

# Chapter 4

## Aggregators and the news media

4.1 While the previous two chapters have respectively discussed the challenges and opportunities faced by the contemporary news media in Australia as a consequence of a number of economic, social, technological and structural factors, this chapter examines the particular relationship between digital aggregators and the news media. It discusses the importance of a flourishing news media to aggregators, and the ways in which aggregators are working with content creators to combat fake news. Finally, this chapter discusses the growing political appetite to ensure that aggregators pay their fair share of tax in Australia, and floats the idea of a levy on aggregators.

4.2 It is clear that the media landscape has been changed irreversibly by the global success of digital aggregators, particularly:

- Google, which has its roots in a search engine but now provides a range of web-based services, and
- Facebook, a social media platform, through which people build connections with one another and share personal content, which now incorporates the sharing of news and third-party media.

4.3 Given their centrality to the new media environment, the committee sought to engage with these two largest aggregators, both globally and in Australia, Google and Facebook.

### The importance of news to aggregators

4.4 Both Google and Facebook told the committee that they recognised the value of a healthy media sector in which public interest journalism thrived. Google's submission acknowledged that it had a mutual interest in ensuring that good journalism flourishes with the broader media sector:

...not just because a free and independent media is a matter of vital public interest, but because ensuring credible news sources can thrive online helps us do a better job providing our users reliable information.<sup>1</sup>

4.5 Google pointed to a number of its products that give users access to free news content, including Google News, which links to around 80,000 publishers worldwide, Google Alerts, which alerts readers to new content of interest to them, and its YouTube platform, which includes content generated by news media organisations, including larger organisations streaming content, such as the ABC, and smaller players like BuzzFeed and Vice News.<sup>2</sup>

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1 *Committee Hansard*, 22 August 2017, p. 18.

2 *Submission 38*, pp. 3–4.

4.6 In its submission, Facebook highlighted the words of its founder, Mr Mark Zuckerberg, regarding the value of the news media:

A strong news industry is also critical to building an informed community. Giving people a voice is not enough without having people dedicated to uncovering new information and analysing it. There is more we must do to support the news industry to make sure this vital social function is sustainable – from growing local news, to developing formats best suited to mobile devices, to improving the range of business models news organisations rely on.<sup>3</sup>

4.7 Some witnesses and submitters raised serious areas of concern with the committee about Google and Facebook.

### **Criticisms of Google and Facebook**

4.8 These will only be discussed briefly in this report for two reasons. Firstly, the committee did not receive sufficient volume of evidence in these areas to reach any definitive conclusions. Secondly, over the course of this inquiry, the government directed the ACCC to undertake an inquiry into aggregators and social media platforms, including Google and Facebook, and potential negative or unfair effects on consumers, media content creators-including journalists, and advertisers. The ACCC inquiry has broader terms of reference than this committee, as well as the resources, expertise and time to consider these matters in full, before it presents its final findings to government in mid-2019.

4.9 Nonetheless, the committee was concerned about suggestions that Google and Facebook have abused their market power, including in their approach to the media sector.<sup>4</sup> For example, the committee is aware that Mr Michael Miller of News Corp, wrote in the Australian Financial Review on 31 May 2017:

Google is no friend and has done more than anything to destroy the journalism model.

Google is only ever one's 'friend' if you obey the rules it dictates for your business in a digital world.

It has world's most powerful market monopoly: a 95 per cent market share of search in Australia and similar positions in other major markets...

[Google] has argued news publishers know they are free to withdraw from Google Search and Google News at any time.

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3 *Submission 40*, p. 3

4 See questions asked by Senator Nick Xenophon, *Committee Hansard*, 22 August 2017, pp. 29–30.

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The reality, however, is Google's dominance of search means local publishers have little choice other than to be on Google: it is the digital distribution method and journalism needs to be discoverable.<sup>5</sup>

4.10 In this, Mr Miller suggested that Google consciously impeded the traditional media's transition to subscription models by:

Making quality subscription news publishers suffer in search rankings unless they give Google and its search users content for free;

Displaying snippets of publishers' content in Google News listings to attract eyeballs which fund its advertising revenue and to discourage users seeking out content elsewhere;

Manipulating search results to promote its own news vertical.<sup>6</sup>

4.11 It was also put to Google that there had been allegations that it had demanded that media companies adopt its 'first-click free' policy, and if they did not, their content would be placed lower in search results, and therefore reach fewer users.<sup>7</sup>

