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Task and Finish Group on the future outlook for the Media in Wales

BRIEFING PAPER: The Media in Europe's Small Nations

Professor Steve Blandford & Dr Huw D Jones
Centre for the Study of Media and Culture in Small Nations
University of Glamorgan

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There has been a pervading sense of crisis in the media in Wales over the past few years. BBC Wales, ITV Wales and S4C are all facing pressure to cut costs and reduce staff numbers, threatening the level and quality of service they provide in Wales, while the *Western Mail*, Wales's only real national newspaper, is suffering from falling levels of readership and profitability. At the same time, with the increasing power and influence of the National Assembly for Wales and the need for greater scrutiny of the Welsh Government, demand for Welsh news and current affairs has never been more vital.

On the positive side there is real evidence of an appetite for the 'local' in key forms of media, something which the Centre found in its work on the impact of landmark television programmes such as *Doctor Who* and *Torchwood* on Welsh audiences (Blandford et al, 2010).

Equally small nations have the potential to turn their size into a distinct advantage. In a climate of public dissatisfaction with some of the effects of globalisation there is an appetite for the closer relationship between governments and populations that small nations can offer. An effective media that has the capacity to properly report on and reflect the richness of local cultures has a huge role to play in maximising such potential.

This briefing paper examines how other small European nations have tried to develop their own media in a globalised world and considers some of the lessons for Wales. It is based on the small but growing body of literature on the media in small nations.

Key points:

- Small nations face particular challenges in developing their own media. These include few resources, a limited market, dependency and vulnerability to foreign penetration.
- Technological changes and market regulations make it difficult for small nations to resist foreign penetration. The best option is therefore to invest in indigenous broadcasting.
- Comparison between north and south Europe shows that political backing is the key factor to developing strong public service broadcasting sector. The Welsh Government should therefore seek to strengthen Wales's voice within the existing communications regulatory framework, or even devolve some areas of media policy.
- Direct subsidies for the press are another way for small nations to develop their media. However, these should be targeted to help newspapers adjust to the new digital economy.
- The Welsh Government should consider introducing direct subsidies for the press, as a strong and diverse media is a vital part of a healthy democracy.
- Paywalls are a promising alternative business model for the press in Slovakia, but are less suitable for small nations like Wales which share a language with a larger neighbour.
- Further research is needed to establish other strategies to develop the media in Wales.

1. Structural challenges

Research conducted during the early 1990s, when interest in small nation media systems first emerged with the creation of a single European market policy for broadcasting, showed that small nations face particular structural challenges in developing their own television, radio and press. Trappel (1991), for example, found that countries with a population below 18m typically suffer from less talent, fewer capital resources, higher production costs and a smaller market for advertising and licence fee revenue. This can leave them dependent on importing foreign media content and therefore vulnerable to foreign penetration, threatening both their economic potential and cultural identity (see also Burgelman and Pauwels 1992). Trappel also found these challenges are particularly acute in countries such as Ireland and Austria which share a common language with a larger neighbour (see also Lurgers 1992). Small nations like Denmark or Iceland, by contrast, can more easily resist foreign penetration because they operate in a smaller language community, although this also means they are less able to export their own media content and services overseas.

More recent research by Puppis (2009) confirms that countries with small populations continue to face the same problems as the early 1990s. However, whereas Trappel found that smaller states were able to adopt corporatist policies to limit foreign penetration and protect their media identity, this strategy is becoming less tenable due to a combination of technological and market change. The growth of new digital technology such as the Internet, for example, means that small nations are virtually powerless to resist exposure to foreign media, while the proliferation of television channels means that established broadcasters face greater competition for viewers and advertising revenue. Meanwhile, the need to develop international rules to allow free trade has forced many small nations to accept neo-liberal policies in the form of deregulation, limiting their ability to protect their own domestic media industry. The 'country of origin' principle within the EU's Audio Visual Media Directive (2007), for example, prevents Member States from blocking television transmissions from other Member States in all but exceptional circumstances. Furthermore, as Humphreys and Gibbons (2011) show with reference to Ireland, Sweden, Austria, Belgium and the Netherland, small nations have failed to persuade European lawmakers to take account of their particular structural challenges, not because the strength of their argument lacks merit, but because as small nations they lack political clout at a European level.

