

cc Mr Gow.

Home
Affair

PRIME MINISTER

I attach the text of Mr. Biffen's statement about the Observer.

For the Opposition, John Smith expressed concern at the growing trend for great newspapers to pass into the hands of rich men who controlled powerful economic interests. He praised the stance of the Observer's editor. He asked what sanctions the Secretary of State had available to him if the conditions were breached. Mr. Biffen responded that the greatest safeguard for the Observer would be to turn it into a profitable newspaper.

The exchanges which followed showed a measure of concern about these arrangements across party lines in the House. Whilst Peter Tapsell wanted to know why anyone would buy a newspaper which had lost £8 million in the last five years if he was to have no control over editorial policy, Jo Grimond thought the whole procedure farcical, was convinced that the independent directors would be totally ineffective, and asked why the owners should not be answerable, and Jonathan Aitken asked how Mr. Biffen viewed the prospect that, if the safeguards failed, he could be the first Minister to have to intervene directly in matters affecting the freedom of the press.

Later exchanges concentrated on the position of the four independent directors named in the statement, and the one to be elected by those four. Mr. Biffen said that two had been suggested by the Observer and two by Lonrho. Christopher Price, amongst others, wanted to know why the Observer journalists had not been allowed to nominate one or more, and Peter Bottomley asked specifically who vetoed Hugh Stephenson. Mr. Biffen did not know the answer.

Christopher Price also asked what Mr. Biffen would do if all the directors resigned in disgust. Mr. Biffen admitted that he had not turned his mind to this possibility.

MA



From the Secretary of State

N Huxtable Esq
Private Secretary
Chancellor of the Duchy of Lancaster
House of Commons
London SW1A 0AA

9 July 1981

Dear N Huxtable

MA

THE OBSERVER

In my Tuesday 7 July letter I promised to let you have a copy of a statement which my Secretary of State wishes to make to the House on Thursday 9 July.

This is now attached. I understand that the Opposition have requested that the statement be repeated in the House of Lords by Lord Trefgarne.

I am sorry not to have been able to send you the statement earlier but final agreement between the parties to which reference was made in the statement was only finally concluded this morning.

Copies go to Mike Pattison (No 10), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

Yours sincerely,

John Rhodes
JOHN RHODES
Private Secretary

THE OBSERVER

Mr Speaker, with permission, I will make a statement. On 29 June, I informed the House that I had accepted the view of seven out of eight members of the group of the Monopolies and Mergers Commission and had decided that I should consent to the proposed transfer of The Observer to George Outram & Company Limited subject to conditions to safeguard editorial independence against a potential conflict of interest because of the extensive interests of Lonhro, Outram's parent company. However I felt it right to defer reaching a final decision on the conditions to be attached until interested parties had had an opportunity to read the report and make representations. I have now concluded my consultations and have today issued my consent to the transfer, a copy of which I have laid before the House. The formal conditions I have attached are based on those attached to the transfer of The Times and The Sunday Times to News International Limited.

The general effect of these conditions is that the Articles of Association of the Observer Limited will contain provisions securing the position of the editor in relation to the determination of the content of the newspaper. They will

further provide that he should not be subject to restraint in expressing opinion or reporting news that might conflict with the opinion or interests of the proprietors. His control over the journalist staff of the newspaper would be set out. The Articles would in addition provide for five independent directors, who would have the special responsibility for resolving any disputes on matters of editorial independence between the editor and the directors of The Observer Limited or its parent companies, including Lonrho. The consent of a majority of these directors would also be required for the appointment or dismissal of the editor and of the independent directors themselves.

Other conditions will secure that these arrangements continue if the Observer were to be transferred within the Lonrho Group as a result of a company reorganisation; and provide for consultation with the Board of the Observer Limited, if Lonrho proposed to dispose of the Observer outside the Group at a future date.

As I said, there will be five independent directors. It was represented to me by several parties that the number of appointments recommended by the Monopolies and Mergers Commission - eight or nine - was excessive and would result in an unwieldy Board structure for the Observer. I agreed.

I am pleased to tell the House that the new owners, the management, and the editorial staff have all agreed on four initial independent directors; and that those four shall select a fifth. My consent gives effect to this. The names are Mr William Donaldson Clark, Sir Geoffrey Cox, Dame Rosemary Murray, and Lord Windlesham.

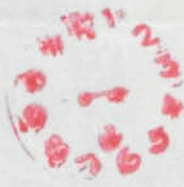
These conditions of ^{will help} my consent provide safeguards for the editorial independence of The Observer, while involving the Government in the minimum intervention in the newspaper's day to day affairs.

I understand that the new owners, the management and the journalist staff have agreed on a number of other matters to which they attached importance, including in particular arrangements for consultation with the journalist staff on the appointment of independent directors and future editors.

I wish The Observer well under its new ownership, and hope that whatever uncertainties may have beset it in the past few months will now be dispelled.

