EXECUTIVE SUMMARY

1. As the Commission will be aware, the vast majority (three-quarters) of submissions received on the Commission's Draft Determination were supportive of the proposed merger of NZME and Fairfax and raised significant factual or legal concerns with the approach adopted in the Commission's Draft Determination.

2. Those supportive of the merger include a wide cross-section of key current industry participants, including:

(a) **More than thirty current editors at NZME and Fairfax** - who, amongst other things, say that the Commission's concerns about plurality are misplaced and reflect a misunderstanding of how editorial decisions are made, and opinions are distributed and heard, in New Zealand. The view of those editors is that the Commission's Draft Determination "made fundamental errors in assessing the risk to editorial independence and plurality of voice. A mere change in ownership would not result in us falling prey to political or commercial agendas";

(b) **An independent publisher** (Michael Muir at Gisborne Herald) - who also says that the Commission's concerns about plurality are misplaced and reflect a misunderstanding of how editorial decisions are made in New Zealand. Mr Muir also says that the bigger threat to media plurality is a decision by the Commission that "entrench[es] yesterday's business model, so that there is no longer a sustainable business model for those journalists to have jobs", and that a sustainable NZME2 will be good for independent publishers by sustaining investment in the print sector;

(c) **The advertising industry body** (CAANZ) - who say, contrary to the conclusions in the Commission's Draft Determination, that it has no concerns on behalf of the advertising industry that NZME2 could increase advertising prices or decrease advertising quality. In fact, CAANZ says its "very real fear is that the draft determination undermines the medium term sustainability of a large part of the local industry, opening the New Zealand industry up to further domination by offshore based entities and reducing choice for advertisers, agencies and consumers"; and

(d) **An independent media consultancy** (Stuart Howie at Flame Tree Media) - who says that the Commission has not "shown in any real way how the diversity of opinion would be reduced, let alone to a significant level" and that the Commission's "position does not give sufficient weight to the dynamics and realities of today's media environment".

3. Similarly, media commentator Bill Ralston wrote in *The Listener* that "competition in the overall news market would still be quite broad even if Fairfax and NZME merged. TVNZ, Radio NZ, Newshub and TV3, Bauer (publisher of this magazine), National Business Review and the Otago Daily Times are still competing strongly to create news content... The result of a final ban on such a merger will eventually be what the commission seems to fear most, a diminishing of competition, because eventually either NZME or Fairfax will simply collapse under market pressure."

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1 Bill Ralston. "Banning the merger of two struggling media giants will inevitably lead to diminishing competition" (15 November 2016) *The Listener.*
4. Those submissions reflect concerns from a number of key current industry participants that the Commission's Draft Determination fails to reflect fundamental ways in which the New Zealand media industry operates, the significant changes in the industry in recent years due to the role of Google and Facebook, and the significant financial headwinds facing the newspaper media industry in New Zealand.

5. By contrast, the small number of parties that submitted in support of the Commission's Draft Determination largely represent the views of parties that, with respect, do not have current day-to-day knowledge of the way in which the media industry operates in New Zealand in 2016, nor knowledge of the financial and economic realities of operating a media business in 2016 - namely former editors (primarily from the 1990s and early 2000s), academics, or those "not employed in the industry".2

6. In particular, it is telling to note that while those in opposition to the merger have been quick to raise objections on nostalgic and ideological grounds, not a single one has raised a credible solution to replace the funding model that currently supports journalism or any alternative to the merger to preserve print publications and the existing levels of frontline journalism. In the absence of a sustainable business model the journalism of old referred to in those submissions will simply not survive.

7. In this context, it is essential that the Commission, as a regulator tasked with making decisions based on commercial fact and rigorous economic analysis, give careful consideration to the views of participants currently within the industry and not give undue weight to theories, speculation, nostalgia, and ideology from those outside the industry.

8. In particular, NZME and Fairfax trust that the Commission will reflect carefully on the compelling and passionate support for the merger from a large number of editors within each of NZME and Fairfax. Those submissions, provided to the Commission independently of NZME and Fairfax management, powerfully illustrate that editorial independence and view diversity is championed within both NZME and Fairfax - and that will not change as a result of the Merger.

