Title: Foreign State Intervention (FSI) Regime **IA No:** **RPC Reference No: RPC-DCMS-5357(1)** **Lead department or agency:** Department for Culture, Media and Sport **Other departments or agencies:**	**Impact Assessment (IA)** **Date: October 2024** **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Primary and Secondary **Contact for enquiries:** enquiries@dcms.gov.uk
Summary: Intervention and Options	**RPC Opinion:** FIT FOR PURPOSE

Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	
N/A	N/A	From previous to current regime (Option 0 to Option 1): £0.53m From current to modified regime (Option 1 to Option 2): -£0.53m Overall costs from previous to modified regime (Option 0 to Option 2): £0.1m[1]	**Business Impact Target Status** Qualifying provision

What is the problem under consideration? Why is government action or intervention necessary?

The possibility of foreign states to control or influence UK newspapers could inhibit the ability of UK newspapers and news magazines to have a plurality of views. This is something the UK is particularly susceptible to due to its openness to wider foreign investment. The existing media public interest regime provides some level of protection against these risks, though a number of Parliamentarians in the previous Parliament tabled amendments seeking to strengthen legislative protections due to their concerns about the potential weaknesses

[1] Three net costs to business per year have been reported to capture the sequential nature of the legislation. The overall net cost to business is £0m, which has been rounded to the nearest £0.1m, in line with HMT Green Book guidance.

with the current regime. The new FSI regime came into force on 24 May 2024 through emergency legislation, seeking to strengthen the media public interest regime by introducing a ban on foreign states from acquiring any shareholdings in UK newspapers for newspapers and news magazines with a turnover in excess of £2 million. However, the Government intends to modify this new FSI regime to exempt investments made by state owned investors, such as sovereign wealth funds, below an ownership threshold where the government judges that the level of investment would not give the investor the ability to materially influence the policies or strategy of a UK newspaper or news magazines. This is an action only the government has the ability to take.

What are the policy objectives of the action or intervention and the intended effects?

The primary aim of this intervention is to prevent any risk of a foreign state (or body or individual associated with a foreign state) from exercising control or influence over the UK press or news magazines through the new Foreign State Intervention (FSI) regime. This intervention also aims to ensure that any undesired effects in relation to wider investment in UK media and business are minimised as much as possible through modifications to the current FSI regime, creating exemptions for investments made by state owned investors up to a maximum ownership threshold set by the regulation.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 0 - Previous regime - Do nothing: Under this option, the assessment refers to the previous media public interest regime that existed prior to the FSI legislation. This regime theoretically allows a foreign state or state concern to acquire a shareholding, giving it control or influence over a UK newspaper or news magazine. Whilst the Secretary of State does have powers to block or unwind a transaction if public interest considerations are relevant, after taking into consideration the advice of Ofcom and the CMA, these provisions could be more difficult to operate where investment is routed through state bodies or a connected individual, and therefore make UK newspapers and news magazines more susceptible to the influence of foreign states.

Option 1 - Current regime: The current Foreign State Intervention regime, introduced on 24 May 2024, means the Secretary of State is obliged to refer cases to the CMA through a Foreign State Intervention Notice (FSIN) where she has reasonable grounds to believe a “foreign state newspaper merger situation” has been created. The powers apply to all UK newspapers, news magazines and other news periodicals with an annual turnover of more than £2 million. However, due to its capture of retail investment, the current regime does not operate efficiently and creates issues for newspapers and news magazines that have, or wish to, secure investment from organisations that themselves have investment from sovereign wealth funds and may act as a disincentive to investment in the sector.

Option 2 - Modified regime (preferred option): This option introduces certain exemptions to the current regime (set out in Option 1) to allow UK newspapers to take investment from sovereign wealth funds up to a cap of 15%. This provides a wider pool of capital for UK newspapers and news magazines to have access to than they currently do under the current regime, and provides improved clarity for potential acquiring and acquired newspapers and news magazines through clearly defining the ownership threshold they must not exceed to be within scope of this modified regime, preventing Foreign State Intervention Notices from being accidentally triggered.

Is this measure likely to impact international trade and investment?	Yes

Are any of these organisations in scope?	**Micro** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded:** N/A	**Non-traded:** N/A	

Will the policy be reviewed? Will not be reviewed. **If applicable, set review date:**

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by senior analyst: *Urvashi Parashar* Date: 21/08/2024

Signed by the responsible minister: S. Peacock Date: 13/05/2025

Summary: Analysis & Evidence Policy Option 2

(preferred option)

Description: This option ("modified regime") introduces exemptions to the Foreign State Intervention regime ("current regime"), to allow limited investment by state owned investors in UK media. To account for the sequential nature of the legislation, direct impact on businesses under option 2 are calculated against the current regime (option 1).

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time period	Net Benefit (Present Value (PV)) (£m)		
2019	2020	10	**Low:** N/A	**High:** N/A	**Best Estimate:** N/A

COSTS (£m)	**Total Transition** (Constant Price) Years		**Average Annual** (excl. Transition) (Constant Price	**Total Cost** (Present Value)
Low	£0.09m		£0.14m	£1.32m
High	£0.17m		£1.57m	£13.64m
Best Estimate	£0.13m		£0.53m	£4.73m

Description and scale of key monetised costs by 'main affected groups'

The largest costs incurred by businesses under option 2 are as follows:

- **Familiarisation costs** which apply to both large media companies and legal firms specialising in Merger and Acquisition law operating in the UK.
- **Administrative / Compliance costs** incurred by stakeholders in an acquisition. These can be broken down into four cost types:
    - **Internal business administration** - arising from work internal to the merger parties necessary for the merger review.
    - **External legal advice** - Costs incurred from firms seeking specialist external legal advice.
    - **External economist advice** - Costs incurred from firms seeking specialist external economist advice.
    - **CMA Investigation costs and Foregone Merger Fees** - the costs incurred by the Competition and Market Authority throughout the FSIN investigation and the loss in revenues to the CMA from no longer receiving Merger Fees from acquisitions.

Other key non-monetised costs by 'main affected groups'

Compared to the counterfactual (Option 0), the regulation provides some restrictions on foreign investment and therefore is likely to disincentivise a degree of that investment. However, the exemption reduces these restrictions and thereby increases access to a wider pool of capital for businesses when compared to Option 1, including those which fall into the small and medium businesses category.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	£0		£0	£0
High	£0		£0	£0
Best Estimate	£0		£0	£0

Description and scale of key monetised benefits by 'main affected groups'

As this is a retrospective Impact Assessment, there are implications on the evidence we can present. Originally, both the primary and secondary legislation outlined should have been introduced together, but due to the timing of the General Election 2024, this was not possible and secondary legislation is being passed at a later date. Due to this, this document focuses mainly on costs and wider impacts, as we have been unable to monetise the benefits. The 15% ownership threshold for investment by SOIs will provide a degree of flexibility for newspaper groups seeking investment from SOIs where control or influence of a newspaper by a foreign state is unlikely to be a risk. As this remains below the threshold at which investors are generally deemed by the CMA to have obtained material influence over an enterprise in other areas of merger control, the measure will not significantly weaken the regime.

Other key non-monetised benefits by 'main affected groups'

In addition to those benefits outlined in the option 1 summary, option 2 presents the following benefits:

- **Increased access to wider pool of capital for UK newspapers and news magazines** - The introduction of thresholds under option 2 enables businesses with a negligible amount of foreign investment to still invest in UK newspapers and news magazines, thereby increasing access to a wider pool of capital than would be the case under option 1.
- **Improved clarity for potential investors/bidders -** the defined thresholds introduced under option 2 provide greater clarity for both regulators and potential investing parties in an acquisition of whether they are in scope of the Foreign State Intervention regime or not. Not having these defined, as is the case under option 1, could lead to some Foreign State Intervention Notices being accidentally triggered by an acquirer who has some small investors linked to foreign states.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5%

The primary risks for the preferred option arise from potential unintended consequences of the regime. These key risks include:

a. Risk of underestimating compliance costs given the assumption that the rate of foreign state intervention investigations will be small.
b. We assume that businesses will comply with the legislation. However, there is no formal process in place, reporting is voluntary and DCMS and the CMA are responsible for identifying potential mergers that fall within this regime.
c. Potential of proxies to hold foreign state shares.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target (qualifying provisions only) £m:** illustrative only
Costs: -£0.53m	**Benefits:** £0m	**Net:** -£0.53m	

Summary: Analysis & Evidence   Policy Option 0

Description: Continuation of the old Media Mergers regime (prior to the introduction of the “Foreign State Intervention regime (“current regime) and not introducing a specific FSI regime for UK newspapers. There are estimated to be no additional costs to businesses introduced under this option, with this estimation of total cost below being used as a baseline against which the additional costs of options 1 and 2 can be estimated.

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	**PV Base Year** 2020	**Time period** 10	**Net Benefit (Present Value (PV)) (£m)**		
			Low: N/A	**High:** N/A	**Best Estimate:** N/A

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price	**Total Cost** (Present Value)
Low	£0		£0.13m	£1.11m
High	£0		£1.68m	£14.48m
Best Estimate	£0		£0.55m	£4.73m

Description and scale of key monetised costs by ‘main affected groups’

As option 0 does not introduce any changes to the existing public interest regime as set out under the 2002 Enterprise Act, the largest costs incurred by businesses under option 0 are administrative/compliance costs:

- **Administrative / Compliance costs** incurred by stakeholders in an acquisition. **These account for** which can be broken down into four cost types:
    - **Internal business administration** - arising from work internal to the merger parties necessary for the merger review.
    - **External legal advice** - Costs incurred from firms seeking specialist external legal advice.
    - **External economist advice** - Costs incurred from firms seeking specialist external economist advice.

Other key non-monetised costs by ‘main affected groups’

Under Option 0 there could be negative externalities if UK newspapers are under the influence of foreign states, opening the way to significant risk to the integrity of UK media, including:

- Media plurality
- Free expression of opinion
- Accurate presentation of news

Furthermore, under the previous regime both DCMS and Ofcom will incur costs to continue investigating merger cases.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)

Low	£0		£0	£0
High	£0		£0	£0
Best Estimate	£0		£0	£0

Description and scale of key monetised benefits by 'main affected groups'

As this option is considered to continue the status quo and does not make any changes to the existing media public interest regime as set out under the 2002 Enterprise Act, there are not expected to be any direct benefits resulting from the do-nothing option.

Other key non-monetised benefits by 'main affected groups'

N/A.

Key assumptions/sensitivities/risks **Discount rate (%)**	3.5%
Maximum of 5 lines.	

BUSINESS ASSESSMENT (Option 0)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target (qualifying provisions only) £m:** illustrative only
Costs: £0.55m	**Benefits:** £0m	**Net:** £0.55m	

Summary: Analysis & Evidence Policy Option 1

Description: This option explores the impacts associated with the new Foreign State Intervention regime ("current regime") as drafted in the DMCC Act, but without the exceptions introduced under option 2. Impact on businesses under option 1 are calculated against option 0.

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2020	Time period 10	Net Benefit (Present Value (PV)) (£m)		
			Low: N/A	**High:** N/A	**Best Estimate:** N/A

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price	**Total Cost** (Present Value)
Low	£0.06m		£0.29m	£2.52m
High	£0.11m		£3.13m	£27.07m
Best Estimate	£0.09m		£1.07m	£9.28m

Description and scale of key monetised costs by 'main affected groups'

As in option 2, the largest costs incurred by businesses under option 1 are as follows:

- **Familiarisation costs** which apply to both large media companies and legal firms specialising in Merger and Acquisition law.
- **Administrative / Compliance costs** incurred by stakeholders in an acquisition. **These account for** which can be broken down into four cost types:
  - **Internal business administration** - arising from work internal to the merger parties necessary for the merger review.
  - **External legal advice** - Costs incurred from firms seeking specialist external legal advice.
  - **External economist advice** - Costs incurred from firms seeking specialist external economist advice.
  - **CMA Investigation costs and Foregone Merger Fees** - the costs incurred by the Competition and Market Authority throughout the FSIN investigation and the loss in revenues to the CMA from no longer receiving Merger Fees from acquisitions.

Other key non-monetised costs by 'main affected groups'

The wide definition of foreign state bodies and agencies under Option 1 includes state-owned investors (SOIs) such as sovereign wealth funds and public pension schemes, which means investment held by associated persons in legitimate investment vehicles may be captured. The regime could therefore disincentivise wider investment in the sector and the subsequent smaller pool of potential investors could result in higher costs for financing capital.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	£0		£0	£0
High	£0		£0	£0

Best Estimate	£0		£0	£0
Description and scale of key monetised benefits by 'main affected groups' Monetised benefits are not expected for these regulations as the amendments to be made in the statutory instrument would not reduce the number of interventions under the current media public interest regime. Therefore, the department cannot estimate any reduction in business costs. Due to a lack of the necessary evidence/data, no wider benefits have been monetised for this retrospective assessment.				
Other key non-monetised benefits by 'main affected groups' We have identified the following key benefits that option 1 introduces over option 0: ● **Pluralistic media landscape -** the current regime helps to support the government's goal of ensuring there are effective safeguards in place to protect a pluralistic media landscape and to prevent mergers or acquisitions of media enterprises which may be contrary to public interest. ● **Free express of opinion -** The current regime helps to reduce the risk that foreign state ownership of, or control or influence over, the UK's newspapers and news magazines could pose to democracy and to free speech. ● **Reduced cost of referring cases -** Outright prevention of foreign states from investing in, or buying out, UK print news will save both DCMS and Ofcom the future time and cost of lengthy investigations to determine whether public interest considerations arise, by removing the need for a phase 1 (more light-touch) investigation and expediting cases to a phase 2 (more in-depth) investigation instead.				
Key assumptions/sensitivities/risks			**Discount rate (%)**	3.5%

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target (qualifying provisions only) £m:** illustrative only
Costs: £0.53m	**Benefits:** £0m	**Net:** £0.53m	

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1.0 Policy Rationale

1.1 Introduction

1. This policy change involves the creation of the new Foreign State Intervention (FSI) regime for newspapers and news magazines published in the UK[2]. The new regime bans foreign state ownership, control, or influence over UK newspapers and news magazines (that have an annual turnover of more than £2 million per year).

2. The new regime sits alongside the existing media public interest regime (which is set out in Part III of the Enterprise Act 2002) This regime continues to apply to newspaper mergers and acquisitions involving private businesses including businesses established overseas.

