

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Additional Estimates 14 – 15 February 2007

**Question:** aet115 (ACCC)

**Topic:** Rationale and methodology used when designing market ideas, opinions and editorials

**Hansard Page:** E29

**Senator CONROY asked:**

I am happy for you to take this part on notice. Can you explain the rationale and methodology you used when you designed your market for ideas, opinions and editorials?

**Mr Samuel**—It would be helpful to take this on notice. You may be assisted in this when the public—

**Senator CONROY**—I was happy for you to take that on notice.

**Mr Samuel**—We will be issuing a public competition assessment on this in the next short while. If there are further queries, it may be then appropriate to examine that, because that will give a much more detailed analysis of the process that we undertook there and of the conclusions that we reached. It may be appropriate for you to carry that forward at the next Senate estimates hearing. We will give you that information on notice.

**Senator CONROY**—What changed the commission's view between 8 December 2006 when the statement of issues came out and 17 January when the ACCC announced that it would not oppose the acquisition?

**Mr Samuel**—What normally can occur in relation to any issue of a statement of issues. The statement of issues is designed to focus stakeholders' attention on the issues that are of potential concern to us and, indeed, on issues that may not be of concern, and to focus the market inquiries and the market response. The most information that I can give you now, because I do not have the details to hand, is that the market response and the further market inquiries conducted in that period—which was something like five weeks—led us to the conclusion that we reached. If we take those on notice then we can give you—

**Senator CONROY**—You are on the record saying a couple of things, and I will quote them to you:

However, following extensive market inquiries, it became apparent that a range of advertising alternatives exist for advertisers in these community newspapers, although individual advertisers may have different ranges of alternatives.

Overall, the ACCC was satisfied that sufficient advertising alternatives exist in this case to provide a competitive constraint to News Ltd.

What are those alternatives?

**Mr Samuel**—As I said, we will take that on notice, because I do not have all of that detail to hand.

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**Senator CONROY**—I am sure you would not, but the man who made the call is sitting right here. What are the alternatives?

**Mr Grimwade**—There were a variety of alternatives that were being put to us by the various small businesses that we spoke to. I can take that on notice and give you all the detail, but I recall that among the information that had been provided to us there were some mentioned of businesses that they were developing their own leaflets.

**Senator CONROY**—Leaflet drops?

**Mr Grimwade**—This is the information that we got from a variety of different small businesses. Leaflet drops were an option. Some of the councillors that we spoke to considered that the barriers to entry in community newspaper delivery was low and that they could establish their own if they felt that prices would rise or if there was any need to formulate their own local community free newspaper. There were other advertising alternatives. As Mr Samuel said, we will be issuing a public competition assessment which outlines the reasons for our final decision shortly and that should provide the answers to your questions.

**Answer:**

**Can you explain the rationale and methodology you used when you designed your market for ideas, opinions and editorials?**

The ACCC analysed the proposed acquisition by News Ltd of the Community Media Group of the Federal Publishing Company (the proposed acquisition) in accordance with the principles set out in the paper on Media Mergers that the ACCC published in August 2006.

In particular, the ACCC examined whether the proposed acquisition would raise competition concerns in relation to:

- the supply of advertising opportunities to advertisers;
- the supply of content to consumers; and
- the acquisition of content from content providers.

The ACCC understands the question on notice to relate to the supply of content to consumers. In practice the most likely way that a free community newspaper publisher would attempt to exercise market power on readers would be by reducing the quality of its newspaper. In the News-FPC matter, the ACCC identified two key ways that a publisher might reduce quality – by reducing the quality of the newspaper's layout and by reducing the diversity and coverage of content supplied.

A reduction in the quality of layout or diversity and coverage of content of the community newspaper would be likely to result in a proportion of consumers ceasing to read the newspaper or reducing the time they spend reading the newspaper. While a reduction in effective readership would be the direct consequence of reducing the quality of layout or diversity in a free community newspaper, the ACCC considered that the effect on the profitability of the newspapers would occur through the indirect

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effect of the reduction in readership on advertising. In other words, the effect of a loss of readership would be felt indirectly through a potential loss of advertising as businesses become concerned that their advertising is reaching fewer potential customers.

The effect on advertising was therefore a critical aspect in determining the competition effects of the proposed acquisition. In this matter, the ACCC was satisfied that sufficient advertising alternatives existed to provide a competitive alternative for most advertisers in the relevant community newspapers in northern and inner western Sydney (the two areas of concern identified in the Statement of Issues published by the ACCC on 8 December 2006). This constraint provided by advertisers meant that following the proposed acquisition, any attempt by the acquirer (News Ltd) to significantly reduce the quality of the community newspaper would be likely to be constrained by the potential loss of advertising that would accompany any substantial drop in readership.

