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Commerce Commission New Zealand
Te Komihana Tauhokohoko
44 The Terrace
PO Box 2351
Wellington 6140
New Zealand

By email to: Registrar@comcom.govt.nz

NZPSA Submission on the proposed NZME-Fairfax merger

The New Zealand Political Studies Association wishes to provide feedback on the above proposed merger. The New Zealand Political Studies Association represents over 200 members. Its aims include fostering the study and research of political phenomena, and encouraging the dissemination of such information. Members have published extensively on the media and on media competition in New Zealand, and have considered past media mergers to be detrimental to the quality of journalism and political debate (Molineaux, 1995, pp. 9-10). Our submission has been informed by feedback from our members.

The New Zealand Political Studies Association believes that the proposed NZME-Fairfax merger would reduce competition and be damaging to the democratic process and the public interest. In a democracy, a well-functioning information market must be considered a public good with a requisite threshold applied to mergers that threaten to reduce its breadth and depth. If the companies merge there is likely to be less competition among regional, community and Sunday newspapers, while the distinctiveness of their websites would be lost, eroding media diversity. This problem is exacerbated when there is only one politics editor. More broadly, we maintain that the ownership of almost all the media by one foreign company is a threat to national interests. There would be fewer points of view represented and less chance of informed debates.

We believe that many of the proposed cost reductions can be achieved without a merger and in a way that will not undermine diversity in reporting. Media groups need to find new revenue streams rather than seeking to cut media quality and jobs. This merger is likely to reduce the incentives for existing providers to innovate and to remain viable in ways that do not undermine competition and the contest of information and ideas.

New Zealand Political Studies Association and the media

Political scientists consider the media important because it informs people about events, facilitates political learning, ensures surveillance of political and economic actors, promotes public discussion and civic engagement, and helps create a sense of community (Kemp, 2010, pp. 385-397).

Compared to non-readers, regular newspaper readers are more trusting, more likely to vote, and more knowledgeable about current events (Gentzkow, Shapiro, & Sinkinson, 2011; Hindman & Yamamoto, 2011; Norris, 2000, pp. 315-319). In many communities newspapers employ the most journalists, and other media sources are heavily dependent on newspapers for news stories.

The ownership of almost all New Zealand's newspapers by one company, which could be controlled from overseas, is a potential threat to New Zealand's national interests. The proposed merger would result in fewer points of view being represented, less discussion of politics, and less surveillance of politics and business. This would have negative political consequences and erode democracy.

In addition, a non-media company or an overseas government could potentially acquire control of the merged company and use news coverage to advance their own interests. For instance, they might decide to influence or suppress stories criticising their company or country, as has happened in other countries such as the United States and Canada. (Rudd, 2016, p. 43). In 2012 Gina Rinehart, an Australian business person, acquired a substantial stake in Fairfax and was reported to be considering a takeover in 2013. Rinehart also sought membership of the Fairfax Board but was denied because she refused to sign the Board's editorial independence charter (Farrell, 2015). This highlights the importance of maintaining competing companies, whereby it would be more difficult for a single company or foreign government to gain control of both companies, and informed consumers would be exposed to more diverse reporting.

Even a reduction in the number of political journalists and editors would result in a narrower range of political commentary and analysis and in less surveillance of government policies. With journalists now frequently working for both radio and for newspapers (and sometimes also for television) it is crucial to have reporters working for different companies whose analysis of events may vary, and who are striving to hold those in power accountable to the public. This is therefore far from being an ordinary Commerce Commission matter, but instead has important implications for democracy.

Current media competition

As the public version of the *Notice* states, there is still direct competition between Sunday newspapers and between some regional papers from different groups. This competition is stronger than acknowledged in the *Notice*. For instance, in Hamilton the *Herald* attracts over a quarter of daily newspaper readers (Nielsen, 2015, p. 12), and a regular insert to attract Hamilton advertisers is included. The *Notice's* presentation of Hamilton sales as a proportion of the *Herald's* total sales downplays the importance of this competition for the Hamilton market. Similarly, the *Otago Daily Times* has recently started home delivery in Invercargill.