3. This Impact Assessment covers:

    - the impact of the new provisions in s70A-70G of the Enterprise Act 2002 which create the new FSI regime for newspapers and news magazines - these provisions came into force on 24 May 2024 with effect from 13 March 2024
    - the effect of changes to the regime that allow state-owned investors (SOIs), including sovereign wealth funds, to be able to acquire a stake of up to 15% of shares in a UK newspaper or news magazine and exempt certain types of retail investments - these provisions will be made by secondary legislation using new powers in the Enterprise Act 2002.

4. This is a retrospective Impact Assessment for emergency primary legislation enacted by the previous administration and which came into force in May 2024. This assessment does not explore repealing the existing legislation and the counterfactual used for comparison throughout is therefore the previous media public interest regime.

5. As this is a retrospective Impact Assessment, there are several implications of this on the evidence we can present. Originally, both the primary and secondary legislation outlined in this Impact Assessment should have been introduced together, but due to the timing of the General Election 2024, this was not possible and secondary legislation is being passed following further consideration by the new Government . This document focuses mainly on costs and wider impacts, as we have been unable to monetise the benefits.

1.2 Policy Background

6. The existing public interest regime for mergers and acquisitions involving UK newspapers and television and radio broadcasters has been in place since 2003 and

[2] The new regime was introduced via amendments to the Digital Markets, Competition and Consumers Act 2024 (DMCC)

was introduced as part of wider reforms to the radio and TV and cross-media ownership rules. These arrangements were developed at a time when the internet was emerging and when social media and online disinformation (and the use of these capabilities by state and non-state actors) were only starting to emerge as public policy issues.

7. Concerns were raised during the passage of the Digital Markets, Competition and Consumers Act 2024 (DMCC) about the specific risk to UK media from foreign state interference and whether the existing protections which have been in place for more than 20 years through the media public interest regime were still sufficient to deal with foreign states seeking to acquire UK newspapers or news magazines.

8. In response to these concerns the previous government announced that it would bring forward government amendments to the DMCC Bill to establish a new regime to prevent foreign states from being able to own, control or influence a UK newspaper or news magazine. The changes were agreed and the new regime came into effect on 24 May 2024.

9. The previous government also announced at the same that it would use new powers to ensure that passive / benign investment by established state owned-investors (.ie. through sovereign wealth or pension funds) could continue to be made in UK newspapers and news magazines up to a maximum ceiling of 5%. The previous government launched a technical consultation on draft regulations on 9 May 2004. The consultation closed on 9 July 2004. Having considered the responses made, including those made by newspaper groups, government now wants to bring forward secondary legislation to modify the FSI regime to bring the exceptions into effect but with a higher maximum ceiling of 15%.

1.3 Problem under consideration

10. A free and independent press is an essential pillar of a healthy democracy and an established and integral part of the UK's political landscape. Newspapers have always been, and must continue to be, free to develop relationships with their readers, to challenge received or established views and develop editorial lines supporting different causes. The plurality of views across different newspapers along with the news input from TV and radio broadcasting and online sources is fundamental to this relationship and ensures, amongst other things, there is a wide range of views supporting a culture of argument, debate and challenge. These benefits are captured in Ofcom's media plurality framework and further evidence their importance in democratic society.[3]

11. Foreign investment as a whole can enhance company performance and lead to an increase in productivity, human capital accumulation, R&D activity as well as technological spillovers. However, this investment needs to be regulated, as the ability of foreign states to control or influence UK newspapers via state-owned investors could

[3] Ofcom, Media Plurality Framework, Annex 2, September 2023; Ofcom, Discussion Document - Media Plurality & Online News, November 2023.

have a profound effect on our democracy and wider society and on trust in the media, particularly if this influence was used to develop or control narratives which, over time, were to align with another state's political or economic interests. Foreign information manipulation and interference has become a growing challenge to democratic societies around the world and a preemptive measure is required to safeguard UK media.[4]

12. The UK has been amongst the most open to foreign investment in its media and creative industries internationally. This approach of encouraging inward investment has helped and supported the growth and development of the UK's media and has also allowed UK businesses to use the freedom they have to invest internationally or to sell their content to other countries. However, this approach needs to be balanced against the importance of ensuring that UK news media is not subject to influence by foreign states who may seek to take advantage from the UK's openness to wider foreign investment.

13. The objective of the media public interest regime is to balance the need for an open media with the desire to encourage inward investment by allowing the Secretary of State a discretion to intervene in media mergers or acquisitions that give rise to public interest concerns. These existing powers can be used in the case of a foreign state bid to acquire a UK newspaper where a transaction raises public interest concerns, for example on accurate presentation of news or free expression of opinion.

14. The media public interest regime includes a variety of safeguards including the requirement for the Secretary of State to seek and take account of advice from Ofcom and the CMA. However, the existing media public interest regime by necessity involves a detailed review of the circumstances of the merits of each case and concerns have been expressed, including by Parliamentarians, that the absence of specific restrictions on foreign state ownership creates uncertainty as to whether foreign states may be able to take account of the process - for example by establishing legal structures that purport to distance the foreign state from day to day control over a newspaper's operations. During the passage of the DMCC Bill, a number of Parliamentarians tabled amendments seeking to strengthen the legislative protections due to their concerns about the potential weaknesses with the current regime.

15. The new FSI regime, which came into effect on 24 May 2024, seeks to address these concerns by introducing a ban on foreign states from acquiring, either directly or indirectly any shareholdings in UK newspapers, to avoid foreign states (including proxies) having controlling influence over the policies of that news organisation, and crucially its journalism and editorial policies. These measures are limited to UK newspapers and news magazines, with a turnover in excess of the £2 million threshold, in recognition of the unique role these publications play in contributing to the health of our democracy by providing accurate news and information, helping to shape opinions

[4] European Union,Tackling foreign information manipulation and interference together, September 2023

and contributing to political debate. The government has consulted seperately on extending the media merger regime, includiung the FSI regime, to online news[5].

16. The new regime does not apply to other types of news media, such as television or radio news, the government believes the existing structure of licensing and regulation by Ofcom, something which does not apply to newspapers, together with the existing media public interest regime is sufficient to ensure. However, the government will keep the new FSI measures under review and will consider further changes to the regime if the assessment of the risk of foreign state interference to non-news media changes.

17. Finally, the regime that came into effect on 24 May does not include the exceptions that were announced by the previous government during the passage of the DMCC Bill. The exceptions, to be set out in secondary legislation, would modify the new regime to allow for sovereign wealth funds and were intended to allow other state-owned investors to take a minority stake in a UK newspaper enterprise up to the thresholds set by regulations. The exceptions would also exempt investments held by associated persons that were minimal or held through collective investment vehicles. The effect is to ensure the regime does not encompass types of holdings that provide no ability for a foreign state to control or influence a UK newspaper and helps avoid unintended consequences, for example restricting investment from investment funds which themselves have small investments from sovereign wealth funds. Submissions received during the consultation on the draft regulations highlighted the need for the structure of exceptions to minimise any chilling effect on the ability of UK newspapers to secure future financial investment.

1.4 Rationale for intervention

18. There is international precedent for limiting foreign state influence in media companies, with a number of countries (such as the United States, Canada, Australia, France, and Spain) having introduced legislation to limit foreign ownership of media companies. The rationale for such intervention, as it is in this case, is the fundamental principle to help preserve the ‘national character’ or community of the nation, and ensure that media owners have the best interests of their operating country at heart.

19. Previously, there was no specific statutory restriction on foreign state ownership or foreign-state controlled investment in UK newspapers and news magazines. Media mergers and acquisitions involving newspapers (as well as television and radio) are subject to review under the media public interest regime and the Secretary of State has a discretion to be able to intervene in transactions involving foreign states, but subject to the turnover and share of supply test being met.

[5] Consultation on updating the media mergers regime, December 2024
https://www.gov.uk/government/consultations/consultation-on-updating-the-media-mergers-regime/consultation-on-updating-the-media-mergers-regime

20. The annual world press freedom index measures media plurality and press freedom, and in 2024 has ranked the UK as 23rd overall - highlighting that press freedom is not threatened, but vigilance is needed.[6] On principle, the government believes it would be inappropriate for foreign states to be able to control our newspapers, given the vital role they play in our democracy and contribution to media plurality.

21. For this reason the government believes the new FSI regime is necessary to close-off the risk that a UK newspaper or news magazine can be owned, controlled or influenced by another foreign state. In doing so, the new FSI regime addresses both the risk to the integrity of UK media from foreign state ownership as well as the potential risk of market failure that may result from foreign states being able to exercise control or influence. The new preemptive requirements under the FSI regime also align with the wider strategic landscape and in particular measures set out by the previous government in the National Security and Investment Act 2021 and the National Security Act 2023 that deal with the wider risks to the UK from foreign state interference.[7]

22. However, the government believes that scope of the FSI regime needs to be as narrow as possible to ensure the intervention is proportionate to the risks identified. The FSI regime is therefore limited to UK newspapers and news magazines but not to wider news media (i.e. radio and TV news sources), which are regulated by Ofcom. In addition, the Government intends to modify the regime that came into effect on 24 May 2024 to exempt investments made by state-owned investors, such as sovereign wealth funds, below a threshold set in regulations and where the government judges that the level of investment would not give that body the ability to materially influence the policies or strategy of a UK newspaper or news magazine.

1.5 Policy Objective

23. The main policy objective is to prevent any risk of a foreign state (or body or individual associated with a foreign state) from exercising control or influence over the UK press or news magazines. The mechanism by which this is achieved is the new FSI regime which is triggered when any foreign state acquires any interest in a UK newspaper or news magazine.

24. An important secondary objective is to ensure that any undesired effects in relation to wider investment in UK media and business are minimised as far as possible. To ensure this, the Government will introduce regulations to modify the FSI regime to create an exception for investments made by state owned investors up to a maximum ownership threshold set by regulations. This exemption would apply to investments by state-owned investment vehicles, such as sovereign wealth funds, pension funds or similar as defined by the regulations. The government also intends to exclude small shareholdings or retail

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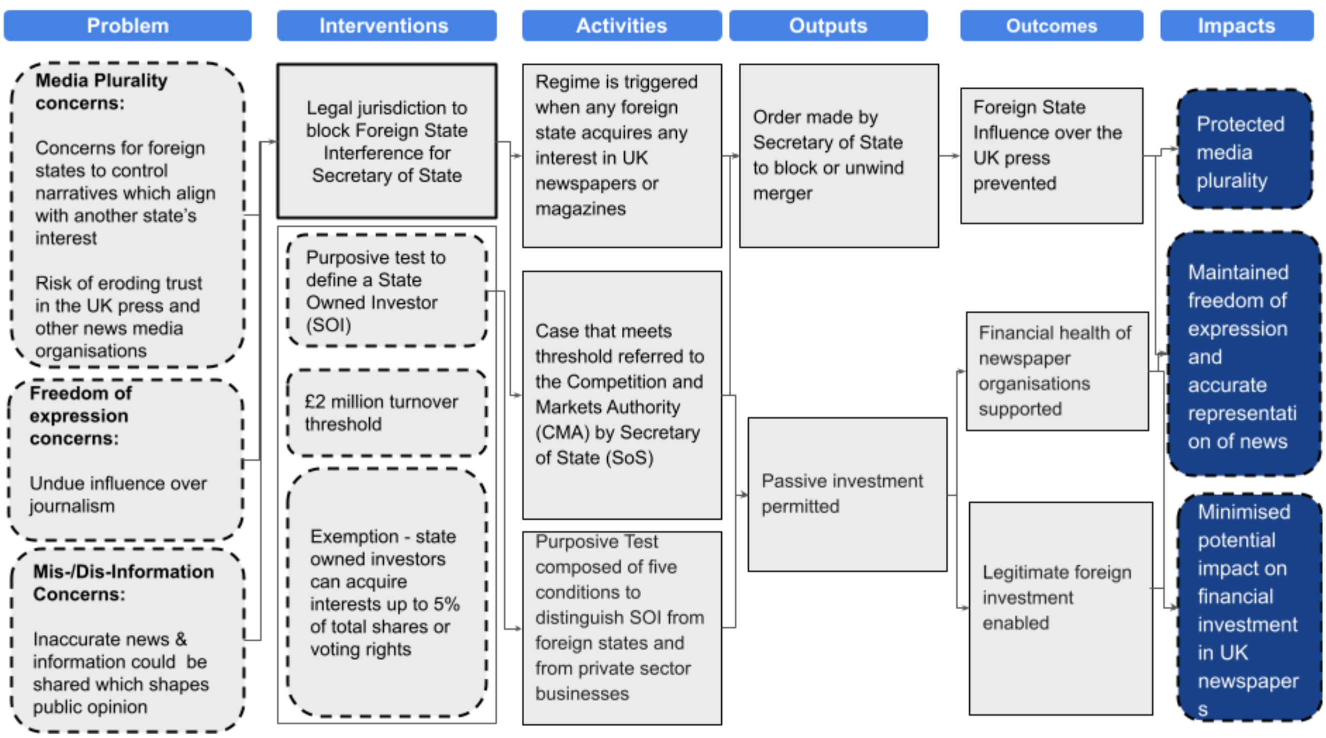
[6] Reporters without Borders, World Press Freedom Index 2024.
[7] The measures also align with the FCDO's Integrated Review Refresh 2003. https://assets.publishing.service.gov.uk/media/641d72f45155a2000c6ad5d5/11857435_NS_IR_Refresh_2023_Supply_AllPages_Revision_7_WEB_PDF.pdf

investments made by associated persons in investment funds which hold financial stakes in UK newspaper enterprises.

25. It should be noted that the measures are not designed to block all investment in UK newspapers or wider but rather investment that can be linked directly or indirectly to a foreign state. Passive investments made by state pension funds or the purchase of non-voting shares by associated people, for example, have little effect or influence, and therefore pose no significant threat. The measures have been designed to allow these kinds of investment to continue, acknowledging the role they play in supporting the financial health of newspaper organisations.

26. The Logic Model in Figure 1 illustrates the intended mechanism of how the proposals set out in the preferred option flow through to the intended positive outcomes required to achieve the stated objectives.

Figure 1: Logic Model



1.6 Options Considered

21. The options considered for this Impact Assessment are limited in their scope due to this being a retrospective assessment. The measures were introduced to Parliament during the final stages of the DMCC Bill in March 2024 in order to meet the concerns raised by Parliamentarians who were concerned that the existing media public intervention regime was not strong enough to prevent a foreign state or state investor from taking control or

influencing a UK newspaper. Alternative approaches that might have been considered as part of an early stage options appraisal - such as non-statutory measures or changes to strengthen the existing media public interest regime - are no longer feasible as the legislation creating the new FSI regime came into force on 24 May. This IA therefore focuses on three broad options available:

- **Option 0 - Previous Regime** - In effect not having a specific FSI regime for UK newspapers. Although this option is described as the do-nothing option, this option would in fact require Parliament to repeal the legislation that recently created the new FSI regime.

