

2 Conclusions

Contents

	<i>Page</i>
The references	5
The companies.....	5
The proposed transfers	6
Public interest issues	7
The markets in which local and regional newspapers operate	7
Accurate presentation of news and free expression of opinion.....	10
Concentration of ownership at national level.....	11
Concentration of ownership at regional level	12
Concentration of ownership at local level.....	15
Efficiency and employment	16
Conclusions on the public interest.....	18

The references

2.1. On 16 December 1999, the Secretary of State referred to us the proposed transfer to Newsquest (Investments) Ltd, a subsidiary of Newsquest, of Newscom’s newspaper titles and related assets. On 21 December, he also referred to us their proposed transfers to Johnston and to Trinity Mirror. We were required (Appendix 1.1) to report on the first reference by 8 March 2000, and on the second and third by 13 March.

2.2. We were required to investigate whether any of the proposed transfers might be expected to operate against the public interest, taking into account all relevant matters, particularly the need for accurate presentation of news and free expression of opinion.

The companies

2.3. Newscom, Johnston and Trinity Mirror are all quoted UK companies. Newsquest is ultimately owned by the US media group, Gannett, which is quoted on the New York Stock Exchange. On 28 January 2000, the market capitalization of the three UK-owned companies was £352 million, £641 million and £2.2 billion respectively, and that of Gannett, \$19 billion. All four groups have extensive local newspaper interests in the UK, and run substantial associated printing operations. The rest of this section gives details of the size, profitability and market share of each of the companies—the would-be bidders are dealt with in the order in which they approached the Secretary of State. The way in which we calculate market share, and the conventions that the industry adopts in monitoring the circulation of paid-for titles, and the distribution of free ones, are explained in paragraph 4.6.

2.4. Newscom is the UK's seventh largest local newspaper group with around 4 per cent of the market. It has four divisions: newspaper publishing, magazine publishing, newspaper printing and magazine printing. On 10 December 1999, it published 97 local dailies and weeklies in the South and West of England and in south-east Wales (see Appendix 3.1). It operates three newspaper printing plants. Its annual report for 1999 (year ended 26 June) shows a turnover of £139.1 million, operating profits of £24.1 million, and pre-tax profits of £20.6 million.

2.5. Newsquest, the UK's third largest group, has a 10 per cent market share, and was acquired by Gannett in July 1999. It is the leading publisher of local papers in England, with 186 daily and weekly titles (see Appendix 3.2) and eight printing plants. Its latest annual report, for the year ended 3 January 1999, shows a turnover of £305.8 million, operating profits of £81.4 million and pre-tax profits of £61 million.

2.6. Johnston, with its 8 per cent market share, is the sector's fourth largest group. It publishes 179 local dailies and weeklies (see Appendix 3.3) and has nine printing plants. Its latest annual report (year ended 31 December 1998) shows a turnover of £201.7 million, operating profits of £51.5 million, and pre-tax profits of £45.9 million.

2.7. Trinity Mirror is the largest local newspaper group in the UK, with around 23 per cent of the market. It was created on 6 September 1999 by the merger of Trinity plc, a long-established provincial publisher, and Mirror Group plc, which owned a range of regional and local titles, as well as *The Mirror*, *Sunday Mirror* and *Sunday People*. The combined group publishes 197 daily and weekly local and regional papers in England, Scotland, Wales and Northern Ireland (see Appendix 3.4), and has 15 printing plants. It also publishes magazines. It has yet to produce its first annual report, but it told us that had the merger taken place at the start of 1998, it would have had a pro forma turnover for that year of £1 billion, and operating profits of £217 million.

2.8. More information about the companies is provided in Chapter 3.

The proposed transfers

2.9. Newsquest told us that, in January and February 1999, it had held informal discussions with Newscom about the possibility of a merger. They came to nothing. Following its acquisition by Gannett, Newsquest contacted Newscom again. Newscom made it clear that it was not interested in further exchanges. Newscom then received another approach, on 24 November, when Gannett indicated that it might be prepared to offer £[£] a share, valuing Newscom at £[£]. This was rejected by Newscom's board because, they felt, it significantly undervalued their company. They also saw a continuing future for Newscom as an independent company. Gannett told us that it intended to proceed with a bid, in due course, depending on the outcome of our inquiry. Newsquest said that it saw itself as a long-term participant in the UK regional/local newspaper sector with a twofold strategy: to develop further the potential of its current businesses—launching new titles where appropriate—and to acquire newspapers in its existing, or contiguous, areas to maximize cross-selling opportunities and economies of scale. It viewed a merger with Newscom as consistent with this approach. It said that Gannett would finance the purchase out of borrowings.

2.10. Johnston told us that it had had discussions with Newscom, during the summer of 1999, about the joint ventures in the South of England, inherited as a result of its acquisition of Portsmouth & Sunderland Newspapers plc (PSN). In September 1999, its advisers produced a review of potential acquisition targets, which concluded that Newscom was the most attractive. After Gannett's announcement on 10 December, Johnston told Newscom that it was also going to seek consent to a transfer of Newscom's titles. This it did, on 16 December. Johnston's specific reasons for the acquisition were to obtain newspapers in areas where it currently had

none, and to gain control of Newscom's modern presses so that it could print more of its titles in-house and include more colour pages in its newspapers. The nature and size of newspapers published by Newscom, and the fact that many of them were in areas contiguous with its existing titles, also fitted well with its business strategy and expertise. [*Details omitted. Seen note on page iv.*]