2. Support for public service broadcasting

So how can small nations overcome these structural challenges? According to Humphreys and Gibbons (2011: 10), 'there is relatively little potential for small countries to promote cultural and media policies by defending against external pressures through the imposition of local content regulations'. As noted above, new digital technology and market regulations make it difficult for small nations to resist foreign pressure. Moreover, as Puppis (2009) points out, protectionist policies can also limit media diversity and therefore undermine democratic values such as freedom of choice and expression.

'The better option for preserving national cultural and media identity', Humphrys and Gibbons (2011: 10) conclude, 'is likely to be found in the production of indigenous material through public service content' (see also Burgelman and Pauwels 1992). This is a strategy which many small nations have adopted in relation to broadcasting. A 2006 report by the Swedish media research centre Nordicom (cited in Humphrys and Gibbons 2011: 10), for example, found that among the countries with the highest per capita spending on public service broadcasting (PSB), seven out of ten had a population below 18m. However, in absolute terms, larger countries usually spend far more on PSB than small ones because they have a higher population from which to draw licence fees and advertising revenue.

Furthermore, while small nations spend more per capita on PSB than larger countries, 'there is a clear difference between the revenues commanded by PSBs in northern European small countries and Ireland and the two southern European small countries, Greece and Portugal' (Humphreys and Gibbons 2011: 12). According to Puppis (2009), this arises from the different political cultures and traditions between north and south Europe. Northern European countries like Norway, Sweden and Denmark have a long history of democratic corporatism and a strong emphasis of social democracy. Accordingly, there is broad agreement within these countries that PSB is a public good and an integral part of a modern welfare state. Austria and Switzerland have also developed 'a broad political consensus that public broadcasting as an institution is important and desirable' (Trappel 2010: 213), although as Steinmaurer (2009) notes, both countries have also faced considerable pressure in recent years to adjust their programming more to market imperatives, particularly as, unlike the Nordic countries, they share a common language with a larger neighbour.

Elsewhere, Belgium and the Netherlands continue to spend high levels on PSB, although debate about public spending tends to be more polarised in these countries due to historical cleavages along the lines of language, religion and class (Humphreys and Gibbon 2011). In Belgium, for example, the French-speaking region of Wallonia has pursued a commercial-logic rather than a culturally-protected one, to take advantage of the French and Luxembourg market. As a result, its PSB has one of the lowest audience shares of all northern European countries. The audience for PSB in Dutch-speaking Flanders, by contrast, remains relatively healthy due to high levels of investment in Flemish language programming.
In the small countries of southern Europe, however, there is far less support for PSB due to a more polarised political culture. This has resulted in a spectacular decline in PSB audiences in the face of commercialisation and deregulation. Iosifidis (2000), for example, notes that Greece's ERT retains only a 10.3 percent audience share, whereas Portugal's RTP's audience is about 26.4 percent, one of the lowest in western Europe. PSB in southern Europe also tends to rely on advertising rather than licence fees, making it vulnerable to market fluctations.

In central and eastern Europe, meanwhile, PSBs are less well resourced due to the lack of wealth compared to western Europe (Humphreys and Gibbons 2011). Moreover, rather than opt for state intervention, which is stigmatised by Soviet era practices, their media policies have been generally characterised by liberal regulation and market-orientated logic (Balcytiene 2010). This has led to an influx of foreign media companies against which PSBs have failed to compete, except by standardising and commercialising their output (Dobek-Ostrowska and Glowacki 2010). According to Wyka (2008), PSB in many post-socialist countries also suffers from a lingering politicisation and unprofessional working practices.

