THE MONOPOLIES AND MERGERS COMMISSION

The Observer and George Outram & Company Limited

A report on the proposed transfer of The Observer, a newspaper of which Atlantic Richfield Company is a proprietor, to George Outram & Company Limited, a subsidiary of Scottish and Universal Investments Limited, whose parent company is Lonrho Limited

Presented to Parliament in pursuance of Section 83 of the Fair Trading Act 1973

Ordered by The House of Commons *to be printed*
29 *June* 1981

LONDON
HER MAJESTY'S STATIONERY OFFICE

HC 378

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Group appointed to discharge the functions of the Commission in relation to the George Outram & Co Ltd/The Observer investigation

1. In pursuance of the powers vested in him by virtue of section 4 of the Fair Trading Act 1973 and paragraph 10 of Schedule 3 thereto, the Chairman directed that the functions of the Commission in relation to the George Outram & Co Ltd/The Observer reference should be discharged through a group consisting of the following regular members of the Commission:

Sir Godfray Le Quesne QC (Chairman)
Mr E A B Hammond OBE
Dr R L Marshall OBE
Mr T M Rybczynski
Mr J S Sadler

2. In pursuance of the powers vested in him by virtue of section 4 of the said Act and paragraph 22 of Schedule 3 thereto, the Secretary of State appointed for the purpose of this investigation the following additional members who, by virtue of the said paragraph 22, were also members of the group:

Mr J W A Burnet
Mr R Halstead CBE
Mr J Clement Jones CBE

Contents

CHAPTER 1

Introduction

1.1. On 27 March 1981 the Secretary of State for Trade received an application for his consent under section 58 of the Fair Trading Act 1973 to the transfer of a newspaper, 'The Observer', from Atlantic Richfield Company to George Outram & Company Limited, a wholly-owned subsidiary of Scottish and Universal Investments Limited which is itself a wholly-owned subsidiary of Lonrho Limited.

1.2. On the same day, in pursuance of section 59 of the Act, the Secretary of State referred the matter of the proposed transfer to the Commission for investigation and report. We are required, under section 60(1) of the Act, to make our report within three months of the date of the reference, the text of which is reproduced at Appendix 1.

1.3. Section 59(3) of the Act requires us to report whether the proposed transfer may be expected to operate against the public interest, taking into account all matters which appear in the circumstances to be relevant and, in particular, the need for accurate presentation of news and free expression of opinion.

1.4. Section 61(1) of the Act requires us to include in our report definite conclusions, with an account of our reasons for those conclusions, and such a survey of the general position with respect to the proposed transfer, and of the developments which have led to that position, as in our opinion are expedient for facilitating a proper understanding of our conclusions. Should we find that the proposed transfer might operate against the public interest, section 61(2) of the Act requires us to consider whether any (and, if so, what) conditions might be attached to any consent to the transfer in order to prevent it from so operating and empowers us, if we think fit, to include in our report recommendations as to such conditions.

1.5. Notices inviting interested parties to submit evidence to the Commission were inserted in:

The Guardian	Sunday Telegraph
The Daily Telegraph	The Observer
The Times	The Scotsman
Financial Times	Glasgow Evening Times
The Sunday Times	Glasgow Herald

We also invited evidence on matters affecting the public interest from The Press Council, from organisations which represent newspaper proprietors and organisations which represent newspaper employees.

In particular we asked for comments on:

(*a*) the relevance of the merger to concentration of ownership of the press;

(*b*) the likely effects of the merger on competition, efficiency, further expansion, closures and labour redundancy and, in particular, on the accurate presentation of news and free expression of opinion; and

(*c*) the future prospects of the newspaper if the proposed transfer were not to take place.

1.6. We held twenty-one hearings in all. These hearings were with representatives of:

Atlantic Richfield Company;
Lonrho Limited, Scottish and Universal Investments Limited and George Outram & Company Limited;
The National Union of Journalists;
The National Graphical Association;
The Press Council;
The Guardian and Manchester Evening News Limited;

and with various interested parties at The Observer Ltd including editors (past and present) and other members of the board, trade union representatives and journalists; and with other private individuals. We visited the offices and print shop of George Outram & Company Limited and the offices of Scottish and Universal Newspapers Limited, another Lonrho group company. We also visited the offices and print shop of The Observer Limited.

1.7. In addition to those listed above, we received written evidence from the TUC and affiliated unions, the Institute of Journalists, the Guild of British Newspaper Editors and members of the public.

1.8. Some of the evidence collected during the course of our inquiry was of a confidential nature and our report contains only such information as we consider necessary for a proper understanding of our conclusions.

1.9. We thank all those who have helped us in our inquiry, particularly the companies principally concerned.

CHAPTER 2

The newspaper industry

2.1. The report of the Royal Commission on the Press 1974–1977 (Cmnd 6433 and Cmnd 6810–1) provided a detailed account of the structure of the newspaper industry and of its ownership and control. This chapter reviews briefly the principal changes which have taken place since then and provides the latest available information about the circulation of national daily and Sunday newspapers. We have followed the same convention as the Royal Commission in distinguishing between 'quality' and 'popular' newspapers.

2.2. Since the Royal Commission reported, Express Newspapers Ltd has launched a new national paper, the Daily Star. Times Newspapers Ltd, the publishers of The Times and The Sunday Times, has been acquired by News International Ltd, publishers of The Sun and the News of the World. The (London) Evening News has ceased publication upon its merger with the Evening Standard, the title of which was changed to The New Standard. There have also been changes in the provincial press and the circulation of free newspapers has grown considerably.

2.3. The following tables show the circulation of national newspapers in 1961, 1966, 1975, 1978, 1980 and in the six month period from October 1980 to March 1981. The trends in circulation of the quality daily and Sunday newspapers were influenced by the closure of The Times and The Sunday Times in 1979.

TABLE 2.1 **Circulation of national Sunday newspapers UK and overseas**

Average net sales per publishing day ('000)

	1961	*1966*	*1975*	*1978**	*1980*	*Oct 1980 –March 1981*
Qualities						
Sunday Times	994	1,363	1,380	1,402	1,424	1,441
The Observer	722	881	730	678	973	921
Sunday Telegraph	688†	650	752	841	1,017	985
Total	2,722‡	3,110‡	2,862	2,921	3,414	3,347
Populars						
News of the World	6,689	6,152	5,479	4,920	4,335	4,077
Sunday Express	4,113	4,181	3,715	3,261	3,045	2,955
Sunday Mirror	5,320	5,219	4,251	3,866	3,831	3,741
Sunday People	5,446	5,560	4,188	3,901	3,847	3,713
Total	21,568	21,112	17,633	15,948	15,058	14,486

TABLE 2.2 **Circulation of national morning newspapers UK and overseas**

Average net sales per publishing day ('000)

	1961	*1966*	*1975*	*1978**	*1980*	*Oct 1980 –March 1981*
Qualities						
Daily Telegraph	1,248†	1,353	1,331	1,351	1,439	1,408
Guardian	240	281	319	274	377	391
Financial Times	132†	152†	181	180	197	197
Times	257	282	319	293	297	280
Total	1,877	2,068	2,150	2,098	2,310	2,276
Populars						
Daily Express	4,321	3,978	2,822	2,459	2,260	2,168
Daily Mail	2,649	2,318	1,726	1,974	1,966	1,948
Daily Mirror	4,578	5,132	3,968	3,806	3,625	3,527
Sun	1,407	1,238	3,446	3,960	3,789	3,644
Daily Star	—	—	—	—	1,034	1,116
Total	13,946†	13,523†	11,962	12,199	12,674	12,403

Source: Royal Commission on the Press 1974–77, Final Report, Cmnd 6810 July 1977; and Audit Bureau of Circulation.

* Figures for the quality papers for 1978 are prior to the closure to The Times and The Sunday Times, and relate to the months January to September. The Times and The Sunday Times were not published between November 1978 and November 1979.

† Figures are for 6 months of the year only.

‡ Total circulation figures include newspapers which subsequently ceased publication. These are the Sunday Citizen/Reynolds News (Table 2.1) and the Daily Sketch (Table 2.2).

2.4. For the period 1961–80 the most significant trend is the overall increase in the share of quality newspapers both for daily and Sunday newspapers. The share of The Observer in the sales of quality national Sunday papers declined between 1966 and 1978; it recovered during the period of The Sunday Times stoppage and reached a maximum circulation of 1·28 million. During the same period the Sunday Telegraph achieved a maximum circulation of 1·33 million. Since then both The Observer and the Sunday Telegraph have lost some of these gains; the 1980 share of The Observer averaged 28·5 per cent of the total circulation of quality Sunday newspapers.

Provincial Newspapers

2.5. Seventeen morning newspapers are printed in provincial centres; there are 80 evening newspapers, 6 Sunday newspapers and as many as 1,150 weeklies in Great Britain.

2.6. The 1974–77 Royal Commission on the Press reported that there had been only a moderate increase in the concentration of ownership of provincial morning and evening newspapers in the United Kingdom since 1961, whilst concentration had increased significantly for weekly newspapers. Table 2.3 shows that the total number of weekly titles owned by principal newspaper undertakings which owned 18 or more weeklies each, rose steadily until 1975, though it fell very slightly in 1976 and 1977. The share of all weekly titles controlled by those owning 18 or more titles displayed a similar trend.

TABLE 2.3 **Weekly newspapers owned by principal newspaper undertakings having 18 or more weeklies each**

Year	*Number of titles so owned*	*Percentage of all local weekly titles*
1948*	52	4·0
1961*	137	11·2
1966*	197	17·0
1971	218	19·0
1972	229	20·2
1973	232	20·4
1974	250	22·2
1975	273	25·3
1976	272	24·7
1977	267	24·6

Source: Royal Commission on the Press 1947–49 Cmnd. 7700, June 1949.
Royal Commission on the Press 1961–62, Cmnd. 1811, September 1962.
Annual Reports of the Press Council 1966–77 (The 1977 report is the most recent one published).

* The figures for these years are broadly comparable, but may not be on precisely the same basis as those for later years.

2.7. The 1977 Annual Report of the Press Council lists 14 principal newspaper undertakings, of which two did not own any weekly newspapers at 30 June 1977, seven owned 18 or more weeklies each and the remaining five owned 36 weeklies between them. There were 26 other newspaper groups which, at 30 June 1977, each published six or more weeklies with aggregate circulations of 50,000 or more and, between them, these groups controlled a total of 285 titles with an aggregate circulation of over 2·8 million.

Newspapers in Scotland

2.8. The sales of daily and Sunday newspapers printed in Scotland are shown in Table 2.4.

TABLE 2.4 **Circulation in Scotland in 1980**

	'000
Daily quality	
The (Aberdeen) Press and Journal	113
(Dundee) Courier and Advertiser	137*
Glasgow Herald	118
The Scotsman	96*
Daily popular	
(Glasgow) Daily Record	731
Sunday	
Sunday Standard†	
Sunday Mail	753
Sunday Post	1,000 +(estimate)
Evening	
Evening Express	82
Dundee Evening Telegraph and Post	57*
Evening News	139
Evening Times (Mon-Fri edition)	213
Greenock Telegraph	240
Paisley Daily Express	141

Source: Audit Bureau of Circulation and trade estimates.

* Average Jan–June 1980.
† The Sunday Standard first appeared on the 26 April 1981 and Outram are hoping to achieve a circulation of 175,000.

In addition the national papers are distributed in Scotland although not all have a Scottish edition. The average weekly sales of The Observer, Sunday Telegraph and The Sunday Times in Scotland were, in round figures, 70,000, 36,000, 111,000 respectively in the first quarter of 1981.

2.9. In Scotland weekly newspaper publishing is dominated by two companies: Scottish and Universal Investments (SUITS) and Johnston Newspapers Ltd. Since 1961 the share of total weekly newspaper circulation in Scotland of the interests owned by SUITS has increased from less than 5 per cent to almost 30 per cent by 1980. SUITS, via its subsidiary Scottish Universal Newspapers (SUN), publishes 19 weekly newspapers. In addition Outram, also a subsidiary of SUITS, publishes the Glasgow Herald, Glasgow Evening Times, Paisley Daily Express and the Sunday Standard. Johnston Newspapers, a publisher of weekly newspapers only, has increased its share of circulation from under 3 per cent in 1961 to 26·3 per cent in 1980.

Economic factors affecting the industry

2.10. The viability of any individual newspaper depends upon the balance between its production and distribution costs and its revenue; the latter arising from the cover price and advertising. The Royal Commission on the Press—Interim Report 1976 (Cmnd. 6433) estimated that for quality Sundays, advertising constituted some 65 per cent of total revenue. Advertising space is sold for fixed amounts and thus advertising revenue is fixed for any given issue of the paper. In the short run, increases in circulation can often involve losses, since the additional production and distribution costs have to be met by the cover price alone because the advertising revenue remains unchanged. As a result of the increase in circulation, advertising revenue can be increased by selling more space, which usually involves increased pagination, or by raising advertising rates. However, it usually takes at least 6 months to realise the benefits of increased circulation. These benefits are by no means certain, the ability to increase advertising revenue in this way depends upon the general economic climate and on the competition both between newspapers and with other advertising media.

2.11. The 1977 Royal Commission drew attention to the importance of labour and newsprint costs to newspaper production, and provided information (see table 2.5) indicating the breakdown of overall costs.

2.12. The Royal Commission on the Press (1977) concluded that the prospects for increases in revenue for the industry as a whole were poor and that the only adequate means of cost saving was to secure higher productivity through reductions in manpower and the introduction of new technology.[1] The following paragraphs of the Royal Commission's Interim Report[2] set out the problems of the industry in detail:

> 21. Production is the only remaining area to which to look for cost savings. A number of the publishing houses have publicly announced plans for changed production arrangements; others have given us information about plans which are still confidential. As explained in Chapter

[1] See Appendix 2 for a brief description of the 'new technology'; for a fuller description see Chapter 7 of the Royal Commission on the Press (1976) Interim Report.

[2] Part A.

TABLE 2.5 **Breakdown of the average costs of national and provincial newspapers: proportion of total costs, 1975**

	National newspapers				*Provincial Newspapers**		
	Daily		*Sunday*		*Daily*	*Weekly*	*London Evening*
	Quality	*Popular*	*Quality*	*Popular*			
	%	%	%	%	%	%	%
Newsprint and ink	28	36	28	34	23	16	18
Editorial	17	13	13	11	16	18	11
Production	31	30	32	31	27	35	33
Circulation and distribution	8	8	10	8	7	4	17
Advertising	4	1	3	1	6	7	4
Publicity	2	2	2	2	1	1	2
Administration, Establishment and Management	9	10	11	13	20	19	16
Total	100	100	100	100	100	100	100
Labour costs included in the above	40	44	36	36	54	62	60

Source: Royal Commission on the Press 1974 77.

* The figures refer to plants where either daily and weekly newspapers or weekly newspapers only are printed, and not to individual titles.
The figures do not always add up to 100 per cent due to rounding.

7, the plans vary considerably from house to house depending on particular needs. But they have two features in common: introducing new technology in the composing room and related areas; and seeking agreement with the unions on new methods and lower manning levels especially in departments not directly affected by technological change such as the machine and publishing (or dispatch) rooms, as well as in clerical and ancillary areas. Some forms of new technology have been in use in provincial newspapers in this country for as long as ten years. Until recently, however, photocomposition techniques were not flexible enough to handle the volume of text required by Fleet Street at sufficient speed.

22. As Chapter 7 explains, the cost of the new technology ranges from £2–3½ million per house, with an estimated total of some £20 million over a period of up to four years for the national newspaper industry as a whole. It offers a good economic return for all classes of newspaper provided suitable redundancy terms and operating agreements are reached. The technology mainly affects costs in the composing room. This is of greater benefit to the qualities which have a larger proportion of their costs in the composing room. Conversely, the populars have more to gain from savings in the machine and publishing rooms.

23. The plans of the houses show their belief that with new technology the composing rooms and related areas in the industry might be expected to lose about half of their existing staff although there are great variations from house to house. The existing technology in these departments is not generally regarded as being much overmanned, given the aims of producing several editions a night and of achieving national distribution.

24. The houses also estimate that in their other production departments it would be possible to reduce staff by a range of 6 per cent to 30 per cent, while keeping the same level of production and without imposing an unreasonable strain on the remaining workforce. We note that all previous reports have supported the view that levels of manning in Fleet Street have been excessive. Although reductions in employment have been made since these reports, we note also that the General Secretaries of the main production unions in the industry have publicly accepted the need, on suitable conditions, for reductions in manpower.

CHAPTER 3

The Observer and Atlantic Richfield Company

3.1. The first issue of The Observer appeared on 4 December 1791. From 1814 to 1852 it was owned by William Innell Clement, the most important press magnate of the time, in whose hands it achieved great progress and prosperity. After Clement's death the fortunes of The Observer fluctuated. In 1905, when its circulation varied between 2,000 and 4,000, Sir Alfred Harmsworth (later Lord Northcliffe) bought it for £4,000.

3.2. In January 1908 J L Garvin became editor of The Observer. He had acquired a financial interest in the newspaper, although Lord Northcliffe retained the controlling interest. Relations between the two men became increasingly strained over the next few years. In 1911 Northcliffe resigned as a director and gave Garvin three weeks to find a purchaser for the newspaper if he could. If not, Northcliffe himself proposed to buy out Garvin's interest.

3.3. William Waldorf Astor, owner of the Pall Mall Gazette, became the new proprietor of The Observer, mainly because he wanted the editorial services of Garvin. Four years later he gave the paper to his son, Waldorf Astor, who became the second Viscount Astor in 1919 and who remained owner of The Observer for the next 30 years.

3.4. J L Garvin made The Observer into a well-informed and innovative journal. The Observer of this period was a Conservative newspaper and, despite the increasing scope of the cultural side of the paper, was characterised chiefly by Garvin's own political writing. During the 34 years of his editorship, his weekly signed articles achieved considerable influence.

3.5. Relations between the editor and proprietor remained good until after the outbreak of the Second World War, when political differences leading to disagreements on policy resulted in Garvin's departure in 1942. Ivor Brown became acting editor, but from then onwards Mr David Astor, who was Lord Astor's second son, played an increasingly important role in the re-shaping of the paper. He introduced 'The Forum' (a medium for free discussion by various distinguished writers) and 'Profiles' and was himself a contributor to both features. During the 1945 election the Astor family ended The Observer's Conservative tradition and the paper declared itself to be non-party in political matters.

3.6. In 1945 Lord Astor transferred ownership of the newspaper to the trustees of The Observer Trust, who were charged with the responsibility of maintaining its financial and editorial independence. The following year Mr David Astor became foreign editor and The Observer Foreign News Service was created. In 1948 Mr Astor became editor of The Observer, a position he held for the next 27 years. Under his editorship the newspaper became more radical and progressive in policy, both in international affairs and on the home front. In particular it adopted an anti-colonial stance, gave a wide coverage of African affairs and opposed the invasion of Suez in 1956. The paper also increased news and comment on controversial domestic issues such as penal reform, race relations and equality of opportunity in education.

3.7. In the late 1950s and early 1960s The Observer was involved in a struggle for circulation. Competition from independent television had an adverse effect on newspaper advertising revenue, and an independent paper like The Observer was under greater pressure than those whose proprietors had diversified financial interests. The colour supplement was introduced in 1964, as part of a circulation drive, and helped to increase the sales of the newspaper to a post-war peak of 903,000 in 1967—a figure that stood for 12 years until The Observer topped the one million mark for the first time in 1979, after the Sunday Times suspended publication. The colour magazine also became a source of advertising revenue that was crucial in the battle for the survival of the newspaper.

3.8. As a means of providing the financial support which was urgently required, Mr David Astor injected £500,000 by way of a second (family) trust, so increasing the capital of the newspaper more than tenfold to £550,000. Two classes of shares were created. The smaller class ('A' shares) were the original shares owned by the trustees of The Observer Trust, and the larger class ('B' shares) were owned by the trustees of the family trust through a company called The Observer (Holdings) Ltd. The Observer Trust continued to run the newspaper and the Articles of Association of The Observer Ltd gave its trustees a large measure of management and editorial control, so long as they retained all the 'A' shares.

3.9. In the 1970s the newspaper was again fighting for sales and survival. It had been printed under contract by Times Newspapers Ltd until 1974 and, in 1975, with the extra costs of undertaking its own printing and in a deteriorating advertising market, the newspaper went to the brink of closure to achieve very substantial savings in all departments. Mr Astor retired at the end of 1975 and was succeeded as editor by Mr Donald Trelford, the present editor, after an extensive process of consultation with staff.

3.10. In the second half of 1976 the owners decided that they could no longer maintain The Observer as an independent newspaper, and they began to seek a purchaser. A number of potential purchasers were identified, including News International and the Associated Newspapers Group, but the paper was eventually sold to a latecomer on the scene, Atlantic Richfield Company.

Atlantic Richfield Company ('Atlantic Richfield')

3.11. Atlantic Richfield was founded in Philadelphia in 1866, under the name The Atlantic Petroleum Storage Company, in the early days of the oil industry. Until 1966 the company's operations were located mainly on the eastern seaboard of the USA and comprised production, refining and marketing of petroleum products. Between 1966 and 1977 the company made three major acquisitions:

(*a*) in 1966 it merged with the US west coast producer, Richfield Oil Corporation;

(*b*) in 1969 Sinclair Oil Corporation (which operated in the US mid-continent) was merged into the group; and

(*c*) in 1977 Atlantic Richfield acquired Anáconda Company, a substantial non-ferrous metals mining, processing and trading enterprise.

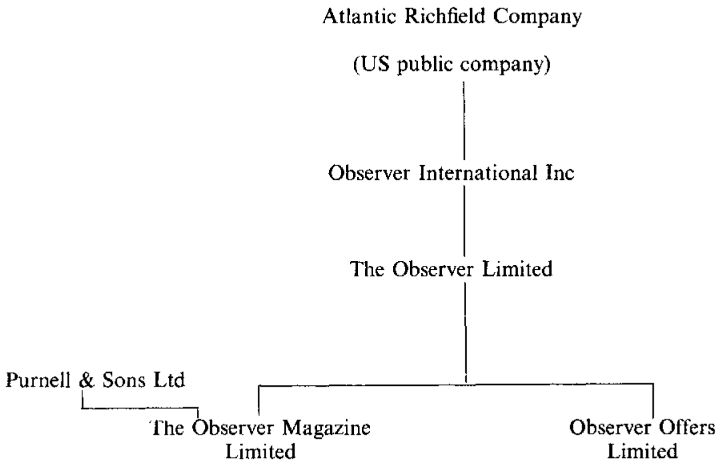
At the present time Atlantic Richfield is a company principally involved in the exploration for, development, production and marketing of natural resources such as oil, natural gas and minerals. The major part of its operations concerns petroleum and petroleum products, and the company is active in all phases of the petroleum energy business. It is also a major manufacturer and distributor of petro-chemicals. Its other business interests include coal, copper, aluminium, uranium oxide, a wide range of metal products, and alternative energy sources such as oil shale and solar power. It employs 51,000 people and ranks twelfth in size in the Fortune List of the 500 biggest corporations in the world. Apart from its ownership of The Observer, Atlantic Richfield has no other newspaper or printing activities.

Atlantic Richfield's principal United Kingdom activities

3.12. The group is engaged in the exploration for and production of natural gas in the United Kingdom sector of the North Sea and other offshore areas through two wholly-owned United Kingdom subsidiaries, Arco Oil Producing, Inc and Arco British Ltd. It has the largest single working interest in the Hewett Gas Field and holds varying interests in over 830,000 acres in United Kingdom waters. All its production of natural gas is sold to the British Gas Corporation under long-term contract.

The Observer under Atlantic Richfield

3.13. Early in 1977 Atlantic Richfield acquired control of The Observer Ltd. For US taxation and commercial reasons it was never integrated into the group's organisational or management structure, but was held through a specially incorporated wholly-owned Delaware corporation, Observer International Inc. The current group structure is as follows:



Note: All holdings are 100 per cent save in the case of The Observer Magazine Ltd. The issued share capital of that company is 3,000 'A' Ordinary shares, 2,500 'B' Ordinary shares and 14,500 'C' Ordinary Non-voting shares. The 'B' shares are held by Purnell & Sons Ltd (a subsidiary of BPC Ltd), the printer of the colour supplement. The 'A' and 'C' shares are held by The Observer Ltd.

