

J R J Murdoch
Exhibit JRJM 2
16 April 2012

**IN THE MATTER OF THE LEVESON INQUIRY INTO THE CULTURE,
PRACTICES AND ETHICS OF THE PRESS**

EXHIBIT JRJM 2

**This is the exhibit marked "JRJM 2" referred to in the witness statement of James
Rupert Jacob Murdoch dated the 16th day of April 2012**

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Rupert Murdoch and the future of British media

As angry MPs agree witnesses should be called to account over the phone-hacking affair, **Henry Porter** and **Will Hutton** examine the wide influence of the media empire behind the scandal

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A ARTICLE HISTORY
Article history

The malign influence of Rupert Murdoch on British life

News International acts as if it is above the law and has contributed to the coarsening of society's values, **writes Henry Porter**

When Rupert Murdoch appeared on his own Fox News Channel last year and was, astonishingly, asked about the News of the World phone-hacking scandal – "the story that was really buzzing around the country and certainly here in New York", as the anchorman put it – Murdoch cut him off with the words: "I'm not talking about that issue at all today. I'm sorry."

Seen against the background of Sun Valley, Idaho, and in short sleeves and sunglasses, Murdoch appeared more like a gangster fighting extradition proceedings than the attendee of a media conference. For some reason, the vicious agility of the elderly Hyman Roth in *The Godfather, Part II* came to mind. Naturally, the Fox News anchor didn't challenge the man he called Mr Chairman and the matter of the mass hacking of phones belonging to MPs, public figures and celebrities was dropped as Murdoch moved to praise his own organisation for its robust criticism of the Obama administration, delivering one swift jab at a competitor, the *Financial Times*, in the process.

Murdoch is a problem for British society and the *News of the World* phone-hacking story – given further impetus over the last 10 days by the *New York Times* and the *Guardian* – is a symptom of the chronic malignity of his power. In the last 40 years, we have grown used to News International (NI), so that it is difficult to imagine Britain without Murdoch's occupation, without, for instance, the leaders of the main parties humiliating themselves and our political system to gain his endorsement, or News International journalists and executives treating the law, national institutions and Parliament with disdain.

Murdoch has become one of the political issues of our time, as menacing in his own special way to democracy and conduct of politics as many other threats our society faces, only we do not see it, because his power is used behind the scenes to extend his commercial influence and so his grip on the flow of so much of the information in Britain. He and his equally unappealing son, James, (probable salary £1.3m) may bellyache about the BBC, but when you set the advertising spend and income of BSkyB alongside those of ITV and the BBC and add his newspapers and websites into the equation, you realise that Murdoch is by far the greatest force.

In February, I evoked the nightmare of Berlusconi's Italy when commenting on the fact that News International had concealed the truth about the extent of the phone hacking and that people such as Rebekah Brooks, formerly editor of the *Sun* and *News of the*

World and now chief executive of NI, had refused to turn up to answer questions from the Commons culture, media and sport select committee. This is wrong in one respect. Berlusconi is at least an Italian operating in his own land. As an American citizen, Murdoch appears to have scant interest in the plurality of information in Britain and therefore the health of British society.

His overriding concern is that the government remains covertly in step with his plans for expansion and that the flow of profits to News Corp remains uninterrupted. It is as though we had handed over a huge chunk of British agricultural land or given up our food distribution networks to a relentless foreign corporation.

But the amazing thing about Murdoch's power is that it is maintained even though we owe him absolutely nothing and he is, theoretically, at the mercy of laws and regulations that can be activated to control him. His power is in a sense illusory, maintained because people choose to believe it. He argues with some reason that Sky News Sport and Sky+, for instance, and the continued existence of the loss-making *Times and Sunday Times* newspapers (losses up to £87.7m in 2009) make an important contribution to entertainment and information, yet it is also probable that other companies, possibly more benign, would have grown to occupy the commercial space that he has created for NI.

Anyway, the good in his enterprises must surely be set against the detriment to British society, laid bare in the phone-hacking scandal. These are as follows. First, he has been responsible for a distortion of politics in the last four decades. In an unguarded moment at Davos three years ago, he replied to a question about shaping the agenda on the Iraq war: "We basically supported the Bush policy." And so he did. In the nine days before the invasion, freedom of information requests reveal that he had three conversations with Tony Blair.

