The Economics of Media Ownership

Submission to the Productivity Commission
Inquiry into the Broadcasting Services Act 1992

August 1999

Allan Brown
School of Economics
Nathan Campus
Griffith University Q.4111

Tel: 07 3875 7398
Fax: 07 3875 3719
Email: a.brown@mailbox.gu.edu.au

Main Points

- The concentration and cross-media restrictions are intended to promote *media diversity* and are based on the premise that a pluralistic, democratic society benefits from more rather than fewer information and entertainment sources.

- A diversity of media sources has beneficial effects for all types of media content, including entertainment, but it is especially important in relation to news and current affairs, which bear directly on the political process.

- The effects of cross-media ownership upon prices charged for media products have not been conclusively determined by empirical economic analysis.

- The implications of digitalisation and the Internet for media diversity are most likely over-stated by those advocating the removal of ownership restrictions.

- There are a number of writers whose views are at odds with those predicting a substantial increase in the number of media outlets and a corresponding reduction in the level of media ownership concentration.

- Australia already has one of the highest levels of media ownership concentration among OECD countries.

- With wide-spread uncertainty concerning the likely consequences of the new media technologies it is premature to remove or relax the current restrictions on media ownership simply on the assumption or hope that the new technologies will usher in an era of increased media diversity.

- In the short term any liberalisation of the concentration or cross-media restrictions is more likely to bring about greater ownership consolidation with adverse consequences for media diversity and the health of democracy in Australia.

- The main effect of the foreign ownership provisions is to restrict competition by constraining the competitive influence of foreign owners in the Australian media and inhibiting its potential for greater plurality and diversity.

Recommendations

- The existing limitations on the extent of ownership within commercial television and radio should not be removed or relaxed.

- The existing restrictions on ownership across commercial television, commercial radio and newspapers should not be removed or relaxed.

- The limitations on the ownership of commercial free-to-air and subscription television by non-Australian interests should be removed.

Context

In March this year the Productivity Commission received a Reference from the Treasurer to inquire into and report on the Broadcasting Services Act 1992 (BSA) and other related legislation. This inquiry is the first examination by the Productivity Commission of the broadcasting industries, and forms part of the Commonwealth's responsibility under the Competition Principles Agreement (CPA) to review regulatory aspects of existing legislation. The 'guiding principle' of the CPA legislative review is that any restriction on competition must be justified in terms of an overriding public benefit, and that there must be no better way of achieving the public benefit than by restricting competition.

As in most countries, the broadcasting legislation in Australia contains a number of restrictions on the broadcasting industries, which influence their structure, ownership and control, and operation. The Productivity Commission's inquiry is potentially concerned with all of these restrictions. This submission however will confine itself to consideration of the restrictions on *ownership* in the BSA.

The inquiry is being conducted in an environment of substantial technological changes affecting the broadcasting industries, most notably, those related to digitalisation and the Internet.

Digitalisation

Digitalisation allows information to be produced and utilised in the form of series of ones and zeros. Once encoded in a digitalised format, all information, including numbers, words, audio, video and colour, is technically standardised, and can be edited, modified, stored and transmitted in the same way. The systems and networks handling digital information are indifferent to the nature of the source material, be it image, sound or text, and digital information and communication can be carried over wired or wireless infrastructure.

Digitalisation has a number of significant implications for broadcasting. It greatly increases the channel carrying capacity of the radio frequency spectrum and thus has the potential to remove the scarcity that has traditionally limited the number of radio and television channels and shaped the regulation and structure of the industries. The increased capacity also permits the transmission of much higher quality broadcasting signals, especially HDTV (high definition television) images, previously possible only with broadband infrastructure. The capability for the transmission of large quantities of digitalised information, and the return flow of data from audiences to broadcasters, create the potential for broadcasters to provide a wide range of information and services in addition to radio and television programmes, and so assume the role of *datacasters*.

Free-to-air (FTA) commercial television broadcasters operating in metropolitan markets are required to commence digital broadcasting in January 2001, although detailed guidelines for digital transmission have yet to be determined. The FTA broadcasters will be allocated additional spectrum to enable them to simulcast analogue and digital transmissions for a period of eight years, and will be required to provide an as yet unspecified proportion of their programming in HDTV format. No new commercial television broadcasting licences are to be issued in any licence area before 2007. FTA television broadcasters will be permitted to use excess spectrum within their digital allocations to provide datacasting and enhanced services, but will be prohibited from multicasting, that is, transmitting additional channels of television programming including PTV (pay television) services. Spectrum is to be allocated to new entrants for datacasting purposes.

