

Newspaper Subsidies in the Internal Market: Their Position in EC Competition, Industrial and Cultural Policies

By Robert G. Picard

For the past three decades, European nations have provided significant state aid to newspapers in a broad variety of forms. As the internal market within the European Union has developed, the European Commission has worked to remove barriers to effective competition.

The Commission has challenged a wide variety of national support programmes for domestic industries and firms and developed a significant body of policy and law relating to state aid, including subsidies.

Although state aid for newspapers is large, few in the communications discipline or newspaper publishing have begun to consider the impact of these new approaches, although some national government agencies, notably competition authorities, are beginning to take note.

This article considers issues of subsidies for newspapers within the context of the European Union and the competition, industrial, and cultural policies that it is promulgating. The analysis is intended to focus discussion on issues and problems facing state support for newspapers.

Newspaper Subsidies as State Aid

Newspaper subsidies are one form of state aid to industry. Through subsidies states intervene in the economics of a competitive market to provide additional resources or reduce the costs of the industry or specific firms.

State aid itself takes a variety of forms, including subsidies, fiscal advantages, and regulatory relief. Subsidies consist of actual cash transfers. Fiscal advantages provide reduced rates for services or obligations to government or quasi-government agencies, such as the post, state rail systems, or tax authorities. Regulatory relief exempts from or reduces firms' obligations regarding certain regulations applied to other firms or sectors, thus providing a fiscal or competitive advantage.

A variety of precise descriptions exist for the administrative and decision-making processes of state aid to newspapers and these have been summarised in a recent comparison of aid in four European nations (Murschetz, 1997).

Most relevant are the concepts of direct and indirect aid and selective and general intervention. Direct aid is given directly to firms while indirect aid assists a firm but does not directly enter a firm's accounts. Selective aid is one for

which a decision to extend the aid is required while general aid is provided to all firms meeting broad guidelines.

From the financial perspective, it is also useful to consider state aid in terms of where it enters or affects the operating statements of firms and, thus, the overall effect it has on the financial performance of the company (Picard, 1995). This provides evidence of how the accounts of firms are affected and views of how the aid is actually employed by the recipients.

Studies of Newspaper Subsidies

A number of studies have explored the question of newspaper support and documented how their use differs widely and questioned the effectiveness of such support.

There is no single European-wide approach to newspaper subsidies. The development of the subsidies has been a matter unique to each nation, and different patterns of intervention have been produced that reflect the different economic policies, political situations, and cultural differences within the nations.

The extent and types of newspaper subsidies began to gain the attention of policy makers and scholars in the 1970s in response to increasing newspaper mortality. One of the most extensive early examinations was made by Anthony Smith in 1977. Since that time several other significant studies have attempted to describe and compare national subsidy policies (Picard, 1985b; Santini, 1990; Holtz-Bacha, 1994; Murschetz, 1997).

Only a few studies have actually attempted to go beyond mere descriptive listings of the types of state support for newspapers provided in different nations.

Based on research conducted during the early 1980s, one study of concluded patterns of press intervention were related to national economic and industrial policy (Picard, 1985a) and another found that the level or significant of intervention in newspaper economics differed widely among nations (Picard, 1984). These studies attributed differences among national policies to cultural elements and to economic policies toward industries overall.

Declining financial support as result of economic fluctuations and austerity programs began to significantly reduce the amount of support in Nordic nations, including Finland, during the 1970s (Picard, 1986), and that support and the types of aid continued to decline in the 1980s and 1990s. Thus the situation experienced by Finnish newspapers and policymakers regarding subsidies today cannot be considered unique.

When considering the effects of state aid, it has been argued that many forms--especially subsidies--do little more than provide continuing operating aid. This occurs because most types of support attacks variable costs rather than fixed costs, where the real problems in maintaining newspapers lie (Picard, 1994).

