

**Reed Elsevier plc
and
Harcourt General, Inc**

A report on the proposed merger



COMPETITION COMMISSION

Reed Elsevier plc and Harcourt General, Inc

A report on the proposed merger

**Presented to Parliament by the Secretary of State for
Trade and Industry by Command of Her Majesty
July 2001**

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Professor A Steele
Mr M R Webster
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¹These members formed the Group which was appointed to investigate and report on this reference under the Chairmanship of Mr A J Pryor. However, because of ill health, Mr Pryor resigned from the Group on 10 April 2001, and Mr A T Clothier (a member of the Group) was appointed Chairman in his place. The conclusions in this report are those of the remaining members of the Group.

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 she considers would not be in the public interest to disclose and which, in her 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 21 February 2001 the Secretary of State for Trade and Industry referred to the Competition Commission (CC) for investigation and report under the merger provisions of the Fair Trading Act 1973 the proposed acquisition of Harcourt General, Inc (Harcourt) by Reed Elsevier plc (RE). Here and elsewhere in this report ‘Harcourt’ and ‘RE’ are used to refer to the company and its subsidiaries, unless the context requires otherwise. Our terms of reference are at Appendix 1.1. We are required to report by 28 May 2001.

1.2. The CC began this inquiry with a Group of four members under the chairmanship of Arthur Pryor, but ill health forced Mr Pryor to resign after seven weeks. The remaining three members, Anthony Clothier, Dame Helena Shovelton and David Stark, completed the inquiry with Mr Clothier in the chair.

1.3. RE is an international company, jointly owned by Reed International PLC and Elsevier NV. Its principal activities include: publishing a variety of academic, legal, business, consumer, accountancy and tax titles; organizing exhibitions and seminars; producing materials for the study of English; and providing services for the travel industry.

1.4. Harcourt is a US holding company for a group of publishers that provide a range of titles and other products and services in the fields of education, training and assessment.

1.5. The proposed transaction, which is due to be completed later this year, will involve RE acquiring Harcourt and immediately selling on some of its businesses to The Thomson Corporation (Thomson). RE will retain Harcourt’s science, technical and medical (STM) group, its education group and elements from its corporate and professional services group. Thomson will acquire the rest of that group and Harcourt’s higher education group.

1.6. We began our task by analysing the operations of RE and Harcourt and concluded that the only parts of their businesses with the potential to give rise to competition concerns were their sales of STM journals—in both print and electronic formats—in the UK.

1.7. We then proceeded to examine the STM journal market in detail. Although we looked at a number of aspects—some of which seemed to us to present unusual characteristics—we identified only three that raised potential public interest concerns:

- (a) arrangements for providing customers with access to electronic versions of STM journals;
- (b) arrangements under which other access mechanisms would be able to establish links with RE’s and Harcourt’s electronic platforms; and
- (c) the pricing of annual subscriptions to STM journals.

1.8. Two members of the Group, Mr Clothier and Dame Helena Shovelton, concluded that, while these aspects of the proposed merger did raise concerns, they did not have an expectation that it would operate against the public interest. As they form a majority of the Group

constituted to consider this reference their conclusion is to be regarded as the CC's conclusion in this inquiry.

1.9. The third member, Mr Stark, whose minority position is set out in a supplementary note to Chapter 2, concluded that the proposed merger might be expected to operate against the public interest.

1.10. The Group then went on to record two final points. The first is that the current VAT regime for journals—which accords print versions a zero rating, but subjects contracts to receive journals electronically to the standard rate of 17.5 per cent—threatens to retard further progress in electronic delivery and dissemination of knowledge.

1.11. The second is that the inquiry has brought to light a number of features of the market for STM journals that are unusual and may benefit from further examination. Although they lie beyond the CC's terms of reference on the present occasion, if the Director General of Fair Trading believes that there are matters giving rise to wider concerns and are not being resolved, then he may wish to consider whether a wider review is necessary.