MT

1998 JUL 15



TM



From the Secretary of State

Home Affairs
[Signature]

RESTRICTED

Nick Huxtable Esq
Privy Council Office
68 Whitehall
London, SW1A 2AT

7 July 1981

Dear Nick

OBSERVER

We have been in touch recently about the Secretary of State's wish to announce his final decision on the conditions attaching to Lonrho's purchase of Observer by way of a statement to the House. This follows on from his Written PQ Answer of Monday 29 June, when the Monopolies and Mergers Commission report was published and he stated his agreement to the majority conclusion that Lonrho should be allowed to acquire the Observer subject to conditions which would be announced shortly.

You have confirmed that the Leader of the House is content for such a statement to be made this week, on Wednesday 8 July or Thursday 9 July. I understand that he has also agreed that the Minister of State for Consumer Affairs should also make a statement on the Monopolies and Mergers Commission on Gas Show Rooms on one of these two days, provided that the two statements do not fall on the same day.

We would wish to decide between the two dates no later than the afternoon of Tuesday 7 July, in the light of the progress of continuing discussion between the interested parties in the Observer acquisition. I will, of course, send you a draft statement as soon as possible, and have noted the desire for brevity.

Copies of this letter go to Mike Pattison (Number 10), Murdo Maclean (Chief Whip's Office), and David Wright (Cabinet Office).

Yours sincerely,
[Signature]

JOHN RHODES
Private Secretary

RESTRICTED

-7 JUL 1968

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CONFIDENTIAL AND MARKET SENSITIVE

Home Affairs

DRAFT ARRANGED WRITTEN ANSWER

*Seen + approved by the
Prime Minister.*

THE OBSERVER

*file
29/6*

I have today laid before Parliament and published the Commission's report. ^{*Seven members*} ~~The majority~~ of the Commission find that if the transfer is made subject to ~~[certain]~~ conditions designed to protect editorial independence, it may be expected not to operate against the public interest. One member of the Commission concludes that the transfer should not be permitted at all. I have accepted the view of the majority of the Commission and have decided to consent to the transfer subject to conditions.

2 The attachment of formal conditions to the acquisition of a newspaper is clearly a matter of considerable public concern; I am anxious that any conditions should be no more than the minimum necessary to provide adequate guarantees for the newspaper's continuing editorial independence. For this reason, I am prepared to take account of the views which interested parties may form on the subject of conditions, when they have read the report.

3 I am nevertheless anxious to minimise any uncertainty which may arise in the period following publication of the report. For this reason I intend to reach a final decision on the conditions I shall impose within the next few days.

CTS 2
26 June 1981

CONFIDENTIAL AND MARKET SENSITIVE

PERSONAL AND CONFIDENTIAL

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N.M.

Lord Goodman's
letter was in fact addressed
to the Secretary of State.

NFA.
Ref. A05157 ^{26m}

MR. WHITMORE

Can we let S/S
the content of
Lord Goodman's
Prime Minister's
letter.
He can then take it into
consideration in
his decision.
not

The Observer

The Prime Minister may like to see the
attached copies of letters to the Secretary of State for
Trade from Lord Goodman and from Mr. Donald
Trelford about the implications of allowing Lonrho to
acquire the Observer subject to conditions and safe-
guards.

REA

ROBERT ARMSTRONG

24th June, 1981

PERSONAL AND CONFIDENTIAL

THE OBSERVER

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FROM THE EDITOR

24 June, 1981

Dear Secretary of State,

I understand that you will soon announce your decision on the proposed acquisition of 'The Observer' by George Outram, a subsidiary of Lonrho. I am writing to express my profound concern, as Editor, at some of the conditions which may be recommended to you in the report on this proposed transfer by the Monopolies and Mergers Commission.

I am writing at a disadvantage, in that I have not, of course, seen the Commission's report. My anxieties are based on what I have read in the Press and heard from other sources. If the reported versions are correct - eight special directors, to whom all journalists have access, with a right of appeal to the Minister - the conditions may be unworkable in practice and damaging to the commercial and editorial future of the newspaper. Although intended to safeguard editorial independence, I believe the conditions could have the opposite effect of undermining editorial authority and restricting the Editor's freedom of action.

I should perhaps make it clear that, although I oppose ownership by Lonrho on the grounds that it raises irreconcilable conflicts of interest, and for other reasons, I am addressing myself here solely to the question of safeguards, in the belief that some of the conditions proposed may make the situation worse than if there were no safeguards at all.