4.12 Google were given the opportunity to respond to these allegations in a public hearing in August 2017, and told the committee that 'whether or not content is behind a paywall is not a demotion signal for the ranking in search' and that, at that time, Google was working increasingly with publishers on subscriptions and paywalls. Moreover, Google disagreed that it had abused its market power regarding its 'first click free policy', and contended that publishers retained the right to use a number of options to distribute their content.<sup>8</sup>

4.13 Some evidence questioned the reliability of the metrics used by aggregators to evaluate the reach of advertising they carried, thereby potentially overstating its value and impact for advertisers. Mr Darren Woolley, the Chief Executive Officer and Founder of TrinityP3, told the committee:

...there are questions being asked about some of the metrics that both Google and Facebook provide. For instance, if I buy a 30-second television ad on any of the networks, it will run for 30 seconds. On Google and Facebook, if it runs for five seconds, it's deemed to be seen, and so now there are questions around the value that these represent with the metrics

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5 Michael Miller, 'Google is not journalism's friend and now it's trying to undermine paywalls', *Australian Financial Review*, 31 May 2017, [www.afr.com/opinion/google-is-not-journalisms-friend-and-now-its-trying-to-undermine-paywalls-20170530-gwghgp#ixzz54aCGORKr](http://www.afr.com/opinion/google-is-not-journalisms-friend-and-now-its-trying-to-undermine-paywalls-20170530-gwghgp#ixzz54aCGORKr) (accessed 19 January 2018).

6 Michael Miller, 'Google is not journalism's friend and now it's trying to undermine paywalls', *Australian Financial Review*, 31 May 2017, [www.afr.com/opinion/google-is-not-journalisms-friend-and-now-its-trying-to-undermine-paywalls-20170530-gwghgp#ixzz54aCGORKr](http://www.afr.com/opinion/google-is-not-journalisms-friend-and-now-its-trying-to-undermine-paywalls-20170530-gwghgp#ixzz54aCGORKr) (accessed 19 January 2018).

7 See questions asked by Senator Nick Xenophon, *Committee Hansard*, 22 August 2017, pp. 29–30.

8 Ms Ishtar Vij, Head, Public Policy and Government Relations, Google Australia Pty Ltd and Mr Jason Pellegrino, Managing Director, Google Australia Pty Ltd, *Committee Hansard*, 2 August 2017, p. 29 and p. 30 respectively.

that are actually developed by the digital industry itself...There are two issues. The first is that the metrics themselves have been corrected several times over the past few years by Facebook and Google themselves because they found out that their 'algorithm' has been incorrect and perhaps overstating performance. The second is that getting a consistent and meaningful measure across the industry has also been difficult to achieve. While Google and Facebook, because of their size and market dominance, have actually put forward metrics, it's still the advertisers who are coming to terms with what that means as far as the value that that represents as part of their advertising investment.<sup>9</sup>

4.14 While acknowledging that it was a complex problem stemming from the nature of the internet itself, Dr Nico Neumann, an academic researching the use of technology in marketing and advertising, observed that companies that relied on advertising, including aggregators, were torn between ensuring their metrics were correct, and maintaining the value of the advertising they carry by maximising the estimated market reach:

As I said, this is a problem the industry is trying to tackle right now with different initiatives which have been more or less successful, in terms of whether you want to help important stakeholders pick it up. For example, to make this really clear, you have to understand that even a company like Google or anyone else—I'll just pick one name—makes money with a fraudulent impression. It's similar to a marketplace like eBay. If you get a commission with the volume on everything that's paid, you get your cents. So there's a conflict of interest. On one hand you want to reduce [ad fraud] because of PR reasons mainly, while, on the other hand, everyone has pressures to hit their targets.<sup>10</sup>

### **Engaging in partnerships to improve news**

4.15 The committee also received evidence on the work of Google and Facebook to build the capacity and skills of journalists, and spread awareness of the opportunities afforded by the digital age. For example, Google submitted that:

Another way we support news publishing is via the Google News Lab, a dedicated program within Google that works directly with newsrooms to provide trainings that help boost digital skills, support data journalism, and develop better tools for data analysis and visualisation. After running a series of successful workshops with local publishers since 2016, training more than 100 journalists in the use of Maps and Search to tell stories, we are expanding our engagement with newsrooms on an ongoing basis.

