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Paper's closure will harm News business

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RUPERT Murdoch's entire \$190 million a year British newspaper business is at risk from the spiralling *News of the World* phone hacking scandal, analysts warn.

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While Mr Murdoch has attempted to contain the damage from the debacle by shutting the disgraced Sunday tabloid, public outrage has also cruelled News Corporation's takeover bid for British broadcaster BSkyB and all but killed off the Sky News tender to run the federal government's Australia Network. The company is also under threat from two inquiries launched last night by British Prime Minister David Cameron.

Mr Cameron also dealt News Corp's efforts to save the skin of British head Rebekah Brooks a heavy blow, saying that if he were Mr Murdoch he would have accepted her resignation.

In a note to clients, Merrill Lynch analysts led by Jessica Cohen said News Corp would take a \$25 million-a-year hit from closing the *News of The World*, representing less than 1 per cent of the company's income.

However, Ms Cohen warned that "other UK paper revenue could also be at risk should investigation fallout spread".

News Corp's British newspapers - *The Times*, *The Sunday Times*, *The Sun*, and *News of the World* - bring in between \$170m million and \$190 million, representing about 3 per cent of the company's income, she said. The latest financial damage comes on top of payouts to phone-hacking victims, already running into the millions of pounds with an additional £20 million (\$A29.6 million) set aside for future claims.

Investors have all but written off News Corp's chances of getting regulatory approval for its £7.8 billion offer to take full control of BSkyB, with the takeover premium built into the British pay TV company's share price evaporating this week as *News of the World's* phone hacking details emerged. Culture Secretary Jeremy Hunt, previously supportive of the bid, has delayed making a decision on whether to approve the takeover until at least September.

Until Thursday, Mr Hunt said he could not examine the phone-hacking allegations because the decision was being made on the basis of "media plurality", rather than a "fit and proper person" test. But *News of the World's* closure reduces the number of voices in the marketplace, providing a fresh reason to revisit the question.

Mr Hunt has to examine more than 130,000 submissions opposing the merger, most received this week after it emerged the paper had hacked the phone of a murdered schoolgirl.

Last night, Mr Cameron said Mr Hunt's review had to be conducted within the law.

Before the phone-hacking scandal blew open, the Australian government had already changed rules in the tender process for its overseas broadcast arm Australia Network, making it more difficult for Sky News, one-third owned by BSkyB, to win the \$223 million contract. The new rules do not include a "fit and proper person" test, but they do include a "national interest" test that could exclude Sky News.

A spokesman for Communications Minister Stephen Conroy declined to comment "because it's a live tender

process".

At an average of \$22 million a year, income from the contract would provide a much-needed boost to Sky News's revenue, which last year was \$47 million.

The company accounts of Sky News's operator, Australian News Channel, show that last year it made a profit of \$10.3 million and paid each of its joint venture partners - BSkyB, Seven and Nine - dividends of \$1.75 million.

But a decision on Australia Channel's new operator is now unlikely until late October, with a new contract in place by early February. The contract of government broadcaster the ABC to run Australia Network runs out on August 8, but it will continue running the service until February, using money allocated to the future contract period.

News of the World's inconsequential financial contribution to News Corp meant the British tabloid's closure did not warrant an announcement to the Australia Securities Exchange yesterday.

News Corp shares rallied along with the local sharemarket but failed to erase most of Thursday's losses when the fallout from phone hacking at the British tabloid was reaching a crescendo. Nevertheless, local News Corp shareholder, Arnhem Capital, was happy with the decisive action.

"I think it's always disappointing to see practices we consider to be less than ideal going on in a company we own, but I'm also quite impressed and encouraged by people like James Murdoch acting to do something about it", said Neil Boyd-Clark, a managing partner at Arnhem.

To others it was clearly a small sacrifice in the face of the potential gains to be made from acquiring the rest of BSkyB. "That's going to be a key driver of the stock," said Wilson Asset Management's Chris Stott of the impending decision by the British government on the BSkyB bid.

This story was found at: <http://www.smh.com.au/business/papers-closure-will-harm-news-business-20110708-1h6wc.html>