

# 2 Conclusions

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## Introduction

2.1. On 5, 9 and 11 February 1999 the Secretary of State referred to us the proposed transfers of PSN newspaper titles and related assets to Johnston, Newsquest and Newscom respectively.<sup>1</sup> On 3 March he referred the proposed transfer to Johnston of five further PSN titles. Our terms of reference, which are set out in Appendix 1.1, required us to report on the

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<sup>1</sup>We refer to Johnston, Newsquest and Newscom collectively as the bidders. Our report considers each of the transfers in the order in which they were referred.

proposed transfers to Johnston by 14 April and on the proposed transfers to Newsquest and Newscom by 30 April. On 30 March we sought the Secretary of State's consent to extend to 14 May the deadline for completion and submission of our report on the transfers. Consent was given on 7 April.

## **The public interest test**

2.2. We are required by our terms of reference and section 59(3) of the Fair Trading Act 1973 (the Act) to investigate and report on whether any of the proposed transfers may be expected to operate against the public interest. In reaching our conclusions we must take into account all matters which appear in the circumstances to be relevant. In particular, we must take into account the need for accurate presentation of news and free expression of opinion.

## **The companies**

2.3. PSN, Johnston, Newsquest and Newscom are public companies whose market capitalizations at 23 April 1999 were, respectively, £225 million, £580 million, £869 million and £196 million. A detailed analysis of the companies is provided in Chapter 3.

2.4. PSN publishes 35<sup>1</sup> local newspaper titles from its bases in Portsmouth and Sunderland. It has three sites at which it prints its own titles and those of other newspaper publishers. PSN's retailing division operates a chain of approximately 220 convenience stores. PSN told us that none of the bidders had expressed an interest in its retailing business. On 30 April 1999, PSN announced that it had conditionally agreed to sell this business to another retail group. In the year ended 31 March 1998, PSN achieved a pre-tax profit of £11 million on turnover of £176.4 million. Its newspaper publishing and printing division achieved an operating profit of £9.1 million on turnover of £62.7 million (see paragraphs 3.15, 3.16, 3.89 and 5.12, Tables 3.1 and 3.15 and Appendix 3.1).

2.5. Johnston publishes 155 newspaper titles in Scotland and England. It has ten printing plants in the UK, some of which carry out contract printing of newspapers for third parties, in addition to printing Johnston's own titles. Johnston also has a wholesale stationery supply business. In the year ended 31 December 1998, Johnston achieved operating and pre-tax profits of £51.5 million and £45.9 million respectively on turnover of £201.7 million (see paragraphs 3.30 to 3.32, 3.93 and 3.94, Table 3.4 and Appendix 3.2).

2.6. Newsquest publishes 179 local newspaper titles in England. It has eight printing plants, which print Newsquest's own titles and carry out some contract printing. In the year ended 31 December 1998, Newsquest achieved operating and pre-tax profits of £81.4 million and £61 million respectively on turnover of £305.8 million (see paragraphs 3.45, 3.96 and 3.98, Table 3.7 and Appendix 3.3).

2.7. Newscom publishes 107 local newspaper titles in England and Wales. It has five printing plants that handle all its internal printing needs and carry out some contract printing for third parties. Newscom also has magazine publishing and printing divisions. In the year ended 27 June 1998, Newscom achieved operating and pre-tax profits of £21.8 million and £24 million respectively on turnover of £127.9 million (see paragraphs 3.58 and 3.100, Table 3.9 and Appendix 3.4).

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<sup>1</sup>These include the *Guardian Home Finder*, which is not in our terms of reference and is probably not a newspaper within the meaning of the Act.

## **The background to the transfers**

2.8. Johnston told us that its main reasons for wishing to acquire PSN were to acquire a portfolio of titles in the North-East of England, to extend its existing operations in the South of England and to acquire PSN's relatively modern printing presses (see paragraph 5.63).

2.9. Johnston approached PSN in November 1998 with a view to seeking a board recommendation for an offer for the entire issued share capital. Following discussions between the companies' financial advisers, Johnston was informed on 15 December that the PSN board did not wish to pursue Johnston's offer and accordingly considered discussions to be terminated. On 22 January 1999, Johnston acquired 14.99 per cent of PSN's issued share capital from institutional investors and announced its intention to tender for up to a further 10 per cent. It also sought the Secretary of State's consent to acquire the titles and related assets (see paragraphs 3.3 and 3.4).

2.10. The PSN board advised shareholders not to accept the Johnston tender offer at £16 a share but made it clear that they would examine any bid that they considered reflected the true value of the company. On 1 February, Johnston announced that the tender offer had failed and was therefore void. On 13 April, Johnston announced that it had acquired further shares in PSN at £17.50 a share, taking its holding to 17.35 per cent (see paragraphs 3.5 to 3.7).

2.11. Newsquest told us that it had been tracking PSN's newspaper business as a potential target since March 1998, the key attraction being the fact that PSN was a good business with good newspapers. Following Johnston's announcement on 22 January, Newsquest approached PSN and on 5 February sought the Secretary of State's consent to acquire the titles (see paragraphs 3.6 and 5.114).

2.12. Newscom told us that its strategic policy involved growth with local newspapers through organic development and acquisition. It saw the acquisition of PSN as consistent with that strategy. It also saw PSN's Sunderland operations as important new territory from which to develop its strategy for growth. Newscom expressed interest in PSN following the Johnston announcement of 22 January and on 9 February sought the Secretary of State's consent to acquire the titles (see paragraphs 3.6, 5.159 and 5.160).

## **The regional and local newspaper industry**

2.13. The great majority of the approximately 1,200 newspapers published in the UK are regional and local titles. Of the 125 groups of publishers of such newspapers, the ten largest account for about 72 per cent of all copies sold or distributed.<sup>1</sup> None has a share of more than 13 per cent (see paragraphs 4.7, 4.8, 4.11 and Table 4.1).

2.14. Between 1970 and 1996 the circulation of morning daily, evening daily and weekly paid-for newspapers declined by 26 per cent, 48 per cent and 50 per cent respectively. In the case of weekly paid-for titles, the decline in circulation was, in part, attributable to the conversion of many of these titles into weekly free newspapers. Until 1989 the rapid growth in the distribution of weekly free newspapers more than counterbalanced the declining circulation of the paid-for newspapers. However, between 1989 and 1997 the distribution of

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<sup>1</sup>In common with the industry, we distinguish between paid-for newspapers, for which 'circulation' data are published, and free newspapers that are delivered to the home, for which 'distribution' data are used.

weekly free newspapers declined by almost 30 per cent (see paragraphs 4.16 and 4.17 and Table 4.4).

2.15. The regional and local newspaper industry has undergone significant changes of ownership in recent years, with companies such as Trinity International Holdings plc (Trinity), Newsquest and Johnston becoming major players in a relatively short period of time, principally by acquiring existing publishers. For example, in 1996 Johnston acquired the newspaper business of EMAP plc (EMAP), and Newsquest acquired Westminster Press Limited (Westminster Press). Both companies virtually doubled in size as a consequence of these acquisitions.

