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Introduction

2.1. This inquiry concerns the proposed transfer to Mirror Group of the newspapers currently published by MIN. We are required by our terms of reference and section 59(3) of the Fair Trading Act 1973 (the Act) to report whether the proposed transfer of the titles specified in the Schedule annexed to the reference (see Appendix 1.1) and related assets 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.

Background to the proposed transfer

2.2. MIN was formed in 1991 when two long-established businesses, The Birmingham Post & Mail Ltd and Coventry Newspapers Ltd, were acquired by their senior operational managers, with financial backing from institutional investors, from their then owner, the US group Ingersoll Publications Ltd (Ingersoll). MIN's newspaper business has since been expanded by acquisitions and the launch of two new free titles. In 1994 the company took a strategic decision to diversify as a hedge against the cyclical nature of regional newspaper publishing and because it considered that the premiums then being paid for newspaper publishing businesses made further acquisitions in that sector unduly expensive. MIN is now a quoted company which has interests in direct marketing, commercial photographic operations, magazine publishing, exhibition organization and in non-print media, including a joint venture, with Mirror Group, in the Birmingham Live cable television channel.

2.3. In 1996 MIN made a pre-tax profit of £12.0 million on a turnover of £113.9 million and had on average just over 2,000 employees (full-time equivalent). Around 85 per cent of its revenues came from newspaper publishing. It currently publishes one morning daily newspaper (*The Birmingham Post*), two evening dailies (the Birmingham *Evening Mail* and the *Coventry Evening Telegraph*), one Sunday newspaper (the *Sunday Mercury*), five other paid-for weekly titles, 28 free weeklies and one free monthly. MIN also publishes the *Sports Argus* and *The Pink*. These are sports-orientated newspapers published each Saturday evening and MIN regards them as final Saturday editions of the *Evening Mail* and *Coventry Evening Telegraph* respectively rather than as separate weekly titles. The majority of MIN's titles circulate in the West Midlands but MIN's more recent acquisitions include weekly titles circulating as far north as Derby and Ilkeston and as far east as Peterborough and Spalding (see Figure 4.4).

2.4. MIN told us that, while the management buyout team now running the company naturally valued their independence, there had been speculation in the financial press for some time that MIN might be a bid target and acquisition by Mirror Group was an attractive option for both companies. As part of Mirror Group, MIN would have scope for economies of scale and other operational efficiencies and finance to develop further into magazines, exhibitions and non-print media where MIN and Mirror Group had a shared interest. Following inconclusive discussions with Mirror Group on various forms of co-operation, Mirror Group suggested discussion of a full merger. This led to an announcement on 4 July 1997 that Mirror Group was making an agreed offer of £2.10 per share for MIN which valued the business at £297 million. As the average circulation per day of publication of Mirror Group's and MIN's newspapers together exceeded 500,000 over the period prescribed in the Act, the transaction cannot proceed without the consent of the Secretary of State who has asked the MMC to report on the matter.

2.5. Mirror Group was acquired from Reed International plc by companies controlled by the late Robert Maxwell and his family (the Maxwell companies) in 1984. 49 per cent of the shares were sold in early 1991 since when Mirror Group has been a public company; but the Maxwell companies initially retained a controlling interest. Following the death of Robert Maxwell in late 1991, and the discovery of financial irregularities, administrators were appointed to various Maxwell companies including those which controlled Mirror Group. The senior management of Mirror Group was restructured in 1992 and the administrator sold the Maxwell companies' controlling shareholding in Mirror Group in 1993. The company now has a range of institutional shareholders (see paragraph 3.8).

2.6. In 1996 Mirror Group made a pre-tax profit of £101.6 million on a turnover of £537.7 million and had, on average, just over 3,500 employees (full-time equivalent). Over 90 per cent of its revenues came from newspaper publishing. Its main national titles are *The Mirror*, the *Sunday Mirror* and *The People*. Mirror Group also publishes *The Sporting Life*, a daily which focuses mainly on horse racing. In Scotland it publishes the *Daily Record*, *Sunday Mail* and *The Glaswegian* (a weekly free newspaper); all are published in Glasgow although the *Daily Record* and the *Sunday Mail* circulate throughout the UK. In 1996 Mirror Group acquired a 90 per cent interest in Century Press and Publishing Ltd, publisher of the daily *News Letter* and two free weeklies in Northern Ireland. It also has a 46 per cent interest in Newspaper Publishing plc, publisher of *The Independent* and the *Independent on Sunday*. Mirror Group has been developing other media interests in recent years, launching the Live TV cable television channel in 1995 and acquiring a 20 per cent interest in Scottish Media Group plc (Scottish Media) which owns the Scottish Television franchise. Scottish Media also owns Caledonian Publishing plc, publisher of *The Herald* and *Evening Times* in Glasgow.

2.7. Mirror Group told us that it believed that a strong regional newspaper business like MIN's could develop and thrive given access to funds for investment, a wider news-gathering capability and other resources which would flow from integration with a larger group. It expected that, as part of an enlarged Mirror Group, MIN would also be able to achieve a number of operational efficiencies including cheaper rates for the purchase of newsprint and other consumables. Mirror Group expected these benefits, taken together, to enhance the quality of MIN's titles as well as improving the profitability of the MIN business. It also saw benefits for Mirror Group itself. The acquisition would provide it with an enlarged base from which to develop its media interests; and it would make Mirror Group less reliant on its national newspaper business which it believed to have suffered in recent years from uneconomic pricing by other newspaper proprietors.

Public interest issues

2.8. We have considered the effects of the proposed transfer on the public interest under five headings:

(a) concentration of ownership;

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

(c) efficiency and employment;

(d) effect on retail distributors;

(e) funding of the transfer.

