STATE FINANCIAL SUPPORT FOR PRINT MEDIA: COUNCIL OF EUROPE STANDARDS AND EUROPEAN PRACTICES

Expert report
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INTRODUCTION

In the past decade or so, media funding models have undergone significant changes. In the pre-internet era, in countries with a free market economy, the dominant financing model of the media was anchored in a combination of commercial revenues and public funding. Commercial income consisted primarily of revenues generated through sales of advertising or sponsorships. Public funding came in three main forms: funding raised through taxes and levies (imposed by the state on households or companies), government subsidies (state budget allocations to media outlets) and state advertising (contracts for services between state authorities and media companies).

Generally, before the digital revolution, private broadcast media in Europe were funded mostly through advertising, rarely receiving public funding. In contrast, public service broadcasters were financed chiefly through public funding, the most common form of public finances being state subsidies or revenues from license fee, a form of taxation imposed on all households with access to public media. The print media sector traditionally relied on sales of copies (that generated between 20% and 40% of the total annual income of an average newspaper, depending on the country, newspaper and period) and advertising sales. On top of that, both print media and broadcasters benefited from funding disbursed by governments in the form of state advertising: funds from the state budget awarded to media outlets as payment for social or public service campaigns, or for advertising of services offered by state-run media companies. In some countries, various other forms of financial support supplemented the revenues of print media outlets. They included tax exemptions or state funds purposely established to support economically vulnerable publishers.

Although many media outlets continue to rely on most of these sources of revenue, the digital revolution has fundamentally changed the media business models.

Privately owned broadcast media continue to rely on advertising revenues to cover the bulk of their expenditure. However, they have been facing tough competition from digital platforms, including independent news portals, video-sharing platforms and providers of streaming services such as YouTube, Netflix and others. As a result, in recent years many private broadcasters have been investing heavily, although many of them belatedly, in new, more lucrative forms of content distribution.

On the other hand, the print media sector has been badly disrupted by the digital transformation. It has incurred massive losses because of the decline both in sale of copies (as readers have migrated to the internet) and advertising revenues (as a sheer amount of newly established digital players, including powerful tech companies such as Facebook or Google, have been increasingly eating into the overall advertising pie). To counter these losses, an increasing number of print media outlets began, many of them belatedly, to move their operations online as a way to tap into the income stream generated in the digital market, primarily through web advertising and digital subscriptions. Large media outlets, such as newspapers with a large readership and the potential to attract healthy ad revenues and sell digital subscriptions, have been successful in offsetting, thanks to their digital expansion, part of or all the losses incurred from print.
There are also examples of much smaller media outlets that managed to reach financial sustainability through a subscription-based model. Dennik N, for example, a news portal launched in 2015 by a group of Slovak journalists, reached sustainability within a year or so with nearly 23,000 subscribers\(^1\). By 2020, the portal further grew to 65,000 subscribers and an annual profit of €1.2m\(^2\).

The internet not only disrupted the media field, but also created more revenue opportunities for media, including crowdfunding (where citizens donate money to media outlets to help them run various editorial projects) or sales of memberships, among others.

Nevertheless, in spite of some successes, the media sector in Europe is still reeling from waves of disruption provoked by technology as well as a series of economic crises that shook the world during the past 15 years, including the 2007 financial meltdown and the ongoing crisis triggered by the Covid-19 pandemic.

Digital revenues in the European media sector have experienced a healthy growth, yet that was not enough to offset the losses from print media operations. Between 2014 and 2017, the European print press saw its turnover decrease by a compound annual growth rate (CAGR) of 0.33 % to €73.3bn\(^3\).

These shifts in funding models have boosted the importance of the non-commercial sources of financing in the overall media funding mix.

Some of these sources of funds have a baneful effect on the editorial independence and integrity of media outlets. For example, informal payments are common in many countries, according to data from the Center for Media, Data & Society (CMDS). These payments are financial contributions usually made by political players, directly or via corporations, to media outlets or journalists in an attempt to gain their favor and ultimately influence editorial coverage\(^4\).

There are also sources of non-commercial funding that have a generally positive impact on the media. For example, grants from philanthropic organisations such as private foundations or institutional donors (state-funded development agencies) have played a key role in the past decade and more in helping independent media outlets to survive financially and focus on their journalism.

In this rapidly changing environment, the role of public funding has also significantly expanded as a growing number of media companies became increasingly reliant on government funds.

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The impact of public funding on the media can be both harmful and beneficial. Public media outlets financed through direct state subsidies, for example, tend to be more government-controlled than those financed by revenues from indirect public funding (such as license fee or other forms of taxation). State advertising also tends to badly affect editorial independence. Experience from most of the countries where this form of funding is used shows that, disbursed without clear and transparent criteria, state advertising becomes a tool in the government’s hands used to control the editorial coverage of media outlets that receive such funding.

For newspaper publishers, the shifts in state financial support are even more important because, in recent years, these companies have become deeply vulnerable to economic shocks, struggling to identify a revenue model that can both ensure their economic viability and protect their editorial autonomy.

The aim of this paper is to present the latest trends in state financial support for the print media by analysing the main existing models of funding. Featuring several case studies from Council of Europe countries, the paper will highlight the principal strengths and weaknesses of each model and put forward a set of recommendations with regard to support of the local print media in Ukraine.

**SUMMARY**

As the local print media in Ukraine has been making a transition from a municipality-controlled and funded sector to a desired independent and financially autonomous media model, it is apparent that the chance for survival and later growth of these media outlets is one or another form of public support.

Following years of editorial control by local governments, the lack of a business model as a result of the changes in technology and media that affected the local media markets and a transitional period towards a privately owned model that was marked by delays in the application of the law or flawed implementation of the legal provisions that guided the reform, the local print media sector in Ukraine is in urgent need of support.

The design of a system of funding for the local print media should be based on a careful examination of the form of public funding models that are most suitable for Ukraine at the moment.

