



Australian  
Competition &  
Consumer  
Commission

13 September 2007

## Statement of Issues — Macquarie Media Group - proposed acquisition of certain regional radio assets owned by Fairfax Media Limited

1. Outlined below is the Statement of Issues released by the Australian Competition and Consumer Commission (ACCC) in relation to the proposed acquisition of Fairfax Media Limited by Macquarie Media Group (**proposed acquisition**).
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 issues of varying degrees of competition 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 26 September 2007 and anticipates making a final decision on 10 October 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

5. On 23 July 2007, the ACCC commenced its informal review of Macquarie Media Group's request for informal clearance.
6. There are two other proposed transactions related to this proposed acquisition:
7. The proposed acquisition of Southern Cross metropolitan radio assets and other Southern Cross assets by Fairfax Media (**Fairfax**). The Macquarie Media Group

intends to on-sell these assets to Fairfax after acquiring all of Southern Cross); and

8. The proposed acquisition Southern Cross Broadcasting by the Macquarie Media Group.
9. These transactions are being considered separately. The proposed acquisition of Southern Cross Broadcasting by the Macquarie Media Group is the subject of a separate Statement of Issues, which is available on the ACCC's website at <http://www.accc.gov.au/content/index.phtml/itemId/750995>.

## **Review of the proposed transaction by the Australian Communications and Media Authority (ACMA)**

10. While the ACCC is conducting a competition based assessment of the proposed acquisitions, the ACMA is also conducting an assessment of whether the acquisitions will breach the relevant provisions of the Broadcasting Services Act 1992 relating to media diversity.
11. For further information regarding the ACMA's processes and decisions, please consult [www.acma.gov.au](http://www.acma.gov.au).
12. The ACCC's process may lead to different conclusions given that it is a competition based assessment rather than a diversity one.
13. If the ACMA decides that divestitures are necessary because of breaches of the Broadcasting Services Act, the ACCC must still consider firstly whether competition concerns exist in each of the areas that are relevant to the ACCC's competition analysis; and secondly whether a divestiture (whether of the same station required under the ACMA undertakings or of a different station or stations) will alleviate any competition concerns that may exist.

## **The parties**

### **Macquarie Media Group**

14. The Macquarie Media Group is part of the Macquarie Bank Group and is a Macquarie Bank branded and externally managed investment vehicle.
15. Macquarie Regional Radio Works Pty Ltd (MRR), part of Macquarie, owns and operates 85 commercial radio licences in 44 licence areas in Queensland, New South Wales, Victoria, Tasmania, South Australia and Western Australia.
16. MRR's radio stations are categorised into two networks:
  - 'Hit Music'
  - 'Local Works'
17. The 'Hit Music' network is targeted to a youth demographic and has an emphasis on music. The network includes the STAR FM brand in New South Wales, South Australia and Victoria; the SEA FM brand in Queensland, New

South Wales and Tasmania, and the HOT FM brand in Queensland and Western Australia.

18. The 'Local Works' network is targeted at older audiences and broadcasts a mix of talkback, 'older golden styles' and adult contemporary music. This networks includes all of the AM radio stations, the Gold FM brand in Queensland and the Mix FM brand in Queensland.
19. For simplicity, this document will refer to the Macquarie Media Group as Macquarie.

### **Fairfax Media Limited**

20. Fairfax is a newspaper publishing group which operates in both Australia and New Zealand. In Australia, its metropolitan titles are The Sydney Morning Herald in Sydney and The Age in Melbourne. Fairfax also publishes regional newspapers.
21. On 9 May 2007, Fairfax acquired Rural Press, which published The Canberra Times, ten regional dailies and over 160 non-daily regional publications. Rural press also owned a number commercial radio licences which Fairfax acquired. It is these radio stations that are the subject of this acquisition.

### **The proposed transaction**

22. A subsidiary of Macquarie will acquire from Fairfax, the Fairfax entities which hold three commercial radio broadcasting licences in Queensland (Bundaberg Broadcasters Pty Ltd, licence numbers 4169 and 6897; and Star Broadcasting Network Pty Ltd, licence number 1121), six commercial broadcasting licences in South Australia (Lanson Investments Pty Ltd, licence numbers 10352, 1639 and 4195; 5AU Broadcasters Pty Ltd, licence numbers 10175, 10178 and 4193) and the narrowcasting licences also serving these states.
23. These commercial radio broadcasting licences operate under the names:

#### *Bundaberg*

- 4BU 1332 AM
- 93.9 HITZ FM
- Sea FM

#### *Ipswich*

- River 94.9

#### *Port Lincoln*

- Magic FM 89.9
- 5CC AM

#### *Spencer Gulf*

- Magic FM 105.9

- 5AU AM

#### *Riverland*

- Magic FM 93.1
- 5RM AM

### **Areas of overlap**

24. The proposal by Macquarie to acquire Southern Cross Broadcasting is highly relevant to this competition assessment. Although that proposal is subject to a separate ACCC informal review and Statement of Issues, that acquisition when viewed with this proposed acquisition creates a geographic overlap in some areas between radio assets to be acquired from Fairfax and television assets to be acquired from Southern Cross Broadcasting. This is explained further directly below.