The provision of datacasting services by FTA television broadcasters is an example of how *media convergence* is affecting broadcasting. Other examples are the carriage of both voice telephony and PTV by copper, coax or fibre optic cables, and the publication of the same text and graphics in newspapers and on the Internet. More generally, the ability to encode information and communications in digital form facilitates the delivery of different services, traditionally the products of separate industries, by a common infrastructure. Digitalisation has thus permitted the attainment of economies of scope whereby a single firm can now provide different services at a lower cost than two or more firms in different industries. These newly realised economies have resulted in firms expanding (or wanting to expand) their range of operations, and in numerous alliances and mergers between firms in previously separate industries.

Internet

The Internet is an interactive (two-way) network linking computers using common communication protocols. It was developed by the US Defense Department from the late 1960s, and by the early 1990s was widely employed by US government departments and universities. Proprietary computer networks of some US communications companies were reconfigured and standardised in the mid-1990s to link them to the Internet. At around the same time, the World Wide Web (WWW) and related browser software were developed, thus greatly facilitating access to data and information, and increasing the possibilities for interactivity.

The Internet quickly emerged as a global computer network and the number of Internet users has continued to increase at an exponential rate. Currently, the main uses of the Internet are the transmission of electronic mail (‘e-mail’) and gaining access to remote databases. The United Nations Development Programme estimates that there were 143 million people world-wide with access to the Internet in mid-1998 and (perhaps somewhat optimistically) predicts this number to increase to 700 million by 2001 (Butler, 1999).

Established with large US government subsidies, the Internet's early existence was largely non-commercial and unregulated. It proved to be highly suitable for commercial use and most of its recent development has resulted from commercial application. The Internet was effectively privatised between 1992 and 1995 when US communication companies co-operated with one another in piecing together the network, and industry committees facilitated agreement on interconnection standards (Owen, 1999).

A major new industry has arisen in website design, and the Internet has become an indispensable public relations medium for commercial firms and for the dissemination of information by government and other non-commercial organisations. There are minimal costs and no regulatory barriers to the creation of websites, and to date the Internet has effectively been free of government regulation.

The Internet now carries audio material and provides for rudimentary telephony communication. It can also carry video signals but as yet they are of poor quality. This is due to the limited bandwidth capacity of the Internet, which is a major inhibitor of its potential development.

Media ownership restrictions

The BSA imposes three types of restrictions on ownership. These are:

- limitations on the extent of ownership within commercial television and commercial radio (concentration restrictions);
- restrictions on ownership across commercial television, commercial radio and newspapers (cross-media restrictions); and
- limitations on the ownership of commercial FTA television and subscription television by non-Australian interests (foreign ownership restrictions).

Restrictions on media ownership are not unique to Australia. Most OECD member countries have some form of media ownership restrictions (OECD, 1998).

The primary objectives of the ownership restrictions in the BSA are to encourage diversity in control of the more influential media (concentration and cross-media restrictions), and to ensure that Australians have effective control of these services (foreign ownership restrictions) (ABA, 1999). These restrictions represent the recognition by legislators that the media industries are more than mere producers of consumer goods or services, but have a more fundamental influence on society because of the nature of their output.

The concentration and cross-media restrictions are intended to promote *media diversity* and are based on the premise that a pluralistic, democratic society benefits from more rather than fewer information and entertainment sources. In a broader sense this concept extends to diversity of *types* of media, and provides the rationale for community and public broadcasting as complements to commercial radio and television. Within the commercial media industries, media diversity relates to ownership of media outlets and is grounded on the premise that a diversified ownership structure will have an enhanced potential to provide a wider range of opinions, values and attitudes. These propositions are well stated by the 1995 UK White Paper on Media Ownership (cited by Green, 1995, pp.30-31):

> A free and diverse media are an indispensable part of the democratic process. They provide the multiplicity of voices and opinions that inform the public, influence opinion, and engenders political debate. They promote the culture of dissent which any healthy democracy must have. In so doing, they contribute to the cultural fabric of the nation and help define our sense of identity and purpose. If one voice becomes too powerful, this process is placed in jeopardy and democracy is damaged. Special media ownership rules, which exist in all major media markets, are needed therefore to provide the safeguards necessary to maintain diversity and plurality.

