



5 February 2021

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

By email to economics.sen@aph.gov.au

Dear Senators,

Thank you again for the opportunity to appear at the Committee hearing on 22 January 2021. We were pleased on 1 February 2021 to provide answers to questions we had taken on notice at the hearing.

In response to the additional questions posed by the Committee on 28 January 2021, please find our responses below.

- 1. Does your threat to leave the Australian market include other Google services such as, Google Maps, Google Pay, YouTube, Gmail etc.? In your evidence you said that Google services were aggregated financially. Does that mean you will exit all services? If not, why not?**

The withdrawal of Search from Australia isn't a threat; it's a worst-case scenario that we're working hard to avoid. With straightforward amendments there is a path to a workable Code that provides a framework in which Google can pay publishers for value under the Code, without undermining Google Search and the fundamental principle of being able to freely link to content on the internet.

At this stage, we are still understanding the implications of removing Search on our other services.

- 2. By indicating your intention to exit the Australian market you have shown publicly your organisation's willingness to use your significant market power as leverage to achieve your commercial objectives. The Australian Government is a much larger, more powerful and better resourced organisation than any of the Australian media organisations that this legislation is designed to protect. Given this, what confidence can the Australian people have that your organisation will act in good faith when negotiating with these comparatively weak news/media businesses without this legislation?**

We respectfully do not agree with the various premises of this question.

Google has engaged constructively with the ACCC, Treasury and Government throughout the drafting process – as the representative for Treasury, Deputy Secretary Meghan Quinn confirmed with the Senate Committee at the public hearing on 1 February:

“Google has been very clear all the way through that it's willing to work through issues in detail, and that they would like to continue to provide services to Australia. We've had ongoing discussions with them all the way through this process.”¹

Our submission of 18 January 2021 outlines our contributions and our ongoing commitment to Australia and the Australian economy and our desire to continue to offer our services to the extent feasible. We have also been clear about our global commitment to support quality journalism, and we have entered into hundreds of commercial deals around the world to that end.

Starting with our submission to the ACCC last August, we have been clear about the impact the current version of the Code might have on our ability to provide services, and we have set out a proposal for a way forward that would see publishers paid for value with News Showcase. We have proposed straightforward amendments as a path to a workable Code that provides a framework in which Google can pay publishers of all sizes (including major media companies) for value under the Code, without putting at risk both the viability of Google Search and the internet's fundamental principle of freely linking between websites. We explained our position more fully in the testimony of Google on 22 January 2021, and in our submission of 18 January 2021.

The many submissions from respected voices about the untenable precedent to pay to link demonstrate that Google is not alone in its concerns about key aspects of the Code.

Further, the Code requires Google and news publishers to negotiate and participate in arbitration in good faith, and Google is not objecting to doing so through standard and balanced commercial arbitration.

- 3. Many of the print editions of regional newspapers across Australia closed last year and newsrooms of radio stations, newspapers and TV stations in these regions have also closed, consolidated and shed staff. This cost-saving action was made necessary by greatly reduced advertising revenue, which was primarily lost to Google (and Facebook), all the while your organisation benefited from the value brought to Google services by using the news content on your platforms. In the region of North Queensland a large number of newsrooms have been impacted by cost-saving measures that have damaged local journalism or the newsrooms have been closed completely. Some of these include: The Townsville Bulletin, The Mackay Daily Mercury, Power FM, 4TO FM, Grant Broadcasters, 7 News Townsville, Win News Townsville, The Whitsunday Times, The Rockhampton Morning Bulletin, CQ News, The Cairns Post, The Bowen Independent, The Burdekin Advocate, North West Star, North Queensland Register. Please provide data showing how many times news items from these newsrooms were showed to users on Google services in 2018, 2019 and 2020 without the user clicking through to the source website? That is to ask how many times did your organisation derive benefit from displaying the content but the content creator received no monetizable benefit.**

¹ Commonwealth of Australia, Economics Legislation Committee - Treasury Laws Amendment (News Media and Digital Platforms Mandatory Bargaining Code) Bill 2020, p 60. (2021) (Official Hansard). Available here: https://www.apn.gov.au/Parliamentary_Business/Committees/Senate/Economics/TLABNewsMedia/Public_Hearings.