In the first place, the creation of a public fund mechanism for the support of local media should be fully in line with a set of key Council of Europe principles put forward in a series of standard-setting resolutions and recommendations including fairness, transparency, adequacy as well as Council of Europe funding-related recommendations for subsidies for media outlets focused on minority languages. The chosen mechanism should also be built in such a way that it will prevent political interference and market distortion.

Of the four main types of funding models for local print media that exist in Europe, the two most appropriate for Ukraine are the project-based support mechanism and the direct state subsidy fund. The former ensures more independence, preventing
the misuse of public funds by authorities to gain control over the editorial agenda of the media. Yet, it may not be sufficient to secure the financial sustainability of the media and doesn’t provide media outlets the predictability and stability that are so much in need at this moment in their reform process. Hence, a system of state subsidies, in the form of a media fund that would disburse finances to local print media across the board would probably be the most pragmatic solution for the moment.

Some hybrid forms of state intervention, which could include a combination of the state subsidy fund and the project-based model or addition of tax advantages for media outlets could also be envisioned.

As experience in other countries described in this report shows, whatever form of public funding assistance is created and implemented, it is vital that the bodies or structures through which funding is disbursed by the state have governance mechanisms that ensure their independence. That can be achieved only by appointing independent experts and professionals in these bodies instead of politically affiliated persons or government representatives.

Of the most common forms of public funding for the media in Europe, the least appropriate for Ukraine is state advertising. Awarded by state bodies or state-owned companies, this form of financing is the most problematic as it is habitually misused by authorities to influence the editorial agenda of the media outlets.

**RELEVANT COUNCIL OF EUROPE AND OTHER INTERNATIONAL STANDARDS**

Council of Europe has put forward a series of recommendations regarding the best practices that need to be implemented in financing media outlets.

In a 2018 Recommendation on media pluralism and transparency of media ownership, it called on states to ensure “stable, sustainable, transparent and adequate funding for public service media on a multiyear basis in order to guarantee their independence from governmental, political and market pressures.” In the same recommendation, the Council of Europe also called on states to encourage and support “the establishment and functioning of minority, regional, local and not-for-profit community media, including by providing financial mechanisms to foster their development.” The same recommendation also highlights the importance of transparency around the sources of financing of media outlets, calling on states to adopt laws and regulations that require the disclosure of information on the sources of state funding in the media, including advertising, grants and loans. States are also encouraged by the Council of Europe to promote the disclosure by media outlets of financial relations with other media, advertising agencies or political parties that “may have an influence on editorial independence.”

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5 Recommendation CM/Rec (2018)1 of the Committee of Ministers to member States on media pluralism and transparency of media ownership (Adopted by the Committee of Ministers on 7 March 2018 at the 1309th meeting of the Ministers’ Deputies), available online at https://search.coe.int/cm/Pages/result_details.aspx?ObjectId=0900001680790e13 (accessed on 10 June 2021).

6 Recommendation CM/Rec (2018)1 of the Committee of Ministers to member States on media pluralism and transparency of media ownership, cit.
In the Recommendation CM/Rec (2017x)xx, Council of Europe sets criteria for member states aimed at ensuring high levels of transparency around sources of financing of media outlets. The Council of Europe encourages member states to adopt and implement laws that require disclosure of information about “the sources of income, including from State and other funding mechanisms and (State) advertising, of media outlets” as well as “on structural relationships or contractual cooperation with other media or advertising companies, political parties or the State, including in respect of State advertising.”

As a response to an increasingly competitive media environment, the Council of Europe Parliamentary Assembly Recommendation 1878 (2009) highlights the importance of public service media as a valuable source of unbiased information, suggesting the use of a combination of different forms of funding to finance public service media. The same document states that the funding models for public service media must “meet the public service requirement of accessibility and affordability for the public at large.”

Another document, Resolution 1636 (2008) of the Parliamentary Assembly of the Council of Europe states that member countries should take concrete positive action to promote media pluralism, stressing that state support must be fair. According to the resolution, “media freedom in a democracy requires fair and neutral state subsidies to the media” and that an individual state media outlet that is subsidized in a preferential way “could be abused for political influence.”

The Recommendation No. R (99) of the Committee of Ministers also envisages, among support measures for the media, “the possibility of introducing, with a view to enhancing media pluralism and diversity, direct or indirect financial support schemes for both the print and broadcast media, in particular at the regional and local levels.” It adds that “subsidies for media entities printing or broadcasting in a minority language could also be considered.”

By ratifying the European Charter for Regional or Minority Languages, Ukraine also committed to encourage the creation or the maintenance of at least one newspaper in the regional or minority languages as well as to “cover the additional costs of those media which use regional or minority languages, wherever the law provides for financial assistance in general for the media; or to apply existing measures for financial assistance also to audiovisual productions in the regional or minority languages.”

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10 Recommendation No. R (99) 1 of the Committee of Ministers to member states on measures to promote media pluralism, Adopted by the Committee of Ministers on 19 January 1999, available online at https://rm.coe.int/16804fa377 (accessed on 12 July 2021).

There is no specific EU-level legislation that regulates state financial support for the newspaper sector. However, such support is governed by the European Commission through the EU legislation on state aid. The legislation is aimed at ensuring that state aid and subsidies are governed by clear and fair rules. The Commission is set to intervene in cases where state aid is found to distort competition by giving unfair economic advantages to some institutions and businesses over others. Nevertheless, the Commission has rarely intervened in cases of state aid for print media in the past. According to the database of the Commission’s Directorate-General for Competition, a total of eight state aid cases in the print media industry were recorded between 2000 and 2021. They included:

- two cases of state aid to cultural periodicals in Spain;
- two cases in Denmark, one regarding funding for innovation to print media and a second for financial aid to local newspapers;
- two cases in Greece concerning state aid for the restructuring process of various print media outlets;
- one case in each Portugal and Sweden related to state financial support to a local newspaper and to a group of newspapers, respectively.