9. It is also important that the Commission's Final Determination reflect the concerns raised by submitters on legal grounds - in particular concerns that the Commission's proposed decision:

(a) "has invited unpredictability and let subjective preferences come into play", and that "[f]orcing competition law to bear the burden of protecting media plurality in this case, by the unprecedented move of refusing authorisation based on non-quantifiable information, may be too much for competition law to bear";3 and

(b) "will inevitably make corporates and investors wary of undertaking transactions that require Commerce Commission approval if matters outside of the internationally understood framework of competition law, such as social issues or subjective value judgments, can be considered relevant".4

10. NZME and Fairfax have already provided substantial comments on the Commission's Draft Determination, so the purpose of this cross-submission is to address a number of inaccuracies in the submissions opposing the merger to assist the Commission as it works towards its Final Determination.

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2 Submission from Matthew Edwards.
3 Submission from Dr An Hertogen, Auckland Law School.
4 Submission from anonymous funds manager.
COMMENTS ON SUBMISSIONS OPPOSING THE MERGER

11. The submissions filed in opposition to the merger are largely devoid of any evidence-based rationale for opposing the merger, or of current day-to-day knowledge of the way the media industry works in 2016. There is no cohesive, factually-based analysis of how the merger will cause consumer detriment; rather, the submitters draw in general terms on buzzwords such as "plurality" or make assertions of "price fixing" without any linkage to the merger under consideration, or the way that the New Zealand industry operates.

12. There are even assertions (contrary to New Zealand and global evidence) that the businesses that are actually "vulnerable" are "Google, Facebook, and Youtube" (those "vulnerable" businesses have combined annual revenue of $93 billion).

13. It is also telling that while these submissions are premised on the notion of preserving print publications or preserving the current levels of frontline journalism, not a single submission in opposition proffers a credible alternative solution to the merger to achieve those objectives (other than repeated references to the need for additional government funding and regulation). As more sophisticated commentators have identified already, ideology and a well-meaning desire for journalistic plurality and opinion diversity will achieve the opposite effect if the merger is blocked - there needs to be a sustainable financial model for employing journalists in order for individual journalists to have their voices heard and for their role uncovering stories to continue. As has been recently said in Ireland (a country the Commission sought to uphold as a bastion of plurality):

   I worry deeply about the sustainability of news media in a small country where there is significant concentration of ownership and distribution and where the future of colleagues' jobs - and voices - is precarious.

   Indeed, the greatest risk to media plurality in Ireland is financial viability.

   More, not less, consolidation seems to be on the cards if we are to prevent the loss of journalism jobs. Collaboration and shared services may be the only way to survive.

   If, say, the Irish Times or the Irish Examiner - one of my favourite Irish newspapers owing to its distinctive voice and social outlook - were in mortal danger, would we sacrifice those vital jobs and voices to maintain a false plurality?

14. It is important for those in opposition to the merger to understand that they are arguing for a "false plurality" (a fool's paradise) - the inevitable consequence of seeking to maintain a "plurality of media shareholders" is a loss in the "plurality of journalistic voices and opinions". Those are the financial and economic facts.

15. Many of the assertions raised in cross-submissions do not require any comment for obvious factual reasons (eg that Google and Facebook are "vulnerable") or because they seek actions outside the Commission's jurisdiction (eg that the Commission should recommend media regulation to Government). This cross-submission addresses the balance of the points raised in those submissions.

Smaller newspaper competitors

16. The NZSPA, CBB, and former editors' submissions make sweeping statements that the merger would:

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(a) "probably weaken or wipe out the smaller newspaper competitors, and other independent media such as radio stations";\(^6\)

(b) "probably weaken or wipe out the smaller newspaper competitors... which would probably lose advertising to the merged entity";\(^7\) and

(c) substantially weaken regional and community competition throughout the country.\(^8\)

17. None of those submissions do materially more than make such sweeping statements. For obvious reasons, these were not concerns raised by the Commission in its Draft Determination.

18. In particular, given the limited geographic newspaper overlap between NZME and Fairfax (limited to community newspaper overlap in 10 local areas and two Sunday newspapers, according to the Commission), it lacks credibility to suggest that the merger will have any material impact on the ability of other smaller newspapers to compete.