2.11. Trinity Mirror told us that Trinity had, on a number of occasions, considered the possibility of making a bid for Newscom's titles. It had sought consent to acquire Southern Newspapers (as Newscom then was) in 1991, and made public, in 1996, its interest in buying the Newport-based titles that Newscom now owns. Trinity Mirror's aim was to acquire newspapers in parts of the country in which it had little or no presence (such as southern England) and in areas contiguous to its current operations (such as South Wales). Acquiring Newscom would enable it to move forward on both fronts. Once Gannett had made public its intention to bid for Newscom and amalgamate it with Newsquest, Trinity Mirror decided that it would need to act quickly if it were not to lose the opportunity to make the acquisition. After informing Newscom of its intentions, it too sought the Secretary of State's consent to a transfer of the titles (on 20 December). Trinity Mirror said that it had yet to come to a final view on how the acquisition would be financed. It said that it would depend, in part, on the price paid and on the views of Newscom's shareholders on the relative merits of cash or equities. It did not believe that financing would be a major issue. It expected to receive a significant amount of cash later in the year from the disposal of the *Belfast Telegraph* and other former Trinity titles in Northern Ireland, and saw no difficulty in arranging a modest placing if equity were required.

Public interest issues

The markets in which local and regional newspapers operate

2.12. The local and regional newspaper industry has been characterized over the last few years by a gradual decline in total circulation/distribution in all the main categories of newspaper—morning, evening and weekly—and by a growing consolidation among their publishers. On 1 January 2000, close to 1,200 titles were being produced by around 115 regional and local publishers (compared with 21 UK national dailies and Sundays). During the 1980s, the increasing distribution of free weeklies offset the reduction in the number of newspapers being bought, but in the 1990s these figures started to fall too. As for ownership, a number of companies for which these newspapers were part of a wider portfolio of interests moved out of the market, to be replaced by groups with a long history of local publishing, which were keen to expand their geographical coverage. This led to a considerable amount of corporate activity. Newscom told us that 77 per cent of the regional press changed hands in the three years to March 1999. Since then, the trend has continued, with all of the groups covered by this inquiry featuring in other Commission reports on newspaper transfers produced last summer. The top 20 publishers now account for 95 per cent of the circulation/distribution of all regional and local newspapers.

2.13. While the proportion of all advertising placed with local newspapers is also declining, because overall spending on advertisements has continued to rise, their earnings from this source have still grown in real terms for most of the last two decades—apart from a sharp fall after the 1989 peak (see Figure 4.2). This revenue is vital to the local press. Advertising provides 70 to 85 per cent of the income of paid-for local titles (compared with a little over 50 per cent for the nationals) and all of the income of free weeklies.

2.14. Overall, the sector is currently healthy, making reasonable returns on investments on the back of buoyant demand for advertising and low prices for newsprint. That said, we found no evidence of excess profits being made by any of the parties to this inquiry, nor were any allegations put to us on that score.

2.15. Over the last 20 years, newspapers' major rivals for advertising revenue, television and radio, have increased their share of the total spend. More recently, competition has come from the growth of advertising-only publications (which are not newspapers for the purposes of the Fair Trading Act 1973) and from directories and direct mail. In the last year or so, advertising sites on the Internet (some of them developed by, or in partnership with, local newspapers) have also begun to have an impact—though not yet to the point where there has been any significant erosion of local newspapers' advertising revenue.

2.16. It is two of these more recent forms of competition that are likely to have the most direct implications for local newspapers in the immediate future. Unlike most nationals, whose strength is in display advertising, local newspapers get most of their income from classified advertisements which—because they tend to be very narrowly focused, and are particularly well suited to a written format—have been relatively impervious to competition from the broadcast media. But the growth of regionally and locally-based advertising-only publications is already having a noticeable effect on the competitive environment in which local newspapers operate, and the development of advertising sites on the Internet threatens to add a further challenge to the local press's traditional strength in this market in the near future.

2.17. In the longer term, new sources of competition are likely to emerge from the development of interactive digital television and teletext. These formats will be text based, unlike traditional visual and audio broadcasts, and can be directed at very specific audiences. Like local newspapers they will be able to carry news as well as classified, and more general, advertising. These emerging media are likely to be developed by radio, television and telecommunications companies—which have not previously been able to compete for classified advertising—and by advertising-only publications which already challenge local newspapers in the printed sector.

2.18. The Newspaper Society and Northcliffe Newspapers Group Limited (Northcliffe) (part of Daily Mail & General Trust PLC (DMGT)) separately told us that they saw increasing consolidation in the sector as an inevitable, and necessary, reaction to this intensifying competition for local advertising. In their view, small local newspapers could best survive—and continue to play a central role in the civic, cultural and commercial life of their communities—as part of a group with extensive expertise in the industry and the scale and market power to compete with, often much larger, companies from other sections of the media. They expected local competition to become increasingly intense, as broadcast and Internet technologies developed and the new media grew more adept at targeting specific localities.

2.19. The National Union of Journalists (NUJ) had a different view of consolidation. It saw it as anti-competitive, reducing choice, and creating a less diverse media. It had general concerns about loss of local independence, remoteness from local communities, a lowering of journalistic and production standards, and redundancies among journalists—though it was not able to quantify its fears with specific evidence. It did not believe that the Internet would provide a fresh source of competition, as it thought many of the new sites were being established by the groups that owned local newspapers. The Chartered Institute of Journalists told us that it had a general view about the undesirability of the control of local newspapers falling into too few hands but, because of its concerns for the employment of journalists, it had no objection to the particular transfers that are the subject of this inquiry.