According to the Commission, state aid can be compatible with the single market rules if it pursues a goal of common interest, is proportionate and does not offer its recipients an undue advantage against their competitors. In the Sweden case, for example, the Commission argued that the Swedish government did not meet the proportionality test. In plain language, the Commission argued that Sweden doled out excessive amounts of financing to large publishers without taking into consideration the proportion of the offered aid compared to, for example, the size of the newspapers’ expenditure. It asked Sweden to intervene to rectify the situation.

Other than that, most of the international standards regarding public funding for media focus on transparency and fairness. The 2011 General Comment of the UN Human Rights Committee stresses that the criteria in allocation the funding from license fee, the main source of revenue for some public service broadcasters in Europe, should be “reasonable and objective, clear, transparent, non-discriminatory.”

### MAIN FORMS OF STATE FINANCIAL SUPPORT FOR PRINT MEDIA

The amount of state support to print media in Europe is much lower than the support given by governments to broadcast media (especially to public media companies).

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12 For more about state aid cases, see the DG Competition database at https://ec.europa.eu/competition/elojade/isef/index.cfm?clear=1&policy_area_id=3 (accessed on 10 August 2021).
There are four main forms of financial support for print media:

- Direct subsidies (a form of direct state support awarded to media outlets upon approval by the government);
- Tax advantages (reductions to taxes or full tax exemptions for the print media sector, usually following a change in legislation);
- State advertising (awarding of funding by government bodies in the form of advertising contracts with media outlets for purchase of specific services, i.e. advertisements for state-owned media companies or payments for social campaigns);
- Project-based support schemes (funding that covers specific needs of print media outlets, i.e. training and skills development, upgrade of technology or facilities, or restructuring processes).

**Direct subsidies**

Direct subsidies in the print media sector are relatively rare in Europe. **Austria** has one of the most advanced and functioning state subsidy systems for print media that ensures that government funding goes to all the newspapers in the country, the sole example of a blanket policy of universal government subsidization of print media in Europe.

The system is based on the Press Subsidies Act adopted back in 2004. The subsidy for the Austrian press sector totalled €8.9m in 2019, according to the latest data available. The Austrian Communications Authority (KommAustria), the country’s media regulator, is in charge of disbursing the state subsidies to the print media companies.

The subsidies for Austrian press are awarded in three categories:

- **General subsidies**

  These funds are distributed equally to all the daily newspapers that are eligible for the scheme. A publisher that owns more than one newspaper in the country gets 20% less for each of its newspapers. In the case of weeklies, the subsidy is calculated according to the number of sold subscriptions and issues, the magazines with a slimmer subscription base receiving larger subsidies. Under this budget line, a total of 11 dailies and 37 weeklies received state funding in 2019.

- **Special diversity subsidies**

  This fund is used to finance daily newspapers that are not dominant (i.e., that have lower readership and ad sales revenues). In 2019, the fund was distributed to four dailies.

- **Quality media subsidies**

  These subsidies are allocated to newspapers that promote quality. More specifically,
the funds are used to cover various activities run by newspapers to promote quality. They include financing of training activities for journalists, costs incurred by hiring foreign correspondents or the cost of offering newspapers free of charge to various institutions (i.e., schools). In total, 58 newspapers received funding for these purposes in 2019\textsuperscript{15}.

Systems of state subsidies for print media are also in place in several Nordic countries. \textbf{Finland} used to have a solid system of state subsidies for print media. Funds from the state budget were used by the Finnish government to assist the financially weak party press, a measure whose goal was to promote political pluralism in the Finnish society. The scheme was found to violate the EU State Aid regulations and was thus canned in 2008\textsuperscript{16}. Finland has since continued to use state subsidies to fund newspapers published in national minority languages (such as Sami and Romani). These subsidies are distributed by the Ministry of Transport and Communications\textsuperscript{17}.

\textbf{Sweden} has had for decades a policy aimed at supporting print media, especially in areas where news media are not available because they can’t economically survive. Most news media in Sweden receive government subsidies to maintain their viability. Additional subsidies are given to publications whose original content accounts for at least 55% of their total output and that have a minimum of 1,500 consumers of news in Sweden\textsuperscript{18}. In 2019, the state subsidies for print titles in Sweden increased by 10%, the funds aimed at covering the publishers’ distribution costs jumped by 50% and grants up to SEK 1m (nearly €100,000) were made available for publications in so-called “news deserts”, areas with little to no presence of local news providers. The body in charge of distributing press subsidies in Sweden is the Press and Broadcasting Agency, which operates under the Ministry of Culture.

The agency consists of two decision-making bodies, the Swedish Broadcasting Commission, in charge of investigating whether broadcast content complies with regulations following complaints lodged by the public, and the Media Support Board, which handles requests for subsidies submitted by media companies (mainly print publishers)\textsuperscript{19}.

The Media Support Board consists of a maximum of 14 members including a chair and vice-chair. They are all appointed by the government, yet to ensure the body’s independence, part of the board members must come from the industry and academia while the chair and vice-chair must have experience as judges. Seven of the 11 regular members of the board in 2021 were independent experts (professors and people with expertise in journalism, design, publishing and law) and the other

\textsuperscript{15} Paul Clemens Murschetz, “Government support for news media post-Covid-19…”, \textit{cit.}
\textsuperscript{16} For unknown reasons, the case is not recorded in the EC Competition DG Database, according to our latest search (15 August 2021).
\textsuperscript{17} Media Landscapes: Finland, European Journalism Centre (EJC), available online at https://medialandscapes.org/country/finland (accessed on 18 June 2021).
\textsuperscript{19} See more about the Commission at its website https://www.mprr.se (accessed on 2 August 2021).
four were former MPs.