We also support emerging journalistic talent through the Google News Lab Fellowship by offering students and professionals interested in journalism and technology the opportunity to work with some of the most prestigious media organisations in the world.<sup>11</sup>

4.16 Facebook outlined a number of ways it works with the media sector:

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9 *Committee Hansard*, 11 July 2017, p. 14.

10 *Committee Hansard*, 23 November 2017, p. 3.

11 *Submission 38*, p. 6.

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To this end, we work with our partners in the news industry to find ways for journalism and news to flourish on our platform—whether it is by providing advice and training on best practice on our services through our Facebook for Journalism project; developing new tools to assist publishers to monetise and distribute their content more effectively, such as through video monetisation and Instant Articles; or through initiatives to build a more informed community such as the News Integrity Initiative and First Draft Coalition, among others. Facebook is a distribution platform for publishers—a way for people anywhere to read or watch the work of journalists and media organisations, and we are working to establish stronger ties between Facebook and the news industry to ensure that we are a collaborative and transparent partner to journalists.<sup>12</sup>

4.17 Mr Pellegrino, the Managing Director of Google Australia, also noted that his organisation was responding to a significant appetite from publishers to develop subscription models and paywall enforcement:

Today we are being asked to focus more on subscriptions, especially given the growing trend towards digital subscriptions from the news industry and the increasingly important role it plays as a revenue stream for many publishers. As you may have seen in recent days, we are in active discussions with publishers around the world, including here in Australia, with a view to taking what we do to support subscriptions to another level. For instance, we are focused on how we can support subscriptions and paywalls across our services to make subscription based content more visible in search, and we want to make sure that publishers are part of this effort. We know that success for everyone is coming together and partnering in this work. We understand many publishers will be keen to see the outcome, and we hope to have more to share in coming months.<sup>13</sup>

4.18 Ms Áine Kerr, the Manager of Journalism Partnerships for Facebook, also noted that the media industry had highlighted skills development as a priority, to which Facebook had responded in a number of ways:

...a request we've gotten from the industry is to help with the upskilling of their journalists so that they can use the products and tools and services to find content on the platform, to engage with audiences, to build loyal followings. As part of that here in Australia, for example, we bought a company called CrowdTangle last December. We've made it free and available. We're already at 12 newsrooms, 30 brands here in Australia, but there is more to do. We're running e-learning courses, webinars, workshops. We're going to be bringing our Facebook Journalism Project news days here to Sydney in the coming months. These are already full. We're holding workshop days, where we bring our product teams in, our partner engineers, and we show what's on our roadmap, we show how our products work, we provide skills and training to journalists.<sup>14</sup>

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12 *Submission 40*, p. 3.

13 *Committee Hansard*, 22 August 2017, p.19.

14 *Committee Hansard*, 22 August 2017, p. 13.

4.19 Additionally, the committee understands that Fairfax and Google recently announced that they would partner to develop digital media products and streamline programmatic advertising bookings across Fairfax titles. Mr Greg Hywood, Chief Executive and Managing Director of Fairfax Media, is reported as saying this was an innovative approach, and 'We expect [the] upside performance from this partnership will allow us to make new investment in our journalism'.<sup>15</sup>

4.20 Ms Jacqui Park, the Chief Executive Officer of the Walkley Foundation, told the committee about other positive signs of engagement between aggregators and the traditional media sector. In particular, she highlighted the contribution that Google made in partnering on the Walkley Foundation's Incubator and Innovation Fund:

... We shopped around a lot and Google, to their credit, were the only ones who came on board. They've been giving us between \$70,000 and \$120,000 a year for the past four years. But that's really a very small amount of money to be doing this kind of work with. We've managed to fund five projects this year up to \$35,000—anything from \$5,000 to \$35,000.<sup>16</sup>

4.21 Google noted other ways that they partner with the Walkley Foundation:

In addition, we partner with The Walkley Foundation to provide funding for its innovation fund and the Global Editors Network Editors Lab hackdays; both initiatives support creative and exciting new ways of delivering news and media content to engage and better inform Australians.<sup>17</sup>

### **Combating the spread of fake news**

4.22 Both Google and Facebook noted the work they were undertaking to combat the availability and spread of 'fake news', or misleading content, on their platforms. Facebook submitted to the committee that the bulk of 'fake'—or 'false'—news was financially motivated, and so reducing the profitability of generating fake news would stem its production. It submitted:

In terms of disrupting the economic incentives, we believe one of the most effective approaches is removing the economic incentives for traffickers of misinformation. We have found that a lot of fake news is financially motivated. Spammers make money by masquerading as legitimate news publishers, and posting hoaxes that get people to visit to their sites, which are often mostly ads.