- **Option 1 - Current Regime, primary Legislation** - This option explores the impacts associated with the new FSI regime (as drafted in the DMCC Act) but without the exceptions - this is a retrospective assessment.

- **Option 2 - Modified regime, secondary legislation (preferred option) -** This option includes the modifications for state owned investment and for other small/retail investments that are intended to smooth the effects of the new FSI regime.

<u>Option 0 - Do nothing</u>

27. This is an assessment of the regime before the new legislation was introduced in May 2024.

28. As stated previously, the existing media public interest regime (prior to the FSI regime coming into force on 13 March 2024) did, in theory, allow a foreign state or state concern (including associated business or business with connections with foreign leaders or member of their government) to acquire a shareholding, giving it control or influence over a UK newspaper or news magazine. Separately, the national security regime under the National Security & Investment Act 2021 (NSIA) enables Ministers in the Cabinet Office to call-in cases where a newspaper is being bought by a foreign state entity but only where this raises specific national security concerns.

29. The previous media merger regime already gives the Secretary of State the power to intervene in cases where a newspaper is being bought by a foreign state entity (whether directly or indirectly via an investment vehicle) and where the transaction itself raises public interest concerns, for example relating to the free expression of opinion and accuracy of news. In practice, a merger or acquisition of any UK media business by a foreign state or business associated with a foreign state would almost certainly have been subject to an Intervention Notice and review by the Secretary of State (provided that the turnover or share of supply tests are met).

30. In considering a case involving a foreign state, the Secretary of State could consider whether the proposed structure ownership or control could lead to restrictions on journalistic freedom or a risk of systematic inaccuracies. This could include assessing

the effect of the transaction on journalists and their ability to report on the foreign state's leadership, political system or economic interests and whether the transaction gave rise to a risk of self-censorship. In doing so, the Secretary of State is able to consider the past behaviour of the acquirer (and the foreign state it is associated with) and whether or not the laws or practices of the state concerned respect press freedom. The Secretary of State also had powers to block or unwind a transaction at the end of the process if they concluded, having taken into consideration Ofcom and the CMA's advice, that the transaction would operate against the public interest.

31. The previous provisions could also be applied in merger or acquisitions involving foreign state bodies (such as a bank or energy conglomerates) or companies owned by government members, where the transaction gave rise to concerns covered by the current provisions, such as accurate presentation of news, free expression of opinion, or adversely impact on media plurality. However, previous cases suggest that these provisions may be more difficult to operate where the investment is routed through state bodies or a connected individual. This is especially the case where there are attempts to obscure the links between the acquiring party and the state or state concern or where structures are created to distance the foreign state from a newspaper's day to day operations.

32. The regime (as set out in Option 1 and 2 deals) addresses these weaknesses and replaces the current discretionary powers available to the Secretary of State with ex-ante requirements to ban all newspaper mergers and acquisitions involving foreign states, foreign state bodies and persons associated with a foreign state unless they fall into a category of a permitted exemption (Option 2).

Option 1 - Current regime, primary legislation

33. Under the new intervention regime introduced via the DMCC bill, the Secretary of State is **obliged** to refer cases to the Competition & Markets Authority (CMA) through a new type of intervention notice, a Foreign State Intervention Notice, or FSIN, where she has reasonable grounds to believe that "a foreign state newspaper merger situation" has been created. This situation will arise where a merger involving a UK newspaper or news magazine gives a foreign state or body any ownership, control or influence over the newspaper enterprise. These powers apply to all UK newspapers, news magazines and other news periodicals which have an annual turnover of more than £2 million per annum. This includes specialist news publications. If the CMA concludes following the issue of a FSIN, that the merger has or would result in the ownership, influence or control by a foreign state over a newspaper enterprise, the Secretary of State will be **required** to make an order aimed at blocking or unwinding the merger.

34. The new FSI regime uses a wide definition of foreign power which includes individuals who are senior officials within a foreign government and associated persons which includes children and other family members of such officials. This ensures all foreign state bodies and agencies are caught but the board definition also includes state-owned

investors (SOIs) such as sovereign wealth funds and public pension schemes that have a broad portfolio that includes passive investments invested in international stock markets.

35. The broad definition means investment held by associated persons in legitimate investment vehicles, such as Individual Savings Accounts (ISAs) or a Self Invested Personal Pension Schemes (SIPPs), may be captured, as are any shares acquired by an associated person in a UK newspaper. This is the case even if the transactions involve shares bought through the open market and within very small shareholdings, some less than 0.1%.

36. The capture of retail investments means that the current regime does not operate efficiently and creates issues for newspapers and news magazines that have, or wish to, secure investment from organisations that themselves have investment from sovereign wealth funds and may act as a disincentive to investment in the sector. The effect also creates potential costs for newspapers in managing their shareholders and for other businesses including investment businesses in understanding and managing the risk.

Option 2 - Modified regime, secondary legislation (preferred option)

37. The modified regime, which the Government proposes to introduce via secondary legislation, would introduce certain exemptions to the current regime (set out in Option 1) to allow UK newspapers to take investment from sovereign wealth funds or other state-owned investor up to a cap of 15% for all investments. The previous government consulted on a threshold of 5%. However, having considered responses to the consultation, the government believes a higher 15% threshold would give a greater degree of flexibility for newspaper groups seeking investment from SOIs where control or influence over the policy of a newspaper by a foreign state is unlikely to be risk. Since the level of investment is set below the threshold at which investors are generally deemed by the CMA to have obtained material influence over an enterprise in other areas of merger control, the government believes the change will not significantly weaken the regime.

38. The modified regime would also:

- exempt investments held in a UK or an overseas investment fund (including products such as ISAs and SIPPs) by any person deemed to be an associated person. The intended effect of this exception is that a foreign power will not be treated as being able to control or influence the policy of a newspaper owner simply because an associated person has made an investment in a legitimate investment fund which owns shares in a newspaper owner.
- create a de minimis threshold whereby these categories of person may own a shareholding in a UK newspaper of up to 0.1% - this reflects the fact that investments at this level creates little risk of granting the purchaser any tangible

influence and that an investment at this level by an associated person within these categories should not trigger the FSI regime.

39. The modified regime in Option 2 would come into effect when regulations are approved by Parliament - which we envisage will be before [the end of May] but the effect will be backdated to 13 March 2024 as set out in s70G of the Enterprise Act 2002.. The Government plans to update the existing guidance on gov.uk to advise business including small business of the new rules which apply if a merger or sale involves an organisation or individual with a connection to a foreign state.

2.0 Cost and Benefits

40. The following section attempts to estimate the costs and benefits that options 1 and 2 present over option 0. Whilst option 1 is the 'current' regime, this IA and its cost benefit analysis are done retrospectively as this regime was introduced through emergency legislation meaning that no IA could be conducted beforehand. This means that even though option 1 is already in effect we still assess its impact retrospectively as well as assessing the impact of a new 'modified' regime (option 2) which looks to further strengthen the 'current' regime by relaxing some of its restrictions on foreign investment.

2.1 Approach to cost-benefit analysis

41. This Impact Assessment (IA) seeks to determine the impact of reforms to the media merger regime in the Enterprise Act 2002. This follows on from reforms to merger controls outlined in the Digital Markets, Competition and Consumers Bill (DMCC)[8] and its accompanying impact assessments.[9] The reforms to the mergers involving newspaper enterprises and foreign powers form a piece of primary legislation amending section s70A-70G of the Enterprise Act 2002. To maintain consistency with the DMCC, this assessment uses the same or updated assumptions where applicable.

42. In its published opinion, the Regulatory Policy Committee (RPC) agreed with the assumptions made in the DMCC Impact Assessment which this IA mirrors for our analysis, unless they do not apply to media mergers reforms or if they are out of date.[10]

43. This assessment uses 2024 as the first year of the appraisal period, as the regulation has come into force with effect on 13 March 2024.

44. For appraisal purposes, this impact assessment uses a 10-year appraisal period running from 2024 to 2033. GDP Deflators were used to adjust future costs for inflation and were calculated using forecasts from the Office for Budget Responsibility's Economic and

[8] Digital Markets, Competition and Consumers Bill: supporting documentation, Department for Business and Trade (2023)
[9] IA No: BEIS057(F)-22-CCP
[10] Digital Markets, Competition and Consumers Bill: RPC Opinion (Red-rated), Regulatory Policy Committee (2023)

Fiscal Outlook - March 2023. Present values have been totalled using a discount rate of 3.5%, which is applied to future costs and benefits in line with Green Book guidance. These totals have been presented in 2019 prices and 2020 present value base year.

45. Total cost values presented in this Impact Assessment (IA) are in 2019 prices and 2020 present value base year unless specified as over the appraisal period or specified as total present value. Where described as 'over the appraisal period', HMT GDP deflators have been used to adjust costs for inflation. Total present values are adjusted for inflation using GDP deflators and then also discounted using the Green Book rate.

46. The reforms to the media public interest mergers regime pertain specifically to foreign state ownership, which have been brought within scope of the regulations with the effective date of 13 March 2024. Previous foreign state ownership mergers that were completed before 13 March 2024, or where the bid has subsequently been withdrawn, are not included in the analysis as they are not affected by the reforms.

47. The timings of relevant mergers cannot be accurately predicted, and once a Foreign State Intervention Notice (FSIN) has been issued, there is no statutory time limit for the Secretary of State to refer the case to the CMA for investigation. The compliance costs therefore likely fall over more than a single year and this IA does not assume compliance costs are incurred within specific years.

48. As compliance costs only occur upon an instance of a media merger being initiated, and the historically low frequency of public interest media cases,[11] it is not possible to estimate when compliance costs will arise. A particular difficulty is that cases may raise other merger control and may be subject to by the CMA on competition grounds or by regulators in other jurisdictions. This makes it difficult to disassociate costs arising in media merger cases from other regulatory costs associated with the transaction. In addition, costs cannot be arbitrarily assumed to occur in a particular year as this would be adjusted for inflation and the further into the appraisal period the cost is assumed to be, the greater the reduction in the adjusted cost. This could artificially reduce the estimated cost of the intervention.

49. Therefore, this assessment takes the approach of summing the total cost of compliance for the new measures over the appraisal period to produce an annualised cost figure. This annualised cost is then assumed to occur in all years in the appraisal period and is subject to inflation adjustment and discounting for each year.

50. Compliance costs are not evenly distributed, and often fall on the acquiring party pursuing a merger. Under this regime, this entity is likely to be foreign state or foreign state investor. However, domestic businesses with foreign state investment are also captured under this regime, and some costs associated with merging may also fall on the acquired party. It is not possible to accurately predict where these costs may fall, and

[11] There have been 6 media mergers where Public Interest Intervention Notices (PIIN) have been issued since 2012 (Global/GMG, Twenty-First Century Fox Inc./Sky plc, Trinity Mirror Plc/Northern&Shell, IMC of Lebedev Holdings Limited/IDMN, DMG Media Limited/JPIMedia) and TMG/Redbird IMI.

excluding compliance costs under the assumption of foreign state involvement will likely lead to an underestimate. Therefore, this analysis captures all compliance costs associated with merger review, and does not attempt to assign costs to specific parties involved in such review. While this is likely an overestimate, it mitigates the risk of failing to capture all compliance costs UK businesses are subject to.

2.2 Option 0 - Do nothing

51. This option covers no intervention to amend the scope of the existing media public interest regime of the Enterprise Act 2002. Under this option, there would be no further costs to business or government other than those currently incurred under the existing regime.

Costs

Monetised Costs

52. Under option 0, there is expected to be no additional direct or indirect costs to businesses, the CMA, or Ofcom due their operations and responsibilities in respect to UK news sector acquisitions remaining unchanged.

<u>Transition costs</u>

Familiarisation costs

53. As option 0 introduces no changes, there are expected to be no familiarisation costs incurred by UK news businesses, or the CMA in option 0.

Administrative/Compliance costs

54. Due to there being no changes to the existing public interest regime under option 0, there are expected to be no additional compliance costs or administrative burden other than those which have already been incurred by those stakeholders in scope of the pre-existing regime.

55. Under option 0, mergers are subject to the existing review process, which is broken down into three stages for the analysis, producing cost estimates for each stage where applicable:

    a. **Self-assessment** – this is where businesses self-assess whether they should notify the Secretary of State of a merger transaction they are a party to (there is no requirement on a media business to notify DCMS about a forthcoming transaction). This involves the business assessing whether it falls into the scope of the media public interest regime and if so whether it may raise a potential media public interest concern as set out in s58 of the Enterprise Act 2002. Not all businesses that self-assess will be subject to an intervention notice by the Secretary of State. This stage is assumed to impose internal business administration costs as well as external legal and economic consultancy costs to the businesses involved (the acquiring party and the acquirer).

b. **Pre-notification and Phase 1** – this stage is assumed to start when a business begins interacting with the DCMS or the CMA concerning a transaction they are in advanced discussions about. This entails the processes businesses are subject to during the CMA's investigation such as responding to requests for information from DCMS or the CMA (who at this stage will advise on jurisdiction). This stage is assumed to impose internal business administration costs as well as external legal and economic consultancy costs on businesses involved with the transaction.

c. **Phase 2** – very few media merger cases go to Phase 2[12] as the parties have the option of submitting undertakings to deal with any public interest concerns. Similarly, to Phase 1, the costs of this process arise from facilitating the CMA's Inquiry, but this time more in-depth. Processes will include responding to an issues statement and submitting evidence (written and oral) to the CMA panel charged with carrying out the inquiry. This stage is assumed to create internal business administration costs as well as external legal and economic consultancy costs.

56. For the purposes of assessing the impact of the media public interest regime and the public interest justification for intervention under section 58 of the Enterprise Act, it is assumed that businesses within the scope do not incur specific self-assessment costs as the identification of mergers with a potential public interest concern is generally known or undertaken by the Department for Culture, Media and Sport (DCMS) through the pre-notifications phase. DCMS then conducts an analysis of the merger and provides advice to the Secretary of State for Culture, Media and Sport, who decides whether a Public Interest Intervention Notice (PIIN) should be issued. At which point, if a PIIN is issued, a Phase 1 investigation is initiated.

57. This assessment follows similar assumptions for the types of costs incurred by businesses undertaking a merger and under investigation by the CMA on competition cases. These costs are:

a. **Internal business administration** - Arising from work internal to the merger parties necessary for the merger review.

b. **External legal advice** - Costs incurred from firms seeking specialist external legal advice.

c. **Economist costs -** Costs arising from firms seeking expert advice on the competition implications of the proposed merger.