3.14. Under the terms of an agreement dated 17 January 1977, the 50,000 'A' shares and 608,637 of the 681,818 'B' shares in The Observer Ltd were sold by the trustees of The Observer Trust and by The Observer (Holdings) Ltd ('Holdings'), respectively, to Observer International Inc ('International') for a consideration of £1. The remainder of the 'B' shares (representing 10 per cent of the total issued capital) were retained by The Observer (Holdings) Ltd. The sale agreement provided, *inter alia,* that:

(*a*) 'International' had an option to purchase the balance of the 'B' shares for an additional consideration of £250,000; and

(*b*) 'International' had an option, before the fifth anniversary of the agreement and on giving four months' prior notice, to put back to 'Holdings' for no consideration all the shares it had purchased in The Observer Ltd, provided that 'International' had made available £3,250,000 towards the publishing requirements of the newspaper.

3.15. In May 1977, as part of a reconstruction, The Observer (Holdings) Ltd transferred its remaining assets (including the balance of the 'B' shares in The Observer Ltd and all the rights and obligations under the 1977 agreement) to a new company called The Observer Partners Ltd ('Partners'). In 1979 'International' exercised its option to acquire the remaining 10 per cent shareholding in The Observer Ltd, which it purchased from The Observer Partners Ltd in a transfer dated 14 January 1980. The Observer Partners Ltd changed its name to Sableknight Ltd (Sableknight) and that company still owns 8 St Andrew's Hill, which is leased to The Observer Ltd, and adjoining offices which are let to various tenants. Sableknight also has interests in London Weekend Television and Capital Radio.

3.16. After the acquisition by Atlantic Richfield in January 1977, the board of The Observer Ltd was reconstituted under the chairmanship of the late Lord Barnetson. The three Atlantic Richfield board nominees were Mr Thornton Bradshaw (President of Atlantic Richfield), Mr Frank Stanton, and Mr Douglas Cater (of the Aspen Institute). Mr David Astor and Lord Goodman remained on the board as representatives of 'Holdings' (and subsequently of 'Partners'), in accordance with the terms of the sale agreement, until 'International' exercised its option to purchase the balance of the shares in The Observer Ltd (see paragraph 3.14). Afterwards both Mr Astor and Lord Goodman remained on the board by invitation. In September 1980 Lord Barnetson resigned his chairmanship to be succeeded briefly by Mr Bradshaw, who resigned in February 1981 as he intended leaving the Atlantic Richfield group. Mr Robert O Anderson, Chairman of Atlantic Richfield, became Chairman of The Observer Ltd on 20 February 1981. Mr Cater was vice-Chairman of The Observer Ltd until February 1981, when he tendered his resignation.

3.17. The circulation of The Observer had fallen to around 660,000 at the time of the acquisition by Atlantic Richfield. The figure two years later, on the eve of the Sunday Times stoppage, was around 680,000. During this period the editorial content of the newspaper was increased in stages by about one-third, allowing for the introduction of new features and new writers. All the main editorial departments had a change of leadership. There was also considerable reorganisation in commercial departments and promotional expenditure was increased. During the following year the circulation rose to around 1·25 million and, although it fell again when the Sunday Times resumed publication, remained above 900,000 and was said by the management to be on an upward trend at 935,000 in April 1981. One feature of The Observer's drive to increase circulation and paging was that manning levels, which had been drastically reduced in 1975, rose steeply once again. The tables below compare staffing levels in December 1976 (immediately prior to the acquisition) and in April 1981. Table 3.1 shows the changes in production staff and Table 3.2 shows the changes in management, editorial, accounts, marketing, personnel and other non-production staff.

3.18. The authorised share capital of The Observer Ltd is £750,000, consisting of £50,000 'A' shares of £1 and £700,000 'B' shares of £1. The issued share capital is (and has been since before the acquisition by Atlantic Richfield Company) £731,818, consisting of £50,000 'A' shares of £1 and £681,818 'B' shares of £1.

3.19. The Observer Ltd has two operating subsidiary companies, The Observer Magazine Ltd and Observer Offers Ltd. It owns 87·5 per cent of the issued share capital of The Observer Magazine Ltd which publishes the colour supplement, the other 12·5 per cent being held by Purnell & Sons Ltd, the printer of the colour supplement (see paragraph 3.13). Contractual arrangements exist whereby, in essence, The Observer Ltd has the right to purchase Purnell's holding if Purnell ceases to be the printer of the colour supplement. Observer Offers Ltd is wholly-owned by The Observer Ltd and its principal activity is the leasing of certain plant to The Observer Ltd.

TABLE 3.1 **Comparison of staffing levels in 1976 and 1981**

	Dec 1976		*April 1981*		
Group	*Full time*	*Shifts*	*Full time*	*Shifts*	*Changes*
Production:					
Composing	43	2	47*	6	Increased staffing levels due to increased pagination * includes 2 temporary staff to cover the transition to photocomposition
Readers	22	—	24*	—	* includes 2 temporary staff to cover the transition to photocomposition
Process	11	—	17*	—	* includes 5 temporary staff to cover the transition to photocomposition
Foundry	6	20	6	27	Increase in pagination since 1976
Machine Room	—	229	—	338	Department reorganised for collect printing and 64 pages
Publishing Room	8	226	7	278	Increased circulation and pagination
Engineers and Engineers assistants	38	—	41	—	Advanced technology of equipment and one apprentice
Electricians	15	—	24	—	Advanced technology of equipment and two apprentices
Admin Services	61	30	57	48	Changes in numbers in the different staff groups
	204	507	223	697	

Note: (1) Temporary clerical staff currently engaged in the accounts department during the introduction of an accounts computer have been omitted.
(2) Small variations occur in production shifts depending on the size of newspaper and magazine.

TABLE 3.2

Group	Dec 1976 Full time	Dec 1976 Shifts	April 1981 Full time	April 1981 Shifts	Changes
Executive Management	2		6		Joint Managing Director, Financial Director, General Manager (Magazine), Assistant to the Chairman
'Secretarial'	8		14		4 Secretaries to the above, Pensions Administrator, Catering Secretary
Accounts	28		32		Management Services Manager, 3 additional clerks
Advertising (Sales)	54		60		Regional Sales Force. Additional Telephone Sales
(Admin)	25		31		2 Regional Clerks, 3 Queries Clerks, 1 Copy Clerk
Circulation	24		27		2 Additional Managers, Irish Representative
Marketing	5		5		Nil
Personnel	2		3		Personnel Manager
Promotions and Reader Offers	4		8		Mail Order Executive and Clerk. Events Organiser and Secretary
Journalists	60		79		3 extra on Colour Magazine. 16 extra on Newspaper
Saturday Sub-editors, Copytakers and Editorial Messengers	29		31		
Editorial Clerical	33		42		5 extra Secretaries, Chief Librarian, Researcher, City Clerk, Dark Room Technician
Production Managers	22		27		Health & Safety Officer, Machine Room Overseer, Deputy Process Manager, Computer Manager, Deputy Chief Electrician
Commercial Admin (post room, telephones & production cost control)	11		11		
Total	278	29	345	31	

* Full-time

3.20. The Observer Ltd leases premises from Sableknight Ltd for 20 years from 17 January 1977 at a rental of £200,000 per annum. By concession only £100,000 per annum rent has so far been charged (ie in each year up to and including 1980). There are provisions for periodic rent reviews. At five-yearly intervals (ie in January 1982, January 1987, and January 1992) The Observer Ltd has the right to give six months' notice of termination of the lease.

3.21. The following Table 3.3 gives particulars of the consolidated profits or losses of The Observer Ltd and its subsidiaries according to its audited accounts for the years 1977 to 1979 and its draft accounts for 1980. It shows that the total loss attributable to the parent company over the four year period is likely to be well over £8 million.

TABLE 3.3

	1977	*1978*	*1979*	(£'000) *1980* (draft accounts)
Turnover	11,733	15,480	38,159	27,397
Operating profit/(loss)	(1,808)	(1,667)	1,460	(4,982)
Less: taxation	(9)	(10)	309	(143)
	(1,799)	(1,657)	1,151	(4,839)
Less: minority interest	21	32	33	136
	(1,820)	(1,689)	1,118	(4,975)
Less: extraordinary item	—	—	300	—
Profit/(loss) attributable to parent company	(1,820)	(1,689)	818	(4,975)
Deficit at beginning of year	366	2,186	3,875	3,690
Effect of change in accounting policy (see paragraph 3.22)	—	—	633	—
Loss for year	1,820	1,689	(818)	4,975
Deficit at end of year	2,186	3,875	3,690	8,665

3.22 Up to and including 1978 unrealised exchange gains on the parent company's loan were included in the operating profit or loss. From 1979, as it became clear that this loan would not be repaid in the foreseeable future, it was decided that it was inappropriate to convert the loan from US dollars to sterling at the year end rate of exchange. The deficit brought in was adjusted to reflect this change of policy. The figures up to and including 1978 are thus not strictly comparable with those for 1979 *et seq.*

3.23. The extraordinary item of £300,000 in 1979 is provision for loss of earnings following production changes.

3.24. The profit of £818,000 in 1979 reflected the higher paging and circulation achieved during the period when the Sunday Times was not published due to an industrial dispute over new technology.

3.25. The company informs us that the results for 1980 were severely affected by industrial disputes. At a peak revenue period two issues of the colour magazine were not published at Purnell & Sons Ltd and a further five issues suffered heavy production losses. A major dispute also arose on the newspaper and was only settled some weeks after the company had given 90 day's notice of closure to all staff, leading to reductions in all categories of advertising throughout the autumn. The company did not fully recover from the effect of these disputes until January 1981.

3.26. Although at the end of April 1981 the company was trading ahead of its break-even budget (prepared in December 1980), the latest forecast for 1981 suggests a loss of nearly £0·5 million before charging interest on the parent company's loan. The company told us that the deterioration was mainly due to unanticipated higher newsprint prices and lower advertisement rates. The addition of interest due to Atlantic Richfield would increase the forecast loss to around £1 million. However, this forecast must be viewed with caution as the company was not successful in achieving its budget for 1980. That originally envisaged a profit of approximately £60,000 but, as Table 3.3 shows, the final loss for the year was nearly £5 million, which the company attributes to the major industrial disputes referred to in paragraph 3.25.

3.27. The company has told us that it makes a short-term marginal loss on sales. An increase in sales would therefore tend to increase its loss and a reduction in sales to reduce its loss. This apparent anomaly is due to the fact that the direct cost of production substantially exceeds the price received from newspaper sales. However, increased sales would enable the paper to increase its advertising rates, whereas lower sales would compel it to reduce rates. It is therefore only marginal changes, which are not in themselves sufficient to justify or necessitate a change in advertising rates, which have this anomalous effect in the long term.

3.28. The consolidated balance sheet of The Observer Ltd for each of the last five years is summarised in Table 3.4 below.

TABLE 3.4

	1976	*1977*	*1978*	*1979*	(£'000) *1980* (draft accounts)
Employment of capital					
Fixed assets	552	786	900	2,028	2,381
Net current assets/(liabilities)	337	881	1,441	1,504	(878)
	889	1,667	2,341	3,532	1,503
Capital employed					
Share capital	732	732	732	732	732
(Deficit)	(366)	(2,186)	(3,875)	(3,690)	(8,665)
	366	(1,454)	(3,143)	(2,958)	(7,933)
Minority interest	38	34	46	42	146
2% Unsecured loan stock	235	219	203	187	172
Loan from Atlantic Richfield	250	2,868	5,235	5,850	8,850
Medium term loan	—	—	—	102	102
Deferred tax	—	—	—	309	166
	889	1,667	2,341	3,532	1,503

The above figures are also affected by the change in the method of converting the parent company's loan from US dollars to sterling referred to in paragraph 3.22.

3.29. The company's fixed assets, as at 31 December 1980, were made up as shown in Table 3.5 below.

TABLE 3.5

	Cost	*Depreciation*	(£'000) *Book Value*
Presses, plant and machinery	2,329	852	1,477
Computer hardware and software	174	25	149
Leasehold improvements etc	586	90	496
Motor vehicles	285	112	173
Office furniture and equipment	338	252	86
	3,712	1,331	2,381

3.30. Expenditure on fixed assets during the five years from 1976 to 1980 has been as shown in Table 3.6 below.

TABLE 3.6

	Total	*Presses, plant etc*	*Computer*	*Leasehold improvements etc*	*Vehicles*	(£'000) *Office furniture and equipment*
1976	52	9	—	—	33	10
1977	365	46	—	188	76	55
1978	281	28	—	129	92	32
1979	1,360	926	159	87	129	59
1980	713	440	15	182	49	27
	2,771	1,449	174	586	379	183

3.31. The Observer's management has told us that the major items of expenditure during the period have been as follows:

Reconstruction and re-equipment of warehouse;
Building 4th floor executive offices;
Purchase of accounts computer;
Purchase of photocomposition equipment (some of which, however, is leased from outside the group).

3.32. Net current liabilities of The Observer Ltd at 31 December 1980 are shown in Table 3.7 below.

TABLE 3.7

		(£'000)
Creditors		3,860
Amount due to parent company		991
Bank overdraft		2,846
		7,697
Less: Stocks	520	
Debtors	5,016	
Bank balances and cash	1,283	6,819
Net current liabilities		878

The amount due to the parent company is for interest due but unpaid, less certain disbursements.

3.33. The 2 per cent unsecured loan stock is all held by Sableknight Ltd and is redeemable as to £15,750 on 30 September each year until 1986. The remaining £77,000 is due to be redeemed on 30 September 1987.

3.34. The loan from the parent company is repayable on demand in US dollars and bears 6 per cent interest per annum. Advances were made as shown in Table 3.8.

TABLE 3.8

	(£'000)
1976	250
1977	2,900
1978	2,700
1980	3,000
	8,850

The first £250,000 was advanced in 1976 prior to completion of the purchase of The Observer Ltd by Atlantic Richfield.

3.35. The Observer Ltd does not pay any interest on the medium-term loan which is repayable on 10 August 1981. It was made via the Orion Bank to facilitate the purchase of certain equipment.

3.36. The deferred tax provision represents the full potential liability of the group at 31 December 1980 and is entirely in respect of accelerated capital allowances.

CHAPTER 4

Lonrho Ltd, Scottish and Universal Investments Ltd (SUITS) and George Outram & Company Ltd

4.1. The histories of Lonrho Ltd and SUITS (of which George Outram & Company Ltd is a wholly-owned subsidiary) are summarised in Chapters 2 and 3 of our 1979 report on the proposed merger between them.[1] We do not think it necessary to repeat those histories here.

4.2. Following the conclusion in our 1979 report, that we did not find that a merger between Lonrho and SUITS might be expected to operate against the public interest, in June 1979 Lonrho acquired the remaining issued share capital of SUITS, which thus became a wholly-owned subsidiary of Lonrho.

4.3. Lonrho is an international conglomerate carrying on a wide range of activities through over 800 subsidiaries in 44 countries. In the year ending 30 September 1980 its turnover (including associates) was £2,100 million, of which £1,370 million was in the United Kingdom, £565 million was in Africa south of the Sahara and £67 million was in North and Central America.

4.4. A brief summary of the Lonrho group's principal activities is given in the following paragraphs:

OVERSEAS

Motor vehicle distribution

4.5. The group is Africa's largest motor distributor with franchises in various countries for United Kingdom, United States, European and Japanese manufacturers; it distributes construction, mining and agricultural equipment in Europe and in East and Central Africa; and it also assembles and distributes motorcycles in West Africa. The group is a joint owner of patents for the Wankel rotary engine and new patents (under which production has already commenced in Japan) have been developed in connection with Wankel air conditioners and refrigerators.

Mining

4.6. Lonrho has a 45 per cent interest in Ashanti Goldfields in Ghana; interests in platinum group metals, bituminous coal and anthracite in South Africa; and in gold, silver and copper in Zimbabwe.

[1] Lonrho Limited and Scottish and Universal Investments Limited and House of Fraser Limited; a report on the proposed merger of Lonrho and Scottish and Universal Investments and on the resulting merger situation between Lonrho and House of Fraser Limited; HC 261 March 1979.

Agriculture

4.7. Lonrho has extensive sugar estates mainly in Mauritius, Malawi and Swaziland; tea estates in Malawi; coffee estates in Zimbabwe; and ranches in Swaziland, Zambia and Zimbabwe. The group is a major producer of wattle extracts for tanning and has less important interests in oil seed processing, cereals, root crops, timber, tobacco and mushrooms.

Wine, beer and soft drinks

4.8. Lonrho owns four vineyards (and operates a fifth) in the Bordeaux region and owns another in Alsace and a wine business in the Loire Valley. The group operates 20 African beer breweries in partnership with African governments, a Coca-Cola bottling franchise in Zambia and a new Pepsi-Cola bottling franchise in Nigeria.

Textiles

4.9. The group operates textile mills in Malawi and Zimbabwe, and has an interest in a mill in Nigeria.

Hotels

4.10. The group operates seven luxury hotels in Acapulco, Bermuda, Bahamas and San Francisco (through a newly acquired interest in Princess Properties International Ltd), and has controlling interests in companies owning hotels in Zambia and Mauritius.

Engineering and construction

4.11. The group has a number of medium-sized engineering and manufacturing companies in African countries, Malta and the Republic of Ireland. It also engages in construction in Belgium, Zambia, Swaziland and Zimbabwe.

Newspaper publishing

4.12. Lonrho holds interests in newspaper companies in Kenya and Zambia.

Kenya—Through its controlling interest in Consolidated Holdings Ltd Lonrho publishes two newspapers, the old-established daily 'Standard' which has a circulation of approximately 61,000 and the 'Sunday Standard' which was introduced in 1979 and has a circulation of 45,000. All composition is now carried out by the computerised photocomposition process and presses are of the web-offset type.

Zambia—Two newspapers, the daily 'Times of Zambia' and the 'Sunday Times', are owned and published by Times Newspapers Zambia Ltd (TNZ), a wholly-owned subsidiary of Lonrho Zambia Ltd. Due to shortage of imported newsprint the circulation of both papers is limited to 60,000 copies. The printing and distribution of the newspapers is carried out by Printpak Zambia Ltd (Printpak), a wholly-owned subsidiary of Lonrho Zambia Ltd. The presses are now of the web-offset type and all typesetting is carried out on computerised photocomposition equipment. Negotiations by Lonrho Zambia Ltd for the transfer of 100 per cent of the shareholding of TNZ and 45 per cent of the shareholding of Printpak to Zambia National Holdings (a corporation owned by the ruling party) are at an advanced stage. Lonrho will be retained to manage TNZ.

Other activities

4.13. Apart from these specific activities the group has interests in a wide range of trade, particularly in Nigeria (through the John Holt group) and in Zambia and Zimbabwe. Following the independence of Zimbabwe a detailed survey of the Beira-Feruka pipeline was made, which revealed serious deterioration in some parts. The necessary contracts for the work of rehabilitation are being placed and the pipeline is scheduled to commence test delivery of refined products in November of this year.

UNITED KINGDOM

Motors

4.14. VAG (United Kingdom) Ltd, a wholly-owned subsidiary of Lonrho, has the Volkswagen/Audi distribution franchise for the United Kingdom. The Lonrho group also has a 37 per cent holding in MAN-VW Truck and Bus Ltd, which imports and distributes MAN and Volkswagen commercial vehicles. In 1979 the SUITS division of the Lonrho group acquired the Dutton-Forshaw group of companies, which is a major BL, Rolls-Royce and Bentley distributor and also a distributor of agricultural and construction equipment.

Export confirming, finance and insurance

4.15. Balfour Williamson & Co Ltd, John Holt & Co (Liverpool) Ltd and Lonrho Exports Ltd are all engaged in export confirming. Balfour Williamson has subsidiaries which also operate as freight forwarding agents. The F E Wright group handles United Kingdom industrial and domestic insurance broking business including accident, credit, marine, cargo, life and pensions.

Engineering and manufacturing

4.16. The Dunford & Elliott group manufactures carbon and alloy steels, electronic research equipment, boilers and mine winders; it also designs plant for the process industries. The Firsteel group companies manufacture road tankers, heat exchangers, refrigeration plant, mining equipment, tracked haulage systems, effluent treatment plants, agricultural and earth moving equipment, cold rolled strip, roll formed products and coated finishes applied to steel and aluminium coils. The Firsteel group has recently acquired Marton Steels Ltd, Church & Bramhall (Shearing) Ltd, Church & Bramhall (Stockholders) Ltd. Lonrho has recently announced a major contraction of its steel making capacity. Nicol & Andrew Ltd (a subsidiary of SUITS) is engaged in the *in situ* repair of marine and industrial plant by reconditioning worn-out parts. It supplies and overhauls diesel engine spares and manufactures grinding and hiring equipment. Sportsworks Ltd is a civil engineering contractor operating mainly in Scotland, and specialising in the construction of sports grounds, landscaping and the rehabilitation of derelict areas. The Lonrho group also has companies manufacturing furniture and office equipment and stainless steel sinks, distributing stainless steelware, plumbing materials and optical products, and installing cold-storage and refrigeration equipment.

Wine, spirits and beers

4.17. Whyte & Mackay Distillers Ltd (a subsidiary of SUITS) operates distilleries in Banffshire, Inverness-shire and Kincardineshire. A range of malt and blended whiskies is produced and sold in the United Kingdom and overseas. The group's Ashe and Nephew off-licence chain currently comprises over 300 outlets. John Holt Vintners Ltd imports, bottles and distributes wine, as well as producing and distributing United Kingdom wine. Lonrho group companies are involved in the bottling of beer and mineral waters and in the production of a wide range of cordials, fruit squashes and concentrates.

Textiles

4.18. The group's textile interests include Lonrho Textiles Ltd (formerly Brentford Nylons) which consists of a factory at Cramlington and a large number of retail outlets, the production of high quality Scottish tweeds which are sold under the 'Macnab Woollens' name, the operation of cotton mills in Lancashire and the manufacture of industrial fabrics.

Property

4.19. London City and Westcliff Properties Ltd and AVP Properties have substantial commercial and industrial portfolios. London City and Westcliff has been selling residential properties, mainly to sitting tenants, and has recently started to deal in commercial and industrial property.

Hotels and casinos

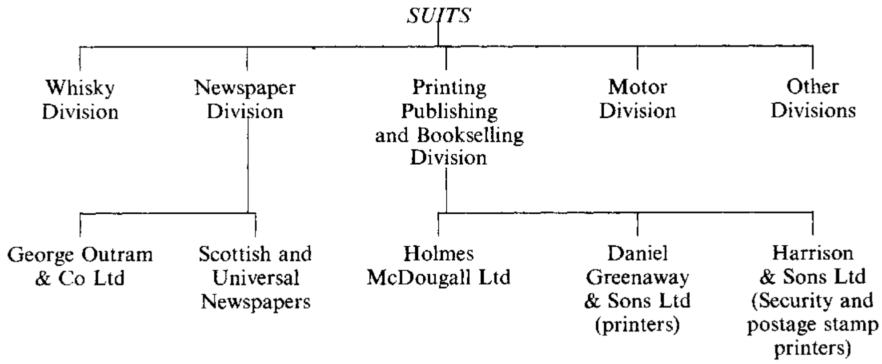
4.20. The group owns the Metropole Hotel group which has just entered into a contract giving it the right to acquire the freehold or leasehold in a completely built but unfurbished hotel complex in Blackpool. £4·6 million will be spent in providing 220 rooms and allied facilities, including 10,000 square feet of conference, banqueting and meeting areas. In October 1980 Lonrho completed the purchase of Cesars Palace Casino in Luton from Ladbrokes, and in January 1981 acquired Coral Casinos (UK) Ltd and Coral Provincial Casinos Ltd, the owners of two London and three provincial casinos respectively. Lonrho told us that on 9 March 1981 as a result of the decision of the Knightsbridge Crown Court, one of the London casinos acquired from Corals closed and most of the staff were made redundant. The decision of the Court was based upon the conduct of the previous owners, Corals. An application for an order of *certiorari* to quash the decision on the grounds (*inter alia*) that it disclosed an error of law was heard in the Divisional Court in May 1981. Judgment was given in Lonrho's favour on 5 June 1981. Although an application has been made to cancel the licence of the other London club and objections lodged over the renewal of the licences of the provincial casinos acquired from Corals, all these casinos (as well, of course, as those already owned by the group) remain open. All licensing matters relating to the former Coral casinos were adjourned pending the outcome of the Court application. Licence renewals for Lonrho's original casino interests are proceeding normally.

