

**The Canadian Club of Toronto  
The Canadian Journalism Foundation  
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*Journalism Series*

**NEWSPAPER CONCENTRATION**

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When I accepted the invitation to address you today, my initial reaction was to discuss the issues involved in media concentration, without getting too wrapped up in newspaper publishing generally and Hollinger in particular. However, it didn't take too much reflection to cause me to conclude that Hollinger's role in newspaper publishing in Canada is a major issue and nothing would be more interesting than to deal with that topic directly.

Hollinger's dominance of the Canadian newspaper publishing industry is a recent development. A year ago today we owned only approximately 20 per cent of the voting shares of Southam. With three newspapers in Quebec, eight in British Columbia, one in P.E.I., the recently acquired Sifton newspapers in Saskatchewan, and some small newspapers in Ontario, Hollinger's newspaper interests in Canada were relatively small in comparison to Thomson Newspapers and Southam.

All of that changed on May 26, 1996 when, in a surprising development, Power Corporation sold Hollinger its shares in Southam thereby taking Hollinger's interest in Southam to over forty per cent. With that came effective control which became absolute control when Hollinger increased its ownership interest in Southam above fifty per cent last December. The addition by Southam of fifteen daily newspapers in Ontario and the Maritimes during the summer and fall of 1996 substantially increased Southam's newspaper holdings and with it, Hollinger's interest in newspaper publishing in Canada.

These changes provoked considerable controversy which included a lawsuit from the Council of Canadians, a two part critical analysis by the CBC (itself hardly a stranger to media concentration), and sporadic agitation in favour of laws to limit newspaper ownership. The knee-jerk reaction, from some quarters, was that Hollinger's investments represented a terrible development in Canada; that Hollinger could be counted on to produce shoddy right-wing opinion pieces devoid of community content and of limited utility in fulfilling the important functions expected from the newspaper industry. It has certainly been a surprise to many of these critics that none of their dire predictions have proved to be true.

There is no doubt that the fears surrounding newspaper concentration are perfectly legitimate. An independent and vigorous press plays an important role in

reporting the news and providing a critical commentary on matters of public interest, thereby helping to ensure the maintenance of a free and democratic society. As one leading jurist remarked over fifty years ago: "the widest possible dissemination of information from diverse and antagonistic sources is essential to the welfare of the public".

The philosophic underpinning for any reasonable discussion about newspaper concentration is therefore clear. But does it follow, so easily as some would contend, that newspaper concentration is antithetical to these principles? Or is there a basis for concluding that in today's congested media environment, newspaper concentration may in fact *enhance* the maintenance of a free and vigorous press?

In considering these issues, one must avoid a sentimental or wistful approach. The technological revolution is in full swing. Few people sit in easy chairs after dinner reading and discussing stories from their newspapers while children do their homework or read stories by the fireplace. Generally speaking, many Canadians awaken to the radio and may often watch some television before leaving for work. Some are able to read the newspaper and magazines while travelling to and from work or at some other time during the day. On returning home, it takes some patience to sort through the ever-increasing pile of advertising flyers jammed into the mail slot. During the evenings, many people watch television. Internet surfing has become an addiction.

In all of this, we are bombarded by advertising messages. At one time most of this advertising came via your newspapers. Today, only a small portion of it comes that way, yet advertising is the lifeblood of the newspaper; the survival of the industry depends upon it. If newspapers are to survive and flourish, they must maintain and enhance their share of advertising revenues.

Approximately 80% of most newspaper revenue comes from advertising; only about 20% is derived from circulation. When you purchase a newspaper, you are therefore paying only a fraction of the cost of that product. Advertisers have a myriad of choices and radio and television, magazines, ad-mail and other vehicles, including the internet, regularly vie for the same advertising dollars. Small circulation newspapers have greater difficulty in obtaining national advertising revenues which are critical to the survival of the newspaper industry in Canada. Large newspaper chains are more attractive to advertisers. They offer a variety of services and can afford significant ad departments to plan and implement a strategy which gives the chain a fighting chance to attract significant advertising revenues. There is no doubt that small newspapers in particular have not been able to compete effectively in the highly competitive market for advertising.

Large newspaper groups can achieve economies of scale through newsprint purchases, technology cost sharing and the more effective utilization of staff

resources. Achieving cost savings on newsprint is particularly important since newsprint prices are generally volatile, yet they are key to the profitability of the newspaper industry.