[12] Since 2012 only one case (Twenty-First Century Fox Inc./Sky plc) has been referred for a full Phase 2 inquiry by the CMA.

58. In line with the Digital Markets, Competition and Consumers Bill impact assessment,[13] this IA uses sensitivity ranges with upper and lower bounds for the costs incurred at each investigation stage. A central estimate of the midpoint is taken and used for the estimate of the total cost to business.

59. Based on the central estimates of the costs outlined in the DBT reforms to merger control impact assessment, Phase 1 investigations are estimated to cost less than Phase 2 investigations due to them being more 'light touch'. The breakdown of the cost per stage can be found in Table 1. These costs would be ongoing as business as usual and form the "counterfactual" scenario in which Options 1 and 2 in this IA are presented against.

Table 1: Option 0: Breakdown of the types and value of costs per investigation stage[14]

Cost type	Stage	Low	Central	High
Internal admin	**Self Assessment**	£1,500	£2,250	£3,000
	Pre-notification and Phase 1	£25,000	£40,000	£55,000
	Phase 2	£30,000	£47,500	£65,000
Legal advice	**Self Assessment**	£35,000	£50,000	£65,000
	Pre-notification and Phase 1	£270,000	£400,000	£530,000
	Phase 2	£1,350,000	£2,000,000	£2,650,000
External economist	**Self Assessment**	£0	£22,500	£45,000
	Pre-notification and Phase 1	£0	£180,000	£360,000

[13] Reforms to merger control: annex 3 impact assessment, DBT (2023)
[14] Assumed values of costs taken from Reforms to merger control: annex 3 impact assessment, DBT (2023). The values were sourced from surveys conducted by DBT.

	Phase 2	£0	£905,000	£1,810,000
Total Cost	**Total cost per FSI Investigation**	£1,711,500	£3,647,250	£5,583,000
	Yearly Cost (over 10-year appraisal period)	£171,150	£364,725	£558,300

60. The number of Phase 1 and Phase 2 investigations expected for the appraisal period have been estimated using historical data on public intervention notices and foreign state ownership media acquisitions. There have been four public interest intervention notices over the past 10 years and only one completed foreign state ownership media acquisition over the past 15 years.

61. Due to the limited historical data on the rate of foreign state acquisitions for all possible historic transactions, our analysis uses sensitivity ranges with upper and lower bounds for the costs incurred at each investigation stage. A central estimate of the midpoint is taken and used for the estimate of the total cost to business.

Table 2: Assumed number of Public Interest Intervention Notices (PIIN) over the 10-year appraisal period

	Low	**Central**	**High**
Assumed Number PIIN investigations	1	2	4

62. The above rates of foreign state acquisitions are then multiplied by the total cost per FSI interventions in table 1 to give the total low, central, and high compliance/administrative cost estimates.

63. Under the previous media merger regime, the Secretary of State (SoS) was able to intervene in cases where a newspaper is being bought by a foreign state entity, if the transaction met the turnover or share of supply test and if the transaction raised concerns relating to the free expression of opinion and accuracy of news. An assessment of these issues including whether state ownership or control could lead to restrictions on journalistic freedom or systematic inaccuracies requires an in-depth investigation. The analysis therefore assumes that under this regime, all foreign state influence public interest intervention notices will lead to a Phase 2 investigation.

64. The compliance costs for these are aggregated and apportioned to each of the years within the period, and inflation adjustment and discounting are applied.[15]

[15] As per the methodology presented in paragraphs 34 and 35.

65. As costs arise from the policy provisions increasing the numbers of businesses going through merger review, all costs to business estimated are classified as direct costs for the purposes of this assessment.

66. Total administrative/compliance costs have been summed below on a yearly basis across the 10-year appraisal period.

67. These estimates have been deflated to 2019 prices (2020 present value base year) and discounted in line with Green Book guidance.[16]

Table 3: Option 0: Total yearly cost (£m)

Cost type	Scenario	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Familiarisation	All scenarios	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Administrative / Compliance	High	£2.23	£2.23	£2.23	£2.23	£2.23	£2.23	£2.23	£2.23	£2.23	£2.23	£22.3m
	Central	£0.73	£0.73	£0.73	£0.73	£0.73	£0.73	£0.73	£0.73	£0.73	£0.73	£7.3m
	Low	£0.17	£0.17	£0.17	£0.17	£0.17	£0.17	£0.17	£0.17	£0.17	£0.17	£1.7m
Totals	High	£2.23	£2.23	£2.23	£2.23	£2.23	£2.23	£2.23	£2.23	£2.23	£2.23	£22.3m
	Central	£0.73	£0.73	£0.73	£0.73	£0.73	£0.73	£0.73	£0.73	£0.73	£0.73	£7.3m
	Low	£0.17	£0.17	£0.17	£0.17	£0.17	£0.17	£0.17	£0.17	£0.17	£0.17	£1.7m

68. Please note, the costs listed above only illustrate the costs that are expected to be incurred under option 0. These can be used to estimate the Equivalent Annual Net Direct Cost to Business (EANDCB) of option 1 and 2 by calculating the difference in costs between these approaches and the counterfactual (option 0 and option 1 sequentially). Please see Section 2.5 ‘Summary of Impacts’ where these differences have been calculated to estimate the EANDCBs.

[16] The Green Book, 2024, HMT.

Non-Monetised Costs

Risk to Free Expression of Opinion / Media Plurality / Accurate Presentation of News

69. This option takes no further steps to directly intervene on the grounds that the acquiring party has links to a foreign state. Currently, whilst the Secretary of State can intervene, it can only be done where the newspaper undertaking has a turnover of more than £70m per year and that acquisition itself raises concerns covered by the current provisions, such as accurate presentation of news, free expression of opinion, plurality or, in the case of national security concerns, the circumstances justifies an exercise of powers under the National Security and Investments Act 2021.

70. With the media landscape becoming more complex, however, these provisions are becoming more difficult to utilise opening the way to significant risk to the integrity of UK media especially in cases where the links between acquiring party and the state are complex or obscured.

71. There is, therefore, a risk that the do-nothing option could leave UK newspapers open to bids from or on behalf of foreign states seeking to capture marquee newspaper brands to support their interest rather than the interests of the UK. In order to protect the plurality of media, freedom of expression and the accurate presentation of news within the UK media sector, Parliament has been clear that it wants new requirements that ban foreign states from acquiring control or an interest in newspaper enterprises.

72. Due to it not being possible to accurately estimate the value of free expression of opinion, plurality of views and the accurate presentation of news to the UK's media sector and its consumers, this cost is non-monetised for the purposes of this assessment.

Investigative costs to DCMS and Ofcom

73. In the do-nothing option, both DCMS and Ofcom will have to continue investigating merger cases individually to assess whether public interest considerations are met. This process can be very time and resource intensive and further delays the acquisition process longer than necessary at a cost to all parties involved. This is a cost that would instead be reduced under the preferred option, which provides a mechanism through which acquisitions by those with links to foreign states would be referred quickly by the Secretary of State to the CMA for further investigation once the initial information on the foreign state bidder had been identified.

Benefits

74. As this option is considered to continue the status quo and does not make any changes to the existing media public interest regime as set out under the 2002 Enterprise Act, there are not expected to be any direct benefits resulting from the do-nothing option.

2.3 Option 1 - Current regime

Costs

75. For appraisal purposes, this IA assumes that there is no transition period as the changes to the regulations have already come into effect upon implementation on 24 May 2024 (effective on 13 March 2024) and would continue without the exemption for investments by state owned investors up to the 15% threshold.. Businesses in scope would, therefore, incur transition (familiarisation and compliance) costs from 2024 onwards.

76. The scope of this cost-benefit analysis is the merger review process itself and therefore it does not seek to quantify the costs associated with the logistics of merging. For this reason, it is assumed lawyers are the only external specialists sought for advice (in line with stakeholder feedback). Merging with or acquiring a firm involves significant costs depending on the size and complexity of the businesses involved and the nature of the transaction. Most businesses looking to invest in UK news media organisations will want to seek a solid understanding of how likely a potential transaction is to raise a foreign state ownership concern ahead of proceeding with a transaction. Businesses are incentivised to do this to mitigate the risk of incurring sunk costs only to have a transaction blocked by the Secretary of State.

<u>Transition costs</u>

Familiarisation costs

77. The analysis assumes that the amendments to the media public interest regime of the Enterprise Act 2002 impose additional familiarisation costs on legal firms and to large media companies only. Given that only a small sub-section of the business population pursues a merger, it is unlikely that businesses themselves are highly familiar with the wider merger regime or the media public interest requirements (though awareness will be greater amongst larger newspaper enterprises and broadcasters). We assume that the majority of businesses become familiar with the regime at the point of scoping or taking initial professional advice on a particular transaction, which will be covered under the administrative self-assessment costs in the subsequent section. However, we assume that only large media companies will want to familiarise themselves with this regime as their size, turnover, and reach represent a more attractive investment opportunity for potential foreign state investors than smaller enterprises.

78. In addition, as legal firms specialise in navigating the regulatory environment, it is assumed that corporate law firms practising Merger and Acquisition (M&A) law in the UK will also have to familiarise themselves with the amendments to the regime. The population of UK based law firms practising M&A was estimated to be between 100 to 220 firms.[17]

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[17] The population of UK based law firms practising M&A was estimated from 'Chambers and Partners' (2021) legal directory listings of corporate law M&A firms.

79. Under option 1 it is expected that businesses in scope would incur initial familiarisation costs so that they understand the implications of this intervention for their operations. The methodology used to estimate these costs uses the Standard Cost Model in line with the approach used in the Department for Business and Trade's 'Reforms to merger control: annex 3 impact assessment'[18] given both assessments cover changes to merger controls in the Enterprise Act 2002.

80. The Standard Cost Model involves the following parameters: tariff, time and frequency:

    a. **Time refers to the number of staff hours diverted to the administrative activities of merger review** resulting from proposals considered in this Impact Assessment, and away from activity done towards the main purpose of the business. Time resource requirement assumptions for each stage of merger review have been formulated through surveys and CMA advice.

    b. **The tariff represents the cost of activity per hour.** Wage tariffs have been taken from the relevant earnings data reported in the Annual Survey of Hours and Earnings[19] (ASHE) and upscaled by a non-wage factor.[20]

    c. **Frequency refers to the number of additional businesses that will be subject to the requirement.** Frequency is assumed to be the change in caseload arising from the interventions.

81. Assumptions for the number of words per page and reading speed for both administrative and legal readers are aligned with assumptions made in a recent FCA publication.[21] Please refer to the Risk and Assumptions section of this impact assessment to view an overview of the assumptions made with their impact and quality rating.

82. For initial familiarisation, it is assumed that there will be 62 pages of guidance, with 300 words per page, and with staff reading speed of 100 words per minute. The assumption of 62 pages of guidance is based on the current guidance on the media public interest regime produced by the Government,[22] which is 52 pages, plus an additional 10 pages to explain the foreign state ownership regime. This is the same number of pages currently allocated to explain the media public interest regime in Ofcom's current guidance. This estimate takes into account an expectation that the guidance will cover the scope of the foreign state ownership public interest considerations and policy on intervention in foreign state ownership public interest cases. The current guidance covers these topics in 7 and 8 pages for newspapers as well as broadcast and

[18] Reforms to merger control: annex 3 impact assessment, Department for Business and Trade (2023)
[19] Annual Survey of Hours and Earnings: 2022 provisional results, Table 14.6a, Office for National Statistics (2023)
[20] RPC guidance note on 'implementation costs', Regulatory Policy Committee (2019)
[21] Changes to the SCA-RTS and to the guidance in 'Payment Services and Electronic Money – Our Approach' and the Perimeter Guidance Manual, FCA (2021)
[22] Guidance on the operation of the public interest merger provisions relating to newspaper and other media mergers, Ofcom (2004)

cross-media, respectively. As foreign state ownership has not previously been within scope the number of pages for guidance needed has been estimated as slightly larger.

83. For an initial familiarisation, it is assumed that only 1 member of staff from each large media firm will need to review the guidance with this individual belonging to a business, research or administrative profession, at a median hourly wage of £26.07.[23]

84. It is assumed that businesses will want to have a legal professional review the guidance. For initial familiarisation, it is assumed that only one legal professional is reviewing the guidance. It is also assumed that there is the same quantity of regulations to read, 10 pages with 300 words per page, and a reading speed of 50 words per minute;[24] assuming a more detailed review is conducted. For this assessment, it is assumed that firms use in-house legal professionals at a median hourly wage of £27.29.[25] Staff wages are not adjusted for business size as corporate law firms practising M&A law and medium to large media enterprises employ specialised staff for this purpose.

85. These assumptions result in the formula below to estimate the familiarisation costs large media companies are expected to incur under option 1. These costs have been summed below on a total and yearly basis. An uplift of 22% has been applied to cover overheads, in accordance with RPC guidance.[26]

Initial familiarisation costs (per business) - Option 1

Formula:

((Time spent reading) x (Number of people reading) x (hourly wage estimate)) x 1.22 (uplift)

Example, media companies in scope:

(((300 words per page/100 words per minute) x 62 pages) x (1 worker) x (£26.07)) x 1.22

= £98.60

Example, legal professional:

(((300 words per page/50 words per minute) x 62 pages) x (1 worker) x (£27.29)) x 1.22

= £206.42

[23] Annual Survey of Hours and Earnings: 2022 provisional results. Table 14.6a, Office for National Statistics (2023)
[24] Assumption is made that a detailed review by legal professionals will be undertaken at a slower reading speed, as the standard estimation of reading speed is 100 words per minute, this impact assessment has reduced the speed by 50% to allow for a slower and more detailed review.
[25] Annual Survey of Hours and Earnings: 2022 provisional results. Table 14.6a, Office for National Statistics (2023)
[26] Implementation costs. August 2019. RPC.

86. It is also expected that businesses will incur secondary familiarisation costs. For this, businesses in-scope of the regulatory change are expected to have another 10 members of their staff in large companies[27] read the regulation guidance in greater depth. Therefore, we assume these staff members will spend additional time reading the 10 pages detailing the foreign state ownership regime regulations. Given this regulation will only be relevant to executive level employees, we assume no dissemination costs will be incurred.

87. For legal firms specialising in M&A, it is also assumed that another 10 solicitors will read the 10 page guidance explaining the foreign state ownership regime regulations.