Transport

4.21. The group has a controlling interest in Tradewinds Airways Ltd, an airline operating an air freight business from Gatwick to Africa and the Middle East.

Printing, publishing and bookselling

4.22. Lonrho's printing, publishing and bookselling activities are carried out through its SUITS division, whose structure is indicated in the diagram below:



George Outram & Company Ltd

4.23. George Outram & Company Ltd (Outram), of Glasgow, publishes three newspapers—the daily Glasgow Herald (established in 1783), the Evening Times (established in 1877) and a new Scottish Sunday newspaper, the Sunday Standard, intended as a 'quality' paper and addressed to Scottish interests. The first issue of the Sunday Standard was published on 26 April 1981. Average net sales of the Glasgow Herald per publishing day were 115,401 in the last six months of 1980. As the map at Appendix 3 indicates, the newspaper circulates throughout Scotland with its main concentration in the Strathclyde region. The Evening Times circulates in and around the Strathclyde region as the map at Appendix 4 shows, and its average net sales during the last six months of 1980 were 211,178 for the Monday–Friday edition and 165,862 for the Saturday edition. The trend in the net sales of both newspapers over the past six years is shown at Appendix 5.

4.24. In July 1980 Outram carried out a long-planned removal of its entire publishing operation from old premises in Mitchell Street to new premises in Albion Street, Glasgow, where it claims to have the most modern printing plant in the British Isles. Outram has installed advanced new technology including a computer-driven phototypesetting system, laser plate making equipment, a fully automated stacking, tying and wrapping despatch department, four di-litho press lines and a comprehensive computer control system. This move provided the opportunity to eliminate casual working, engage a more permanent and skilled workforce in these areas and introduce a rational pay structure involving the virtual elimination of all overtime. Voluntary retirement and voluntary redundancy have enabled Outram to achieve a substantial staffing reduction in the above areas, however, in common with many other newspaper proprietors, the company was unable to negotiate with its unions an agreement for direct input of copy by journalists.

4.25. At the end of February 1981 Outram employed a total of 1,305 full-time staff and 49 part-time staff. Comparative totals for previous years are as follows:

Period	*Average number of employees*
31.3.77	1,273
31.3.78	1,286
30.9.79	1,293
30.9.80	1,334

There are 32 different groups of employees recognised for negotiating purposes; that is 32 chapels of nine unions (Scottish Graphical Division of SOGAT, SOGAT, NUJ, NATSOPA, SLADE, NGA, TGWU, AUEW and EEPTU). Outram's management has told us that, prior to the move to new premises, the company's wage structure was irrational and over-complicated. However, after negotiations lasting 18 months, a more rational and generous wage structure, based simply on payment for hours worked, was agreed with all groups of employees. This has not only simplified wage negotiations but, by removing anomalies and areas of uncertainty, has led to a more harmonious working relationship between management and staff.

Scottish and Universal Newspapers Ltd (SUN)

4.26. SUN, whose headquarters are in Glasgow, publishes 23 local weekly and bi-weekly newspapers in Scotland. Four of these are 'free distribution' newspapers. A list of SUN's newpapers (excluding the Ayrshire World for which details are not available), together with a brief description of the area covered by each and the current circulation figures, is at Appendix 6.

4.27. The company is organised into four management regions, each under the control of a director:

Region	*Print Centre*
Lanarkshire	Hamilton
Ayrshire/West Strathclyde	Irvine
Central and Tayside	Perth and Stirling
South	Dumfries and Galashiels

Each region has its own commercial manager and, in addition, there is a group commercial manager assisted by a group training manager responsible for training the sales force. There are close links between the head office and the regions, with regular group meetings.

4.28. In the last five years investment totalling more than £3 million has been made to rationalise and up-date production. The new technology employed is similar to that used by Outram and has necessitated an extensive retraining programme. Only at Galashiels is 'hot metal' technology still in operation.

4.29. The four free newspapers SUN has introduced during the last three years have a combined circulation of around 180,000. Other developments have been the increase in contract printing for third parties and the introduction of 'Citizens Guides' to be distributed free with the company's paid-for titles as a sales promotion device. Only one such guide has been introduced as yet.

4.30. At 28 February 1981 SUN employed a total of 719 employees. Comparative figures for earlier years are:

Year to	*Average number of employees*
31.3.78	699
30.9.79	777
30.9.80	783

Holmes McDougall Ltd

4.31. Holmes McDougall has four divisions:

(*a*) Books—consisting of educational publishing and book-selling interests
(*b*) Posters and prints
(*c*) Printing
(*d*) Magazine publication.

'Scottish Farmer' – An agricultural periodical in Scotland (circulation around 110,000).
'Great Outdoors' – A magazine launched in 1978 which has a circulation of around 21,000.
'Business Scotland' – Circulation 9,000.
'Scottish Field' – Circulation 24,000.
'Climber and Rambler' – The official journal of the British Mountaineering Council (circulation 20,000).

LONRHO'S FINANCIAL POSITION

Profits and dividends

4.32. The Lonrho group prepares its accounts to 30 September and uses the historical cost convention. Its profit and loss accounts for the last five years, restated where necessary to reflect the group's current accounting practices, can be summarised as shown in Table 4.1 below:

TABLE 4.1

					(£m)
	1975–76	*1976–77*	*1977–78*	*1978–79*	*1979–80*
Turnover—					
Group	1,005	1,171	1,214	1,268	1,745
Associates	78	86	277	297	356
	1,083	1,257	1,491	1,565	2,101
Profit before tax—					
Group	85	77	62	60	87
Associates	7	7	17	18	32
	92	84	79	78	119
Less: taxation	40	33	34	32	49
	52	51	45	46	70
Less: minority interests	13	8	10	13	25
	39	43	35	33	45
Less: extraordinary items	14	7	9	14	9
	25	36	26	19	36
Dividends payable	7	12	12	16	24
Profit retained in the Group	18	24	14	3	12

4.33. The profits (before tax and minority interests) of £78 million and £119 million for the last two years can be analysed between activities and regions as shown in Table 4.2. In 1979–80 £63 million (42 per cent) of the profit before central finance charges was derived from mining and £105 million (69 per cent) arose in Africa. The increases in mining profits and African profits compared with the previous year at least partly reflect the high precious metal prices prevailing during the year, as well as higher output.

TABLE 4.2

	1978–79	(£m) 1979–80
By activities		
Agricultural equipment, machinery & motors	18·6	20·0
General trade	9·5	14·8
Export confirming, finance, property and insurance	7·9	10·0
Engineering and manufacturing	7·9	1·6
Wines, spirits and beers	3·9	3·1
Mining and refining	26·1	63·3
Printing and publishing	3·0	4·3
Hotels	4·0	16·6
Textiles	3·5	5·0
Agriculture	10·5	13·0
	94·9	151·7
Less: central finance charges	16·7	32·6
	78·2	119·1
By regions		
United Kingdom	34·9	32·6
Africa	59·4	104·9
Europe and other	(·3)	0·2
North and Central America	0·9	14·0
	94·9	151·7
Less: central finance charges	16·7	32·6
	78·2	119·1

4.34. Although the sharp increases in hotel profits, and in North and Central American profits, are correctly stated in terms of profits before tax and minority interests, most of these derive from the acquisition on 4 October 1979 of an interest in Princess Properties International Ltd, acquired from a Swiss charitable corporation established by Mr D K Ludwig. The charitable corporation retained a 50 per cent interest in the company and its share of the profits is deducted as part of the 'minority interests' item in the consolidated profit and loss account.

4.35. The United Kingdom results (before central finance charges) for the two years can in turn be broken down to companies as in Table 4.3.

TABLE 4.3

	1978–79	1979–80
		(£m)
United Kingdom Trading Companies		
AVP—hotels and property	4·8	5·2
John Holt—wine manufacturing etc	2·9	0·3
London City & Westcliff—property & building construction	5·1	4·0
Firsteel Hadfields—steelmaking & engineering	0·5	(3·6)
Lonrho Textiles	(3·2)	(2·1)
David Whitehead—textiles	0·2	—
VAG—motor vehicle importing & distribution	14·3	13·0
Dovercourt—motor vehicle retailers	0·1	(0·3)
Lonrho Insurance—insurance	0·2	0·3
SUITS—whisky, printing & motor distribution	2·3	4·6
	27·2	21·4
Export Confirming Houses		
Balfour Williamson	0·8	1·0
John Holt (Liverpool)	(3·5)	1·6
Lonrho Exports	(2·3)	0·1
	(5·0)	2·7
United Kingdom-based Overseas Traders		
Baumann Hinde	0·1	0·6
Lonrho Exports Trading	0·2	(0·1)
Balfour Williamson—Kendall Globe	0·4	0·4
Tradewinds	(0·7)	(2·3)
	—	(1·4)
United Kingdom Associates	11·9	9·8
Other Head Office Items	0·8	0·1
	12·7	9·9
Total	34·9	32·6

4.36. We have examined the financial results relating to Lonrho's existing newspaper publishing interests in this country. It acquired these when it gained control of SUITS in 1979. There are two companies concerned, George Outram & Co Ltd (Outram) the proposed purchaser of The Observer Ltd, and Scottish and Universal Newspapers Ltd (SUN) (see paragraphs 4.22–4.30). We have not examined in detail the results of Lonrho's newspaper publishing interests in Africa.

4.37. Table 4.4 below summarises the financial results of Outram and SUN respectively for the last three accounting periods.

TABLE 4.4

	Year to 1.4.78	*18 months to 30.9.79*	(£m) *Year to 30.9.80*
Outram			
Turnover	15·16	28·05	21·69
Profit before tax	1·77	4·46	1·61
Less: taxation	0·87	0·78	0·16
	0·90	3·68	1·45
Less: extraordinary items	0·13	0·71	1·43
	0·77	2·97	0·02
Less: dividends	0·76	2·97	0·02
Retained in business	0·01	—	—

The extraordinary items relate to the net cost after taxation of the move to new premises in Albion Street, Glasgow.

	Year to 1.4.78	*18 months to 30.9.79*	*Year to 30.9.80*
Sun			
Turnover	6·07	12·43	11·35
Profit before tax	1·53	2·38	1·64
Less: taxation	0·52	0·82	1·37
	1·01	1·56	0·27
Less: extraordinary items	0·01	0·12	0·12
	1·00	1·44	0·15
Less: dividends	1·14	1·44	0·15
(Withdrawn) from business	(0·14)	—	—

Lonrho has informed us that SUITS' policy is that revenue reserves not needed by a particular subsidiary are distributed as dividends to its holding company.

Assets, liabilities, borrowings and capital employed

4.38. The Lonrho group's balance sheet positions at 30 September 1979 and 30 September 1980 are set out below in Table 4.5.

TABLE 4.5

	1979	(£m) 1980
Assets employed		
Fixed assets	385·8	539·9
Associated companies	125·9	137·1
Investments	23·6	24·7
Net current assets	69·2	146·6
	604·5	848·3
Financed by		
Share capital	52·7	65·2
Reserves	325·8	381·5
Shareholders' funds	378·5	446·7
Minority interests	82·1	151·3
Deferred tax	6·8	0·5
	467·4	598·5
Loans	137·1	249·8
	604·5	848·3

4.39. The net current assets figures are made up as in Table 4.6 below.

TABLE 4.6

		1979		(£m) 1980
Stocks and work in progress		273·3		341·4
Debtors		245·4		283·1
Bank balances and cash		56·6		108·1
		575·3		732·6
Less: Creditors	283·2		296·7	
Current tax	35·8		48·1	
Bank loans and overdrafts etc	171·3		219·0	
Dividends payable	15·8	506·1	22·2	586·0
		69·2		146·6

4.40. Borrowings (exclusive of borrowings related to bill advances) are therefore as follows:

	1979	(£m) 1980
Loans per balance sheet	137·1	249·8
Bank loans, overdrafts etc (as above)	171·3	219·0
	308·4	468·8
Deduct:		
Borrowings relating to bill advances	60·3	77·0
	248·1	391·8

4.41. By 23 January 1981 borrowings, net of bank balances and cash, as reported in Lonrho's offer document for House of Fraser Ltd had increased as shown below:

		(£m)
	30 September 1980	*23 January 1981*
Short-term	330	426
Long-term	139	129
	469	555
Deduct:		
Bank balances and cash	108	133
	361	422

Lonrho has pointed out that some of its trading operations are seasonal in nature and that in the period from 30 September 1980 to 23 January 1981 the borrowings of VAG alone increased by £36 million because of the increased stockholding necessary prior to a normal seasonal selling period.

4.42. The net assets figures (assets employed less loans) can be geographically analysed as shown in Table 4.7 below:

TABLE 4.7

	1979		*1980*	
	%	*£m*	%	*£m*
United Kingdom	38·5	224·2	31·4	229·5
Overseas				
Africa	52·4	305·1	45·3	330·4
Europe Mauritius and other	8·0	46·6	5·2	37·6
North & Central America	0·5	2·7	17·8	130·1
Overseas confirming	0·6	3·2	0·3	2·4
	61·5	357·6	68·6	500·5
Total before central finance	100·0	581·8	100·0	730·0
Central Finance		(114·4)		(131·5)
Total		467·4		598·5

Lonrho has informed us that central finance liabilities relate to loans raised both in sterling and overseas currencies to finance the Lonrho group in the United Kingdom and overseas.

4.43. The sharp increase in assets in North and Central America is largely due to the acquisition of the 50 per cent interest in Princess Properties International Ltd, referred to in paragraph 4.34. The whole of the assets of that company are included above and the half share attributable to the Swiss charitable corporation is deducted as part of the minority interests' item.

4.44. Details of Lonrho's United Kingdom net assets and borrowings for the two years are given below in Table 4.8.

TABLE 4.8

				£m
		1979		*1980* Fixed assets
		145·9		178·4
Investments		0·4		5·0
Associated Companies		74·6		78·2
Current assets	317·0		377·9	
Current liabilities (except bank loans and overdrafts)	180·0	137·0	175·6	202·3
		357·9		463·9
Bank loans and overdrafts		92·8		161·0
Long- and short-term loans in the United Kingdom		40·9		73·4
		133·7		234·4
Net assets of trading companies		224·2		229·5

The above figures exclude central finance liabilities, the nature of which is explained in paragraph 4.42.

4.45. Lonrho has given us the information in the following Table 4.9 concerning the relationship between funds employed and borrowings (excluding confirming houses) in the United Kingdom.

TABLE 4.9

		1979			*1980*	
	%		*£m*	%		*£m*
Shareholders' funds, minority interests and deferred taxation financing United Kingdom trading companies	78·1		224·2	58·4		229·5
Loan and overdrafts			133·7			234·4
Less: those relating to confirming		47·4			63·0	
Cash in hand		23·4	70·8		7·9	70·9
	21·9		62·9	41·6		63·5
Gross funds employed in United Kingdom trading companies	100·0		287·1	100·0		393·0

The above figures exclude central finance liabilities, the nature of which is explained in paragraph 4.42.

CHAPTER 5

The proposed transfer

Evidence of Atlantic Richfield

5.1. Atlantic Richfield told us that its acquisition of The Observer was the result of approaches made in 1976 to the Chairman, Mr R O Anderson, by members of the then board of directors of The Observer Ltd. The newspaper was in serious financial trouble at the time and the owners were seeking a purchaser who would maintain the paper's status and preserve its integrity and influence as a responsible publication. The approaches were initiated by Mr Douglas Cater, an associate of Mr Anderson, who suggested Atlantic Richfield as a possible purchaser.

5.2. Atlantic Richfield told us that its main reason for purchasing The Observer was the belief that the loss of the newspaper, or a drastic change in its editorial policy, would mean the loss of a significant and responsible source of information. Also, the group had a long-established trading relationship with England and had been considering a number of ventures which might improve its general level of communication with the country and with Europe as a whole. Although Atlantic Richfield had not envisaged the acquisition of a newspaper, when the opportunity arose it decided to use its resources to attempt to put The Observer, which it admired, on to a viable financial basis so that it could continue in its existing form. To make it clear from the outset that Atlantic Richfield was committed to trying to preserve The Observer, a clause was inserted in the purchase agreement (clause 16 of the agreement dated 17 January 1977), at Atlantic Richfield's request, which stated *inter alia* that:

> 'So long as the purchaser shall control the Company it shall use its best efforts to cause to be at least maintained the editorial traditions and the journalistic standards of The Observer Sunday Newspaper and The Observer Magazine as the same now exist.'

5.3. During its period of ownership, Atlantic Richfield told us it had never sought to exercise any editorial control or influence over The Observer, even when the company did not agree with certain of the paper's views, as had occasionally happened on political matters. At the monthly board meetings of The Observer Ltd, the board discussed principally the finances and production arrangements of The Observer and heard the reports of the Editor-in-Chief and the Editor. The editors' reports were usually submitted in writing and accepted automatically, covering administrative matters and perhaps presenting a programme of future projects for the interest of the American directors. Editorial policy was not a matter for ratification by the board.

5.4. Atlantic Richfield told us that it had hoped to reverse The Observer's continuing losses so that it would eventually break even. At the time of the acquisition Atlantic Richfield had undertaken to invest at least £3·25 million into the business before it could exercise the option to 'put back' The Observer to its original owners (see paragraph 3.14). It was anticipated that this would enable the paper to achieve viability. However, despite the progress made and the boost to circulation resulting from the prolonged non-publication of the Sunday Times, those expectations were not realised. Atlantic Richfield had already injected some three times the amount of cash originally envisaged (£8·85 million by the end of 1980, plus accrued unpaid interest at 6 per cent per annum totalling £1·147 million by 31 March 1981) without achieving any immediate prospect of economic viability. The continued publication of the newspaper would require substantial further investment and Atlantic Richfield had reached the point where it considered that such a continuing drain on its resources was not in the interests of its shareholders. Furthermore, Atlantic Richfield felt that, if the newspaper were to survive, it needed a proprietor more experienced in newspaper publishing and preferably based in the United Kingdom. As far as major policy decisions were concerned, both the remoteness of Atlantic Richfield's management and its lack of knowledge of the newspaper industry had been disadvantages during its proprietorship.

5.5. We asked Atlantic Richfield about the newspaper's financial position and the reasons for the unanticipated loss of over £4 million in 1980. The company told us that several factors had contributed to the substantial loss last year. The Sunday Times' strike during 1979 had enabled The Observer to boost its circulation from 680,000 to 1·25 million, but that had necessitated mid-week as well as Saturday printing, with a resulting increase in costs. When the Sunday Times resumed publication in late 1979, The Observer lost advertising revenue and some (but by no means all) of its increased circulation. It was some months, however, before the costly mid-week printing could be laid-off. Trade union disputes over various issues, including the ending of mid-week printing, had brought the paper to the brink of closure during 1980 which, in turn, affected the confidence of advertisers. The threat hanging over The Observer's existence, we were told, was estimated by Atlantic Richfield to have cost the paper around £1·5 million in lost advertising revenue. Another industrial dispute at Purnell prevented printing of the colour magazine for several weeks, which was also expensive in terms of lost advertising revenue. Atlantic Richfield said that, although The Observer's circulation fell when the Sunday Times resumed publication and continued to decline until the end of 1980, results for the first quarter of 1981 indicated that it had stabilised at over 900,000—well in excess of the circulation achieved prior to the Sunday Times stoppage. The figure could fluctuate quite considerably from week to week; for example, the recent introduction and promotion of a Garden Supplement had boosted circulation from 920,000 to 960,000 in early April 1981.

5.6. Atlantic Richfield told us it had been aware for some time of the keen interest Lonrho had in acquiring The Observer and in February 1981 Mr R O Anderson approached Mr R W Rowland, the Chief Executive of Lonrho, for discussions. Mr Anderson told us that he had not wanted to dispose of The Observer outright but was interested in trying to arrange a merger which would give the paper the support of national ownership and management, whilst enabling Atlantic Richfield to retain an interest in The Observer. The result of the discussions with Lonrho was a merger proposal whereby Outram would acquire the whole share capital of The Observer Ltd in exchange for fully paid shares of Outram which would result in Atlantic Richfield holding (through Observer International Inc) 40 per cent of Outram's enlarged share capital. For the purpose of that transaction, Atlantic Richfield placed a value of £6 million on the net assets of The Observer Ltd and this was accepted by Lonrho.

5.7. Subsequently the proposal was modified, Atlantic Richfield said, in accordance with the terms of a conditional agreement dated 9 March 1981. That agreement provided for the whole of the issued share capital of The Observer Ltd to be acquired by George Outram & Co Ltd with the consent and support of its immediate and ultimate holding companies, SUITS and Lonrho, for a consideration of:

(*a*) a cash payment of £3 million; and

(*b*) the issue by Outram to Observer International Inc of 327,841 ordinary shares credited as fully paid, which would result in Observer International holding 20 per cent of the increased ordinary share capital of Outram.

As part of the terms of the agreement, Observer International would waive the loans made by it to The Observer Ltd (together with accrued unpaid interest) and Lonrho would assume responsibility for the guarantee given by Atlantic Richfield in respect of the bank overdraft of The Observer Ltd.

5.8. We asked Mr Anderson about the suggestion made by a number of witnesses: that the sale of The Observer was in some way connected with other existing or prospective transactions between Mr Rowland, Mr D K Ludwig and himself. He replied that during the course of The Observer transaction he and Mr Rowland had inevitably discussed other matters of mutual business interest, but nothing specific had been agreed or arranged; and 'certainly The Observer transaction is not "part of" any other transactions at all'. Mr Anderson went on to say that he had been introduced to Mr Rowland by Mr Ludwig, whom he had known for a number of years. Whilst there could be areas of mutual interest to all three of them, no agreements or arrangements existed at the moment. Finally, Mr Anderson said, 'I hope I have always made it clear that my sole objective in entering into the transaction with Lonrho is for the good of The Observer'.

5.9. Atlantic Richfield said it expected Lonrho to ensure the continuation of The Observer and to preserve and foster its traditions of freedom and responsibility. We asked the company whether any statements or undertakings were proposed, similar to those given by Atlantic Richfield in clause 16 of the acquisition agreement of 17 January 1977. Mr Anderson told us that no formal undertakings had been required, but that the initial discussions between himself and Mr Rowland had convinced him that Lonrho was prepared to observe the terms of clause 16.

5.10. Atlantic Richfield told us in its written evidence that, if the proposed merger did not go through, it would have to explore other possibilities for terminating its ownership of The Observer. One such possibility would be the exercise of the option to reconvey the paper to the former owner under clause 15 of the acquisition agreement. Alternatively Atlantic Richfield could seek another purchaser, but the company thought one would be hard to find; in that case Atlantic Richfield would have to give serious consideration to closing The Observer.

5.11. We asked Atlantic Richfield whether any other offers for the newspaper had been made and were told that so far none had been received. The agreement with Lonrho had been made privately because Atlantic Richfield wished to avoid speculation on the newspaper's future. Since the proposed sale had been made public, however, there had been rumours of other interested parties but no approach had been made to Atlantic Richfield by any potential purchaser.

5.12. We discussed the other alternatives with Atlantic Richfield and the company told us that closure of the newspaper would be very much a last resort and it had not so far made any estimate of the likely costs. It still felt that the paper could be put on a viable financial footing under the right management. The option to reconvey the newspaper to its original owners had been included in the 1977 agreement at Atlantic Richfield's request, in case the company discovered that publishing a newspaper (an undertaking completely alien to its normal business activities) was a venture beyond the scope of its own management. There had been no reciprocal agreement or understanding, Atlantic Richfield assured us, for the previous owners to be given a first option if Atlantic Richfield decided to sell the newspaper. In any event, Atlantic Richfield considered a reconveyance to the previous owner would be of doubtful value since it would not necessarily guarantee the continuance of the newspaper.

