Co-ordinating Committee for Media Reform

New Funding Options for Public Interest Journalism:

A CCMR Funding Brief for Harriet Harman MP, February 2012

It is no secret that the traditional business models for delivering news are in crisis. Faced with the slow but steady decline in readers and viewers, the migration of advertising online, only limited success in 'monetising' new online audiences and now a crisis of legitimacy underscored by the phone hacking scandal, the economics of news are looking grim.

It is investigative and local journalism that has faced the sharp end of resource cuts across the sector for some time. The evidence at the recent House of Lords inquiry into the future of investigative journalism strongly suggested that the sector needs some sort of financial support to survive whether by cross-subsidy, philanthropy, or some form of state funding. The economic situation is particularly acute in regional and local news where conglomeration has seen a diverse ecology of media ownership now reduced to a handful of major media groups who have bought local and regional news businesses using leveraged debt finance. This has led to aggressive business plans that have undermined local news provision in a number of well documented ways.

We are left, following this approach, with the prospect of a significant democratic deficit given that the sectors left most vulnerable—investigative journalism, regional and local news—are precisely some of the areas most central to the ability of news to serve democracy: to hold power to account and to produce well resourced, innovative and relevant stories.

It is important to stress at the outset that meaningful support for these vital and fledgling sectors of journalism will not necessarily require significant injections of public funds. The Bureau of Investigative Journalism was established in 2010 with a start-up grant of £2million from the Potter Foundation. In the 21 months since its launch, the agency has secured over thirty-four front-page stories and produced a number of award-winning web, radio and TV reports. Viable models of independent journalism such as cooperative structures can also flourish in the local sphere. According to Eric Gordon, managing editor of the Camden New Journal: "Today, we are managing, but it is because we can survive on a small net profit. A big company would not tolerate our performance. They would close us down."

Policy mechanisms should be aimed at 1) providing seed funding for new ventures and 2) ensuring sustainable market conditions. Such is the model currently being implemented with regard to Local Television but it is clearly insufficient to address the widening gaps in public interest media provision.

In the UK, over half a billion pounds (£594m) is provided in public support in terms of VAT exemptions for newspapers. But as a blanket subsidy across the sector, it offers little value in terms of incentivising and reducing the cost burden of public interest news provision.
There is widespread longstanding precedent across Europe and elsewhere for using a system of levies to generate revenue for public support of vulnerable sections of the media. With that in mind, this briefing presents three policy alternatives in respect of levies which are appropriate to the current political climate and which would not damage or threaten

sustainability or competitiveness in any of the industries they target. Each of these warrants further research which the CCMR is in a unique position to conduct through its engagement with both policy makers and a range of civil society stakeholders. This briefing does not cover options for how funds should be allocated to support public interest journalism. Broad suggestions are made in the CCMR briefing papers on Ethics, Plurality and the Public Interest, and Funding Models, and a focussed synthesis of these options is provided as a supplement to this brief.

Option 1: News aggregators

Online news is often accessed not directly through the actual news source, but through portals and news aggregators (like Google News and Yahoo News). News portals normally use the paid services of newswires and press agencies to gather their content. News aggregators, however, often only provide the headlines and first few lines, and link to the original news source. Some of that is licensed material, but a lot of the snippets of articles provided on the news aggregators' sites are not paid for, as it is considered to fall under 'fair use' by the aggregators.

This has led to accusations of the free exploitation of professional copy by news aggregators for their own commercial gain. In parts of Europe, newspapers have taken action against Google to prevent unauthorised use of their material, and the British newspaper industry has asked the UK government to intervene in order to stop Google using its material without paying for it. Whilst Google may claim that it does not make money directly off aggregating news content, it plays a crucial role in enhancing the brand value of search engines and lifestyle websites which underpins their highly successful business models. In 2010, Google UK generated £2.15 billion in revenues with profit estimated to be 10% or more of that figure.

A 1% levy on the UK turnover of these companies would yield annual funds well in access of £20 million, which could be used to provide seed and on-going funding for local news cooperatives or 'hubs' (see CCMR briefing papers on plurality and funding). This will actively promote the kind of news that has been most effected by the growth of online search engines and lifestyle magazines, as local advertisers with relatively small budgets increasingly migrate to 'pay per click' models.

Summary

Advantages

- This policy will go some way to redressing concerns raised by news content owners that aggregators should pay for the use of content that adds (indirect) value to their businesses.
- If appropriately designed, it could also ensure that new funding is targeted towards subsidising those aspects of public interest journalism most adversely affected by current structural crises in news.
- The levy would not threaten pluralism or competitiveness in online news provision. Indeed, news aggregators reduce plurality by giving prominence to select outlets of major news brands.
- The levy would not likely deter investment in UK services. Google executive chairman Eric Schmidt recently stated that he "loves" Britain and that the company would be prepared to pay more tax if required by the UK treasury.
- The levy will likely attract net public support, particularly if packaged as part of a broader policy framework aimed at curbing excessive market power in the converged media industries.