A diversity of media sources has beneficial effects for all types of media content, including entertainment, but it is especially important in relation to news and current affairs, which bear directly on the political process. It is thus most relevant in relation to the major sources of news, information and opinion, namely, FTA television, radio, and newspapers which are covered by the ownership provisions in the BSA. It is also relevant to other influential media not subject to ownership restrictions, notably, magazines, PTV and the Internet.

Economics of ownership: old media

Restrictions on media ownership have economic as well as non-economic implications. There is, however, relatively little empirical economic analysis of media ownership and its consequences. None of this work relates to the new media technologies of digitalisation or the Internet, and none has been carried out in Australia.

Concentration within broadcasting

One study of the ‘old media’, based on 1975 data, concerns the common ownership of Canadian commercial broadcasting stations (Ownership Study Group, 1978). It found that there existed “significant” economies of scale in the group ownership of both radio and television stations. However, the economic benefits of group ownership were *not* passed on, either to broadcast audiences by way of better ‘quality’ programming (as measured by cost), or to advertisers in the form of cheaper advertising. In fact, for radio (only), group owners of two or more stations were found to charge “somewhat higher” advertising rates than licensees of single stations. In summarising its conclusions, the study group reported (p.40) that:

> Although group ownership of radio and television results in higher levels of financial health and profitability for the corporate entities involved, the studies revealed no evidence that groups generally provide commensurate quantifiable

> benefits to the public in terms of relatively higher expenditure on programme production or lower advertising rates.

Cross-media ownership

Economists have generally *assumed* that economies of scope accrue to firms from their common ownership of outlets across different media. They have asserted, rather than tested empirically, that commonly owned media outlets are able to lower overall costs by sharing news staff, physical facilities and administrative resources. Commonly owned different media may also benefit from the joint promotion of group outlets (Bear *et al*., 1974).

Owen (1969, 1973) was the first to examine the economic effects of cross-media ownership. His results suggested that newspaper-television combinations in the US gave media companies the market power to charge *higher* rates for advertising than newspaper and television stations which were separately owned. Peterman (1971) concluded however that cross-media ownership did *not* affect the advertising rates of newspaper-owned television stations, while Bloomfield (1977) derived results similar to those of Peterman for newspapers that formed part of newspaper-television combinations. The Canadian Ownership Study Group (1978) found that cross-ownership of Canadian television stations with either a newspaper or a radio station in the same market did *not* influence advertising rates. Finally, Wirth and Allen (1980) found evidence that US television stations commonly owned with newspapers in the same markets charged *lower* advertising rates than television stations not jointly owned with newspapers (but they suspected that this reflected strategic pricing behaviour by the stations at a time they were subject to scrutiny by the Federal Communications Commission). Because of these conflicting results it is difficult to draw firm conclusions regarding the economic effects of cross-media ownership.

Newspapers

It has been clearly established that there are substantial economies of scale in newspaper publishing. In the production of each edition of a newspaper there are high first copy costs (costs incurred in producing a newspaper to the printing stage), but low marginal costs (costs of reproduction). At the creation stage, the costs of producing both the editorial and advertising content of any edition of a paper are independent of the number of copies printed. In the reproduction process the cost per copy declines as the number of copies is increased, and for a given number of copies the cost per page declines as the number of pages is increased. There are also economies of group ownership which encourage common ownership of newspapers in different geographic markets (Rosse, 1967).

These economic characteristics of newspaper publishing are primarily responsible for there being only one title in all but very large newspaper markets. They create very high barriers to entry into newspaper markets such that the position of established papers is usually unassailable against challenge from potential competitors. Usually, therefore, the only way for a company to publish a newspaper in an existing market with an incumbent publisher is to acquire the incumbent company (Brown, 1986).

In summary, the effects cross-media ownership upon prices charged for media products have not been conclusively determined by empirical economic analysis. Economies of scope are generally considered to exist between different media. There are substantial economies of scale in newspaper publishing that are largely responsible for the tendency toward monopoly newspaper markets and common ownership across those markets.