Some of the steps we're taking include:

- Applying machine learning to assist our response teams in detecting fraud and enforcing our policies against inauthentic spam accounts,

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15 Jennifer Duke, 'Google, Fairfax join forces in advertising partnership', *Sydney Morning Herald*, 11 December 2017 available at [www.smh.com.au/business/media-and-marketing/google-fairfax-join-forces-in-advertising-partnership-20171211-p4yxm3.html](http://www.smh.com.au/business/media-and-marketing/google-fairfax-join-forces-in-advertising-partnership-20171211-p4yxm3.html) (accessed 12 December 2017).

16 *Committee Hansard*, 22 August 2017, p. 37.

17 *Submission 38*, p. 6.

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- Updating our detection of fake accounts on Facebook, which makes spamming at scale much harder.<sup>18</sup>

4.23 Facebook also pointed out a number of its other initiatives designed to make reporting fake or misleading content easier, including encouraging users to flag contested articles, ensuring an alternative source was brought to a user's attention, and piloting partnerships with third-party fact checkers overseas.<sup>19</sup> On point, Dr Peter Fray noted that:

Facebook, to its credit, has taken on board a lot of the criticisms that flowed from the US election and has formed several alliances with fact-checking and verification services. That is actively happening.<sup>20</sup>

4.24 Likewise, Ms Megan Brownlow, a Partner with PwC with long experience in the media sector, told the committee that:

It is important to acknowledge though that there is a natural check and balance because Facebook and Google also need the news content. What that means is they have been encouraged because of that need to create some news supportive changes. Google, for example, changed its algorithm to surface quality journalism above fake news and other types of rubbish journalism. That is one thing it has done. Facebook is putting out 'subscribe now' buttons now for news stories to encourage users to then subscribe to the news organisations. These things are recognitions that they need news content creators, and that is a positive natural check and balance.<sup>21</sup>

4.25 Google also emphasised that providing relevant, useful and reliable information was at the core of its service to users. Mr Pellegrino highlighted Google's development of a range of strategies to deal with misleading content, including algorithms that could identify sites containing potentially spurious information, ways that users could flag suspicious sites, and partnerships with external fact checking organisations. Additionally, Google highlighted the following initiatives:

- Google, via our News Lab, is a founding member of the First Draft Coalition, an organisation dedicated to addressing challenges relating to trust and truth in the digital age for newsrooms, human rights organisations and many others enabling users to highlight fact-checked content in Google Search and News;
- adjusting algorithms to help identify reliable sources and demote inaccurate or 'fake news' content for users, as well as to identify misleading advertising content; and

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18 *Submission 40*, p. 9.

19 *Submission 40*, p. 6; see also *Committee Hansard*, 22 August 2017, pp. 7–8.

20 *Committee Hansard*, 17 May 2017, p. 46.

21 *Committee Hansard*, 11 July 2017, p. 3.

- providing free protection from cyberattacks seeking to deny user service (DDoS) through 'Project Shield' for news, journalists, human rights, and elections monitoring sites.<sup>22</sup>

### **A levy or tax on aggregators**

4.26 Some evidence received by the committee suggested that the Commonwealth should impose a levy on aggregators—particularly Google and Facebook, or an additional tax on their advertising profits. It was suggested that this could offset the cost to government of any direct subsidies or indirect supports that flowed to producers of public interest journalism. In making the case for this proposal, some witnesses and submitters suggested that aggregators had some responsibility for the demise in of traditional business models, and any subsequent effects on employment and standards in journalism. It was also noted, that aggregators continue to make immense profits from leveraging content made by others, including journalism produced by traditional and new media, as well as individuals, and alleged that they have done so while minimising their general tax liabilities in Australia.

4.27 Other perspectives argued the imposition of a levy would simply be punishing aggregators for developing successful business models and providing a good service for consumers.

### ***The tax liabilities of international aggregators in Australia***

4.28 An earlier chapter of this report noted that Morgan Stanley estimated that the market in digital advertising in Australia is worth around \$6 billion annually, and that Google and Facebook account for between \$4 to 5 billion of this revenue.