2.20. The Institute of Practitioners in Advertising (IPA) also gave us its views on concentration of ownership. After making the general point that it had no formal objection to any of the would-be bidders acquiring Newscom, it added that, if Trinity Mirror were to be successful, then, because of its 25 per cent share of the UK market, and its very strong position in paid-for dailies and weeklies in Wales, the IPA intended to monitor sales practices in the area. We return to the question of the significance of a 25 per cent market share later (paragraph 2.35 et seq).

2.21. The growing concentration of ownership that we have just described has taken place despite the fact that barriers to entry, particularly for free titles, are not high. Newscom told us that, in its view, they have never been lower. Advancing technology was continuing to reduce the real costs of producing newspapers, and competition for contract work in printing and distribution meant that a new entrant should have little difficulty in getting copies to readers. The current cost of newsprint was lower than for some time and the high rate of turnover among journalists and production staff meant that new entrants should not find it hard to obtain qualified employees. Johnston showed us a consultant's report indicating that a free newspaper could be launched for around £50,000. Free weeklies have been introduced in many parts of the country in recent years, and the last 12 months have seen the launch of a number of free morning newspapers, editions of which are now being distributed in London, Birmingham, Glasgow and Edinburgh. The Swedish Modern Times Group—a company with no previous UK presence—has also introduced a similar title in the North-East of England. New entry is even more common with advertising-only publications, where fresh titles—and publishers—continue to appear regularly (see paragraphs 4.53 to 4.60).

2.22. The position is different for paid-for titles because of the time and cost required to develop the market, and to build up circulation, credibility and reputation. This explains why the number of these titles being introduced remains relatively low. Most publishers—though with some exceptions—show little appetite for launching a new paid-for newspaper into an area already covered by another.

2.23. Nevertheless, although the barriers to entry for paid-for titles (especially dailies) are higher than for free newspapers, our view is that the threat of new entry—most plausibly by a free newspaper or an advertising-only publication—represents a competitive constraint on the commercial activities of incumbent newspaper proprietors.

2.24. There are two major constituencies for the local and regional press: readers and advertisers. Their readership is fragmented, with many different markets, defined both by geography, and by type of newspaper. Of the almost 1,200 local and regional newspapers that are published at least once a week, only a few compete directly with each other. The fact that in many areas the same company will publish weekly free and paid-for titles shows that in a local market there may be room for products which are more complementary than competing. Most newspapers operate in limited, or very limited, localities. Even when they do overlap, they often have very different editorial content, attracting a distinct readership profile for morning dailies, evening dailies, Sundays, and paid-for and free weeklies. To that extent, they cannot normally be regarded as substitutes, one for another. There are, of course, elements of overlap between local and regional newspapers of different types, and between them, the national press (particularly their regional editions) and other media, but in most cases, regional and local newspapers occupy a separate market from other newspapers.

2.25. As for advertising, while the ability of one type of media to substitute for another is far from total, a sizeable number of options is now available to would-be advertisers in most parts of the country. The range includes regional television, regional and local commercial radio, regional editions of the national daily and Sunday newspapers, regional dailies, local morning and evening newspapers, paid-for weeklies, free weeklies (and, where they exist, dailies), advertising-only publications (some delivered to the home, others available from supermarkets or garages) and direct mail. In the near future, a growing variety of Internet—and, before long, digital television and teletext—sites provided by media groups, independent operators, and Internet service providers (ISPs) can also be expected to start to offer significant, rather than merely potential, alternatives.

2.26. As will be clear from paragraph 2.16, it is the advertising-only publications that provide the sharpest competition to local and regional newspapers at the moment, while the Internet and the emerging digital media represent a growing threat.

2.27. We do not share the view that local newspapers will be able to neutralize the competitive threat from Internet sites by setting up their own. Barriers to entry in this business are very low and competition appears to be developing from two directions. The first involves those with local advertising content seeking to find a new audience for it on the Internet. This is the route that the local newspapers seem to be taking; though it is also a course that the advertising-only publications are following, so the competition that currently exists in the printed media is likely to be mirrored in the electronic. The other strand of competition is coming from firms with an established audience on the Internet—ISPs are an obvious example—that are now seeking to exploit this by providing a new medium for advertising in sectors which have traditionally been dominated by the print media. Their growing strength in this area is illustrated by a number of examples given to us of cooperative arrangements between these companies and the owners of advertising content. One such is the recent decision of Newsquest to enter into a joint venture with Freeserve to exploit advertisements from its local newspapers in parts of southern England, rather than continue to try to develop an Internet audience for this material on its own.

2.28. Our view therefore is that the market for regional and local advertising remains competitive, and now extends beyond newspapers. The local and regional press competes with the nationals, and with radio and television, for large-scale display advertising, and is being increasingly challenged by a growing range of advertising-only publications in the classified sector. The new electronic means of communication are already beginning to establish themselves as credible advertising media, and the signs are that they will grow as a competitive force.