2.16. The Newspaper Society told us that consolidation of ownership was needed to ensure a vigorous, well-structured and effective regional and local newspaper industry, equipped to compete against an increasing variety of print, broadcast and electronic media sources. It said that these developments were necessary if regional and local newspapers were to retain their position within the UK's changing media landscape and offer an alternative editorial voice to national newspapers and other media (see paragraph 6.60).

2.17. Johnston agreed, arguing that the future and strength of local newspapers would only be safeguarded by permitting greater consolidation within a fragmented industry. Newscom described consolidation as inevitable and positive, allowing new opportunities for growth by acquisition, which were otherwise absent for companies with a long-term commitment to the sector (see paragraphs 5.73 and 5.156).

2.18. Northcliffe Newspapers Group Limited (Northcliffe) also described the consolidation in regional press ownership as inevitable. It did not believe that a regional press company would or could abuse its position of trust with local readers or advertisers. If it were to do so, its customers would go elsewhere, resulting in its commercial 'downfall' (see paragraph 6.20).

2.19. Hampshire Chronicle Group (HCG) took a different view, saying that the consolidation of regional newspaper ownership was not conducive to healthy competition in regional markets. The change of ownership had led to an inevitable increase in monopoly situations in most of the larger towns and cities in the UK. HCG believed that there had already been too much consolidation and further consolidation would make an unhealthy situation worse. It considered that the more dominant a regional press group became in a particular geographical area, the more potent was its ability to threaten and impose controls on advertisers. HCG told us that monopoly situations made it almost impossible for new companies to enter the market without soon being 'snuffed out'. It was equally difficult for small independent and established companies to increase their market share in new areas in competition with major regional publishing groups (see paragraphs 6.8 and 6.9).

2.20. The National Union of Journalists (NUJ) described the consequences of concentration of ownership and the creation of regional monopolies as: reduction of diversity in the press; cost-cutting and lowering of journalistic and production standards due to lack of direct competition; remoteness of control from the local communities served by the newspaper; elimination of choice for readers and advertisers; predatory pricing to drive out competition from newly-established titles; and sharply reduced employment opportunities. The NUJ considered that all these effects were seriously detrimental to the public interest, and brought no counterbalancing advantages to the public interest (see paragraph 6.40).

2.21. Our conclusions on the implications of increasing concentration of ownership on accurate presentation of news and free expression of opinion are set out in paragraphs 2.36 to 2.38.

2.22. Competition between newspapers for readers and advertising depends to a large degree on their editorial content.<sup>1</sup> Usually, but not invariably, free newspapers have a lower quality and proportion of editorial content than paid-for newspapers. Advertisements are, however, read as a source of information and interest and, to this extent, paid-for and free newspapers may compete directly for readers and advertisers. Advertising-only publications, which are probably not newspapers within the meaning of the Act, also compete with newspapers for readers with a particular interest in advertisements (see paragraphs 4.2 and 4.24).

2.23. As noted in an earlier MMC report,<sup>2</sup> newspapers are published in a market that has seen an increasing pace of change over recent years. 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. In this inquiry, our attention was drawn to the increasing importance of new technologies, in particular the Internet, for the delivery of news and advertising. Investment by PSN and the bidders in this area is currently fairly limited. Nevertheless, we are satisfied that the Internet in particular will become an increasingly important medium for the delivery of news and advertising (see paragraphs 3.103 to 3.112).

2.24. The sale of advertising space provides 82 per cent of total net revenues for regional and local newspapers, with cover prices accounting for the balance. The revenues of weekly free newspapers are generated solely by the sale of advertising space. For weekly paid-for newspapers the figure is 85 per cent and for daily and Sunday newspapers it is 71 per cent (see paragraphs 4.13 and 4.14 and Table 4.3).

2.25. Decisions by advertisers as to where to place their advertisements have been influenced over recent decades by the introduction of commercial radio, the increase in the relative importance of television, the increased use of direct mail and directories and the decline in the relative share of regional and local newspapers. Despite the relative decline in their market share, newspapers remain an important advertising medium. Nearly 30 per cent of all advertising expenditure in 1997 was on advertisements in newspapers, with regional and local newspapers accounting for 17 per cent of the total (see paragraphs 4.19 and 4.20 and Table 4.5).

2.26. We recognize that newspapers compete for advertising revenues with a range of alternative media and we expect that competition will continue to increase. Nevertheless, at present there remains a substantial area of advertising, not least by individuals and small businesses, which is mainly provided for by local newspapers.

2.27. In an earlier report, the Commission acknowledged that barriers to the start-up of free newspapers are relatively low.<sup>3</sup> However, they also pointed to the difficulty of establishing a credible challenge to a powerful incumbent. These include the possibility of retaliatory action, the difficulty of attracting readers where existing titles offer an attractive editorial content, and the working capital needed to sustain a newspaper through its early days (see also paragraphs 4.66 to 4.71).

2.28. In the same report, the Commission said that major publishers are more likely to provide an effective challenge to an incumbent than are smaller entrants because they have greater resources to cope with teething problems and to bear high initial operating losses for

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<sup>1</sup>Editorial content comprises everything in a newspaper other than advertising.

<sup>2</sup>*Mirror Group plc and Midland Independent Newspapers plc: a report on the proposed transfer to Mirror Group plc of the newspapers of Midland Independent Newspapers plc*, The Stationery Office, Cm 3762, October 1997, paragraph 2.12.

<sup>3</sup>*Johnston Press plc and Home Counties Newspapers Holdings plc: a report on the proposed transfer to Johnston Press plc of the newspapers of Home Counties Newspapers Holdings plc*, The Stationery Office, Cm 3962, June 1998, paragraph 2.71.

an extended period.<sup>1</sup> We observe, however, that in practice it is relatively rare for larger publishers to challenge incumbents outside those publishers' existing areas of operation, and we do not believe that the threat of such entry provides a significant constraint. Although entry by smaller publishers occurs more frequently, as noted above it is likely to be less effective. Accordingly, we do not believe that, in the present state of the market, the general threat of entry, by itself, can be relied upon as an adequate substitute for actual competition (see paragraph 4.69).

## **Public interest issues**

### **Accurate presentation of news and free expression of opinion**

2.29. In considering whether any of the transfers may be expected to operate against the public interest we must take into account the need for accurate presentation of news and free expression of opinion (see paragraph 2.3). In so doing, we have considered the independence that the bidders give to the editors of individual newspapers.

2.30. In an earlier report, the Commission observed that increasing concentration should be examined critically because of the risk that a large group might try to introduce a standardized editorial product as a means of cutting costs, with the outcome that diversity would be reduced to little more than a minimal reflection of the different social composition of different areas.<sup>2</sup>

2.31. Johnston told us that there would be no effects on diversity of opinion due to its policy of editorial independence, the largely separate geographical coverage of the titles, and the fact that it would still be absent from large parts of the UK. Johnston said that its editors were selected for their professional competence, judgment and management qualities. Once appointed, they were expected to follow the guidelines set out in the company's written statement of editorial policy but subject to that, and to budgeted editorial/advertising ratios, had virtually complete control of the editorial content of their newspapers (see paragraphs 5.99 and 5.100 and Appendix 5.2).