Some small newspapers or even larger family owned proprietorships have also faced serious succession planning problems which in some cases have militated towards a sale of the business. Aging of the presses and a general reluctance to face substantial capital expansion for which financing may be problematic has also contributed towards the tendency to sell. An inability to deal with labour issues or productivity problems has also contributed to the disposal of some of these assets.

If the newspaper business for the past many decades had been a profitable one, few companies or families would have taken flight from it and many more entrepreneurs would have been attracted to it. It is an exciting and purposeful business, but its attraction has faded as incomes have eroded. The fact is that for too long, circulation has decreased. Over the past five years average daily circulation has decreased from 5.65 million newspapers a day in 1991 to 5.2 million in 1995. Over the same period advertising revenues have declined at a rate of about 2.9% per annum. All of the hallmarks have therefore been present to support a general restructuring of the newspaper publishing sector. Newspaper concentration in Canada has occurred for reasons which are entirely commercial.

Individuals and groups who are the most passionate concerning the issue of newspaper concentration generally do not marshal their arguments on the basis of the contemporary business and social reality. They approach this issue from an anti-business bias and with the unrealistic sentiment of another era, when multiple-owner newspapers were dominant and when newspapers were the primary source of news and commentary. They do not seem the least bit interested in the observation that circulations continue to erode, advertising dollars are going elsewhere and costs are generally escalating. Their arguments tend to be more theoretical and philosophical and are certainly very dated. Usually they anchor their submissions around two historic Canadian commissions concerning media concentration. Without apparently grasping the significance of the fact that the reports of these commissions have been ignored by the legislators, we continue to be told that the Davey & Kent reports constitute a *prima facie* demonstration of the institutionalized evil of newspaper concentration.

The Report of the Special Senate Committee on Mass Media, sometimes known as the Davey Report, was issued in 1971. While its terms of reference were "to consider and report upon the ownership and control of the major means of mass public communication in Canada", the Senators who formed the Committee made no secret of their attitude as evidenced by their declaration at the outset of their Report that: "The purpose of this Committee was not to ascertain whether concentration of media ownership is a Good Thing or a Bad Thing. *Of course* it is a bad thing." But

notwithstanding this candid admission of a preconceived bias, the Committee was able to see some of the virtues of what they called, in their report, "chain ownership". The following statement in their report is quite instructive:

But suppose there *are* fewer and fewer owners: is this necessarily a bad thing? There is a lot of evidence to suggest exactly the opposite. Chain ownership has rescued more than one newspaper from extinction. Chain ownership has turned a number of weeklies into dailies. Chain ownership has financially strengthened some newspapers, so they're better able to serve their employees and communities. Chain ownership may in some cases have resulted in a decline in editorial quality; but there are also instances where chain ownership has upgraded it. In other words, there is simply no correlation between chain ownership and editorial performance.

Indeed, the Senators went so far as to concur with the general thrust of the argument I am advancing here today. Toward the conclusion of their report they stated: "Indeed, our best hope for *more* daily newspapers seems to lie with chains; only corporations with access to large amounts of capital can be expected to sustain the high risks, and the long initial period of non-profitability". Even in 1971, when newspaper

circulation was higher than it is today, concentration was recognized as inevitable and perhaps even essential to the life-blood of the newspaper industry.

One wonders why critics of newspaper concentration take so much comfort from this report. In 1971 the Internet did not exist, television was far less developed and newspapers were much more dominant and important across the country.

The well-known Kent Commission Report was less able to recognize the merits of newspaper concentration. Unlike the Senate report which preceded it, the Kent Report demonstrates little concern for the commercial aspects of newspaper publishing. Newspaper concentration was so great a preoccupation to this Commission that it went so far as to recommend the implementation of a *Canada Newspaper Act* to prohibit significant further concentration of newspaper ownership and, in some cases, to force divestiture of existing newspaper holdings. Little consideration was given to whether such legislation could be within the constitutional jurisdiction of Parliament and no apparent weight was given to the rights of current newspaper owners.

The most recent assault upon newspaper concentration dealt with Hollinger's acquisition of a controlling interest in Southam. Many of you will recall that last September, many months after Hollinger's announcement that it had acquired a large block of Southam stock held by Power Corporation, the Council of Canadians

launched a Court proceeding against Hollinger and the Director of Investigation and Research under the *Competition Act*. The Council of Canadians took the position that the Director had an obligation, either under the *Competition Act* or by virtue of the Charter of Rights and Freedoms to consider future editorial diversity and that he should have refused an advanced ruling certificate on the basis that editorial diversity of Southam newspapers would suffer under Hollinger's control. The Council therefore sought an order setting aside the advanced ruling certificate.