3. Subsidising the press

If investment in PSB is one strategy small nations use to develop their media, providing subsidises for the press is another. Indirect subsidies, such as tax breaks or low postal fees, are fairly commonplace throughout western Europe. In Britain, for example, newspapers are exempt from paying VAT. However, direct subsidies, typically in the form of a loan or cash transfer from the state, are far more controversial. For conservatives, they offend against the principle of a free and independent press, while for economic liberals, they distort the free market. Direct press subsidies therefore tend to be justified only in those countries where newspapers operate within a limited market and have few resources or otherwise to ensure cultural or political diversity in the face of media concentration (Humphreys 2006).

Again, the small nations of northern Europe, with their democratic corporatist political culture and strong leaning towards social democracy, tend to spend the most on direct press subsidies, although some large countries also provide quite generous grants to newspapers. France, for example, spends about EUR 5 per head on direct press subsidies, the highest in Europe (Neilsen 2011). Only Germany, Ireland, Britain and Switzerland eschew direct press subsidies, yet even these states provide small grants to minority language publications. Ireland, for example, gives grants for several Gaelic language publications, including the daily newspaper *La*, which receives EUR 252,091 per year from the state (Jones 2006: 167).

Norway and Sweden introduced press subsidies in 1969 and 1972 respectively for 'second newspapers' – those with the second highest circulation within a particular city or region – to halt the decline in newspapers and ensure press plurality (Humphreys 2006). Sweden also provides low interest loans for companies to invest in developing new technology (Gustafsson, Ornebring and Levy 2009). Norway and Sweden spend about EUR 35m and EUR 57m respectively on direct press subsidies, the latter financed through a small tax on advertising revenue (Fernandez Alonso and Blasco Gil 2006: 68-72).

Austria introduced direct subsidies for all daily and weekly newspapers in 1975, but these have been steadily cut back over the years. Likewise, Belgium's system of direct subsidies has become 'more selective and less generous' since it was introduced in 1973 (Humphreys 2006: 44). In the Netherlands, meanwhile, grants have been replaced by loans, credit facilities or subsidies targeted for reorganisation or restructuring.

Pressure to limit direct subsidies for the press has intensified as governments look to cut public spending, to reduce their deficits and debt levels in response to the economic crisis which began in 2008. Some also question whether subsidies work in the way advocates claim. According to Picard (2003: 107), 'most subsidies in Europe have had little effect on the financial situations of newspapers and do not provide a mechanism for real long-term viability of subsidised newspapers'. Sanchez-Tabernero and Carvajal (2002) likewise argue that subsidies have done little to increase the diversity of the press. In Norway, for example, the two largest companies control half of newspaper circulation, while in the Netherlands, 60 percent of circulation is controlled by just two companies. Nevertheless, as Skogerbo (1997: 109) argues in relation to the Norwegian newspaper industry, 'subsidies have contributed to slowing down the process of monopolisation, as many of the remaining 'No.2' newspapers are kept alive by the subsidies'. Comparison between the press structure in Denmark, which has no direct subsidies and relatively few papers, and that in Finland, Norway and Sweden, which have direct subsidies and many newspapers, further underlines this point.

Another reason why direct press subsidies are coming under pressure is due to the advance of new technology. With the development of the Internet, newspapers can now make their content available online, where news stories can be published immediately rather than wait for the paper to be printed and distributed. Some argue that press subsidies inhibit newspapers from restructuring to meet the needs of the new digital economy. Moreover, the abundance of choice created by the Internet removes the rationale for subsidies designed to promote press plurality. However, as Humphreys (2006: 48) points out, while newspapers 'clearly have to invest in the new technologies and diversify their strategies… most newspapers are finding it difficult to make their web services pay'. Paying for online news is proving to be inconvenient and unpopular, particularly as there is so much free content available on the Internet, while revenue from online advertising has failed to make up for falling print sales. Humphreys therefore argues direct subsidies to invest in new technology, staff training and restructuring to meet the digital challenge are actually more justified, particularly as newspapers face 'the additional competitive challenge presented by the online content services of licence-fee funded (i.e. effectively subsidised) public broadcasters' (*ibid*).