In 2021, the Swedish government announced that it increased its subsidy budget for the media to SEK 100m (almost €9.9m). The funds are used, among other things, to enable the distribution of printed newspapers in areas where distribution of print publications is difficult and to promote journalism across the country.

**France** also has a system of direct subsidies for the press, one of the oldest subsidy programmes for media in Europe, established in the post-war years. In 2017, the French government approved a budget of €262m for direct press subsidies, a slight increase compared to the previous year, according to the latest data available\(^{20}\).

The French system of state subsidies for non-electronic media consists of the following funds:

- **Press subsidies** (nearly 50% of the total scheme), consisting of aid for distribution of newspapers (especially costs related to home delivery services), aid for pluralism (covering costs of national and regional publications that have little advertising revenues), and aid for modernization of newsrooms in print media outlets;
- A small amount is devoted entirely to support for **local media**;
- Allowances for France’s national **news agency** (Agence France-Presse, AFP), mostly to enable the agency to fulfil its public service mission.

**Tax privileges**

Most countries in Europe have systems of reduced taxation aimed at financially supporting print media publishers. Because of the pandemic, which economically affected news media across the globe, a number of EU countries lowered the VAT for both the press and digital media in the past year. But many of them had such systems of tax privileges for print media in place before.

Today, the special VAT rates for print media range between nil (Belgium, Denmark, Norway or the UK) and 12% in Latvia.

To qualify for a lower VAT, various rules are imposed on newspaper publishers in different countries.

In **France**, for example, where a VAT rate of 2.1% is imposed on printed newspapers and magazines, a significant reduction from the standard 20% VAT, publications that want to benefit from the reduced taxation must be officially recognised by the Commission Paritaire des Publications et Agences de Presse (CPPAP), a state-run body whose mission is to advise the government on the economic regulation of the print media. The CPPAP is chaired by a state official and managed by a group of industry representatives (mostly newspaper publishers).

In other countries, newspapers have to comply with some other rules to qualify for

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\(^{20}\)“Supporting the media: State measures around the world”, WAN-IFRA, 2017.
the lower VAT. In Estonia and Finland, for example, only newspapers that have been sold on subscription for a certain period of time are entitled to the reduced VAT. In Poland, newspapers that sell advertising for at least 67% of their print space are excluded from the tax reduction privileges. In Spain, only newspapers that get less than 75% of their revenue from advertising are entitled to the reduced VAT rates.

**VAT rates for print publishers in Europe**

<table>
<thead>
<tr>
<th>Country</th>
<th>Standard VAT rate</th>
<th>Special rate for newspapers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Belgium</td>
<td>21%</td>
<td>0%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>20%</td>
<td>-</td>
</tr>
<tr>
<td>Croatia</td>
<td>25%</td>
<td>5%</td>
</tr>
<tr>
<td>Cyprus</td>
<td>19%</td>
<td>5%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>21%</td>
<td>10%</td>
</tr>
<tr>
<td>Denmark</td>
<td>25%</td>
<td>0%</td>
</tr>
<tr>
<td>Estonia</td>
<td>20%</td>
<td>9%</td>
</tr>
<tr>
<td>Finland</td>
<td>24%</td>
<td>10%</td>
</tr>
<tr>
<td>France</td>
<td>20%</td>
<td>2,1%</td>
</tr>
<tr>
<td>Germany</td>
<td>16%</td>
<td>7%</td>
</tr>
<tr>
<td>Greece</td>
<td>24%</td>
<td>6%</td>
</tr>
<tr>
<td>Hungary</td>
<td>27%</td>
<td>5%</td>
</tr>
<tr>
<td>Iceland</td>
<td>24%</td>
<td>11%</td>
</tr>
<tr>
<td>Ireland</td>
<td>23%</td>
<td>9%</td>
</tr>
<tr>
<td>Italy</td>
<td>22%</td>
<td>4%</td>
</tr>
<tr>
<td>Latvia</td>
<td>21%</td>
<td>12%</td>
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<td>Lithuania</td>
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<td>9%</td>
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<tr>
<td>Luxembourg</td>
<td>17%</td>
<td>3%</td>
</tr>
<tr>
<td>Malta</td>
<td>18%</td>
<td>5%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>21%</td>
<td>9%</td>
</tr>
<tr>
<td>Norway</td>
<td>25%</td>
<td>0%</td>
</tr>
<tr>
<td>Poland</td>
<td>23%</td>
<td>8%</td>
</tr>
<tr>
<td>Portugal</td>
<td>23%</td>
<td>6%</td>
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<tr>
<td>Romania</td>
<td>19%</td>
<td>5%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>20%</td>
<td>-</td>
</tr>
<tr>
<td>Slovenia</td>
<td>22%</td>
<td>9,5%</td>
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<tr>
<td>Spain</td>
<td>21%</td>
<td>4%</td>
</tr>
<tr>
<td>Sweden</td>
<td>25%</td>
<td>6%</td>
</tr>
<tr>
<td>UK</td>
<td>20%</td>
<td>0%</td>
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</tbody>
</table>

Source: CMDS Marius Dragomir, based on data from WAN-IFRA, and data collected through monitoring of fiscal code changes in Europe (CMDS, 2017-2021).
**State advertising support**

Many countries in Europe and elsewhere have state advertising mechanisms in place. This form of public spending is different from the direct state subsidy funding in that it is contractual. Directly or through state bodies specially designated to contract advertising in the media, the government purchases space in the media (both broadcasting groups and print media outlets) to either run public or social campaigns or to promote products or services offered by state-owned companies.

Some countries spend substantial amounts of money on state advertising. **In Hungary**, in 2018, the state advertising totalled €300m, which represented a third of the entire Hungarian ad market. The following year, the state increased the advertising budget to €450m\(^{21}\).

Television stations are usually favoured by governments in the process of distribution of state advertising funds thanks mostly to their wider coverage and popularity. **In Georgia**, for example, the government spent some US$ 2.7m in state advertising, the largest part of it, some 56%, going to nationwide television stations\(^{22}\).