88. These secondary familiarisation costs have been summed below on a total and yearly basis, with an uplift of 22% being applied to cover overheads, in line with RPC guidance.[28]

Secondary familiarisation costs (per business) - Option 1

Formula:

((Time spent reading) x (Number of people reading) x (hourly wage estimate)) x 1.22 (uplift)

Example, Media companies in scope (each):

(((300 words per page/100 words per minute) x 10 pages) x (10 worker) x (26.07)) x 1.22

= £159.03

Example, Legal companies in scope (each):

(((300 words per page/50 words per minute) x 10 pages) x (10 worker) x (£27.29)) x 1.22

= £332.94

89. From calculating the initial and secondary familiarisation cost per business above, we can now estimate total familiarisation costs from multiplying these by the number of businesses in scope. We assume the groups of businesses that will incur these costs to be large media companies and legal firms which specialise in M&A activities.

90. Due to there being no centralised database of the revenues of each newspaper and their respective owner organisations, we have had to estimate the number of news businesses in scope using our own methodology.

[27] In line with FCA publication, Changes to the SCA-RTS and to the guidance in ‘Payment Services and Electronic Money – Our Approach’ and the Perimeter Guidance Manual, FCA (2021)
[28] Implementation costs, August 2019, RPC.

91. According to DCMS' internal analysis, we estimate there are 48 Global Ultimate Owners (GUO) with ownership over UK national/local newspaper groups and/or news magazines, who have an annual turnover of over £2 million.[29]

92. To estimate the familiarisation costs, we have assumed there to be one 'round' of familiarisation cost for each GUO, as well as an additional 'round' of familiarisation for each national newspaper they own. For example, if a GUO owns 7 national newspapers we would assume them to incur 8 rounds of familiarisation costs, and if a GUO only owned local newspapers we would assume just 1 round of familiarisation costs. Additionally, where a newspaper is owned by a GUO that owns no other news publication we assume that only one round of familiarisation is needed as the GUO is more likely to work closely with the newspaper itself.[30] We believe these assumptions to be reasonable given the scale of national organisations and it is difficult to more precisely estimate how familiarisation will be conducted by GUOs and their newspapers without knowing the intricacies of how these organisations operate. It is, therefore, possible that the number of rounds of familiarisation estimated is an overestimate.

93. Therefore, we assume these GUOs to incur 48 rounds of familiarisation costs plus an additional 13 to account for those national newspapers that are owned by GUOs which own multiple news publications. This gives us a total of 61 rounds of familiarisation to cover those GUOs and national newspapers in scope of the regime.

94. We have also used lower (100), central (160), and upper bound (220) estimates for the number of legal firms within scope in line with estimates from Chambers and Partners.[31]

95. Through multiplying the number of businesses in scope we arrive at the total familiarisation costs shown in table 4 below.

Table 4: Option 1: Total familiarisation cost over the appraisal period

	Low	Central	High
Initial familiarisation - Legal Firms	£20,642.00	£33,027.20	£45,412.40
Secondary familiarisation - Legal Firms	£33,294.00	£53,270.40	£73,246.80
Initial familiarisation - Media companies (general)	£6,014.60	£6,014.60	£6,014.60

[29] National newspapers cover news that is of interest to the UK public more broadly, whilst local newspapers cover news and events that are specific to the region or community in which they operate and publish for.
[30] For example, the Telegraph is currently owned by the Telegraph Media Group (TMG) which has no other news publications, and therefore it is assumed that only one round of familiarisation will be needed.
[31] The population of UK based law firms practising M&A was estimated from 'Chambers and Partners' (2021) legal directory listings of corporate law M&A firms.

Initial familiarisation - Media companies (internal legal advice)	£12,591.62	£12,591.62	£12,591.62
Secondary familiarisation - Media companies	£9,700.83	£9,700.83	£9,700.83
Total familiarisation costs	£82,243.05	£114,604.65	£146,966.25

Administrative/Compliance costs

96. The majority of cases brought to the CMA are competition and not public interest cases. There have been four public interest intervention notices over the past 10 years and only one foreign state ownership media acquisition over the past 15 years.

97. The new FSI regime measures applies not just to national and local newspaper groups who are subject to the media public interest regime, but to smaller news publications whose turnover is less than the £70m turnover threshold that has been in place since 2003. Due to the limited historical data on the rate of foreign state acquisitions for all possible historic transactions, our analysis uses sensitivity ranges with upper and lower bounds for the costs incurred at each investigation stage. A central estimate of the midpoint is taken and used for the estimate of the total cost to business.

98. As Option 1 does not set a threshold of foreign state ownership for this regime to come into effect, investors with a small share of foreign investment (such as that of a sovereign wealth fund) are in breach of the regime and will therefore require investigation to determine whether they are in breach of public interest considerations. As even a minute investment would make these investors in breach of the regime under option 1, the acquiring party is likely to find it difficult to identify whether they are in breach of this legislation, leading to potential cases of unintended merger review. To account for cases where this accidental merger review may be triggered, the analysis assumes twice as many cases of FSI investigation across each scenario over the appraisal period. We believe this to be a reasonable assumption without having the necessary evidence to better estimate how much higher the rate of acquisition would be under option 1 compared to option 2.

Table 5: Option 1: Assumed rate of FSI investigations under Option 1 over the 10-year appraisal period

	Low	Central	High
Assumed Number FSI investigations	2	4	8

99. The analysis breaks down the new process for FSI cases which breaks down into two stages, producing cost estimates for each stage where applicable:

a. **Self-assessment** – this is where businesses self-assess whether they should notify the CMA/Secretary of State of a merger transaction they are a party to. This involves the business assessing whether it falls into the FSI regime. Not all businesses that self-assess will go on to notify or be investigated by the DCMS as we assume that businesses themselves will filter out transactions that may fall foul of the new FSI regime. This stage is assumed to impose internal business administration costs as well as external legal costs to involved businesses.

b. **Foreign State Intervention Notice (FSIN)** – this stage is assumed to start when the DCMS Secretary of State issues an FSIN, at which point the CMA begins investigating the transaction. This entails some of the processes businesses are subject to during the DCMS and CMA investigation such as responding to requests for information about the structure of the transaction and the parties involved, in order to establish the level of foreign state involvement. This stage is assumed to impose internal business administration costs as well as external legal costs on businesses.

100. This assessment follows similar assumptions for the types of costs incurred by businesses undertaking a merger and under investigation by the CMA. These costs are categorised as follows:

a. **Internal business administration** - Arising from work internal to the merger parties necessary for the merger review.

b. **External legal advice** - Costs incurred from firms seeking specialist external legal advice.

c. External economist advice - Costs incurred from firms seeking specialist external economist advice.

d. CMA Investigation costs and Foregone Merger Fees - The costs incurred by the Competition and Market Authority throughout the FSIN investigation and the loss in revenues to the CMA from no longer receiving Merger Fees from acquisitions.

101. In line with the Digital Markets, Competition and Consumers Bill impact assessment,[32] this IA uses sensitivity ranges with upper and lower bounds for the costs incurred at each investigation stage. A central estimate of the midpoint is taken and used for the estimate of the total cost to business.

Foregone Merger Fees

102. Under the new regime, foreign state intervention merger investigations do not follow the same structure as public interest intervention investigations, replacing pre-notification/Phase 1 and Phase 2 stages with a new process. Merger fees, payable

[32] Reforms to merger control: annex 3 impact assessment, DBT (2023)

under any Phase 2 investigations will therefore not be applicable. These fees are dependent on UK turnover of the target and can range from £40,000 - £160,000. To estimate the forgone merger fees, previous public interest intervention notices have been used as a benchmark to set a range of fees, presented in Table 6 below.

Table 6: Estimated merger fees per intervention

Scenario	**Estimated UK turnover**	**Merger fees per intervention**
High	Value of the UK turnover of the enterprises being acquired exceeds £120 million	£160,000
Central	Value of the UK turnover of the enterprises being acquired exceeds £70 million, but does not exceed £120 million	£120,000
Low	Value of the UK turnover of the enterprises being acquired is over £20 million but not over £70 million	£80,000

103. The analysis applies the rate of acquisition set out in Table 5 with the estimated forgone merger fees per intervention. Total forgone merger fees could therefore range between £160,000 and £1,280,000 across the 10 year appraisal period.

Table 7: Option 1: Estimated forgone merger fees

	Assumed Number of FSI investigations		
Estimated forgone merger fees	2	4	8
High (£160,000)	£320,000	£640,000	**£1,280,000**
Central (£120,000)	£240,000	**£480,000**	£960,000
Low (£80,000)	**£160,000**	£320,000	£640,000

104. Forgone merger fees are quantified as a cost to government, while merger fees for businesses themselves have not been included in our analysis. Costs of merging, including the Phase 2 merger fees, fall on the acquiring party, which under this regime we assume to be a foreign state entity. Costs to non-UK businesses fall outside the remit of this analysis and have therefore been excluded.

105. Due to option 1 requiring the Secretary of State to refer cases to the CMA through an FSIN where there is reasonable grounds to believe that “a foreign state newspaper merger situation” has been created, the pre-notification and phase 1 stages are no longer needed where they are under option 0. This is because all FSIN that the

Secretary of State issues are expected to always involve a thorough investigation of the circumstances of the transaction that would normally be covered under phase 2, making the more light-touch pre-notification and phase 1 stages unnecessary. Therefore, for simplicity we have used the phase 2 costs as the investigation costs used for both options 1 and 2 whilst the pre-notification and phase 1 costs have been omitted . However, our expectation is that CMA investigation on FSIN cases will be less involved than a full scale Phase 2 inquiry covering plurality or accuracy/standards issues which would take the CMA 24 weeks to complete.

Table 8: Option 1: Breakdown of the types and value of costs per investigation stage[33]

Cost type	Stage		Low	Central	High
Internal admin	Self-assessment		£1,500	£2,250	£3,000
	FSIN Investigation	Phase 2	£30,000	£47,500	£65,000
External Legal advice	Self-assessment		£35,000	£50,000	£65,000
	FSIN Investigation	Phase 2	£1,350,000	£2,000,000	£2,650,000
External economist advice costs	Self-assessment		£0	£22,500	£45,000
	FSIN Investigation	Phase 2	£0	£905,000	£1,810,000

[33] Assumed values of costs taken from Reforms to merger control: annex 3 impact assessment, DBT (2023). The values were sourced from surveys conducted by DBT.

Competition and Markets Authority (CMA) Investigation costs	FSIN Investigation	Phase 2	£400,000		
	Forgone Merger Fees per Investigation		£80,000	£120,000	£160,000
Total Cost	**Total cost per FSI Investigation**		£1,896,500	£3,547,250	£5,198,000
	Yearly Cost (over 10-year appraisal period)		£189,650	£354,725	£519,800

106. As costs arise from the policy provisions increasing the numbers of businesses going through merger review, all costs to business estimated are classified as direct costs for the purposes of this assessment.

107. Both familiarisation costs and administrative/compliance costs have been summed below on a yearly basis across the 10-year appraisal period. These estimates have been deflated to 2019 prices (2020 present value base year) and discounted in line with Green Book guidance.[34]

Table 9: Option 1: Total yearly cost (£m)

Cost type	**Scenario**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**	**Total (£m)**
Familiarisation	High	£0.15	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0.15
	Central	£0.11	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0.11
	Low	£0.08	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0.08
Administrative / Compliance & Foregone Merger Fees	High	£4.16	£4.16	£4.16	£4.16	£4.16	£4.16	£4.16	£4.16	£4.16	£4.16	£41.58
	Central	£1.42	£1.42	£1.42	£1.42	£1.42	£1.42	£1.42	£1.42	£1.42	£1.42	£14.19

[34] The Green Book, 2024, HMT.

	Low	£0.38	£0.38	£0.38	£0.38	£0.38	£0.38	£0.38	£0.38	£0.38	£0.38	£3.79
Totals	High	£4.31	£4.16	£4.16	£4.16	£4.16	£4.16	£4.16	£4.16	£4.16	£4.16	£41.73
	Central	£1.53	£1.42	£1.42	£1.42	£1.42	£1.42	£1.42	£1.42	£1.42	£1.42	£14.30
	Low	£0.46	£0.38	£0.38	£0.38	£0.38	£0.38	£0.38	£0.38	£0.38	£0.38	£3.88

108. Please note, the costs listed above only illustrate the costs that are expected to be incurred under option 1, and do not present the additional benefit or costs of the option over the counterfactual that would be accounted for in the Equivalent Annual Net Direct Cost to Business (EANDCB). Please see Section 2.5 'Summary of Impacts' which sums the differences between the costs presented above and those in the counterfactual option, demonstrating the actual additional cost/benefit introduced by option 1 which is then accounted for in the EANDCB totals.

Indirect costs

109. Indirect business costs have not been quantified in this appraisal as changes to the merger regime will only impact the small subsection of businesses considering or undertaking a merger. Furthermore, indirect impacts such as those on business certainty or deterrence cannot be quantified robustly with currently available evidence. Therefore, this appraisal does not attempt to quantify the indirect business impacts of updating the regime.

Non-Monetised Costs

Investment into UK newspapers

110. The wide definition of foreign state bodies and agencies under Option 1 includes state-owned investors (SOIs) such as sovereign wealth funds and public pension schemes, which means investment held by associated persons in legitimate investment vehicles, such as Individual Savings Accounts (ISAs) or a Self Invested Personal Pension Schemes (SIPPs), may be captured.

111. The capture of retail investments means that the current regime does not operate efficiently and creates issues for newspapers and news magazines that have, or wish to, secure investment. The regime could therefore disincentivise wider investment in the sector and the subsequent smaller pool of potential investors could potentially result in higher costs for financing capital. In 2021, the value of foreign direct investment (FDI)

into the information and communication sector was £7.6 billion[35] and between 2022 and 2023 1,654 foreign FDI projects added nearly 80,000 jobs across the UK.[36] However, due to a lack of evidence and the unpredictability of the news sector and its context in which investments occur, it is impossible to accurately forecast both potential foreign direct investment and domestic revenue estimates of the potential loss in foreign direct investment.

Benefits

Monetised Benefits

112. Monetised benefits are not expected for these regulations as the amendments to be made in the statutory instrument would not reduce the number of interventions under the current media public interest regime. Therefore, the department cannot estimate any reduction in business costs.