19. To the contrary, on the basis that the merger will give print a longer lifespan and improve the quality of the print product in New Zealand than would otherwise exist in the absence of the merger, the merger will actually assist in sustaining the print journalism industry. Critical to the lifespan of all print is sustaining the print newspaper readership habit of those New Zealanders who currently prefer it, and that in turn maintains the viability of print as an advertising medium for advertisers, for longer. The merger will in this regard assist, not harm, smaller newspaper competitors in New Zealand. This is recognised, for example, by The Gisborne Herald:\(^9\)

> I continue to support the merger. NZME/Fairfax as a New Zealand-based company will still have a large investment in the printing sector. A major New Zealand-based media company will be good for the industry, good for the share market, and there will be opportunities for independent publishers to cooperate more and strengthen the industry.

20. As the Commission found in the draft determination, it is important to keep front of mind that NZME and Fairfax's print circulation areas are, to a very large extent, complementary and not overlapping. The $137 million to $219 million of cost synergies (according to the Commission's analysis) that can be realised will support the continued funding and sustainability of regional/community journalism for as long as there is viable demand, whereas in the absence of the merger those journalistic resources will inevitably be withdrawn from those regions in the near term. That is not lessening of competition - it is a pro-competitive, efficiency- and welfare-enhancing outcome for the consumers in those regions - as well as supporting the print industry more generally to remain relevant in New Zealand for as long as there is viable demand for print newspaper products.

**Cost of printing**

21. The NZSPA raises concerns that the costs of printing would increase should the merger proceed. The NZSPA provides no basis for that assertion except that somehow the current (confidential) printing contract between NZME and Fairfax provides a transparent printing reference price for New Zealand.\(^10\)

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\(^6\) NZSPA submission to the Commission at [3].

\(^7\) CBB submission to the Commission at 2.

\(^8\) Former editors’ submission to the Commission at 1.

\(^9\) Michael Muir submission to the Commission.

\(^10\) NZSPA submission to the Commission at [4].
22. This assertion lacks credibility (the price of the printing contract between NZME and Fairfax is confidential to those parties), and it ignores the fact that the New Zealand printing industry is, and will remain, highly competitive with a number of alternative third party newsprint providers in New Zealand, such as:

(a) Horton Media (Auckland);\(^{11}\)
(b) Inkwise Print Partners (Ashburton);\(^{12}\)
(c) Beacon Media (Whakatane and Hastings);\(^{13}\)
(d) Otago Daily Times Print (Alexandra) / Allied Press Commercial Printing;\(^{14}\) and
(e) PMP (Auckland & Christchurch).\(^{15}\)

23. To the extent NZSPA wishes to have a reference price for printing post-merger, these other printing competitors will continue to offer such prices.

**Plurality / editorial power**

24. A number of the submissions congratulate the Commission on applying the media plurality framework in the UK Report, without drawing any linkage between the actual framework outlined in the UK Report and the Commission's decision.\(^{16}\)

25. However, there were numerous aspects of the UK Report that were not reflected in the Commission's decision. In particular, the Commission's consideration of plurality was by-and-large singularly focused on the number of owners as the sole or primary measure of plurality. However, the UK Report set out that ownership is only one of many factors to consider when considering plurality, and is not the most important, with other relevant factors being:

(a) Access to a wide variety of different types of media;
(b) Sustainability of business models;
(c) Diversity of viewpoints and sources;
(d) Broad scope of media coverage;
(e) Gender equality; and
(f) A focus on the extent to which journalism is successfully performing its key roles of informing, representing, campaigning, and interrogating.

26. The submissions in opposition, while purporting to be in support of plurality, do not make any attempt to consider how the merger will impact on these more complex aspects of plurality. The submissions also talk about "editorial power" whilst downplaying or ignoring the role of Facebook, Twitter and other social media in shaping society's views.

\(^{11}\) Horton Media "We Print Newspapers". Accessible at [http://www.horton.co.nz/?t=19](http://www.horton.co.nz/?t=19).


\(^{13}\) Beacon Print "Home". Accessible at [http://beaconprint.co.nz/](http://beaconprint.co.nz/).