As a result, most subsidies in Europe have had little effect on financial situations of newspapers and do not provide a mechanism for real long-term viability of subsidised newspapers. Subsidies can be effective if they are used to change the financial and market conditions of the marginal or failing newspaper.

If subsidies are not used to restructure an operation, to expand markets or to acquire cost saving technology, they cannot solve the difficulties of failing newspapers (Picard, 1991).

Others have argued that clear market strategies, better management practices, and lower wages for staffs at smaller papers are necessary for improvements in the conditions of marginal newspapers.

Subsidies can help papers adjust to more competitive economic environments and have been recommended for "culturally distinctive and ideologically committed newspapers on the verge of economic failure (Murschetz, 1997, p. 201)."

Nevertheless, available studies on the utility of subsidies appear to indicate that state support can be successful in the long run only if:

- It is utilised as more than operating aid
- It results in a change in managerial and market strategies
- It is accompanied by a restructuring of the costs of operations

Rationales for State Support to Media

Several rationales for state support for different types of media have been employed in providing aid in European and other developed democratic nations. The rationales have been used to argue for varying types of state support and they have produced varying success in achieving the goals associated with the rationales.

Among the most widespread rationales are

- Support to help preserve and promote needs of linguistic or ethnic subcultures
- Support to further domestic cultural expression
- Support to encourage political discourse
- Support to provide commercially invariable information or services support
- Support for short- or limited-term industrial development or transition designed to develop new media industries or assist transitions to new technologies or business models
- Support to alleviate newspaper mortality because newspapers are socially desirable

The linguistic/ethnic subculture support rationale has been used to justify state aid for minority languages and subcultures that are ignored or not served well by the dominant language or ethnic media of a country. Such support has been extended to print and electronic media and audiovisual production.

The domestic cultural support rationale is used to justify state aid to support national cultural expression, especially in small countries with distinct national cultures and in countries bordered by a larger country with a common language. Such support has been extended to print and electronic media and audiovisual production.

The political discourse rationale is used to justify support to help fund mechanisms to promote political discussion and debate. This support is often based on providing political parties and other recognised groups with access to media, information activities, or support for party-affiliated media. Such support has benefited print and electronic media.

Short- or limited-term industrial development or transition support has been justified as a means of assisting media to adjust to new market conditions. Such aid has been used to help media firms acquire technologies that will increase their competitive abilities, to provide training for employees and management to provide skills needed to improve their productivity, and to finance initiatives to expand markets or operations to improve their ability to survive. Such support has been extended primarily to newspapers but on occasion also to radio.

The rationale supporting commercially inviable information or services in media argues that in areas in which the commercial market does not provide a socially useful and desirable purpose, the state should finance the activity. This rationale has been used to support captioning or signing services for the hearing impaired, large type publishing and audio publishing of books and magazines for the vision impaired, and statistical research and publication designed to improve media industries. Such support has been extended to print and electronic media and audiovisual production.

The rationale to support failing newspapers directs aid specifically to papers based on the argument that newspapers are desirable and serve important social functions not equally served by other media. This rationale emerged during the wave of newspaper closures during the 1960s and 1970s and has been used to provide funds to help pay operating costs for newspapers in difficult financial conditions and, in some nations, to provide funds to secondary papers regardless of their financial situations.

The European Commission and State Support

Newspaper subsidies are a form of state support for firms and industries, and their position within the EC context needs to be considered.

The EC has three different perspectives regarding industry that are relevant to this discussion. First, it positions itself as the protector of competition and acts to avoid competitive distortions that disadvantage firms within the common market. Second, it promotes the development of industries and efforts to help European firms increase their competitiveness. Third, it promotes the preservation and enhancement of culture and the enhancement of secondary languages and subcultures.

The application of these competition, industrial, and cultural policies provide a base for understanding the position of domestic newspaper subsidies relative to the EC.

EC Competition Policy and Subsidies

The competition policy of the European Commission is based on the desire to prohibit and halt business activities and national policies that reduce or distort competition.