### **Areas where Macquarie assets overlap with the assets to be acquired**

25. As noted above, Macquarie owns a large number of radio stations across regional Australia. Macquarie proposes to acquire radio licences from Fairfax and television licences from Southern Cross which, if both transactions proceed, would create an aggregation of media asset ownership in:
  - **Bundaberg** – Macquarie would own Southern Cross television and the three commercial radio broadcasting licences;
  - **Port Lincoln** – Macquarie would own Southern Cross TEN, Southern Cross Spencer Gulf and both commercial radio broadcasting licences; and
  - **Spencer Gulf** – Macquarie would own Southern Cross TEN, Southern Cross Spencer Gulf and both commercial radio broadcasting licences.

### **Areas where the acquisition does not result in any overlap**

26. While Macquarie is acquiring commercial radio broadcasting licences in Ipswich and Riverland, neither Macquarie nor Southern Cross currently owns any other media assets in these areas. As such, no overlap will occur and these areas will not be considered further.

### **Market inquiries**

27. On 23 July 2007, the ACCC commenced market inquiries in relation to the proposed acquisition. The ACCC contacted customers, competitors, local councils and chambers of commerce in relevant geographic areas.

### **Statement of issues**

28. For the purposes of this Statement of Issues, the issues in this matter are divided into three categories, 'issues of concern', 'issues that may raise concerns' and 'issues unlikely to pose concerns'.

## **Framework for analysis**

29. Consistent with the principles set out in the ACCC's Media Mergers Guidelines published in 2006, the ACCC has considered the proposed acquisition in relation to three product classes:
- the supply of advertising opportunities to advertisers;
  - the supply of content to consumers; and
  - the acquisition of content from content providers.

## **Issues of concern**

### **Supply of content to consumers in Port Lincoln and Spencer Gulf**

30. Southern Cross produces a half hour local news bulletin in Spencer Gulf (also broadcast to Port Lincoln) five days per week.
31. The ACCC understands that Macquarie produces local news content for radio in-house and that this typically consists of local bulletins broadcast during breakfast programming. Local news is supplemented by state-based and national bulletins produced in the regional service centres and national news distribution centre.
32. There are no daily local newspapers in these regions.
33. The ACCC's preliminary view is that the aggregation of all commercial radio and commercial television assets in Port Lincoln and Spencer Gulf may lead to competition concerns in markets for the provision of local news and content. Macquarie will have monopoly ownership of both commercial radio and both commercial television stations and, as a result, may be able to reduce the volume or quality of local news content it produces for these stations;
34. The sole source of competitive constraint, to the extent that such a constraint exists, would come from ABC local radio.
35. The ACCC seeks further information on the availability of local news and information content in Port Lincoln and Spencer Gulf on radio, television and from other sources.
36. The ACCC also has preliminary concerns in relation to the potential for cross-promotion on Macquarie's stations in these regions. Since Macquarie will be the sole owner of television and radio stations in Port Lincoln and Spencer Gulf, the ACCC seeks further information in relation to whether:
- i. As the monopoly owner of radio and television in these areas, Macquarie could cross-promote on both platforms to make new entry (if a new entry was made possible through new licences) highly unlikely; and
  - ii. If Macquarie divests a radio station pursuant to ACMA and/or ACCC undertakings, the divested station would be put at a significant

disadvantage due to Macquarie's ability to promote its radio station on its television stations.

### **Supply of advertising opportunities in Bundaberg, Port Lincoln and Spencer Gulf**

#### Bundaberg

37. Market inquiries revealed significant concerns by local advertisers in Bundaberg. In particular, concerns existed in relation to the potential for the price of radio advertising to increase with Macquarie becoming the monopoly owner of radio stations in Bundaberg. Market inquiries generally indicated that the three radio stations compete strongly.
38. The ACCC has formed the preliminary view that, if a separate market for radio advertising exists in Bundaberg, competition concerns are likely to exist. The ACCC is concerned that the merger is likely to allow Macquarie to increase the price of advertising on its radio stations since the principle competitive tension in the market will be removed.
39. If a combined radio and television market exists, Macquarie will own four out of six radio/television outlets in Bundaberg. The ACCC's preliminary view that this potentially gives Macquarie the power to increase the rates it charges for television and/or radio advertising. The ACCC seeks further information in relation to this issue.