2.9. We consulted a wide range of bodies in the course of our inquiry. The National Federation of Retail Newsagents (NFRN), one advertising agency and two newspaper publishers in the areas served by MIN's newspapers expressed opposition to the proposed transfer. The National Union of Journalists (NUJ) Chapel representing around one-third of the journalists of MIN's *Coventry Evening Telegraph* also opposed the transfer while the NUJ nationally and the Birmingham Post and Mail Chapel of the NUJ emphasized the safeguards they would wish to have in place if the transfer were to proceed. MIN management told us that although there had been one or two letters asking why they had agreed to the transfer they were not aware of any great groundswell of opinion on the matter among either readers or advertisers. We received no expressions of concern direct from the general public.

2.10. In assessing the public interest, we take account of differences, which we have described in paragraph 2 of Appendix 1.1, between MIN's titles as currently published and the titles listed in our terms of reference. In particular it is arguable, in our view, that MIN's *Sports Argus* (see paragraph 2.3) is a separate title from those listed in our terms of reference. However, MIN told us that the management, finances, editorial functions and distribution arrangements of the *Sports Argus* are shared with those of the *Evening Mail* and that it is viewed in the trade as a Saturday evening sports edition of the *Evening Mail* rather than as a separate newspaper. We also note, in this context, that the circulation figures of the *Sports Argus* and the *Evening Mail* are combined by the Audit Bureau of Circulations Ltd. Our assessment of the public interest therefore assumes that the transfer we have been asked to investigate includes the *Sports Argus* (and *The Pink* which we acknowledge to be readily identifiable as an edition of the *Coventry Evening Telegraph*). As regards the *Loughborough Echo Trader Xtra*, the other MIN title not listed in our terms of reference, we take into account the effects of its inclusion in the proposed transfer on the basis of distribution data and such other information and evidence as is available to us. In the rest of this report, unless the context otherwise requires, references to the proposed transfer are to the transfer including the

Loughborough Echo Trader Xtra. MIN's other Loughborough title, the *Loughborough Echo*, is assumed in our assessment to be a paid-for weekly.

Concentration

2.11. Concentration of the ownership of newspapers has been examined by three Royal Commissions on the Press in the post-war years,[1] and in a number of MMC reports, in view of the potentially adverse effects which it may have on both competition and diversity in the UK press. A loss of competition could threaten the choice of titles and styles of newspapers available to readers and lead to increases in cover prices and rates charged to advertisers. Diversity could suffer in that the variety of opinions published may be reduced; and, in the case of regional and local newspapers, increasing standardization of editorial content across titles could lead to a loss of local news coverage or of the local slant on national news.

2.12. However, newspapers are published in a changing market-place and the pace of change has quickened in recent years. An increasing number of national and local television channels and radio stations provide alternative sources of news and compete for both the time and interest of the general public. With the emergence of digital broadcasting, this trend is likely to continue and accelerate. Advertisers have access not only to newspapers, television and radio but to an increasing range of directories, magazines and electronic media such as the Internet. Sophisticated marketing techniques are encouraging advertisers to use a complex mix of the national and local newspapers and other media available to reach their target audience.

2.13. Against this background, the circulation of paid-for newspapers, particularly regional and local newspapers, has been declining. This decline has been offset to some extent by the introduction of free newspapers but their distribution has also declined from its peak in the late 1980s (see Figure 4.1). In real terms, advertising expenditure in newspapers has tended to rise over time but remains below its 1989 peak (see paragraph 4.16). At the same time, new technology has speeded up the newspaper production process and provided newspaper publishers with more sophisticated options for colour printing and the production and inclusion of inserts. In combination, these factors have encouraged newspaper publishers, particularly publishers of regional and local newspapers, to look for further consolidation in the industry to achieve potential economies of scale and remain competitive with other media.

2.14. These commercial developments do not, in our view, eliminate or override the risks associated with increases in the concentration of the ownership of newspapers which we have described in paragraph 2.11. But they persuade us to set any such increases in a wider context and it is in that context that we now consider the degree and consequences of concentration arising from the present transaction. We consider first whether the proposed transfer raises any concerns about the level of concentration of the press in the UK as a whole. We then consider the level of concentration in the area served by MIN's newspapers, examining the effect of the transfer on competition and choice and on diversity of opinion in that area.

Concentration at national level

2.15. Measured by average weekly circulation (of paid-for newspapers) and distribution (of free newspapers) in the period July to December 1996, newspapers controlled by Mirror Group[2] account

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[1] *Royal Commission on the Press 1947-1949*, Report, Cmnd 7700, 1949; *Royal Commission on the Press 1961-62*, Report, Cmnd 1811, 1962; *Royal Commission on the Press 1974-77*, Report, Cmnd 6810, 1977.

[2] We do not consider the newspapers published by Scottish Media, in which Mirror Group has a 20 per cent interest, to be controlled by Mirror Group (see paragraph 3.13).

for some 16 per cent of the circulation and distribution of all newspapers in the UK and the proposed transfer would increase this share to 18 per cent (see Table 4.7).

2.16. No change of ownership or control of national newspapers is involved in the present transaction. Competition choice and diversity of opinion among such newspapers would not therefore be affected.

2.17. Assessment of the effect of the proposed transfer on concentration in the ownership of regional and local newspapers over the whole of the UK is subject to a number of classification questions which we describe in paragraphs 4.19, 4.20 and 4.23. In particular, whereas earlier MMC reports have treated all newspapers published by Mirror Group in Scotland and Northern Ireland as regional newspapers, there are arguments for regarding the *Daily Record* and the *Sunday Mail* as national newspapers (see paragraph 5.20). If the classification used in recent MMC reports[1] is followed, the proposed transfer would increase Mirror Group's share of the circulation of all regional and local newspapers from 8.2 to 13.3 per cent. This would make it the largest publisher of such newspapers ahead of Trinity International Holdings plc (Trinity) with 11.7 per cent of the total (see Table 4.6). If the *Daily Record* and the *Sunday Mail* are not treated as regional newspapers, the proposed transfer would raise Mirror Group's share from 1.1 to 6.7 per cent, making it the fifth largest publisher of regional and local newspapers in the UK (see Table 4.6A).