Removing and limiting national state aid for industries generated a great deal of activity in recent years by both EC and national competition authorities. Media support has not generated great activity within the competition authorities of Directorate General 4, because DG 4 has dealt primarily with state support for larger internationalised industries more immediately affected by the creation of a common market: agriculture, auto and shipbuilding, steel and coal, transportation, etc (Cini and McGowan, 1998).

Nevertheless, newspaper subsidies are a form of state support and their situation within the context of EC competition policy is clearly of interest even if a separate sectoral policy has not yet been developed.

In order to understand the relevance of EC competition policy to the newspaper industry one must start by focusing on the rationale and implementation for that policy:

The primary concern of competition policy is to create and protect a competitive common market for products and services within the European Union. In implementing the policy, competition authorities have challenged national state support that has given individual firms or national industries advantages in competing with other European firms or national industries.

This policy has only limited applicability to newspapers in Europe because they typically do not compete among nations because of their local nature, linguistic limitations, and distribution time constraints. Only a few newspapers and a relatively small number of copies are traded between European nations because these constraints limit the exportability of newspapers.

Nevertheless, an export market exists among some nations: France and parts of Belgium and Switzerland for French-language papers, the United Kingdom and Ireland for English-language papers, and Germany, Switzerland, and Austria for German-language papers, and Netherlands and parts of Belgium for the Dutch language press. Additionally, a limited number of copies of a few large European newspapers are available throughout Europe to serve the needs of travellers and mobile workers for news from their home countries and news in their own languages. Should national policy or the actions of firms limit competition in this trade, it would become of interest to the EC.

State aid to industries is a concern to the Commission because such assistance can distort competition by providing competitive advantages domestically and within the common market. The Commission has never completely banned state aid for industries. Instead, it has taken the position that all aid should be transparent and that there are situations in which it is useful and appropriate if it does not distort competition.

Operating aid to firms in designated regions, aid intended to rescue and restructure firms in difficulty, aid for certain general services, and aid to help develop industrial sectors are among types of aid that the Commission recognises may be appropriate. The commission has been working to establish block exemptions for certain categories of aid. Until now it has assessed the aid based on individual situations, firms involved, and the effects of the aid on the market.

Most forms of national state aid to newspapers in Europe are ongoing forms of aid that do not fall within those categories of aid that have been most acceptable to the Commission.

The EC has created a partial exemption for state support designed for cultural purposes. Article 92 (3) (b) of the European Economic Community Treaty includes such support in its designation of aid that is compatible with the common market. The provision applies to "aid to promote culture and heritage conservation where such aid does not affect trading conditions and competition in the Community to an extent that it is contrary to the common interest (European Economic Community Treaty)"

This provision has applicability to some media but is not explicitly applicable to state newspaper support for failing newspapers or for political purposes.

The commission has become involved in some media-related aid issues in recent years that are similar to the types of aid offered to newspapers. These may be instructive of what position the EC might take regarding newspaper subsidies.

This issue of support for national audiovisual production and its relation to cultural promotion, for example, was raised in the 1995 Competition Report and emphasised the view that such aid should not distort, discriminate, or impede flow of other productions (European Commission, 1996).

In 1997, the Commission specifically considered aid in the form of financial assistance provided for the production of Irish television documentaries and films. It decided not to act against the aid by determining that it fell within the exemption for promotion of culture under Article 92 (3) (d).

All state assistance to such "cultural" production has not been accepted, however, because of issues of anticompetitive effects. In 1996 the Commission deemed that aid to Société Français de Production was operating aid that was being paid over a period of time without a restructuring plan or improvement on the part of the company. The Commission ordered the aid recovered on the grounds that it distorted competition and disadvantaged other firms that had complained about the aid (Case C53/94, 1996).

The issues of state support for public broadcasting systems have not been fully resolved by the Commission, but it has recognised the unique role they play in national cultural, social, and political life.

