



Australian  
Competition &  
Consumer  
Commission

8 December 2006

## Statement of Issues — News Ltd’s proposed acquisition of Federal Publishing Company’s Community Media Group

1. This Statement of Issues has been released by the Australian Competition and Consumer Commission (ACCC) in relation to the proposed acquisition of the Community Media Group of the Federal Publishing Company (FPC) by News Ltd (News).
2. A Statement of Issues published by the ACCC is not a final decision about a proposed acquisition, but provides the ACCC’s preliminary views, drawing attention to particular competition issues about which there may be varying degrees of concern, as well as identifying the lines of further inquiry that the ACCC wishes to undertake.
3. In line with the ACCC’s *Merger Review Process Guidelines* (available on the ACCC’s website at [www.accc.gov.au](http://www.accc.gov.au)) the ACCC has established a secondary timeline for further consideration of the issues. The ACCC anticipates completing further market inquiries by **22 December 2006** and anticipates making a final decision on **17 January 2007**. However, the anticipated timeline can change in line with the *Merger Review Process Guidelines*. To keep abreast of possible changes in relation to timing and to find relevant documents, market participants should visit the Mergers Register on the ACCC's website at [www.accc.gov.au/mergersregister](http://www.accc.gov.au/mergersregister).
4. A Statement of Issues provides an opportunity for all interested parties (including customers, competitors, shareholders and other stakeholders) to ascertain and consider the primary issues identified by the ACCC. It is also intended to provide the merger parties and other interested parties with the basis for making further submissions should they consider it necessary.

## **Background**

### **The transaction**

5. The proposed acquisition involves News obtaining control over all publications within the FPC Community Media Group. The acquisition is conditional on ACCC approval.

### **FPC Community Media Group**

6. The FPC Community Group consists of the following publications:

#### Sydney

- Central, City Weekly, 9 to 5, Inner West Courier, Village Voice Drummoyne, Village Voice Balmain, North Side Courier, Wentworth Courier, Southern Courier;

#### Illawarra

- Northern Leader (Wollongong), Lake Times (Shellharbour), Kiama Independent;

#### Gold Coast and Sunshine Coast

- Best of the Gold Coast Magazine, Weekender Noosa, Weekender (Sunshine Coast), Weekender Nambour and Coolum.

### **News Ltd**

7. News Ltd publishes a substantial number of newspapers in Australia including:
  - a paid daily newspaper in Sydney, the Daily Telegraph;
  - several free community newspapers in various parts of Sydney including the North Shore Times; the Hornsby and Upper North Shore Advocate; the Glebe; the Inner West Weekly; the Mosman Daily; and the Northern District Times; and
  - a free community newspaper in Noosa, the Noosa Journal.

### **Market inquiries**

8. On 26 October 2006, the ACCC commenced market inquiries on the proposed acquisition. The ACCC contacted a significant number of competitors and advertisers in the following weeks.
9. As a result of these market inquiries, the ACCC has identified potential competition concerns arising from the proposed acquisition.

## **Overview of competition issues**

### **Areas where News and FPC newspapers overlap**

10. The circulation of News publications overlaps, to varying degrees, with the circulation of FPC publications in the following areas:
  - Sydney, particularly the northern suburbs, the inner west, central Sydney, the eastern and south-eastern suburbs; and
  - the Sunshine Coast.
11. These areas are discussed in more detail below.

### **Areas where News and FPC newspapers do not overlap**

12. The circulation of News and FPC publications do not overlap in the Illawarra and the Gold Coast. Consequently, the ACCC's preliminary view is that News' acquisition of FPC newspapers in these areas appears unlikely to raise competition concerns. The relevant FPC newspapers are: the Northern Leader, Lake Times and Kiama Independent (Illawarra); and the Gold Coast Magazine (Gold Coast). These areas are not discussed further in this Statement of Issues.

