

**Carlton Communications Plc
and
Granada Group PLC and United News
and Media plc**

A report on the three proposed mergers



COMPETITION COMMISSION

Carlton Communications Plc and Granada Group PLC and United News and Media plc

A report on the three proposed mergers

**Presented to Parliament by the Secretary of State for Trade
and Industry by Command of Her Majesty
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Members of the Competition Commission as at 16 June 2000

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¹These members formed the Group which was responsible for this report under the chairmanship of Mr P G Corbett.

Note by the Department of Trade and Industry

In accordance with section 83(3) and (3A) of the Fair Trading Act 1973, the Secretary of State has excluded from the copies of the report, as laid before Parliament and as published, certain matters, publication of which appears to the Secretary of State to be against the public interest, or which he considers would not be in the public interest to disclose and which, in his opinion, would seriously and prejudicially affect certain interests.

The omissions are indicated by a note in the text or, where space does not permit, by the symbol ✂.

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Part I

Summary and Conclusions

1 Summary

1.1. On 8 February 2000 the Secretary of State for Trade and Industry referred to the CC the proposed merger between Carlton Communications Plc (Carlton) and United News and Media plc (UNM). Following the announcement by Granada Group PLC (Granada) that it was considering making an offer for either Carlton or UNM, the Secretary of State referred these further proposals to us on 25 February 2000.

1.2. The three companies carry out a range of business, including broadcasting on Channel 3 (ITV) and the production of TV programmes. Between them they hold ten of the fifteen licences for ITV regions: Granada and UNM between them also sell the advertising airtime of the remaining five licences. The three companies each account, taking into account sales made as agents for the five smaller licensees, for about one-third of the net advertising revenue (NAR) received by ITV from advertising. ITV accounted for 60 per cent of all TV NAR in 1999, the remaining revenue being received by Channels 4 and 5 in particular, and by pay-TV channels such as British Sky Broadcasting Group plc. Granada is by far the largest of the three companies in programme production, with its production revenue being greater than that of the other two combined.

1.3. The three companies and the other ITV licensees make up and jointly fund the ITV Network Centre, which commissions programmes from the ITV companies and from independent programme producers: the ITV Network also establishes a common schedule of programmes for showing across all the ITV regions. These are supplemented by a much smaller volume of regionally-based programmes produced by the licensees or by independents. The executive staff of the ITV Network have substantial operational autonomy, which they are expected to exercise in the interests of ITV as a whole, in commissioning programmes and establishing the schedule.

1.4. The main concern expressed to us was that any of the mergers would materially enhance the market power of the merged entities in relation to their advertising customers. It was represented to us that, although the ITV share of NAR was accepted by all parties as bound to continue its decline, it would probably still be around 50 per cent of NAR in five years' time and ITV would remain an indispensable marketing tool for many advertisers on account of its ability to reach large audiences quickly and for sustained periods. A further concern was whether any of the mergers might give the merged company the ability to influence the ITV Network to favour its own production interests over the wider interests of ITV. Additionally, a merger involving Granada could make ITV overdependent on Granada as the dominant provider of programmes to the network.

1.5. We would have concerns regarding the advertising and production markets if the proposals were to result in one dominant TV company significantly larger than the next largest company within ITV. Such a position would be established if one company had both a share of ITV NAR significantly higher than the next largest and controlled more than two of the four leading ITV licences, ie London Weekday (Carlton); Central (Carlton); London Weekend (Granada); and Meridian Broadcasting Limited (Meridian TV) (UNM). These are the licences for the regions of most interest to advertisers, accounting for 55 per cent of ITV NAR and almost 40 per cent of ITV's share of the TV audience. However, if the proposals had the

outcome that two largest companies were broadly equal in their NAR shares and each controlled two leading licences, then the outcome would be unlikely to be contrary to the public interest.

1.6. The three merger proposals would each result in a company with a share of the TV audience greater than the 15 per cent permitted by the broadcasting legislation. The legislation also prevents any company from holding the two London licences. We take as given, in our conclusions and recommendations, that these obligations would be complied with, whatever the form of merger.

1.7. We believe that without the obligatory divestments each merger would materially enhance the power of a merged entity in the advertising market. It would be manifestly indispensable to major advertisers and be able thereby to raise its advertising prices. As advertising budgets are often fixed the result would be distortion of the advertising market, resulting in less revenue being available for other ITV regions and other broadcasters and reduced value for money to advertisers. This would be so even though competition for viewers' time is continuing to erode ITV's audience share and the growth of competition is cutting into ITV's share of advertising revenue. We think that while the amount of advertising revenue switched between the ITV companies may be small, as two of them argued, it is potentially not insignificant, and the whole of the advertising spend can be affected by the level of competition for the element potentially open to switching.

1.8. We do not consider, however, that, even without the obligatory divestments a merger would have similarly adverse effects on the programme production market, where entry is relatively easy as the presence of some 1,200 independent production companies shows. We accept that there would be a risk of the ITV Network's operations being unduly influenced in the interests of the merged company: but given the protections built into the structure of the network we do not think this risk to be high enough to justify us finding the mergers to be against the public interest on these grounds.

1.9. We are not persuaded that benefits from a merger, such as the creation of a strong company better able to ensure the competitiveness of ITV in a dynamic market, would be achieved if the two post-merger companies were not balanced in ITV advertising revenue and ownership of the four leading licences. Looking at the three mergers and taking into account the expected divestments to meet statutory requirements, that between Carlton and UNM could be expected to be contrary to the public interest by creating a dominant company with imbalance in advertising revenue and control of three leading licences. In contrast, the obligatory divestments would mean that neither of the mergers involving Granada would be expected to create a situation in which detriments occurred.

1.10. As regards a Carlton/UNM merger, we believe that the behavioural remedies suggested to us could not adequately offset the detriments of a structural nature that we have identified and that only a structural remedy involving divestment of a licence will suffice.

1.11. In every case of divestment, statutory or otherwise, we consider that the divested licence would probably be acquired by the non-merging company. However, the Secretary of State does not have the power to bring that about, as third parties, for example, could make more attractive offers. If that were to happen, we would regret the consequent erosion of the balance we seek within ITV, but we believe the divestment would achieve the necessary reduction in the dominant position of the merged company. To that extent it would be an acceptable, if not ideal, satisfaction of our aims.

1.12. We conclude, against the background of our desire to see two appropriately balanced companies within ITV following any merger, that:

- (a) A merger between Carlton and UNM could be expected to be contrary to the public interest, unless one leading licence were divested and that Meridian TV would be the most appropriate licence for that purpose. We also note that further divestment would be needed to comply with the audience share limit and that this could be achieved by disposal of a holding in GMTV Limited (GMTV).
- (b) A merger between Carlton and Granada would not be expected to be contrary to the public interest, in view of the expected obligatory divestments. To comply with the two London licences rule, one such licence would have to be divested: the sale of Carlton Television Limited would bring the company near to meeting the 15 per cent rule but a further divestment would be needed, and we note that Tyne Tees Television Ltd would appear to be adequate for that purpose.
- (c) A merger between Granada and UNM would not be expected to be contrary to the public interest after the obligatory divestments had been made. We note that divestment of a UNM holding in Channel 5, a Granada holding in GMTV and the further divestment of HTV Group plc would meet the 15 per cent rule.*

1.13. We believe that the implementation of the necessary statutory divestments and those recommended by us would also have the advantage of meeting the concern we expressed about the risk of a dominant company being in a position to exercise undue influence over the operations of the Network Centre.

*The CC has advised that this paragraph should also refer to the divestment of Granada's holding in GMTV (as in paragraph 2.102 of the report).