5.13. We asked Atlantic Richfield to be rather more specific about what it would do if it failed to gain the Secretary of State's consent to the proposed merger with Outram. The company told us that it would not seek another purchaser immediately—that would create a period of uncertainty which would be disastrous. Atlantic Richfield would continue to produce the paper for the time being and would do everything possible to keep up morale on the newspaper's staff. But it would not change what the company thought to be in the long-term interest of The Observer, that it should eventually be returned 'to national ownership and direct management'. In any later negotiations with other parties, Atlantic Richfield would bear in mind the provisions of the Fair Trading Act 1973 and try to avoid the necessity for a reference to the Monopolies and Mergers Commission. The delay in this case had been rather costly, since it had lost the Observer a printing contract which had been under negotiation with The Guardian. That contract for printing the Guardian would have brought some much needed revenue to the The Observer, whose presses were idle six days a week. However, The Guardian required a five year guarantee which Atlantic Richfield had been unable to give, since it did not expect to control The Observer Ltd for that period of time.

5.14. We referred to Lonrho's suggestion that Mr Anderson should continue to act as Chairman of The Observer Ltd after completion of the proposed transfer (see paragraph 5.21), and asked him whether he had agreed and, if so, the amount of time he would have available and how long he was likely to retain the position. Mr Anderson explained that the suggestion had been put to him by Mr Rowland, on behalf of Lonrho, during the original discussions and confirmed that he was quite prepared to continue as Chairman if the new owners felt it to be in the interests of The Observer. He would certainly be prepared to chair board meetings just as he would have done if Atlantic Richfield had retained its full interest in The Observer, and he would always do his best to be present if any emergency arose. Subject to unforeseen circumstances, Mr Anderson said, he was prepared to continue as Chairman for as long as the new owners or the new board wished him to do so.

Evidence of Lonrho Ltd.

5.15. Lonrho told us that it had applied for the Secretary of State's consent to the proposed transfer of The Observer under the provisions of section 58(3) of the Fair Trading Act 1973. The company was advised, in discussions with the Department of Trade, that the terms of the original merger agreement with Atlantic Richfield (see paragraph 5.6) would result in a 'double merger' under the provisions of the Act because Atlantic Richfield (currently a newspaper proprietor) would acquire more than 25 per cent of the issued capital of Outram, a company which owned the Glasgow Herald and Evening Times. Accordingly, an amended merger and exchange agreement was drawn up on 9 March 1981. Under this second agreement the terms of the consideration given to Observer International Inc had been varied so that International would receive £3 million in cash and an issue of Outram shares equivalent to 20 per cent of the total issued capital (see paragraph 5.7).

5.16. On 20 March Lonrho was informed by the Secretary of State that he could not give his consent to the transfer under section 58(3). Meanwhile Mr Rowland, the Chief Executive of Lonrho, had anticipated this view and, being concerned at the delay involved in a reference to the Monopolies and Mergers Commission, had held further discussions with Mr Anderson of Atlantic Richfield. As a result of those discussions it was agreed that Mr Rowland should use his personal resources to acquire 50 per cent of the capital stock of Observer International Inc. That decision was also announced on 20 March 1981 and was thought to avoid the need for the Secretary of State's consent to the transfer since Mr Rowland, in his personal capacity, was not a newspaper proprietor under the terms of the Act. However, during further discussions with the Department of Trade, it emerged that the position regarding a personal acquisition by Mr Rowland was not as clear cut as originally supposed. Accordingly, both Mr Rowland and the directors of Lonrho, each being separately legally advised, decided that the practical course was for Mr Rowland to withdraw from his proposed personal acquisition, and for Outram to proceed under the agreement of 9 March 1981, which had not been displaced in any way by Mr Rowland's proposed purchase of 50 per cent of the stock of Observer International Inc. Mr Rowland's withdrawal was announced at Lonrho's Annual General Meeting on 26 March 1981.

5.17. In the light of the events described in paragraphs 5.15 and 5.16, we asked Lonrho whether the main Lonrho board and the Outram board had been kept fully informed at all stages of the negotiations with Atlantic Richfield. Lonrho told us that its Chief Executive had reported to the main board at length after his initial discussions with Mr Anderson. The board had approved the proposed agreement and had authorised a committee consisting of Mr Rowland and any other two directors to finalise the matter. When the original agreement was replaced by an amended agreement dated 9 March 1981, the proposed changes had been discussed with members of the board and were agreed at a specially convened board meeting later that day. Lonrho told us that the later proposal for a personal acquisition by Mr Rowland was announced after consultation with the main Lonrho board, who in turn had consulted the Outram board. Both discussions took place over the telephone immediately after Mr Rowland had received the Secretary of State's decision that he could not give his consent to the transfer under section 58(3) of the Act; ie without a reference to the Monopolies and Mergers Commission.

5.18. We asked Lonrho about its reasons for acquiring The Observer, a newspaper which had required continuing financial support from the present proprietor and which had incurred a loss of over £4 million in the last financial year. In considering the commercial logic of such an acquisition, we referred in particular to Lonrho's need for higher earnings within the United Kingdom to cover its Advance Corporation Tax (ACT) charge. The purchase of The Observer, however, would entail further investment and reduced profitability within the United Kingdom and would thus exacerbate the group's ACT problems. Lonrho told us it had long been aware of the long-term benefits of a commercial association with Atlantic Richfield in other areas of its business and hoped that this joint venture was merely the start of a mutally advantageous partnership. Lonrho was confident it could make The Observer profitable and pointed out that Atlantic Richfield had, in evidence to us, supported the view that the paper could succeed under the right management. Whilst agreeing that the group wanted to increase its United Kingdom earnings, Lonrho said this would not necessarily be achieved by the purchase of profitable businesses, which tended to be extremely expensive. The company referred us to its record of buying loss-makers and turning them around. That was what it proposed to do with The Observer. The newspaper division of SUITS had the necessary management expertise and, indeed, had just achieved a considerable success with the launching of a new Sunday paper in Scotland, the Sunday Standard, within a comparatively short period of time.

5.19. We asked Mr Rowland about the suggestion which had been put to us: that the sale of The Observer was in some way connected with other existing and prospective transactions between Mr Rowland, Mr Anderson and Mr D K Ludwig. Mr Rowland explained that Mr Ludwig, with whom Lonrho had an association in the Princess hotel chain, had introduced him to Mr Anderson. Lonrho had been interested in acquiring The Observer for some time and he believed that a partnership with Atlantic Richfield in relation to the newspaper would help Lonrho to develop its interests in other parts of the world, including Mexico and Africa. He also believed that Lonrho might be able to assist Atlantic Richfield to establish itself in certain parts of Africa.

5.20. Lonrho told us that it would need to have consultations with both unions and management at The Observer before arriving at a concrete plan for future development. However, one area in which it was sure its own management could assist was in the transfer to the new technology; a change which Outram had recently made. At the moment The Observer plant was a conventional 'hot metal' letterpress printing plant in an early stage of transition, at the typesetting end, to computerised photocomposition. The plant coped adequately with the production of the newspaper at its present size, but would require substantial modification to allow expansion of paging which might be necessary to enable it to compete effectively in the changed conditions of the Sunday newspaper market. Also, Lonrho had commissioned market research to assess the feasibility of introducing a new up-market London evening paper, which would make use of The Observer's press capacity during the week. If such a project proved feasible, it would mean that the photocomposition system would need enlarging and improving. The Lonrho group would provide whatever expertise and finance were necessary to carry out the modernisation of The Observer's plant and to enable the full potential of the paper to be realised.

5.21. Although the merger agreement provided for the acquisition of the share capital of The Observer Ltd by Outram, for management purposes Lonrho proposed that The Observer company would be maintained as an autonomous profit centre within the newspaper division of SUITS, in the same way as Outram and SUN. As with other SUITS subsidiaries, the managing directors would have responsibility for the company's performance with discretion to undertake capital expenditure up to an agreed limit. The annual budget would be prepared by the managing directors, after discussion with the SUITS divisional director responsible, and submitted to the SUITS board for approval. Reports, including quarterly updates of forecasts, would be submitted to the SUITS board in accordance with SUITS standard reporting procedures. The tentative proposals for the composition of the board of The Observer Ltd were as follows:

(*a*) Mr R O Anderson should continue as chairman and there should be a non-executive deputy chairman.

(*b*) There should be a number of independent directors.

(*c*) There should be three executive directors (ie the two joint managing directors and the editor).

(*d*) There should be up to four SUITS' appointees, of which one would be the director responsible for the newspaper division.

Lonrho was not sure whether the existing executive directors would wish to continue if the acquisition took place, but the group hoped that Messrs Harrison and Nicholson (the joint managing directors) and Mr Trelford (the editor) would decide to stay.

5.22. Lonrho said that it was aware of The Observer's high reputation for editorial independence and was anxious that such reputation be maintained. Lonrho realised that the success of a newspaper like The Observer depended on its maintaining its quality and its credibility to its readership, and it would accordingly be commercially unsound for a proprietor to take any step which might lower its quality or damage its reputation for impartiality. Certain guarantees, relating to the question of editorial independence, had already been given by Lonrho to The Observer's NUJ chapel. In meetings with representatives of the print unions Lonrho had given assurances, *inter alia,* that:

(*a*) existing terms, conditions and contracts of employment would be honoured;

(*b*) there would be no redundancies as a direct result of the acquisition;

(*c*) there would be no transfer of production outside London while spare capacity existed at The Observer's premises;

(*d*) the contract to print The Guardian would be pursued; and

(*e*) the feasibility of an alternative London evening paper would be examined.

5.23. During the course of our inquiry we discussed with Lonrho the queston of 'editorial independence' so far as it related to the accurate presentation of news and free expression of opinion. Lonrho submitted a consolidated list of the assurances it was prepared to offer, after taking into account the guarantees already given to the NUJ chapel and bearing in mind the conditions set by the Secretary of State on consenting to the recent acquisition of The Times and Sunday Times by News International Ltd. Those assurances are reproduced at Appendix 7. In giving such assurances Lonrho told us it had borne in mind the undesirability of framing them in any way which could seriously prejudice the prospects of future viability for The Observer.

5.24. On the question of independent directors, Lonrho informed us that it proposed that there should be a minimum of four independent directors on the board of The Observer Ltd at any one time. Several people had been approached by Lord Shawcross, who was acting as a consultant to Lonrho.

5.25. We discussed with Lonrho the possibility that its ownership of The Observer might give rise to a conflict of interest within the group, which would affect the paper's ability to report and comment freely on matters affecting other parts of the Lonrho group. Several witnesses had suggested to us that Lonrho might be tempted to suppress criticism which could have an adverse effect on the group's business interests, particularly those in sensitive areas, such as Africa, from which the group derives much of its profits. Even if there were no overt interference, it was suggested, journalists might feel inhibited from commenting on matters relating to Lonrho's business interests. Lonrho reminded us of the assurances it had offered to guarantee The Observer's editorial independence within the broad policy set by the board. Furthermore it told us that it would regard any interference with editorial independence as undesirable and counter-productive for the following reasons:

(*a*) Any attempt at improper interference would almost certainly become public knowledge and lead to criticism at least as damaging as any Lonrho might have tried to suppress.

(*b*) The success of the newspaper depended on the quality of its staff, particularly the journalists, and any improper interference would seriously prejudice the chance of attracting and retaining good journalists.

(*c*) Undertakings and assurances on the question of editorial independence had already been given to the union chapels and breaking such assurances would lead to union troubles which the group would wish to avoid.

(*d*) Any improper interference would prejudice Lonrho's continuing business relationship with Atlantic Richfield, to whom the independence of the newspaper was extremely important.

Finally Lonrho referred to its record as a newspaper proprietor. It had never attempted to interfere in any way with the editorial content of its newspapers in Scotland or in Africa. On the question of journalists exercising self-restraint to avoid matters affecting the commercial interests of their proprietor, Lonrho said it did not believe good journalists would be inhibited in any way from reporting on any matters of public interest.

5.26. We put it to Lonrho that the nature of editorial independence was not understood in some African countries, in the way that was traditional in the United Kingdom. In view of Lonrho's many business interests throughout Africa and The Observer's own interest in African affairs, was there not a risk that Lonrho might sometimes have to choose between bridling The Observer or endangering its business interests in parts of Africa? Lonrho told us that it did not consider there to be any real risk. It doubted whether The Observer was read very widely in Africa and, in any case, the paper was concerned with only five or six African countries, whereas Lonrho's interests were much wider. If, however, any conflict of interest did arise, Mr Rowland assured us on behalf of Lonrho that it would not impose any limits on The Observer 'whatever the cost'. In support of this Mr Rowland told us that some years ago an editorial in the Times of Zambia had led to the confiscation of Lonrho's assets in Zaire. Despite this Lonrho had not taken any action against the editor and eventually the group's assets had been returned.

5.27. We asked Lonrho about the abortive negotiations between The Observer and The Guardian. The proposed arrangements for The Guardian to be printed on the Observer's presses would, we had been told, have brought The Observer some much-needed revenue. Although Lonrho had assured representatives of The Observer's print unions that it would pursue this contract, the negotiations apparently failed at the last minute because of Lonrho's refusal to give certain guarantees required by The Guardian. Lonrho told us that it first became involved when the managing director of The Guardian telephoned Mr Rowland about the question of guarantees, since the deadline for settlement was very close. At that time Lonrho had not seen a copy of the proposed agreement, since negotiations had been carried on by The Observer's management. Subsequently, on legal advice, Lonrho decided it could not give the necessary guarantees, principally because it understood that there were provisions in The Observer's lease against underletting or sharing the premises. Furthermore, on mature consideration Lonrho did not consider the profits involved were sufficient to compensate for a commitment to tie up The Observer's presses for a period of four or five years, especially as Lonrho was then thinking of producing an evening paper and, perhaps, a daily paper also.

CHAPTER 6

Other evidence

6.1. This chapter summarises the evidence given by all other parties except that evidence relating to the history of Lonrho as a newspaper owner in Africa and has been set out separately in Chapter 7.

A. Evidence of certain members of the board of The Observer Ltd The Hon David Astor and the Rt Hon Lord Goodman

6.2. Both Mr Astor and Lord Goodman, who made a joint submission, had been trustees of The Observer Trust (see paragraph 3.6), are directors of Sableknight Ltd (the landlord of The Observer Ltd) and are directors of The Observer Ltd. Mr Astor was the editor of The Observer from 1948 until 1975.

6.3. Mr Astor and Lord Goodman told us that The Observer valued its reputation highly, and that the paper's authority was directly related to the evident independence of its editorial views from any ulterior motives, whether commercial or political. When the previous owners disposed of the paper in 1977 there had been several prospective purchasers in the field. The owners had, however, chosen to dispose of 90 per cent of the share capital to Atlantic Richfield for a nominal £1 consideration in the belief that it would preserve The Observer's editorial tradition and reputation. Atlantic Richfield had been an impeccable proprietor and, until very recently, its relationship with the board of The Observer Ltd was very good.

6.4. On 25 February 1981, however, the board of The Observer Ltd was informed, without any prior warning or consultation, that Atlantic Richfield had concluded a contract for the sale of the newspaper to Outram. Both Lord Goodman and Mr Astor felt they had been deliberately misled by Mr Anderson who, a few days earlier, had given each of them separately the impression that all was well under Atlantic Richfield's ownership by assuring them that he had no intention of selling to Associated Newspapers, a group known to be interested in acquiring The Observer. Nothing was said about any negotiations with Lonrho. Whilst acknowledging that Atlantic Richfield had the legal right to dispose of the paper privately, Lord Goodman and Mr Astor were nevertheless disturbed at the way in which the transaction was carried out—without consultation with the board of The Observer Ltd or allowing other, possibly more suitable, purchasers to come forward. They were also deeply disturbed to find that the purchaser was Lonrho, a company which had been among the applicants to purchase the paper in 1976 but which the previous owners had considered unsuitable. Nothing which had happened since then had caused them to change that opinion—indeed their earlier view had been confirmed by subsequent events relating to the history of Lonrho.

6.5. They based their submission (that ownership of The Observer by Lonrho would operate against the public interest), mainly on the threat to accurate presentation of news and free expression of opinion which they perceived. Lonrho's business interests were so varied, many of them in sensitive localities, and its business style was such that there were many issues on which a journalist working for The Observer would be unable to report freely without the risk of harming one or another of Lonrho's interests. This was particularly true of business and African affairs, both of which were areas of special importance to The Observer.

6.6. Mr Astor and Lord Goodman assured us that they had no wish to impeach Lonrho as a trading organisation but they did consider that its history and reputation, as well as its involvement in politically sensitive areas, made it an unsuitable proprietor for a national newspaper like The Observer. They pointed out that Lonrho, and particularly its Chief Executive, Mr Rowland, had a controversial business reputation which had in the past led to public criticism. One notable instance was the 1976 report on Lonrho by inspectors appointed by the Department of Trade, which had illustrated the extent to which Mr Rowland's personality dominated Lonrho and had criticised him (and other directors to a lesser extent) for several instances in which he had been shown to have either withheld information from the board of directors or from shareholders, or given them misleading information.

6.7. The events leading up to this reference, involving several changes in the terms of the agreement for the purchase of the newspaper, were cited as a recent illustration of Mr Rowland's personal methods. After the original announcement on 25 February 1981 of the agreement for the acquisition of The Observer by Outram, three revised agreements were announced during the following month, including one whereby the agreed purchase by Outram was abandoned in favour of a purchase by Mr Rowland for his personal account of a 50 per cent interest in the paper. It was put to us that Mr Rowland, as a director of Lonrho, had acted improperly in personally taking over the contract without reference to a general meeting of Lonrho, since a director may not divert to himself for his own benefit a corporate opportunity without the consent of the company in general meeting. Mr Rowland had abandoned that proposal a few days later and an earlier agreement with Outram was reinstated.

6.8. In their submission Lord Goodman and Mr Astor referred to Lonrho's extensive and important business interests in the Middle East, in a great many African countries and in other parts of the Third World. They gave a number of examples of Lonrho's involvement, through Mr Rowland, in key issues relating to the political affairs of various African countries and suggested that Mr Rowland's success as a businessman/politician depended on his personal relations with certain African leaders. On the other hand, however, the company's involvement in the domestic affairs of African countries had, on occasion, led to criticism. They suggested to us that a company so involved in controversial affairs would have to exercise restraint on any newspaper it owned if the company's own interests were not to come under damaging local hostility.

6.9. Dealing with the question of the failure of The Guardian printing contract, Lord Goodman and Mr Astor explained that the terms of the contract were settled by 27 March 1981, leaving outstanding the question of a guarantee of the contract, sought by The Guardian, which could not be resolved. The contract would have been worth £500,000 per annum revenue indexed annually for a minimum period of four years to The Observer. Winning the contract would also have increased business and advertiser confidence in The Observer. We suggested that Lonrho's solicitors had adopted the not unreasonable position that they could not proceed in the absence of the approval of Sableknight (the landlord of The Observer Ltd) for the proposed arrangement with The Guardian. However, Lord Goodman and Mr Astor rejected this completely. They considered it to be an artificial point, since several members of the board of The Observer Ltd (including themselves and the managing director who was negotiating with The Guardian, Mr Harrison) were also on the board of Sableknight. They were kept fully informed about the negotiations and The Guardian was aware that they were enthusiastic about the proposed contract. In so far as the permission of the landlords was required, the necessary consent could have been obtained very quickly. Lord Goodman and Mr Astor understood that it was The Guardian which had withdrawn as a result (so Mr Astor had been told) of a communication from Lonrho's solicitors which the Chairman of The Guardian considered inconsistent with a conversation he had had with Mr Rowland.

6.10. We asked Lord Goodman and Mr Astor whether Sableknight would be prepared to take The Observer back under the terms of clause 15 of the agreement with Atlantic Richfield. They told us that Sableknight would not have the resources to run The Observer except for a short time; however they would be perfectly willing to take the newspaper back since the terms of Atlantic Richfield's option required it to give six months' notice to Sableknight and they were convinced that a suitable purchaser could be found without much difficulty. They pointed out that there had been several bidders in 1976, when the newspaper had been in a much worse financial position, and that the Associated Newspapers Group had been expressing interest earlier this year. Furthermore, they had had discussions with another group interested in acquiring the paper. This group was of great wealth and contained a newspaper company of suitable experience whose liberal political viewpoint, Mr Astor told us, chimed with that of The Observer.

6.11. In written and oral evidence provided at a later stage in the inquiry, Mr Astor developed two further points. First he distinguished between 'commercial' and 'political' newspapers. The former were managed primarily to produce a financial return, whilst the latter were controlled by proprietors who saw them as important for their political influence and were prepared to finance the losses when they sustained them. The Observer fell into the latter category, and Mr Astor considered that the transfer of such a newspaper raised important issues of public interest in the context of the political balance reflected by the press as a whole. Mr Astor and his father had steered The Observer towards the centre of the political spectrum and he believed that a transfer of ownership to Lonrho and its subsidiaries would be regarded as a shift to the right in view of the composition of the Lonrho board. Mr

Astor believed that such a change would be against the public interest because the political stance of most of the press was already predominantly right wing. Only three or four newspapers, including The Observer, represented other political opinions. Thus if Lonrho acquired The Observer the existing political imbalance of the press would be intensified. That would not only be against the national interest in itself, but could precipitate a campaign for state-licensed and state-aided newspapers to maintain a greater degree of balance and could, therefore, endanger the whole concept of the freedom of the press. Secondly, Mr Astor explained that in the case of newspapers primarily involved in the reporting and advocating of politics (such as are the internationally-known newspapers) their internal administration is not like that of a commercial company. The editors of such papers are appointed by their proprietors, who also are the people who decide what financial sacrifices they are willing to make in the pursuit of the non-commercial aims of these papers. The directors of such papers cannot, therefore, give assurances of the editor's freedom, as it is not they who either appoint and dismiss him or who provide him with the financial means to pursue his policies.

Mr Roger Harrison and Mr Brian Nicholson—Joint Managing Directors of The Observer Ltd

6.12. We asked Mr Harrison to enlarge on the reasons for the heavy loss incurred by The Observer in 1980. He confirmed that, to a large extent, it was a result of changes made when the Sunday Times ceased production in late 1978. At the time The Observer's management had not expected the Sunday Times stoppage to last very long and thought they could risk a dramatic change in their production arrangements for a short period of time. They had, therefore, taken the decision to raise production as much as possible to take advantage of the anticipated increase in demand and the extra advertising revenue which would be available. This had entailed an increase in staff and the introduction of costly mid-week printing, since the extra copies and increased paging could not be accommodated on Saturday nights. The company traded profitably during the next year, but when the Sunday Times resumed production in late 1979 The Observer was placed in a difficult position. A great deal of advertising revenue was lost back to the Sunday Times, but The Observer's sales held up much better than expected. The management was reluctant to cut back production to below the level of demand and so continued mid-week printing for a time, despite incurring heavy losses. Between May and August 1980 there was an industrial dispute at The Observer as a result of the decision to cease the very costly mid-week printing and to change the printing arrangements to permit an increase from 48 to 64 pages. This did a good deal of damage in terms of advertisers' confidence. The position was exacerbated by an industrial dispute at Purnells which meant that the colour magazine had not been published for several weeks in the spring of 1980.

6.13. Mr Harrison told us that there was still overmanning but that they were now much closer to breaking even. There were short-term seasonal fluctuations and the first quarter of 1981 had shown a loss, but The Observer had traded profitably (after excluding interest on the parent company's loan) for the six month period from 1 October 1980 to 31 March 1981.

6.14. We asked Mr Harrison about the failure of the negotiations for a printing contract with The Guardian. He told us that he strongly deprecated the fact that the negotiations had broken down at the eleventh hour without the management of The Observer Ltd (which had been conducting the negotiations) being told why Lonrho was not prepared to support the proposed contract. Use of The Observer's presses by The Guardian would not have affected Lonrho's reported plans to produce a new London evening paper and would have brought The Observer some much-needed revenue.