Economics of ownership: new media

The case for relaxing the concentration and cross-media restrictions in the broadcasting legislation is based on the contention that the new media technologies will bring about a significant increase in the number of media outlets, and that the restrictions established for the old media will become unnecessary, ineffective and/or irrelevant. This view is advanced not only by a number of media companies with vested interests in the issue, but also by writers on new media technologies, and some academics. Prominent among the latter group are Albon and Papandrea (1998) who argue (p.84) that:

> … substantial diversification of the media industry has weakened the non-economic case for ownership restrictions, and, as the delivery of media services by non-traditional means becomes more widespread, the justification for continued restrictions on ownership of traditional media will be further eroded.

Negroponte (1995, pp.57-58) goes further and asserts, "… the monolithic empires of mass media are dissolving into an array of cottage industries" and "media barons of today will be grasping to hold on to their centralized empires tomorrow".

The argument that new technologies will facilitate the creation of a host of new media outlets and end the dominance of the existing media oligarchy is reminiscent of predictions in the early 1980s of the establishment of a multitude of new newspaper titles in Australia resulting from the shift from the old linotype ('hot type') method of typesetting to the use of computer-linked video display terminals ('cold type'). Contrary to these predictions there has been a significant *decrease* in the number of daily newspapers over the past two decades and, with the take-over of Herald & Weekly Times by News Limited in 1987, a substantial increase in press concentration. This is not to deny that digitalisation and the Internet may be responsible for some new media outlets in Australia, but it does suggest that the implications of the new technologies for media diversity may be over-stated by those advocating the removal of ownership restrictions.

There are a number of writers whose views are at odds with those predicting a substantial increase in the number of media outlets and a corresponding reduction in the level of media ownership concentration. Goodwin (1998) focuses on the effect of digitalisation on economies of scale in the creation of media content. He argues that digitalisation is likely to *extend* the economic advantages of the large established media companies. Digitalisation permits media products to be produced, stored and transmitted without physical embodiment – in bits rather than atoms – and thus brings the marginal cost of extra copies even closer to zero. The corporation which is able to spread its first copy costs over a greater number of consumers of its products will have an economic advantage. Goodwin (1998, p.186-87) explains: “The particular economies of scale stemming from media goods’ immateriality, and hence zero marginal cost, will persist, and with them the same mechanism for media concentration”.

Goodwin believes that, with digitalisation, competition for consumers will be waged mainly in terms of the attractiveness of media products. In this competition existing large media corporations will have an inherent advantage because they can afford to invest more in production and thus produce a more attractive product. When the ‘enthusiastic amateur’ comes up with a promising project it will frequently be taken over and pursued by an established media company.

Herman and McChesney (1997) examine the potential of the Internet to reduce the dominant role of the existing media. They point out that in spite of its enormous attraction to users and the increasing sophistication of commercial websites, Internet operations have proved to be profitable to only a few content providers. Whilst many people are keen to pay for web access, they are, to date, reluctant to pay extra for information and other Internet content. This may be a permanent characteristic of the Internet: “nobody is generating profit from Internet media content … and it is unclear if the medium will ever become especially lucrative for content providers” (Herman and McChesney, 1997, p.123).

Herman and McChesney argue further that if the provision of content does become profitable, existing media firms will have a strong competitive advantage over potential Internet rivals. It takes time and money to attract audiences to a website, but websites of existing media firms enjoy ready-made audiences from traditional media that shift over to the Web. Existing media firms can also promote their online activities to their traditional media audiences. To the extent that content providers rely on advertising for Internet revenue, existing media operators again have the front running by virtue of their relationship and experience with major advertisers. Herman and McChesney point out that the large media firms are the major source of capital for new Internet start-up ventures. These investments are intended to put the traditional media companies in the most advantageous position to anticipate and appropriate Internet developments. The authors conclude (p.107), “the Internet and the digital revolution do not pose an immediate or even foreseeable threat to the market power of the media giants”.

Owen (1999) agrees. He is of the opinion that Internet technology is most suitable for transmitting e-mail and data files, not for real-time communications such as video broadcasts or telephone calls. Owen argues that media which have traditionally appealed to mass audiences have been ‘passive’ rather than interactive, and doubts whether it will be worthwhile for firms to make the massive high-risk investment in infrastructure and the development of more ‘user-friendly’ interfaces for the Internet to become a mass medium. To Owen (p.41), “it is not at all clear that the Internet is going to be an important mass medium of any kind, much less an important means of delivering television”.

