



Fairfax Media Response to Issues Paper:

Australian Government, Department of Communications and the Arts
– Inquiry into the competitive neutrality of the national broadcasters

22 June 2018

Executive Summary

Fairfax Media is a major Australian commercial news media company with a history of independence and objectivity. Fairfax welcomes the opportunity to participate in this Inquiry.

Of all the media sectors to have been disrupted by the digital revolution over the past 20 years, news journalism has been more affected than most. Fairfax has embraced these challenges, investing heavily in innovation and content generation, and as a result is making great progress in its transformation to a digitally-led business model. However, disruption worldwide continues and increasing global competition remains formidable. In these circumstances it is all the more important to ensure that Australia's domestic media industry operates on a level playing field to maximise growth potential.

It is Fairfax's contention that the government funded ABC's aggressive expansion and promotion of its online digital news service has undermined the level playing field within the highly competitive Australian commercial news sector, which is facing a period of substantial disruptive transformation.

Commercial operators are challenged to continue to deliver the level of quality required within the funding envelope available to them through shifting revenue streams, which for Fairfax involves a digitally-led hybrid of subscriptions and advertising, along with print. This revenue challenge is made harder by the ABC's market distortion and lack of competitive neutrality – constraining the commercial sector's ability to attract consumers to pay to access online news when the ABC makes it available for free; and the loss of audience and associated advertising revenue as a result of the ABC competing for audience in mainstream online news. The loss of revenue to the commercial sector has an impact on media organisations' profitability and the ability to invest in journalism.

We believe the ABC has an important role to play in this environment, by giving the commercial sector the space it needs to thrive but ensuring that consumer needs are met in areas where a commercial entity can no longer fulfil them, in line with the spirit of the charter.

Fairfax's contribution to commercial news journalism

Fairfax Media welcomes the opportunity to respond to this inquiry. As Australia's oldest news organisation and the publisher of the country's leading mastheads, it is uniquely positioned to do so.

Fairfax's Australian publications include:

- *The Sydney Morning Herald*, which has been in operation for 187 years and has a larger readership across print and digital platforms than any other Australian news masthead;
- *The Age*, which has been serving Victoria for more than 160 years;
- *The Australian Financial Review*, Australia's premier business publication;
- *The Canberra Times* serving the national capital and home of Federal Parliament;
- Digital-only news sites *Brisbane Times* and *WAtoday*;
- Along with 13 major regional dailies including key mastheads the *Newcastle Herald* and *Illawarra Mercury*, more than 130 non-daily regional titles, 9 community titles and 10 national specialist agricultural titles including *The Land*.

Fairfax Media's Charter of Editorial Independence establishes unique conditions for producing news and journalistic content that generates societal benefits broader than the benefits to readers and advertisers. This document was endorsed by the Board of Fairfax in 1992 and governs day-to-day operations in a manner that is not replicated in any other media business in Australia.

This commitment to quality, independent journalism is reflected in our newsrooms regularly being the most awarded in the country. At the 2017 Walkley Awards, Fairfax journalists took out 11 awards including the Gold Walkley and awards for Business Journalism, Investigative Journalism, Public Service Journalism and for Commentary, analysis opinion and critique. At this year's Quill Awards for excellence in journalism, *The Age* took out 12 awards, significantly more than any other news organisation. These included the Graham Perkin Australian Journalist of the Year award, the Gold Quill (in partnership with the ABC) and Quills for Business News and Investigative Journalism. These awards are testament to our commitment to investigative journalism that 'is expensive to do, takes a long time, is vulnerable to expensive legal action and upsets powerful interests', as referenced by the Senate Select Committee on the Future of Public Interest Journalism.

Emerging business model for news journalism in Australia

In the pre-digital era of Newspapers, the commercial journalism landscape bore very little resemblance to today's.