### **Paid daily newspapers**

13. News publishes The Daily Telegraph, a paid, daily newspaper circulating across Sydney, and The Australian, a national newspaper that circulates in Sydney. The ACCC's preliminary view is that these newspapers do not fall within the product dimension of the markets relevant to the proposed acquisition.
14. Broadly, advertisers advertising in a free community newspaper seem likely to be specifically targeting readers in the local community in which that newspaper circulates. While The Daily Telegraph would cover the relevant local community, it would also cover a large group of readers outside of this community. Switching advertising from the community newspaper to The Daily Telegraph would therefore require advertisers to pay for advertising to potentially a substantial number of readers outside of their target group. In addition, The Daily Telegraph may be read by a smaller proportion of readers within the target group than would read the community newspaper (as readers must pay for The Daily Telegraph). Consequently, advertising in The Daily Telegraph would generally seem to be a poor substitute for advertising in a community newspaper. The same argument can be made in relation to The Australian (albeit with more strength given this paper's national distribution).
15. Similarly, consumers seem likely to read free community newspapers because they provide locally focused news and information (and, probably, locally-relevant advertising). Given its city-wide focus, The Daily Telegraph would only seem likely to provide local community news when this was of interest to readers across Sydney, which may be uncommon. The Australian, given its national focus, would seem even less likely to cover local community news stories. Consequently, for readers, The Daily Telegraph and The Australian would seem

likely to be poor substitutes for the content provided by local community newspapers.

16. Given the preliminary conclusion that The Daily Telegraph and The Australian are likely to be poor substitutes for free community newspapers in Sydney, there is no relevant overlap between News and FPC publications in the eastern and south-eastern suburbs of Sydney. The relevant FPC publications are the Wentworth Courier and the Southern Courier. These publications are not discussed further in this Statement of Issues.

### **Northern Sydney**

17. News proposes to acquire FPC's Northside Courier. The Northside Courier is a free community newspaper with a circulation of 80,000 along a corridor stretching from Sydney Harbour northwards to Wahroonga, just south of Hornsby.<sup>1</sup>
18. News publishes the following free newspapers that overlap with the circulation of the Northside Courier:<sup>2</sup>
  - the North Shore Times, a bi-weekly free community newspaper with a circulation of around 75,000 that overlaps substantially with that of the Northside Courier, the main difference being that the North Shore Times is not circulated in the Mosman area; and
  - the Mosman Daily, a free weekly newspaper circulating in the Mosman area of Sydney. It has a total circulation of around 37,000 which overlaps within the far south-eastern section of the circulation area of the Northside Courier.
19. News also publishes two other free community newspapers – the Hornsby and Upper North Shore Advocate and the Northern District Times – which overlap slightly with the circulation of the North Shore Times and the Northside Courier.
20. As indicated above, the circulation of the Northside Courier substantially overlaps with the circulation area of the North Shore Times. No other significant independent community newspapers appear to exist in this area, although the ACCC is aware of a small recently-established community newspaper, The Local Citizen, circulating in Gordon, Pymble and St Ives.

### *Real estate advertising*

21. Currently, it appears that network effects<sup>3</sup> have resulted in most real estate advertising (in free community newspapers) being placed with the North Shore Times, with a much smaller amount in the Northside Courier. This suggests that the Courier provides only limited competition to the North Shore Times for real-estate advertising.

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1 See [www.fpc.com.au/sites/wc/wc\\_2006\\_08-Distribution\\_Map.pdf](http://www.fpc.com.au/sites/wc/wc_2006_08-Distribution_Map.pdf); accessed on 8 December 2006.

2 See [www.community.newsmedianet.com.au/home/groups/group/index.jsp?groupid=1](http://www.community.newsmedianet.com.au/home/groups/group/index.jsp?groupid=1); accessed on 7 December 2006

3 Network effects exist where one newspaper attracting a significant number of advertisers (because it attracts a significant number of readers) results in it attracting more advertisers.

22. More generally, market inquiries suggest that real estate advertising with the North Shore Times is a ‘must-have’ (because of network effects) and that online and other forms of advertising (e.g. the Sydney Morning Herald, letterbox drops, online advertising) are used in addition to, rather than in place of, advertising with the North Shore Times. The ACCC notes that advertising in the Sydney Morning Herald appears to be substantially less expensive than advertising with the North Shore Times, suggesting that the Sydney Morning Herald is only a limited constraint on advertising prices in the North Shore Times.
23. However, market inquiries also raise the possibility that the Sydney Morning Herald is a much stronger competitor for real estate advertising in the Northside Courier (which is not ‘protected’ by network effects).