113. The amendments are not expected to deliver wider benefits to business.

Non-monetised Benefits

Pluralistic media landscape

114. The principal aim of the media public interest regime is to help support the government's goal of ensuring there are effective safeguards in place to protect a pluralistic media landscape and to prevent mergers or acquisitions of media enterprises which may be contrary to public interest. The government fully supports a pluralistic media landscape, where citizens are able to access information from a range of sources in order to form opinions. Ofcom's media plurality framework identifies media plurality as a cornerstone of a healthy and well-functioning democracy. It is vital in ensuring citizens are well-informed, able to access and consume a wide range of viewpoints from a variety of accurate sources; and ensures that no single media owner is able to exercise too great an influence over the political process.[37]

115. The plurality of views across different UK newspapers and news magazines ensures that there is a wide range of views supporting a culture of argument, debate and challenge, and diversity of perspectives that the public have access to. Preempting foreign state interference in the UK news market, which has been identified as a threat to democracies worldwide,[38] further ensures that the UK media can uphold its key roles, including acting as a watchdog, promoting culture and educating the public.This, in turn, contributes to a healthy democratic society, as outlined in the Council of Europe's

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[35] Office for National Statistics (ONS), Foreign direct investment involving UK companies (directional): inward, January 2023
[36] Department for Business & Trade (DBT), Inward investment results 2022 to 2023, June 2023
[37] Ofcom, Media Plurality Framework, Annex 1, September 2023; Ofcom, Discussion Document - Media Plurality & Online News, November 2023.
[38] European Parliament, Foreign interference: how Parliament is fighting the threat to EU democracy, April 2024

competency framework for democratic culture,[39] Media plurality depends on having a wide range of trusted media and this would be undermined if foreign states are able to control or influence UK newspapers or magazines.

Free expression of opinion

116. Foreign information manipulation and interference has become a growing challenge to democratic societies around the world.[40] The risks that foreign state ownership of, or control or influence over, the UK's newspapers and news magazines could have on wider democracy and to free speech are considerable. Foreign state influence, if used to develop or control narratives which align with another state's interests, may corrode trust in our media as a whole. The spread of mis- and disinformation already poses a growing threat to our democracy - by shaping people's understanding of matters of democratic importance and engagement in the political process - and has been described by Ofcom as one of the most prevalent potential harms encountered by both adults and children online.[41] Limiting foreign state control or influence within our media landscape thereby benefits public interest by helping to support public trust that UK newspapers and news-magazines are not working on behalf of a foreign state's interest. Upholding free speech and free expression of opinion in our press ensures thriving public debate, protection of rights for journalists and the public and cultural and social development.

Reduced cost of referring cases

117. Outright prevention of foreign states from investing in, or buying out, UK print news will save DCMS and Ofcom the future time and cost of lengthy investigations to determine whether public interest considerations arise. This is a timely and costly process when there may be limited information available about the foreign state investor and their long-term objectives. This is reflected in the reduced FSIN costs compared with those for option 0 (excluding forgone merger fees).

2.4 Option 2 - Modified regime (preferred option)

Costs

118. As the secondary legislation does not propose to bring in new regulations, and only amends the scope of the current regulations, familiarisation and compliance costs are the only costs expected to be incurred by business in scope.

<u>Transition costs</u>

Familiarisation costs

119. Under option 2 it is expected that businesses in scope would undertake initial familiarisation with the regime that came into force on 13 March 2024 (current regime).

[39] Council of Europe, Reference Framework of Competencies for Democratic Culture, 2018
[40] European Union, Tackling foreign information manipulation and interference together, September 2023
[41] Ofcom, Online Safety: Our research agenda, April 2024

and also the additional familiarisation costs for the (expanded regime as proposed under option 2). We therefore assume two 'rounds' of familiarisation will be required of those news organisations and legal companies specialising in M&A law in scope of this intervention.

120. To estimate the familiarisation costs to these stakeholders, we follow the same approach used under option 1. This includes the use of the Standard Cost Model involving the following parameters: tariff, time and frequency (as described in paragraph 73) and applying similar assumptions for these (i.e. average reading pace, resource requirement etc.).

121. However, due to these relevant stakeholders having to familiarise with both the current and expanded regimes under option 2, it is assumed that they will have to incur additional familiarisation costs. We believe it unlikely that they will re-read the entire 62 pages, as assumed in option 1, in option 2 when the modified regime comes into effect as there are likely to be some overlapping similarities between the current and new regimes. As a result, we have applied a 1.5 times multiplier to the number of pages/words administrative and legal readers are expected to read compared to those in option 1 to reflect the additional familiarisation times taken.

122. Therefore, following the same assumptions as option 1, we assume 78 (52 x 1.5) pages of new guidance to be produced by DCMS and published by Ofcom[42] with an additional 15 (10 x 1.5) pages to explain the foreign state ownership regime in greater depth at 300 words per page for both the current regime and the expanded regime.

123. As in option 1, we still assume that 1 member of staff from each large media firm will need to familiarise themselves with both the current and expanded regime, with this individual belonging to a business, research or administrative profession, at a median hourly wage of £26.07.[43] Additionally, these businesses will also have a legal professional to review the new guidance also, who are assumed to read the 15 pages at a median hourly wage of £27.29.[44]

124. Following the above assumptions, the initial familiarisation costs for large media companies and the legal professionals tasked with reviewing the new current regime and expanded regime guidance have been summed below on a total and yearly basis. An uplift of 22% has been applied to cover overheads, in accordance with RPC guidance.[45]

<u>Initial familiarisation costs (per business) - Option 2</u>

[42] Guidance on the operation of the public interest merger provisions relating to newspaper and other media mergers, Ofcom (2004)
[43] Annual Survey of Hours and Earnings: 2022 provisional results. Table 14.6a, Office for National Statistics (2023)
[44] Annual Survey of Hours and Earnings: 2022 provisional results. Table 14.6a, Office for National Statistics (2023)
[45] Implementation costs, August 2019, RPC.

Formula:

((Time spent reading) x (Number of people reading) x (hourly wage estimate)) x 1.22 (uplift)

Example, media companies in scope (each):

(((300 words per page/100 words per minute) x 93 pages) x (1 worker) x (26.07)) x 1.22

= £147.90

Example, legal professional:

(((300 words per page/50 words per minute) x 93 pages) x (1 worker) x (£27.29)) x 1.22

= £309.63

125. As was done for option 1, there are also assumed to be secondary familiarisation costs incurred under option 2 where the 15 page (10 x 1.5) guidance relating specifically to foreign state ownership is read in greater depth. This is expected to be done by 10 members of staff in these large news organisations and by 10 solicitors at each legal firm specialising in M&A.

Secondary familiarisation costs (per business) - Option 2

Formula:

((Time spent reading) x (Number of people reading) x (hourly wage estimate)) x 1.22 (uplift)

Example, Media companies in scope (each):

(((300 words per page/100 words per minute) x 15 pages) x (10 worker) x (26.07)) x 1.22

= £238.54

Example, Legal companies in scope (each):

(((300 words per page/50 words per minute) x 15 pages) x (10 worker) x (£27.29)) x 1.22

= £499.41

126. As in option 1, to estimate the total familiarisation costs, we can multiply the above familiarisation cost per business and multiply these by the 61 rounds of familiarisation for

media companies in scope and the lower (100), central (160), and upper bound (220) estimates for the number of legal firms within scope.[46]

127. Through multiplying the number of businesses in scope we arrive at the total familiarisation costs shown in table 10 below.

Table 10: Option 2: Total familiarisation cost over the appraisal period

	Low	Central	High
Initial familiarisation - Legal Firms	£30,963.00	£49,540.80	£68,118.60
Secondary familiarisation - Legal Firms	£49,941.00	£79,905.60	£109,870.20
Initial familiarisation - Media companies (general)	£9,021.90	£9,021.90	£9,021.90
Initial familiarisation - Media companies (internal legal advice)	£18,887.43	£18,887.43	£18,887.43
Secondary familiarisation - Media companies	£14,550.94	£14,550.94	£14,550.94
Total familiarisation costs	£123,364.27	£171,906.67	£220,449.07

Administrative/Compliance costs

128. As with option 1, we also assume there to be compliance costs under option 2 from public interest cases having to be reported to and assessed by the CMA.

129. Different to option 1, option 2 introduces a threshold for foreign state investment in acquiring parties pursuing a merger, which introduces a purposive test on whether a merger is in breach of legislation or not. Now, investors with a small share of foreign investment (up to the threshold) no longer require merger review. The amendments to the regime will therefore remove cases of unintended merger, which is reflected in the assumed number of FSI investigations over the appraisal period.

130. As in option 1, with the costs arising from the policy provisions increasing the numbers of businesses going through merger review, all costs to business estimated are classified as direct costs.

Foregone Merger Fees

131. As with option 1, the analysis applies the rate of acquisition set out in Table 11 below with the estimated forgone merger fees per intervention. Total forgone merger fees could

[46] The population of UK based law firms practising M&A was estimated from 'Chambers and Partners' (2021) legal directory listings of corporate law M&A firms.

therefore range between £80,000 and £640,000 across the 10 year appraisal period and have been summed using the low, central, and high scenarios in Table 12.

132. As described previously, the introduction of the 15% cap on direct investments from sovereign wealth funds or other state-owned investors will help to prevent prospective investors from accidentally triggering a merger review. Not having this cap would mean that even a small investment from these investors would be in breach of the regime. We believe this 15% threshold to be sufficient to avoid acquiring parties unknowingly triggering a merger review through providing greater clarity of whether their acquisition would be in breach of this legislation. Therefore, the assumed number of Foreign State Intervention Notices are lower in our analysis for option 2 than in option 1, in line with those in Table 2, to reflect the lower likelihood of a merger review being triggered through the introduction of this threshold.

Table 11: Option 2: Assumed number of Foreign State Intervention Notices (FSIN) over the 10-year appraisal period

	Low	**Central**	**High**
Assumed Number FSIN investigations	1	2	4

133. Using the assumed number of FSIN investigations above, we can estimate a range of forgone merger fees that can be expected to result from this modified regime.

Table 12: Option 2: Estimated forgone merger fees

	Assumed Number of FSI investigations		
Estimated forgone merger fees	1	2	4
High (£160,000)	£160,000	£320,000	**£640,000**
Central (£120,000)	£120,000	**£240,000**	£360,000
Low (£80,000)	**£80,000**	£160,000	£240,000

134. As in option 1, costs relating to pre-notification and phase 1 stages have been omitted for option 2 due to these more light-touch stages no longer being necessary as all FSINs are expected to result in a phase 2 investigation.

Table 13: Option 2: Breakdown of the types and value of costs per investigation stage[47]

[47] Assumed values of costs taken from Reforms to merger control: annex 3 impact assessment, DBT (2023). The values were sourced from surveys conducted by DBT.

Cost type	Stage		Low	Central	High
Internal admin	Self-assessment		£1,500	£2,250	£3,000
	FSIN Investigation	Phase 2	£30,000	£47,500	£65,000
External Legal advice	Self-assessment		£35,000	£50,000	£65,000
	FSIN Investigation	Phase 2	£1,350,000	£2,000,000	£2,650,000
External economist advice costs	Self-assessment		£0	£22,500	£45,000
	FSIN Investigation	Phase 2	£0	£905,000	£1,810,000
Competition and Markets Authority (CMA) Investigation costs	FSIN Investigation	Phase 2	£400,000		
	Forgone Merger Fees per Investigation		£80,000	£120,000	£160,000
Total Cost	**Total cost per FSI Investigation**		£1,896,500	£3,547,250	£5,198,000
	Yearly Cost (over 10-year appraisal period)		£189,650	£354,725	£519,800

135. As in option 1, all costs to businesses estimated are classified as direct costs for the purposes of this assessment.

136. Both familiarisation costs and administrative/compliance costs have been summed below on a yearly basis across the 10-year appraisal period. These estimates have been

deflated to 2019 prices (2020 present value base year) and discounted in line with Green Book guidance.[48]

Table 14: Option 2: Total yearly cost (£m)

Cost type	Scenario	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total (£m)
Familiarisation	High	£0.22	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0.22
	Central	£0.17	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0.17
	Low	£0.12	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0.12
Administrative / Compliance & Foregone Merger Fees	High	£2.08	£2.08	£2.08	£2.08	£2.08	£2.08	£2.08	£2.08	£2.08	£2.08	£20.79
	Central	£0.71	£0.71	£0.71	£0.71	£0.71	£0.71	£0.71	£0.71	£0.71	£0.71	£7.09
	Low	£0.19	£0.19	£0.19	£0.19	£0.19	£0.19	£0.19	£0.19	£0.19	£0.19	£1.90
Totals	High	£2.30	£2.08	£2.08	£2.08	£2.08	£2.08	£2.08	£2.08	£2.08	£2.08	£21.01
	Central	£0.88	£0.71	£0.71	£0.71	£0.71	£0.71	£0.71	£0.71	£0.71	£0.71	£7.27
	Low	£0.31	£0.19	£0.19	£0.19	£0.19	£0.19	£0.19	£0.19	£0.19	£0.19	£2.02

137. Please note, the costs listed above only illustrate the costs that are expected to be incurred under option 2, and do not present the additional benefit or costs of the option over the counterfactual that would be accounted for in the Equivalent Annual Net Direct Cost to Business (EANDCB). Please see Section 2.5 'Summary of Impacts' which sums the differences between the costs presented above and those in the counterfactual option, demonstrating the additional cost/benefit introduced by option 2 which is then accounted for in the EANDCB totals.

[48] The Green Book, 2024, HMT.

Non-Monetised Costs

Investment into UK newspapers

138. The preferred option allows for sovereign wealth funds and other state-owned investors to take a small, minority stake in a UK newspaper enterprise up to the 15% threshold set by regulation. The exceptions would also exempt investments held by associated persons that were minimal or held through collective investment vehicles.

139. Compared to the counterfactual (Option 0), the regulation provides some restrictions on foreign investment and therefore is likely to disincentivise a degree of that investment. However, the exemption reduces these restrictions and thereby increases access to a wider pool of capital for businesses when compared to Option 1, including those which fall into the small and medium businesses category. This will support in bolstering UK small and medium businesses and ensure that legitimate investments with small foreign state ties are not blocked. Research on FDI in SMEs has shown an increase in productivity, human capital accumulation, R&D activity as well as technological spillovers.[49] DCMS therefore believes the benefits of access to capital for UK news businesses through passive investment by State-Owned Investors (SOIs) far outweighs the negligible risks of passive investment.

140. Submissions received during the consultation on the draft regulations highlighted the need for the structure of exceptions to minimise any chilling effect on the ability of UK newspapers to secure future financial investment. However, the investment impact on UK newspapers cannot be robustly quantified with the available evidence and this assessment does therefore not attempt to monetize these costs.

Benefits

141. In addition to those benefits already outlined in option 1, option 2 presents several additional benefits which are outlined in the remainder of this section.