State advertising is an important source of funding for many media outlets, especially for those that are struggling to survive financially. This source of funding is also problematic as it is often misused by authorities to influence the editorial coverage of the media outlets. In 21 out of 30 countries in Europe monitored by the Centre for Media Pluralism and Media Freedom, an EU-financed research outfit, allocation of state advertising carries high risks because the process lacks a framework that would ensure distribution of state funds based on fair and transparent rules\(^{23}\). *(For an assessment of the risks and opportunities of all the forms of state funding support, see State funding support: strengths and weaknesses below)*

**Project-based funding**

Some countries also have systems of financial support for print media where funding is awarded on a project basis.

**In the Netherlands**, for example, there is a system of financial support for the press sector that aims at improving the quality and viability of the media. Unlike direct state subsidies, this system is linked to specific projects, the funding being disbursed to media outlets that need it to cover special costs or make investments to improve their operations. The system thus works as a grant-making fund whose mission is to finance media outlets that want to improve their journalism or their operations.

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The state financing in the Dutch support system is disbursed through two funds:

- **Dutch Journalism Fund (Stimuleringsfonds voor de Journalistiek or SVDJ)**

This fund, a total of €6m in 2019, is spent on assisting media outlets in experimenting with new platforms or business models to improve their economic viability or quality of their output. The funds are disbursed through four key schemes as following:

- **Accelerator Scheme**: financial support for media startups or established media companies that want to test a new platform or solution;
- **Accelerator Light**: a programme assisting journalists to fund their innovation-focused projects;
- **Booster**: a scheme aimed at supporting digital or print media that are published at least monthly to help them do their work;
- **Research**: funding for research whose results are believed to improve the Dutch journalism sector.

The SVDJ operates as an independent administrative body (a statute known in the Netherlands as ZBO), with a budget from the Ministry of Education, Culture and Science. The main governing body in charge of funding-related decisions at SVDJ is a Board whose members are appointed by the ministry. The appointments are made based on the recommendation of the SVDJ’s staff to ensure the SVDJ’s independence. The staff at the SVDJ consists of a bureau, which supports the Board in its daily activity. To do its work, the bureau collaborates with externally commissioned freelance journalists.

- **Special Journalistic Projects Fund (Fonds BJP)**

This fund, worth €3.5m in 2019, is aimed at promoting high-quality, diverse and independent journalism. The financing is normally used to support newspapers or magazines that are economically threatened or projects that cover issues related to media and journalism. As local print media are the most economically vulnerable in the Netherlands, the largest part of the fund (at least three quarters) is usually channeled to local media projects.

The Fonds BJP has two main programmes, an Investigative Journalism Scheme and a Special Reporting Scheme, which together form the Journalism Project Grants, the foundation’s main support pillar. The Fonds BJP also runs a Young Talent Scheme aimed at funding the work experience of young journalists, and an Expertise Scholarship, a programme that funds mostly freelance journalists who want to invest in improving their knowledge and research skills.

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24 See more about the SVDJ on its website at [https://www.svdj.nl](https://www.svdj.nl) (accessed on 2 August 2021).

Fonds BJP was established in 1990 as an independent foundation. It operates with funding from the Ministry of Education, Culture and Science. Lira foundation, a copyright organisation working on behalf of writers, freelance journalists and translators, also contributes a sum to the Fonds BJP’s budget. The main governance body at Fonds BJP is its Supervisory Board, which consists of six members. To ensure the Fonds BJP’s independence, the members of the board are appointed by the ministry based on a set of strict professional criteria that require specific experience. The board members are not paid and they can’t access in any way funding from the Fonds BJP. In making decisions about award of funding in two of the Fonds BJP’s main programmes, the fund’s staff consult with a committee of advisors, which consists of 14 media experts without political connections or affiliations.

STATE FUNDING SUPPORT: STRENGTHS AND WEAKNESSES

Direct subsidies: building financial resilience, yet prone to abuse

Direct subsidies can be a key instrument of support for print media especially if they are allocated through a well-functioning system that is designed to cover a longer period of time. In countries with such a system, print media that benefited from the state subsidies are known to have built resilience over time and protection against editorial interference.

In Austria, for example, the state subsidy mechanism helped consolidate the country’s press sector, bolstering the financial sustainability of many print media companies. That is extremely important for Austrian publishers, which have to compete for readers with powerful German news outlets. The government subsidy scheme for print media was first introduced in Austria in 1975. Its goal at the time was to compensate publishers for the then newly introduced VAT. A selective subsidy scheme for print media was launched in Austria ten years later.

Yet, the direct subsidy schemes are also faced with criticism.

First, state subsidies allocated directly by the government to media outlets risk distorting the level of competition in the media market especially when the state awards sizable subsidies to print media publishers. State subsidies for print media are usually criticized as they tend to favour the larger players on the print media market. Highly popular tabloid newspapers in Austria, for example, including Kronen Zeitung and Kurier as well as some of the leading players on the regional print media markets such as Der Standard or Die Presse regularly receive substantial state subsidies.

These shortcomings of the subsidy system have prompted the Austrian government in recent years to look for options to overhaul the scheme. Hence,

in the coming years, the criteria for accessing state subsidies and their size are expected to be altered.

Second, experience shows that the state subsidy support model for print media can be easily abused by authorities to control editorial coverage of the media. Especially in countries without a long tradition of free press and without clear rules to ensure a fair and transparent allocation of government money, the state subsidy scheme turns into an instrument of control that can be used to reward media outlets aligned with the government interests or controlled by state bodies, state-run companies or businesses supportive of the government.

The situation gets even worse when state subsidies are awarded to print media in unofficial ways. In countries such as Bulgaria or Greece, the government has in the past routinely channeled public funding to print media outlets in informal ways in their attempt to gain favourable coverage\(^{27}\).