#### *General advertising*

24. Market inquiries suggest that competition for advertisers between the Northside Courier and North Shore Times for non-real-estate advertising has assisted in preventing increases in advertising rates. For example, market inquiries indicate that discounts have been offered on the rates published on ratecards as a result of competition between the two newspapers.
25. The ACCC also notes that advertising rates for the Wentworth Courier and the Southern Courier, which circulate in areas where there are no competing free newspapers, appear to be significantly higher than advertising rates in either the North Shore Times or the Northside Courier.
26. For non-real-estate advertising, market inquiries suggest that other types of media are not close substitutes because they either do not target the relevant local area, or do not have sufficient consumer reach within that local area. Consequently, if advertising rates rose post-acquisition, market inquiries suggest that general advertisers would have no significant alternative to advertising with one of the two northern Sydney free newspapers (both owned by News post-acquisition).

#### *Barriers to entry*

27. While the ACCC has found in previous free suburban/regional newspaper matters that barriers to entry can be low, this may not be the case in the current matter. Market inquiries suggest that it may be difficult for a third significant free newspaper – that is, one comparable to the Northside Courier and the North Shore Times – to enter the northern Sydney area, as consumers’ demand for a third paper may be limited, and consumers may be loyal to existing free newspapers. Consequently, the ability of a third newspaper to attract advertisers may be correspondingly limited.
28. Market inquiries also suggest that an ability to attract at least some real estate advertising is crucial to a decision to enter a market on a significant scale. Market inquiries suggest that the prospects for a new entrant obtaining a significant amount of real estate advertising are minimal. While entry on a much smaller scale may be possible without the need to attract much real estate advertising (the Local Citizen appears to be an example of this), smaller newspapers would seem

likely to place only a limited constraint on papers such as the North Shore Times and Northside Courier.

29. There also appear to be no examples of significant recent new entry in the northern Sydney area that could help substantiate an argument that barriers to entry are low. More generally, the ACCC is also not aware of any significant new community newspapers in the circulation area of the Wentworth Courier, despite the high advertising rates charged by this newspaper.

### *Conclusion*

30. In conclusion, the ACCC is concerned that the information currently before it supports a finding that News Ltd's proposed acquisition of the Northside Courier would be likely to breach section 50 of the *Trade Practices Act 1974* (TPA).

### **Inner Western Sydney**

31. News proposes to acquire FPC's Inner West Courier. The Inner West Courier is a free community newspaper with a circulation of around 75,000 stretching from Newtown and Leichhardt westwards to Strathfield (south of the Harbour).<sup>4</sup>
32. News publishes the following free newspapers that overlap with the circulation of the Inner West Courier:<sup>5</sup>
  - the Glebe, a free weekly community newspaper with a circulation of around 49,000 that significantly overlaps with the eastern part of the circulation of the Inner West Courier; and
  - the Inner West Weekly, a free weekly community newspaper with a circulation of around 51,000 that significantly overlaps with the western part of the circulation of the Inner West Courier.
33. The analysis of the proposed acquisition of the Inner West Courier has similarities to the proposed acquisition of the Northside Courier. In particular:
  - there appear to be no other significant free community newspapers other than the News and FPC publications;
  - real estate advertising is concentrated in the Inner West Courier, suggesting that the two News Ltd papers are only limited competitors in this field;
  - competition concerns are therefore more likely to arise in relation to non-real estate advertising; and
  - barriers to entry do not appear to be low for the same reasons as those expressed in relation to northern Sydney.
34. However, the Glebe and the Inner West Weekly may not be particularly substitutable for general advertisers in the Inner West Courier. For example, an advertiser switching from the Inner West Courier to the Glebe would lose access

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4 See footnote 1.