2.32. Johnston said that an organization which tried to introduce a standardized editorial product as a means of cutting costs was unlikely to remain in business for long. Johnston told us that it produced local newspapers to meet the interests, aspirations and concerns of local people. Editors were required to pick up and reflect on the issues of importance to the local community because a title that failed to do so was likely to lose readers in its core area, which would in turn lead to a decline in advertising and circulation revenues (see paragraphs 5.101 and 5.103).

2.33. Newsquest told us that its editorial policy was based on the principle that a regional or local newspaper publisher would only appeal to its readership in the relevant locality or region if its titles reflected the views and concerns of the readers in that area. Each local editor had complete freedom to exercise his or her discretion subject to the general proviso that the titles accurately reflected the views of the communities they served (see paragraph 5.135 and Appendix 5.3).

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<sup>1</sup>Ibid, paragraph 2.73.

<sup>2</sup>*Trinity International Holdings plc and Thomson Regional Newspapers Limited: a report on the proposed transfer to Trinity International Holdings plc of certain newspapers of Thomson Regional Newspapers Limited*, HMSO, Cm 3033, November 1995, paragraph 2.17.

2.34. Newscom told us that editorial independence, and the right of editors to determine the editorial content of their newspapers within broad guidelines, was fundamental to its policy. It believed editors should edit their newspapers in a manner appropriate to their specific readerships and communities. To this extent, Newscom would not seek to influence or control the accurate presentation of news and free expression of opinion which already characterized PSN's titles (see paragraphs 5.181, 5.183 and Appendix 5.4).

2.35. Newscom explained that in its structure there was a Group Editor who was responsible for general editorial policy and training, among other things. Editors of individual newspapers were responsible to their respective managers on commercial matters and to the Group Editor on purely editorial matters. The Group Editor kept in contact with the editors on a very regular basis. Editors were expected to notify the Group Editor before embarking on an editorial campaign that might be controversial (see paragraph 5.182).

### ***Conclusions on accurate presentation of news and free expression of opinion***

2.36. We believe that the commercial logic of regional and local newspaper publishing dictates that editors should be free to edit their newspapers in a manner that attracts and retains local readers. Therefore, an attempt by a publisher to dictate or standardize the editorial content of individual titles, or to impose a uniform style and approach, would risk a loss of readership, leading to reduced advertising revenues and, in the case of paid-for titles, loss of circulation revenue.

2.37. We received no evidence to suggest lack of accuracy in the reporting of news by the bidders. Nor did we receive evidence that led us to doubt their commitment to editorial freedom. In particular, there was no suggestion that the bidders had introduced, or were likely to introduce, a standardized editorial product. Even though Newscom has a Group Editor to whom the editors of individual newspapers are responsible on editorial matters, we have no reason to believe that it is any less committed to editorial freedom than is PSN.

2.38. We conclude, therefore, that the proposed transfers may be expected not to operate against the public interest in terms of the accurate presentation of news and free expression of opinion.

### **Concentration of ownership at national level**

2.39. We have already said that the transfers would not threaten the accurate presentation of news and free expression of opinion. We believe, therefore, that concerns about the effects of increasing concentration of ownership at the national level are limited to the possible impact on advertising rates and cover prices.

2.40. PSN, Johnston, Newsquest and Newscom account for 2.7, 6.5, 11.9 and 4.2 per cent respectively of the total weekly circulation and distribution of local and regional newspapers in the UK. The acquisition of the PSN titles would increase Johnston's share of total circulation and distribution to 9.2 per cent, making it the fourth largest publisher of such newspapers. Newsquest's share would increase to 14.6 per cent, making it the largest publisher, while Newscom's share would increase to 6.9 per cent, making it the fourth largest publisher. Of the other four publishers that have shares of total circulation and distribution exceeding 5 per cent, two (Trinity and Northcliffe) have shares of just under 13 per cent, with the other two at 6.6 and 5.2 per cent (see Table 4.1).

2.41. Johnston argued that the modest increase in its total market share would not give rise to appreciable competition or other public interest issues, pointing to the existence of three larger UK publishers and numerous smaller publishers (see paragraph 5.75).

2.42. Newsquest told us that while the increase in its national market share would put it marginally ahead of Trinity and Northcliffe, it would not change its position in any individual category, ie dailies, weekly paid or weekly free. It argued that the transfer should not give rise to public concern (see paragraph 5.112).

2.43. Newscom told us that it anticipated no effect on competition with other newspapers because there was no significant overlap between its titles and those of PSN (see paragraph 5.161).

2.44. The great majority of the advertising carried in the newspapers of the bidders and PSN is local in nature, with national display advertising comprising between 7 and 15 per cent. The differences in the proportion of national advertising are in part attributable to the differing definitions used.<sup>1</sup> As noted earlier, cover prices account for a relatively small proportion of total revenues for regional and local newspapers. Between 1990 and 1997 the average cover price for regional and local morning daily, Sunday and weekly newspapers increased, in real terms, while the average cover price for local evening newspapers declined (see paragraphs 2.24 and 4.51 and Table 4.20).

2.45. PSN told us that, because its newspapers were aimed essentially at local markets, the question of market power in relation to advertisers should be assessed at local level. If it were considered at a national level, the balance of power was such that none of the bidders would risk its commercial relationship with national advertisers across the whole of its business by exploiting any marginal increase in bargaining power that it might acquire in a particular area (see paragraph 5.51).

2.46. Johnston told us that it did not believe market concentration was equivalent to market power in advertising and no relationship between price and concentration had been established. Johnston considered that its acquisition of PSN would not have any appreciable effects on competition for advertisers. Furthermore, it pursued a conservative policy on advertising rates and intended to continue to do so. Although certain advertisers were given preferential rates on the basis of their frequency of advertising and/or total advertising spend, it did not differentiate between advertisers on the basis of their location within a title's circulation/distribution area. Lower rate cards did not apply in any location where both PSN and Johnston's titles were circulated/distributed (see paragraphs 5.83 and 5.88).

2.47. Johnston stressed that its local businesses were run by local management who were in tune with and close to their customers. There was no central 'diktat' as to how advertising rates were to be charged other than its conservative general policy requirements. Local management looked closely at the local rates charged by their competitors, which covered a variety of situations and categories of advertising (see paragraph 5.92).

2.48. Johnston told us that cover price rises did not bring in a great deal of additional revenue. Financially, it was more important to keep circulation in a healthy position than to get an extra few thousand pounds from price increases, which could lead to loss of circulation (see paragraph 5.98).

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<sup>1</sup>Typically, advertising placed by advertising agencies on behalf of major companies. In practice much of this advertising is local in character.

2.49. Newsquest informed us that, at present, it had no specific plans for cover prices and advertising rates for PSN's titles. Its objective was to have stable circulation for its titles and any plans in relation to PSN's titles would be adopted with that objective in mind. Newsquest noted that after its acquisition of Westminster Press, it did not increase the cover prices or advertising rates but concentrated on stabilizing circulation and distribution figures, which had been declining. Recent price increases made to the former Westminster Press titles had been below inflation and were implemented three years after the acquisition (see paragraph 5.130).

2.50. Newscom said that its advertising policy was expressed in clear guidelines, the objective being to offer customers a service designed to generate the maximum response from readers in a cost-effective manner (see paragraph 5.168).