Accurate presentation of news and free expression of opinion

2.29. Newsquest told us that its aim was to produce newspapers that reflected the views of their communities and acted as their voices. It did not issue formal guidance to its editors, but the principle underlying its approach was that local titles would retain the support of readers only if they addressed the concerns of the area. Subject to this, editors had local autonomy and freedom to use their discretion over the content of their newspaper. They reported only to the managing director for their region. Newsquest believed that its policy in this area was less prescriptive than Newscom's, but said that, in practical terms, it would be surprised if any material change in editorial content occurred as a result of a transfer to it. We also spoke to Gannett. It told us that its approach to editorial issues, in the newspapers that it published in the USA, was very similar to Newsquest's in the UK. It had never attempted to interfere with Newsquest's editorial freedom since becoming its owner, and had no intention of doing so in future, whether or not Newscom's titles were transferred to it.

2.30. Johnston said that its policy was for its Chief Executive to contact editors only about issues that involved the group's management or reputation, such as libel cases or approaches from the Press Complaints Commission (PCC). Editors were selected for their professional competence, judgment and management qualities. Once appointed, they were expected to follow Johnston's guidelines on editorial practice and news/advertising ratios, but otherwise had virtually complete control of the editorial content of their newspapers. The guidelines (reproduced in full in Appendix 5.2) involve editing the newspapers on the basis that they:

- are intended to be read by whole families;
- avoid overt and sustained political bias;
- strive to make the contents fair and accurate; and
- follow the Code of Practice of the PCC.

Johnston also gave examples, from Fife, Yorkshire, Northamptonshire and Luton, of instances where newspapers in its ownership had taken differing positions on local stories.

2.31. Trinity Mirror told us that it supported diversity of the press, including the variety of opinions published, and that its editorial record spoke for itself. It gave examples, from Northern Ireland, South Wales and Liverpool, of instances where local and regional titles under its ownership had taken differing positions on topical issues. The former Mirror Group's long-standing policy, that *The Mirror* (including the *Welsh Mirror*), the *Sunday Mirror*, the *Sunday People*, the *Daily Record* and the *Sunday Mail* should generally adopt a left of centre stance politically, had been maintained, but that did not extend to other Trinity Mirror titles. For them, the position was that editorial policy should not be imposed centrally, but was best left to a continuing dialogue between the individual editors and their local managers, because a local newspaper with an editorial style and content relevant to the area it served would deliver the best return for shareholders.

2.32. Newscom said that all the other groups involved in this inquiry had a solid record on editorial management and independence; and that it had no evidence that its current editorial policies would be compromised under new ownership.

2.33. The Commission's previous investigations have involved inquiring into the editorial practices of all of these groups, or of their predecessor companies, on a number of occasions in the past, and we have done so again now. At no time have we received any evidence that casts doubt on their commitment to accurate reporting or editorial freedom. Nor have we found any suggestion that any of them has, or is intending to introduce, a standardized editorial product. We did not find anything to sustain the concerns put to us that the proposed transfers threatened a loss of local independence for editors, or would lead to remoteness from local communities, lower journalistic and production standards, or a reduction in journalists' jobs. All three of the groups interested in acquiring Newscom stressed the importance of their titles remaining close to their readerships' communities if they were to continue to be successful commercially. This meant giving editors on the spot the freedom to decide what stories to cover, and what line to take on controversial issues. They also pointed out that it was their journalistic content and production quality that differentiated newspapers from the advertising-only publications that were providing them with a growing challenge. Reducing standards in these areas would weaken, rather than enhance, their competitive position. The commercial logic of their argument, that newspapers need to be edited in a way which reflects local issues and concerns if they are to survive and prosper, is one we find compelling. For any of these groups to seek to impose a uniform content or style on their titles would not only harm the accurate presentation of news and free expression of opinion; it would also be bad for business. Accordingly, we do not believe that there is a danger of it happening as a result of any of the proposed transfers that are the subject of this inquiry.

2.34. We conclude that none of the proposed transfers may be expected to operate against the public interest in relation to accurate presentation of news and free expression of opinion.

Concentration of ownership at national level

2.35. If any of the would-be bidders did ultimately take over Newscom's titles, then the top four publishers (these three plus DMGT) would account for over 60 per cent of the national market for local and regional newspapers. If Newsquest were to acquire Newscom's titles, it would see its share of the national market rise to 14 per cent. A transfer to Johnston would increase its share to 12 per cent. And, if Trinity Mirror succeeded, its share would go up to 26 per cent (or 25 per cent after the Northern Irish disposals mentioned in paragraph 2.11)—in either event, at or above the level that the IPA told us it would regard as significant. (All these figures are on the basis that the *Evening Standard* and three major Scottish newspapers count as regional titles—a convention that we have used throughout this report.)

2.36. In the past, the Commission has taken the view that national concentrations should be seen as less significant than those at local or regional level. But the fact that one of the proposed transfers—to Trinity Mirror—would create, for the first time, a group with more than 25 per cent of the local and regional press encouraged us to reconsider the relevance of national concentration in this case. We asked those who came before us for their views, and the criteria they would consider appropriate for determining what level of concentration might give rise to concern. None had a precise answer, although all argued that it was competition in the local market that was the crucial factor.

2.37. Our own view is that both as providers of news and as a medium for advertising, regional and local newspapers compete with a wide range of other media, both print and electronic. And the signs are that this competition will become more intense as new and emerging technologies turn their current potential into reality. Whatever the owners' share of the national market, competition, both for readers and for advertisers, remains inherently local, and it is at the regional and local levels that we need to examine whether adverse effects can be expected to arise from any of the proposed transfers.

2.38. That said, we have identified two factors that could flow from high levels of national concentration of ownership of local and regional newspapers. The first is the effect on innovation. We have received no evidence that any of the proposed transfers would be likely to result in any diminution in the pattern of innovation illustrated, for example, by the response of the industry to the impact of new technology.