\(^{15}\) "Located in both Auckland and Christchurch, our print division operate both web (heatset) and sheefed (offset) presses capable of full colour tabloid and broadsheet newspaper printing": PMP Limited (NZ) "Print". Accessible at [http://pmplimited.co.nz/print/](http://pmplimited.co.nz/print/).

\(^{16}\) As the Commission is aware, the parties' view is that the Commission's approach in this respect is outside its jurisdiction. The parties continue to reserve their position in this regard.
The critical importance of considering all media, including social media, in assessing view / opinion influence has been made obvious numerous times since the events of the recent US election.\textsuperscript{17}

As for the power of 'the media' - by which we automatically think of as the mainstream or traditional media - I wonder. Because 57 out of 60 American newspaper editorial boards, including the iconic New York Times, endorsed Hillary Clinton - and look where that got them.

27. In 2016, even if it were within the Commission's legal jurisdiction (which it is not), it is simply not possible to consider how society's views are shaped without giving a proper consideration to the role of social media. The role of social media is a glaring omission from the submissions in opposition to the merger - with, for example, the only substantive reference to the global digital giants being the unsubstantiated comment referred to already, that Google, Facebook, and Youtube are "actually quite vulnerable businesses".

Coverage of the merger

28. CBB's submission sought to "evidence" its concerns about the editorial neutrality of NZME2 by conducting an analysis of whether the coverage of each of NZME and Fairfax of the merger itself has included positive, neutral, or negative viewpoints.\textsuperscript{18}

29. CBB's conclusion was that:

There is a larger overall number of pro-merger voices (63) compared with anti-merger voices (49) [as well as 17 neutral voices]

The number of different institutional voices present in the overall coverage is roughly balanced, with 20 pro-, 11 neutral, and 19 anti-merger.

30. CBB sought to use this analysis to support its view that NZME and Fairfax's coverage has not been balanced.

31. However (without agreeing that CBB's methodology, or article classification, is valid), the plain conclusion to draw from that analysis is that NZME and Fairfax's coverage has been balanced (63 positive, 17, neutral, and 49 negative), and that a range of voices have been able to be heard through NZME and Fairfax (20 positive voices, 11 neutral voices, and 19 negative voices). This analysis demonstrates that NZME and Fairfax editors / journalists, as reflected in the editors' submissions to the Commission, do in fact provide platforms for voices that do not necessarily align with the views of their companies' management, and reflects the Law Commission's conclusions in 2013 that "New Zealand has an ethical and trustworthy news media".

Internal charters and privacy

32. One submission, from Rod Oram, asserted that there was no evidence that NZME and Fairfax actively enforce their respective editorial charters. Mr Oram also repeated claims from an earlier submission in relation to NZME and Fairfax's use of consumer data.

33. In relation to Mr Oram's first claim, NZME and Fairfax both reiterate that their respective editorial charters are a cornerstone of their businesses and are actively championed and adhered to internally. Mr Oram need only turn to the groundswell of submissions from editors from each of NZME and Fairfax for evidence of that, as well as the fact that Mr

\textsuperscript{17} Dearbhail McDonald "It's time for a proper debate on the future of media in Ireland" (20 November 2016) The Independent Ireland. Accessible at: \url{http://www.independent.ie/business/media/dearbhail-mcdonald-its-time-for-a-proper-debate-on-the-future-of-media-in-ireland-35229733.html}.

\textsuperscript{18} CBB submission to the Commission at 3 - 7.
Oram’s own columns opposing the merger have been published in Fairfax’s publications.

34. Both NZME and Fairfax take adherence to their journalistic charters as a non-negotiable fundamental of their business and a condition of employment for their journalists - and reassure Mr Oram that journalists and editors are well aware and actively committed to ensuring compliance to those charters. NZME2 will have the same incentives to champion those standards post-merger - any deviation from those standards would inevitably erode audience trust and attention, as well as journalists’ and editors’ loyalty to NZME2.

35. In relation to Mr Oram’s statements in relation to personal information, NZME and Fairfax reiterate that they are committed to compliance with New Zealand privacy laws, and are committed to ensuring any personal information collected in the course of their journalistic activities complies with the New Zealand Press Council principles. Both NZME and Fairfax have, and comply with, privacy and data management policies to ensure compliance with the law and expected standards of conduct. NZME2 will also comply with the law and retain the same incentives to ensure its conduct meets audience / customer expectations.