2.18. Mirror Group and MIN put it to us that, on either calculation, the level of concentration resulting from the proposed transfer was not sufficiently high to give rise to public interest concerns. MIN argued that the provision of in-depth editorial coverage for the local community was an expensive, people-intensive, part of a regional newspaper's operations and it had to have size, critical mass and commercial strength if it was to sustain this kind of service. The trend towards consolidation in the industry, of which the present transaction was a part, was therefore helping to underpin editorial services to the local community rather than undermining them. Mirror Group suggested that the bare statistics gave an exaggerated impression of the nature, strength and geographic scope of its regional newspaper activities. It put it to us that all Mirror Group's titles which could conceivably be regarded as regional titles were based in Northern Ireland and Glasgow; and that, of these, the two newspapers with the largest circulation, the *Daily Record* and the *Sunday Mail*, could equally be regarded as national titles. Mirror Group contrasted this with the more widely-spread businesses of other major publishers of regional newspapers.

2.19. Although we acknowledge the commercial pressures for consolidation in the industry, we are not persuaded that further consolidation is always desirable or necessary in order to preserve an adequate newspaper service for local and regional communities.

2.20. The classification issues referred to in paragraph 2.17 raise a number of questions about the current structure, ownership and role of the national, regional and local press. However, having examined the position on the basis of alternative classifications, we are satisfied that our analysis in the present inquiry does not depend on the resolution of these questions and we do not therefore take a view on them.

2.21. We believe that, whichever classification is used, the level of concentration at national level arising from the present transaction is not by itself a cause for concern. The acquisition of MIN would provide Mirror Group with its only regional and local titles in England and Wales. If the *Daily Record* and the *Sunday Mail* were regarded as national rather than regional newspapers, Mirror Group's overall share of the circulation of regional newspapers would remain small relative to that of other publishers. Although it would have the largest overall share if the *Daily Record* and the *Sunday Mail* were to be regarded as regional titles, this share would be split between three well-

[1]See, for example, *Newsquest Media Group Limited and Westminster Press Limited: a report on the proposed transfer to Newsquest Media Group Limited of the newspapers of Westminster Press Limited*, The Stationery Office, Cm 3485, November 1996.

separated geographical areas: the Midlands, Scotland and Northern Ireland (see Figure 4.4). In this respect, the coverage of the UK flowing from the proposed transfer would be somewhat more dispersed than is the case for other major publishers (see Figure 4.3). Mirror Group clearly has a prominent position in Scotland but that position is entirely unaffected by the present transaction. Moreover, we believe that the interests of the communities in the three areas which would be served by Mirror Group's regional titles are sufficiently distinct to ensure that there would be a strong commercial imperative on Mirror Group to continue to offer separate styles, editorial content and opinions for each area. We therefore take the view that the coverage of the UK provided by Mirror Group's regional newspapers would be too dispersed to represent a serious risk to diversity of opinion in the country as a whole.

2.22. In these circumstances, we do not consider that the proposed transfer would lead to a degree of concentration at the national level which would adversely affect the public interest.

Concentration in the Midlands region

2.23. MIN's newspapers circulate or are distributed in an area stretching across much of the Midlands from Shropshire, Worcestershire and Gloucestershire in the west and south of the region to Northamptonshire in the east (the `MIN area'-see Figure 4.4). MIN is the largest publisher of regional and local newspapers in this area with approximately 35 per cent of total circulation (see Table 4.12). However, much of its coverage to the west and south of Birmingham is accounted for by the wide circulation of its Sunday newspaper, the *Sunday Mercury*; and it publishes only weekly free newspapers in Northamptonshire and Derbyshire at the eastern and northern extremes of the MIN area. MIN's daily newspapers, accounting for just under half of its total circulation and distribution of newspapers, are published in Birmingham and Coventry, reaching at least 10 per cent of households in the area in and around those cities (the `MIN core circulation area'). This area is also indicated in Figure 4.4.

2.24. In considering the effects of concentration arising from the proposed transfer we believe it appropriate to focus primarily on the MIN area as a whole. However, in view of the importance of Birmingham and Coventry as centres of population (see paragraph 4.50) and the strength of the circulation of MIN's daily newspapers in and around those cities, we also take account of the position in the daily newspaper market in the MIN core circulation area.

2.25. As Mirror Group publishes no English regional or local newspapers, our consideration focuses on the consequences of bringing Mirror Group's national daily and Sunday titles into common ownership with MIN's regional and local newspapers. We consider first the consequences for competition and choice and then the implications for diversity of opinion.

Competition and choice

2.26. *The Mirror*, the *Sunday Mirror* and *The People* are circulated in the MIN area in editions regionalized for the Central and Anglia television regions which embrace, but are considerably broader than, the MIN area (see paragraph 4.41). The main regional features of these newspapers are the television listings but editors may also provide some coverage of regional sport and entertainment and there is the facility to incorporate advertising with a regional focus. On one day a week, *The Mirror* also contains a regional jobs section and there may be minor changes in general news stories. The *Sunday Mirror* also contains a column of news stories which vary from region to region. *The Independent* and the *Independent on Sunday* are published in editions for the northern and southern regions. We were told that advertising and television listings differ between the two regions but editorial content tends to be the same.

2.27. We shall consider the extent of competition between the various types of newspaper in due course, but taking local, regional and national newspapers together, MIN ranks as the second largest publisher of newspapers circulated or distributed in the MIN area and Mirror Group ranks as the third largest. The proposed transfer would increase Mirror Group's share of the total circulation and distribution of newspapers in the MIN area from 11.5 to 28.7 per cent, giving it the largest single share ahead of News International plc with 20.4 per cent of the total. As Table 2.1 shows, there would be a significant increase in Mirror Group's share of the circulation of daily newspapers in the MIN area and a smaller increase in its already significant share of Sunday newspaper circulation. The proposed transfer would, however, have no effect on shares of the circulation and distribution of other weekly paid-for and free newspapers in the area other than to transfer MIN's existing share to Mirror Group.