To operate commercially, traditional news journalism organisations required enormous scale and infrastructure to create and distribute newspapers. The audiences that were served by these newspapers were very valuable to advertisers – generating large scale revenue streams that supported abundant funding for journalism. At all levels (national, metro, regional and community), advertising, including classifieds, generated "rivers of gold" that commercial news media organisations used to fund investment in high quality journalistic content. This meant that there was no market failure in this industry – everyone was being served high quality news that reflected the diverse culture of Australia. For much of the history of print media, the ABC was not a material competitor.

Advertising comprised the vast majority of revenue for publishers such as Fairfax, with consumer revenue (circulation and subscriptions sold via newsagents) providing most of the remainder. For

example, in 1999 Fairfax reported publishing revenue of \$1.1b, of which roughly \$800m was advertising (including classifieds) and \$200m was circulation.

This revenue, in large part, funded newsrooms of more than 1000 staff across Sydney and Melbourne.

The advent of digital has had drastic implications for the business model for commercial journalism, severing the traditional tie between advertising revenues and content investment.

At its most basic level the internet removed barriers to producing and disseminating information. As a result attention became fragmented, as audiences were suddenly able to access many more publications than in the past. This included digital-native publications that quickly amassed large global audiences, such as Business Insider, Gawker and HuffPost. In addition, the best journalism from other cities or countries became available instantly, alongside blogs and other user-generated content. The ABC also entered the fray, launching its digital platform in 1995.

Practically speaking, this has manifested as:

- Consumers shifting their reading habits, consuming the news that they traditionally read in the paper, online, usually for free, and without the distraction of advertising.
- Over-supply of digital display advertising, in a market that has not always appropriately valued context. This has meant the potential revenue for professional publishers is well below what it was in print.
- Advertisers directing their spend to platforms that don't materially invest in content at all, let alone high quality news journalism. Display advertising has been captured disproportionately by Google and Facebook, and digital classified advertising to standalone classified businesses such as Seek and Car Sales.
- Fairfax's regional titles facing competition from the roll-out of digital TV, which has provided lower-cost broadcast options to advertisers.

The result for Fairfax is that \$800m in advertising revenue in 1999 became \$225m for the Metro business in 2017, a comparison which does not take into account the effects of inflation. Consequently publishers have had to transform their businesses in order to continue producing high quality journalism.

Apart from its impact on the economics of the news publishing industry, the growth of digital platforms has had broader social impacts, including in relation to news media consumption.

Much has been written publicly about the emergence of fake news and filter bubbles, and the impacts of these phenomena on democratic outcomes and social cohesion. These are real problems and make it all the more important to maintain a strong, diverse, local media that is commercially sound, to ensure that locally produced, high quality, well-researched and fact-checked content can be readily available to the whole population.

In light of these shifts, a multi-faceted journalism model has emerged for local commercial players.

The business model for the future is based on:

- Digital subscriptions, which currently make up 7% of newspaper industry revenues, growing at 20% a year.¹
- Digital advertising, currently contributing 13% of the industry’s revenues, growing at 5% a year.²
- Print revenues from the readers and advertisers who continue to see immense value in the medium still contribute 80% of industry revenues, but are declining at 11% a year.³

The challenge facing all publishers globally is to continue to deliver the level of quality required within the funding envelope available to them through these shifting revenue streams. In this highly competitive environment, this is a challenging task, made harder by the lack of competitive neutrality as a result of the entry of the ABC into this market.

The emergence of the ABC as a news Journalism competitor

The ABC was originally established as a market failure broadcaster, at first just in radio, then twenty years on expanding into television.

Prior to the advent of the ABC in 1932, the Australian media market was served by individually operated radio licensors. Due to the dispersed and regionalised location of Australian households, the audience proved costly to serve, with large areas of Australia without access. In 1932 the state intervened and established the ABC. Its role was to be a market failure broadcaster – *“to regulate broadcast services and ensure that audiences had reasonable access to a range and high standard of radio services”*.⁴

Over the next 70 years, the ABC expanded its range of services. Following the recommendations of a Royal Commission in the early 1950s, the ABC was allocated responsibility for delivering a national television service alongside two commercial stations. In the early years of television, commercial stations were dominated with programming from the US, as local content was not commercially viable. The ABC played a key role in filling this gap, investing in building up the local content production industry.