While the Council of Canadians went on at great lengths about the rights of Canadians to the Council's notion of editorial diversity, at no time were Hollinger's rights to free speech and freedom of expression even apparently considered by the Council. So here we had a public advocacy group who were absolute strangers to a \$300 million transaction trying to upset it on the argument that a government official should have the power to prevent a newspaper merger if he or she did not think they would like the anticipated content of the future merged newspaper company.

It is hard to understand how the Council of Canadians, which purports to represent democratic values, could support such a ludicrous legal concept. Their case did not get off the ground and was recently dismissed by the Court because the Council was not diligent in seeking judicial review on a timely basis and did not, in any event, have standing to attack the advanced ruling certificate. The Council may have felt they

achieved some public interest advantage by bringing a newspaper concentration issue to the courts. Yet public support for legislative action has not coalesced and there is little evidence of a feeling that much has been lost by the Council of Canadians not being given the opportunity to attempt to savage a perfectly valid and legal commercial transaction.

Returning briefly to the Kent Commission, of course their startling recommendations were not implemented and the analysis in the Report is now quite dated. But there is one statement in the report which was prescient and is germane to today's discussion. It is reminiscent of the sentiments expressed in the Davey report. It reads as follows:

Competition for the time and attention of newspaper readers and the dollars of newspaper advertisers is emerging in a number of forms: the extension of cable TV services to include pay TV; the growth of television received direct from satellites; increasing numbers of home video players using disc or tape; the spread of small computers into homes; and the development of videotex systems by television, telephone, or cable networks to provide print information on request on home television screens. All these forms of competition now are developing rapidly. Together, they clearly have

the potential to affect newspapers, starting in the second half of this decade. The effect could become critical in the 1990s.

That effect has indeed become critical in the 1990's. It apparently accounts for the rationale adopted by Thomson Newspapers to sell large portions of their newspaper enterprise in order to pursue information technology on a large, and apparently, very profitable scale. Fear of the future and the high costs of publishing no doubt were major considerations which motivated the Sifton family to sell their Saskatchewan newspapers to Hollinger. A similar phenomenon must have precipitated the recent sale of the London Free Press. And in our Company's acquisition of Southam we witnessed yet another large company - Power Corporation - with a historical interest in the newspaper business deciding to liquidate its investment and re-deploy the proceeds in what appeared to them to be more profitable ventures. Single owners in St. Catharines, Kingston and many other important communities have also decided, in the last decade, to exit the newspaper business.

It is true that as a result, Hollinger has become a very substantial newspaper owner in Canada. A great deal of controversy has attended this development. But can you name any other company so interested in and focused on newspaper publishing? As the stock market value of Southam dropped like a stone, I doubt that many of you rushed out to buy it. I don't say that as a criticism; but the

general lack of interest in newspaper stocks does reflect the sentiment that this is not exactly a growth industry. Do you suppose Thomson Newspapers would have sold so many newspapers to us if other energetic bidders were available?

Let me assure you that Hollinger did not make these very large investments with a view to shutting down newspapers or destroying their quality and thereby destroying our markets. Hollinger made these investments in the hope that through efficient management and improvements in editorial quality it can secure similar success as has been achieved in the United Kingdom, the United States, Israel and Australia and which, to the surprise of many is already very evident in Ottawa, Montreal, Hamilton, Calgary and Vancouver and in many of our other Canadian publications.

Eleven years ago Hollinger acquired control of London's Daily Telegraph newspaper. At that time its presses were virtually antiques, the newspaper had lost much of its market share and was all but bankrupt. Today a world-class printing facility produces over 1,100,000 copies per day of one of the world's truly great broadsheets. A few months ago, and for the second time in three years The Daily Telegraph was named the United Kingdom Newspaper of the Year by the Press Association in recognition of its professional and competitive achievements. The same story was repeated in Australia where the bankrupt Fairfax newspaper company was restored, by Hollinger's initiative, to its previous glory and profitability. Similar success has occurred

at the Jerusalem Post and will shortly be even more evident at the Chicago Sun-Times where new presses are about to be installed. Hollinger's community newspapers group in the United States repeatedly wins important journalism awards and is a major contributor to the company's success. There is no reason why parallel results cannot be achieved in Canada.