4.29 However, there is a discrepancy between these claims and information provided to the committee by Google and Facebook. Mr Pellegrino informed the committee that:

In Australia, our overall [gross] revenue that we reported last year was \$1.14 billion. We don't break that down by revenue stream. That's a policy that we have globally....On that \$1.14 billion, we generated a profit of \$121 million. We paid \$33 million in tax, which is, broadly, an effective tax rate of 27 per cent.<sup>23</sup>

4.30 Facebook informed the committee that their annual Australian revenue for 2016 had been \$326 million. In another Senate committee hearing looking at corporate tax avoidance, Facebook confirmed that of its total \$326 million turnover, it declared a profit before income tax of \$6 million for Australia, and that its total global revenue in this period was \$27.6 billion in revenue, with \$15.2 billion in expenses.<sup>24</sup>

4.31 Many witnesses and submitters to this select committee argued that Facebook and Google were not only stripping revenue from Australian media companies, but

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22 *Submission 38*, pp. 9–10.

23 *Committee Hansard*, 22 August 2017, pp. 23–24.

24 Senate Economics References Committee, *Committee Hansard*, 22 August 2017, p. 25.



they had an unfair competitive advantage as a consequence of their tax minimisation strategies.<sup>25</sup>

4.32 There have been some recent indications that Facebook is adjusting its selling practices to start to address this issue:

...advertising revenue supported by our local teams will no longer be recorded by our international headquarters in Dublin, but will instead be recorded by our local company in that country....[to] provide more transparency to governments and policy makers around the world who have called for greater visibility over the revenue associated with locally supported sales in their countries.<sup>26</sup>

4.33 It is not yet clear how this will affect Facebook's Australian operations or tax liabilities—or whether this will contribute positively to the health of public interest journalism. However, the committee sees it as a positive sign that Facebook is willing to be more transparent about its local advertising framework and revenues.

4.34 The committee also notes the ACCC inquiry into the power of digital aggregators and its effect on Australia's media industry, discussed later in this report.

#### ***Holding aggregators responsible through taxation***

4.35 The committee heard some evidence that suggested aggregators should be held responsible for the profoundly negative effects they had caused in the media industry.<sup>27</sup>

4.36 For example, Associate Professor Andrew Dodd, the Chair of the Public Interest Journalism Foundation, stated that:

I believe they do have a responsibility by virtue of the fact that they are beneficiaries of the content. There's no doubt whatsoever that those platforms benefit enormously. It's true that a lot of content providers have made a deal, in a sense a deal with the devil, because what they're asking for are eyeballs watching content and viewing what they do, but they've had to trade off a lot of control about the revenue streams attached to it by virtue of the nature of these new platforms that have broken down their business models. So you simply ask whether or not these platforms are benefiting from all that journalism that is being done, and in almost all instances they are.<sup>28</sup>

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25 For example, Mr Paul Murphy, MEAA, 17 May 2017, p. 11; Ms Rebecca Costello, Schwartz Media, 21 November 2017, pp. 39–40; Professor Matthew Ricketson, *Committee Hansard*, 21 August 2017, p. 3.

26 See the blog post written by Facebook's Chief Financial Officer, Mr Dave Wehner, 'Moving to a local selling model', 12 December 2017, available at <https://newsroom.fb.com/news/2017/12/moving-to-a-local-selling-model/> (accessed 13 December 2017).

27 For example, see Dr Denis Muller, *Submission 11*, p. 2; michaelwest.com.au, *Submission 23*, p. 4; Croakey, *Submission 25*, pp. 7–8; Mr Ray Bange, *Submission 47*, p. 7; MEAA, *Submission 64*, p. 3 and pp. 11–12. The submission made by the Freeline Group noted both support and opposition to a levy on aggregators among its membership. *Submission 51*, p. 12.

28 *Committee Hansard*, 21 August 2017, p. 10.

4.37 The Media, Entertainment & Arts Alliance (MEAA) described the damage that aggregators had caused to the sector:

These non-paying entities strip advertising and other revenue from regulated media entities that provide important public interest editorial and entertainment Australian content for Australian audiences. To date, they have made little effort to acknowledge the funding problem and even less to contribute to funding the content from which they benefit enormously...Companies that financially benefit by reproducing but not creating news content should contribute funding towards maintaining and developing journalistic content and endeavours. That is a basic principle that we think would be important to apply. Regulators at national and international levels should act with urgency to establish payment mechanisms, whether by a levy or other means, from intermediaries of scale, such as Google and Facebook, which justly compensate authors and publishers for their creative works.<sup>29</sup>