6.15. Mr Harrison also told us that Sableknight (the landlord of The Observer Ltd) was not in a position either to stop the proposed printing contract with The Guardian or to reduce its value to The Observer Ltd by raising the rent of the premises. Under the terms of the lease of 8 St Andrew's Hill, Sableknight could not have sought a higher rent and had been so advised. Moreover, its permission as landlord was required only to enable The Guardian to have locker rooms in the premises between November 1981 and January 1982. A board meeting of Sableknight, to grant the necessary permission formally, had already been called when the negotiations broke down. Mr Harrison told us that The Guardian had been informed of the position, knew of the board meeting and was satisfied with the assurances it had been given that the matter was a formality.

6.16. Referring to clause 15 of Atlantic Richfield's purchase agreement of 17 January 1977, we asked Mr Harrison whether Sableknight would be in a position to continue production if Atlantic Richfield exercised its option to 'put back' the newspaper. His view was that Sableknight would only be able to run the newspaper for a short time. However, in the existing circumstances, Sableknight had constructed a thorough but private investigation and was satisfied that a suitable prospective purchaser existed. Mr Harrison did not believe that acquisition by Lonrho was the ideal solution for the paper. Lonrho was an extremely large company with a very individualistic style of management, whose Chief Executive was in his sixties. Mr Harrison consequently had strong reservations about the prospects of a stable, long-term future for the newspaper in Lonrho ownership.

6.17. Much of what Mr Nicholson told us was confirmation of the information given by Mr Harrison relating to the recent history of The Observer. Mr Nicholson said that even with the mid-week printing they had been unable to produce sufficient copies of the paper during the Sunday Times stoppage. Although the introduction of mid-week printing had been costly, he still considered it to have been the right decision if they were to make progress. As it was, they had retained a large proportion of the increased circulation even after the Sunday Times resumed publication. The position this year shows considerable improvement and the company would be £1 million ahead of its advertising budget in the first six months of the year. However, the newspaper still did not have the flexibility to produce the paging and copies it needed to make it fully competitive in all circumstances. The size of the newspaper needed to be increased to 64 pages if its competitive position was not to be weakened. At the moment, Mr Nicholson said, there was a limit on production amounting to just over 1 million copies of a 48 page paper.

Negotiations with the unions to enable production to be stepped up, giving a larger, four-section paper, were still in progress. Mr Nicholson saw good opportunities for increasing sales, and hence advertising revenue, if levels of production could be improved because the market for quality Sunday newspapers had been growing in recent years.

6.18. Mr Nicholson confirmed Mr Harrison's view about the loss of The Guardian printing contract. He said it had been a shattering blow both from the point of view of lost income and of the damage to morale. It was disgraceful.

6.19. We asked Mr Nicholson about prospective competition from Outram's new Sunday Standard in Scotland. He said he did not expect it to have a great impact on The Observer's Scottish sales, which were in the region of 70,000 to 80,000. The Observer might lose upwards of 5,000 sales, but he would be very surprised if it lost as much as 10,000.

6.20. In Mr Nicholson's experience, newspaper proprietors had often interfered editorially to some extent. There was a point, however, beyond which they could not go without damaging the newspaper and he considered that any serious interference would result in industrial disputes. A proprietor could not regard a newspaper as just one of many companies within a group, it had to be regarded as a totally separate responsibility. It would be impossible, for instance, for a newspaper to ignore a major news story which might affect the interests of its proprietor. People would soon notice if it did so.

Mr Donald Trelford—Editor of The Observer

6.21. Mr Trelford confirmed the evidence of Lord Goodman and Mr Astor, relating to the circumstances surrounding Atlantic Richfield's agreement with Lonrho. On 19 and 20 February Mr Anderson had told directors of The Observer Ltd that he had turned down an offer from Associated Newspapers. He did not say he was planning to sell to Lonrho.

6.22. In expressing his concern for the editorial independence of The Observer under Lonrho ownership, Mr Trelford referred to potential conflicts of interest within the group. He said that ownership of a newspaper by Lonrho raised editorial problems that would not occur with a proprietor who had fewer or less sensitive international interests. The bulk of Lonrho's profits came from Africa, which made the company unusually vulnerable to changes of government or shifts of opinion on that continent. Most of these business interests were dependent on Mr Rowland's personal relationships with individual African leaders. In support of this view, Mr Trelford quoted from a leader in The Times on 27 February 1981, which he said set out the central problem:

> 'A deeper source of anxiety is the possibility of conflict between Lonrho's business interests and The Observer's journalistic activity and editorial judgment. Lonrho is an international conglomerate of a structure difficult to bring into focus, extensive trading interests, and an appetite for takeovers. Proprietor and newspaper both have long-standing interests in Africa, but their interests do not necessarily coincide. Lonrho's is commercial penetration, The Observer's is to open to public inspection the

condition and affairs of that continent and to pass political judgment related to a characteristic moral position. Nor is it only in Africa that the now to be jointed commercial and editorial courses may collide. It will take proprietorial restraint and editorial courage to prevent injury.'

6.23. Mr Trelford referred to the fact that Lonrho was not just engaged in business in Africa: it was heavily engaged in politics. Mr Rowland had intervened in several African crises, notably in Sudan and Zimbabwe, and was actively concerned with the future of other states. His commercial and political interests were intertwined.

6.24. Mr Trelford told us that The Observer carried influence in the very places where Lonrho's interests were most extensive and most at risk. For Lonrho to grant The Observer editorial independence would be to give one of its own companies carte blanche to damage the Lonrho business in sensitive parts of the world.

6.25. In later oral evidence Mr Trelford explained that he had very serious doubts that any system of safeguards including the appointment of 'national directors' would be effective. He suggested that the national directors on the board of Times Newspapers had been largely ignored on major matters during the period of the proprietorship of the Thompson organisation, and he claimed that so far under the proprietorship of Mr Rupert Murdoch their influence had been minimal. He considered that the appointment of national directors to the board of The Observer Ltd would be similarly ineffective, particularly as the real control and influence would be exercised by Mr Rowland in direct contact with the editor.

6.26. Mr Trelford also expressed concern that the change in ownership might in the course of time lead to a change in the present neutral political stance of The Observer. He felt it would be difficult to reconcile this neutral stance with the presence on the board of Lonrho of Lord Duncan Sandys and Mr Edward Du Cann, who were both well known members of the Conservative party. Although in the short term, therefore, Mr Rowland might maintain the neutral stance of The Observer, he believed that over a longer period it was probable that there would be a change in The Observer's political position.

B. Evidence of trade unions

The Trades Union Congress (TUC)

6.27. In addition to the views submitted in the paragraphs 6.29–6.41 by affiliated unions with a direct interest in the proposed transfer, the TUC submitted its general views of the proposal. The TUC referred to the reputation of The Observer for the high quality of its journalism and its record of reporting foreign affairs, especially in the Third World. The history of Lonrho had been punctuated by incidents giving rise to criticism of its business methods and style. It had, moreover, considerable business interests in Africa which were based on close links with political regimes there. The Observer had devoted considerable coverage to African affairs and had adopted an independent line in its reporting and comment. For these reasons the TUC had strong doubts about the credentials of Lonrho to own a paper of the reputation and quality of The Observer.

6.28. However, the TUC accepted that if the present owner wished to sell The Observer the potential purchasers were likely to be multinational companies interested in owning the newspaper for reasons primarily of prestige and personal influence. If, therefore, the transfer were allowed the TUC considered that firm assurances should be obtained from the new owner that the long-term editorial freedom of the newspaper would be safeguarded, as well as adequate assurances to protect the employment prospects and living standards of union members working at The Observer.

The National Union of Journalists

6.29. The National Union of Journalists (NUJ) was opposed to the transfer on two grounds. The first was that it would lead to further concentration of press ownership, about which all three Royal Commissions on the Press had expressed concern. This applied to the existing range of papers published by Outram and also to the Sunday Standard, its new Sunday newspaper which would be in direct competition with The Observer in Scotland. If both papers were under common control it seemed possible that there would be some limitation of their development, such as restricting sales of The Observer to south of the border or the Sunday Standard becoming little more than the Scottish edition of The Observer. The NUJ referred to the suggestion that Lonrho intended to establish a second London evening newspaper which would be printed on the presses of The Observer, but in the absence of firm proposals was sceptical that this would occur. The NUJ said that it had no evidence that the future of The Observer was threatened, nor had it heard of any case other than commercial interest to justify the transfer.

6.30. The NUJ also opposed the transfer because the extensive interests of Lonrho in Africa would be likely to restrict the freedom and impartiality which The Observer was noted for in reporting and commenting upon affairs in that continent. It was not expected that directives would be issued to the editor; nevertheless the knowledge that the owner of the newspaper had such interests would be likely to inhibit comment such as its recent criticism of the wage levels of African employees of Lonrho and other companies.

6.31. In the opinion of the NUJ, if the transfer were approved it would be necessary to ensure editorial freedom and integrity, which could only be achieved by an adequate form of structural control. It did not consider that the appointment of independent directors to the board of The Observer would be an effective safeguard unless the procedures for their selection and appointment were entirely outside the control of Lonrho. The NUJ therefore suggested that, in addition to the main board with its commercial responsibilities, a separate board of trustees should be set up to protect the newspaper's editorial independence, integrity and balance. It made specific suggestions as to the composition of the board of trustees, covering two nominees of the main board, two elected by the NUJ chapel at The Observer and a Chairman and two Deputy Chairmen from outside industry appointed jointly by the main board and the chapel. It was envisaged that the functions of the trustees would be to appoint the editor (subject to the main board and the chapel having a veto if more than 50 per cent of either body opposed the appointment); to approve all proposals for significant changes in the editorial composition of the paper; to arbitrate in any dispute between the main board and the editor in matters affecting the editorial departments; to consider submissions from the editorial staff on matters affecting the editorial content of the paper; and to consider any submissions from the editor or editorial staff that persons other than the editor or trustees had attempted to influence the editorial content of the newspaper and to take action to prevent any further interference.

6.32. The NUJ also suggested that in the event of the transfer taking place the new owner of The Observer should be required to give an undertaking to recognise the NUJ's code of behaviour for the guidance of journalists.

6.33. We also received separate evidence from the NUJ chapel at The Observer which represents all full-time journalists working on the newspaper. It referred in particular to the reputation which the paper had built up for integrity and independence in the presentation of news and comment. It was important that this reputation should be preserved by a structure of control which prevented the exercise of undesirable control or influence on editorial matters by the newspaper's owner. The chapel envisaged that jounalists on the staff of the newspaper would have a significant role in such a system of control, as in their work they were particularly identified with the independent tradition of the paper.

6.34. The chapel suggested that the control of the newspaper should be vested in a trust. The trust could have a number of positions in the structure of management and ownership. It could, for example, act as a buffer between the owner and the editorial staff. Alternatively the trust could itself own the newspaper (if the present proposal were approved the necessary finance might be provided wholly by Lonrho or partly by other parties, possibly including the newspapers' readers). Whatever the precise form of such a trust its essential function would be to act as a continuing guarantee of the paper's editorial independence. The chapel also suggested that there should be both independent directors and representatives of the journalists on the main board and that these two groups, together with the executive directors, should have a majority of one vote on the board. It was argued that this represented a reasonable balance of control in which the owner had neither an absolute majority on the board, nor faced a majority of independent members; the executive directors would in fact fill the neutral ground as being appointed by the owner but with responsibility towards the paper for which they work. It was also suggested that the journalists should be consulted about the appointment of an editor and that a proportion (suggested at one-third) must approve the choice.

6.35. The chapel emphasised that it did not support or oppose the transfer of The Observer to Lonrho. It had made representations that the proposal should be referred to the Commission so that it could be ascertained whether Lonrho would be a suitable owner of The Observer, and so that watertight safeguards could be established which would enable the paper to be credible to its readers and to give accurate presentation of news and free expression of opinion.

6.36. The chapel expressed reservations about the nature of the deal between Atlantic Richfield and Lonrho and about possible conflicts of interest in areas where The Observer's coverage could, however unknowingly, cause commercial damage to Lonrho's interests.

6.37. The chapel had reservations concerning Lonrho's reported plans to invest in The Observer and increase employment from 800 at present to 2,500. The chapel did not regard an increase of this magnitude as realistic relating to any foreseeable development of the paper. It had, moreover, reservations about whether the financial position of the group would allow it to invest in the newspaper as had been suggested. With its ambitious programme of acquisitions coupled with indifferent performance from a number of its United Kingdom subsidiaries and the likelihood of a downturn in income from mining and other activities, the group might well wish to divest itself of less profitable investments. This would obviously be of importance to employees of The Observer and for the security of the paper. For this reason and because of the age of the chief executive of Lonrho, on whom the chapel considered the Lonrho group to be abnormally dependent, it was suggested that if the transfer were approved it should be made a condition that the newspaper should not be re-sold for a period of ten years.

The National Society of Operative Printers, Graphical and Media Personnel (NATSOPA)

6.38. We received a submission from NATSOPA giving its views on the specific questions put by the Commission which are set out in paragraph 1.5. It expressed considerable concern about the concentration of ownership of the press and at any bias which existed in the presentation of news and comment. It also told us that it believed that the present owner of The Observer was not investing adequate capital to modernise the plant.

6.39. The Observer NATSOPA Clerical Chapel gave us its views as expressed in a resolution of its members. It deplored the manner in which Atlantic Richfield had sold the paper to Lonrho without prior warning to its staff, and Atlantic Richfield's subsequent failure to issue to the staff any statement about the future of the paper and its employees. The chapel also deplored the publicised reaction of journalists and directors of The Observer who were opposed to the sale; such views were not shared by all members of the paper's staff. Although the chapel was concerned at the speed and secrecy with which the sale was concluded, it felt that new and fresh ownership could be beneficial to the paper and staff and should not be condemned out of hand.

The National Graphical Association (NGA)

6.40. The National Graphical Association told us that it considered the proposed transfer would lead to a greater concentration in press ownership. However, it thought that the prospects for The Observer would be bleak if

Atlantic Richfield were determined to rid itself of financial liability for the paper and, with the present structure of the newspaper industry, no alternative purchaser to Outram/Lonrho appeared likely unless it were another conglomerate company. The NGA thought that the merger would increase competition for available advertising revenue and readership, which might lead to closures and labour redundancies either at The Observer or at its competitors if proprietors engaged in price-cutting on advertising rates. The NGA expressed the view that radical changes were necessary if this cycle of events was not to be repeated. Consideration should be given to subsidies of the type that exist in a number of west European countries in an effort to maintain the desired diversity of the press.

6.41. The NGA Imperial Chapel made a submission on behalf of its members working on the staff of The Observer. The chapel expressed its concern at what it described as the manoeuvering of the editorial management of The Observer and the National Union of Journalists to block any takeover which did not meet their ideal. It considered that similar action in 1975, in relation to other prospective purchasers of the paper at that time, almost led to its closure. It was now clear that Atlantic Richfield wished to sell The Observer and if the sale to Lonrho was not approved the future of the paper would again be in jeopardy, as there was no guarantee that another 'suitable' purchaser could be found. The chapel had no information about Lonrho's plans for The Observer but was convinced that the company's intention was to expand the business, which would protect the future livelihood of employees. It would welcome Lonrho as owner provided safeguards were forthcoming with regard to employment, continuity of pension rights, redundancy terms and other existing benefits. It also considered that Lonrho should be asked to guarantee that The Observer continued to be produced in London in order to safeguard existing and future employment.

The Institute of Journalists

6.42. We received a submission from the Institute of Journalists, which does not at present have any members on the staff of The Observer. The Institute did not consider that the proposed transfer gave rise to any important issues of concentration of ownership, even taking into account the launch of the Sunday Standard by Outram. The suggestion that The Observer plant might be used to produce a second London evening paper was welcome as providing a choice for readers in this section of the market and providing opportunities for employment.

6.43. The Institute had certain reservations about the proposed transfer. Although the paper was neither over-manned nor inefficiently produced by Fleet Street standards, it would be regarded as both by the standards of almost any other industry in the private sector. Lonrho could be expected to make a determined effort to eradicate waste and inefficiency. Although such aims were commendable as the best guarantee of the paper's future, they could not be achieved without redundancies and other impalatable measures. The Institute doubted whether, if Lonrho failed to achieve its aims, it would have the patience of other Fleet Street proprietors and feared therefore that it might seek to dispose of the paper.

6.44. The Institute pointed out that Lonrho, and in particular Mr Rowland, had been deeply involved in the negotiations leading to the transfer now proposed. It considered that this involvement was likely to continue after the sale, with Outram's role as owners being largely nominal and important decisions being taken by Lonrho. A possible motive for the purchase could be Lonrho's belief that it would be useful to the company in certain overseas countries where it has substantial business interests and where the newspaper is highly esteemed. In some of these countries the concept of editorial independence is little understood. Consequently Lonrho could be embarrassed by adverse comments in the newspaper on the company's activities or on the company's clients and the causes they favour. Stringent guarantees of editorial independence should, therefore, be made a condition of the sale.

6.45. The Institute thought that, as Atlantic Richfield had indicated that it wished to sell The Observer, in the apparent absence of any alternative means of assuring continued publication, the transfer should be approved unless the Commission considered that Lonrho would be so unsuitable as an owner that it was preferable that the paper should cease to exist. The Institute would, however, prefer that the proposals of other possible purchasers were known to the Commission before they completed their inquiry.

C. Evidence of other parties

The Press Council

6.46. The Press Council reminded us of its consistent view that further concentration of ownership or control of newspapers was undesirable. In the present case The Observer and Outram's established newspapers catered for markedly different audiences, and the Scottish circulation of The Observer was relatively small compared with that of a number of other Sunday newspapers. The Council did not believe, therefore, that the proposed transfer would in itself lead to any concentration of ownership which would give rise to any significant social problems or dangers.

6.47. It did, however, make specific comments on the indirect effect that it might have on the concentration of ownership and the availability of newspapers in relation to two projected or possible developments. The first concerned the Sunday Standard, the new quality newspaper which Outram was then about to launch. The Council feared that, since this paper and The Observer would be in direct competition, the proprietors might cease to sell the latter in Scotland. In view of the special character of the newspaper such a restriction would be very undesirable. The second concerned London evening newspapers. The Council had noted that Lonrho had indicated its aim of starting a London evening newspaper, presumably using the presses, and possibly other facilities, of The Observer. The Council would welcome such a development in ending the monopoly caused by the merger of the Evening Standard and the Evening News in 1980.

6.48. The Council did not have commercial information about The Observer which would enable it to comment authoritatively on the future of the newspaper if it were to continue as an independent publication. The paper had faced commercial difficulties in the past but was probably healthier than when it last changed hands in 1976; its circulation was higher than ever before and its advertising revenue was apparently holding up well. It seemed likely that the future prospects of the paper were reasonably good. Vigorous competition was to be expected from the Sunday Times under its new owners, but this had also been the case in the past. The speed and secrecy with which the present proposal had been reached and sprung upon the editor of The Observer, British members of its board, its staff and the public, effectively precluded any alternative backer or buyer from emerging. It was, however, difficult to believe one would not be found if the proposed transfer did not take place.

6.49. The Council expressed serious concern about the possible effect of the proposed merger on the presentation of news and free expression of opinion in The Observer. Such concern would not necessarily arise from the transfer of the paper to the ownership of a multinational commercial and industrial group, as indeed was the present owner, Atlantic Richfield. It arose in the present case because of the area of operation of Lonrho and its style of Management, which the Council feared might jeopardise the independence of the paper, or at least appear to do so. Apart from its overall reputation for accuracy in wide news coverage and its independent comment, The Observer had acquired a special reputation in these respects for its coverage of, and concern for, African affairs. Much of the activity of the Lonrho group had been centred in Africa and the build-up of its widespread interests in the continent owed much to the political and interventionist style of Mr Rowland, the Chairman and Chief Executive of Lonrho. The Council cited the 1976 Report of the Department of Trade Inspectors on Lonrho as evidence of the scope of the company's involvement with the internal and external politics of various African states. In view of this involvement the Council considered that it would be a matter of serious concern whether, under the control of Lonrho, The Observer would be free to continue its investigative and frequently critical reporting about Africa. Even more concern might be felt at the extent to which African and international opinion in general would believe that the newspaper retained freedom in reporting and commenting candidly on such events.

6.50. The Council referred to certain aspects of events leading up to the proposed transfer, notably the concealment of the proposal from most of the British directors of the newspaper until shortly before it was made public, and the subsequent attempts to revise the proposal to try to avoid it being referred to the Commission. The Council considered that these events made it difficult to have confidence in the assertions made by the parties to the transfer, concerning such matters as the continuing independence of the newspaper.

6.51. In view of the above considerations the Council suggested that the transfer should only be allowed to take place subject to very strict conditions. These should be similar to, but go further than, those accepted in respect of the transfer of Times Newspapers Limited in January 1981 which safeguarded the independence and authority of the editor, assured his control over the appointment, disposition and dismissal of journalists, and over the content of the newspaper. The Council considered that independent directors or trustees should be appointed in such numbers and by such machinery as to constitute a body to which any dispute between the editor and owner of the paper, and any dispute about the honouring of the conditions imposed on the transfer, should be referred. It further suggested that the approval of the independent directors or trustees should be required for the appointment or dismissal of the editor, and that existing safeguards in arrangements for the appointment of the editor of The Observer should be retained.

Dr Conor Cruise O'Brien—former Editor-in-Chief of The Observer

6.52. Dr O'Brien told us that he thought the transfer would be against the public interest. He emphasised that he had no first-hand knowledge of Lonrho and that before he was aware of the present proposals he had agreed with the owners of the paper to give up his post at the end of March 1981. He considered that the management of Lonrho was unsuitable to control The Observer. In the light of the past history of the company, and in particular the 1976 Report by the Department of Trade's Inspectors, it was difficult to rely on the assurances of Lonrho that the paper's editorial independence would be respected. He believed that the acquisition of the newspaper by Lonrho would bring to it what the 1976 Inspectors' Report called 'an atmosphere of distrust' which would have injurious effects on the newspaper. Lonrho had publicly stated that one of the reasons why it wanted to acquire The Observer was because it believed the paper to be influential in Africa. This suggested in itself that the company was seeking to acquire the newspaper in order to determine how that influence was exerted. The Observer would, moreover, be only a small part of the company's operations and it was difficult to believe that, if it acquired control of The Observer, Lonrho would allow editorial freedom in reporting affairs in African countries, which might prejudice its major interests or its relations with African governments which would expect The Observer to reflect Lonrho's views and policies.

The Rt Hon Lord Shawcross

6.53. Lord Shawcross was the Chairman of the Royal Commission on the Press 1961–62, Chairman of the Press Council 1974 to 1978 and an independent 'national' director on the board of Times Newspapers Ltd from 1967 to 1974. He told us that he was acting as an independent adviser to Lonrho in regard to both its newspaper business and its international operations, and that his appointment was not dependent on the outcome of this inquiry.

6.54. Lord Shawcross said that on the whole he supported the proposed acquisition of The Observer by Lonrho, which he thought would improve the paper's prospects of achieving economic viability. The Lonrho management with the kind of board they proposed, which would include a significant number of independent directors, would provide both the dynamism the paper required and the safeguards necessary to ensure editorial freedom within the broad policy set by the board.

6.55. In Lord Shawcross' opinion the board of directors—including both ordinary and independent directors—must be responsible for deciding the broad editorial policy of the newspaper. Any attempt at a compulsory separation between managerial and editorial responsibility would be not only contrary to the views expressed by three Royal Commissions on the Press but would prove unworkable, since no newspaper could prosper unless both sides worked together. Moreover, the proprietor of a newspaper had certain responsibilities which obliged him to concern himself with editorial policy. Lord Shawcross agreed with the view expressed by the last Royal Commission on the Press, that in reality editorial and management decisions were inseparable and must be made in a framework which gave the editor freedom within recognised constraints. The editor of a newspaper must work within the general framework set by the board, although from time to time he could depart from it on particular issues. That was an editor's right.