Media diversity in Australia

In spite of the ownership restrictions in the BSA, Australia has one of the highest levels of media ownership concentration among OECD countries. The daily press is dominated by two publishers, the leading commercial television network is the country’s largest publisher of magazines, and the owners of the traditional mass media are the major domestic investors in the Internet.

The Internet has not to date generated any new significant domestic news source, most of the Australian news appearing on the web being repackaged and recycled from existing news services. The cross-media provisions allow Publishing & Broadcasting Limited (PBL) and News Limited to have significant ownership interests in PTV. Not even this important new medium has produced a new commercial source of news and current affairs. Sky News is compiled from the news services of the Seven and Nine networks.

The removal or relaxation of the ownership restrictions will facilitate an *increased* concentration of media ownership. The extension of the allowable audience reach for commercial television from 75 to 100 per cent would be likely to lead to the acquisition of the remaining regional television broadcasters by the major networks, with the loss of local news programming. More disturbingly, the removal of the cross-media restrictions would pave the way for the take-over of John Fairfax Holdings by PBL, which would reduce the number of major domestic news sources. The take-over of Fairfax by PBL is unlikely to be prevented by the mergers provisions of the Trade Practices Act (Fels, 1996), even though it would eliminate existing competition for advertising between the companies.

Another potential problem with allowing common ownership of capital city newspapers and broadcasting outlets is that, because of the press duopoly, any amalgamation of press and broadcasting will cause an imbalance in media competition. Common ownership of different media outlets in the same markets would allow cross-promotion and package deals for advertising across commonly owned media to the disadvantage of companies with interests in only one medium.

The previous section indicated the widely divergent views on the likely consequences of digitalisation and the Internet for media ownership. This reflects the more general uncertainty concerning the media products, consumer demand and industry structures that will result from the new media technologies. The following quotes from different contributors to the debate in Australia underline this uncertainty:

- … convergence driven by digital technologies is rapidly changing the environment in which broadcasting is operating. No one is certain about the kinds of services which will be available, and demanded by consumers, in five to ten years time. (DCITA, 1999, p.5)

- [One of the] key characteristics of the convergence era [is the] tremendous uncertainty in respect of demand, new technology, regulation and business models. (Telstra Corporation, 1999, p.5)

- … no one knows where this [new media] technology will take us … (News Limited, 1999, p.8)

With such uncertainty it is premature to remove or relax the current restrictions on media ownership simply on the assumption or hope that the new technologies will usher in an era of increased media diversity. In the short term at least any liberalisation of the concentration or cross-media restrictions is more likely to bring about greater ownership consolidation with adverse consequences for media diversity and the health of democracy in Australia. It would be imprudent at this stage to liberalise the concentration or cross-media ownership restrictions in the broadcast legislation.

Recommendations

- *The existing limitations on the extent of ownership within commercial television and radio should not be removed or relaxed.*

- *The existing restrictions on ownership across commercial television, commercial radio and newspapers should not be removed or relaxed.*

Foreign ownership

The foreign ownership provisions of the BSA restrict the ownership of commercial FTA television and subscription television by non-Australian interests. The foreign ownership restrictions on commercial radio were lifted in 1992 and two of the major radio networks are now foreign owned. News Limited is a foreign company by virtue of the US citizenship of Rupert Murdoch. It is the major publisher of daily newspapers in Australia and has a large equity interest in Foxtel, the largest PTV operator. Network Ten also has significant foreign ownership.

There are economic arguments for and against foreign investment in general but, in recent years, government policy in Australia has clearly moved in favour of a more liberal attitude to foreign investment. Continuing the trend towards reducing restrictions on foreign capital inflows, the government announced in August 1999 that the threshold for the screening by the Foreign Investment Review Board of acquisitions in Australia by foreign companies had been raised from businesses worth $5m to $50m, and for the establishment of new businesses by overseas interests from $10m to $50m. Applications by foreigners to invest in Australia are rarely declined (Pearson, 1999).