4.38 Schwartz Media submitted that a proposed levy might also be countervailed by tax incentives for aggregators supporting local journalism:

One of the key proposals being canvassed is a levy or 'turnover tax' on Facebook and Google, with revenue used to support public interest journalism. This is a reasonable action by government, taking into account the very low rate of tax paid by these companies in Australia (considering the revenue they collect here) as well as the necessity of mitigating the worst effects of their market dominance. It might also be worth considering offering incentives to Facebook and Google, tax or otherwise, for supporting local public interest journalism.<sup>30</sup>

4.39 Mr Chris Graham, the Publisher and Editor of the New Matilda, expressed some scepticism about whether he supported a targeted levy on aggregators, but suggested that it could be an option considered by government:

Part of me doesn't support special taxes for that, for organisations like Facebook, but a bigger part of me thinks they've got it coming, given the way they conduct themselves. I certainly wouldn't oppose it, and I wouldn't criticise it. I think those organisations have a right to operate their businesses the way they see fit, but there is undoubtedly a broader societal interest in how they operate their businesses. I think that, if you asked Facebook and Google and others, they would probably acknowledge that. I don't know if they're interested in sharing revenue [as it's not their business model]...At one level, [a levy] makes me a little anxious, but, at another level, have at it.<sup>31</sup>

4.40 Professors Fray and Wilding argued against Facebook and Google having liability for the state of the media sector. They observed that that Australians have a very positive view on aggregators and their products—noting a stark contrast to the

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29 *Committee Hansard*, 17 May 2017, p. 11.

30 *Submission 10*, p 2.

31 *Committee Hansard*, 22 November 2017, pp. 17–18.

banking sector, where levies have been used by government and garnered popular support. However, they did note:

Alternatively, if we think [Google and Facebook] are not causing a harm as such, but are failing to contribute in the way that others do, there may be a case for some form of levy. This is broadly the view that would inform a policy decision to require Netflix to contribute to the production (or at least the funding) of Australian 'television' drama. It requires a prior decision that the new entrant is essentially in the same game as the legacy operator—or at least that they are all now in the same game together.<sup>32</sup>

### ***Proposals for the mechanism and quantum of an aggregator levy***

4.41 While many submissions supported a levy on aggregators in principle, most did not provide details on how this should be applied or a mechanism for distribution. However, the committee did receive some more detailed evidence on the matter.

4.42 The MEAA suggested that 1 per cent of aggregator advertising revenues could compensate the sector for the content reproduced on aggregators' news feeds, outlining a number of potential models:

There are a number of approaches that are being looked at around the world. You can approach it in the context of antitrust, breaking down the enormous and unreasonable market power of these organisations. I know that there is some work underway on that front in the EU. We think that you have to look at a means of taxation or levying that enormous revenue and directing it back to a proper public purpose.<sup>33</sup>

4.43 Mr Matthew Chesher, Director, Legal and Policy for the MEAA, pointed out that only governments had the power to address these concerns, given the scale and power of aggregators.<sup>34</sup> Mr Chesher suggested that government regulation could stipulate such a levy as a condition of access to a particular market for aggregation platforms:

As some starting points, we have identified the following. Companies that financially benefit by reproducing but not creating news content should contribute funding towards maintaining and developing journalistic content and endeavours. That is a basic principle that we think would be important to apply. Regulators at national and international levels should act with urgency to establish payment mechanisms, whether by a levy or other means, from intermediaries of scale, such as Google and Facebook, which justly compensate authors and publishers for their creative works. Such funds should ensure that a minimum of one per cent of advertising revenues of organisations of scale are devoted to fund journalistic and related content, as a condition of a company's access to each market.<sup>35</sup>

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32 *Submission 34*, p. 5.

33 Mr Paul Murphy, Chief Executive, Media, Entertainment & Arts Alliance, *Committee Hansard*, 17 May 2017, p. 15.

34 *Committee Hansard*, 17 May 2017, p. 15.

35 *Committee Hansard*, 17 May 2017, p. 15.

4.44 This idea was also canvassed by Professor Matthew Ricketson, Professor of Communications at Deakin University. He drew the committee's attention to the analysis of a senior policy officer of the US Federal Communications Commission, who proposed that if the leaders of Google, Facebook, Verizon and Apple:

4.45 ...put the equivalent of just 1 per cent of their profits, for five years, to the [journalistic] cause, local American journalism would be transformed for the next century. That would be \$4.4 billion—enough to establish a permanent endowment to fund local journalism. That would produce about \$200 million in income a year. More than 15 times the current philanthropic spending on investigative journalism—and enough for about 50 new investigative reporters in each state.<sup>36</sup>

### ***Opposition to a levy***

4.46 The committee also received evidence that argued against the potential introduction of a levy on aggregators on a number of grounds.