6.56. Lord Shawcross told us that in his view independent directors had an important role to play in ensuring that there was no improper proprietorial interference with editorial matters. The knowledge that an independent director might resign, making his reasons public, should provide a powerful deterrent. Much would depend on how the independent directors operated. Lord Shawcross considered it essential that they meet regularly—say once a month—to discuss with their colleagues, including the editor who should be on the board, the whole field of activity of the business. If any member of the board, either an ordinary or an independent director, wished to raise a question relating to the paper's editorial policy with the editor he should do so at that meeting. That was not to say that the proprietor—like any other individual director—could not express his own opinions to the editor on occasion. He had every right to do so provided it was understood that the editor would not be influenced unless he agreed with the views expressed. In the unlikely event that there was, at the end of the day, an unresolved division of opinion on editorial policy, the final decision would, under the Lonrho proposal, be in the hands of the independent directors, who alone could terminate an editor's employment.

6.57. Lord Shawcross said he had approached several people of unquestionable independence, on Lonrho's behalf, to invite them to sit as independent directors on the board of The Observer Ltd.

Journalists at The Observer

Joint submission from several journalists

6.58. We received a submission from six journalists on The Observer who believed that the acquisition would operate against the public interest in the 'accurate presentation of news and free expression of opinion'.

6.59. The journalists claimed that the danger to The Observer arose from Lonrho's interests overseas, particularly in Africa and the Third World, and from Mr Rowland's business methods and operations in the City, which would conflict with the interests of independent journalism. Knowing the sensitivity of Third World governments to press criticism they believed that Mr Rowland would exert pressure on the way in which these affairs were treated in The Observer.

6.60. The journalists did not think that the transfer would be acceptable even if conditions were attached to the Secretary of State's consent. They did not consider that the appointment of independent directors would be any safeguard to editorial independence as the directors' other duties would make it impossible for them to exercise the perpetual surveillance which a newspaper needed. Moreover, appeals by the editor against the proprietor would create an atmosphere of distrust which would be harmful to the efficient conduct of the business.

6.61. In addition to the written evidence, we held a hearing with two of the journalists referred to above. They reiterated the views outlined in the submission. In particular they emphasised their doubts over Mr Rowland's ability to avoid becoming involved in editorial decisions and their belief that the appointment of independent directors would not be an adequate safeguard.

Mr Colin Legum—Associate Editor and Commonwealth Correspondent of The Observer

6.62. Mr Colin Legum, one of the signatories to the written submission from six journalists (see paragraphs 6.58–6.60) also gave evidence separately. He had been concerned with The Observer's policies on the affairs of the Third World and particularly Africa. Mr Legum told us that he wished to disavow any personal interest in the outcome of this inquiry, since he was due to retire from The Observer very shortly.

6.63. Mr Legum said that the argument against Lonrho was not that it was a multinational company, for so were the present owners, Atlantic Richfield. The differences between them, however, were considerable. Atlantic Richfield had no interests in the areas of particular concern to The Observer, for example, the British business world and Africa. Moreover, Atlantic Richfield's Chief Executive, Mr Robert Anderson, had gained considerable prominence in promoting organisations, like the Aspen Institute, which accommodated easily to the editorial outlook of The Observer. Lonrho, on the other hand, had extensive interests in Africa, which had been the main base on which it had built up its conglomerate interests. Africa continued to be an area of prime concern to the company. A second major developing interest was the Middle East, where all of Lonrho's relations were with Arab oil-producing countries.

6.64. Mr Legum said that Lonrho's Chief Executive, Mr Rowland, had admitted that he was not interested in Africa simply as a businessman, but in its wider economic and political development. He had frequently expressed strong political views about events in Africa and involved himself in controversial issues there. A number of African leaders whom The Observer had criticised in the past were friends of Mr Rowland. Lonrho's business interests in some African countries often depended on Mr Rowland's personal relations with their leaders, and Mr Legum feared that his wish to maintain these relationships would cause conflict between the interests of Lonrho and the duties of a newspaper. To illustrate the seriousness of the potential conflict of interest between the Lonrho interests and The Observer, Mr Legum referred to an occasion on which a Lonrho-owned newspaper in Zambia had criticised

President Mobutu of Zaire. President Mobutu broke off all relations with Lonrho for a time and warned his fellow African leaders against the company. Mr Legum also quoted several instances in which Lonrho or its associates had been involved in political or other controversial issues in African states. He told us that he did not think it possible for any Foreign Correspondent covering Africa or the Middle East to maintain his independent status while in the employ of Lonrho.

6.65. Mr Legum told us that, even in the case of a remote and non-controversial company like Atlantic Richfield, The Observer was frequently described as 'foreign-owned' or 'an oil multinational paper'. With an activist, controversial proprietor like Mr Rowland he thought that it would be impossible to maintain the character of the paper as distinct from that of the proprietor. He believed that Mr Rowland would influence the way in which affairs were presented in The Observer and could not envisage any editorial guarantees that would safeguard its independence. He said that guarantees extended only as far as the editor, who was not seriously challengeable by his editorial colleagues. So long as an editor depended for his appointment or dismissal on the proprietorial interest in a board of directors, it was quite unreasonable to suppose that he would never be influenced by his proprietor.

A freelance journalist

6.66. A freelance journalist, who had worked for The Observer for several years, told us that a large proportion of the journalists writing for The Observer were freelance and thus did not have voting rights or rights of expression of views in the Observer NUJ chapel. The journalist had formed the impression that those people at The Observer who rigorously opposed a takeover by Mr Rowland and those enthusiastically espousing his cause were both very small minorities, many of whom were placed in senior and strategic positions. This journalist believed that there were many others on the paper who would agree that The Observer needed revitalising, and that Mr Rowland's entrepreneurship, zest and funds would provide a welcome improvement. Nevertheless, there was some concern about the suitability of Mr Rowland as a proprietor and whether, for example, he might use The Observer to promote other business interests. It was essential, therefore, that there should be safeguards to ensure that there was no interference with the editorial content of the newspaper or with the freedom of journalists to pursue the truth. Providing there were guarantees of editorial freedom, the journalist believed that the majority of staff at The Observer would be in favour of the proposed transfer.

Views of private individuals

6.67. We also received letters from a small number of private individuals in response to our advertisements inviting evidence and views on the proposed transfer. Most of them argued that the transfer should be allowed subject to adequate guarantees of the editorial integrity of the paper under its new owner. One writer suggested that Lonrho should be required to give an undertaking that it would not dispose of The Observer for a period of ten years, as changes of ownership in the national press were not in the public interest.

Various arguments were advanced in support of allowing the transfer, including the view that it would enable The Observer to be more effective in implementing new technology.

D. Evidence of representatives of The Guardian, regarding their negotiations with The Observer Ltd

6.68. Mr P W Gibbings (Chairman of The Guardian and Manchester Evening News Ltd) and Mr J C Markwick (Deputy Managing Director) gave evidence to us about their negotiations for a printing contract with The Observer Ltd. The Guardian had an existing printing contract with Times Newspapers Ltd. Under the terms of that contract they were entitled to give six months' notice of termination if Times Newspapers Ltd was owned by a company outside the Thomson Organisation, within three months of that fact coming to their notice. On 13 February 1981 The Guardian learnt of News International's purchase of The Times and Sunday Times, and therefore had until 13 May to decide whether to make any change. At the time they were under notice from News International, which has subsequently been withdrawn, to terminate their printing contract, so they began negotiations with The Observer Ltd.

6.69. The Guardian needed to insure its position by having a substantial guarantor and the contract with Times Newspapers Ltd had been guaranteed by the Thomson Organisation. Similarly, in negotiations with The Observer it was agreed in principle that Atlantic Richfield would be the guarantor. The guarantee required was not particularly onerous, merely that in the event of a cessation of production at The Observer Ltd, for whatever reason, The Guardian would be guaranteed access to the machinery.

6.70. When Atlantic Richfield announced the sale of The Observer Ltd to Outram, the position changed. The Guardian would have required a similar guarantee from the new parent company, Lonrho. The matter had to be settled by early April to enable The Guardian to start negotiations with union representatives. In view of the urgency of the matter Mr Gibbings spoke to Mr Rowland on the telephone. The result of two telephone conversations was that Mr Gibbings was given the impression that the question of the guarantee could be dealt with satisfactorily by Atlantic Richfield and Lonrho acting together. Very shortly afterwards Lonrho's solicitors informed Mr Gibbings that the proposed contract was not acceptable.

6.71. We asked whether the question of The Observer's lease of its premises had been mentioned as a possible problem at any stage of the negotiations between The Guardian's management and the management of The Observer Ltd, and were told that it had not. The Guardian understood that the freeholders were the trustees of the family interests of Mr David Astor and had been told that the matter could be dealt with at a board meeting of the landlord company, Sableknight, a few days later. As negotiators for The Guardian they rested content with the assurance given by The Observer Ltd, that the matter of the lease could be dealt with and need not concern their negotiations.

CHAPTER 7

Evidence relating to Lonrho as an owner of newspapers in Africa

7.1. In the course of our inquiry we received submissions from a number of sources concerning incidents relating to Lonrho's ownership of African newspapers.

7.2. A number of incidents were brought to our attention by Mr H L Leeds, who was manager of The Times of Zambia from 1965 to 1968. In a written statement from South Africa where he now lives, Mr Leeds made the general complaint that, for fear of reprisals against Lonrho's other interests, the paper's editors were continually harassed by Mr Rowland for publishing stories against the government or ruling parties. Mr Rowland denied this. Mr Richard Hall, who was Editor-in-Chief of The Times of Zambia for much of the period concerned and is now employed by The Observer, also denied the general allegations. In addition, Lonrho gave us a statement from Mr Dunston Kamana, who edited The Times of Zambia at a later period, to the effect that there was no occasion when either Mr Rowland or Lonrho exerted any pressure or influence on his work in his role of editor; in writing the editorials he was guided only by what he considered to be the nation's interest. We were also given a statement by Mr Munangatire, Editor-in-Chief of the Zimbabwe Times in 1977–78, to the effect that he was, at that critical time in the history of the country, given complete freedom to run the newspaper and to formulate his policy on the basis of what he considered to be the best interests of Zimbabwe; at no time did Mr Rowland or any other Lonrho executive try to tell him what the paper should say.

7.3. Mr Leeds also told us of a number of incidents which occurred during the period he was concerned with the paper's management, of which the following appeared the most significant:

(i) He suggested that following criticism of Lonrho in certain publications in 1966 (which it was found originated from Italian interests then competing with Lonrho for the Dar-es-Salaam pipe-line contract and other business) Mr Rowland had told Mr Hall (then Editor-in-Chief of The Times of Zambia) to print anti-Italian stories in the newspaper. Mr Hall said in respect of this particular incident that Mr Rowland had not asked him to publish anti-Italian stories although there might have been some editorial coverage of Italian aid to Zambia. Mr Rowland denied asking the paper to print anti-Italian stories and said his own recollection was that The Times of Zambia had been inclined to advocate the award of the pipe-line contract to the Japanese.

(ii) Another allegation by Mr Leeds was that in 1965 he had been asked by the Managing Director of the Lonhro-owned Heinrichs Brewery to suppress a story of a labour dispute which involved the lock-out of white management. He had refused to oblige, but then he claimed he had received a telephone call from Mr Rowland instructing him to stop the story. Mr Rowland denied that he had taken any action in the matter, saying that he was too busy to become involved in such an incident, and we received no corroboration of Mr Rowland's alleged involvement. There seems to be no doubt however that the story was suppressed (according to Mr Leeds, by him) and that as a result an Assistant Editor resigned and Mr Hall, who told us he was in London at the time, wrote a memorandum shortly afterwards to a local director seriously condemning the incident.

(iii) In 1967 Mr Tom Mtine, Managing Director of Lonrho Zambia Limited, lost an election as mayor of Ndola. Mr Leeds told us that Mr Mtine then instructed Mr Philip Griffiths (who had succeeded Mr Hall as Editor of the Times of Zambia) never to publish a picture of the new mayor in the company's newspapers. According to Mr Leeds, Mr Griffiths complained about this to Mr Rowland but was told by him to follow orders or resign. Mr Rowland commented that the story was quite out of character for Mr Mtine; he had no recollection of being approached in this matter and was certain it did not happen. Lonrho provided telex messages from Mr Mtine in which he also denied that such in incident occurred. Subsequently Lonrho supplied us with a copy of The Times of Zambia for 15 September 1966 showing a photograph of Mr Mtine, the former mayor, congratulating the new mayor at the installation ceremony. Lonrho pointed out that this evidence indicated that Mr Leeds was mistaken about the date of the election, which took place in 1966 not 1967.

7.4. We also received a written statement from Mr Derek Taylor, who is now resident in South Africa. Mr Taylor served on The Times of Zambia as a journalist (1963–65), a Political Editor (1965–66), and as a Deputy Editor and on occasions Acting Editor (1966–68). Mr Taylor's statement concerned events which took place in 1967 when he was stationed in Lusaka, about 250 miles from Ndola where the paper was edited and produced.

7.5. The event stemmed from an editorial in The Times of Zambia, written by Mr Taylor and Mr Hall, criticising the action of President Kaunda in remitting a prison sentence on an official of the ruling United National Independence Party for contempt of the Zambian High Court. The article appeared to have provoked political hostility to the newspaper (we understand that Mr Hall was given police protection) although President Kaunda took no action against the paper or its staff. According to Mr Taylor, Mr Rowland made a routine visit to Ndola some weeks later. Mr Taylor said he was told by Mr Leeds at that time that Mr Rowland had been angry with Mr Hall for involving the newspaper in a consitutional controversy which could prejudice Lonrho's interests in the country. Mr Leeds had also said that Mr Rowland had been angered by potentially prejudicial comments appearing in the paper's magazine and had decided that both Mr Taylor and the editor of the business magazine should be dismissed. This dismissal was to be carried out by a regional executive who was director of one of Lonrho's African subsidiary companies. At the time Mr Taylor heard this, Mr Hall was staying with him prior to leaving the country; Mr Taylor said he understood that the departure was for health reasons and he received no indication from Mr

Hall of the events described by Mr Leeds. Mr Taylor told us that he made enquiries about the regional executive who was to dismiss him and approach the Zambian authorities about the matter. According to Mr Taylor the regional executive was then warned by a Zambian official not to interfere with any Zambian institution and left the country without getting in touch with Mr Taylor.

7.6. Mr Hall told us that he had been concerned at the public reaction to the critical article concerning the pardoning of a party official. He had therefore suggested to Mr Rowland that it might be advisable if he (Mr Hall) left the paper and the country and that, reluctantly in his view, Mr Rowland had accepted the position. Mr Hall left four months later. As far as Mr Taylor was concerned, there had been some difficulty over his position in the paper's organisation at that time. Mr Hall produced several contemporary documents to confirm this and told us that he had been aware that Mr Taylor 'might have to go'. In fact, however, Mr Taylor had remained on the paper for a further two years. Despite the situation in Zambia at the time of the article, Mr Hall said that he believed President Kaunda had not been hostile to him; indeed some time later he had been asked by the government in Zambia to take up a senior post, but had declined.

7.7. Mr Rowland said that there was no truth in Mr Taylor's allegations relating to events following the article concerned. He had a high regard for President Kaunda's respect for the freedom of the press; The Times of Zambia had criticised the government on a number of occasions but there had never been any attempt at repression. Mr Rowland also denied that he had been angry with Mr Hall for his handling of editorial matters. He said however that Mr Hall had had a clash with one of the Zambian ministers as a result of which Mr Hall had suggested that it would be advisable for him to leave the newspaper. Mr Rowland recollected that the director of Lonrho's African subsidiary had been in Zambia to carry out a general investigation of the paper's profitability, although he may have been concerned during his visit with some aspects of the paper's management. Mr Hall provided us with a copy of a letter dated 19 June 1967 from Lonrho's Salisbury office which substantiated Mr Rowland's recollection on that point.

7.8. Mr Hall made a separate submission to us in addition to attending two hearings to give evidence on the incidents mentioned above. In his written submission he told us that he could say, unequivocally, that in the three years when he was editing The Times of Zambia Mr Rowland never once tried to influence what appeared in its pages. At that time Lonhro was a far smaller company and was concentrating particularly on building up its business in Zambia. Nevetheless, although the paper published various items critical of Lonhro, there was never any reaction from Mr Rowland.

7.9. On the question of conflict of interest, Mr Hall thought it very likely that, from time to time, The Observer would print material calculated to annoy leaders of countries where Lonrho had business interests. But also, given its radical slant, the paper was sure to carry news and comment pleasing to such leaders. Moreover, ownership of a paper like The Observer did give a certain cachet to the proprietor, especially in the Third World. On balance, Mr Hall thought, Lonrho would stand to gain more in the Third World than it might lose through owning The Observer.

7.10. Mr G Gillies, who was the News Editor of The Times of Zambia when Mr Hall was Editor-in-Chief, also submitted evidence to us. He said that he ceased to work for Lonrho in 1968 and was no longer a working journalist. Mr Gillies' evidence of his experience as News Editor on The Times of Zambia supported that given by Mr Hall. Mr Gillies told us that at no time while he worked on the paper could he recall any interference in its editorial policy either by Mr Rowland or by the local chairman, Mr Mtine. He stated unequivocally that neither Lonrho's main board nor its local board had ever been in touch with the news desk let alone suggested policy, although there were occasions when the paper's policy might have been damaging to Lonrho's business interests. For example, The Times of Zambia had been severely critical of the unilateral declaration of independence by the Rhodesian government even though Lonrho was vulnerable in Rhodesia because of its many holdings there. There had, however, been no suggestion that the paper should change its policy. Another incident which illustrated the independence of the newspaper occurred when President Mobutu of Zaire was on a state visit to Zambia. An editorial in the newspaper had attacked President Mobutu in outspoken terms, with the result that he had expropriated Lonrho's assets in Zaire. That incident cost Lonrho several million pounds, but it did not cost the editor his job, nor was he reprimanded in any way. Mr Rowland also referred to this incident in his evidence and confirmed that it led to the confiscation of Lonrho's assets in Zaire. But three years later the company's property was returned. Mr Rowland also told us that no action was taken against the editor of the newspaper, and further confirmation of this point was supplied by Mr Hall.

CHAPTER 8

Conclusions on the public interest

8.1. We are required by section 59(3) of the Fair Trading Act 1973 to report whether the transfer by the Atlantic Richfield Company of 'The Observer' to George Outram & Co Limited, a subsidiary of Lonrho Limited, may be expected to operate against the public interest taking into account all matters which appear in the circumstances to be relevant, and in particular the need for accurate presentation of news and free expression of opinion.

The present position of The Observer

8.2. In considering the present position of The Observer, it is necessary to take account of the circumstances in which the paper in early 1977 was transferred to its present owners Atlantic Richfield. At that time the paper was in serious financial difficulties with a level of circulation that seemed unlikely to be adequate to sustain its continued existence. A number of possible purchasers had been identified, but the owners of the paper were concerned that any sale should not result in a significant change in editorial policy or in the style of the paper. Through intermediaries, contact was established with Mr Robert Anderson, the Chairman of Atlantic Richfield. Mr Anderson, in the belief that the closure of the paper or a drastic change in editorial policy would mean the loss of a significant and important source of information, decided to use the resources of Atlantic Richfield to attempt to put the paper on a viable basis. He was also prepared to continue the existing management of the paper, and to maintain the paper's editorial traditions and journalistic standards. In these circumstances Atlantic Richfield was preferred to other possible purchasers and 90 per cent of the equity of The Observer Ltd was transferred for a nominal consideration. The sale did not, however, include the building in which the paper was produced and printed, and this was retained by a company, now called Sableknight Ltd, owned by the Astor Family Trusts and leased to The Observer Ltd, now owned by Atlantic Richfield.

8.3. We were told by all parties concerned with The Observer who gave evidence that until the proposed sale Atlantic Richfield had fully met the expectations of the Trustees when the paper was transferred. The paper had retained its previous editorial practices and had been financially supported in the way that had been anticipated.

8.4. In other respects the arrangements appear to have been less successful. Despite an increase in editorial staff, the paper made little progress in increasing its circulation until, due to the dispute over the introduction of new technology, the Sunday Times temporarily ceased publication. The Observer was then able to increase its circulation substantially, and also to expand the number of pages in its editions, thus allowing it to increase its vital advertising revenue. However, neither the increase in circulation nor the expansion of the paper's size could be handled on existing printing equipment during the time available for printing on a Saturday. Arrangements were therefore made to produce the paper in four sections, two of which were printed earlier in the week.

8.5. These arrangements enabled the paper to trade profitably during the period of the cessation of publication of the Sunday Times. They were, however, to lead to significant financial losses when the Sunday Times resumed publication, and there was a consequent fall in The Observer's advertising revenue and loss of part of its increased circulation. The problem that faced the paper at that time was that its revenue did not justify the costs of mid-week printing, but that without such printing it could neither maintain the paper in four sections nor, so we were told, supply all its potential readers. At first therefore mid-week printing was continued but losses were such that notice was given to the unions at the beginning of May 1980 to end the arrangements. These losses together with industrial disputes and the loss of revenue from the colour magazine, which did not appear for a period due to a dispute at its printers, contributed to a final deficit for the year of nearly £5 million.

8.6. The Observer's experience so far in 1981 has been mixed. We were told that advertising revenue had been maintained. The audited figures for average circulation so far in 1981 were January 911,783, February 905,400, March 914,970, and April 931,614; the paper's estimate for May was 923,000. This has enabled the paper in some individual issues to generate more than sufficient revenue to cover its costs. However, over the year as a whole, the position appears likely to be less satisfactory. Even allowing for the waiving of the interest on the accumulated debt to Atlantic Richfield and a continuing 50 per cent reduction in the rental for its premises, all the forecasts we were given suggested that a further loss would be sustained in 1981. The level of loss depends upon the view that is taken upon a number of factors including the expected increased competition from the Sunday Times under the ownership of Mr Rupert Murdoch, and a possible loss of advertising revenue due to the introduction of new colour magazines by other newspapers. It is possible, however, that over the year as a whole a revenue loss of around £500,000 may be incurred. In addition there is likely to be a need, the amount of which has not been quantified, for the introduction of additional funds into the business for working capital and the further modernisation of its plant and equipment.

8.7. The longer term financial outlook for the paper appears also to be uncertain. While the management has made progress in installing computerised photo-composition equipment and hopes to produce the paper wholly by this method in the autumn, thus obviating the need for linotype operations, the printing presses are old (one line was set down in the 1930s) and cannot easily sustain the production that would be necessary to allow circulation to rise sufficiently to bring long-term financial viability.

8.8. Another source of difficulty is the general level of manning. This has risen by 27 per cent over the period of ownership by Atlantic Richfield. We understand that part of this increase, which occurred over all departments of the paper and followed substantial cuts in staff during 1975, was due to the increase in editorial staff needed to maintain the paper's editorial standards and in extra printing workers who were taken on to produce the larger paper. However, the paper will clearly need to reduce staff if it is to take advantage of modern equipment such as that installed in the publishing department which, in spite of the automated equipment now in use, appears to be considerably over-manned.

The circumstances of the proposed transfer to Lonrho

8.9. During the period of Atlantic Richfield's proprietorship of The Observer its President Mr Robert Bradshaw had been, as the Chairman of The Observer Ltd, particularly concerned with its management. Mr Bradshaw's resignation from Atlantic Richfield to take up a senior post with RCA may therefore have been a factor in Mr Anderson's decision earlier this year that continued ownership of The Observer as a separate business was no longer in the interests of its shareholders. Another factor was the realisation that the paper, if it was to survive, needed more knowledgeable management than Atlantic Richfield was able to give from its headquarters on the west coast of the United States.

8.10. Mr Anderson told us, however, that he did not wish to lose all contact with the paper, and hoped that if the paper was merged with the existing newspaper interests of Outram, owned by Lonrho, he would be able to maintain an interest in it. He therefore approached Mr Rowland, the Chief Executive of Lonrho, who had previously expressed an interest in acquiring The Observer.

8.11. Mr Anderson told us that in his discussions with Mr Rowland he valued The Observer at £6 million and indicated to him that providing Lonrho accepted responsibility for the current liabilities of The Observer he was prepared to accept the issue of shares in Outram equivalent to 40 per cent of the enlarged equity of Outram as consideration for the paper. He also agreed that Atlantic Richfield would cancel its outstanding loans of £8·85 million and the unpaid interest on these loans.