In 1996 the Commission dealt with the issue of support for Portuguese public broadcasting. It concluded that state payments did not constitute prohibited state aid because of additional obligations imposed on the public television operation that were not imposed on commercial competitors (Case NN141/94, 1996). These included obligations such as universal service, archival creation and maintenance, co-operation with Portuguese speaking broadcasters in other parts of the world, operation of an international channel, and financing public theatre. The broadcaster argued that the state support was directed toward such activities. In its decision, the Commission cited the effectiveness of accounting practices within the broadcasting company that made it possible view such operations separately from the primary broadcasting service.

EC competition authorities have not acted against specific newspaper subsidies, but it appears likely that the commission would find them permissible under some conditions. Subsidies to newspapers would appear most likely to meet Commission competition policy approval if:

- Support is part of a rescue and restructuring package rather than operating aid
- Support is given as regional aid to economically deprived areas
- Support does not disadvantage other newspapers by providing competitive advantages

The focus of EC competition is primarily on trade within the internal market, but it does not completely ignore domestic competition when state aid is involved. It must be recognised that application of competition law inside member nations is the primary responsibility of domestic competition authorities. Nevertheless, domestic competition authorities are increasingly harmonising their policies with European policy. As a result, the principles regarding state aid and competition emanating from the EC are increasingly appearing in domestic applications of competition law and policy.

Given the application of EC and domestic competition policy, the Netherlands Press Fund is an example of a type of state aid that should fall under the reorganisation category. The fund provides loans, credit securities, and direct subsidies for newspaper "reorganisation or restructuring, in order to make them profitable again the new future (Lichtenberg, 1995)."

Examples of aid to newspapers in economically deprived or undeveloped areas are not evident among European nations. One can speculate whether reduced taxes to papers in areas below the national norm in terms of advertising expenditures or compensating subsidies to papers in such areas might fall within this category.

The policy of not disadvantaging competitors should permit general aid such as the Swedish production subsidies that make funds available to all newspapers based on the percentages of newsprint consumed for editorial matter. Because the aid is available equally it reduces costs proportionally to the size of the newspaper and does not appear to provide any significant competitive advantage.

EC Support for Media as Industrial and Cultural Policies

The EC provides state support for media, so it clearly views such support as permissible and appropriate under industrial and cultural policies.

The EC does not provide direct support to newspapers in the forms typically found in domestic newspaper subsidies, but it has been a provider of other kinds of direct and indirect support for media including newspapers. This indicates its approval of certain state support for media. Some examples of financial support and aid from the EC include:

- The SCARRIE project in the Fourth Framework Programme Telematics 2 is providing funding for the development of an electronic proof-reading programme for Danish, Norwegian, and Swedish newspapers and publishing houses in a programme administered by Directorate General 13.

- Directorate General 10 provides aid to encourage the development of audiovisual production and distribution through the MEDIA II program. Subsidies and loans are available to support the development, production, and distribution of television and film programmes.
- Directorate General 10 operates the Ariane Project designed to support books and reading through financial assistance for translation of twentieth-century European literary books and reference works into languages of member states. It specifically offers aid to works published by small independent publishers.
- Funds to support the production of minority-language videos, film and television productions, and radio broadcasts are available through the cultural programme of Directorate General 12.
- Directorate General 13 has been active in pursuing measures to help develop information technology, electronic publishing, multimedia, and related industries and activities.

The support provided by the European Commission falls into two categories: 1) support designed to develop industries and to improve competitive abilities internally and externally within the common market; and 2) support designed to encourage national and secondary cultures and languages. The forms of these support mechanisms do not appear to provide competitive advantages that distort competition within the single market or in domestic markets.

Based on such support, subsidies to newspapers would appear to meet commission industrial and cultural policy approval if:

- Support is framed within the broader protection provided to cultural promotion
- Support is designed to support minority languages and cultures
- Support is designed to make newspapers more competitive by supporting initiatives such based on new production technologies or information technology. These, for example, might include the development of electronic publishing activities.