The global trends affecting publishers started well before Google existed. While the rise of the internet has permitted more tailored and effective advertising and new services that help both consumers and SMBs, the facts show that Google was not a cause of cost-saving actions by Australian newsrooms.² To the contrary, Google both paid a majority of the display advertising revenue we received to publishers, and delivered significant traffic to publishers, helping them maintain and expand their digital operations.

An investigation of Australian media industry economics by analysts at AlphaBeta found that between 2002 and 2018, newspaper revenues fell from \$4.4 billion to \$3.0 billion. However, **92% of that decline** was due to the loss of classified ads, which a prominent publisher once described as the ‘rivers of gold’ that cross-subsidised Australian newspaper journalism. Classifieds contributed \$1.5 billion of newspaper revenues in 2002, but just \$0.2 billion by 2018.

Yet total classified revenues grew from \$1.6 billion to \$1.9 billion between 2002 and 2018. Much of that revenue flowed to specialist online services: real estate listings sites such as Domain and realestate.com.au; online job boards including Seek; automotive classifieds such as Carsales, and marketplaces like eBay and Gumtree.

And many of the largest classified sites are actually owned or controlled by Australian media conglomerates. For example, realestate.com.au (#1 at 31% classified ad share) is owned by News Corp and domain.com.au (#4 at 9% classified ad share) is owned by Nine Network.

Google’s financial success comes largely as a result of its strong performance in advertising associated with search and the overall growth in the advertising market - particularly intent-driven queries in high-value areas such as insurance, travel and healthcare that were not primary sources of newspaper advertising. Between 2002 and 2018 Australian advertising revenues increased from \$8.9 billion to \$16.6 billion, of which \$3.6 billion was created by the growth of online search advertising. This growth is in large part attributable to the accessibility of online search engines for small businesses, which otherwise could not be advertising effectively, and the removal of historical barriers to entry in advertising. Very little of this revenue previously flowed to newspapers.

In fact, news media businesses actually increased their print and digital display advertising revenue during this time by about \$100 million. Print advertising revenue shrank from \$1.6-1.2 billion during this period, but that decline was offset by a growth in digital advertising revenue from effectively zero to \$500 million.

So, a large portion of the classified revenue that previously funded journalism at news businesses still flows to the same media business owners, but no longer subsidises journalism in the way that it used to. This change has not been caused by Google.

Google does not maintain, track, or analyse metrics directly responsive to the Senate’s question in the ordinary course of business, because this type of organisation of granular information isn’t relevant to our business operations. Google has been unable to identify relevant data and conduct

² Alphabeta, Australian Media Landscape Trends, September 2020. Available at <https://alphabeta.com/wp-content/uploads/2020/09/australian-media-landscape-report.pdf>. Nic Hopkins, Google Australia, “De-classified: What really happened to newspapers”, 4 September 2020. Available at <https://blog.google/around-the-globe/google-asia/australia/de-classified-what-really-happened-newspapers/>. Richard Gingras, Google, “Setting the record straight on news”, 26 June 2020. Available at <https://blog.google/outreach-initiatives/google-news-initiative/setting-record-straight-news/>.

and verify a novel analysis in the time available, given the Senate's deadline for Google's response.

The analysis would also likely be misleading, as just because a link appears on a web page doesn't mean that the user or Google has "derived benefit" from it. In fact, only a small percentage of queries are "news-seeking", and typically those queries generate little revenue (because advertisers prefer to advertise on queries with commercial intent). Google does often drive traffic to newspapers as a result of queries that weren't seeking news, but attracted the attention of a reader, resulting in a benefit to the newspaper (a monetizable reader) that it would not have otherwise enjoyed. Research demonstrates that there are typically many links on each page of search results that a user does not view, let alone click on. Throughout the history of the internet and online search engines, the display of a link has been seen as a benefit to the publisher — in fact, there is an entire industry of "search engine optimization" (or SEO) services specifically designed to maximize the likelihood that search engine will show a link to a publisher's story. The more times the publisher's links are shown to the user, the more clicks the publisher gets, even if the rate is less than 100%. If we showed users only those results we already knew they would click on, we would be limited to responding to queries like [facebook] with a link to www.facebook.com.