TABLE 2.1 **Shares of newspaper circulation or distribution in the MIN area**

per cent

	All newspapers	*Daily newspapers*	*Sunday newspapers*	*Other weekly paid-for newspapers*	*Weekly free newspapers*
Mirror Group	11.5	12.6	29.9	-	-
MIN	17.2	12.2	7.1	11.2	40.0
Mirror Group and MIN	28.7	24.8	37.0	11.2	40.0

Source: Drawn from Tables 4.9 and 4.12.

2.28. In the MIN core circulation area, Mirror Group currently has a share of 13 per cent of circulation of all daily newspapers and this would increase to 48 per cent as a result of the proposed transfer (see paragraph 4.51).

2.29. Mirror Group and MIN have submitted that it would be misleading to infer a significant loss of competition from these figures because there is currently only limited competition between Mirror Group's national titles and MIN's regional and local newspapers. They acknowledged that there was some similarity between the readership of *The Mirror* and that of MIN's two evening newspapers, the Birmingham *Evening Mail* (with a circulation of 192,000) and the *Coventry Evening Telegraph* (with a circulation of 82,000). However, they believed that the broader geographical coverage of Mirror Group's regionalized newspapers made them of limited attraction to advertisers aiming for the in-depth penetration of the local market provided by MIN's evening titles. Mirror Group also felt that there was limited competition between morning and evening newspapers.

2.30. Mirror Group and MIN saw less similarity between the readerships of their respective morning titles. *The Birmingham Post* was a broadsheet targeted at a mainly business audience and with 70 per cent of its readers in the ABC1 category. *The Mirror* served a quite different readership and had a circulation of some 246,000[1] in the MIN area against *The Birmingham Post*'s 28,000. *The Independent* with a circulation of around 30,000 in the MIN area had its greatest appeal in the south-east of England and was targeted at a younger professional and academic readership. As to the Sunday titles, Mirror Group suggested that the *Sunday Mercury* was a demonstrably local newspaper which readers tended to buy in addition to, rather than instead of, a national Sunday newspaper. MIN told us that over 70 per cent of readers of the *Sunday Mercury* also bought a national Sunday newspaper.

[1]The Newspaper Society puts the circulation of *The Mirror* in the MIN area at 280,000. The differences appear to reflect minor differences in definition of the MIN area.

2.31. The MMC considered the consequences of bringing national and regional titles under common control in its report on United Newspapers plc (United) and Fleet Holdings plc (Fleet).[1] In that report the MMC concluded that although there was undoubtedly competition between Fleet's national newspapers and both the morning and evening regional newspapers of United, the level of competition was very limited and was unlikely to be affected by Fleet's transfer to United. The MMC also concluded in that report that weekly regional newspapers, whether paid-for or free, could not be regarded as being in competition with national daily newspapers. However, the present transaction would clearly give Mirror Group an overall share of newspaper circulation and distribution in the MIN area which we would normally regard as significant. This is particularly true in relation to the circulation of daily newspapers in the MIN core circulation area. We therefore need to consider in detail how the proposed transfer would in practice affect the level of competition and choice which currently exists between MIN's and Mirror Group's titles. We examine this question first from the perspective of readers in the MIN area and secondly from the point of view of advertisers. We then consider the effects of the transfer on competitors.

(a) Interests of readers

2.32. As far as readership is concerned, we note that *The Mirror* and MIN's two evening titles have significant circulations and that their readership profiles are very similar (see paragraph 4.53). We find it difficult to accept that there can be no competition between morning and evening titles. There is some evidence that more than half of newspaper readers read their newspaper after the first editions of the evening newspapers are available (see paragraph 4.32). Some readers will also be driven by cost considerations to choose between a morning and an evening newspaper. However, MIN told us that it had commissioned a survey in 1996 which showed that the most widely-read elements of its evening titles, apart from the television listings, were local news, regional news and local job advertisements. It is clear that even the regionalized edition of *The Mirror* has very limited coverage of this kind. It has regional job advertisements but these provide thin coverage of the local job markets on which MIN's newspapers focus (see paragraph 5.69) and this feature of *The Mirror* in any event appears on only one day a week. MIN's Saturday evening *Sports Argus* and *The Pink* (see paragraph 2.3) sell on the strength of their timely coverage of local and regional sports events which could not realistically be matched by any of Mirror Group's dailies. We have considered whether they may nevertheless compete for readers with Mirror Group's Sunday titles but are satisfied that their in-depth regional and local coverage, the immediacy of that coverage and their narrow focus are such that their readers are most unlikely to regard any of Mirror Group's newspapers as substitutes. We therefore take the view that while readers are likely to regard MIN's evening newspapers and the regionalized editions of Mirror Group's national titles as offering them an element of choice, these titles compete only to a very limited extent.

2.33. We are also satisfied that there is very limited competition between *The Mirror* and *The Birmingham Post* which have quite different readership profiles as well as significantly different levels of regional content. The readership profiles of *The Independent* and *The Birmingham Post* are more similar and, with a circulation of 30,000 in the MIN area, we believe that *The Independent* may be seen as an alternative to *The Birmingham Post* by a number of readers. However, we accept that there are differences in their main target audiences and that *The Independent* is unlikely to be seen as a real substitute by readers who look to *The Birmingham Post* essentially to provide regional news with a strong business orientation. Moreover we consider it highly unlikely that Mirror Group would find it commercially advantageous to adapt either the editorial policy or cover price of *The Independent*, with a circulation of 257,000 in a UK-wide market, in order to benefit a newspaper with the small circulation and narrow geographical focus of

[1]*United Newspapers PLC and Fleet Holdings PLC: a report on the proposed transfer of Fleet Holdings PLC to United Newspapers PLC*, HMSO, Cmnd 9610, August 1985.

The Birmingham Post. There must also be considerable doubt that the other major shareholder in *The Independent* would agree to such changes. We regard it as equally unlikely that Mirror Group would see commercial advantage in closing down *The Birmingham Post*, which we understand to be making a contribution to MIN's profits at present (see paragraph 5.71), or in modifying its commercial or editorial policy, in order to improve sales of *The Independent*. Any attempt to do so would risk losing *The Birmingham Post*'s readers to other national broadsheets particularly as *The Independent* accounts for only 11 per cent of the circulation of such newspapers in the MIN area (see Table 4.11). Nor can we see any other commercial reason why Mirror Group would treat *The Birmingham Post* any differently from MIN.