### ***Conclusions on concentration at national level***

2.51. If any of the bidders were to acquire PSN, its share of total circulation and distribution of regional and local newspapers would increase by just under 3 per cent. Johnston's share would increase to 9.2 per cent, Newsquest's to 14.6 per cent and Newscom's to 6.9 per cent. Of the other four publishers that have shares of total circulation and distribution exceeding 5 per cent, two have shares of just under 13 per cent (see Table 4.1).

2.52. Given the existence of several large and numerous smaller publishers, we regard as minor the increases in concentration of ownership at national level that would result from the transfers. In the absence of an objective measure of concentration that can be applied to the situations we are examining, we note that the successful bidder would acquire a share of total circulation and distribution well short of the 25 per cent that is an important criterion in the general merger and monopoly provisions of the Act.

2.53. Given the buying power of national advertisers, we do not believe that the increase in concentration of ownership at the national level would have an adverse effect on the interests of those advertisers. Given the importance of retaining readers in order to maximize revenues, we do not believe that an increase in concentration at national level would, of itself, affect cover prices.

2.54. We conclude, therefore, that the proposed transfers may be expected not to operate against the public interest at national level.

### **Concentration of ownership at regional level**

2.55. The potential concerns about increasing concentration at the regional level, and indeed at the local level, are the same as those at national level, ie the effect on advertisers and cover prices.

2.56. PSN told us that the transfers raised no regional concerns that were additional to or distinct from those at the local level. Because the news and opinion provided by its titles were essentially local in character, the proposed transfers would not reduce consumer choice and diversity of opinion on regional issues or on the regional slant of national issues. The *West Sussex Gazette*, the only PSN title aimed at consumers on a regional basis, had a limited geographical coverage (see paragraphs 5.21 to 5.24).

2.57. Johnston, which has no overlapping newspapers in the North-East of England with PSN, said that it did not compete in a regional or county-wide market for either readers or advertisers in Sussex. All the titles had largely local core circulation or distribution areas;

none achieved appreciable penetration rates throughout the county. Johnston estimated that less than 5 per cent of the advertising carried in its newspapers and those of PSN in Sussex could be categorized as county-wide or regional (see paragraph 5.78).

2.58. Newsquest described its title *The Northern Echo* as a broad-based regional morning newspaper containing predominantly national and regional news, which competed mainly with national daily titles. This was borne out by the way in which Newsquest reported internally. It told us that because advertisers tended to target local areas rather than regions, there was no significant separately identifiable regional advertising market. Newsquest said that, had there been opportunities to develop the regional advertising market in the North-East, it would have attempted to take advantage of this. Newsquest referred also to the vigorous competition provided by Trinity in the North-East and the potential for market entry by several other large regional publishers (see paragraphs 4.41, 5.120, 5.122 and 5.128).

2.59. Newscom told us that there were many different local markets rather than regional markets. It did not regard any of its titles as being regional. Newscom did not have a classification for regional advertisers in its revenue spend analyses (see paragraphs 5.165 and 5.166).

2.60. The NUJ was concerned that, in the North-East of England, Newsquest would acquire a monopoly of daily and weekly newspapers. The same problem would not arise in the case of Johnston because there would be competition from the Newsquest titles. In the South of England, the NUJ was concerned about the possible monopoly effect in the area around Fareham, where Newscom and PSN competed (see paragraphs 6.42 to 6.44).

### ***Conclusions on concentration at regional level***

2.61. With the exception of Newsquest's *Northern Echo* and, to a lesser extent, PSN's *West Sussex Gazette* and Johnston's *West Sussex County Times*, the newspapers concerned are local in nature. There is, in practice, no regional overlap. Given the essentially local nature of the advertising, and the importance of retaining local readers in order to maximize revenues, we do not believe that any of the transfers would give rise to regional concerns that are additional to or distinct from those raised by concentration at local level.

2.62. We conclude, therefore, that the proposed transfers may be expected not to operate against the public interest at regional level.

### **Concentration of ownership at local level**

2.63. In each case we have looked at areas where the bidder and PSN each have at least one newspaper with a household penetration of 5 per cent or more. But we have focused our attention on those areas of overlap, defined by reference to postcode sectors, where at least one newspaper of both has a household penetration rate of 10 per cent or more. We have also considered, in relation to each title, whether the overlap areas are part of that newspaper's core, ie the area in which the bulk of the copies of the newspaper are circulated or distributed and in which the interests of the local inhabitants may be expected to influence editorial policy, advertising rates and, in the case of paid-for titles, cover prices.

2.64. Areas where the household penetration of a newspaper is less than 10 per cent are not normally regarded within the industry and previously by the Commission as part of that title's core area, because at that level of penetration it is difficult to attract advertisers. We believe that household penetration of 10 per cent alone is insufficient to determine whether or

not an area is part of a newspaper's core. We think that this should be assessed also in terms of the proportion of the title's total circulation or distribution accounted for by the area.

2.65. Johnston said that, in relation to the situation outside the core areas, there were no grounds for considering that the proposed transfer would lead to higher cover prices or a change in editorial policy as this would risk having adverse effects on readership, and hence cover price and advertising income, across the newspapers' total circulation/distribution areas (see paragraph 5.80).

2.66. Newsquest said that it was difficult to give a hard and fast assessment of precisely which would be core or peripheral areas of circulation or distribution for any particular title. A critical starting point was the role that a title played within its region or locality. Paid-for weekly titles tended to be local. Daily morning titles tended to have a much broader geographic coverage than evening newspapers, which were focused on a specific city or town. Sunday titles also tended to have a broad coverage. The geographical scope of a title's circulation or distribution would determine the scope of interests and issues upon which it sought to report (see paragraph 5.116).

2.67. Newsquest considered the 10 per cent household penetration test as too 'broad-brush' in that it brought within the overlap area readers from areas which were not representative of a title's principal editorial focus and which were only of peripheral relevance to advertisers. In Newsquest's view, a title would generally have around 60 per cent of its circulation or distribution in its areas of principal editorial and advertising focus, though in the case of a paid-for weekly title the percentage could be as high as 80 (see paragraph 5.117).

### ***Johnston and PSN***

2.68. There is no overlap between Johnston and PSN newspapers in the North-East of England. Both Johnston and PSN titles achieve a 5 per cent household penetration rate in ten locations in West Sussex. But in only seven of these do both companies have at least one newspaper with a household penetration rate of 10 per cent or more: Angmering, Arundel, Billingshurst, Petworth, Pulborough, Steyning<sup>1</sup> and the Storrington rural area (see paragraphs 4.28 and 4.29).

2.69. Johnston noted that of the seven areas identified above, only Angmering comprised more than 5,000 households. It told us that PSN's presence in Angmering was not significant, its titles were not widely read and they were unlikely to be regarded as attractive by advertisers for the purpose of reaching readers. Hence it believed the effect of the transfer on readers and advertisers in this area would be minimal. It described the remaining areas, all of which had 5,000 or fewer households, as not forming part of the core areas of the titles in question (see paragraphs 5.79 and 5.80).

