all feature film producers and independent television production companies currently operating in the UK, some 900 companies in all. At the hearing, PACT was represented by its Deputy Chief Executive and three member companies: Parallax Pictures Ltd (Parallax) (see also paragraphs 6.49 to 6.51), Partners in Production Ltd (PiP) (see paragraphs 6.53 and 6.54); and Touch Productions Ltd (Touch) (see paragraphs 6.57 and 6.58). PACT said that the independent film producers were most concerned about the effect of the proposed merger. The likely effect of the proposed merger on prices was their principal concern. Many small companies operated to extremely tight budgets and there was concern that the keen prices offered by Metrocolor would be lost. Front-end processing costs could take up 15 per cent of the budget of a film, and the price offered by the laboratory was crucial. Quality was also an important consideration for its members. Metrocolor had also developed a unique management style and method of working. Personal relationships between producers, directors and cameramen on the one hand, and the staff at a laboratory on the other, played a significant part in the choice of laboratory to undertake the processing work and Metrocolor had fostered these relationships which had been of particular benefit to young up-and-coming film makers and producers. These relationships would be lost as a result of the merger.

6.42. PACT claimed that the industry was not generally aware of the proposed merger, notwithstanding its own efforts to alert its members and the advertisements placed by the MMC in trade journals. This was largely because producers tended to concentrate on their own projects, and the deadlines associated with these, to the exclusion of other considerations.

6.43. A number of its member companies had, however, suggested that the proposed merger would lead to a harmful concentration of ownership in television and feature film production. PACT was also concerned that the loss of Metrocolor as an independent film processor would reduce competition, restrict choice and, ultimately, lead to higher prices and poorer service. Metrocolor had offered the small independent producers a better all-round service with lower prices than either RFL or Technicolor. A few years ago Metrocolor had significantly reduced its prices for 16mm processing. The BBC had been the principal beneficiary, but the independent producers had benefited too. Metrocolor was able to offer low prices because it undertook less work for the Hollywood studios and needed to win business from elsewhere. Metrocolor had also on occasion assisted small independent film makers with cash-flow difficulties by agreeing payment after final delivery. If the merger went ahead the independent producers would tend to be treated as poor relations by the larger laboratories and would no longer have the bargaining power to keep prices down and so help them to produce low-budget films. The merger would also make it more difficult for potential new businesses to enter the laboratory sector. Nor was the option of using European laboratories for front-end processing work a practical solution.

6.44. Although PACT members were concerned about the impact of the proposed merger on the laboratory sector as a whole, reducing as it would the number of current UK film processors of international stature from three to two, their main concern related to 16mm processing services. 16mm film was a medium frequently used by those first setting out in their careers as film producers before they graduated to 35mm film. PACT thought that following the proposed merger the Highbury site would be used principally for 16mm front-end processing and 35mm feature release printing. This would mean that 16mm and 35mm front-end processing would be separated, and new producers coming into the

industry would no longer be able to benefit from the continuity of laboratory contacts that Metrocolor provided. PACT's concern had been heightened by RFL's recent decision to withdraw from 16mm processing. PACT argued that this would result in a monopoly for the merged company in 16mm processing if the proposed merger were allowed to proceed. Over time the merged company might well choose to exit the 16mm sector altogether.

### ***Society of Film Distributors Limited***

6.45. The Society of Film Distributors said that its members had no strong views on the proposed merger.

### **Producers**

6.46. Nine film producers commented on the proposed merger.

### ***Flying Colours Film Company***

6.47. Flying Colours Film Company confirmed that it had no reservations about the proposed merger.

### ***Tony Kaye & Partners***

6.48. Tony Kaye & Partners opposed the merger. It said that were the merger to proceed there would be less competition and choice in the film processing industry. The company was concerned about the maintenance of both fair and competitive pricing and standards of work. It was further concerned by the prospect of fewer UK facilities being available to the film industry if the merger went ahead.

### ***Parallax Pictures Ltd***

6.49. Parallax wrote to express concern at the proposed merger. A director also took part in the hearing with PACT (see paragraphs 6.41 to 6.44).