2.34. We do not therefore believe that the proposed transfer would have any adverse effects on competition between *The Birmingham Post* and Mirror Group's national dailies.

2.35. The readership profiles of the regionalized editions of the *Sunday Mirror* and *The People* are also broadly similar to that of MIN's *Sunday Mercury*. However, the *Sunday Mercury*, with its coverage of local sports, news and revelations, clearly has more local appeal than any of Mirror Group's Sunday titles, and the proportion of its readers who also buy a national Sunday newspaper (see paragraph 2.30) suggests that it complements rather than competes with national titles. In the circumstances, Mirror Group's national Sunday titles would stand to gain little from any modification of the commercial or editorial policy of the *Sunday Mercury*. These factors, coupled with the *Sunday Mercury*'s relatively low share (7.1 per cent) of the Sunday newspaper market in the MIN area, lead us to believe that the proposed transfer would have a very limited effect on competition between Sunday titles.

2.36. We have received no evidence to suggest that competition between national daily newspapers on the one hand and local and regional weekly titles on the other hand has increased since the MMC looked at the issue in their report on United and Fleet. The NFRN told us that sales of daily newspapers often dipped on the day of publication of a regional or local weekly newspaper. We accept that there is a degree of this kind of budget-driven competition between all newspapers but we do not believe that it operates with sufficient consistency for national daily newspapers to be regarded as part of the same readership market as regional and local weeklies. We do not therefore believe that the transfer of MIN paid-for and free weekly titles to Mirror Group would have any significant effect on competition and choice as far as readers are concerned.

(b) Interests of advertisers

2.37. As to competition for advertising, one advertiser who gave evidence to us (see paragraph 6.76) noted that MIN already had a virtual monopoly in the region and questioned the need for any further consolidation. However, several other advertisers and their representatives expressed a different view. Of these advertisers, some were concerned at the prospect of future acquisitions within the region by the enlarged Mirror Group but none felt that the present transaction raised public interest concerns. Some saw potential benefits to advertisers from the likely economies of scale or new opportunities for cross-title advertising.

2.38. Given the strength of MIN's existing position in the MIN area, and in its core circulation area in particular, we find it unsurprising that there is some concern at the prospect of future acquisitions by Mirror Group within these areas. However, any proposals for such acquisitions would have to be considered on their merits and we have no basis on which to speculate as to the titles or circumstances that would be involved. Our focus must therefore remain on the effects on the public interest of the transaction currently proposed.

2.39. The primary considerations for advertisers include cost, readership profile and circulation (see paragraph 6.27). As far as cost is concerned, Tables 4.14 and 4.15 show that, on the basis of published charges, advertising in Mirror Group's national titles is more expensive per unit of space than advertising in MIN's regional or local newspapers but significantly less expensive per reader. Advertisers therefore have to balance the advantages of readership focus and local penetration offered by MIN's titles against the lower cost per reader of Mirror Group's national newspapers.

2.40. In our view this implies an element of competition between Mirror Group's national dailies and most of MIN's newspapers, including evening newspapers and to some extent weeklies. However, as we have noted in paragraphs 2.32 to 2.35, there are significant differences in the regional content and readership profile of Mirror Group's and MIN's newspapers and we would expect this to be reflected in their relative appeal to advertisers. We also note the view of the Institute of Practitioners in Advertising (IPA) (see paragraph 6.27) that it is more costly to reach customers through regional or local newspapers even allowing for the relatively high response to such advertising. The fact that advertisers are prepared to bear these higher costs demonstrates that the regionalized editions of Mirror Group's national newspapers are fulfilling a significantly different function to MIN's newspapers in the regional and local advertising markets. This is further illustrated by the national newspapers' limited penetration of regional and local classified advertising markets which provide regional and local newspapers with over 60 per cent of their advertising revenue (see Table 4.2). On recent evidence (see paragraphs 5.27 and 5.69), even *The Mirror*'s Thursday edition, which generally has a higher regional content than other editions, carries little more than one-sixth of the amount of classified advertising contained in the same day's edition of the *Evening Mail*.

2.41. We therefore believe that the effect of the proposed transfer on the interests of advertisers is likely to be very limited.

(c) Effects on competitors

2.42. We also need to consider whether the enlarged Mirror Group would be able to use its greater financial strength and its combination of titles to exert more pressure on small competitors in the MIN area or neighbouring areas. We received expressions of concern to this effect from two of MIN's competitors (see paragraphs 6.2 to 6.4 and 6.10 to 6.18). It was put to us that, if the transfer were to proceed, the enlarged Mirror Group's financial strength, together with its dominant market position, would enable it to offer and sustain cover prices and advertising rates at levels which could weaken competitors. The proposed establishment of a Mirror Group board for the Midlands region (the regional board-see paragraphs 3.40 and 3.41) was seen as evidence of Mirror Group's intention to strengthen the marketing of both its regional and national titles in the region possibly using joint marketing, cross-title advertising packages and selective discounts on cover prices.

2.43. Mirror Group and MIN told us that, although the proposed regional board would provide Mirror Group with a broad link to the region, it would be a subsidiary board with a mainly non-executive role. They expected cross-title advertising packages to be offered but these would be strictly optional; and they believed that there were limits to the extent to which advertisers could be interested in both in-depth local coverage and the broader coverage available from the regionalized editions of Mirror Group's national titles. Cross-title packages were not therefore expected to be a major new source of revenue. Mirror Group also told us that it had been the target of unrealistic pricing in the national newspaper market but had kept its prices up. It regarded predatory pricing as a hugely and probably unsuccessful strategy; and it believed that it would be very difficult to raise advertising rates once they had been reduced for a price war.