Improved clarity for potential investors/bidders

142. Whilst Option 2 introduces exceptions which add to the complexity of the regime, it also clarifies the position on the specific thresholds that would apply under the modified regime. The alternative would be to apply a form of discretionary test with decisions made by the Secretary of State, but this would require potential investors to make a judgement about whether a transaction would or would not come within the scope of the new regime. Without having an expressed 'cap' on the amount of investment UK newspapers are allowed to take from sovereign wealth funds, there is a greater risk of confusion of whether potential investors are in scope of the regime or not, and this could result in an increased rate of prospective investors unknowingly triggering FSINs to be issued. Therefore, the approach to option 2, whilst it does add more detailed rules, is

[49] Tülüce,N.S. & Doğan, I. (2014), The Impact of Foreign Direct Investment on SMEs' development, Procedia- Social and Behavioural Sciences 150, 107-115.

likely to bring cost saving benefits to both the CMA and prospective investors due to the defined thresholds reducing the risk of large number of inadvertent FSINs being issued.

2.5 Summary of impacts

143. Table 15 below summarises the monetised costs and benefits of the options considered. These estimates have been deflated to 2019 prices (2020 present value base year) and discounted in line with Green Book guidance.[50]

Table 15: Options 0-2: Summary of Costs and Benefits, discounted, inflation-adjusted (2019 prices, 2020 present value base year)

	Scenario	**Familiarisation Costs**	**Administrative /Compliance**	**Total costs (2024-2033)**
Option 0: Do nothing (counterfactual)	High	£0m	£14.48m	£14.48m
	Central	£0m	£4.73m	£4.73m
	Low	£0m	£1.11m	£1.11m
Option 1: Current regime, primary legislation	High	£0.11m	£26.95m	£27.07m
	Central	£0.09m	£9.2m	£9.28m
	Low	£0.06m	£2.46m	£2.52m
Option 2: Modified regime (preferred option)	High	£0.17m	£13.48m	£13.64m
	Central	£0.13m	£4.6m	£4.73m
	Low	£0.09m	£1.23m	£1.32m

144. Table 16 below summarises the monetised costs and benefits of the options considered and calculates the difference between the counterfactual scenarios of the previous

[50] The Green Book, 2024, HMT.

regime (Option 0) and the current regime (Option 1) for the options presented in this Impact Assessment. This difference is factored into the subsequent EANDCB. These estimates have been deflated to 2019 prices (2020 present value base year) and discounted in line with Green Book guidance.[51]

Table 16: Total costs, discounted, inflation-adjusted (2019 prices, 2020 present value base year)

	Scenario	**Difference to Option 0 (previous regime)**	**Difference to Option 1 (current regime)**
Option 0: Do nothing (counterfactual)	High	**-**	-£12.59
	Central	**-**	-£4.55m
	Low	**-**	-£1.41m
Option 1: Current regime, primary legislation	High	**£12.59m**	**-**
	Central	**£4.55m**	**-**
	Low	**£1.41m**	**-**
Option 2: Modified regime (preferred option)	High	-£0.84m	**-£13.43m**
	Central	£0	**-£4.55m**
	Low	£0.21m	**-£1.2m**

Equivalent Annual Net Direct Cost to Business (EANDCB) and Net Present Social Cost (NPSC)

145. Using the previous table, we can calculate the central estimates for the Total Present Value Cost (TPVC), Business TPVC, and estimate the EANDCB for these options by comparing them sequentially to option 0 (previous regime) and option 1 (current regime). Therefore, the TPVC, Business TPVC, and EANDCB are calculated differently for each option, to capture the impacts of moving from the previous to the current regime, and from the current regime to the modified regime.

146. As, due to data and evidence limitations, no benefits could be monetised for this assessment, we have not presented Net Present Value (NPV) in this summary as this would naturally be negative, which we believe would be misleading and not demonstrate

[51] The Green Book, 2024, HMT.

the positive impact this intervention is likely to have. Therefore, we have instead labelled these totals as Total Present ValueCost (TPVC) and Business Total Present Cost (TPVC).

147. As this assessment captures the costs of both primary and secondary legislation, introduced sequentially, and includes a retrospective component, TPVC, Business TPVC, and EANDCB are calculated with different counterfactuals. The impact of the primary legislation set out under Option 1 is calculated in retrospect in Table 17., by subtracting the associated costs incurred under the previous regime (counterfactual - Option 0). Therefore, the TPVC, Business TPVC, and EANDCB for option 0 are estimated to be £0m due to no additional costs or benefits being incurred under the counterfactual.

148. To calculate the impact of Option 2 (modified regime), costs are assessed against the current regime (counterfactual - Option 1), to capture the sequential nature of the legislation. Table 18. calculates the scenario estimates of option 2 by subtracting the costs incurred under option 1 (current regime). Again, for comparison the TPVC, Business TPVC, and EANDCB for option 1 are estimated to be £0m due to no additional costs or benefits being incurred under the counterfactual.

149. Options 1 and 2 directly increase the cost to UK news organisations, legal firms specialising in M&A through the introduction of familiarisation costs. However, both of these do result in lower FSIN investigation costs compared to option 0 due to the absence of pre-notification and phase 1 costs that are incurred in each acquisition in the do-nothing scenario.

150. The one-off costs estimated throughout this section are all identified as being first round, unavoidable, effects for these stakeholders. We therefore categorise all the costs identified to be direct costs to business for the purpose of calculating the EANDCB below.

151. For the purposes of estimating the EANDCB, we have assumed that all the monetised direct costs to business are due to occur in 2024. These costs have been presented in real terms across the appraisal period, discounted by 3.5%, and rounded to the nearest £0.1m as per the 'Better Regulation Framework'.[52] For this we set the appraisal period to 10 years as recommended by The Green Book,[53] which we believe to be appropriate and proportional for this intervention and its expected impact.

152. Therefore, the Total Present Value Cost (TPVC), Business Total Present Value Cost (TPVC), and EANDCB for the options considered are as follows:

Table 17: Total Present Value Costs (TPVC), Total Present Value Costs to Business and EANDCB - Option 1 (current regime)

[52] Better Regulation Framework 2023, DBT
[53] The Green Book, 2022, HMT.

Option	TPVC	Business TPVC	EANDCB
Option 0: Do nothing (counterfactual)	£0m	£0m	£0m
Option 1: Current regime, primary legislation	£4.55m *Range: (£1.41m - £12.59m)*	£4.55m *Range: (£1.41m - £12.59m)*	£0.53m *Range: (£0.16m - £1.46m)*

153. The central estimate for the EANDCB of Option 1 (the current regime) is £0.53m (negative impact) due to its total costs to business being more as in option 0. In our central estimate, Option 1 costs businesses £0.53m more on a yearly basis (£1.08m - £0.55m).

Table 18: Total Present Value Costs (TPVC), Total Present Value Costs to Business and EANDCB - Option 2 (proposed regime).

Option	TPVC	Business TPVC	EANDCB
Option 1: Current regime, primary legislation	£0m	£0m	£0m
Option 2: Modified regime (preferred option)	-£4.55m *Range: (-£1.2m - -£13.43m)*	-£4.55m *Range: (-£1.2m - -£13.43m)*	£-0.53m *Range: (-£0.14m - -£1.55m)*

154. The central estimate for the EANDCB of Option 2 (the preferred option) is £-0.53m (positive impact) due to its total costs to business being less as in option 1. Under the central scenario, Option 1 has a higher EANDCB of £0.5m in our central estimate due to it costing twice as much to business on a yearly basis than option 0.

Table 19: Overall Total Present Value Costs (TPVC), Total Present Value Costs to Business and EANDCB.

Option	TPVC	Business TPVC	EANDCB

Option 2: Modified regime (preferred option)	£0m *Range:* *(-£0.21m - £0.84m)*	£0m *Range:* *(-£0.21m - £0.84m)*	£0m *Range:* *(-£0.10m - £0.03m)*

155. The overall EANDCB of moving from the previous (Option 0) to the modified regime (Option 2) is £0m (neutral impact) due to its total costs to business being the same as in option 0. Compliance costs under the modified regime (Option 2) are slightly lower than those under the previous regime (Option 0), and that difference equals the familiarisation costs incurred under Option 2. The net cost to business per year in the 'Summary: Interventions & Options' section has been rounded to the nearest £0.1m as per the 'Better Regulation Framework'.

2.6 Sensitivity Analysis

156. Sensitivity analysis has been conducted throughout this cost-benefit analysis to understand the impact of varying assumptions which hold significant uncertainty in the analysis. Whilst the analysis has used uncertainty ranges throughout, varying assumptions informs an understanding of the biggest drivers of the estimated impacts. Furthermore, it highlights risks which may arise as a result of external factors on the merger review process and the impact this will have on the estimated NPSV.

2.7 Risks & Assumptions

157. A series of assumptions have been made to enable the quantification of the expected impacts of the proposed Foreign State Intervention (FSI) regime, most notably on the costs a merger investigation imposes on a business. Government appreciates that no individual merger case is identical to another, and hence the resource and associated cost requirements will vary from case to case. Furthermore, merger activity varies year on year and is dependent on suitable economic conditions.

158. For these reasons, the analysis has used ranges for any assumptions to express the uncertainty present. Despite this, given a lack of wider evidence, error will still build in the estimates where uncertainty ranges come together.

159. Any potential risks associated with the preferred option have been carefully evaluated throughout the consultation process. The primary risks considered arise from potential unintended consequences of the regime.

160. Specifically, the risks identified were:

    a. Risk of underestimating compliance costs given the assumption that the rate of foreign state intervention investigations will be small.

b. We assume that businesses will comply with the legislation. However, there is no formal process in place, reporting is voluntary and DCMS and the CMA are responsible for identifying potential mergers that fall within this regime.

c. Potential of proxies to hold foreign state shares.

161. Once identified, these risks have been mitigated through amending the design of measures in question. Firstly, the analysis has used ranges for any assumptions to express the uncertainty, and throughout the compliance sections we have overestimated, rather than underestimated, quantifiable costs.

162. Secondly, the CMA and DCMS fulfil a monitoring function to mitigate this risk. In addition, Ofcom also has the ability to alert the SoS of any cases relevant under the new regime.

163. Lastly, the purposive test has been designed to to distinguish a SOI from a foreign state and also from private sector businesses which are not subject to the prohibition unless they are directly or indirectly controlled or influenced by a foreign state. The test will be composed of five conditions, and able to identify proxies that hold foreign shares.

164. Table 20 below details the key assumptions made in the appraisal alongside the associated evidence source, quality and impact ratings.

Table 20: Key Assumptions

Assumption	**Quality**	**Impact**
1. General		
A discount rate of 3.5% is assumed in line with HMT Green Book Methodology *Source: The Green Book: appraisal and evaluation in central government, HMT*	High	Low
Hourly wages by SOC code have been taken from the Annual Survey of Hours and Earnings (ASHE) data set *Source: Table 14.6a – Hourly pay excluding overtime, 2022 (provisional), ASHE*	High	Medium
The hourly rate charged by a legal firm commissioned to work on a merger case is £512 *Source: HM Government, Solicitors' guideline hourly rates. We conservatively assume London Grade 1, Class A: Solicitors and legal executives with over 8 years' experience working in London, 2021*	High	High

The hourly rate charged by an economic consultant to advise on a merger case is £350 *Source: FTI Consulting, Annual Report 2020, Average billable rate per hour, Economic Consulting*	High	Medium
The number of words per page (300) and reading speed (100 words per minute) have been taken from a recent FSA publication. *Source: Financial Conduct Authority (FSA), Changes to the SCA-RTS and to the guidance in 'Payment Services and Electronic Money - Our Approach' and the Perimeter Guidance Manual, 2021*	Medium	Low
A detailed review by legal professionals will be undertaken at a slower reading speed, as the standard estimation of reading speed is 100 words per minute, this impact assessment has reduced the speed by 50% to allow for a slower and more detailed review. *Source: DBT, Reforms to merger control, 2023*	Medium	Low
The new guidance on media public interest produced by DCMS is assumed to be 62. The current guidance is 52 and we assume an additional 10 pages to be included to cover the new foreign state intervention regime. *Source: DCMS, Guidance on the operation of the public interest merger provisions relating to newspaper and other media mergers, 2024*	Medium	Low
Non-wage uplift factor is 1.22 *Source: HM Government, RPC short guidance note - implementation costs, August 2019*	Medium	Medium
UK based law firm population practising M&A is between 100 - 220 *Source: 'Chambers and Partners' (2021) legal directory listings of corporate law M&A firms*	High	Medium
48 Global Ultimate Owners (GUO)/Parent companies have been identified via internal DCMS analysis to be in scope of this intervention, owning either UK news publications or news magazines. Businesses in scope for familiarisation are therefore assumed to be 48. *Source: Internal DCMS analysis*	Medium	High
2. Merger Review costs		
The number of assumed foreign state merger cases over the appraisal period	Medium	High

is 2. *Source: Internal DCMS documents relating to media merger cases*		
Internal business administration costs arising from merger review have been assumed at: • Self-assessment: £1,500 – £3,000 • Pre-notification and Phase 1: £25,000 – £55,000 • Phase 2: £30,000 - £65,000 *Source: Surveys conducted by DBT*	Low	Medium
External legal advice costs arising from merger review have been assumed at: • Self-assessment: £35,000 – £65,000 • Pre-notification and Phase 1: £270,000 – £530,000 • Phase 2: £1,350,000 – £2,650,000 *Source: Surveys conducted by DBT*	Low	High
External economist advice costs arising from merger review have been assumed at: • Self-assessment: £0 – £45,000 • Pre-notification and Phase 1: £0 – £360,000 • Phase 2: £0 – £1,810,000 *Source: Surveys conducted by DBT*	Low	Medium
Costs incurred by CMA undertaking an investigation: • Phase 1: £37,000 • Phase 2: £400,000 *Source: National Audit Office (2016) The UK Competition Regime* *Source: CMA (2018) Mergers: Exceptions to the duty to refer, CMA64*	High	Low
Internal business administration costs arising from FSIN merger review have been assumed at: • Phase 2: £30,000 - £65,000 *Source: DBT, Reforms to merger control, 2023*	Low	Medium
External legal advice costs arising from FSIN merger review have been assumed at: • Phase 2: £1,350,000 – £2,650,000 *Source: DBT, Reforms to merger control, 2023*	Low	High
External economist advice costs arising from FSIN merger review have been assumed at:	Low	Medium

• Phase 2: £0 – £1,810,000 *Source: DBT, Reforms to merger control, 2023*		

3.0 Wider Impacts

3.1 Small and micro business assessment (SAMBA)

165. DCMS analysis estimates that there are roughly 141 small and micro-sized news businesses operating in the UK who would be in scope of the changes to the media public interest regime under the preferred option.

166. We assume that the vast majority of national newspapers do not qualify as small or micro businesses, and therefore limit the scope of our analysis to include local /regional and specialist titles only as well as those few national newspapers that are below the threshold for a small or micro business.[54] The number of titles in the UK is contested - according to JICREG, there were 479 unique local titles covering the UK in 2022. The Public Interest Foundation's (PINF)[55] local news map estimates 567 titles operating in print and online, and 33 operating in print only, suggesting a total of 600 regional and local print titles covering the UK.