8.12. When it became apparent that the original agreement would probably result in two separate references to the Commission, in relation to the transfer of The Observer to Outram and of the transfer of more than 25 per cent of the shares in Outram to Atlantic Richfield, Mr Rowland and Mr Anderson decided to amend the agreement to provide for a cash consideration of £3 million and 20 per cent of the enlarged equity of Outram so as to avoid the possibility of the second reference. This, however, still left the possibility that The Observer transfer would be referred to the Commission. Mr Rowland informed us that he therefore told Mr Anderson that to avoid this possibility he would personally purchase a 50 per cent share in The Observer, and Mr Anderson agreed to this further change in the arrangement. In the event the personal purchase was not carried out, and the transfer arrangements reverted to the purchase by Outram for £3 million cash and shares equivalent to 20 per cent of the equity of Outram which was referred to us by the Secretary of State.

8.13. We were told that the original purchase and the first change were discussed with the Board of Lonrho and agreed at specially convened Board meetings. The personal purchase by Mr Rowland was also, we were told, agreed by the Board of Lonrho and Outram, the latter being consulted by telephone. The transactions described in this and the preceding paragraphs indicate the influence which Mr Rowland as the Chief Executive and major shareholder in Lonrho has over its activities.

8.14. There are two other matters concerning the transfer which were brought to our attention as indications of the intentions of Lonrho and Atlantic Richfield. The first relates to the possibility that the sale of The Observer was in some way connected with other existing and prospective transactions in Africa and America between Mr Rowland, Mr Anderson and Mr D K Ludwig.

8.15. Mr Rowland and Mr Ludwig are already business associates. Mr Ludwig sold a 50 per cent share in an American hotel group, Princess Properties, to Lonrho in 1979, and Lonrho has taken over the management of the hotels. There has been no previous business association between Mr Rowland and Mr Anderson; Mr Anderson and Mr Ludwig have known each other for a number of years. Mr Rowland told us that a partnership with Atlantic Richfield in relation to The Observer would be of great value to Lonrho as a preliminary to possible developments he and Lonrho were planning in Mexico and Africa. He also believed that Lonrho's knowledge of Africa could be of assistance to Atlantic Richfield. Mr Rowland's desire to enter into a partnership with Atlantic Richfield may explain the readiness with which he accepted the terms of sale but the possibility of connection with other transactions does not in our view give rise to any inference that the transfer of The Observer is against the public interest.

8.16. One other matter was raised with us in relation to the transfer, and concerns arrangements for the printing of The Guardian on the presses of The Observer. We were told by the management of The Observer that negotiation of a contract for the printing of The Guardian was well advanced when the transfer was arranged. The contract would have been of considerable advantage to The Observer as it would have allowed seven-day utilisation of its printing plant and equipment, and brought much needed extra income which would have gone a long way to improve its prospects of viability. But the contract had not been signed at the time of the announcement of the sale, and The Guardian management, with a very limited time to complete the negotiations due to other contractual arrangements, required certain guarantees to be given with regard to The Observer's performance of the contract.

8.17. The Guardian told us that Lonrho seemed at first to be prepared to give the guarantees, but then suddenly changed its attitude and refused to give them. Lonrho told us that this refusal was due to the advice of its solicitors. The solicitors thought that the contemplated arrangements might constitute sharing of the premises of The Observer, for which the landlords' consent was necessary under the lease. As far as the solicitors knew no approach had been made to the landlords to discover whether they would give this consent, and the solicitors advised that in these circumstances Lonrho should not give the guarantees. The result was that The Guardian withdrew from the negotiations, and the opportunity to make better use of the printing plant and earn additional revenue was lost, to the great disappointment of the existing management of The Observer.

8.18. It has been suggested to us that this incident indicates on Lonrho's part a cavalier and unpredictable attitude to the interests of The Observer, and suggests that those interests would not always be the sole guide of Lonrho in conducting The Observer's business. It is clear, however, that The Guardian was pressing for firm guarantees at short notice and Lonrho received legal advice against entering into the guarantees. We do not therefore think it would be fair to draw any inference from this incident that Lonrho would not have proper regard for the future of The Observer.

The benefits to The Observer of the transfer to Lonrho

8.19. Before we examine the possible detriments to the public interest in the proposed transfer, it is convenient to consider the three benefits that Lonrho has put forward: the availability of capital, management experience, and the possibility of a new London evening, and perhaps a daily, paper to bring increased competition and better utilisation of the printing equipment.

8.20. There is no doubt that The Observer will require further financial support if it is to become viable. Despite certain current difficulties in relation to some of its United Kingdom enterprises, Lonrho appears able to provide the level of support that will be required.

8.21. Outram has been successful in introducing new technology to both its daily and weekly publications. The speed with which it has recently launched a new Sunday paper is an indication of its management ability. We believe it faces, in common with other provincial papers, some difficulties in maintaining the circulation level of its existing publications, and it is too early to express a view on whether the Sunday paper will be a success. Furthermore, the considerable investment in new equipment has not produced all the staff savings that might have been expected, and Outram has not succeeded in achieving the use of its computerised photo-composition equipment to the full extent that was originally intended. Perhaps more significantly most of Outram's management have no experience of Fleet Street conditions. However, even giving full weight to all these factors, we believe on balance that a combination of Lonrho management and financial resources would be of advantage to The Observer.

8.22. Lonrho told us that its plans for additional titles included the possibility of both a London evening and a daily paper as a companion to The Observer. If these additional publications could be successfully launched and maintained, they would clearly provide additional competition. But there is considerable doubt whether London can support two evening papers, and even if such a paper was eventually found to be successful, its launch would be a very considerable burden to Outram and Lonrho which might endanger the progress and maintenance of existing publications. Moreover, such a launch could only be a long-term operation. In these circumstances we do not believe it is possible to make a reliable assessment of the proposal for new publications, particularly as the investment appraisal and marketing survey have not been completed.

The alternatives to the transfer to Outram

8.23. Although The Observer's present financial situation is unsatisfactory, we have received no evidence to suggest that its immediate future is in jeopardy. Mr Anderson told us that if the proposed transfer were not permitted, Atlantic Richfield would not close the paper. He suggested that, while it would be in the long-term interests of The Observer to be returned eventually to United Kingdom ownership and direct management, it was unlikely he would seek another purchaser immediately, and that any future prospective owner would be chosen with the object of avoiding a further reference to the commission.

8.24. It would be possible, in the next few months, for Atlantic Richfield to exercise the option in the 1977 agreement to return The Observer to its previous owner, Sableknight. From the evidence we received, it appears unlikely that in such circumstances Sableknight would be willing, or able, to take on the management and financial responsibility for The Observer. Two of the directors of Sableknight, Lord Goodman and Mr David Astor, told us that they would find no difficulty in obtaining satisfactory alternative owners for the paper, and we were given particulars of one potential bidder with financial standing and management experience.

8.25. While therefore our duty is to consider only the proposed transfer to Lonrho and not to judge the merits of alternative potential owners, we have in our consideration of the public interest disregarded the possibility that the alternative to the proposed transfer might be closure.

How the proposed transfer might affect the public interest

8.26. The Observer is one of three Sunday papers circulating throughout the United Kingdom which are generally considered as 'quality' or 'heavy' papers. Its present political stance is central and it is not bound to any particular party. This policy, which has been built up in the years when Mr David Astor was both proprietor and editor, has been fully maintained under the ownership of Atlantic Richfield. In practice, in terms of overall balance, The Observer is usually regarded as representing views distinct from those of its main competitors, the Sunday Times and Sunday Telegraph, and one of its particular interests is Africa.

8.27. It is with this background in mind that we have to consider the public interest with particular regard to three main questions:

(i) The circumstances of its transfer.

(ii) Whether the transfer will affect the concentration of ownership of newspapers and other publications to the detriment of the public interest.

(iii) The possible effect of the transfer on the accurate presentation of news and free expression of opinion.

8.28. It was represented to us by a few witnesses that a further question of public interest arose, namely the likelihood, as they saw it, that a transfer of ownership of The Observer to Lonrho and its subsidiaries would entail a change in the political attitude of the newspaper towards the right of the political spectrum. They felt that such a change would be undesirable because it would extend the existing imbalance of the political affiliations of the press as a whole, and the consequence might be increased demand for a system of licensing or some other government action designed to ensure balanced representation in the press of all political points of view.

8.29. Whether or not this apprehension of the effect of the transfer on the political attitude of The Observer is justified, it would be a serious development of our role for us to take such a point into account. It would involve the Commission in investigating the political opinions and intentions of a proposed proprietor as one of the criteria by which to judge his suitability as an owner of a newspaper. Such a criterion, if available at all under section 59(3) of the Fair Trading Act, could be employed only with the utmost discretion. In our judgment, such wholly exceptional circumstances as alone might justify its use are not to be found in the present case. We have accordingly not taken advice, and express no view, whether the further question mentioned in paragraph 8.28 falls legally within our purview on a reference under section 59 of the Act. We confine our analysis to the three issues outlined in paragraph 8.27.

The circumstances of the transfer of The Observer

8.30. Some concern was expressed to us by Lord Goodman, Mr David Astor and others about the failure of Atlantic Richfield to consult or even give prior notice to the Board of The Observer about its intention to sell to Lonrho. It was even suggested to us that Mr Anderson may have misled the directors of the paper about his intentions, when he told them at the end of February that he did not intend to sell to Associated Newspapers, as this was interpreted by some as an intention not to sell to anyone at that time. We were told therefore that there was very considerable surprise when a few days later Lord Goodman was informed by Mr Anderson that he had sold a 60 per cent interest to a subsidiary of Lonrho although in 1976 Lonrho had not been considered by the then owners as a suitable potential purchaser of the paper.

8.31. There was no legal obligation upon Atlantic Richfield or Mr Anderson to consult The Observer Ltd or its directors about the sale or to give them prior notice of it. It was for Mr Anderson to decide whether in all the circumstances there was any other reason for doing so. Some may regret that the members of the board and those who were actually running the paper were not consulted but we have to judge only whether the course Mr Anderson took can now be made a reason for saying that this transfer may be expected to operate against the public interest. We do not think it can.

Concentration of ownership

8.32. Lonrho's United Kingdom daily, weekly and recently introduced Sunday newspapers are produced and intended for circulation in Scotland. The Group's magazines also circulate in Scotland, or are produced for a specialised readership and have a limited market. Lonrho suggested therefore that since the only direct competition which could be at risk would be between The Observer, which sells around 70,000 copies or 7 to 8 per cent of its total circulation in Scotland, and the Sunday Standard, which aims at a wider market in Scotland, that the degree of concentration involved was minimal.

8.33. Nevertheless the proposed transfer involving a major provincial publisher acquiring a national title does represent yet another move in the continuing growth of concentration of ownership of provincial and national newspapers which was seriously increased by the recent acquisition of The Times and Sunday Times by companies controlled by Mr Rupert Murdoch. We consider that in the long-term such a concentration of ownership is undesirable, as it will reduce competition and diversity of view. In this case there is the added disadvantage that Lonrho has many other interests and it could be argued that the ownership of The Observer would represent a material increase in power to this group.

8.34. One danger of such concentration is that there may be a reduction of competition. We believe that in this case that risk is small. Outram's existing daily and weekly newspapers and other publications do not compete directly with The Observer, and the new Sunday Standard does not seem likely to have much effect on The Observer's sales in Scotland. It could even be argued that the possibility of the launching of a new London evening paper to compete with the monopoly New Standard may be an advantage of the transfer.

8.35. If the danger that may arise from the concentration is that Mr Rowland or Lonrho may have an undue degree of influence on public opinion, we believe that there are factors which suggest that the proposed transfer should not give rise to undue concern. One is that the daily and Sunday newspapers concerned are in no way monopoly publications as is sometimes the case with local newspapers. Another is that there will be separate boards for the Outram publications and The Observer. Providing therefore that the separate editorial policy of The Observer, as decided by The Observer board, can be safeguarded, we do not consider that the degree of concentration in this transfer is against the public interest.

The accurate presentation of news and free expression of opinion

8.36. This has been the most critical part of our inquiry. 'The accurate presentation of news and free expression of opinion' are specified in section 59(3) of the Fair Trading Act as the matters which we are particularly to take into account in deciding whether the transfer of a newspaper may be expected to operate against the public interest. In this case, furthermore, the evidence submitted to us adverse to the transfer has been concentrated very largely upon these questions. We have accordingly considered very carefully whether the transfer of The Observer to Outram might be expected to inhibit the accurate presentation of news in the paper or to limit the freedom of those who write in it to express their opinions.

8.37. The Royal Commission on the Press, 1974–77 was particularly concerned at the danger to the diversity of opinion and expression which accompanied the growth in concentration of newspapers. It believed that this generated pressures which only editors could resist, and that if editors were to be independent, they should be assured of their basic rights which they suggested should be:

(*a*) the right to reject material provided by central management or editorial services;

(*b*) the right to determine the contents of the paper (within the bounds of reasonable economic consideration and the established policy of the publication);

(*c*) the right to allocate expenditure within a budget;

(*d*) the right to carry out investigative journalism;

(*e*) the right to reject advice on editorial policy;

(*f*) the right to criticise the paper's own group or other parts of the same corporate organisation;

(*g*) the right to change the alignment or views of the paper on specific issues within its agreed editorial policy; and

(*h*) the right to appoint or dismiss journalists and to decide the terms of their contracts of employment within the established policy of the organisation, and the right to assign journalists to stories.

8.38. We accept these views of the Royal Commission as a useful description of the authority which the editor of a newspaper ought to possess. It must also be borne in mind that the presentation of news and the expression of opinion in a newspaper depend upon other journalists as well as the editor, and for the purpose of judging the likely effect of a transfer it is necessary to consider their position also.

8.39. The apprehensions expressed to us were based first on the width and variety of Lonrho's commercial interest both in this country and in other parts of the world, and on the controversy which Lonrho's business has sometimes aroused. It was suggested that, as part of the Lonrho group, The Observer would be under pressure to include some items of news concerning Lonrho's business and to exclude others, and would also be subject at least to influence in the formation and expression of opinions affecting Lonrho. This suggestion was related particularly to Africa. The reporting of any news or making of any comment unwelcome to the national authorities of certain African countries would, it was said, result in Lonrho being forced to choose between controlling what appeared in The Observer and risking retaliation against its assets and interests in those countries. Secondly, it was suggested that Mr Rowland's very direct and personal methods of controlling Lonrho's business made it inevitable that he would himself exert pressure upon the editor and other journalists to put things into the paper or to keep things out as Lonrho's other interests might require. Thirdly, it was said that the journalists would be conscious of the interest or involvement of Lonrho, or of Mr Rowland, in certain matters, and even in the absence of actual urgings or interference would avoid writing or be influenced in their writing on those subjects.

8.40. We put these apprehensions and suggestions to the representatives of Lonrho. They assured us that Lonrho would make its best efforts to maintain the editorial traditions and journalistic standards of The Observer and also said it would endeavour to keep The Observer free from party political bias and from attachment to any sectional interest. They denied strongly that Lonrho would make any attempt to interfere with the editorial independence of The Observer or to influence the presentation of news. In particular, Mr Rowland assured us that, if he had to make a choice between bridling The Observer and risking other interests of Lonrho, he would not choose to impose limits on The Observer, 'whatever the cost'.

8.41. To some extent these apprehensions can be tested by experience. Lonrho owns newspapers in Scotland, Kenya and Zambia. It owned newspapers in Tanzania and Uganda until they were nationalised early in the 1970s. (We were told in the course of our inquiry that arrangements for the transfer of the Zambian newspapers to a corporation owned by the ruling party of Zambia were at an advanced stage.) We have received evidence about the position of the editorial staff of these papers.

8.42. The evidence about the African papers is summarised in Chapter 7. It consists partly of evidence about particular incidents, and partly of evidence of the general experience of editors under Lonrho's ownership. This evidence has not been easy to assess. It relates to happenings of a number of years ago, and the witnesses' memories have understandably lost some of their precision. With the exceptions of Mr Hall and Mr Rowland, we were not able to see the witnesses but received only their written statements. We therefore had no opportunity, such as a hearing might have provided, of evaluating the statements elucidating implausibilities in them or reconciling inconsistencies.

8.43. Judging these accounts as best we can in spite of these difficulties, we do not think the evidence about particular incidents is clear enough to justify any finding that on those occasions anyone acting on behalf of Lonrho tried to exert any pressure or to interfere with the editors or the editorial staff. As regards the general experience of editors, we attach importance to the evidence of Mr Hall, because he had experience as editor of a newspaper owned by Lonrho. On the evidence available to us we cannot conclude that Lonrho has interfered with the accurate presentation of news or the free expression of opinion in its African newspapers. The evidence rather suggests that as a newspaper proprietor Lonrho respected editorial independence in times of some difficulty and turmoil.

8.44. We were able to visit Glasgow, and to meet some of the senior journalists and management of Lonrho's weekly and daily papers in Scotland. Neither this evidence nor that of the NUJ chapel at Outram contained any suggestion that during Lonrho's proprietorship there have been attempts to interfere with the freedom of editorial expression or improperly to influence presentation of news in favour of Lonrho's interests. It was not suggested to us that during the last two years of dispute with the House of Fraser Lonrho had attempted to influence the reporting of news or expression of opinion in either the Glasgow Herald or the Evening Times.

8.45. It has been argued that Lonrho's conduct of these newspapers in Africa and Scotland has little value as an indication of what Lonrho's conduct of The Observer would be. The Observer is a paper of great reputation and some influence in the United Kingdom. Its reputation also extends to other countries, and it is said to have readers among persons of power in Africa. There is therefore, it is said, much more to be gained by manipulation of The Observer than by manipulation of African or Scottish newspapers, and it cannot be assumed that in the face of this opportunity any restraint which Lonrho may have displayed in managing newspapers elsewhere would be repeated in its management of The Observer. This argument was supported by reference to the keen desire to own The Observer shown over several years by Lonrho, and in particular by Mr Rowland, in spite of the somewhat uninviting prospect which the paper offers financially.

8.46. We have no doubt that transfer of The Observer to Outram would be followed by changes in the running of the paper. These changes would extend to the relationship between the owners and the editorial staff. On The Observer the character of this relationship has been exceptional for many years. It was exceptional while Mr David Astor was the editor, because the editor was the owner. It has been exceptional while Atlantic Richfield have been the owners, because the owners have been remote and have hardly concerned themselves at all with the paper's editorial policy. If the ownership were to be transferred to Outram, we should expect quite a different relationship to develop. We think Mr Rowland would be closely interested in some of the contents of the paper. He would be quite ready to offer his own opinions and suggestions. This would be a new feature of the running of The Observer, and it might not be welcomed, at least at the outset, by all the editorial staff; but it would not necessarily involve any interference with the accurate presentation of news or the free expression of opinion. We see nothing wrong in the making of comments or suggestions by the owner of a newspaper to the editor. If comment and suggestion are carried to the point of pressure or direction danger arises and what we regard as the due position of the editor and journalists (cf paragraphs 8.37 and 8.38) is threatened.

8.47. The critical question, therefore, is whether under the ownership of Outram that point would be reached. On the one hand, we have the clearly expressed resolve of Lonrho to respect The Observer's editorial independence, and the record of Lonrho's conduct of other newspapers. This might be supported by the continued presence of Atlantic Richfield and Mr Anderson who has agreed to continue as the Chairman of The Observer Ltd. We think also that Lonrho would recognise the commercial advantage of maintaining the standard of The Observer's journalism, and would realise that this could not be done if conditions of work on the paper became unacceptable to a number of members of the editorial staff. They would also recognise that if they brought improper pressure to bear on journalists this would rapidly become known and would prejudice the viability of the newspaper.

8.48. On the other hand, a potential conflict of interest arises wherever a national newspaper is owned by a company belonging to a group with interests likely to be the subject of reporting or discussion in the press. Lonrho is certainly such a group, with its extensive interests in Africa and elsewhere overseas and its interests in the United Kingdom in steel, textiles, hotels, property, vehicle imports and distribution and whisky. Owners of newspapers are unlikely to be found nowadays outside such groups, and the possibility can never be excluded that the strains arising from conflicts of interest may result in attempts at interference with the accurate presentation of news and free expression of opinion.

8.49. In the present case we find one other reason for caution. Mr Rowland has told us the time may be drawing near when he will contemplate retiring from the position of Chief Executive of Lonrho. There is no doubt that there are men of ability in the management of Lonrho and its subsidiary companies, but we have the clear impression that the influence of Mr Rowland is felt very strongly throughout the group. Whatever assurances are offered now we do not know what direction the interests of the group may take, nor how its commitment to newspapers may be affected, when Mr Rowland's influence is removed.

8.50. Section 61(2) of the Fair Trading Act 1973 provides:

> Where on such a reference the Commission find that the transfer of a newspaper or of newspaper assets in question might operate against the public interest, the Commission shall consider whether any (and, if so, what) conditions might be attached to any consent to the transfer in order to prevent the transfer from so operating, and may, if they think fit, include in their report recommendations as to such conditions.

Having weighed all the considerations, we find that the transfer in question might operate against the public interest. We have therefore considered whether, in order to prevent the transfer from so operating, any conditions might be attached to the Secretary of State's consent. Lonrho's representatives have put before us assurances which Lonrho would be prepared to give, and we have discussed these proposed assurances with them and with other witnesses. We have been greatly assisted by this, although we do not follow these assurances completely in the recommendations which follow.

8.51. Lonrho has proposed that independent directors be appointed to the board of The Observer Ltd. It has obtained the consent of the following persons to act as independent directors, if invited to do so:

Lord Chalfont
Sir John Clark
Lord Cledwyn
Sir Geoffrey Cox
Sir David Hunt

Sir Alexander Johnston
Mr Hugh Stephenson
Dame Rosemary Murray

Another person with current business experience at a senior level has also agreed to be appointed but does not wish to be named at this stage.

8.52. We considered whether, within the framework of The Observer Ltd, the independent directors should be constituted as a group separate from the board or should be included within it. The distinctive functions proposed below for them, in the appointment or dismissal of the editor, in the monitoring of relationships, in the settlement of disputes and in decisions about the future disposition of Lonrho's interests in The Observer, require that their independence should be both real and manifest. If they are members of the board, such independence might be compromised by their associations within it and, more specifically, because matters on which they had to adjudicate were the outcome of earlier board decisions to which they had been party. However, risks of this kind could be more than offset by the value to the independent directors, and to the smooth running of the company, of their share in the central responsibility of the board and in the information available to it and would be minimised by the calibre of the independent directors proposed. On balance we prefer that the independent directors should be full members of the board.

8.53. We recommend that consent to the proposed transfer be not given unless the following conditions are attached to it:

(1) Lonrho in association with Outram and SUITS will arrange the appointment to the board of The Observer Ltd of the independent directors referred to in paragraph 8.51.

(2) The board of The Observer Ltd always shall include not less than six independent directors.

(3) The subsequent appointment of independent directors shall be subject to the following provisions:

 (i) Consultation with the journalists working on The Observer.

 (ii) The agreement of a majority of the existing independent directors.

(4) The removal of any independent directors shall be subject to the agreement of a majority of the existing independent directors.

(5) Independent directors shall not, apart from their remuneration or directors' fees in relation to their appointment as independent directors of The Observer Ltd, hold any position which results in remuneration or the payment of fees or consultancy monies from Lonrho Ltd, or any subsidiary or associated company of Lonrho Ltd. If an independent director becomes entitled to any such remuneration, fees or monies he or she shall resign.

(6) Independent directors shall in addition to their normal duties and responsibilities as directors have the following special duties, powers and responsibilities:

(i) To consider any decision of the board to dismiss or to appoint the editor of The Observer. No person shall be appointed to or dismissed from the post of editor without the approval of a majority of the independent directors.

(ii) To consult the journalists working on The Observer Ltd before considering any decision of the board to appoint a new editor.

(iii) To settle any dispute between Lonrho, SUITS, the board of The Observer Ltd or any representative of them on one side, and the editor or any journalist on the other side, on any matter mentioned in paragraph (8).

(7) Neither Lonrho nor any of its subsidiaries shall, without consulting the board of The Observer Ltd, do anything which shall result in any shares in The Observer Ltd passing out of the ownership of Outram or in The Observer passing out of the control of The Observer Ltd.