In 1983, with the introduction of the ABC Act, the ABC’s functions and responsibilities were enshrined in the ABC Charter. The spirit of the charter in so far as it is relevant to this paper, was:

- To provide “broadcasting” services.
- To develop content that is of a high standard and reflects the national identity.
- To take into account the broadcasting services provided by the commercial and community sectors (widely interpreted to mean, to provide complementary programming that fills gaps, rather than replicating similar content).

The original charter made it clear that the ABC’s remit was broadcasting.

¹ Digital newspaper circulation spending as a percentage of total newspaper industry revenue 2016 and forecast growth rate 2016-2021 *“Australia Media and Entertainment Outlook 2017-2021”* PwC, 2017

² Digital Newspaper Advertising as a percentage of total Newspaper Industry revenue 2016 and forecast growth rate 2016-2021, source as above

³ Print Newspaper Circulation Spending and Advertising as a percentage of total Newspaper Industry revenue 2016 and forecast growth rate 2016-2021, source as above

⁴ ABC website

Despite its clearly defined designation as a broadcaster, as of 1995, the government-funded ABC began directly competing with the emerging business model for commercial news journalism, and therefore became a competitor to the newspaper industry for the first time in its history.

Shortly after Fairfax launched its first digital site in April 1995, the ABC made its first foray into a new (non-broadcasting) territory, launching the ABC Online in August 1995, which became ABC News Online in 1998. For the first time, the ABC started to compete head to head with Fairfax in the provision of news journalism, an area that was in contravention of the charter, which stipulated that the ABC was a broadcaster.

It wasn't until 2013, 18 years after their online launch, that the charter was amended to include "digital media services" as a responsibility of the ABC. By this point, the ABC had already established a major news platform. Since this amendment, significant investment has ensued, and the ABC News Online now has the second highest reach of any single news site in Australia⁵, as measured by Nielsen's Digital Ratings Monthly.

The ABC's impact on the emerging news journalism business model

The publicly-funded ABC's decision to become a participant in the digital news journalism market in 1995 has exacerbated the structural challenges facing the commercial sector.

The ABC has fundamentally affected the dynamics of the digital news industry, by limiting the industry's ability to generate revenue. Firstly, commercial news journalism organisations' abilities to attract paying subscribers are hampered by the availability of similar content from the ABC, for free. In addition, by siphoning audience away from commercial news journalism organisations and thereby reducing the overall size of the audience for those platforms, advertising revenues available to fund professional journalism are reduced.

The government-funded ABC has chosen to go head to head with the commercial news journalism sector, particularly Fairfax, to provide high quality mainstream news content, online, free of charge, to a mass market audience. It invests significantly in this strategy, without regard for the online news services amply provided by the commercial sector. Their newsroom focuses significant effort on producing content with broad appeal, that is often identical to that produced by the commercial players. Moreover it is often taken from the commercial sector in the first place and lightly edited.

It is Fairfax's view that the content strategy that the ABC is currently pursuing is not in keeping with the spirit of the charter, or ABC's own proclamations on its programming strategy. It celebrates its contents' high quality and distinctiveness and emphasises that its content decisions are not ratings driven. *"The ABC provides audiences with choice, is independent, and is not driven by ratings or profit."*⁶ Yet much of their content is either commoditised or reproduced from the commercial sector and does not reflect these values.

As a result of its pursuit of audience through this strategy, over the last five years, the government-funded ABC News site has the second largest reach of any one news site in Australia. In FY17 it had an average monthly online audience of 4.7m, generating 106m monthly page impressions, equivalent to 9% of total news page impressions generated in this country.⁷

⁵ Average Audience Size FY17, Nielsen Digital Ratings Monthly, July 2016-June 2017

⁶ *"The ABC and the changing media landscape"* abc.net.au, 25 May 2018

⁷ Nielsen Digital Ratings Monthly, July 2016-June 2017

The online news journalism environment is not competitively neutral because the ABC is government funded, and therefore distorts the market.