5 See footnote 2.

to readers in the west of the Courier's circulation area. Similarly, an advertiser only wishing to reach readers in the Glebe's circulation area would waste money advertising in the Courier, which reaches a wider readership. For advertisers wishing to reach all of the inner-west, advertising in both the Glebe and the Inner West Weekly appears to be significantly more expensive than advertising just in the Inner West Courier.

35. In conclusion, the ACCC considers that further analysis is required before it would be in a position to conclude whether News Ltd's proposed acquisition of the Inner West Courier would be likely to breach section 50 of the TPA.

### **Inner Sydney**

36. News proposes to acquire FPC's '9 to 5' and City Weekly.
37. The City Weekly and '9 to 5' are both free weekly gloss magazines distributed to Sydney CBD commuters during morning peak commuter periods. Both have circulations of around 41,000.
38. News publishes mX, a free daily newspaper that is distributed to readers in the Sydney CBD (particularly commuters) during afternoon peak commuter periods. It is also distributed in North Sydney. It has a circulation of around 92,000.
39. The ACCC's preliminary view is that the News and FPC publications appear unlikely to be close substitutes, both as regards advertisers and consumers. In particular:
- '9 to 5' targets females aged 25 - 39 years in their early to mid career;<sup>6</sup>
  - the City Weekly targets males and females aged between 30 and 54;<sup>7</sup>
  - mX targets a youth audience between 18 and 34;<sup>8</sup>
  - mX is a daily newspaper circulating in the evening, while '9 to 5' and the City Weekly are weekly magazines circulating in the morning;
  - there appears to be little overlap in the nature of the advertisers in the FPC and News publications. For example, mX does not have classified advertising, unlike '9 to 5' and the City Weekly; and
  - there appears to be little overlap in the nature of the content in the FPC and News publications. The City Weekly and '9 to 5' appear to be 'lifestyle' magazines, while mX largely provides news content (albeit with a youth focus).
40. Consequently, News Ltd's acquisition of these papers would seem unlikely to raise competition issues.

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6 See <http://www.fpc.com.au/page/couriersite.php?pageid=10>; accessed on 8 December 2006.

7 See <http://www.fpc.com.au/page/couriersite.php?pageid=3>; accessed on 8 December 2006.

8 See <http://www.mxnet.com.au/>; accessed on 8 December 2006.

## Sunshine Coast

41. News proposes to acquire the Weekender Noosa.
42. The Weekender Noosa is a free weekly gloss lifestyle magazine with a circulation of around 21,000 in the Noosa region.
43. News recently acquired the Noosa Journal, a free weekly community newspaper with a circulation of around 21,000 in the Noosa region.
44. APN News and Media publishes the Noosa News, a free bi-weekly community newspaper with a circulation of around 21,000 in the Noosa region.
45. Market inquiries suggested that there was little competition between the Weekender Noosa and the Noosa Journal. In particular, the content they provide appears to be quite different. The Weekender Noosa also has only a small amount of classified advertising compared to the Journal.
46. In any case, post-acquisition, as strong competitor would remain in the market, that is, the Noosa News.
47. The ACCC's preliminary view is that no competition concerns are likely to arise from News Ltd's proposed acquisition of the Weekender Noosa (or the other FPC 'Weekender' publications on the Sunshine Coast).

## ACCC's future steps

48. The ACCC will finalise its view on this matter after it considers market responses invited by this Statement of Issues.
49. The ACCC now seeks submissions from market participants on each of the issues identified in this Statement of Issues and on any other issue that may be relevant to the ACCC's assessment of this matter.
50. Submissions are to be received by the ACCC no later than **22 December 2006**. The ACCC will consider the submissions received from the market and the merger parties in light of the issues identified above and will, in conjunction with information and submissions already provided by the parties, come to a final view as to the appropriate course of action to take to resolve any competition concerns that remain.
51. The ACCC intends to publicly announce its final view by **17 January 2007**. However the anticipated timeline may change in line with the *Merger Review Process Guidelines*. A Public Competition Assessment for the purpose of explaining the ACCC's final view may be published following the ACCC's public announcement.