2.39. The second factor is that increased concentration could present a proprietor who was interested in political influence with an opportunity to achieve control of a vehicle to disseminate that influence throughout a significant portion of the population. We do not believe that any of the groups covered by this inquiry—all of them public companies, ultimately owned by a diversity of shareholders—has any such intention. Furthermore, if such a change were to occur within a single group, at the levels of concentration flowing from any of the proposed transfers, we believe that there would be sufficient competition from the rest of the industry, combined with an adverse reaction from readers and advertisers, to negate its effectiveness.

2.40. Accordingly, we do not believe that the degree of national concentration among local and regional newspapers to which any of the proposed transfers is likely to give rise is significant in itself, or is likely to operate against the public interest.

Concentration of ownership at regional level

2.41. The three regions of the country that are affected by the proposed transfers are the south coast of England, Oxfordshire and Wiltshire, and south-east Wales. No representations were made to us about any concerns arising from regional concentration in Oxfordshire or Wiltshire.

2.42. It is in south-east Wales—Cardiff, Newport, and the smaller communities that lie along the coast from them, and in the Valleys to the north—that the most significant issue of regional concentration is raised because, were it to acquire Newscom, Trinity Mirror's already substantial share of local and regional newspapers there would be further increased. A range of different, though not unrelated, concerns has been put to us by MPs, Members of the National Assembly for Wales (AMs), local authorities and interested members of the public. The most widespread was a general unease about the growing strength of Trinity Mirror in the reporting of Welsh affairs. The group already owns *The Western Mail*, and *Wales on Sunday* (the only Welsh regional newspapers, covering all of South Wales and parts of North) as well as the Cardiff-based evening newspaper, the *South Wales Echo*. In addition, it has 13 weekly titles circulating or distributed along the South Wales coast and in the Valleys—six paid-for, and seven free—plus the *Welsh Mirror*, the regional edition of the biggest-selling national daily in

Wales. Newscom owns Newport's evening newspaper, the *South Wales Argus*, two paid-for weekly titles, circulating along the coast from Cardiff, and three series of local weeklies that cover the Valleys, one paid-for and two free. Although Trinity Mirror and Newscom between them own all the major titles in the area, both Tindle Newspapers Ltd and DMGT (Northcliffe) also have a presence there.

2.43. Views were put to us in writing by local representatives and individuals. We also invited MPs, AMs and local authorities to a meeting in Cardiff though, in the event, it was very sparsely attended. The Economic Policy Division of the National Assembly for Wales said that, even though the acquisition of the *South Wales Argus* would give Trinity Mirror an even larger number of the main Welsh newspapers, there was no evidence that the way the group was run would have an impact on their editorial independence. They did not feel that safeguards were justified in that area. But they did see a case for looking at safeguards in the event of any consolidation of printing facilities involving the *South Wales Argus* and the *South Wales Echo*. Paul Flynn, MP for Newport West, supported by Alan Howarth, MP for Newport East, and Win Griffiths, MP for Bridgend, opposed a transfer to Trinity Mirror. He was concerned about the powerful position that it would give the group in the area from Barry to Newport and in the South Wales Valleys. He feared that the transfer would increase the potential for the particular political positions adopted by the *Welsh Mirror* being extended into other Welsh titles, though he accepted that this had not happened with the local newspapers that Trinity Mirror already owned. He also drew attention to the declining number of Welsh-owned newspaper publishers in the Principality—now only 6 out of 15—though he acknowledged that none of the proposed transfers would make a difference, as all four groups involved in this inquiry have their headquarters outside the Principality. He said that if a transfer to Newsquest or Johnston took place, he would want conditions attached to guarantee editorial independence, investment in the titles and the protection of jobs. Elfyn Llwyd, MP for Meirionnydd Nant Conwy, believed that there could be very serious consequences should Trinity Mirror absorb Newscom, because of the overwhelmingly strong position it would achieve in the local newspaper market. Richard Livsey, MP for Brecon and Radnorshire, expressed concern about the proposed transfers and supported diversity of ownership within the Welsh press with as many newspapers as possible owned and managed from within the Principality. Jenny Randerson, AM for Cardiff Central, could accept a transfer to Johnston or Newsquest, but not to Trinity Mirror because of its existing ownership of so many Welsh titles. Jocelyn Davies, on behalf of fellow Plaid Cymru AMs representing South Wales, was concerned that none of the proposed transfers should distance control and accountability of local newspapers from the communities which they covered, and should not harm local jobs or access for advertisers. John Griffith, AM for Newport East, expressed views very similar to Mr Flynn's.

2.44. Of the local authorities, Blaenau Gwent County Borough Council stressed the important role that the local press played in the life of the area, and said that it regarded a single publisher controlling most of the newspapers in the district as unhealthy. It wanted none of the proposed transfers to impact on editorial freedom or on the location of the current Newscom newspapers, nor did it want to see a diminution of the number of titles being published. Newport County Borough Council said that the *South Wales Argus* was the only daily newspaper devoted largely to the affairs of Newport. Coverage in *The Western Mail* was more general, and the *South Wales Echo* was focused on Cardiff. It was not opposed to Johnston or Newsquest taking over Newscom's titles, but had reservations about Trinity Mirror, because it feared that this could lead to the Newport operation being absorbed into Cardiff, with the loss of specific local coverage.