The ACCC recognised that the proposed acquisition may lessen the number of publishers in the community newspaper sector in northern and inner western Sydney. While retaining separate ownership of media outlets may well encourage proprietors to maintain the quality and diversity of the content they provide consumers, it does not guarantee it. For example, commercial conditions may push owners to change the layout of their newspaper, or broaden or narrow the range of content they provide, because such a change would protect their profitability. Similarly, a merger may not necessarily reduce diversity of content, if it is profitable for the owner to maintain it.

The ACCC notes that legislative restrictions on cross-media mergers do not extend to free weekly community newspapers – that is, the cross-media restrictions (both prior to and with the recent amendments) do not seek to protect media diversity by preventing a television or radio proprietor from acquiring a community newspaper.

**What changed the commission's view between 8 December 2006 when the statement of issues came out and 17 January when the ACCC announced that it would not oppose the acquisition?**

Following the publication of the *Statement of Issues*, further market inquiries indicated that a range of advertising alternatives to free community newspapers exist for many advertisers in northern and inner western Sydney, which were the geographic areas where the ACCC had expressed preliminary competition concerns. However, the ACCC recognised that, although a range of alternatives exist, individual advertisers may have different alternatives and some advertisers may have fewer alternatives than others.

Larger businesses attracting customers from a wide area appeared to have a range of advertising options including television, metropolitan newspapers, the internet and radio, as well as community newspapers. The ACCC concluded that these advertisers were likely to be protected from advertising rate rises post-acquisition by the ability to

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threaten to reduce their community newspaper advertising and increase their use of other types of advertising.

In northern Sydney, real estate advertising in community newspapers was concentrated in the North Shore Times (published by News). In inner-west Sydney, real estate advertising in community newspapers was concentrated in the Inner West Courier (published by FPC). Market inquiries suggested that real estate advertising was concentrated in one community newspaper because real estate agencies wish to advertise where other real estate agencies advertise, and where readers, from previous experience, are likely to expect to find a substantial amount of real estate advertising. The ACCC considered that this 'network' effect meant that other community newspapers were not likely to be significant competitors with the North Shore Times and the Inner West Courier for real estate advertising.

In addition, some real estate agencies advertised in *Domain* in the Sydney Morning Herald (published by John Fairfax Holdings Ltd), and almost all agencies advertised on a number of real estate websites. While many real estate agencies indicated that these other advertising options were used in addition to advertising in community newspapers, some indicated that they would consider reducing community newspaper advertising and increasing their use of other types of advertising if community newspaper advertising rates rose post-acquisition.

Car dealerships advertising in community newspapers indicated that they currently advertised online, or were seriously considering online advertising as an option, and that they would be likely to reduce reliance on community newspaper advertising if advertising rates rose post-acquisition.

Market inquiries suggested that a number of small locally-focused businesses use letterbox drops as an effective alternative to community newspaper advertising (although the ACCC noted that effectiveness of letterbox drops may decrease as more businesses use this method of advertising).

Some smaller businesses which advertised in community newspapers also advertised in monthly magazine-like publications, although most indicated that this was supplementary to advertising in community newspapers. However, some types of businesses found advertising in these magazines to be effective, because a specific magazine targets readers who are likely to be interested in the type of products they sell.

Some small, very locally focused businesses also found advertising to be effective in community newspapers with significantly smaller distribution areas than the larger News and FPC publications.

Finally, a small number of small businesses indicated that paid metropolitan newspapers, and particularly the Sydney Morning Herald, were alternatives to community newspapers. These businesses tended to draw customers from across Sydney.

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Generally, individual advertising-rate deals appeared to be very common. Market inquiries suggested that community newspapers' advertising ratecards were often only starting points for negotiations between advertisers and publishers.

The ACCC recognised that the proposed acquisition may result in an increase in News' bargaining power in negotiations with some advertisers in northern and inner western Sydney. However, the ACCC considered that this lessening of competition was likely to be relatively small and would be unlikely to constitute a *substantial* lessening of competition.

Generally, the ACCC was satisfied that sufficient advertising alternatives existed to provide a competitive alternative for most advertisers in the relevant community newspapers in northern and inner western Sydney. As such, the ACCC considered that the proposed acquisition would be unlikely to substantially lessen competition in advertising markets in these areas in breach of section 50 of the Act.