The tenets of competitive neutrality are described succinctly by the OECD:

“Competitive neutrality means that state-owned and private businesses compete on a level playing field. This is essential to use resources effectively within the economy and thus achieve growth and development”⁸

As state-owned businesses, the ABC and SBS receive triennial government funding with no requirement for commercial returns. Hence, they are not on a level playing field with their commercial news journalism competitors.

It is clearly in the public interest to achieve competitive neutrality within the News publishing industry. In its absence, there is a risk that commercial players will be crowded out of the market, resulting in a media landscape that is significantly less diverse. This will have knock on effects on investment by the industry into jobs, content and innovation.

The ABC’s uneconomic distribution of news content has two major repercussions for Fairfax’s business model:

1. It affects Fairfax’s ability to encourage consumers to subscribe to digital content when the same or similar content is made available for free elsewhere by a publicly-subsidised entity. As discussed in depth earlier in this paper, the future of news journalism will rely heavily upon consumers paying to access online news. As such, the ABC is substantially hampering these efforts.
2. It limits the advertising revenue potential for other news websites, by attracting a substantial portion of total news audience page views away from the commercial sector. An estimate based on the Nielsen reported ABC news content page impressions would suggest that the advertising value of these pages would be more than \$30m a year. While we acknowledge that not all of these page impressions or revenue would flow to the commercial sector in the absence of the ABC news website, the website does cannibalise traffic from Fairfax given the strong overlap between Fairfax and ABC audiences. Estimating the exact impact would require detailed analysis of ABC traffic (information that is not available to Fairfax), however, the loss of revenue to the commercial sector and Fairfax does have an impact on our and other media organisations’ profitability and ability to invest in journalism.

These two factors combined substantially increase the challenges that traditional commercial print media faces as it transforms from a print-only to a multi-faceted news journalism model.

In addition to affecting the natural balance of the industry simply through its presence, it also engages in market distorting activities that amplify this effect:

- There is evidence of the ABC underbidding commercial players for content deals with other news providers. A recent example of this was when the ABC underbid AAP (a joint venture between commercial players Fairfax Media and other commercial news publishers) for newswire services to an outdoor media company.

⁸ *“Competitive Neutrality: Maintaining a level playing field between public and private business”* OECD, 30 August 2012

- Using government funds to develop “clickbait” (news items with solely entertainment value, neither high quality nor distinctive), and paying to promote these via Google or Facebook to generate traffic back to the ABC site. Anytime that a story is being promoted on Google, the purpose is to outbid a competitor - the story would reach the audience regardless. The only winner in this scenario is the overseas-owned platform (in this example, Google).
- SBS’ online news site takes this market distortion one step further than the ABC’s, by competing for audience in mainstream online news, as well as generating advertising from this audience – reducing the pool of available advertising revenues available to the commercial sector.

The ABC’s current activities in this industry, threaten the sustainability of commercial news journalism in Australia.

It is in the public interest to have a thriving, vibrant, diverse local news journalism industry. An independent media is a fundamental component of democracy. In competing directly with the commercial news journalism industry, the ABC is claiming a substantial share of audience that would otherwise seek out commercial news website for the same content. Given the current climate, and the business model shift that the commercial sector is embarked upon, this additional level of competition that the industry is being subjected to by a government funded entity, applies additional pressure on the sustainability of the industry.

There are parallels between the Australian and UK market structures - in the UK the BBC has had a similar impact on the commercial news sector as the ABC in Australia. In 2016 the BBC Charter was reviewed and updated to make it relevant for today’s environment. As part of this review, responsibility for regulating the BBC’s activities was passed to Ofcom – the UK communications regulator. Ofcom has been given the authority to “*set a range of requirements on the BBC to protect fair and effective competition as part of the BBC’s operating framework.*”⁹ This underscores the importance comparable markets are placing on ensuring a level playing field in the media industry.