2.45. The National Association of Press Agencies, a trade association representing the views of freelance journalists, favoured diversity of ownership among newspaper publishers and titles, and was strongly opposed to Trinity Mirror's powerful position within the Welsh press. This would be further extended, should it acquire Newscom, with unwelcome implications for the terms on which freelancers in Wales could sell stories and photographs. Two freelance journalists wrote to us along similar lines. Two members of the public also

wrote from South Wales, again to oppose the proposed transfer to Trinity Mirror. Their concerns were about a single major publisher for South Wales, the fear that the *South Wales Argus* would be reduced to a subordinate edition of the *South Wales Echo*, and the implications for local employment in the newspaper industry.

2.46. Trinity Mirror's position was that its two regional titles—especially *The Western Mail*—were different in nature from the local evening titles, which in turn differed from the paid-for and free weeklies. While they did overlap in some areas, they were not competing for the same kind of readers and advertisers. It acknowledged that the two evening newspapers were in the same sort of market as each other, but argued that the *South Wales Echo* was focused very strongly on Cardiff, and the *South Wales Argus* on Newport. The Group accepted that the weeklies, both paid-for and free, were the same type of newspaper, whether published by Trinity Mirror or Newscom, and conceded that there were significant areas of overlap between some Trinity Mirror and Newscom titles. This is discussed further in the next section.

2.47. It seems to us that the issues raised about the future ownership of titles in the area around Cardiff, Newport, and the Valleys, should Trinity Mirror acquire Newscom, are not specifically Welsh, but would apply wherever a high level of regional concentration exists, or is likely to be brought into existence by a transfer. They seem to us to focus on the need for ensuring that accurate presentation of news and free expression of opinion should continue among newspapers published in south-east Wales, with the key question being whether this is likely to be put at risk by one publisher owning so many of the region's titles. Our view is that it is not. Trinity Mirror already owns most of the major paid-for newspapers that circulate in the region and has been able to point to a number of occasions when they have taken different positions from each other, and from its national titles, on topical issues. Even those who were most exercised about a transfer to Trinity Mirror could not cite evidence from current Trinity Mirror regional and local titles in Wales of any interference with the free expression of opinion.

2.48. In response to specific questions, Trinity Mirror told us that it intended to carry on publishing the *South Wales Argus* as a distinctive Newport title whose editorial staff would continue to be based in the town. The Managing Director of the Newport business would report to the board director responsible for titles in the South of England and South Wales, just as the Cardiff Managing Director did now. The *South Wales Argus* would enjoy the same editorial independence as other Trinity Mirror local titles, and there were no plans to integrate its editorial content with that of any other newspaper.

2.49. [

Details omitted. See note on page iv.

] Trinity Mirror told us that it was already facing capacity constraints at its production site in Cardiff. If it were successful in acquiring Newscom, then there could be an opportunity to build a new site in the Cardiff/Newport area with at least two presses that could print both the evening titles. It seems to us that the long-term future of newspaper printing in the region would be unlikely to suffer from a transfer to Trinity Mirror. It could benefit.

2.50. Although we have received more representations on Trinity Mirror's position in south-east Wales—and, indeed, in the Principality as a whole—than on any other aspect of our inquiry, and although we understand the fears and concerns that have been expressed to us, we were not able to identify any evidence in Trinity Mirror's plans for the Newscom titles, or in its previous record as a publisher of local and regional newspapers, to warrant an adverse finding on this question. Thus, for the reasons set out in the previous two paragraphs, we believe that the regional concentration in south-east Wales that would flow from a transfer to Trinity Mirror may be expected not to operate against the public interest.

2.51. We also received representations about concentration of ownership along the south coast of England that would result from a transfer of the Newscom titles to Johnston. Ian Bruce, MP for Dorset South, stressed the importance of any new owner of Newscom's titles maintaining editorial independence and continuing to generate a high proportion of news locally. Two local authorities wrote to us. Dorset County Council was concerned that a change of ownership should not lead to any diminution in the important role played by the local press in county affairs. Southampton City Council wanted any new owner to have the ambition and capability to deliver a quality product; to have the editorial independence and resources to respond to distinctive local issues; and the capacity to contribute successfully to the development of media-related activities in the area. A local advertising agent wrote to oppose a transfer to Johnston, as he feared this would put more pressure on small advertisers in the area.

2.52. It did not seem to us that the concerns expressed about the likely effects of the proposed transfers along the south coast raised regional, as opposed to local, issues in the way they did in south-east Wales. We look at the local concerns in the next section.

2.53. We conclude that none of the proposed transfers may be expected to operate against the public interest by reason of regional concentration.

Concentration of ownership at local level

2.54. Figures 4.4 to 4.6 set out the degree of overlap between Newscom's titles, and those of Newsquest, Johnston and Trinity Mirror, circulating or distributed in the same places. The more detailed tables in Appendices 4.2 to 4.4 focus on specific towns and rural areas, and give information about the number of households in a locality, the number and type of newspapers involved, the degree of market penetration, and how central the location is to a title's circulation or distribution. The geographic markets covered in this section tend to be small, with few local communities being able to support two newspapers of the same type (with the occasional exception of weeklies) in head-to-head competition for a limited number of readers and advertisers.

2.55. In earlier inquiries into newspaper mergers, the Commission has taken the view that areas of overlap are unlikely to be significant unless the newspapers concerned are read in at least 10 per cent of the households in the same postal districts. We see no reason to depart from this in the present inquiry. Below this level, areas are unlikely to attract significant journalistic coverage of local issues or advertisers who wish to target the locality. Conversely, overlaps which involve areas with more than 10 per cent household penetration do merit careful examination, especially when they occur in the core areas of the competing titles (see paragraph 4.62).