Regional competition between newspapers encourages quality journalism, and this has been shown in overseas research and also in New Zealand (Gibbons, 2014). For instance, in the United States the highest quality regional papers tend to face a strong competitor in a nearby city, and these papers have relatively high readership rates (Meyer, 2009, pp. 156-158, 188). Advertising rates are also constrained by competition between newspapers. Competition between paid and free newspapers is also important for boosting readership and ensuring competition for advertisers (Fan, 2009; Lacy, 1988).

Continued competition between Sunday papers is important because these papers contain far more news and commentary than week day papers, and because in the long-term, weekend print papers are probably more likely to remain important than some relatively weak weekday papers. A NZME-Fairfax merger would discourage innovation in this area, which could include Fairfax producing a low-cost Saturday morning Auckland paper, perhaps similar to the *Sunday Herald*, or the *Sunday Star Times* being switched to Saturday publication in some areas to make the paper more attractive to advertisers. INL's decision to merge its two profitable Wellington papers in 2002, despite the circulations of the two papers being similar, shows that even when consumers pick different newspapers a single owner will find it more profitable to reduce choice.

Similar closures in New Plymouth, Wanganui, the Hawkes Bay and Dunedin, and the merger of two national papers to form the current *Sunday Star Times*, also undermine the assertion on p. 4 of the *Notice* that "in almost every New Zealand region there is only one [daily paid] masthead because consumers have already picked their winner". Fairfax has recently merged its paid and community reporting staff in many parts of New Zealand, and the proposed merger is likely to see similar changes in Auckland. This would be detrimental to journalism and the public interest.

The *Notice* notes on p. 3 that "Quality journalistic coverage that consumers will choose to engage with is the only competitive edge available in a digital world". We agree, although currently there are clear and important differences between the print and on-line offerings of NZME and Fairfax that benefit consumers. For instance, the *Herald's* webpage focusses on hard news from its print edition, whereas Fairfax's stuff website includes many opinion pieces by the general public which readers are invited to comment upon. Neither company has yet worked out a strategy to get consumers to pay for news or opinion accessed through the internet, or to fund this news through on-line advertising.

We believe that each company should independently work out a viable strategy for making the provision of news and opinion through print and the internet profitable. Such strategies overseas have included investing heavily in quality journalism and local news so that print subscription cost increases can be justified, putting a paywall around local news, having a concise free inner city print edition that is funded by display advertising, focusing on weekend print editions, having stapled weekly supplements that date slowly and have a high pass-on readership, and new owners with new ideas. Paywalls have been introduced by independently owned New Zealand regional papers such as the *Whakatane Beacon* and the *Gisborne Herald*. Furthermore, Allied Press's *Otago Daily Times* has put relatively little news on its webpage and has had a much smaller decrease in circulation than the NZME and Fairfax papers have experienced. A greater diversity of owners is likely to result in more experiments that seek to increase revenue and greater competition on cover, subscription and advertising prices (Molineaux, 1995, pp. 9-10),

Decreasing revenue statistics and cost reductions

The *Notice* discusses decreases in newspaper sales and advertising. However, subscription sales have remained relatively constant for some papers, suggesting there is still a hard core of dedicated print readers. In addition, some types of newspaper advertising, such as employment advertisements, have fallen much more than other types, such as display and real estate advertising. A focus on media quality, rather than reducing journalist numbers, is important to keep these loyal print readers and types of advertising.

In addition, many of the perceived cost reductions (page 74) can be achieved without a merger by contracting printing and distribution to a single provider, and by appropriate sharing of stories on which media groups do not require their own reporter. For instance, coverage of accidents and minority sports could be “de-duplicated” without a merger of the two companies by content sharing agreements.

Conclusion

The New Zealand Political Studies Association opposes the proposed merger of NZME and Fairfax because it believes this would reduce media competition and be contrary to the public interest. In particular, there is likely to be lessened regional, community and Sunday newspaper competition if the companies merge, while the distinctiveness of their websites would be lost. The two companies both need to work out strategies to ensure their profitability that do not involve reducing competition. We would therefore urge the Commerce Commission to reject the proposed merger.

For further information contact:

NZPSA Executive, admin@nzpsa.co.nz

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