

1 Summary

Introduction

1.1. We were asked to report on whether the transfer to Johnston Press plc (Johnston) of eight free weekly newspapers currently published by Trinity Mirror plc (Trinity Mirror) may be expected to operate against the public interest (see our terms of reference in Appendix 1.1). The eight newspapers (or ‘titles’) are distributed in parts of the East Midlands. In seven of the eight cases the transfers would give Johnston over 80 per cent of the local newspaper market in the area concerned, and in four cases—in and around Northampton and Peterborough—virtually 100 per cent.

1.2. Johnston specializes in the publication of regional and local newspapers. Having grown rapidly in recent years, mainly through acquisitions, it is now the fourth largest publisher of such newspapers in the UK. In 2001 its turnover was £301 million and its operating profit was £90 million, which represents an operating margin of 30 per cent.

1.3. Trinity Mirror is the largest publisher of regional and local newspapers in the UK. It also has other substantial interests, notably the publishing of national newspapers. The company was formed by the merger of Trinity plc (Trinity) and Mirror Group plc (Mirror Group) in 1999. In 2001 its turnover was £1,131 million and its operating profit was £37 million, an operating margin of 3 per cent.

General issues

1.4. Free newspapers derive nearly all their revenue from advertising. An important issue for our inquiry was the extent to which other media can substitute for local newspapers, whether paid-for or free, as far as advertisers are concerned. We take the view that the closest substitutes are publications which carry only advertising, and to a lesser extent other printed media such as directories and direct mail, and that for many advertisers none of the alternatives is a close substitute for local newspapers.

1.5. The regional and local newspaper sector has experienced a wave of consolidation in recent years, largely as a result of acquisitions, such that the top five publishers now have 72 per cent of the total between them. Publishers have also continued to develop clusters of titles in particular locations. It is clear that growth in ownership concentration at local level could bring benefits, to the extent that publishers use the economies of scale to provide better products and service, but we believe that the loss of competition could have harmful effects for advertisers and/or for readers.

1.6. This is an industry in which there has been a lot of new entry over the years. Market developments lead us to the view, however, that the launching of new local newspapers, by publishers not already present in the area concerned, is now rather less likely than it was. In particular, four of us believe that the prospects for entry into the territory of a strong and efficient publisher with a monopoly of existing titles are highly uncertain, and that local

monopolists may therefore have scope to raise prices, or reduce service levels, to some of their customers without inducing entry.

1.7. As required under the Fair Trading Act 1973, we have taken into account the transfers' likely effect on accurate presentation of news and free expression of opinion. We have also given attention to the impact on editorial quality and diversity, which we see as related to the effect on concentration of ownership in the local markets concerned.

Effects of the proposed transfers on the public interest

1.8. Given the small size of the transaction, the transfers would have no material effect on concentration of ownership at national level. Nor is there an issue of regional concentration, since nearly all the advertising carried in the Trinity Mirror titles is of a local, not regional, nature.

1.9. As regards local concentration, we have focused on the four titles whose transfer would give Johnston a virtually complete monopoly in local newspapers in the respective geographical markets. In each of the areas of distribution of the other four titles, another major publisher has a significant presence, and we believe that Johnston's behaviour towards readers and advertisers would be constrained by the threat of competitive response by the other publisher.

1.10. Despite the relatively small proportion of editorial content in the Trinity Mirror newspapers, we received representations from residents of Northampton and, more especially, Peterborough expressing concern at the prospect of Johnston acquiring these titles. Some of these alleged that Johnston's local titles showed a systematic political bias, but having examined the evidence we consider that the political coverage of these titles is not biased in any significant sense. There were also arguments that there would be a general loss of diversity if all the local newspapers were in the hands of one publisher. Although we believe that this is true in principle, because of the weakness of the editorial content of the Trinity Mirror titles we find insufficient grounds for believing that the transfers would have adverse effects on readers in this respect.

1.11. As regards advertising, four of us consider that, because of the lack of close substitutes, at least a significant minority of advertisers in the Trinity Mirror titles, and a proportion of advertisers in the Johnston titles which currently compete with them, would be vulnerable to price increases above the competitive level if the transfer of the four titles went ahead. These four believe that Johnston would have scope to raise prices to varying degrees to these advertisers, and to do so profitably, without attracting entry into the local markets concerned.

1.12. All of us find that the transfers would not have adverse effects as far as the accurate presentation of news and free expression of opinion are concerned.

1.13. Johnston told us that, if the transfers went ahead, [
Details omitted. See note on page iv.
]. Although this would increase the variety of products available, the majority of us who see adverse effects resulting from the transfers do not believe that the benefit of this increase in variety would outweigh the loss of competition for the business of local advertisers.

1.14. We have considered what would be likely to happen if the four titles were not transferred to Johnston. The four of us believe that Trinity Mirror would be unlikely to close the titles, at least in the short term; and that entry into the four local markets would be more likely if the transfers did not take place.

1.15. These four conclude that the transfer of the four titles referred to in the first sentence of paragraph 1.9 would be against the public interest.

1.16. Will Gibson considers that the available evidence is not strong enough to justify the view that Johnston would raise prices to advertisers, above the competitive level, if the transfers took place. While he considers there is a possibility that Johnston could increase prices to a minority of advertisers, it would be mindful of losing revenue as a consequence and would not need to lose much before such price rises became unprofitable. He also believes that, if the transfers did not take place, Trinity Mirror would be likely to close most or all of the titles published from its Northampton and Peterborough centres in the fairly near future. He does not believe that entry would be any more likely, in this situation, than if Johnston acquired all the titles.

1.17. The other four consider that there are no practicable conditions, which might be attached to the transfer of the four titles to Johnston, which would protect advertisers from the adverse effects identified. They therefore recommend that the Secretary of State should not consent to the transfer of those titles.

1.18. A more general issue which has arisen in this inquiry is cluster publishing and the implications for local concentration if consolidation in the ownership of regional and local newspapers were to continue. We all consider that the Office of Fair Trading should give early attention to whether an industry-wide inquiry into these issues should be initiated.