4.47 Some submitters saw the proposal as an unnecessary impost for businesses that had developed a successful model, which delivered value to consumers and society more broadly. For example, Dr Christopher Berg, a Senior Fellow at the Institute of Public Affairs, argued:

I would be very firmly opposed to taxing particular firms that a lot of people in the media industry are angry about because they haven't been able to keep up with that sort of innovation. I think that would be a very, very bad way to go. We see successful firms operating in the media space that are adding a great deal of value to consumers. To then be targeting them with firm-specific taxation in order to fund what we consider to be our pet projects, I think would be a very, very bad way to go.<sup>37</sup>

4.48 Mr Campbell Reid, the Director of Corporate Affairs and Editorial Management for News Corp Australia, suggested it was more important for governments to ensure a level playing field in the market place and encouraging behavioural change by aggregators:

So [News Corp is] more attracted to a fair, competitive market place rather than imposing a levy which kind of says that Google and Facebook don't have to change any of their current behaviours. We think that they do need to change their current behaviours, because they are making an unprecedented level of money off other people's creative ideas, and the people who create that, whether it's a song or a piece of journalism, have a right to earn their share.<sup>38</sup>

4.49 Google suggested that the real issue was shifting consumer behaviour. Mr Pellegrino told the committee:

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36 *Committee Hansard*, 21 August 2017.

37 *Committee Hansard*, 21 August 2017, p. 19.

38 *Committee Hansard*, 22 November 2017, p. 31.

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The challenge is shifting consumer behaviour from old models into new models and new platforms and mobile devices. The imposition of those regulations and those levies doesn't help publishers deal with that transition...The success of media publishers in adapting to a new world will be based upon their ability to innovate and adapt....<sup>39</sup>

4.50 Additionally, Mr Pellegrino highlighted the experience in Spain that had led to worse outcomes for consumers and publishers. As Google News is not monetised, he suggested, it was not economically viable to maintain the service:

...in Spain the levy was introduced and we had to then pull down our Google News product because it doesn't make money, the content distribution. What actually happened was a dramatic reduction in the number of clicks to publishers. Specifically, smaller publishers got hurt a lot more than larger publishers. In a re-review of that, you're hearing a lot from small publishers who want reintroduction of the Google News platform to help them continue to access audiences... To ask us to pay for the content and then send that traffic directly to the websites is not commercially feasible for us, and we decided to shut that down.<sup>40</sup>

4.51 The Digital Industry Group Inc. pointed to research that found levies imposed in Spain had:

- no theoretical or empirical justification for its existence since aggregators bring to online publishers a benefit rather than a harm;
- negatively impacted the revenue earned from advertisers by online publishers, especially small ones (which it estimated in the short term at around €9-18 million annually), in addition to the creation of barriers to entry and expansion, with the consequent negative impact on market concentration and competition;
- a negative impact for consumers, due to the reduction in the consumption of news and the increase in search time;
- a negative impact for advertisers, due to greater concentration in the advertising market, for example, through the loss of specialised channels; and
- a negative impact on innovation in all the sectors involved (news aggregation, online press, advertising, etc.).<sup>41</sup>

4.52 The Walkley Foundation suggested that working with the aggregators to establish an independent fund supporting journalism might be the best way to proceed:

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39 *Committee Hansard*, 22 August 2017, pp. 31–32.

40 *Committee Hansard*, 22 August 2017, p. 32. This evaluation was also backed up by Ms Jacqui Park, Chief Executive Officer, Walkley Foundation, 22 August 2017, p. 36 and Mr Jason Pellegrino, Managing Director, Google Australia Pty Ltd, *Committee Hansard*, 22 August 2017, p. 32.

41 Digital Industries Group Inc., *Submission 63*, p. 4.

MEAA has proposed a levy on platform revenues to fund independent journalism. The Walkleys are talking directly with the platforms to encourage their contribution to such a fund.