2.44. There is no doubt that the enlarged Mirror Group would have greater financial strength with which to sustain low cover prices or low advertising rates if it so chose. However, as to cover prices, we have received no evidence that Mirror Group has a track record of predatory pricing and the cost of such a strategy and the difficulty of undermining titles which circulate substantially outside MIN's core area lead us to doubt that Mirror Group is any more likely to behave in that way after it has acquired MIN than at present. As to advertising rates, we believe, for the reasons described in paragraph 2.40, that there is limited scope for Mirror Group to use low rates for advertising in its national titles, whether or not as part of a cross-title package, to undermine competition from local or regional newspapers; and it is difficult to see how it could gain by offering low-priced cross-title advertising packages without undermining revenues from its core business in the MIN area. We would expect any cost savings arising from the proposed transfer to place Mirror Group in a better position to compete on advertising rates and cover prices and we view this and the availability of optional cross-title advertising packages as generally in the public interest. But we do not think that such cost savings or the results of any price reductions resulting from them would be so significant as to pose a threat to the existence of effective competition.

Conclusion on competition and choice

2.45. In the circumstances described in paragraphs 2.32 to 2.44 we are satisfied that the proposed transfer would not have adverse effects on competition and choice as far as either readers or advertisers are concerned and would not pose a threat to the existence of effective competition from other publishers.

Diversity of opinion

2.46. The absence of any significant effects on the existing level of competition between newspapers circulating in the MIN area is not a full guarantee that diversity of opinion in the area would be unaffected. Newspapers which do not compete directly because they serve different segments of the market may nevertheless bring different influences to bear on public debate; and bringing such newspapers into common ownership may remove or at least narrow those differences. This could have implications both for the range of opinion expressed on local issues and on the way that local interest in national issues is presented. The ownership of newspapers in surrounding areas may also have some influence on public opinion within the area. We have therefore considered separately whether bringing Mirror Group's national newspapers into common ownership with MIN's regional titles would increase the risk to the diversity of opinion available to the public in the MIN area.

2.47. In an earlier report[1] the MMC concluded that the transfer of ownership of certain newspapers in Nottingham to Northcliffe Newspapers Group Ltd (Northcliffe) might be expected to operate against the public interest even though their areas of circulation overlapped only to a limited extent with those of Northcliffe's existing titles. The MMC's concern was that, if the transfer were to proceed, ownership of a large number of local or regional newspapers circulating over a number of contiguous areas would be concentrated in the hands of one owner thereby increasing the risk to diversity of opinion.

2.48. The circumstances of the present transaction are rather different. First, the risk of a loss to diversity of opinion is likely to be less where, as in the transfer now proposed, a regional newspaper publisher is being brought into common ownership with a group which publishes only national titles in the region. It is commonplace for national titles to hold a political viewpoint but, as MIN and Mirror Group have argued, it would be commercially difficult to impose these opinions on regional newspapers which have to reflect the interests and viewpoints of their local communities to be successful.

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[1]*Daily Mail and General Trust plc and T Bailey Forman Limited: a report on the proposed transfer of seven local newspapers published in Nottingham*, HMSO, Cm 2693, October 1994.

2.49. Second, even if there were to be some loss of diversity as between the opinions and approach of Mirror Group's national newspapers and the titles currently owned by MIN, diversity in the MIN area would continue to be served by the availability of newspapers from a significant number of independent publishers. In addition to publishers of competing national titles, the MIN area is served by daily newspapers published by the Midlands News Association (MNA) and circulating immediately to the west of Birmingham, including in areas in which it is in direct competition with MIN's newspapers (see paragraph 4.33), by two major publishers of regional newspapers to the east and north of Birmingham and by 17 other publishers of paid-for newspapers (see Figure 4.6 and Table 4.12).

2.50. We have also considered, in this context, the strength of Mirror Group's commitment to the publication of regional newspapers in the area, as distinct from the local development of its national titles. In particular, fears have been expressed to us by the NUJ that Mirror Group may not be committed to the continuation of MIN's titles. We do not believe this to be the case; it would be inconsistent with Mirror Group's declared wish to have an alternative to national newspaper publishing and a broader base of activity. Mirror Group told us that it expects the MIN business to thrive and develop and that it has no plans to merge or close any of MIN's existing titles. The proposed regional board would reinforce Mirror Group's links with the region and MIN's current Chief Executive has been contracted to serve as Chief Executive of the MIN business for at least two years. On this evidence and the evidence of its involvement with newspapers in Scotland and Northern Ireland, we have no reason to doubt Mirror Group's commitment to the continued publication of local and regional newspapers in the MIN area.

Accurate presentation of news and free expression of opinion

2.51. Although we have already discussed the effect of the proposed transfers on diversity of opinion, there are other aspects of the accurate presentation of news and free expression of opinion that must be considered.

2.52. Mirror Group told us that editors for the MIN newspapers would be appointed by the Chief Executive of the subsidiary business, although in the case of the four main MIN titles there would be a requirement for consultation with the Chief Executive and Chairman of Mirror Group and for the approval of the proposed regional board for the Midlands.

2.53. As to editorial freedom, MIN told us that it does not currently impose any political view on its editors, that editorial decision-making was devolved within the Group and that individual titles were not required to follow a common editorial line. It regarded its editors' first responsibility as to campaign for what they saw as the interests of their local communities. MIN's management told us that they were comfortable, on the basis of Mirror Group's stewardship of its Belfast and Scottish titles, that it would not bring undue influence to bear on the editorial policy of MIN's titles.

2.54. Mirror Group said that its main national newspapers were committed by the Mirror Group board to a left of centre stance and that this had long extended to its Scottish titles. But there was no intention to extend this stance to other Mirror Group newspapers. *The Independent* was founded for the express purpose of giving a politically neutral viewpoint and Mirror Group continued to recognize this as an essential feature of the newspaper. The *News Letter* in Northern Ireland had a longstanding pro-Union stance and Mirror Group had recognized the need to support and maintain this stance. However, within this broad stance there had been a process of modernization in the *News Letter*'s position in line with the thinking in its mainly Protestant constituency and the editor had initiated a number of shifts of emphasis in the newspaper's policy and had taken decisions as part of this process without reference to the Mirror Group board. Mirror Group management had been supportive, but retrospectively.