2.70. Angmering comprises almost 12,000 households. Of the eight regional and local newspapers available, Johnston's titles account for about 93 per cent of circulation and distribution, PSN's for 5 per cent and Newsquest's for about 2 per cent. Of the newspapers with household penetration rates in excess of 10 per cent, two are paid-for weekly titles, one owned by PSN and the other by Johnston, and two are weekly free titles, both of which are owned by Johnston. With the exception of Johnston's *Littlehampton Gazette*, *Worthing & District Advertiser* and *Worthing Guardian Series*, we do not consider that Angmering forms part of the Johnston and PSN titles' core areas; it accounts for between 0.2 and just over 8 per cent of their total circulation or distribution. Angmering accounts for just over 45 per

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<sup>1</sup>PSN's *West Sussex Gazette* has a penetration rate of 9.7 per cent in the Steyning area, which we have rounded to 10 per cent.

cent of the *Littlehampton Gazette's* circulation. Although it accounts for only 11 and 14 per cent of the distribution of the *Worthing & District Advertiser* and the *Worthing Guardian Series* respectively, we are satisfied that geographically it also forms part of their core areas (see paragraph 4.30 and Table 4.7).

2.71. Arundel comprises just over 5,000 households. Of the nine regional and local newspapers available, PSN's titles account for about 85 per cent of total circulation and distribution, Johnston's for 12 per cent and Newsquest's for about 3 per cent. Of the titles with household penetration rates in excess of 10 per cent, three are paid-for weekly titles, two of which are owned by PSN and the other by Johnston, and two are free weekly titles, both owned by PSN. We do not consider that Arundel forms part of the core areas of the titles concerned; it accounts for between 0.2 and 7.2 per cent of their total circulation or distribution (see paragraph 4.31 and Table 4.8).

2.72. Billingshurst comprises just over 4,500 households. Of the six regional and local newspapers available, Johnston's titles account for about 84 per cent of total circulation and distribution, PSN's for 13 per cent, Guardian Media Group's for about 2 per cent and Newsquest's for about 1 per cent. Of the newspapers with household penetration rates in excess of 10 per cent, three are paid-for weekly titles, one owned by Johnston and two by PSN,<sup>1</sup> and one is a free weekly, owned by Johnston. We do not consider that geographically Billingshurst forms part of the core areas of the titles concerned; it accounts for between 0.9 and just under 11 per cent of their total circulation and distribution (see paragraph 4.32 and Table 4.9).

2.73. Petworth comprises just under 3,000 households. Of the seven regional and local newspapers available, PSN's titles account for about 61 per cent of total circulation and distribution, Johnston's for 32 per cent, Tindle Newspapers' (Tindle) for 4 per cent and Newsquest's for about 1 per cent. Of the two newspapers with penetration levels in excess of 10 per cent, one is a paid-for weekly, owned by PSN, and the other is a free weekly, owned by Johnston. We do not consider that Petworth forms part of the core areas of the titles concerned; it accounts for between less than 0.3 and under 4 per cent of their total circulation and distribution (see paragraph 4.33 and Table 4.10).

2.74. Pulborough comprises over 4,500 households. Of the seven regional and local newspapers available, Johnston's titles account for about 69 per cent of total circulation and distribution, PSN's for about 31 per cent and Newsquest's for about 1 per cent. Of the newspapers with household penetration rates in excess of 10 per cent, three are paid-for weekly titles, of which two are owned by PSN and one by Johnston, and one is a free weekly, owned by Johnston. We do not consider that Pulborough forms part of the core areas of the titles concerned; it accounts for between 0.1 and 6 per cent of their total circulation and distribution (see paragraph 4.34 and Table 4.11).

2.75. Steyning comprises just over 4,400 households. Of the six regional and local newspapers available, Johnston's titles account for about 89 per cent of total circulation and distribution, PSN's for about 5 per cent and Newsquest's for about 6 per cent. Of the newspapers with household penetration rates of 10 per cent or more, three are paid-for weekly titles, of which two are owned by Johnston and one by PSN, two are free weeklies, both owned by Johnston, and one is a paid-for evening title, owned by Newsquest. Although Steyning accounts for just over 16 per cent of the circulation of the *Shoreham Herald*, we are satisfied that it does not form part of the core area of the title as the remainder of its circulation is in Shoreham itself. Nor do we consider that Steyning forms part of the core areas of any of the remaining titles concerned; it accounts for between 2 and just over 4 per cent of their total circulation and distribution (see paragraph 4.35 and Table 4.12).

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<sup>1</sup>PSN's *Chichester Observer Series*, a paid-for weekly, has a household penetration of just under 10 per cent.

2.76. The Storrington rural area comprises almost 4,500 households. Of the seven available regional and local newspapers, Johnston's titles account for about 86 per cent of total circulation and distribution, PSN's for about 12 per cent and Newsquest's for about 2 per cent. Of the newspapers with household penetration rates in excess of 10 per cent, three are paid-for weekly titles, two of which are owned by Johnston and the other by PSN, and two are free weeklies, both owned by Johnston. We do not consider that Storrington forms part of the core areas of the titles concerned; it accounts for between 0.1 and just under 9 per cent of their total circulation and distribution (see paragraph 4.36 and Table 4.13).

2.77. As we noted earlier, regional and local newspapers compete for readers and advertisers with differing media to differing degrees. The most direct competition for advertisers is with a number of advertising publications. In West Sussex these include *Friday-Ad*, *Worthing Property Guide*, *Sussex Life*, *Contact a Car* and *Auto Trader* (see paragraph 4.58).

2.78. *Friday-Ad* is a free weekly publication that is distributed to various outlets where the general public can pick up copies. It is produced in 19 different editions, with each edition covering two or three towns. A little over 90,000 copies are distributed in areas that overlap with PSN and Johnston newspapers (see paragraph 4.59 and Table 4.26).

2.79. Johnston told us that its most important competition was from other printed publications rather than local radio, cable television or the Internet, although it did vary by category and the Internet could well be a major source of competition in the future. For example, the principal competition for property advertising had been either another newspaper group or an entrepreneur encouraged by estate agents to launch a publication such that the entire property market in an area could move from one publication to another overnight. Johnston said that the importance of publications such as *Friday-Ad* should not be underestimated. In many parts of Sussex it had become the market leader for lineage advertisements and was used extensively by small business advertisers. Also *Friday-Ad* was increasingly encroaching into the wider market for more substantial classified advertising categories and was progressively seeking larger display advertisements from a variety of advertisers (see paragraphs 5.81 and 5.82).

#### *Johnston and PSN conclusions on concentration at local level*

2.80. Johnston dominates Angmering, Billingshurst, Steyning and Storrington, where the market shares of PSN are between 5 and 13 per cent and those of Newsquest are between 1 and 5 per cent.<sup>1</sup> PSN dominates Arundel, where Johnston and Newsquest have market shares of 12 per cent and 3 per cent respectively.

2.81. PSN is the strongest player in Petworth, where its paid-for weekly title has a market share of almost 58 per cent. Johnston, Tindle and Newsquest have market shares of 32, 4 and 1 per cent respectively. Johnston's market share is largely accounted for by its free weekly title. The position is more finely balanced in Pulborough, where the market shares of Johnston, PSN and Newsquest are 69, 31 and 1 per cent respectively and both Johnston and PSN have paid-for and free weekly titles.