Nowhere would we be more pleased to see similar progress than in Canada. Our company's controlling interest in Southam and our ownership of numerous other Canadian newspapers carries with it great responsibility but also presents an exciting opportunity. Southam is the pre-eminent daily newspaper in 33 major Canadian markets including Vancouver, Montreal, Ottawa, Edmonton, Calgary, Hamilton and Windsor. Over the past few decades these important franchises have languished somewhat, mainly due to the fact that they generally have produced less than exciting and stimulating editorial products. As our Chairman stated in one of our recent annual reports: "It will be a laborious task and is far from a sure thing, but we believe that managed efficiently, edited imaginatively, written professionally and backed by intelligent technological applications, the newspaper, and especially the Southam newspapers can flourish."

One of the leading examples of our attempt to rekindle the spirit of newspaper professionalism is in Southam's total revamping and re-launch of the Ottawa

Citizen. Mr. Black has repeatedly stated that the former Ottawa Citizen was something of an embarrassment; our Nation's capital must have a newspaper worthy of its city and its country. The transformation has been huge, the editorial product is immensely improved and the response to date has been overwhelming. Southam has been besieged with journalists who want to take part in this venture. Readers are responding and circulation is surging. Prior to the re-launch readers complained that the Citizen was too "thin"; there simply was not a consistent and substantial editorial product. The major observation today is that the paper is quite substantial, the in-depth analyses are very long and there is too much to read combined with a fear that something will be lost if it is not read in its entirety. Surely this is the formula for a successful newspaper: one that carefully distinguishes news from commentary, that includes a separate section for national and international news and commentary together with a section for community news replete with interesting and lively articles, opinion pieces and editorial comment. In short, a newspaper which, for a variety of reasons, people want to read. If someone as eminent as Robert Fulford can speak positively about this newspaper, we know we are on the right track.

Re-energized and recently redesigned, the Montreal Gazette is now playing a very important role in the Quebec issue in a manner never before imagined. An expanded community section, an enlarged business report and a larger letters to the editor section are among the many improvements to that newspaper. After an absence

of many decades from newspaper publishing, Mordecai Richler has become a regular contributor to the Gazette's new Sunday magazine.

I must also add, in relation to Quebec politics, that it is a matter of great pride and satisfaction to us that it was our Quebec City newspaper, Le Soleil, which exposed Jacques Parizeau's referendum treachery through Michael Vastel's electrifying story published on May 7. His report caught fire immediately. It transformed the election campaign and caused Messrs. Bouchard and Duceppe to bumble and then run for cover while the unbelievable Mr. Parizeau, suitably exposed, eventually issued a bombastic denial which only served to confirm Mr. Vastel's original indictment. This is the kind of reporting which we applaud and of which we expect you will see more in Hollinger newspapers.

The Vancouver Sun, Calgary Herald and Hamilton Spectator are following the example set by the Ottawa Citizen and the Montreal Gazette. Emphasis is being placed on the quality and depth of journalism and each newspaper is re-focusing upon its role in its community. Additional journalists are being hired, circulations are improving and there is a basis for optimism about the future of newspaper publishing in Canada.

The success of the make-over of the Ottawa Citizen, the Montreal Gazette and the many other changes throughout the system has demonstrated that in Canada,

as elsewhere, there is a great appetite for lively, informative, diverse and well-written newspapers. These developments have been exciting for all Southam employees; we hope it leads to a much greater desire on the part of Canadian journalists to produce truly first class products, in every respect. We expect it will also cause our competitors to improve their editorial products and that a new level of competition will ensue, to the benefit of all Canadian newspaper readers.

One cannot expect the Globe & Mail to ignore these developments since we compete with their newspaper in virtually every major market in Canada, except Toronto. The Globe will have to re-assess its editorial product or face the potential loss of market share in Ottawa and elsewhere. Sun Media also must reconsider its position since we compete aggressively with it in many major Canadian cities. Our re-emphasis on community news cannot be a welcome development for the Sun chain.

In the final analysis, the Council of Canadians and other Hollinger critics should relax and try to be more objective and realistic about newspaper publishing in general and about Hollinger in particular. Newspaper publishing is a business. In order to improve the results of the business, revenues must increase; there is a limit to what can be achieved through cost-cutting. To increase revenues we will have to improve our newspapers. If we do that, circulation will increase and, more importantly, we will become more attractive to advertisers. We have already started that process and have

every intention of continuing it. Over time, Canadians will see a real improvement. As Conrad Black stated during his address to the Metropolitan Toronto Board of Trade several months ago:

"We have pledged to improve the quality of the daily written press in this country and we will redeem that pledge."

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