The New Zealand Press Council

36. One submission, from Gavin Ellis, suggested that the ability of the New Zealand Press Council to be seen to adjudicate disputes impartially would be compromised as the merged entity would have a “dominating position”.19

37. As outlined in previous submissions to the Commission, there is no validity to that concern. The New Zealand Press Council's independence is driven from the structure of the organisation and the individuals involved in its administration and decision-making.

38. Independence is at the core of the New Zealand Press Council's function:20

The main objective of the New Zealand Press Council, established as an industry self-regulatory body in 1972, is to provide the public with an independent forum for resolving complaints involving the newspapers, magazines and the websites of such publications and other digital media. The Council is also concerned with promoting media freedom and maintaining the press in accordance with the highest professional standards. [Emphasis added]

39. The New Zealand Press Council's panel includes:

(a) a retired High Court Judge (Hon Sir John Hansen);

(b) a independent lawyer, and a number of independent consultants, representing the public's interests; and

(c) a number of independent journalists representing the journalistic profession.

40. The New Zealand Press Council operates a public good function. As noted, independence is at its core, and throughout its 40 plus year history its independence has not been called into question regardless of the ownership and market share of any particular media entity subject to the New Zealand Press Council's jurisdiction. Mr Ellis' comment is nothing more than mere assertion, with no consideration of the underlying constitution, composition, structure, and role of the New Zealand Press Council.

19 Gavin Ellis submission to the Commission at paragraph 7.
Formal commitment to remain bound by Press Council rulings

41. NZME and Fairfax note that several submitters, including Mr Oram, raised concerns about whether NZME2 would continue to:

(a) Maintain and observe an internal journalistic charter that sets out principles such as:
   
   (i) Maintaining a fierce independence free from political or commercial influences;
   
   (ii) Reporting without fear or favour on events of public interest everywhere;
   
   (iii) Commitment to the highest standards of accuracy and ethical behaviour; and
   
   (iv) Standing up for, and advocating on behalf of, the communities they serve.

(b) Maintain membership of the New Zealand Press Council and observe its rulings.

42. As outlined previously to the Commission, the parties could not imagine ever terminating their association with the New Zealand Press Council, which each has been a member of (in their respective previous incarnations) since it was founded more than 40 years ago by the then Newspaper Proprietors' Association (which would become the Newspaper Publishers' Association of today) and the then New Zealand Journalists' Association. As noted above, the same commercial and professional drivers that exist today to ensure NZME and Fairfax each maintain and observe journalistic charters and New Zealand Press Council membership will continue post-merger. For completeness, to demonstrate that commitment in light of the concerns raised, NZME is willing to enter into an irrevocable deed poll prior to the Commission's final decision, in favour of the New Zealand Press Council, that will ensure that NZME2's news publishing business will at all times:

(a) Maintain its editorial code of ethics that requires, among other things, that its news publishing operations adhere to key principles relating to the editorial content of publications;

(b) Remain a member of the New Zealand Press Council on existing terms;

(c) Comply with the statements of principle published on the New Zealand Press Council's website from time to time; and

(d) Comply, and procure that its news publications comply, with all rulings of the New Zealand Press Council that apply to its news publications.

43. NZME and Fairfax trust that this will provide the necessary comfort to submitters, such as Mr Oram, that have raised concerns about journalistic charters and adherence to New Zealand Press Council rulings.

Concern about redundancies

44. The former editors' submission outlines concerns about the "wave of redundancies" in journalism that each of NZME and Fairfax have made over recent years.\(^2\) These redundancies, of course, concern NZME and Fairfax too.

\(^{2}\) Former editors' submission to the Commission at 1.
45. The simple facts are, however, that the redundancies reflect the economic realities facing both businesses. It is inevitable that, in the absence of the merger, those redundancies will need to continue (at a rapidly increasing pace, and potentially be more regionally focused, as described in the applicants' submission on the Draft Determination). By contrast, there will be significantly fewer necessary redundancies if the merger proceeds and the $137 million to $219 million of cost synergies (by the Commission's calculation) can be realised, with only a very modest proportion of those synergies being achieved through the removal of duplicated frontline journalism. Indeed, while no final decisions have been made on operations post-merger, as the Commission is aware, the modelled PwC approach involved only 10 - 13% of the total synergies arising from a reduction in duplicated journalist roles.]