6.50. For about ten years it had used services provided by Metrocolor and had benefited greatly from the association, in terms of both quality control and costs. It was firmly opposed to the proposed merger which, in its view, would restrict competition in the UK market for film production. Ultimately, the proposed merger would act against the public interest as it would lead to reduced choice for cinema-goers.

6.51. It said that the film processing market was already highly concentrated with three companies accounting for the bulk of the work. RFL's recent announcement of withdrawal from the 16mm processing sector had exacerbated this situation. Parallax believed that the proposed merger would create conditions under which the smaller number of laboratories would be able to impose price increases arbitrarily. This could harm the commercial prospects of British film production.

### ***Park Village Productions Limited***

6.52. Park Village Productions Limited said that, in its view, the proposed merger would result in the further reduction of an already small industry, thereby reducing competition. This could only be bad for film production companies.

### ***Partners in Production Ltd***

6.53. PiP expressed alarm about the proposed merger. One of the company's directors also took part in the hearing with PACT (see paragraphs 6.41 to 6.44).

6.54. PiP said that there was currently over-capacity in laboratory facilities in London and that this had enabled producers to negotiate favourable terms for processing work. It believed that if the proposed merger went ahead, the Metrocolor laboratory would be closed. Together with the recent announcement by RFL of its withdrawal from 16mm processing, this would act to reduce competition and increase prices, further reducing the amount of film used for television.

### ***Picture Palace Films Limited***

6.55. Picture Palace Films Limited said that it was not in favour of the proposed merger on the grounds that competition in this sector of the film industry would be reduced.

### ***Paul Weiland Film Company Limited***

6.56. Paul Weiland Film Company Limited had no objection to the proposed merger. In its view, the merged company would offer a more comprehensive and efficient service than was currently available.

### ***Touch Productions Ltd***

6.57. Touch made no written submission to the inquiry. However, a director of the company took part in the hearing with PACT (see paragraphs 6.41 to 6.44).

6.58. Touch said that it was a small production company which specialized in human interest documentaries filmed on 16mm for television. It was concerned about the proposed merger because it feared that the quality of work by the merged company would fall. Touch was also concerned that the merged company could gradually phase out 16mm processing work, which would have serious adverse effects on productions for television and on the smaller independent production companies like Touch. The recent decision by RFL to withdraw from 16mm processing meant that choice had been further restricted and that prices were likely to increase as a result.

### ***United Film & Television Productions***

6.59. United Film & Television Productions objected to the proposed merger. It said that it was a major producer of films for television using 16mm film. Until recently, there were four major laboratories processing this gauge of film: RFL, Technicolor, Metrocolor and Soho Images. RFL had recently withdrawn from this sector and Soho Images provided an expensive service which was aimed at the 'monied' commercials market.

6.60. Were the merger to go ahead, the choice of laboratory would become even more limited and would lead unquestionably to a huge increase in prices and a diminution in service.

## **Service providers**

6.61. We sought the views of ten providers of specialized goods and services to the film industry, of which two responded with their comments.

### ***Agfa-Gevaert Ltd***

6.62. Agfa-Gevaert Ltd (Agfa) said that it was solely reliant on the bulk release theatrical market for the success of its film product business. Both the film distributor and the processing laboratory had an important role in its operation.

6.63. Both the parties to the proposed merger were involved with leading distributors using Agfa film and, in its view, the merger would have little effect on Agfa.

### ***Panavision Europe Limited***

6.64. Panavision Europe Limited said that in its view the proposed merger did not constitute a monopoly. In recent years, film usage in television had decreased as electronic media had increased. It was therefore inevitable that consolidation would take place. There were, additionally, other European facilities which were increasingly being used.

### **Television companies**

6.65. Two television companies responded to our request for comments.

### ***Frontline Television Services***

6.66. Frontline Television Services expressed strong concern about the proposed merger, believing that if it were to proceed the merged company would be closer to becoming a monopoly. This would not be good for competition.

6.67. This was particularly true in relation to the 16mm processing sector from which RFL had recently withdrawn, further reducing competition and choice of service provider.

### ***Primetime plc***

6.68. Primetime plc saw no reason to oppose the proposed merger.

P H DEAN (*Chairman*)

J C HANRATTY

R LYONS

P MACKAY

C R SMALLWOOD

P A BOYS (*Secretary*)

24 June 1997