2.82. The transfer would not significantly enhance Johnston's position in Angmering, Billingshurst, Steyning and Storrington, given PSN's small market share in each location. In Arundel, Johnston, which has a small market share, would acquire PSN's existing dominant

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<sup>1</sup>In Billingshurst, Guardian Media Group has a market share of approximately 2 per cent.

position. In Petworth, Johnston would acquire the strongest player, while in Pulborough, where Johnston already is the major player, it would acquire its main competitor.

2.83. We do not consider that these areas form part of the core areas of the newspapers concerned, with the exception of Angmering. This means that they have little influence, if any, on decisions as to editorial policy, advertising rates and cover prices, which are made by reference to the circumstances in a title's core area (see paragraph 2.63).

2.84. It is possible that, with the acquisition of PSN's competing titles in Angmering, Johnston would be better placed to raise advertising rates and cover prices for the *Littlehampton Gazette* and advertising rates for the *Worthing & District Advertiser* and the *Worthing Guardian Series*. But given the competition that Johnston would continue to face, primarily from other advertising publications such as *Friday-Ad* but increasingly from other media, we regard such an outcome as unlikely.

2.85. We conclude, therefore, that the proposed transfer to Johnston may be expected not to operate against the public interest at the local level.

### ***Newsquest and PSN***

2.86. Newsquest and PSN newspapers overlap in West Sussex and in the North-East of England. Newsquest described the overlap as minimal. It said that even if the overlap issues were viewed as material, account should be taken of the fact that the regions in question were characterized by vigorous competition, principally from Trinity in the North-East and Johnston in the South. Moreover, Newsquest believed that they offered potential for market entry to a number of other large regional publishers (see paragraph 5.120).

2.87. Although PSN and Newsquest newspapers are circulated and distributed throughout a substantial part of West Sussex, in only one location, Steyning, do titles of both have a penetration of more than 10 per cent of households. In Steyning, as noted earlier, Johnston's titles account for about 89 per cent of total circulation and distribution, PSN's for about 5 per cent and Newsquest's for about 6 per cent. We do not consider that Steyning forms part of the core area of any of these titles (see paragraph 4.35 and Table 4.12).

2.88. In the North-East of England there is one small area, near Peterlee, where titles of both Newsquest and PSN have household penetration rates of more than 10 per cent. Peterlee comprises just over 22,000 households. Of the eight regional and local newspapers available, PSN's titles account for almost 84 per cent of total circulation and distribution, Trinity's for almost 10 per cent and Newsquest's for just under 7 per cent. Of the three newspapers with a household penetration rate exceeding 10 per cent, one is a PSN free weekly title, one is a PSN evening daily title and the third is a Trinity Sunday title (see paragraphs 4.38 and 4.39 and Table 4.14).

2.89. Wingate, which lies to the south of Peterlee, and Thornley and Wheatley Hill, which lie to the west, comprise around 4,800 households. Of the eight regional and local newspapers available, PSN titles account for 77 per cent of total circulation and distribution, Newsquest's for 17 per cent and Trinity's for 6 per cent. Of the three newspapers with a household penetration rate of 10 per cent or more, one is a Newsquest morning daily title, one is a PSN free weekly title and the third is a Trinity Sunday title (see paragraph 4.42 and Table 4.15).

2.90. The areas described in paragraphs 2.88 and 2.89 account for almost all the distribution of the *Peterlee Star* but only between 0.8 and 10.5 per cent of the total circulation and distribution of the other newspapers concerned. Accordingly, we believe that they are part of

the core area of the *Peterlee Star*, but we do not believe they are part of the core areas of the other titles.

2.91. In terms of daily titles, PSN's evening *Hartlepool Mail* and the *Sunderland Echo* circulate in Peterlee and the surrounding villages, achieving household penetration rates of somewhat above 10 per cent and just under 6 per cent respectively. Newsquest's regional morning title, *The Northern Echo*, has a penetration rate of between 8 and 9 per cent. Two Trinity daily titles, the *Evening Chronicle* and the *Newcastle Journal*, achieve penetration rates of 1 per cent and just under 1 per cent respectively (see paragraphs 4.39 and 4.40 and Table 4.14).

2.92. Newsquest referred to the different nature of the PSN and Newsquest daily titles. As noted earlier, it described *The Northern Echo* as a broad-based regional morning newspaper containing predominantly national and regional news, which competed principally with national daily titles. The *Sunderland Echo* and the *Hartlepool Mail* were, it said, evening daily titles with a purely local readership (see paragraphs 2.58 and 5.122).

2.93. We found the *Sunderland Echo* and the *Hartlepool Mail* to be local in character, with their news stories and advertising drawn almost entirely from the Hartlepool and Sunderland areas. By contrast, the news and editorial content of *The Northern Echo* covers a much wider area of the North-East, and is supplemented by substantial coverage of national news and by extensive features. It is more restricted in its sources of advertising, which are mainly the Darlington, Bishop Auckland and Newton Aycliffe areas, though some broader regional advertising is carried (see paragraph 4.41).

#### *Newsquest and PSN conclusions on concentration at local level*

2.94. The areas of overlap between Newsquest and PSN in the South and North-East are very small. In Steyning, the acquisition of PSN would increase Newsquest's market share to about 11 per cent and Johnston would retain its dominant position with a market share of about 89 per cent. In Peterlee, Wingate, Thornley and Wheatley Hill, the overlap principally involves Newsquest's morning daily title and PSN's free weekly, which, in our view, do not compete with each other to any significant degree. There is limited overlap between Newsquest's *The Northern Echo* and the two PSN daily evening titles, but they differ in terms of editorial content and advertising base.

2.95. We conclude, therefore, that the proposed transfer to Newsquest may be expected not to operate against the public interest at the local level.

#### ***Newscom and PSN***

2.96. Newscom has no titles in the North-East of England. Both Newscom and PSN titles are circulated and distributed in south Hampshire but only in Fareham and the adjacent area of Hamble Bursledon do titles of both have a household penetration exceeding 10 per cent (see paragraph 4.44).

2.97. Fareham comprises around 20,000 households. Of the four regional and local newspapers available, PSN's titles account for around 52 per cent of total circulation and distribution and Newscom's for 48 per cent. Of the newspapers with household penetration rates in excess of 10 per cent, two are free weekly titles, one owned by PSN and the other by Newscom, and one is a PSN evening daily title (see Table 4.17).

2.98. Hamble Bursledon, a partly rural area lying between Fareham and Southampton, comprises around 16,600 households. Of the five regional and local newspapers available, PSN's titles account for 69 per cent of total circulation and distribution and Newscom's for 31 per cent. Of the newspapers with household penetration rates exceeding 10 per cent, three are free weekly titles, two of which are owned by Newscom and the other by PSN, and one is a Newscom daily evening title (see Table 4.18).

2.99. We consider that, with the exception of Newscom's *Solent Advertiser* and, to a lesser extent, PSN's *Portsmouth Journal Series*, neither Fareham nor Hamble Bursledon form part of the core areas of the titles concerned; they account for between 4.5 and 7.5 per cent of their total circulation and distribution. Fareham and Hamble Bursledon account for just over 64 per cent and 14.5 per cent of the distribution of the *Solent Advertiser* and the *Portsmouth Journal Series* respectively (see Table 4.19).

2.100. As we noted earlier, regional and local newspapers compete for readers and advertisers with various media, including radio, television and publications such as *Friday-Ad*, approximately 34,000 copies of which are distributed in the Portsmouth and Southampton areas (see Table 4.26).

