A Lifeline for the News Business*

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A process started four year's back by Australian's competition commission could offer support to a struggling global news business. The process, to curb internet firms from freeriding on news they do not generate, is expected to culminate in legislation that would require search engines and social media platforms, which curate access to news, to pay publishers whose stories and content they link and direct users to. The proposed code requires Google and Facebook to enter into negotiations with media firms to arrive at the terms on which they can link readers to news stories generated by these publishers. If no agreement emerges the matter compulsorily goes to an arbitrator, who chooses between the offers made by the two parties. While initially affecting Google and Facebook, the requirement is likely to cover in time the likes of Apple News.

The big, so-called 'Tech', companies will also have to inform publishers in advance of any significant changes to the algorithms they use to choose the news outlets and stories they link to in response to implicit or explicit queries. These two requirements are linked. Algorithms determine the nature of online traffic in news, influencing which publications and stories receive reader attention. Evidence shows that algorithmic intervention drives readers to a few publications, and focuses attention on a few 'top' stories, often concealing the diversity in news components, outlets, and coverage that at least some publishers may privilege. The focus on individual stories also dilutes the overall image of itself that a publication may create to enhance its readership. More importantly, the way algorithms curate news may also be influenced by the objective with which they are constructed, which in the case of the Silicon Valley giants is to derive profit, by, for example, serving as an echo chamber to increase traffic, or using the information that news interest provides to profile readers and help advertisers target potential clients. Recognising this, leading publishers are developing their own algorithms to meet reader requirements and reflect their journalistic priorities. But these are not the primary routes to access news online.

The influence of internet intermediaries over reader traffic also adversely affects the commercial interests of news organisations. In a much-discussed revenue model developed over time, news organization covered their costs and made their profits from advertising revenue, rather than reader subscriptions or purchases. That model has for many years now been under challenge, with advertising revenues, especially for print publications collapsing. But this is not because advertising spending has collapsed. Rather the problem is that over time the share of advertising spending absorbed, initially by television, and subsequently, by search engines like Google and social media intermediaries like Facebook, has increased exponentially. According to sources quoted by the Financial Times, in 1998, when Google came into existence, newspapers and magazines received almost 50 per cent of advertising expenditure worldwide. Last year, that share had fallen to just a little more than 8 per cent of a close to $580 billion advertising pie. And even when print publications choose to establish an online, digital presence, they do not seem to acquire a reasonable share of online advertising. Australia's competition commission reportedly found that online advertising in that country was concentrated with Google, which received 53 per cent of the total, and Facebook (28 per cent), leaving less than a fifth for the rest, including the online versions of print publications.

In recent times, in search of a revenue model, many leading publications have set up paywalls to force readers to subscribe. Barring a couple of successes, such as that of the Financial Times and the New York Times, this has only reduced readership in most cases. Moreover, readers attracted by the snippets Google provides to direct them to particular paywalled stories, search for alternative coverage of the stories involved, encouraging the algorithm to drive traffic to those free sources, which are normally provided by smaller publishers.

So, established news publishers are losing out on multiple counts. They lose out on advertising revenues that accrue to the platforms. Their experiments with subscription-based revenue models are undermined. And they see readers migrating to publications that provide free access, but may be spending much less on generating quality editorial content.

The power of the search engines and social media platforms has been long recognized. But efforts to rein them in have been geared to challenging their monopoly through anti-trust and competition-enhancing interventions, in the EU, US and elsewhere. But success on that ongoing effort has thus far been limited. In that background, the proposed Australian intervention is innovative and likely to be effective if implemented. The stated objective is to stop unfair practices that are killing the quality journalism that is crucial to a vibrant democracy. As Nobel prize winning economist Joseph Stiglitz put it: “Facebook and Google are trying to freeride: it suits them to let someone else pay for the production of news while they reap most of the advertising revenue. This is not viable: without funding for quality journalism, misinformation, disinformation and low-quality journalism will prevail. Our society will be worse off.” In that vein, Rod Sims, who chairs the Australian Competition and Consumer Commission (ACCC), has argued that the proposed intervention aims to correct a power imbalance between the news media and internet firms, since “a healthy news media sector is essential to a well-functioning democracy.”

The initial response from Google and Facebook to the ACCC’s proposals was aggressive, with Google threatening to close access to its search engine in Australia and Facebook declaring that it would be forced to prevent sharing of news through its platforms, including Instagram. If Google search is cut off, it could adversely affected businesses, especially small players, relying on the search engine to connect them to their clients. But the threats do not seem to be working. Nor is a campaign to suggest that the move to curb the internet firms is driven by the closeness of the conservative government to Rupert Murdoch’s News Corp, which dominates the Australian news business. The Australian parliament seems set to pass the code.

More disturbing for Google and Facebook are signs that the Australian example may be followed by the EU, where other efforts to rein in the giants have not yielded much result, and discussion on legislation governing digital services and markets are still on. Authorities in Canada and even the US are also reportedly examining the Australian code. Also, software major Microsoft, whose Bing search engine currently has a miniscule 3.6 per cent share in Australia’s internet search market (as against Google’s 94.5 per cent), has decided to exploit the situation. It has supported the proposal to make tech firms pay for news they link to or help share and has offered to help small businesses switch to Bing without cost in case Google exits in protest.

These developments have prompted Google to adopt a parallel strategy in which it agrees to pay for news, but on terms determined by it rather than the leading media publishers or government agencies. The search provider has declared that it intends to spend around $1 billion over three years to license news and has begun striking deals, especially with smaller publishers, in some jurisdictions. Google claims to have already sealed 450 agreements worldwide. The most recent is a deal with a significant news publishing group in Australia, Seven West Media, with 21 outlets, in which Google will make a “fair payment” for use of the publisher’s material. These deals are being forged under a new initiative titled Google News Showcase, that is to be initially available on mobile platforms. The Showcase will present publisher curated news through Google News, initially on Android phones, then on devices using Apple’s iOS and finally on Google search. But sceptics say that this effort of Google’s is aimed at dividing the news business and that the sums involved in the deals are extremely low.

The current state of play notwithstanding, the intervention by the Australian authorities has initiated changes and unleashed conflicts that can potentially be transformative. The change may not guarantee a future for print resembling its busines in the past. But it could facilitate the digital transition that publishers had begun, without any clear revenue model other than subscription. The limited success with that model had triggered discussions on whether government or philanthropic support can help sustain quality journalism. If reasonable revenue sharing between internet firms and media houses can be ensured, there can possibly be an advertising supported digital future for quality news, even if in a substantially contracted media space.

*** This article was originally published in the Frontline Print edition: March 12, 2021.**