No British political party has succeeded at an election in the last 30 years without Murdoch's blessing and the drumbeat of his papers can make life extremely difficult for a government when he withdraws his support, as he did from Labour last year. This ability to intervene decisively in general elections gives him immediate access to the prime minister and power to his editors to dictate laws, such as *Sarah's Law*. It was hardly a surprise when David Cameron employed the former editor of the *News of the World*, Andy Coulson, now mired in the phone-hacking scandal, to be his director of communications.

Blair's deputy director of communications, Lance Price, called Murdoch the 24th member of the cabinet. "His presence was always felt," he wrote. "No big decision could ever be made inside Number 10 without taking account of the likely reaction of three men – Gordon Brown, John Prescott and Rupert Murdoch. On all the really big decisions, anybody else could safely be ignored." That is almost certainly true of the new government and Andy Coulson is seen as the key facilitator of Rupert's habitual privilege.

Second, News International regards itself as above the law of the land. As well as paying out large sums to several victims of the phone hacking, who might otherwise have brought cases against NI in open court, it is suspected of subverting the police.

The Metropolitan Police's investigations by Andy Hayman into Glenn Mulcaire's operation to tap phones on behalf of the *News of the World* is thought by MPs such as Paul Farrelly to be inadequate. Mr Hayman is now employed by the *Times* as a columnist. Further, Rebekah Brooks admitted to a House of Commons committee, then denied it, that as editor she authorised payments to the police for stories.

Unseen political influence, paying the police for stories and the hobbling of due process are the standard procedures followed by crime families and though I do not say that Murdoch is a criminal, there is a case for placing the influence of the media magnate, his clannish associates and family on the spectrum of undesirable behaviour in a democracy.

The third part of the case against Rupert Murdoch stems from the unusual clarity of a one-dimensional being – the lack of doubt in his positions – as well as the acid drip of his customary cynicism.

British society is far from perfect: we are sometimes harsh, jeering, vulgar, indolent and lacking in compassion and it is to these traits that Murdoch's tabloid newspapers and much else in his media empire appeal. But look at Britain before Murdoch bought the *News of the World* and you see a nation that was a good deal less derisive. Murdoch has undoubtedly contributed to the coarsening of British society and also to an erosion of values, which now sees a society where the outrageous practices of his – and other – tabloid journalists are expected, if not quite accepted.

I often wonder what Murdoch and his family will leave behind when they pass from the scene – the memory of an extraordinarily successful business empire and of many conquests no doubt, but there will be few monuments, libraries, inventions, endowments, galleries or campaigns for justice to remember them by; merely a vague sense of depletion and of a power that existed, to a bewildering degree, for its own sake.

After a good debate in the Commons, which, incidentally, was an encouraging change from the proceedings in the last Parliament, the standards and privileges committee will investigate the hacking of MPs' phones. Together with renewed scrutiny of the police investigations this is a start.

MPs could do worse than summon Murdoch to the Commons, to answer questions about who sanctioned illegal practices by his journalists, but he'd probably reply as Hyman Roth did to Michael Corleone: "I didn't ask who gave the order because it had nothing to do with business."

It's time government stood in the way of his ambitions

A plurality review over the BSkyB bid is essential to protect the scope of our TV and newspaper coverage, **writes Will Hutton**

Three days into the coalition government's life, Rupert Murdoch was seen leaving Number 10 by a back door. Nobody knows the substance of his conversation with the prime minister. However, it would be astonishing if during the course of the unminuted exchanges he did not foreshadow the view of Chase Carey, Sky's chief operating officer, in a telephone call with City analysts later in June, that News International's bid for the some 60% of the shares it does not own in BskyB should not warrant a "plurality review". Rupert Murdoch wants as little opposition as possible to this tipping point for News International – its desire to have 100% ownership of BSkyB. Not to have raised this with the new prime minister would have been a dereliction of duty.

The arcane "plurality" provision in the [2003 Communications Act](#), inserted by Lord Puttnam despite the opposition of Tony Blair and the Labour government, permits the business secretary to refer any bid involving cross-media ownership to OfCom to ensure it will not materially reduce the plurality of voice in the British media. OfCom's conclusions are then included in the Competition Commission's assessment of whether the bid in question should go forward.

These next few months are crucial for the future of the British media in a way in which MPs, exercised by Andy Coulson, have simply not registered. The review is the last line of defence in preventing News International (NI) from controlling half of Britain's television revenues – and half its newspaper revenues – by the middle of the next decade. The company would then represent the single largest concentration of media power in any large democracy, a practice outlawed in Australia and the US, with huge implications not just for British politics and culture, but also for the structure of the media and the information industry.