In Russia as well, the state financial support for print media represents a significant part of the total revenue of these outlets. Without this source of funding, no daily newspaper, especially those with regional coverage, would be able to cover its expenses. However, as the state subsidies go to print media that are controlled by the state, have an affiliation with a state body or are simply supportive of federal and regional authorities, the Russian system of state subsidies for print media hurts rather than helps media pluralism in the country\(^{28}\).

### Direct subsidies for print media: pros and cons

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tbody>
<tr>
<td>Access to large amounts of funding that can have a positive impact on the long-term financial performance of the media</td>
<td>Tendency to distort the market and to favour large players</td>
<td>Potential to help strengthen the viability of the print media sector</td>
<td>It can be misused by authorities to achieve editorial control of media outlets</td>
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<td>Less bureaucratic model as funding is approved once a year as part of the larger government budget</td>
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28 Paul Clemens Murschetz, Josef Trappel, “State Aid”, *cit.*
**Tax privileges: lower fiscal burden**

Fiscal measures such as lowering taxes or full elimination of taxation for print media products (newspapers and magazines, printing or distribution costs) generally have a positive impact on the financial viability of the print media.

First, by lowering taxes, publishers are relieved of a significant part of the fiscal burden and their product is becoming more accessible to readers, helping print media to improve their sales.

Second, as with other companies that benefit from tax privileges, this form of indirect financial support has long-term effects for print media companies, too, feeding into their financial sustainability.

Third, unlike other forms of state support, because they necessitate legal changes (usually changes in the national fiscal code), tax privileges provide a certain degree of predictability. Usually, such changes take some time to be approved and implemented, from the moment authorities announce plans to change tax rules to the actual adoption (by lawmakers) of the required changes. This transitional period allows media outlets to plan and adjust to upcoming changes in the tax regime.

Fiscal privileges for the media also have their own weaknesses. The key one is that they don’t provide actual funding that can be used to cover costs or invest in improving the quality of the content or the sustainability of the outlet, which is usually the main need of media outlets.

**Tax privileges for print media: pros and cons**

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<tr>
<td>Positive impact on the financial situation of media outlets on a long-term Predictability, as such schemes are rolled out over long periods of time</td>
<td>Insufficient impact on the financial sustainability</td>
<td>Considerable reduction of the expenses of small and mid-size print media</td>
<td>It can be used to discriminate between various media outlets (depending on the conditions that accompany such systems)</td>
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**State advertising: high potential of government control**

State advertising has become a major source of funding for the media, both broadcasting groups and print media publishers, across Europe.

State advertising can be a boon for news media outlets especially today, a time when they struggle to achieve financial sustainability. In theory, thanks to its audience-centric logic, advertising is expected to insulate media outlets from various forms
of pressure. However, to achieve that goal, allocation of state advertising must be guided by a set of transparent and equitable criteria.

Unfortunately, there is no best practice of fair distribution of state advertising identified to date. Very few governments publish data about the amounts of state advertising funding awarded to media outlets. Rarely they reveal the criteria or rules used in deciding where to place the ads (if they have such criteria at all).

In an older study, Martijn de Waal argued that, “of all the means that states have to support media, state advertising is arguably the least transparent and thus the most problematic.” The situation has remained the same to this day.

Research conducted since 2017 as part of Media Influence Matrix, a research and advocacy project run by the Center for Media, Data and Society (CMDS), found that, in the absence of clear criteria and independent oversight, state advertising becomes a tool that governments use to reward media outlets close to or uncritical of state authorities. That has a very negative impact on editorial independence.

Especially after the economic crisis of 2007-2008, which has financially crippled swathes of media companies all over the world, state advertising has become a lifeline for many independent media, especially small and mid-size outlets. Particularly in countries that have dysfunctional markets where the advertising industry is characterised by clientelism and political pressures, the government advertising machine becomes an instrument of outright editorial control.

In Hungary, the government spent a total of HUF 271bn (€742m) on state advertising between 2015 and 2018, according to data from Mertek, a Hungarian NGO, and Atlatszo, a Budapest-based investigative outlet. More than two-thirds of that amount was spent in 2017-2018, a period of intense electoral activity that led to the victory of Fidesz, the political party of the Prime Minister Viktor Orban, in the 2018 elections. The bulk of this funding was distributed to media outlets supportive of the government, which are owned by businesses close to the authorities. In Hungary, in 2018, 75% of the total state advertising budget, a total of €300m, was channeled to pro-government media outlets, both private and public.

Combined with a high level of media ownership concentration, the state advertising system in Hungary has damaged the editorial independence of the media. In 2018, a non-profit foundation, KESMA, was established as an umbrella organisation of more than 470 Hungarian media outlets, most of which are owned by businesses close to Fidesz. The owners of all these media donated their outlets to the newly created entity.

33 Marton Bede, “One Hungarian media monster to rule them all”, IPI, 12 December 2018, available online at https://ipi.media/one-hungarian-media-monster-to-rule-them-all/ (accessed on 14 June 2021).
Poland has experienced a similar pattern of state advertising. Here, state-owned companies spend their marketing budgets mostly in media outlets favoured by the government of the Law and Justice (PiS) Party that has been in power since 2015.

For example, the news weekly Gazeta Polska, known for its editorial agenda that is supportive of PiS, saw its ad inflows from state companies jump from some €10,000 in 2015 to over €2m in 2018. Another media outlet close to the government, the weekly Sieci saw a 30-fold increase in state ad revenues to more than €7m during the same period, according to data from Kantar, a media buying agency. State funding accounts for roughly 45% and 40% of the total revenues generated by Gazeta Polska and Sieci, respectively. In contrast, state ad spending in Gazeta Wyborcza, a liberal daily, critical of the government, tumbled by 97% between 2015 and 2018.