2.56. Having examined all of the potential overlaps in some detail (Appendices 4.2 to 4.4) in the first stage of our two-part analysis, using the criteria set out in paragraphs 4.61 to 4.63, we believe that competition issues arise only in relation to weekly titles, both paid-for and free, as there are no significant overlaps between the major paid-for regional and local dailies of Newscom and any of the would-be bidders. Although sales of local dailies do overlap at the margins, for example between Cardiff and Newport, and between Portsmouth and Southampton, there is no evidence that competition in these locations has much impact on the editorial focus, or advertising strategies of the titles. The more significant overlaps that we have concentrated on in this investigation are those between weekly titles whose core areas overlap, in locations where no other publisher's newspaper circulates in, or is distributed to, a significant percentage of households. Our analysis of these areas is set out in paragraphs 4.65 to 4.97. It takes into account the availability of advertising-only publications, and what Newscom told us about its plans for the future of these titles, were it to remain independent.

2.57. On the basis of the criteria in paragraphs 4.61 to 4.63, for the proposed transfer to Trinity Mirror the areas where competition issues arise are centred in the South Wales Valleys

where its (paid-for) weeklies, published out of Cardiff, compete with Newscom's (free) weeklies produced in Newport. The titles involved are Newscom's *Merthyr & North Gwent Campaign* and *Rhondda & Pontypridd Campaign* against Trinity Mirror's *Gwent Gazette*, *Cynon Valley Leader* and *Merthyr Express* series, and its *Pontypridd Llantrisant Observer* series. The areas of overlap are in Merthyr, Gwent, Rhondda and Pontypridd. Trinity Mirror acknowledged that these overlaps raised issues that needed to be addressed in relation to the proposed transfer. But it argued that the number of pages in the Newscom newspapers distributed in these areas was low compared with the editions of *Campaign* in Caerphilly, where there was no significant Trinity Mirror competition (an average of 16 to 19, against 50 to 76). It also considered that their editorial content was limited, and that their main function was to extend the advertising reach of neighbouring Newscom newspapers by cross-selling. While there were no other local newspapers published in the area, a range of advertising-only publications was freely available (see paragraphs 4.85 to 4.91). Trinity Mirror said that it would continue to publish the *Campaign* free weeklies and the Newscom paid-for weeklies that currently circulate in the Valleys if it were economically viable to do so, though in the absence of detailed financial information it could not be definitive. If the titles did carry on, then it was likely that they would continue to be produced out of Newport.

2.58. In southern England, Trinity Mirror's *Poole Magazine*, a free fortnightly, overlaps with Newscom's *Yeovil Express*, a free weekly, while its *Wimborne Magazine* and *Ringwood and Verwood Magazine* overlap with Newscom's *Hants & Dorset Avon Advertiser* (see paragraphs 4.92 to 4.97).

2.59. Although Johnston's newspapers overlap with Newscom's in parts of Hampshire and Oxfordshire, the only place where competition issues arise is the area in and around Banbury, where the newspapers involved are Johnston's *Banbury Guardian* and *Banbury Citizen* (the first a paid-for weekly, the second a free weekly) and Newscom's *Banbury Cake*, also a free weekly (see paragraphs 4.76 to 4.79).

2.60. Other Newscom free weeklies have significant overlaps with Newsquest weeklies (all but one of them free) in Wiltshire, and parts of Oxfordshire. Newsquest's *Wilts Times Chippenham News* (the only paid-for title) and its *West and North Wilts Star* overlap with Newscom's *West Wiltshire Advertiser*. In Swindon, its *Swindon Star* overlaps with Newscom's *Swindon Messenger*. And its *West and North Wilts Star* and *Marlborough & Devizes Star* both overlap with Newscom's *Devizes, Melksham & Vale of Pewsey News* (see paragraphs 4.65 to 4.72).

2.61. We therefore considered whether any of the overlaps we have just described were sufficiently serious for us to conclude that the transfer that would bring these titles into common ownership would be likely to operate against the public interest, given the many current instances of newspaper groups publishing a paid-for and a free weekly in the same locality, with both titles continuing to coexist successfully. We concluded that none of them would (see paragraph 4.64): first, because in all the areas of overlap there were a number of advertising-only publications available; and second, the barriers to entry for free weeklies are so low that should one of the would-be bidders close down a title after acquiring Newscom, it would provide an opportunity for another group, or for a local entrepreneur, to launch a new newspaper, or an advertising-only publication, to fill any gap that might be created.

2.62. Our conclusion is that for these reasons the proposed transfers may be expected not to operate against the public interest by reason of concentration at the local level, for readers or, as a result of our analysis of the advertising market (see paragraph 2.28), for advertisers.

Efficiency and employment

2.63. We asked all three would-be bidders what efficiency benefits they expected to arise from a transfer of the Newscom titles, and what implications there would be for employment.

They all told us that they had not had access to unpublished information about Newscom or about the health and standing of any of its titles. Their views could change when they knew more.