Everybody from BT to the *Daily Mail* group, along with individual citizens, should be

profoundly concerned. It is obvious that the conclusion of any worthwhile plurality review is almost foregone, one of the reasons NI is so adamantly opposed to the referral.

Sky is a brilliantly successful operation. Its revenues in the last financial year were £5.9bn and its profits £855m. The next biggest TV company is the BBC – its revenues, largely from the licence fee, are £3.6bn. However, Sky's sports programming budget alone now exceeds the entire programme budget for BBC1. Next is ITV with revenue of £1.9bn; then there is Channel 4 with £855m and Channel 5 with £250m. Sky is an awesome force, moving from an entrepreneurial start-up to a potential monopolist in a generation.

And this is the issue. The emergence of Sky's market power would be problem enough if it just affected the television industry, but what makes it a defining moment for Britain is how the financial and industrial strength in television interacts with News International's dominance of the newspaper industry. The *Times*, *Sunday Times*, *Sun* and *News of the World* together constitute 37% of UK newspaper circulation.

Moreover, this is an industry struggling to find a viable business model as circulations fall and advertising revenues shrink. Cross-media ownership was an electric issue even in an era of stable technology; at a time of transformative technological change, it has become toxic because NI's television strength can come to the rescue of print in a way no other newspaper group can match.

Pay TV revenues have jumped by some 40% over the last decade and will continue to grow. Sky will benefit both from the natural growth in the market and its talent for adding additional services. By 2015, media analysts Enders Analysis project its revenues will have grown to more than £7bn. What of the BBC? The coalition promises a cut in the licence fee because of its alleged dominance, waste and extravagance. It will be lucky to be spending £3bn in 2015 and if NI has its way, the total will be considerably less. As for commercial terrestrial TV, advertising revenues are under pressure as audiences slip and advertisers look for better returns elsewhere; ITV will do well to maintain its £1.9bn revenues and Channel 4 its £855m. In short, by the time of the next election, Sky's pay TV revenues will constitute half of Britain's total television revenues – or more.

On current trends, its spending on locally made content will remain small by comparison with its revenue; the bulk of its cash earmarked for programmes is dedicated to sports and film rights. No private sector broadcaster will be in a position to mount a challenge to its dominance. Virgin Media TV has just succumbed to a BSkyB takeover. The outlook for BT Vision is bleak.

That would be serious enough on its own. Just consider news. There are only three TV news providers in Britain – the BBC, ITN and Sky. The outlook for ITN, dependent on contracts from ITV and Channel 4, is of never-ending budget cuts and the shrinkage of its capacity. All its shareholders, reading the runes, want to sell. The future for TV news is between a cash-constrained BBC and an ever-richer Sky News. In the US, Fox News, owned by NI, is unconstrained by impartiality obligations and has unashamedly exploited a pro-Republican editorial stance. NI would love to repeat the formula in Britain. Nothing except the BBC, potential objections from OfCom and audience expectations of balance stands in its way.

What about newspapers? Circulation is in headlong decline; a further halving by 2020 is more than conceivable. The future is on the net, but readers are reluctant to pay for newspapers online. The only paywalls that show signs of working are business to business. However, once NI gets 100% ownership of BSkyB, it will simply add its newspaper titles to the subscription television bundle to be received online. NI is the fourth-largest advertiser in the UK. Its marketing heft and industrial strength in pay TV will thus support its newspapers and the rest of the industry will be slaughtered.

Conservative titles – the *Mail*, *Express*, and *Telegraph* – will be marginally more vulnerable than the liberal titles – the *Guardian*, *Observer*, *Independent*, *Independent on Sunday* and the *Mirror*, whose readership will stay more loyal to the editorial line.

But the effect will be small.

There is a convergence of TV and online usage and attractively priced online newspapers available via Sky as part of carefully designed packages for individual consumers will be irresistible, although the *Express* may hope to repeat the approach with its putative ownership of Channel 5. However, the prospect by 2020 is of an enfeebled newspaper industry in which NI titles command more than half the circulation and revenues and a television industry in which coverage of current affairs beyond a diminished BBC will be sporadic, thin and partisan.

NI made its bid on 15 June and Richard Desmond's Northern & Shell bid for Channel 5 – which raises exactly the same issues – followed. The same argument applies and if Vince Cable refers the NI bid for a plurality review he could hardly fail to do the same for Northern & Shell.