In Western Balkans, the use of state advertising to control media is also a common practice. Local media reported in 2020 about the transfer of funds between Telekom Srbija, Serbia’s state-run flagship telecom operator, and Wireless media, the publisher of Kurir, a tabloid newspaper known for its support to the ruling Serbian Progressive Party (SNS).

The Covid-19 pandemic has prompted some governments to increase public funding for media in an attempt to help media companies cope with the crisis. Some of this funding was used to pay for campaigns aimed to promote safety measures against the virus. As it is the case in some countries that have a direct subsidies model, the main beneficiaries of these Covid-19 funds seem to be the large media outlets. In Romania, for example, the government spent €40m on health-related campaigns in the media, most of which went to the largest privately owned television channels that already dominate the media market. In contrast, the local press, especially smaller independent media outlets, got almost no funds from this scheme.

In Austria, too, the distribution of state advertising spending disproportionately favours the most popular, usually tabloid, media. According to data from Medienhaus Wien, two-thirds of the ministerial advertising spending in 2018 and 2019 was swallowed by the country’s three largest tabloids (Österreich, Krone, Heute). The amount disbursed to “quality media” and regional media was much lower.

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State advertising for print media: pros and cons

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<tr>
<td>Because it usually comes in large amount, it can provide substantial funding to media outlets in need</td>
<td>Without oversight, it can be easily turned into an instrument of control</td>
<td>With rules ensuring transparency and equitable allocation, it can help many media outlets achieve sustainability</td>
<td>It can become a powerful tool of media capture</td>
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Project-based funding: less government control, more innovation

State financing in the form of grants linked to specific projects is arguably the form of state financial support that affects the least, if at all, the editorial autonomy of media outlets. Moreover, such grants have proven to achieve a significant impact, helping print media outlets to implement projects that lead to improvement of their content and distribution.

Such funding schemes are built around a set of detailed criteria that allow only certain media outlets, those most in need or with a project idea, to benefit from the funds. For example, the project-based state funding scheme for print media outlets in the Netherlands, is said to have increasingly acted “as a cornerstone and a driving force of news media innovation policy.”

Various countries have created such funding schemes as an alternative to direct subsidy schemes as they found them more effective.

In Belgium, the Flemish government ended in 1997 a financing scheme for newspapers that consisted of direct subsidies, replacing it with a funding mechanism based on specific projects. The government of the Flanders region, a Dutch-speaking area in the country’s north, has since allocated funding as part of this mechanism for state advertising campaigns, but also for journalism-related projects such as investigative journalism activities, training of journalists and support for the development of a system of self-regulation in the print media sector. As in the Netherlands, the strategy for print media support of the Flemish government is to focus on projects that have a distinct element of innovation to encourage print media publishers to find themselves ways to improve their journalistic content and business model.

On the other hand, this form of financial support also has some weaknesses. Because it is project-linked, it doesn't allow media outlets to do long-term planning. As project funding is usually awarded through an application process, publishers can't rely on this support to implement long-term plans or strategies. Moreover, as it is open to all the players in the market, this form of support tends to be limited, covering usually very small, time-bound projects.

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38 Paul Clemens Murschetz, Josef Trappel, “State Aid”, cit.
**Project-based funding for print media: pros and cons**

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<tbody>
<tr>
<td>It leaves very little space for government control</td>
<td>It doesn’t provide long-term predictability</td>
<td>It allows print media companies to experiment with various editorial or business models</td>
<td>Without simple rules and criteria, it can prevent smaller print media, which have limited resources, from applying</td>
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**CONCLUDING OBSERVATIONS/RECOMMENDATIONS**

To understand the impact of state subsidies in the print media sector and design state financing schemes that are suitable in a certain economic and political context, it is important to know from the onset the rationales that drive the state support or, to put it more simply, to identify the problem the government is trying to solve when funding media.\(^{39}\)

One group of rationales is related to the concern for economic development as markets don’t deliver what is expected from them and publishers don’t perform well, risking bankruptcy. This category of rationales includes saving jobs, assisting weaker media companies that are not able to cope with economic crises, lowering the financial burden of media companies to help them become more economically viable, fixing cases of market failures, encouraging innovation or boosting demand for media content.

A second group of rationales is centered on the need to uphold values in order to ensure, for example, that minorities are well served by media or that a certain local market has a diversity of news content. These rationales have to do with maintaining diversity and quality of the media, holding power to account, improving the education of journalists and giving space to alternative voices.

This being said, any form of state financial support for the print media has to be designed only following a thorough audit of the sector to identify the most acute problems that press publishers are facing. Moreover, as the crisis triggered by the Covid-19 pandemic is likely to affect the economic viability of many news media companies in the years to come, the need for public funding in the media is likely to increase and, with it, the influence of the state in the media. Hence, to avoid editorial interference by authorities, state financial support schemes should follow a few key principles.

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One of them is transparency. Information about public funding earmarked for support of print media has to be publicly available to ensure that no media outlets are disadvantaged and to prevent corruption in the process. Second, funding schemes have to be designed based on clear criteria to avoid arbitrary funding decisions, which ultimately compromise these fund, transforming them into a tool of control. Furthermore, state financing should respond to both economic and socio-cultural as well as democratic needs, especially protection and promotion of public interest journalism and media diversity. Finally, state financing schemes for the media should be designed as a supplementing and corrective measure rather than as a dominant funding model. When the government tries to create a dominant public funding model, they distort the media market and erode the potential for sustainability in the sector.

In Ukraine, in the current state of economic development and media market conditions, also taking into account the need for more public interest, quality journalism, making available state financial support for the local press sector is of the utmost importance. The local print media in Ukraine has undergone a sustained reformed process in the past five years or so. In 2014, Ukraine had upwards of 600 communal newspapers that were in most cases used by local administrations to disseminate information about their activities. Hardly providing quality content of local interest to their readers, most of these publications used to be financed by municipalities.