Disadvantages

- The revenue generated is likely to be relatively small.
- It may be difficult to implement.
- There is no established precedent although a recent report by the French government advocated such a tax. Google responded by claiming it would slow down innovation.
- The tax may be seen as unfairly disadvantaging a particular sub-sector (content aggregators) vis-à-vis others (eg internet service providers)

Option 2: Search and social media advertising

It is not just local advertisers that have migrated online. Internet advertising expenditure during the first six months of 2011 outstripped that on television, with a year-on-year growth of 13.5%. A total of £2.26 billion was spent online, the vast majority in targeted and dynamic pay-per-click models offered by major search engines and social media platforms.

There is established precedent in Europe for funding press subsidies through a tax on media advertising that acts as a cross-subsidy between the most profitable sections of the media and public interest journalism. Sweden and the Netherlands have been operating such a tax (10% and 4% respectively) on commercial television advertising, among other sectors, since the early 1970s. The proceeds have been used to subsidise the press with a view to maximising plurality within the sector. In the case of Sweden, the tax revenue has also generated a surplus for the state.

Crucially, Google circumvents paying VAT on its UK ad sales by providing the service through Google Ireland. Facebook similarly avoids VAT by providing its UK ad services from a US-based branch of the company. The greatest beneficiaries of migration to online by UK advertisers have therefore been internationally-based companies that have been afforded an effective subsidy through the relative ease by which select online services can be routed through international subsidiaries.

A 1% tax on search engine and social media advertising sales in the UK would therefore not pose any threat to the viability of this rapidly growing industry, nor will it likely deter investment in marketing services. In 2011 alone, such a tax would have generated over £50 million of funds for reinvestment in public interest media.

The compelling rationale of operating a tax on search engine and social media advertising is not just based on the sector's spectacular growth and success in recent years, contributing significantly to Silicon Valley profits. The cross-subsidy will have both a direct and indirect effect in regenerating public interest journalism most affected by the migration of classified advertisers online: directly through immediate financial support; indirectly by enhancing the relative value of print versus online as a platform for local advertising in particular, and of online news versus the dominant search and social media platforms.

Summary

Advantages

- A tax on search and social media advertising will generate a sustainable funding source for public interest journalism as it is tied to a rapidly growing and largely recession-proof industry.
- It may have a secondary effect in easing resource pressures on local and investigative journalism by slowing migration of advertisers away from print classifieds.
- It is unlikely to provoke significant public criticism and will carry favour with large sections of the media that have lost significant business to search engines and lifestyle websites.
- There is longstanding European precedent for such a mechanism aimed at bolstering public support for news provision outside of the public service broadcasting framework.

Disadvantages

- The tax will be indiscriminate, indirectly affecting a range of industries that are extracting added value from pay-per-click models in a period of fledgling economic recovery.
- A flat tax will impact disproportionately on smaller businesses.
- It may be difficult to implement.

Option 3: Internet service providers

Another sector that has extracted significant commercial value from the free flow of information online is the ISP market. Market leader BT's consumer broadband offerings generated over £1.3 billion in revenues for 2011, and growth in this division is the main driver of group profits according to industry analysts. There is also significant concentration in the ISP market with BT, Virgin Media, Talk Talk and Sky now controlling 88% of it. A levy on ISP profits of these major suppliers could potentially not only generate significant funds to support public interest journalism, but also contribute to increased competition within the ISP market, with residual benefits for both consumers and citizens.
Though ISP's have claimed that profits are being affected by a growth in the costs of data (from the explosion of online video), others have disputed this and argue that ISPs have exaggerated the impact of data costs in a bid to extract additional revenue from content providers. In France and Spain, a 0.9% turnover tax on telecoms companies was instituted in 2009 to help cover the loss of revenue caused by reduction or ban on public service broadcasting adverts. A 0.9% tax levied solely on ISP revenues in the UK would generate around £40 million annually (equivalent to the total public funding made available for the establishment of local TV). However, both France and Spain are currently facing European legal action over these taxes, the outcome of which is uncertain.

Summary

Advantages

- Major broadband suppliers have profited significantly from the supply of bundled services and are indirect beneficiaries of free content online, including that offered by professional news organisations. A strong case can therefore be made that a small levy on their profits is proportionate to the added value they accrue and the lost revenue faced by commercial news organisations in the supply of unpaid for content.
- Recent precedent exists in France, Spain and Hungary where a turnover tax on telecoms companies has been instated in the last three years.
- A levy restricted to profits of the dominant market players will be less controversial than that imposed in other countries and may help improve competitiveness in the ISP market.

Disadvantages

- The Tax will target one particular sub domain of the new media industries and it may be difficult to justify why Telecoms companies must shoulder the burden of shoring up public interest news, if content aggregators and indeed commercial news providers are left off the hook.
- The EC has formally referred both France and Spain to the EU's Court of Justice. The tax on telecoms is said to be in breach of Article 12 of the Licensing Directive that details the rules on administrative charges that member states can impose on telecom/network providers(2002/20/CE). In September 2011 the Commission also opened an infringement case against Hungary over telecoms tax.