The plurality review has only happened once before – when NI took a 17.9% stake in ITV. OfCom registered its concern, but the Competition Commission set it to one side, believing the size of the stake and NI's editorial record did not warrant the acquisition being blocked. It could hardly take the same stance over the current bids, in particular NI's.

Last week, I argued for the establishment of a media commission, modelled on the Banking Commission, to make recommendations about ownership and regulation. That should still take place. But the most urgent action is a plurality review. As matters stand, to delegate the decision to Brussels's competition authorities, which are notoriously reluctant to act, is far too dangerous. All politicians should understand the danger of the kind of media dominance NI is now developing in Britain. We will mourn our great newspapers, our choice of television and the BBC when they have gone. Now is the moment to defend them.

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Cable should call Murdoch to heel

Rupert Murdoch's British media empire has recently been at the centre of a political storm centred on allegations that illegal phone-hacking at one of his tabloid newspapers, the News of the World, was far more extensive than ever admitted.

Much attention has focused on the role of David Cameron's media adviser, Andy Coulson, who edited the paper at the time of the alleged hacking yet has denied any knowledge of it. But the allegations have gone beyond his role to include troubling claims that the police did not thoroughly investigate the News of the World's activities because of their relationship with Mr Murdoch's papers. This has raised broader questions about Mr Murdoch's powerful grip on the UK media industry, and laid bare the extent to which British politicians are cowed by him and even fight shy from investigating alleged criminality. This is profoundly unhealthy. Yet as the Coulson saga plays out, Mr Murdoch is attempting to consummate a deal that would increase his power still further.

Earlier this summer, Mr Murdoch announced he would merge his main company, News Corp, with BSkyB, a UK satellite broadcaster in which it already has a minority stake. While a price has yet to be set, and the acquiescence of the shareholders secured, News is beavering away in Brussels to win pre-clearance for the deal on competition grounds. This is unlikely to encounter insuperable obstacles as the deal may well not fall foul of European competition law. This is why it is imperative that Vince Cable, the business secretary, examines the deal under British rules governing media diversity.

There is a clear public interest case for doing so. Together, News and BSkyB would be a truly formidable beast. News accounts for some 37 per cent of national newspaper circulation in the UK while Sky has (in revenue terms) 35 per cent of the TV market - including the public sector BBC. Like other countries, Britain has laws to limit cross-media ownership. These aim to address the valid concern that a proprietor with interests in both newspapers and broadcasting might dominate the media scene, lock out challengers and stifle diversity of debate. This would be a clear risk with a News-Sky deal.

The rules, however, have not kept pace with the times. While newspaper groups still cannot own Britain's main commercial broadcaster, ITV, no such blanket prohibitions apply to more recently-established commercial broadcasters such as Channel 5 or Sky. The anachronism becomes clear when you look beyond audience size (ITV still reaches more viewers than its commercial rivals) to revenue. BSkyB's turnover is roughly three times that of ITV and is growing much faster. In a few years time, BSkyB may have almost half the British TV market.

Fortunately, Mr Cable has the tools to intervene if he wishes. The law permits him to look into cross-media deals to "ensure the existence of a range of media voices".

A News-Sky merger would threaten plurality in several ways. Although technically News already controls BSkyB, owning 39.1 per cent, a merger would give Mr Murdoch unfettered power to direct its management and cash flows. He could bundle his newspaper websites with Sky subscriptions, potentially giving him a big advantage as news migrates to an online

subscription model. The FT should declare an interest at this point. But access to Sky's substantial cash flows (rather than a taxed dividend, as at present) would give Mr Murdoch substantial firepower to cross-subsidise his loss-making UK newspapers, enabling them to compete with rivals more on price. Price wars are an established stratagem for News. In the 1990s, it grew the circulation of the Times through savage price cuts.

The UK newspaper industry as a whole is struggling, as it is in many parts of the world. Were Mr Murdoch to embark on fresh price wars, more rival papers would be marginalised - or even forced from the news stands.

Claire Enders, a well-known media analyst, has described the News-BSkyB merger as Britain's "Berlusconi moment". That is a touch hyperbolic, but Mr Murdoch's creeping control of the UK media is troubling. He already owns far more of the landscape than he would be allowed in the US and Australia.

Before Mr Murdoch seizes more territory, Mr Cable should call a halt to establish whether this really would serve the public interest. It is not satisfactory for Mr Murdoch simply to pull out his cheque book. He must also make the case.