31 March 2006

Nicky Beechey
Chief Adviser
Market Behaviour Group
Commerce Commission
PO Box 2351
Wellington
New Zealand

Dear Miss Beechey

Commerce Act 1986: Application for authorisation of proposed arrangements – New Zealand Rugby Football Incorporated (NZRU)

I refer to the draft determination of the Commission on the application from the NZRU seeking authorisation of certain arrangements, including a salary cap for the Provincial Unions competing in the Premier Division of the new inter-provincial rugby competition.

1. **Question 28 (paragraph 630)**

   In question 28 the Commission seeks further views from interested parties on the claim that a more balanced PD competition would be a more attractive one, from the perspective of spectators and viewers. I reiterate SKY's view that a more even competition, with more competitive matches, will be more interesting to television viewers. The data provided with our letter of 13 December 2005 supports this view.

2. **Paragraphs 691/692**

   In these paragraphs the Commission discusses the costs outlayed by SKY in acquiring the New Zealand rights to the rugby competitions in question. We make the following points:

   - Nationwide News Pty Limited, a wholly owned subsidiary of News Corporation, owns 43.65% of SKY. The businesses of News Corporation and SKY entirely separate and are managed and operated independently.

   - The arrangement under the current broadcasting contract is that News Corporation has an obligation to the NZRU, at News Corp's cost, to produce television coverage of

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all New Zealand matches in the Premier Division and that coverage is made available to both News Corp sub-licensees (like SKY) and other licensees of the NZRU.

- News Corporation has subcontracted to SKY the obligation, at SKY's cost, to produce television coverage of the New Zealand matches.
- The above arrangements reflect normal practice for television rights deals, and it would be unusual if in the future the costs of producing coverage became a direct cost to the NZRU. As a result SKY would expect revenue to the NZRU from television rights to continue to be net of the costs of producing the television coverage (which is usually a cost imposed on the broadcaster, as is currently the case).
- The costs of producing coverage already exists. The magnitude of those costs are affected by many factors (e.g. costs of personnel, cost of equipment), but they are not affected by variations in the licence fee paid for the television rights. In other words, if there are increases in the licence fee paid for the television rights this should not result in any increase in the costs of SKY producing television coverage of the matches in question.

As a result of the above points we doubt (in the context of the last sentences of paragraphs 691 and 692) that it is correct to net off any costs associated with covering the matches from any additional overseas broadcasting revenues.

The comments and information in this letter are not confidential.

If you have any questions, please contact myself on 021 613 284.

Yours sincerely

John Fellett

John Fellet
Chief Executive Officer
SKY Network Television Limited