**Premium digital advertising**

46. The Sun Media submission states that it agrees with the Commission's Draft Determination that the merger would substantially lessen competition in the provision of "premium digital advertising". Given, based on the Commission's proposed definition of that market, Sun Media is not a participant (neither a supplier nor purchaser) in that purported market, it is difficult to see what meaningful contribution Sun Media can make to that analysis.

47. Also, further demonstrating the misguided nature of those concerns about "premium digital advertising", which the Commission defined as [ ]. This demonstrates the rapidly moving nature of demand for the vast variety of digital advertising options, and that any attempt to artificially draw a distinction around one particular type of digital advertising, when there is significant substitution and interaction between the various types in a rapidly changing online environment, will be rapidly outdated and will lead to incorrect competition law analysis and misguided conclusions.

**Hamilton**

48. The NZPSA has asserted that the Commission has understated the amount of advertising competition between the *Waikato Times* and *New Zealand Herald* in Hamilton. However, the NZPSA's assertion is not based on any evidence of advertiser switching between the *Waikato Times* and the *New Zealand Herald*, and the Commission's conclusion that the *New Zealand Herald* and *Waikato Times* do "not provide a strong competitive constraint on each other for the supply of print advertising" is correct.

49. In particular, as the Commission is aware:

(a) NZME has not produced a Waikato edition of the *New Zealand Herald* for approximately 5 years. There is no specific local Waikato advertising or content in the *New Zealand Herald*.

(b) NZME has not undertaken any strategies, plans, or campaigns in the past three years targeting increased advertising and/or subscription revenue for the *New Zealand Herald* outside of the Auckland region.

(c) NZME has no *New Zealand Herald* circulation employees based in the Waikato.

(d) To the extent that NZME makes sales of the *New Zealand Herald* in the Waikato, those sales form a very small fraction of NZME's total sales of the

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22 Sun Media submission to the Commission at 1.
23 The NZSPA submission to the Commission at [9].
New Zealand Herald ([ ]), and the content in those papers are the same as sold elsewhere.

(e) Waikato-based advertisers do not seek out the New Zealand Herald as an advertising option for reaching Waikato consumers.

51. In relation to the NZPSA’s reference to the New Zealand Herald having a regular Hamilton insert, that is a free insert by Hamilton News (NZME’s community newspaper in Hamilton) that is inserted once a month into the [ ] copies of the New Zealand Herald sold in the Waikato. That free insert has lower circulation than the regular Hamilton News publication (~34,000), and for similar reasons as the Commission found in relation to the New Zealand Herald and the Auckland communities, there is no material competition between this free monthly insert and Fairfax’s daily Waikato Times newspaper.

CONCLUDING COMMENTS

52. NZME and Fairfax trust that this cross-submission, which addresses a number of inaccuracies and baseless assertions in the submissions opposing the merger, is helpful for the Commission as it works towards its Final Determination.

53. In summary, it is essential that the Commission, as a regulator tasked with making decisions based on commercial fact and rigorous economic analysis, gives careful consideration to the views of participants currently within the industry and does not give undue weight to theories, speculation, nostalgia, and ideology from those outside the industry.

54. NZME and Fairfax reiterate that in the absence of the merger, the relevant counterfactual is that both businesses will be unable to maintain their current quality and production levels and remain financially viable. Therefore there is likely to be material reduction in frontline journalism and the production of print publications.

55. The absence of a merger would therefore result in less media investment and less plurality than if the parties were able to merge. In the absence of a sustainable business model for news media organisations the argument of plurality is a moot point – plurality cannot exist unless there is a way to fund it. In other words, the plurality that the submitters in opposition to the merger are advocating for is a false plurality - what they are, in reality, calling for is a plurality of shareholders but a significant reduction in journalists, regional and niche journalistic coverage, and less views and opinions from either NZME or Fairfax. There is no status quo. Nostalgia, ideology, and good intentions will not change that.