Moreover, publishers are not interested only in clicks. What we have heard repeatedly - and one of the key insights that led to the development of News Showcase - is that publishers want to build brand awareness with users, in order to create the kinds of relationships that lead to long-term engagement and subscriptions. When a publisher's articles rank highly in search results, with the publisher's name and logo, over time that creates the opportunity for the brand to establish itself as a familiar and trustworthy source of information.

- 4. Google (and Facebook) have directly contributed to a significant reduction in the commercial viability of the Australian regional media landscape through the decimation of advertising revenues to well below sustainable levels. This has reduced the quality, coverage, and locality of news services for people outside the metropolitan centres as wholesale syndication has become a financial necessity and local newsrooms lost. As a chief beneficiary of the revenues these news businesses have lost, do you not have a moral obligation to ensure the continued survival of rural/regional journalism which your business model has so severely affected?**

We respectfully do not agree with the premises of this question for the reasons outlined in our prior answer.

We do agree on the importance of high-quality public interest journalism. That is why we have been willing to pay to help support it. But the mechanism by which we pay matters. Instead of requiring payment for linking to websites — changing the fundamental principle that makes Google Search and the internet work — we have proposed a model where Google could pay Australian news businesses through Google News Showcase: our AU\$1.38 billion (US\$1 billion) commitment to partner with publishers around the world on a new way of presenting and promoting news online. We have already reached commercial agreements with 7 publishers in Australia, covering 25 regional and digital titles including *The Wagga Daily Advertiser*, *Canberra Times*, *Newcastle Herald* and *Illawarra Mercury*. We have [launched Google News Showcase](#) in Australia and have been paying these publishers 25% of their monthly amount payable under their Showcase deals since signing, as per our obligations under our News Showcase contracts.

We have outlined Google's contributions to Australia and the Australian economy in our submission of 21 January 2021.

In order to achieve a workable Code, we have proposed reasonable amendments to allow Google to pay publishers for value through commercial agreements, without breaking Google Search.

5. What percentage of the overall advertising market in Australia does Google hold? What percentage of the digital advertising market?

Google faces significant competition in advertising, from many sources including thousands of search, travel, e-commerce, and publisher sites along with other forms of online and offline advertising. Advertisers allocate their advertising budgets amongst a wide spectrum of outlets such as TV, radio, outdoor, print media and digital. Google must compete with players from all of these formats for its share of the overall advertising budget.³

Advertisers and ad agencies are sophisticated, and allocate spend based on return-on-investment across a variety of ad providers, including but not limited to search, typically on the basis of advanced media mix optimisation models.

A recent report by AlphaBeta prepared for Google provides data for 2018 and indicates that Google's share of the advertising market in Australia is in the vicinity of 22%.⁴

That report also indicates that Google's share of digital advertising (i.e., online search, display and classified) revenue in Australia is in the vicinity of 43%.

Yours faithfully,

Lucinda Longcroft

³ Matt Schruers, Infographic: How Ad Dollars Are Spent, Disruptive Competition Project (16 January 2018), ("Consider today's reality: advertisers compete to reach the same consumers across multiple mediums. Services that deliver ads digitally to an individual's mobile device don't just compete against one another; they compete directly with television, print and outdoor options (e.g., highway billboards, subway stations, Times Square installations)."). <http://www.project-disco.org/competition/011618-how-ad-dollars-are-spent/#.XEtwmdJKiUk>. According to this source, only 41% of a typical company's ad spend is spent on digital advertising.

⁴ AlphaBeta, *Australian Media Landscape Trends* (September 2020). Available at: <https://alphabeta.com/wp-content/uploads/2020/09/australian-media-landscape-report.pdf>. See also Google Australia Pty Ltd statutory financial statements for 2018. Available at: <https://connectonline.asic.gov.au/>.