We do believe that there are, once again, areas where the market can no longer make an adequate return to support a commercial business model. And we believe that a state-funded media operator should be focused on addressing these. These are the regional areas with small populations and specialist content areas that preserve and support Australian culture – including arts, science, religion, ethics, and niche sports. These topics and their audiences represent the diversity of Australia and need to continue to be reflected in our national discourse. As these areas become increasingly difficult to cover in a way that is commercially viable, it is the duty of the ABC to move in and fill this void. In channelling ABC resources towards areas that are of wide appeal but already amply covered by commercial players, this shrinks the pool of available funding for these areas of need.

The way forward

Firstly, there remains a critical social role for producers of quality journalism in Australia, and is essential that this be allowed to flourish.

Consumer demand for quality, independent journalism is strong. In February 2018 Fairfax Media reached 13 million Australians across print and digital platforms. Moreover, direct traffic (i.e. users seeking out our websites directly, not arriving via platforms such as Google and Facebook) continues to account for a large share of our overall audience. Millions of Australians continue to see

⁹ “*Regulating the BBC’s impact on competition Statement on requirements and guidelines*” Ofcom 29 March 2017

mastheads such as *The Sydney Morning Herald*, *The Age* and *The Australian Financial Review* as their daily 'go to' sources of news and analysis.

Recent research has highlighted the value consumers place on trusted sources of news. Deloitte's Australian Media Consumer Survey in 2017 found that 76% of respondents agree or strongly agree with the statement: 'When reading news material online, I take time to consider the source and author of the news, and assess the validity of the material I am being presented.'

We see a critical role for independent commercial publishers such as Fairfax. More than any other type of media or platform, trusted publishers continue to set the national agenda, holding the powerful to account, and combatting the rise of propaganda from inauthentic sources. Numerous recent examples highlight that our journalism continues to have a profoundly positive impact across the Australian political, business and broader social landscape.

In addition, we are confident that there is a commercial opportunity associated with quality journalism in Australia. We are adapting our business to deliver this, while recognising the environment in which we operate.

We face greater competition for our audience's attention than at any time in our history. It is incumbent on publishers to create news experiences worth seeking out if they are to maintain and build a direct relationship with our audiences. Our approach to this involves:

- Continuing to invest over \$100m annually in journalism across our metropolitan mastheads and AFR.
- Focusing our editorial investment on stories that are important, of interest to our readers, and where our mastheads provide a point of difference.
- Investing in digital product experiences (e.g. websites and apps) that are worthy of our readers' time and attention.

The business model we are pursuing is digitally-led and a hybrid of subscriptions and advertising. We have strong momentum in our digital subscriptions business, and we are encouraged by positive trends in consumers' willingness to pay for trusted journalism in Australia.

Digital advertising remains an equally important component of our business model. We believe the Australian market size dictates that scale in both subscriptions and advertising will be required to sustain our journalistic ambition.

Despite structural challenges in the advertising markets, we see opportunity for publishers to carve out a meaningful and sustainable position. This will require us to continue innovating to deliver print and digital products that help our commercial partners grow their businesses, whilst actively ensuring that back-office functions are as efficient as they can possibly be.

Finally, we believe the ABC has an important role to play in this environment, by giving the commercial sector the space it needs to flourish but ensuring that consumer needs are met in areas where a commercial entity can no longer fulfil them.

We recognise the importance of the publicly funded ABC as an integral part of the Australian community. We value the ABC's commitment to reflecting Australia's diverse viewpoints. We think the ABC has a strong role to play to ensure that marginal voices are heard, where it is not commercially viable to do so. We respect the high quality, journalistic principles that the ABC adheres to.

But in order to maintain the diversity of media required for a functioning democracy, we believe that the government funded ABC Online needs to refocus its content on distinctive, high quality content, that is not ratings driven, but that contributes to the national identity and addresses market failure, for example in regional areas that lack scale. This would bring its activities back in line with the spirit of the original charter.

In doing this, it would support rather than constrain the commercial sector during this period of disruptive transformation and give the Australian local news journalism market its best chance at a sustainable future.

Submission authorised by Fairfax Media Limited

Contact: Brad Hatch, +612 9282 2168, bhatch@fairfaxmedia.com.au