#### *Newscom and PSN conclusions on concentration at local level*

2.101. While Newscom would become the sole publisher of local newspapers in Fareham and Hamble Bursledon, we believe a distinction should be drawn between daily and weekly newspapers which do not compete directly with each other to any significant degree.

2.102. In Fareham, where Newscom's daily evening title has a market share of less than 1 per cent, it would acquire PSN's evening title, which has a market share of just over 11 per cent. In Hamble Bursledon, where Newscom's daily evening title has a market share of just over 12 per cent, it would acquire PSN's title, which has a market share of just under 3 per cent. In neither case do we regard the increase as significant, especially as neither Fareham nor Hamble Bursledon forms part of the core areas of either the Newscom or the PSN daily titles.

2.103. In Fareham and Hamble Bursledon, Newscom would acquire the only competing free weekly newspaper. As these areas form part of the core area of Newscom's *Solent Advertiser* and, to a lesser extent, PSN's *Portsmouth Journal Series*, it is possible that Newscom would be better placed to raise advertising rates in those titles above the levels that they would otherwise be. But given the competition that Newscom would continue to face, primarily from other advertising publications such as *Friday-Ad* but increasingly from other media, we regard such an outcome as unlikely.

2.104. We conclude, therefore, that the proposed transfer to Newscom may be expected not to operate against the public interest at the local level.

### **Efficiency and employment**

2.105. The bidders saw the benefits of the transfer being achieved by removal of head office functions; savings in newsprint and other materials through greater purchasing power; increases in advertising yields; and savings through better use of printing resources (see paragraphs 3.113 to 3.120).

2.106. Johnston said that it had no access to information other than that in the public domain but it thought very few jobs would be at risk. The removal of the plc function and the coordination of activities such as insurance would inevitably result in a small number of job losses. While significant printing benefits would arise from the reorganization of printing activities around the enlarged group, Johnston did not anticipate any job losses in pressroom staff as a result. Johnston noted that following its takeover of EMAP it had not made large numbers of people redundant. It did not think the PSN acquisition would be any different (see paragraphs 3.115, 3.116, 5.107 and 5.108).

2.107. Newsquest told us that it would seek to ensure that there was no duplication of roles after it acquired PSN. This would affect eight staff in PSN's head office. Newsquest envisaged that the two regional PSN publishing centres would join its existing publishing regions and would not be subject to significant structural change. It also referred to the reduction of back office costs (see paragraphs 5.139 and 5.152).

2.108. Newscom told us that the enlarged company would provide enhanced career prospects because of its policy to advertise all vacancies internally and promote from within the existing workforce, wherever possible. On the editorial front, the opportunity for journalists to advance their careers within an expanded company was expected to be a major employment benefit. Newscom expected to make some savings in the area of corporate overheads and the elimination of employment duplication at group administrative levels (see paragraphs 5.186 and 5.188).

### ***Conclusions on efficiency and employment***

2.109. If any of the bidders were to acquire PSN, efficiencies could be achieved as a result of removing PSN head office functions; cost reductions in newsprint and other materials purchasing; and savings through better use of printing resources. While there would be consequential job losses, primarily at PSN's head office, we conclude that the proposed transfers may be expected not to operate against the public interest on the grounds of efficiency and employment.

## **Complaints by third parties**

### **Hampshire Chronicle Group**

2.110. HCG told us that three of its four newspapers were printed by PSN under contract. If Newscom, HCG's principal competitor, were to acquire PSN, it would acquire sensitive information on print runs and, possibly, marketing strategies. HCG was concerned that Newscom would have a degree of control over one of its major direct costs and it would be able to affect when the HCG titles went on sale. HCG said that Newscom would have no incentive to maintain PSN's existing high standards of service, reproduction and punctuality. HCG felt that Newscom would take full advantage of its position (see paragraph 6.13).

2.111. Newscom described as overstated HCG's concern that it would gain access to sensitive information. The only information that it would gain would be the identity of advertisers, but this was available in any event on the day of publication or from back issues. In practice, it believed that no commercial advantage could be gained given the time frames available. In any event, it would not contemplate taking any action that could undermine its credibility as a commercial printer, thereby jeopardizing its relationships with all its print customers, including the *Daily Mail* (see paragraph 5.189).

2.112. We accept that HCG currently has a very good relationship with PSN. We note that it is not uncommon for newspaper publishers to print the titles of competing publishers. We do not believe that it would be in Newscom's wider commercial interest, were it to acquire PSN, to use its position as printer of HCG's titles to disadvantage HCG. We note that HCG's contract with PSN expires in 2000. The continuation or extension of that contract would be a matter for negotiation with whoever controls the printing plant at that time. If PSN were to be acquired by Newscom and if HCG no longer wished to have its titles printed by PSN, given the existence of a large number of contract printers, we believe HCG could make alternative printing arrangements, albeit at some inconvenience and possibly cost compared with the present arrangements (see paragraph 3.90).

## **National Union of Journalists**

2.113. The NUJ made no complaint about Johnston but expressed serious objections to Newsquest's management style. It described the company as notorious for its anti-union stance and told us that Newsquest had de-recognized unions when it acquired Westminster Press, despite an NUJ majority on most editorial floors. The NUJ said that journalists had come to dread working for Newsquest, most wanted to leave and Newsquest found it difficult to fill vacancies. It cited a survey which showed that wages had fallen and long hours were the norm. Any attempt to raise these issues through what the NUJ described as the discredited staff council system were dismissed as irrelevant. The NUJ also referred to an Employment Tribunal case that it was in the process of bringing against Newsquest (see paragraphs 6.47 to 6.49).

2.114. Newsquest said that, in common with most newspaper companies, it did not recognize unions for collective bargaining purposes. It had no objection to its employees being union members. It said that it had a very good relationship with its employees, 70 per cent of whom were shareholders, and noted that it had experienced no strikes or work stoppages during the last ten years. Its regional staff councils, which generally met monthly, were consultative bodies dealing with working practice and conditions: they did not negotiate wages or engage in collective bargaining. Newsquest told us that it intended to continue this policy in respect of employees on the PSN titles (see paragraph 5.145).

2.115. Newsquest told us that it had not seen the NUJ survey. It noted that the NUJ's press release on the survey did not indicate what criteria had been used to select the 250 Newsquest employees to whom the form was sent. Newsquest also noted that less than 5 per cent of its 1,450 journalists at the time of the survey had responded (see paragraph 5.146).

2.116. Responding to the NUJ's comments on remuneration levels, Newsquest said that it paid a range of salaries depending on age and experience. There was, it said, no 'average' as such because salaries were determined by local managing directors taking into account employees' knowledge, skills and experience. Newsquest said that its rates of pay compared favourably with its peers (see paragraph 5.147).

2.117. Newsquest drew attention to its investment in the training of its journalists. It said that it was not aware of any discontent among its journalists and noted that it had received no complaints from other unions. On the subject of working hours, Newsquest said that its local editors and managers monitored working hours in order to comply with the Working Time Regulations. When employees were required to work longer hours this was dealt with by allowing time off in lieu for extra hours worked. As with salaries, these matters were dealt with purely on a local basis (see paragraphs 5.147 and 5.148).