2.64. Newsquest said that it saw efficiencies coming from eliminating duplicate head office costs; from using its (and Gannett's) greater purchasing power to buy newsprint and other materials; from the use of its national selling arrangements for leaflets and advertising; and from utilizing Newscom's high-quality presses for its own titles, many of which were currently printed under contract. It had also conducted a broad assessment of the number of staff it would need to run Newscom's business, assuming the same organization and levels of productivity currently achieved at Newsquest. This had indicated potential savings of some 220 staff—an assessment confirmed by Newscom's subsequent announcement that it had made reductions of over 200. Newsquest had no current plans to close any Newscom newspapers but it did intend [*Details omitted. See note on page iv.*]. It estimated the value of the synergies that the transfer would create at around £[⌘] a year (over and above the savings from the staff reductions already made).

2.65. Johnston said that it had no plans to close any Newscom titles, or to cut any journalists' jobs. Any staff reductions that might arise were likely to be met through natural wastage or voluntary redundancy. Johnston saw cost savings coming from reduced corporate and administrative overheads, economies of scale in purchasing services and materials, and more efficient use of the enlarged group's newspaper printing facilities. Taken together, Johnston estimated that these synergies would be worth around £[⌘] a year. [*Details omitted. See note on page iv.*]

2.66. Trinity Mirror said that its general approach to the companies it acquired was non-confrontational. The majority of management staff who had come into its employment through acquisitions had continued to work for the group or had retired or left of their own volition. It thought that synergies of [⌘] a year could come from removing plc costs; from economies in purchasing materials and services; from printing its magazines on Newscom's presses; from integrating national advertising sales, and from rationalizing head office, and some back-office, functions. It did not believe that the number of redundancies at local level would be significant. As mentioned in paragraph 2.49, Trinity Mirror's printing capacity in Cardiff was already constrained, and needed more investment. There might be an opportunity to develop a facility in a new location in the Cardiff/Newport area, with at least two press lines, to print both the *South Wales Echo* and the *South Wales Argus*. In the longer term, Trinity Mirror might want to use Newscom's presses to print its national titles, but would not do so until the existing contracts, with DMGT, had expired in 2004. Trinity Mirror had no predisposition towards cutting any Newscom titles, but, until it had had access to detailed figures about the profitability and market position of each, it could not be certain about future plans.

2.67. We asked all three would-be bidders about their approach to training and their attitude towards union recognition. Newsquest said that it was strongly committed to training. New entrant journalists were sent on a 20-week induction course (compared with the industry standard of 15 weeks) and most of their local centres had secured Investors in People status for all their staff. Johnston said that it sponsored a journalism course in Darlington to which it sent trainees in batches of around ten, drawn from their centres around the country. Internal journalism/editorial courses were also run for around 600 staff a year, along with other training in management, new media and sales. Trinity Mirror ran 16-week courses for journalists at a centre in Newcastle. The group also carried out training in its regional centres; for example, there was an editorial training manager in Cardiff with a separate development budget for up to 20 trainees at a time.

2.68. On union recognition, Newsquest said that while this had not been its policy in the past, it was now talking to the NUJ and the Graphical, Paper and Media Union and trials were

under way with both. It would abide by the recognition provisions of the Employment Relations Act 1999 (ERA). Johnston said that its practice was mixed. The original Scottish business had recognized unions for many years, but some of the companies it had taken over had not, and Johnston had not sought to change that. It would comply with the provisions in the new legislation and was already discussing recognition in some centres. Trinity Mirror had decentralized industrial relations. Some local managements recognized unions; others did not. It would approach the introduction of ERA in a spirit of seeking to make it work at local level in the interests of all concerned.

2.69. We also explored the would-be bidders' capacity to absorb the Newscom titles, given that each had seen substantial corporate change in 1999—Newsquest had been bought by Gannett, Johnston had acquired PSN, and Trinity had merged with Mirror Group. We were satisfied by the assurances we received, backed up by the previous evidence that we have seen of these groups' ability to manage change.

2.70. In relation to the issues we have examined concerning the likely implications for employment or efficiency, in the approaches of the would-be bidders to training and to union recognition, and in their capacity to absorb a further acquisition, we have concluded that none of the proposed transfers may be expected to operate against the public interest.

Conclusions on the public interest

2.71. Our views on the various issues that arise from the proposed transfers described in our terms of reference have been set out in the relevant sections of this report. In summary, our conclusions are these.

2.72. We conclude that the proposed transfers may be expected not to operate against the public interest in relation to accurate reporting of news and free expression of opinion (paragraphs 2.29 to 2.34).

2.73. We do not believe that the degree of national concentration among local and regional newspapers to which any of the proposed transfers is likely to give rise is significant in itself. We conclude that the proposed transfers may be expected not to operate against the public interest in this regard (paragraphs 2.35 to 2.40).

2.74. On concentration of ownership at the regional level (paragraphs 2.41 to 2.53) we conclude that the transfer of Newscom's titles to Newsquest or Johnston may be expected not to operate against the public interest. That is also our conclusion about a transfer to Trinity Mirror where the largest number of representations was received.

2.75. We conclude that the proposed mergers may be expected not to operate against the public interest by reason of concentration of ownership at local level (paragraphs 2.54 to 2.61).

2.76. In relation to the issues we have examined (paragraphs 2.62 to 2.69) concerning the likely implications for efficiency and employment, the approaches of the would-be bidders to training and to union recognition, and their capacity to absorb a further acquisition, we conclude that the proposed transfers may be expected not to operate against the public interest.

2.77. Accordingly, we conclude that the proposed transfer of Newscom's newspaper titles and related assets set out in the terms of reference to Newsquest, Johnston or Trinity Mirror may be expected not to operate against the public interest.