Both Google and Facebook are attempting to respond and are open to discussions. In Australia, the Walkleys has been at the centre of those talks and has active partnership with both organisations. The government and parliament could help by recognising the Walkleys as a key media partner in these discussions.<sup>42</sup>

4.53 Mr Chesher saw the only alternative to a government levy being proactive steps to address the imbalance created by the scale and success of their business model:

The alternative is that Google and social media organisations make an important concession that they are effectively a news outlet that attracts a mass of advertising, and that they take active steps to deal with it. A levy is attractive in a superficial way. Its workability is difficult to determine. Nonetheless, we have got this issue where, frankly, only national governments are of suitable scale to address a problem of this magnitude. It was recently reported that Google's US\$590 billion market value is about half of Australia's annual gross domestic product.<sup>43</sup>

### **Committee view**

4.54 The preceding chapters outlined the very serious challenges faced by the media sector, as well as some ways in which it is adapting to the modern digital age. It is clear to the committee that the aggregators—in particular Google and Facebook—have played a key role in breaking the established business model of mainstream press media, in particular the way publishers of news can no longer expect the substantial revenue from commercial and classified advertising that they once could.

4.55 Aggregators have also facilitated—even if only as a product of their business models—the distribution and spread of fake news and misleading content, which is of enough concern to governments around the world for inquiries to be undertaken, and laws introduced in an attempt to make aggregators more responsible.

4.56 The Australian Competition and Consumer Commission (ACCC) launched an inquiry in December 2017 into aggregators and social media platforms, including Google and Facebook, and potential negative or unfair effects on consumers, media content creators—including journalists, and advertisers. A preliminary report is due in late-2018, and a final report in mid-2019.

4.57 Many of these issues will be considered by the ACCC in its inquiry. This inquiry will have far greater resources, expertise and time than this select committee to fully consider any potential negative or unfair effects on consumers, media content creators—including journalists, and advertisers from aggregators.

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42 *Submission 55*, p. 17.

43 *Committee Hansard*, 17 May 2017, p. 15.

4.58 While much remains to be done by the aggregators, the committee was encouraged by some positive indications that they are increasingly willing to deepen their engagement with the sector, and to invest their time, expertise and money in new partnerships to support the industry. There are also other positive signs, including indications they are taking more ownership of the problem of fake or misleading news, misinformation and hate-speech, and looking for ways to crack down on the spread of damaging material through their platforms.

4.59 Moreover, whereas some evidence spoke to the profound difficulties that the news media faces from aggregators, other evidence spoke of the exciting opportunities offered by new global markets, ever-growing audiences, and the enhanced connectedness that the digital age brings with it. How best, then, to harness the advantages while managing the structural change in a way that preserves the essential integrity and function of the news media, on which we all—including the aggregators—rely so heavily?

#### *A levy on aggregators*

4.60 The proposal to impose a levy on aggregators, in particular on Google and Facebook, was a regular feature in evidence and garnered a good deal of support. Many witnesses and submitters saw the policy as a means of ensuring that aggregators would make a reasonable financial contribution to the generation of Australian-made content, including quality journalism, and for the Commonwealth to offset any direct subsidies or indirect rebates or concessions implemented to assist the media industry.

4.61 Many suggested this would contribute to bolstering the sector against declining levels of trust, fewer journalists, and the general depletion of its capacity to investigate stories that contribute to the general public good. Others argued it would also ensure aggregators had more reliable and quality content for their users to engage with and share.

4.62 Nonetheless, there was also some scepticism about the proposal in evidence. Some suggested that an impost on aggregators would merely punish companies for their success and hard work. Moreover, there was a perception that the proposal did not give due credit for the unprecedented audiences Google and Facebook offered established media, the innovation and creativity they fostered in the sector, and the power they give consumers to access cheap and easy information.

4.63 In considering the idea of a levy, the committee has become aware that both Google and Facebook have made adjustments to their accountancy practices, so that advertising booked by Australians will be accounted for in Australia. Moreover, the committee is also aware that the potential use of transfer pricing by these and other businesses, to reduce the amount of tax payable in Australia, is the subject of other Senate inquiries, as well being the subject of examination by the ACCC.

4.64 Given this, the committee is not in a position to make recommendations in relation to a levy at this time, but would make the comment that a levy may be a useful policy mechanism in the future, depending on the outcome of the other inquiries mentioned above, and on the continued efforts of large aggregators to cooperate with and assist news media and other content generators to remain viable.

4.65 The committee now turns to a discussion of how various international jurisdictions have attempted to support public interest journalism and the sector more broadly through policy and legislation.