2.118. In response to the NUJ's claim that it had unfilled vacancies, Newsquest told us that from time to time it had unfilled vacancies for both advertising and editorial staff. In

such cases a position might remain unfilled for a short period because Newsquest wished to find the right people for the job rather than fill the positions as quickly as possible. Regarding the possible Employment Tribunal case, Newsquest said that the individual concerned had been transferred to a branch office that sometime later had been closed. Newsquest stressed that it always worked within the law including those aspects concerning trade unions (see paragraphs 5.149 and 5.150).

2.119. We note that the NUJ survey was given to 250 employees of Newsquest, of whom 70 responded, ie under 5 per cent of Newsquest's journalists at the time. The NUJ told us that it relied on those of its members who were willing to distribute the survey and it would have preferred to have received between 700 and 800 responses. Of those who did respond, the overwhelming majority were NUJ members (see paragraph 6.48). In our view, the sample and response rates were insufficient to enable meaningful conclusions to be reached about the views of Newsquest's staff. We do not consider that the NUJ has substantiated its complaints against Newsquest.

2.120. The NUJ told us that a number of contractual problems and other issues had arisen since Newscom acquired newspapers in the South-West of England from Bailey Newspaper Group Limited (Bailey). Newscom told us that it was not aware of any contractual disputes or problems arising from the acquisition of the newspapers in December 1997. There were, it said, no outstanding grievance or disciplinary procedures, or employment tribunals (see paragraphs 6.53 and 5.187).

2.121. Any issues arising from the Bailey acquisition are matters for resolution between Newscom and its employees. We are satisfied that they have no direct bearing on the proposed transfer of the PSN titles.

## **Local Sunday Newspapers Ltd**

2.122. Local Sunday Newspapers Ltd (LSN) referred to its evidence to the Commission in respect of Johnston's proposed takeover of Home Counties Newspapers Holdings plc<sup>1</sup> in 1998 regarding alleged predatory pricing in advertising, which it said had continued (see paragraph 6.16).

2.123. Johnston told us that it investigated complaints of this nature very carefully and was satisfied that they were not justified. It noted that if there was evidence of predatory pricing, the publisher would have contacted the Office of Fair Trading (OFT). Johnston said that it had not been approached by the OFT about such an allegation (see paragraph 5.84).

2.124. The matters about which LSN complained are alleged to have occurred in Milton Keynes. As such, they have no direct bearing on the proposed transfers that we are required to consider. We received no other complaints of this nature about Johnston. Accordingly, we do not consider that any issues arise in respect of the proposed Johnston transfer. We also note that complaints of this type can be raised with the OFT, who will investigate and, if the case is proven, take action.

## **Advertisers**

2.125. An advertiser complained that what it described as PSN's virtual monopoly of local newspaper advertising in the North-East resulted in, among other things, high advertising rates, especially for situations vacant. Downen, a firm of estate agents, said that PSN had

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<sup>1</sup>*Johnston Press plc and Home Counties Newspapers Holdings plc: a report on the proposed transfer to Johnston Press plc of the newspapers of Home Counties Newspapers Holdings plc*, The Stationery Office, Cm 3962, June 1998, paragraphs 6.10 to 6.26.

acquired a monopoly in the North-East through the use of predatory advertising rates, forcing a small competitor to withdraw. Downen said that as a result of competition in Newsquest's distribution areas, its advertising rates were less than those of PSN (see paragraphs 6.25, 6.26 and 6.31).

2.126. PSN denied that it had been guilty of predatory pricing in the North-East. It criticized the comparison of advertising rates in PSN's *Sunderland Echo* with those in Newsquest's *Advertiser Property*, saying that these newspapers were not comparable. One was a paid-for evening newspaper, in which advertisers were prepared to pay more for higher-quality readership, and the other was a weekly free title (see paragraph 5.56).

2.127. We received two other complaints about advertising rates. HHC Lewis, an advertising agency, described a takeover of PSN by Newscom as a 'worst case scenario'. It told us that PSN and Newscom had raised advertising rates far in excess of inflation, especially for recruitment advertising, and it feared that a merger would lead to more excessive increases in advertising rates. Randell Recruitment strongly opposed either Newsquest or Johnston acquiring further newspapers in Sussex, saying that it was concerned about the potential for near-monopoly situations and further escalation of recruitment advertising costs (see paragraphs 6.27 and 6.30).

2.128. An advertising agency in the South-East told us that, in circumstances where competition was perceived to be ineffective, advertising providers might impose higher than necessary charges, reduce agency commissions or be less willing to offer retrospective volume discounts. It had direct experience of the benefits of competition when one newspaper had matched a significantly lower advertising rate in order to retain its custom (see paragraph 6.36).

2.129. Each of the bidders commented on its advertising policies (see paragraphs 2.45 to 2.50). We have said that we do not believe that any of the proposed transfers would have an adverse impact on national advertisers (see paragraph 2.53). At the local level, we have noted that there remains a substantial area of advertising which is mainly provided for by local newspapers (see paragraph 2.26). We have recognized that local newspapers rely heavily, or in the case of free titles totally, on advertising (see paragraph 2.24) and that they face competition from various media, in particular advertising-only publications such as *Friday-Ad* (see paragraph 2.77).

2.130. The Commission, in a previous report, concluded that it would not be practicable to establish a correlation between levels of concentration and advertising rates.<sup>1</sup> We agree with this conclusion. As regards the specific complaints made to us, no evidence was supplied in support of the contentions and our analysis of comparative advertising rates showed no pattern either to support or refute them (see paragraph 4.62).

## **Newsagent and Member of Parliament**

2.131. We received complaints from a newsagent, Mr Mike Stanford, and from Mr Desmond Swayne MP, about Newscom's policy of reducing margins for newsagents (see paragraphs 6.65 and 6.66).

2.132. These were the only complaints that we received about Newscom's policy in respect of newsagents' margins. It was not raised as a concern by the National Federation of Retail Newsagents (NFRN). Newscom told us that it could achieve improvements in PSN's performance by, *inter alia*, realigning its retail terms to Newscom levels. While this would

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<sup>1</sup> *Johnston Press plc and Home Counties Newspapers Holdings plc: a report on the proposed transfer to Johnston Press plc of the newspapers of Home Counties Newspapers Holdings plc*, The Stationery Office, Cm 3962, June 1998, paragraph 2.68.

affect newsagents who handle PSN's titles, we do not regard it as of sufficient weight to be a public interest concern (see paragraphs 3.120 and 6.58).

## **Conclusions on the public interest**

2.133. We have concluded that the proposed transfers may be expected not to operate against the public interest in terms of the accurate presentation of news and free expression of opinion, or concentration of ownership at national, regional and local level, or efficiency and employment (see paragraphs 2.39, 2.55, 2.63, 2.85, 2.95, 2.104 and 2.109).

2.134. As regards the complaints raised by third parties, for the reasons given we consider that they do not raise matters of sufficient weight to justify an adverse public interest finding (see paragraphs 2.112, 2.119, 2.121, 2.124, 2.130 and 2.132).

2.135. Accordingly, we conclude that the proposed transfers of PSN newspaper titles and related assets set out in the terms of reference to either Johnston, Newsquest or Newscom may be expected not to operate against the public interest.