The major non-economic rationale for restricting foreign ownership of commercial broadcasting is that it may facilitate cultural dominance by foreign interests. This view is complemented by an economic argument that Australian broadcast owners may be more likely to employ Australian staff than foreign owners (ABA, 1999). There is no solid evidence for either of these propositions and they are unlikely to be valid.

The main effect of the foreign ownership provisions is to restrict competition by constraining the competitive influence of foreign owners in the Australian media and inhibiting its potential for greater plurality and diversity. It is also possible that restricting foreign ownership of the media contributes to the conflict of interest problem arising from Australian media owners having substantial non-media assets (Pokarier, 1996). On balance, the costs of the foreign ownership restrictions are unlikely to be outweighed by their benefits.

Recommendation

- *The limitations on the ownership of commercial free-to-air and subscription television by non-Australian interests should be removed.*

References

ABA (Australian Broadcasting Authority), 1999. *Statement by the Australian Broadcasting Authority to the Productivity Commission on the Inquiry into the* Broadcasting Services Act 1992.

Albon, Robert and Franco Papandrea, 1998. *Media Regulation in Australia and the Public Interest*, Institute of Public Affairs, November.

Baer, Walter S. *et al.*, 1974. *Concentration of Mass Media Ownership: Assessing the State of Current Knowledge*, Rand.

Bloomfield, Edward C., 1977. Media cross-ownership, newspaper chains, competition, and daily newspaper advertising rates. PhD thesis, University of Rochester.

Brown, Allan, 1986. *Commercial Media in Australia: Economics, Ownership, Technology and Regulation*, University of Queensland Press.

Butler, Grant, 1999. Telstra - top of internet POPS. *Australian Financial Review*, 13 July, p.27.

DCITA (Department of Communications, Information Technology and the Arts), 1999. *Reviews into the Scope of Datacasting Services and Enhanced Services: Discussion of Options*, June.

Fels, Allan, 1996. Monopolies, mergers and the media. Speech to the Melbourne Press Club, 26 July.

Goodwin, Peter, 1998. Concentration: does the digital revolution change the basic rules of media economics?, In Robert Picard (ed.), *Evolving Media Markets: Effects of Economic and Policy Changes*, The Economic Research Foundation for Mass Communication, pp.173-89.

Green, Damien, 1995. Preserving plurality in a digital world. In Tim Congdon *et al.*, *The Cross Media Revolution: Ownership and Control*, John Libbey, pp.25-37.

Herman, Edward S. and Robert W. McChesney, 1997. *The Global Media: The New Missionaries of Corporate Capitalism*, Cassell.

Negroponte, Nicholas, 1995. *Being Digital*, Knopf.

News Limited, 1999. *A Submission to the Productivity Commission Inquiry into Australia's Broadcasting Legislation*, May.

OECD (Organisation for Economic Co-operation and Development), 1998. *Cross-Ownership and Convergence: Policy Issues*, November.

Owen, Bruce, 1969. Empirical results on the price effects of joint ownership in the mass media. *Studies in the Economics of Mass Communication*, no.93, Research Center in Economic Growth, Stanford University.

Owen, Bruce, 1973. Newspaper and television station joint ownership. *The Antitrust Bulletin*, 18.

Owen, Bruce M., 1999. *The Internet Challenge to Television*, Harvard University Press.

Ownership Study Group to the Canadian Radio-Television and Communications Commission, 1978. *Ownership and Private Broadcasting: An Economic Analysis of Structure, Performance and Behaviour,* Ottawa.

Pearson, Brendan, 1999. FIRB threshold is lifted from $5m to $50m. *Australian Financial Review*, 5 August, p.3.

Peterman, John L., 1971. Concentration of control and price of television time. *American Economic Review: Papers and Proceedings*, 61(2), pp.74-80.

Pokarier, Christopher, 1996. A diverse or an Australian media?, *Policy,* Winter, pp.7-11.

Rosse, James N., 1967. Daily newspapers, monopolistic competition, and economies of scale. *American Economic Review*, 57(2), pp.522-33.

Telstra Corporation Limited, 1999, *Broadcasting Inquiry Submission*, May.

Wirth, Michael O. and Bruce T.Allen, 1980. Crossmedia ownership, regulatory scrutiny, and pricing behavior. *Journal of Economics and Business*, 33(1), pp.28-42.