2.55. We were told that Mirror Group's general approach was to agree a commercial brief with an editor, to monitor it, but otherwise let the editor `get on with it'. Only in the case of a small handful of exceptionally sensitive editorials did management ask to see editorials in advance. It was proposed that the Chief Executive of the MIN business would draw up commercial briefs for the MIN titles in consultation with their editors. Editors would be free to maintain and develop the local character of their titles provided that the profile and content of those titles reflected and were in keeping with the views of the communities they served.

2.56. The NUJ expressed concern to us that Mirror Group's commitment to the production of newspapers with fewer journalists could lead to a reduction in standards. In this context, it drew our attention to a suggestion by Mirror Group that it should be possible for a single journalist or team to cover an event for more than one newspaper. Mirror Group told us that its intention was to exploit modern technology and to increase the calibre and productivity of its journalists. The idea of using a single Group resource to cover events for more than one newspaper was intended to be an option for use in relation to a limited range of events. It would be for individual editors to decide if they wished to use this resource.

2.57. We have received no evidence to cast doubt on the editorial independence of Mirror Group's existing newspapers and the NUJ told us that it had no such evidence. We believe that the diversity of Mirror Group's shareholders is such that the risk of a single political influence being imposed on its titles is very low. Moreover, the diversity of the readership of Mirror Group's newspapers, the need for MIN's titles to reflect local interests and opinions to be commercially successful and the key role to be played by the Chief Executive of the MIN business and the regional board in appointing editors would in our view ensure that Mirror Group's existing policy of devolved editorial decision-making is applied to the MIN business.

2.58. We have considered the NUJ's concerns about Mirror Group's use of journalists. It is clear that there are likely to be significant changes in the way that journalists work, but we find nothing exceptional in Mirror Group's attitude to the use of new technology or productivity. Similar changes are taking place throughout the industry. Indeed, we have received evidence from MIN which suggests that its own thinking, pre-dating its decision on the merger, on the more flexible use of journalists, is every bit as radical as Mirror Group's plans. We can see dangers to diversity of opinion and editorial freedom if the use of single reporters to cover events for several titles were to become widespread and mandatory. But we have received a firm assurance from Mirror Group that this is to be an option, for use at an editor's discretion; and here, too, we found that MIN had been thinking along the same lines as Mirror Group, independently of the merger discussions. We consider it unlikely that Mirror Group would attempt to override an editor's discretion on such a matter given the commercial imperative, which both Mirror Group and MIN have emphasized to us, of ensuring that local and regional newspapers reflect the interests of the communities they serve.

2.59. In the light of the circumstances described in paragraphs 2.52 to 2.58, we do not believe that the proposed transfer would threaten the accurate presentation of news or free expression of opinion.

Efficiency and employment

2.60. Mirror Group estimates that it would be able to make annual cost savings of the order of £5 million as a result of the proposed transfer. Savings would come from the ability to buy all newsprint, ink and certain other services at the cheaper rates currently available to Mirror Group and from cuts in head office functions at MIN. On present estimates, this would involve the loss of [*] jobs. We were told that none of those involved would be editorial staff.

2.61. Mirror Group also expects savings from the retraining of its journalists in on-screen multi-skilling techniques and associated re-equipment; and it would consider how far these techniques could be adapted for use in the current MIN operations. This may involve further job cuts. However, as we note in paragraph 2.58, MIN has been developing its own plans in this area and we would expect them to proceed in the absence of the merger.

2.62. We were told that MIN's and Mirror Group's printing plant was already working near to capacity and offered little scope for significant savings. But planned developments at Mirror Group's Watford plant would open up a number of options and some savings were likely in the near future.

2.63. Mirror Group told us that it would give MIN newspapers on-line access to all Mirror Group's news content gathered in London and Glasgow. This could be provided at no extra cost and would be available for editors to use or not as they saw fit.

2.64. The NFRN suggested to us that a national newspaper publisher, such as Mirror Group, may centralize production facilities away from the region to the detriment of speed and flexibility in local news reporting. Alternatively, local printing capacity may be absorbed by the regionalized editions of national titles to the detriment of existing or potential competitors who may otherwise have used those facilities.

2.65. Mirror Group told us that a number of possibilities for making better use of MIN's and Mirror Group's printing facilities were under consideration. The option of a new facility in Birmingham had not been ruled out but would require further analysis. In the meantime work which MIN currently put out to contract could be switched to Mirror Group's plant as could the printing of some weekly titles. Mirror Group could also provide MIN with an inserting facility which it did not have. But time-sensitive morning and evening titles, particularly evening titles, would have to be locally produced. Although Mirror Group emphasized to us that its plans for the future use and development of its printing facilities were not fully formed, we are not persuaded that it would find it commercially sensible to modify MIN's existing printing arrangements in such a way as to make its newspapers less responsive to the local market; indeed, some of the options outlined by Mirror Group could clearly be of benefit to MIN's newspapers.

2.66. The NUJ expressed strong dissatisfaction with the way Mirror Group handled personnel and industrial relations matters. It told us of an `atmosphere of terror' at Mirror Group. Long-serving staff had been instantly dismissed because they tried to command a salary which Mirror Group did not want to pay and the NUJ had no rights to negotiate or represent its members on work-related matters. The NUJ contrasted this with the relatively enlightened attitude of MIN's management. It had no negotiating rights at MIN, but its representatives were called in by the management to discuss key developments (and at the Coventry plant had regular meetings with management), it had an appointee on the company's Health and Safety Committee and there were NUJ members among the trustees of the pension fund. The NUJ called for Mirror Group to be required to give an undertaking that effective trade union representation would be restored if it was the wish of the workforce or any individual employee.