My comments would obviously be more specific if they were based on a careful study of what is actually proposed. Since this does not seem to be possible in the time available, I would just say that my general objection to so-called independent directors is that they would not be seen to be independent at all if they were nominated and paid by Lonrho and approved by a statutory body. Furthermore, unless their function was carefully defined and controlled, they might exercise editorial authority at the expense of the Editor's function. This could easily come about if all members of the staff had the right to appeal to them over the Editor's head. Even if their brief was limited to examining claims of proprietorial interference, this could be alleged of virtually any editorial decision. If the National Union of Journalists pursue their intended merger with the National Graphical Association, I anticipate that this right of access to the special directors could be misused.

/continued

DIRECTORS THORNTON BRADSHAW (CHAIRMAN) (USA) DOUGLASS CATER (VICE CHAIRMAN) (USA)
DAVID ASTOR LORD BARNETSON LORD BULLOCK LORD GOODMAN
KENNETH HARRIS ROGER HARRISON BRIAN NICHOLSON CONOR CRUISE O'BRIEN FRANK STANTON (USA) DONALD TREFORD

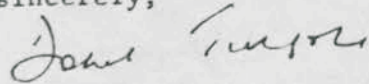
Editorial freedom rests on the authority willingly ceded to the Editor by a proprietor who shares his aspirations for the paper. In Britain this normally means that the Editor is given sole or final responsibility for content, staffing and policy. A cumbersome supervisory Board is no substitute for this relationship and is likely to weaken the authority on which the Editor's position rests.

It has not been possible to give evidence to the Commission on these points, since the Commission was not able to tell me or my colleagues what safeguards it proposed. As a result, the safeguards have been formulated without any discussion with the people required to operate them. In the case of Mr. Rupert Murdoch's acquisition of Times Newspapers, the conditions and safeguards were all agreed in detailed negotiation with the interested parties. In the case of 'The Observer', the Editor and journalists face the prospect of being told by a Minister of the Crown - doubtless with the best intentions but without any prior consultation - what internal procedures are to be adopted in the running of their newspaper - procedures with which they may strongly disagree. Most people would find this an unattractive prospect in a democracy, especially one that takes justifiable pride in its traditions of Press freedom. If your Department was seen to have a continuing role in monitoring the newspaper's conduct, this would raise further questions of public importance which ought to be discussed.

I am firmly of the opinion that an 'Observer' owned by Lonrho could not guarantee accurate presentation of news and free expression of opinion. None of the 'safeguards' so far proposed incline me to alter that view. In fact, I feel more strongly than ever that such conditions may not only be unworkable, but set an undesirable precedent for the British Press. If these are the only conditions on which Lonrho can be entrusted with ownership, I submit that the damage to the public interest would be too high. Fortunately, alternative owners are available who do not raise the special problems created by Lonrho.

I would be glad of an opportunity to meet you to develop any of the points made here, or to consider any further points you may wish to raise. I urge you most strongly to take serious note of the concern shared by the majority of the Observer Board and by all the senior editorial staff at the damage a wrong or hasty decision could inflict on the country's oldest newspaper.

Yours sincerely,



(Donald Trelford)

The Secretary of State for Trade,
Department of Trade,
1, Victoria Street,
LONDON, SW1

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YOUR REF

OUR REF G/CD

DATE 12th June, 1981.

Dear Secretary of State,

THE OBSERVER

It is believed that the report of the Monopolies Commission will be sent to you very shortly. I hope you will forgive my writing to you about certain possible implications which you will almost certainly have in mind but are of a nature which cause me anxiety. If you, in fact, should regard a letter at this stage as in any way inappropriate, I shall entirely understand if you decide it should be ignored.

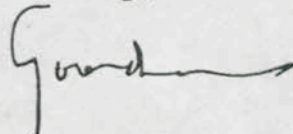
The tenor of the questions addressed to me (and to my colleague David Astor) suggested the possibility that one conclusion of the Commission might be to approve the purchase on the basis of safeguards and conditions imposed by you and in some way enforced or invigilated by the Government.

May I as a former Chairman of the Newspaper Publishers' Association for several years - and as a former Chairman of the Observer Trust for several years - express the view that the imposition of conditions of this kind would be of grave variance with the principle of press freedom for which many of us have fought for many years. You will, I am sure, recollect our battle with Mr. Foot and the particular repugnance we expressed to any suggestions that a Press Charter should be imposed on the press by any Governmental procedure. Those of us who fought this possibility were strongly moved by the belief that the intervention of Government in such matters must be wholly unacceptable in a democratic society. It is my belief that conditions of the type that have been mentioned would be no less inconsistent with this principle than the principle of a Press Charter. I very much hope that you will consider the implications of any such proposals, if there is any plan to adopt them.

I am sure you will realise that I have had no more information as to the contents of the report and my misgivings arise only from the trends of one line of questioning out of many.

Might I add that in our dealings with the Commission we have found them invariably courteous and plainly anxious to elicit every fact.

Yours sincerely,



BY HAND - PRIVATE

The Rt. Hon, John Biffen, M.P.,
Secretary of State for Trade,
1, Victoria Street,
LONDON,
SW1H 0ET