4. Alternative business models

Rather than rely on state subsidies for the press, some small nations have tried to develop alternative business models to meet the challenges of the new digital media economy. This is especially true in central and eastern Europe, where state intervention in the press has been viewed with suspicion since the fall of Communism. Slovakia, for example, has become the first country in Europe to erect an internet paywall that encompasses nearly all the country's main media outlets (BBC News 2011). Users are asked to pay a flat fee of EUR 2.90 per month or EUR 29 per year in return for full unlimited access to nine major news sites, including the broadsheet *SME* and *Pravda*, the country's oldest newspaper. Piano Media, which runs the service, takes a 30 percent cut of any revenue, while the other news organisations are allocated the rest in line with how much time visitors spend on their site.

The strength of this model lies in its convenience. Consumers do not need to use their credit card or login-in with a password each time they want to access a news story. However, concerns have been raised about the restriction which the paywall places on the free access to information on the Internet. Some internet search engines have also opposed the scheme because it discourages people from using their services to search for news.

Although the Slovakian paywall was only introduced in May 2011, Piano Media has already reported profits of EUR 40,000 during its first month of operation and hopes to make EUR 2m by the end of 2011 if it reaches its target of enlisting between 0.8 and 1.5 percent of the Slovakian population. It has also secured EUR 300,000 from investment firm Monogram Ventures (bringing its market value to EUR 1m) and aims to roll out the service to Czech Republic and other eastern European countries in 2012 (NetNewsCheck 2011).

The key to the success of the Slovakian paywall lies in the fact that Slovakia is the only country where the Slovak language is universally spoken. Slovak speakers therefore have little choice but to consume news from the main news sites which are part of the paywall scheme. On the other hand, the model is perhaps less appropriate for small nations like Wales which share a common language with a larger neighbour. Moreover, though Piano Media's early profits are promising, few media analysts believe that the paywall system will replace the revenue generated by newspaper sales and advertising in the past.

Conclusion

What lessons can Wales learn from how other small European nations have tried to develop their media in a globalised world? Firstly, due to technological change and European market regulations, Wales has no power to resist foreign penetration and should therefore focus on investing in Welsh PSB. As comparison between north Europe and southern and eastern Europe shows, political backing is the key factor. However, this presents a problem in Wales, since broadcasting policy is reserved by Westminster. The Welsh Government should therefore do what it can to strengthen Wales's voice within the current communications regulatory framework, or even press for devolved power over certain areas of broadcasting.

Secondly, if Wales wants to ensure the survival of its newspaper industry, it needs to give serious consideration to providing direct subsidy for the press. Newspapers in Wales already enjoy indirect press subsidy in the form of VAT exemption. Some Welsh language publications such as *Barn* and *Golwg* also receive small public grants through the Welsh Language Board (Jones 2006: 170). Yet Wales is still one of the few small nations in western Europe not to provide any direct subsidy for its main newspapers. Compared to countries like Norway and Sweden, the Welsh press therefore lacks both quality and diversity. While governments throughout Europe are under pressure to reduce public spending, a strong and diverse press is a vital element within a healthy democracy. The Welsh Government should therefore look in more detail at the costs and benefits of introducing a direct subsidy for the press in Wales, particularly to help newspapers adjust to the new digital media economy.

Thirdly, although it is unlikely that Wales would benefit from Slovakian-style internet paywall, because users can always access free news elsewhere on the web, alternative business models for the press in Wales still need to be explored. With this in mind, the Centre for the Study of Media and Culture is holding a conference on 19 November 2011 with the National Union of Journalists (NUJ) to discuss the future of the press in Wales, and will report on our findings in late-2011.

Finally, it is clear that further research is needed to establish other strategies to develop the media in Wales. The opportunities offered both by the BBC's new drama production facility at Roath Lock and the relative stability of S4C's future through the recent agreement on editorial independence with the BBC need to be capitalised upon. In 2007 a conference in Taragona in Spain brought together scholars from across the world to debate the importance of 'the nation on screen' (see Castello et al, 2009). In a world where our sense of which screens matter and to whom is changing rapidly it is vital that in future Wales both actively contributes to such debate and learns from others in similar positions,

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