#### Port Lincoln

40. Market inquiries revealed concerns by local advertisers in Port Lincoln. These concerns were in relation to television and radio being the only options for advertisers in this region, and with all being owned by Macquarie, local advertisers will have no option but to deal with Macquarie when seeking to advertise. Advertisers were concerned that, as the only media operator in the area, Macquarie will be able to increase prices.
41. The ACCC has formed the preliminary view that competition concerns are likely to exist in Port Lincoln. The ACCC is concerned that the merger is likely to allow Macquarie to increase the price of advertising on the radio and television stations in Port Lincoln, since the only competitive tension will be removed.

#### Spencer Gulf

42. Market inquiries revealed significant concerns by local advertisers in the Spencer Gulf region. These concerns were in relation to television and radio being the only options for advertisers in this region, and with all being owned by Macquarie, local advertisers will have no option but to deal with Macquarie when seeking to advertise. Advertisers were concerned that, as the only media operator in the area, Macquarie will be able to increase prices.
43. The ACCC has formed the preliminary view that competition concerns are likely to exist in Spencer Gulf. The ACCC is concerned that the merger is likely

to allow Macquarie to increase the price of advertising on the radio and television stations in Spencer Gulf, since the only competitive tension will be removed.

### **Bundling of advertising sales in Port Lincoln and Spencer Gulf**

44. The ACCC has formed the preliminary view that the market structures which will exist post merger in Port Lincoln and Spencer Gulf potentially create a situation where anti-competitive bundling may occur. There are two potential ways this may occur:
  - i. As the monopoly owner of radio and television in these areas, Macquarie could bundle sales of advertising on both platforms to make new entry, even if a new licence was available, highly unlikely.
  - ii. If Macquarie divests a radio station pursuant to ACMA and/or ACCC undertakings, the divested station may be put at a significant disadvantage due to Macquarie's ability to bundle sales of radio and television advertising.

### **Issues that may raise concerns**

#### **Supply of content to consumers in Bundaberg (radio-only content market)**

45. In the case of Bundaberg, the acquisition creates monopoly ownership of commercial radio. This raises the possibility that competition concerns could arise in a market for the supply of news and information content, particularly such content sourced from radio. The sole source of competitive constraint, to the extent that such a constraint exists, would come from ABC local radio.
46. The ACCC seeks further information on the availability of local news and information content in Bundaberg. In particular, whether consumers have access to other sources of such content on television and from other sources.

#### **Access to media for local coverage seekers in Port Lincoln and Spencer Gulf.**

47. The ACCC has formed the preliminary view that local 'coverage seekers' may be affected by the proposed acquisition given that all television and radio media in these regions will be owned by Macquarie. For example, local community groups, councils and businesses seeking to publicise events, may be denied coverage of these events by Macquarie, leaving no other option for coverage.
48. The ACCC seeks further information on the extent to which local coverage seekers in these regions will the ability to gain media coverage.

### **Issues unlikely to pose concerns**

#### **Supply of content to consumers in Bundaberg (broad content market including television, radio and other sources)**

49. The ACCC has formed the preliminary view that aggregation in Bundaberg of Macquarie's existing radio station, Fairfax's two radio stations and Southern Cross television is unlikely to result in any reduction in the quality or amount of local content in each area. This is primarily because Southern Cross is a

marginal supplier of local content to the area, there will remain other television sources of local content, the ABC is a significant source of local content and there is a local newspaper source of local content in Bundaberg.

### **Bundling of advertising sales in Bundaberg**

50. The ACCC has formed the preliminary view that the market structure in Bundaberg post-acquisition may enable Macquarie to bundle sales of advertising. However, the competitive impact of any such bundling is likely to be limited given that the population to which Southern Cross television is broadcast (202,000) is much larger than the population to which the radio licences cover (68,770). Even if the effect of Macquarie's bundling was to capture all of the radio advertisers in Bundaberg that also advertise on television, Seven and WIN would still have access to approximately two-thirds of the population for television advertising (i.e. those outside Bundaberg). This means that it would be unlikely that bundling by Macquarie could force either Seven or WIN to cease broadcasting into Bundaberg (especially since broadcasting is based out of Maryborough).

### **Access to media for local coverage seekers in Bundaberg**

51. The ACCC's preliminary view is that local coverage seekers in Bundaberg will still have two television stations and the local newspaper to cover their stories. As such, the ACCC considers competition concerns in this market are unlikely.

### **ACCC's future steps**

52. The ACCC will finalise its view on this matter after it considers market responses invited by this Statement of Issues.
53. 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.
54. Submissions are to be received by the ACCC no later than 26 September 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.
55. The ACCC intends to publicly announce its final view by 10 October 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.