Attempts to reform the local press in Ukraine harken back to the late 1990s, but only in the following decade, legal acts governing the reform process were drafted. Eventually, a law on reforming state and communal print media was adopted by the Ukrainian parliament in December 2015. The law created the basis for the privatisation of the local press, a process that was launched in January 2016. Following a series of delays often triggered by conflicts between the founders of the media outlets and their staff as well as by lack of clarity regarding the status of these media and the premises in which they were to operate, the privatisation of some 91% of the local print media outlets, a total of 615 publications, was completed by January 2019 when the reform process was completed as planned in the law.

Upon privatisation, the reformed print media outlets have been stripped of their funding from local budgets, which left them in a very difficult situation. Moreover, local municipalities failed to implement a legal provision from the law on reforming state and communal print media that was supposed to give the reformed media priority access to coverage of activities run by local governments. That further undermined the reformed media outlets, reducing their access to information. In addition, not all local authorities in Ukraine transferred the property of the former municipality-owned media to the newly formed media outlets or concluded lease agreements for a period of 15 years with them as required by law.

The financial predicament and unstable situation of the local media in Ukraine had repercussions on their audience figures. Over the last three years, the circulation of local media has gone down by an average of 30% (in some cases by 50%), according to locally sourced data. Much of that was due to the flawed print media distribution system run by the Ukrainian Post Office (Ukrposhta).
All that has badly affected the financial health of many local print media companies in Ukraine, bringing them to the brink of collapse. With large expenses for paper, printing and distribution, many of them are expected to decrease their frequency or even fold.

Ukrainian journalists have repeatedly called on the government to create a programme for the support of local media in the country, but no measures have been adopted to date. The State Committee for Television and Radio Broadcasting has developed a proposal for the support of local media that was supposed to be implemented in the period 2020-2023. The proposal mentions financial assistance by local government and state authorities, legal tools (such as laws preventing increases in the tariffs for delivery of print publications), tax benefits for local media in the border areas and state financial support to cover printing costs. The proposal envisages the funding model of local media to also consist of commercial revenue raised through sales of advertising and subscriptions. To date though this proposal has not been discussed in parliament and there is no indication that will change any time soon.

Taking into account the developments in the Ukrainian media and other local factors, as well as the history of the local print media in the country, the most suitable model of public support for the sector could be either a **project-based funding scheme** or a **direct subsidy fund** that would offer blanket support to all local media, or a **combination of the two**.

A project-based scheme alone would be preferable as it would also require the participation of media outlets, encouraging them to design their own operational and business models that secure both their financial sustainability and editorial independence. In the Ukrainian context, such a funding scheme should be given sufficient financing to cover the needs of all local print media that offer quality content. The fund should be designed to cover a longer period of time to ensure predictability and allow media outlets to plan on a longer term.

Alternatively, a state subsidy system in the form of a media support fund would help local print media in Ukraine build resilience and produce quality content for local audiences. For such a system to work, it should be designed to offer both basic financial support to all local print media as well as larger financial grants to media outlets that offer or strive to offer high quality content or that prove to have a solid vision about how to improve their operations.

A third option would be a combination of the direct subsidy model (where basic funding is offered to all local media in need of funding to survive without compromising their editorial independence) and the project-based model (where only media outlets that show initiative and potential for innovation would receive additional funds through an open and transparent application process). If the funding helps media outlets to improve their financial sustainability, in time, the subsidy model can be gradually phased out.

Additionally, the sector would definitely benefit from a series of fiscal measures, especially tax exemptions, that have been proved to help lower the financial burden media companies are facing.
It is important to note that, to ensure fair distribution of funding and prevent use of financial resources by authorities to control the editorial agenda of the print media outlets, the schemes described above must be run by bodies whose independence will be ensured by governing structures in charge of supervising these programmes that will consist of independent experts and neutral civil society representatives. Lower to zero representation of politically affiliated people and government representatives in these bodies is highly desirable for such schemes to properly function.

Finally, before embracing any funding model, due diligence of the highest order is needed. It is rather imperative to base decisions on the right funding model for local print media on detailed, data-rich analysis about the audiences targeted by the media outlets, the market potential in the areas where they operate, mapping of other fundraising opportunities and the cost of producing high-quality content for local audiences.
About the author

Marius Dragomir is the Director of the Center for Media, Data and Society, a research center affiliated with the Central European University in Vienna. He previously worked for the Open Society Foundations (OSF) for over a decade. Since 2007, he managed the research and policy portfolio of the Program on Independent Journalism (PIJ), formerly the Network Media Program (NMP), in London. He has also been one of the main editors for PIJ’s flagship research and advocacy project, Mapping Digital Media, which covered 56 countries worldwide, and he was the main writer and editor of OSF’s Television Across Europe, a comparative study of broadcast policies in 20 European countries. He is now running the Media Influence Matrix, a global research project looking into power relations and undue influence in news media.

Dragomir has spent the past two decades in the media research field, specialising in media and communication regulation, digital media, governing structures of public service media and broadcasting, spectrum management, media funding models and ownership regulation. He has authored expert studies and articles on journalism and media policies that have been published and translated in more than 70 countries.

Dragomir started his career as a journalist some 30 years ago in his native Romania where he worked for several local dailies, radio, and TV stations. Since 1999, he has been working for English-language media. In 2015, he founded MediaPowerMonitor, a community of experts in media policy covering trends in regulation, business, and politics that influence journalism.

The Council of Europe is the continent’s leading human rights organisation. It comprises 47 member states, including all members of the European Union. All Council of Europe member states have signed up to the European Convention on Human Rights, a treaty designed to protect human rights, democracy and the rule of law. The European Court of Human Rights oversees the implementation of the Convention in the member states.

The member states of the European Union have decided to link together their knowhow, resources and destinies. Together, they have built a zone of stability, democracy and sustainable development whilst maintaining cultural diversity, tolerance and individual freedoms. The European Union is committed to sharing its achievements and its values with countries and peoples beyond its borders.

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