Conclusions

Based on this policy review, it appears that some state support for newspapers in the internal market exists is a tenuous situation dependent upon the inattention of competition authorities and the lack of complaint from other newspapers.

This is problematic because competition authorities and policymakers are increasingly turning their attention to all forms of state support. That situation, combined with increasing competitive pressures on newspapers, is likely to provoke some action against support for newspapers in one of the 15 EC member states or against policies in candidate nations negotiating for membership in the coming years.

When that occurs, one can envision a wave of legal assaults on measures similar to those challenged.

If support for newspapers is to be sustained policymakers need to revisit existing support mechanism to ensure they comply with the principles of competition policy, are appropriately constructed to serve industrial policy goals, or fit within cultural policy measures.

At the same time, however, policymakers should consider not only how to make support acceptable within the European Union, but also whether and how it should be altered to increase its effectiveness in altering the financial and economic conditions that harm newspapers. Unless such reconsideration is given most aid will continue to provide only short-term sustenance to newspapers rather than helping them overcome the basic problems that produce newspaper mortality.

References

Cini, Michele and Lee McGowan (1998). *Competition Policy in the European Union*. London: Macmillan Press.

European Commission, XXVth Report on Competition Policy. Luxembourg: Office of Official Publications of the European Communities, 1996, pp.85-86.

Case C 53/94 (Ex NN 126/94) OJ 366, 5.12.96

Case NN141/94,

European Economic Community Treaty, Article 92 (3) (b)

Holtz-Bacha, Christina (1994). *Presseförderung im westerneuropäischen Vergleich*" in Peter Bruck, hrg. *Medienmanager Staat. Von den Versuchen des Staates, Medienvielfalt zu ermöglichen. Medienpolitik im internationalen Vergleich*. Munich: Verlag Reinhard Fisher.

Lichtenberg, Lou (1995). "The Dutch Model of Press Policy," pp. 114-132 in Karl Erik Gustafsson, ed. *Media Structure and the State: Concepts, Issues, Measures*. Göteborg: Mass Media Unit, School of Economics and Commercial Law, Göteborg University, p. 118

Murschetz, Paul (1997). *State Support of the Press--Theory and Practice: A Survey of Austria, France, Norway and Sweden*. Düsseldorf: European Institute for the Media.

Picard, Robert G. (1984). "Levels of State Intervention in the Western Press," *Mass Comm Review*, (Winter/Spring), pp. 27-35.

Picard, Robert G. (1985). "Patterns of State Intervention in Western Press Economics," *Journalism Quarterly* 62:3-9 (Spring).

Picard, Robert G. (1985). *The Press and the Decline of Democracy: The Democratic Socialist Response in Public Policy*. Westport, Conn.: Greenwood Press, 1985.

Picard, Robert G. (1986). "State Press Aid During the Era of Economic Readjustment: A Case Study of Scandinavian Nations," *European Studies Journal* 3:1-8.

Picard, Robert G. (1991). "Competitive Effects of State Press Policies: An Analytical Framework for Policy Proposals." A paper presented to the Economy and the Future of Print Media Research Project Conference, University of Salzburg, Austria, October 4-5.

Picard, Robert G. (1994). "Why State Support Fails to Preserve Newspapers." A paper presented to the Biannual Conference of the Austrian Society of Communications, Salzburg, Austria, March 5.

Picard, Robert G. (1995). "Free Press and Government: The Ignored Economic Relationships of U.S. Newspapers," pp. 133-148 in Karl Erik Gustafsson, ed. *Media Structure and the State: Concepts, Issues, Measures*. Göteborg: Mass Media Unit, School of Economics and Commercial Law, Göteborg University, 1995.

Santini, André (1990). *L'État et la press*. Paris: LITEC, 1990.

Smith, Anthony (1977). "Subsidies and the Press in Europe," *Political and Economic Planning*, V. 43, No. 569.