2.67. The NUJ was also concerned to protect MIN's pension fund which had a greater surplus than Mirror Group's fund. It called for undertakings from Mirror Group that the benefits of the MIN fund would not be reduced and that surpluses would be used for the benefit of members of the fund.

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*Figure omitted. See note on page iv.

2.68. Mirror Group told us that the new management had to change a number of long-established practices after it took over in 1992 (see paragraph 5.45). It was one of the last newspapers to tackle these problems and industrial relations had been extremely bitter at the time. Collective bargaining rights had been maintained for the Graphical Paper and Media Union (GPMU), representing printing and clerical employees, and the NUJ was recognized for the purposes of the conduct of disciplinary, grievance and health and safety issues. But it was felt inappropriate to have collective bargaining arrangements with skilled professional, creative staff whose pay was more appropriately reviewed through individual performance assessments with line managers. Mirror Group considered that the proposed transfer was unlikely to lead to any changes to MIN's existing arrangements with journalists which were little different from its own.

2.69. As to the pension funds, Mirror Group emphasized the security of the arrangements it had developed in the wake of the problems which had arisen when it was controlled by the Maxwell companies. It told us that it had agreed with MIN that equivalent arrangements would be adopted as a minimum if MIN's own proposals, currently before the Pensions Board, were not accepted. It had also agreed with MIN that it would not press for a merger of the Mirror Group and MIN funds unless the trustees of both funds agreed, nor rely on the clause in MIN's pension trustee deed which enabled MIN itself to give a direction on the merger. Mirror Group's intention was that the funds should carry on as they were at the same level of funding, subject to any changes necessitated by the most recent Budget (see paragraph 5.52).

2.70. Although we received conflicting evidence from Mirror Group and the NUJ as to how far the NUJ was recognized by Mirror Group for the purposes of disciplinary and health and safety matters, it is clear that neither MIN nor Mirror Group currently recognize the NUJ for the purposes of collective bargaining. The proposed transfer does not in our view raise significant new issues of union recognition as far as journalists are concerned and we do not believe that the transfer itself would necessarily disturb Mirror Group's existing arrangements with the GPMU. Nor have we received any evidence of differences in MIN's and Mirror Group's relations with their employees which are of such significance as to make substantial changes in industrial relations at MIN inevitable or likely.

2.71. In the light of the circumstances described in paragraphs 2.60 to 2.70, we do not believe that the consequences of the proposed transfer for efficiency and employment, including pension fund arrangements, would be against the public interest.

Effect on retail distributors

2.72. The NFRN expressed concern that national newspaper publishers were less `retailer-friendly' than local publishers. They were responsible for introducing major cuts in retail margins, substantially increasing carriage charges, undermining the retail newsagents' market by `out-of-retail sampling' (the supply of newspapers free of charge, for promotional purposes, to hotels, etc) and promoting direct delivery, bypassing newsagents. In the NFRN's view it would damage retail newsagents and their home delivery service if the proposed transfer resulted in MIN's current practices being replaced by those of national newspapers.

2.73. Mirror Group told us that there was some resentment following increases in cover charges which publishers introduced to cover sharply higher newsprint costs at the end of 1995 without giving retailers a percentage of the increase. But it considered its day-to-day relationship with newsagents as good and constructive. It would not want to upset retailers by changing the relationship between its regional titles and their newsagents and it had not considered doing so. As to direct delivery, Mirror Group said that it would consider all options, but its priority was to encourage home delivery and it wished to do so through retailers. None of Mirror Group's national titles were delivered directly to homes. MIN told us that over 30 per cent of deliveries of the *Coventry Evening Telegraph* and some 13 per cent of its Birmingham newspapers were now delivered direct to homes. It was developing direct delivery where no home delivery services were provided by newsagents and to establish a closer relationship with its clients. But the cost to the publisher of direct delivery was generally no less than the cost of a newsagents' margin.

2.74. The NFRN acknowledged that its concerns related to national newspaper publishers in general rather than Mirror Group in particular. It also told us that it had recently approached the Director General of Fair Trading to ask for an MMC inquiry into the general issue of newspaper distribution. However, whatever may be the position on newspaper distribution in general, we have received no evidence which leads us to believe that the proposed transfer would result in significant changes to the way that MIN currently does business with local newsagents. We also have no evidence that Mirror Group's commitment to direct delivery, as an alternative to the use of newsagents, is any greater than that of MIN; indeed, we believe the reverse to be true. We would not therefore expect the proposed transfer to operate against the public interest in so far as it had an impact on retail newsagents.

Funding of the transfer

2.75. As we note in paragraph 3.32, acquisition of MIN could take Mirror Group's gearing to 117 per cent if it had to be funded entirely out of cash. It is relevant to our inquiry to consider whether this would inhibit the development of either the Mirror Group or MIN newspaper businesses.

2.76. Mirror Group told us it hoped the acquisition could be funded partly by shares through a partial share alternative to be offered to MIN's shareholders. However, it had also negotiated a new bank facility of £600 million. It anticipated that this would give it headroom both to fund the acquisition fully from cash if need be and to allow for capital expenditure by the enlarged group of £40 million in 1997 and £39 million in 1998. On recent trends, the capital expenditure requirements of the existing Mirror Group would be around half these amounts leaving cover for significant capital expenditure on the MIN business.

2.77. In the circumstances we are satisfied that the arrangements for funding the transfer do not give cause for concern.

Conclusion on the proposed transfer

2.78. For the reasons we have given and in the light of the facts we have described in relation to the issues listed in paragraph 2.8, we conclude that the proposed transfer to Mirror Group of the titles published by MIN and listed in our terms of reference, and of MIN's related plant and assets, may be expected not to operate against the public interest. Our conclusion assumes that the transfer we have been asked to investigate includes the *Sports Argus* as an edition of the *Evening Mail* but we are satisfied that it would have made no difference to our finding as to the public interest had we not made this assumption. On the basis of such information and evidence as is available to us, we also have no reason to believe that our conclusion would have been any different had our terms of reference required us to investigate the transfer of the *Loughborough Echo Trader Xtra*.