167. According to DCMS' internal analysis, we estimate there are 141 small and micro sized companies who own one or more newspaper.[56] The analysis identified 123 small and micro businesses that own local and regional newspapers, using the PINF 2024 local news map micro data (113), and an internal DCMS database (10). In addition, cross-referencing internal sector specific data against JICREG records, the analysis identified a further 18 publishers that produce periodicals, business or speciality magazines that are also classified as small or micro. The analysis applied Companies House definitions of small and micro business:[57]

- Micro company qualifications (must meet at least two of the following conditions)
    - turnover must be not more than £632,000
    - the balance sheet total must be not more than £316,000
    - the average number of employees must be not more than 10
- Small company qualifications (must meet at least two of the following conditions)
    - annual turnover must be not more than £10.2 million

[54] Internal analysis has identified 3 national newspapers with revenues below the £10.2 million threshold for a small business.
[55] Public Interest News Foundation (PINF), UK Local News Report, 2024
[56] Community Radio and TV ownership companies were removed from the dataset, alongside any entity that was dissolved, liquidated, dormant, and exempt from filing accounts.
[57] Companies House, Accounts Guidance, 2023

- the balance sheet total must be not more than £5.1 million
- the average number of employees must be not more than 50

168. Table 21 below shows the estimated number of new organisations that are included in the scope of our regulation, broken down by publication type, size and number of newspapers.

Table 21: Number of Small and Micro businesses in scope

Publication Type	Business Type	Number of businesses	Number of Newspapers
Local/Regional	**Micro**	105	192
	Small	18	68
Business/Speciality	**Micro**	0	0
	Small	2	2
News Periodic	**Micro**	6	6
	Small	8	9
National News	**Micro**	0	0
	Small	2	2

169. It is estimated that the number of these small and micro businesses being directly impacted by the preferred option will be negligible to none. Micro-sized businesses are less likely to be subject to merger review under the existing regulatory framework as by definition they do not satisfy the £2 million turnover threshold required for review, applying the micro business definition set out above (i.e, earning £632,00 or less a year in terms of UK turnover).[58] A small business on the other hand could satisfy the £2 million turnover threshold, as its turnover can be up to £10.2m.[59] However, most of the small businesses identified in this analysis do not breach the £2 million threshold, leaving only a handful of companies in scope of this regime. Due to only one foreign state media acquisition occurring over the past 15 years, we believe it to be highly unlikely that a small news business would be the subject of one of these rare acquisitions.

170. Due to this high unlikelihood, we do not anticipate small or micro-sized news businesses to have to familiarise themselves with the proposed intervention's changes to the media public interest regime. Given that only a small sub-section of the business population

[58] Micro-entities, small and dormant companies. GOV.UK.
[59] Micro-entities, small and dormant companies. GOV.UK.

pursues a merger, and the unlikelihood of a small media company being a target for acquisition, we do not anticipate that these businesses themselves are highly familiar with the merger regime. Small businesses become familiar with the regime at the point of scoping a merger, which are captured in the compliance costs, meaning the amendments do not result in additional familiarisation costs for this group.Similarly, these businesses will also not be expected to incur any other transitional costs from having to comply with these regime changes.

171. Considering the above, the preferred option is not anticipated to incur any disproportionate burdens on small and micro-sized businesses. While small and micro businesses are not exempt from this intervention, the turnover threshold provides an appropriate level of protection. Micro entities are by definition exempt and introducing further exemptions for the limited number of small businesses in breach of the £2 million turnover threshold is not proportionate, given the unlikely impact.

172. Micro and small businesses are less likely to have sufficient market power for a transaction to raise competition concerns.

3.2 Wider justice costs

Justice impacts

173. Under the regime, the Secretary of State for Culture, Media, and Sport has quasi-judicial powers conferred upon them allowing for intervention in a merger on the grounds of public interest. As such, businesses involved in a merger which the government has intervened to investigate or block could launch legal proceedings to challenge the grounds for investigation or intervention.

174. Justice impacts are therefore expected to be limited to costs associated with appeals to the Competition Appeals Tribunal, which would incur time and resource costs for the courts. Following from this the case may be taken to the Court of Appeals and then the High Court for judicial review. There will be business and exchequer costs associated with these proceedings. However, given the nature of this regime the government does not anticipate a large number of appeals and their associated implications for court resource costs.

175. Whilst DCMS will be required to create and publish new guidance for the new Foreign State Intervention Notice, it is expected that this will be largely absorbed by their day-to-day operations and no additional resources will need to be recruited by DCMS in order to do this.

CMA case load changes

176. Due to the unpredictability of the rate of acquisitions where the acquirer is linked to a foreign state, it is not possible to accurately gauge the change in the number of cases the CMA would be required to investigate under the preferred option. However, due to the rarity of these types of acquisitions, it is reasonable to assume that any change in the

case load is likely to be manageable using the existing resources that the CMA currently has and the processes it currently uses.

3.3 Trade & Investment Impact

3.3.1 Trade

177. The preferred option is expected to have little to no notable impact on trade as the exporting functions of UK news organisations will not be directly effected through this intervention.

3.3.2 Investment Impact

178. Changes to the merger regime will be considered by businesses undertaking investment planning, and the changes introduced could factor into a prospective acquirer's or investor's decision on whether to take its investment elsewhere due to concerns that it's M&A activity may now be conditional on the structure of the investment meeting the new FSI requirements. This could potentially result in higher costs for financing capital and a smaller pool of potential investors for UK news organisations. In the responses to the consultation, concerns were raised that attempting to assess the level of control and risk of foreign influence by referencing specified shareholding thresholds for state-owned investors could deter investment in UK newspapers and magazines.

179. Due to a lack of evidence and the unpredictability of the news sector and its context in which investments occur, it is impossible to accurately forecast both potential foreign direct investment and domestic revenue estimates of the potential loss in foreign direct investment. However, with there only being one foreign state ownership media acquisition over the past 15 years, there is unlikely to be significant foregone investment resulting from this intervention that would have taken place under the do-nothing scenario.

3.4 Innovation Impacts

180. Lack of access to potential capital from investors could limit media businesses' ability to raise investment to be able to innovate - for example in new ways of managing or distributing news content. However, the limited historical precedent of foreign state acquisitions in media enterprises does not allow the analysis to quantify these impacts, but does indicate the risk of this to be low. Furthermore, the preferred option (Option 2) permits specific passive investment, not disincentivizing legitimate investments and thereby mitigating these risks further.

181. In the interest of strengthening the evidence base on the wider impacts of the foreign state intervention regime, the government will take the opportunity when the time comes to evaluate the reforms to assess the wider impacts, including investment and innovation impacts.

3.5 Public Sector Equalities Duty

182. The Department is required to comply with the public-sector equality duty (PSED) set out in the Equality Act 2010 (“the Act”). The PSED requires the Minister to have due regard to the need to advance equality of opportunity, hinder discrimination and foster good relations between those with and without certain protected characteristics. This due regard is taken to eliminate unlawful discrimination and to tackle prejudice and promote understanding. The characteristics that are protected by the Act are:
    a. Age;
    b. disability;
    c. gender reassignment;
    d. marriage or civil partnership (in employment only);
    e. pregnancy and maternity,
    f. race;
    g. religion or belief;
    h. sex and sexual orientation.

183. The merger reforms proposed would apply to businesses rather than consumers, and it is not expected that any intervention will lead to the detriment of any consumer group, nor any of the protected characteristics.

184. In line with PSED impact assessment guidance, the government has considered whether the merger reforms will eliminate unlawful discrimination, advance equality of opportunity or foster good relations between people who share protected characteristics. In these regards, it is not expected that any direct impacts or issues will arise as the measures do not actively discriminate against any of the protected characteristics or other consumer groups.

185. The matters considered in this Impact Assessment do not raise any issues relevant to the public sector equality duty under section 149(1) Equality Act 2010 because the policy does not discriminate or unjustly favour any person or group of people based on their protected characteristics. Therefore, considering these considerations, the government will proceed with the reforms as planned.

3.6 Competition

186. To consider the impact of the preferred option on both market incumbents and new entrants, we use the CMA’s competition assessment checklist.[60] These have been assessed in-turn below.

Will the policy directly or indirectly limit the number or range of suppliers?

187. As previously explored, there is a possibility that this intervention limits the sources of foreign investment that UK newspapers and news magazines have access to. Whilst this could mean it is more difficult for news organisations to get access to capital, we do not

[60] Competition assessment: guidelines for policymakers

believe this intervention to noticeably limit the number of these newspapers and news magazines that operate in the UK under the preferred option due to its investment thresholds still allowing considerable foreign investment to be made into British news organisations.

Will the policy limit the ability of suppliers to compete?

188. As this intervention applies to all UK newspapers and news magazines, it is unlikely that any group of suppliers would be given a competitive advantage over other UK organisations of similar size. The £2 million turnover threshold does allow smaller organisations below this threshold to have access to a wider pool of foreign investment. However, it is still unlikely that this will give them a significant advantage over larger organisations as they would be subject to the same restrictions were they to breach the turnover threshold.

Will the policy limit suppliers' incentives to compete?

189. Due to the effects of the preferred option being primarily limiting UK newspapers and news magazines access to foreign investment, it is unlikely that this intervention will disincentivize competition.

Will the policy affect consumers' ability to engage with markets and make choices that align with their preferences?

190. As the purposes of this intervention are to protect the freedom of expression as well as the plurality and accuracy of news in the UK, the preferred option will actively protect consumer choices within the markets by giving them access to a range of newspapers and news magazines that might otherwise have been reduced by foreign states influencing the type of content produced by these organisations under the counterfactual.

Will the policy affect suppliers' ability or incentive to introduce new technologies, products or business models?

191. It is possible that, due to having access to a smaller pool of foreign investment, that UK newspapers and news magazines find it more difficult to invest in new technologies or products under the preferred option. However, option 2 does still allow these organisations to access significant capital through introducing the foreign investment thresholds, and still maintains their access to domestic investment which could still be used to make these technological and product investments. Therefore, the limitations this intervention imposes on news organisations to introduce new technologies, products or business models are expected to be negligible.

4.0 Monitoring and Evaluation Plan

192. The government remains committed to a pluralistic media landscape, where citizens are able to access information from a range of sources in order to form opinions. The public's ability to access a wide range of news, views and information is central to the health of our democracy. The Logic Model in Figure 1 illustrates the intended mechanism of how the proposals set out in the preferred option flow through to the intended positive outcomes required to achieve the stated objectives, which are:

    - Prevent foreign state influence over the UK press (Ensuring media plurality; freedom of expression & accurate presentation of news)
    - Supporting the financial health of newspaper organisations by enabling legitimate foreign investment

193. The reforms proposed in this impact assessment are expected to be held under constant review to ensure the regime is responsive to a changing and complex media merger landscape. It will assess whether the intervention has achieved the stated objectives, inform future policy making, and capture lessons learned for future interventions in this space. However, DCMS does not commit to a formal Post Implementation Review, as under the Communications Act 2003, Ofcom has a statutory duty to review media ownership rules every three years. The next review is due in 2027.

194. Accurately assessing the rate of foreign state acquisitions in the UK is complex as there are many contributing macroeconomic factors. Furthermore, there are various ways in which media plurality, freedom of information, and accurate presentation of news are measured, with some of these measures being contested and metrics often being proxies (i.e, Media plurality regulatory framework),[61] as opposed to holistic indicators. Mergers are only one factor in a complex media landscape which determines the level of plurality, accuracy, and access - making it very difficult to robustly attribute any changes in the media landscape to merger control in a quantitative manner.

195. Likewise, assessing the impact of foreign investment on the financial health of UK newspapers is challenging, given there have been very few foreign state acquisitions involving UK newspapers and due to the range of other contributing macroeconomic factors that determine the financial health of the sector.

196. Consequently, key performance indicators cannot be assigned to the SMART objectives of the Foreign State intervention regime. Despite this, the government recognises that it is key that the M&E framework is adequately designed to measure the success of the merger Reforms.

197. DCMS has identified the following key evaluation questions that are designed to inform the extent to which the reforms achieved their intended objectives, monitor risks identified in section 2.7, as well as strengthening the wider evidence base for the future.

[61] Ofcom, Media Plurality Framework, Annex 1, September 2023

- What impact does the exemption of foreign state investors have on media plurality, accuracy and access?
- Did the regime, and its exemptions, lead to any unintended consequences?
- What impact does the Foreign State regime have on levels of investment in UK newspapers and has this affected investment in other UK media? Did the reforms impact SMEs? Did it affect innovation?
- Have all foreign state acquisitions above the thresholds been captured by the regime?

Table 22 below maps how each evaluation question relates to the stated policy objectives.

Table 22: Policy Objectives and Evaluation Questions

Evaluation Question		What impact does the exemption of foreign state investors have on media plurality, accuracy and access?	Did the regime, and its exemptions, lead to any unintended consequences?	What impact does the new regime have on levels of investment in UK newspapers? Did the reforms impact SMEs? Did it affect innovation?	Have all foreign state acquisitions above the thresholds been captured by the regime?
Policy Objective	Prevent foreign state influence over the UK press, ensuring: • Media plurality; • Freedom of expression; • Accurate presenta	**X**	**X**		**X**

	tion of news.				
	Supporting the financial health of newspaper organisations by enable legitimate foreign investment		X	X	X

198. The review may employ a combined process and impact evaluation to assess whether the reforms achieved the stated objectives, as outlined in the evaluation questions outlined above. The evaluation is expected to use a range of evidence from literature reviews, stakeholder consultations and mixed method research. While this methodology may be less robust than any analysis involving a counterfactual, this approach will lend itself well to the intricate policy landscape of the merger control regime where clear cut data is not always readily available.

199. The evaluation would require a data collection strategy involving quantitative and qualitative data sources. DCMS will be responsible for monitoring and enforcing compliance with the new proposed merger reforms, and in the process gather administrative data on the new regime working closely with the CMA. Monitoring data gathering will begin when the reforms are implemented. Government expects that there may be some short-term issues in terms of compliance as affected businesses familiarise themselves with the reforms though we expect that most UK newspaper businesses will be completely unaffected by the changes. Data will be collected beyond this period to ensure evidence is gathered once the reforms have settled. As well as using data from the intervention stage, the government may also look to collect new data through further research methods such as interviews and surveys.

200. Where third parties and sensitive data are involved, the government will ensure the necessary data sharing and handling agreements are in place. In planning the data collection strategy, the government will ensure it is proportionate and collect only the data needed to answer the evaluation questions.