(8) Lonrho and its subsidiaries will ensure that the editor for the time being of The Observer has full control in relation to:

(i) The appointment, remuneration within the annual budget, disposition and dismissal of the editorial staff of The Observer.

(ii) The giving of instructions to the editorial staff of The Observer. Such instruction shall be given solely by the editor or by persons to whom he has delegated authority.

(iii) The presentation of news and the expression of opinion subject to the established policy of the paper. The editor shall also be free to publish or refuse to publish any particular advertisement.

(iv) The detailed allocation of space between editorial content and advertising, week by week, within the strategic framework set by the board.

(9) Lonrho and its subsidiaries will ensure that the board of The Observer Ltd will consult with the editor before setting the annual budget for editorial and advertising space and expenditure and will ensure the insertion in the service contract between The Observer Ltd and any editor of a provision providing for the giving of not less than twelve months' notice on either side.

(10) Before the transfer takes place the Articles of Association of The Observer Ltd shall be amended as necessary to provide for the appointment and removal of independent directors as set out in paragraphs (1) to (4) above and otherwise to give effect to these conditions. No subsequent alteration of the Articles of Association which affects any of these conditions shall be made without the written authority of the Secretary of State.

(11) If The Observer is transferred to any other subsidiary of Lonrho Ltd the Articles of Association of that company shall be altered in the

way provided in condition 10, and Lonrho Ltd and its subsidiaries will continue to be bound by all other conditions set out above.

8.54. Some witnesses have told us that they have no confidence in the efficacy of independent directors or the usefulness of appointing them. We recognise that the proper conduct of a newspaper depends on confidence between the owners and the staff, and if there is no such confidence the presence of independent directors on the board cannot make up for it. If the transfer takes place, we hope that mutual confidence between the new owners and the editorial staff of The Observer will gradually develop. During the initial period, while this confidence is being built up, we think the presence of the independent directors on the board should be of great value. We think the independent directors should meet at least quarterly the editor and other journalists to discuss their work on the paper and so to become aware of their feelings and any anxieties which might worry them. In this way the independent directors should provide the staff with some assurance that their interests could not be overlooked by the board, and should help to nurture trust and dispel any apprehension that under the new ownership the proper performance of the journalists' work would be difficult.

8.55. The presence of the independent directors should also reassure those readers whose confidence in The Observer might, it was suggested to us, be shaken by the change of ownership.

8.56. Looking beyond the initial period, we believe that, in addition to the normal contribution of directors to the business of the company, the important regular function of the independent directors would be to avert the development of trouble rather than to settle actual disputes. Their regular meetings with the editor and journalists would continue to be useful. Their presence and influence on the board should restrain any inclination (should it ever arise) to interfere with the accurate presentation of news and free expression of opinion. In the last resort, we believe that independent directors of the character and standing of those proposed would be prepared to exert their powers to defend that presentation and that freedom, if necessary by public protest and action.

8.57. Some witnesses reminded us of the criticisms of Lonrho and its Chief Executive made in the report of the Inspectors appointed to investigate the affairs of Lonrho after the boardroom differences of 1973, and expressed the view that no reliance should be placed on assurances offered by Lonrho. We believe that incidents and conduct such as the Inspectors criticised will not occur in the running of The Observer if the persons proposed, and other similar persons who may succeed them, sit as independent directors on the board. In saying this we do not mean any judgment to be implied whether such things would occur in other circumstances. As to the reliability of Lonrho's assurances, we need only say that the vigilance of these independent directors should ensure that the assurances are observed. Here again, we do not mean any judgment to be implied about the fulfilment of the assurances without this safeguard.

Conclusion

8.58 Section 59(3) of the Fair Trading Act requires us ultimately to judge whether the transfer of 'The Observer' by the Atlantic Richfield Company to George Outram & Co Ltd may be expected to operate against the public interest. We conclude that this transfer, if it is made subject to the conditions set out in paragraph 8.53, may be expected not to operate against the public interest.

J G LE QUESNE *(Chairman)*

E A B HAMMOND

T M RYBCZYNSKI

J S SADLER

J W A BURNET

R HALSTEAD

J CLEMENT JONES

The following member of the group dissents from the conclusion for the reasons set out in the note of dissent included in this report.

R L MARSHALL

J GILL *(Secretary)*

9 June 1981

Note of dissent

By Dr R L Marshall

8.59. I share with my colleagues the approach that 'we have in our consideration of the public interest disregarded the possibility that the alternative to the proposed transfer might be closure' of The Observer (paragraph 8.25). I agree with them that the transfer in question might operate against the public interest (paragraph 8.50). I do not, however, share their conclusion in paragraph 8.58 that if the transfer is made subject to the conditions set out in paragraph 8.53 it may be expected not so to operate.

8.60. My view is:

(1) The Observer at present serves the public interest through the following characteristics:

(a) It has an avowed general policy which is acceptable to its staff and its readers and which is a distinctive and valuable element in the range of Sunday papers (paragraph 8.26).

(b) It has a high standard in the presentation of accurate and comprehensive information. It plays a particularly important part in the presentation of information on affairs in Africa and the Third World generally.

(c) The editorial staff and journalists express informed views which have been freely arrived at and for which the reasons are openly stated.

Lonrho has firmly declared its intention not to interfere with the general policy of the paper or with the editorial freedom within that policy.

(2) The main dangers to these characteristics arising from the transfer are summarised in paragraph 8.39. They are generated not only by the management style of Lonrho but by interests which are basic to Lonrho's diverse operations, often in particularly volatile areas of the globe, and which Lonrho may reasonably be expected to follow in the long run. Their influence on The Observer would be exercised particularly through the continuing relationship between the editor and the chief officer of Lonrho at any time or the agents acting for him. I am not convinced of an adequate counterbalance from other contrary interests in Lonrho.

(3) There arises then the question of attaching conditions to 'any consent to the transfer' (paragraph 8.50) which would serve as safeguards against the dangers apprehended for the public interest. The safeguards in which my colleagues have confidence are set out in paragraph 8.53 and they depend critically on the role of the independent directors. With the greatest respect to Lonrho's initiative in proposing such directors and the quality and intentions of the directors themselves I do not believe that the dangers I perceive lend themselves to institutional remedies and procedures of the kind envisaged. I do not think it is possible for such directors to maintain membership of the board, establish associations within it and share responsibility for board decisions, whilst at the same time retaining the independence required by their functions (see paragraphs 8.53, 8.54 and 8.56) in the appointment or dismissal of the editor, in the monitoring of relationships, in the settlement of disputes and in decisions about the disposal of Lonrho's interest in The Observer. In particular the crucial relationship between editor and chief officer is too close, subtle and continuous to be subject to control by third parties, or amenable to effective mediation by them in circumstances where the trust and mutual forebearance on which their relationship is ultimately based has broken down under the strain of a legitimate clash of interest. Accordingly I do not believe that the proposed safeguards would be effective.

(4) I do not believe that in the transfer in question any realistic variant of these safeguards would be effective.

(5) Accordingly I conclude that the transfer may be expected to operate against the public interest and should not be allowed to proceed.

(Signed) R L MARSHALL

10 June 1981

APPENDIX 1

(Referred to in paragraph 1.2)

Reference to the Monopolies and Mergers Commission under section 59 of the Fair Trading Act 1973

Whereas the Secretary of State received on 27 March 1981 an application for his consent under section 58 of the Fair Trading Act 1973 to the transfer of 'The Observer', a newspaper of which Atlantic Richfield Company is a proprietor, to George Outram & Company Limited:

Now, therefore, the Secretary of State in pursuance of section 59 of the said Act hereby refers to the Monopolies and Mergers Commission for investigation and report the matter of the proposed transfer of the said newspaper.

S G LINSTEAD

An Assistant Secretary
Department of Trade

27 March 1981

APPENDIX 2

(Referred to in paragraph 2.12)

The new technology

This appendix contains a very brief description of the main features of the new technology.

On-line input

1. New composing room equipment may be introduced using direct input from a variety of sources—composing room, editorial and advertising departments. Journalists themselves can enter their copy into a computer and edit it, using a visual display unit (VDU) and classified advertisements can similarly be entered by clerical staff. Special terminals are also available for making up display advertisements.

2. Some newspapers are adopting a system whereby composing room staff, who would otherwise be redundant, are still employed to input all copy to the computer. As well as making use of some of the composing room staff, this system has the advantage that fewer VDUs are used more intensively. Although this is a less efficient arrangement, both in terms of copy flow and use of manpower, it does not alter the job structure and working methods radically and therefore should reduce the problem of redundancy in composing rooms.

3. Output from the computer may be either punched paper tape, a magnetic medium, or, as with most modern equipment, directly to a photo-typesetter. The computer justifies and hyphenates copy if programmed to do so. Editing can be carried out at the input stage.

Typesetting by photocomposition

4. An electronic photo-typesetter comprises three basic elements:
   a mini-computer;
   a cathode ray tube (CRT) or laser beam and focusing unit; and automatic film feed.

The computer stores on magnetic disk the specification of type sizes and faces and logo types in digital form. In more sophisticated versions a special page make-up terminal is available which provides a realistic layout of the final page, prior to photo-setting. Such systems also allow for further editing, justification and hyphenation so that page make-up can be quickly altered without returning copy to the main computer. An image of the final copy is projected by the CRT, through a lens, and on to photo-sensitive paper.

5. In sophisticated systems the output is of a fully made-up page and a print-out for proof reading is also available.

Plate production

6. One of the major decisions which has to be made when introducing the new technology is how to obtain printing plates from flat photo-typeset

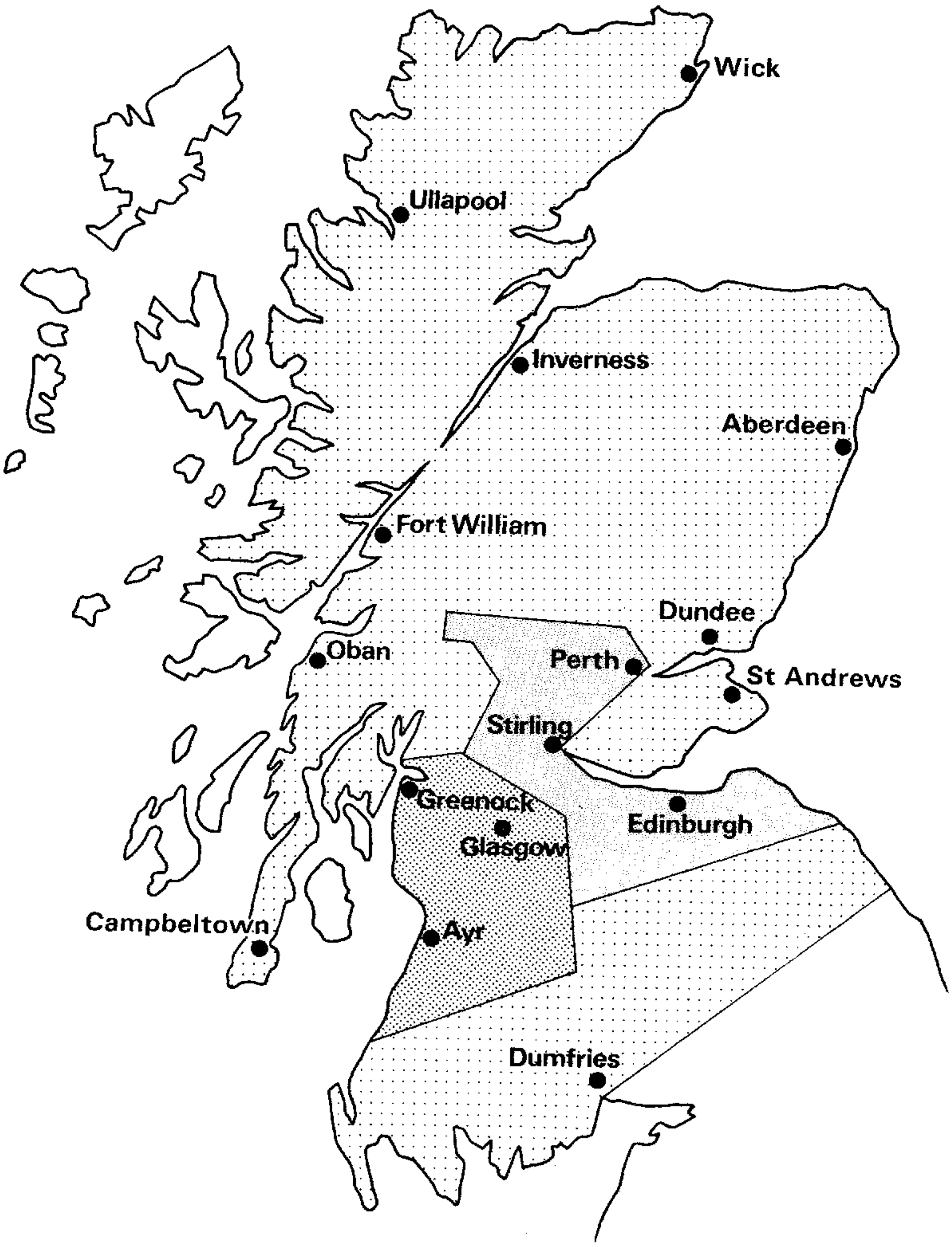
pages. For low-volume regional newspapers which can use web offset printing this is achieved simply by a further photographic process producing lithographic (or other) plates.

7. However, letterpress printing used for high-volume production of national newspapers requires a raised surface metal plate and the process to achieve this has only recently been developed to give the required quality of print. This process involves the photography of the made-up page and preparation of a plastic pattern plate from the negative. Light is shone through the negative on to a soft plastic plate; the image area is thereby hardened. Subsequent washing in a solvent removes the unhardened area, thus giving a pattern for the made-up page. Flexible metal plates can thus be made for fitting to a rotary press in the same way as solid semi-circular plates cast from hot metal.

APPENDIX 3

(Referred to in paragraph 4.23)

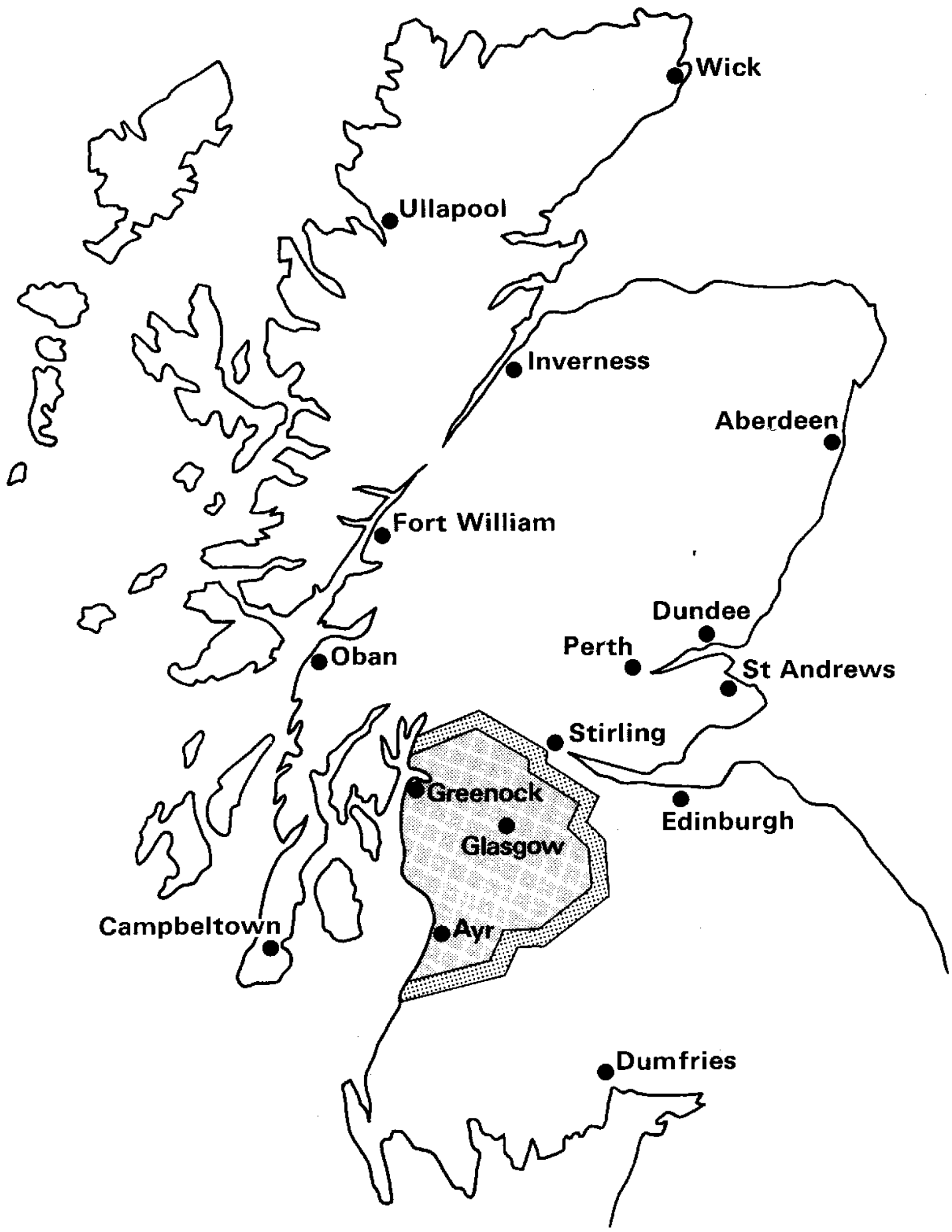
Circulation area of the Glasgow Herald



APPENDIX 4

(Referred to in paragraph 4.23)

Circulation area of the Evening Times



APPENDIX 5

(Referred to in paragraph 4.23)

Net Sales of the Glasgow Herald and the Evening Times 1974–80

		Glasgow Herald	*Evening Times*	
			Mon-Sat	
Three Months to June	1974		254,550	
Six Months to June	1974	93,968		
,, ,, ,, December	1974	95,657	235,775	
,, ,, ,, June	1975	102,671	229,902	
,, ,, ,, December	1975	102,820	211,737	
,, ,, ,, June	1976	108,408	216,329	
,, ,, ,, December	1976	108,750	202,230	
,, ,, ,, June	1977	112,719	208,907	
			Mon-Fri	*Saturday*
,, ,, ,, December	1977	114,251	212,056	185,691
,, ,, ,, June	1978	116,180	225,990	189,168
,, ,, ,, December	1978	117,681	219,768	191,827
,, ,, ,, June	1979	122,274	221,234	190,823
,, ,, ,, December	1979	120,280	210,119	181,973
,, ,, ,, June	1980	121,131	215,519	177,040
,, ,, ,, December	1980	115,401	211,178	165,862

APPENDIX 6

(Referred to in paragraph 4.26)

Circulation of newspapers published by Scottish and Universal Newspapers Limited

Title	*Area Covered*	*Average net sales per publishing day July–Dec 1980*
Ayrshire Post	Ayr, Prestwick, Troon, Girvan, Maybole, Dalmellington.	28,062
Irvine Herald	Irvine New Town	3,911
Kilmarnock Standard	Kilmarnock, Stewarton, Galston, Newmilns, Darvel	21,457
Paisley Daily Express	Paisley, Johnstone, Renfrew, Barrhead	13,803
Dumbarton Lennox Herald	Dumbarton, Vale of Leven, Balloch, Bonhill, Alexandria	12,653
Johnstone Advertiser	Johnstone, Linwood, Garnock Valley	4,337
Airdrie & Coatbridge Advertiser	Airdrie, Coatbridge	25,448
East Kilbride News	East Kilbride, Eaglesham, Busby, Cambuslang, Halfway	13,248
Hamilton Advertiser	Hamilton, Motherwell, Wishaw, Bothwell, Uddingston, Blantyre, Larkhall, Strathaven, Lanark, Carluke, Biggar	35,530
Rutherglen Reformer	Rutherglen, Cambushlang, Burnside, Kings Park, Castlemilk	7,313
Wishaw Press	Wishaw, Newmains, Shotts, Clelland	13,398
Lothian Courier	Bathgate, Armadale, Whitburn, Livingston New Town, Broxburn, Blackburn, Linlithgow	19,863
Stirling Observer	Stirling, Bannockburn, Doune, Callander, Dunblane, Kippen, Fintry, Drymen, Balfron, Bridge of Allan, Fallin, Plean Wednesday – 12,232 Friday – 6,380	18,612
Perthshire Advertiser	Perth, Aberfeldy, Auchterarder, Blairgowrie, Rattray, Coupar Angus, Crieff, Pitlochry, Dunkeld Tuesday – 11,485 Friday – 18,498	29,983

Title	Area Covered	Average net sales per publishing day July–Dec 1980
Blairgowrie Advertiser	Blairgowrie, Alyth, Rattray, Coupar Angus, Valley of Strathmore	3,856
Dumfries & Galloway Standard	Dumfries, Lockerbie, Annan, Lockmaben, Moffat, Sanquhar, Castle Douglas, Dalbeattie, Kirkcudbright Wednesday – 9,405 Friday – 21,908	31,313
Galloway News	Castle Douglas, Dalbeattie, Kirkcudbright, Gatehouse	8,251
Border Telegraph	Galashiels, Melrose, Selkirk, Earlston, St Boswells, Lauder, Newton, Stow	5,237
Peebleshire News	Peebles, Innerleithen, Walkerburn, West Linton, Penicuik, Biggar	4,594

Circulation Figures of 'free publications'

Title	Area Covered	Average net sales per publishing day July–Dec 1980
Aberdeen Advertiser	Aberdeen, Dyce, Coulter, Cults, Bridge of Don	75,000
Helensburgh Times	Helensburgh, Craigendoran, Cardross, Rhu, Garelochhead, Clynder, Roseneath, Cove, Kilcreggan	8,200
Stirling Shopper	Stirling, Bannockburn, Bridge of Allan, Dunblane	17,500

Appendix 7

(Referred to in paragraph 5.23)

Assurances offered by Lonrho, SUITS and Outram

The Board

1. The Board will endeavour to keep The Observer free from party political bias and from attachment to any sectional interest.

2. The Board will consult with the Editor before setting the annual budget for editorial and advertising space and expenditure.

Independent directors

3. The Proprietors will procure the appointment of not less than four suitable independent directors to the Board of The Observer Company.

4. The appointment of independent directors shall be subject to the following procedures:

(*a*) The Proprietors will consult with the NUJ Chapel of The Observer.

(*b*) The selection of the first independent directors shall be subject to the approval of the Monopolies Commission itself.

(*c*) The appointment of subsequent or replacement independent directors shall be subject to the veto of a majority of the existing independent directors, as shall the removal from office of any independent director.

5. The independent directors shall in addition to their normal powers and responsibilities as directors have:

(*a*) A power exercisable by a majority to veto the decision of the Board as a whole to dismiss or to appoint the Editor of The Observer.

(*b*) The obligation to settle (on the basis of the principles set forth in this letter) any dispute which may arise out of a complaint by the Editor of The Observer that he is impeded by the Proprietors in the exercise of full control in relation to the matters mentioned in paragraph 6 below, and which is referred to them by the Editor, the Proprietors or the Board as a whole. This duty shall not extend to any dispute, directly or indirectly relating to the annual budget for editorial and advertising space and expenditure which, as mentioned at 2 above, will be set by the Board as a whole.

The Editor

6. The Proprietors will so far as it lies within their power ensure that the Editor for the time being of The Observer has full control in relation to the following matters:

(*a*) The appointment, disposition and dismissal of the editorial staff of The Observer.

(*b*) The giving of the instructions to the editorial staff of The Observer. Such instructions shall be given solely by the Editor and by persons to whom he has delegated such authority.

(*c*) The political and editorial policy of The Observer, within general policies laid down by the Board. The Editor shall be free to express any opinion or report any news, even if it might, directly or indirectly, conflict with the opinions or interests of any of the Proprietors, and to publish or refuse to publish any particular advertisement.

(*d*) The detailed allocation of space between editorial matter and advertising, week by week, within the strategic framework set by the Board.

7. The Proprietors will endeavour to procure the insertion in the service contract between The Observer Company and any future Editor of a provision providing for the giving of not less than twelve months notice on either side.

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