

Select Committee on Communications

Corrected oral evidence: The advertising industry

Tuesday 28 November 2017

4.35 pm

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Members present: Lord Gilbert of Panteg (The Chairman); Lord Allen of Kensington; Baroness Benjamin; Baroness Bonham-Carter of Yarnbury; The Lord Bishop of Chelmsford; Lord Goodlad; Lord Gordon of Strathblane; Baroness Kidron; Baroness McIntosh of Hudnall; Baroness Quin; Baroness Stowell of Beeston.

Evidence Session No. 9

Heard in Public

Questions 85 - 96

Witnesses

I: Henry Faure Walker, Board Member, NMA, and Chief Executive Officer, Newsquest; Matt Rogerson, Head of Public Policy, Guardian Media Group (GMG).

USE OF THE TRANSCRIPT

This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Henry Faure Walker and Matt Rogerson.

Q85 The Chairman: We welcome our second set of witnesses to our inquiry into skills and the advertising industry, Henry Faure Walker and Matt Rogerson, with a focus this afternoon on the role and attitude of the press. Please introduce yourselves and perhaps answer our broad question, before we come at you with some questions, about the importance of skills and any issues facing the industry in attracting and training skills in future. Perhaps you would comment on that in your introductory remarks.

Henry Faure Walker: I am Henry Walker, Chief Executive of Newsquest. We are one of the largest news publishers in the UK, and the only large

publisher that focuses exclusively on local. I am also here as a director of the NMA, the News Media Association, which is the industry body for national and local news brands or newspapers.

Newsquest owns about 175 local and regional news brands across the country—the likes of the *Glasgow Evening Times*, the *Northern Echo*, the *Oxford Mail* and the *Brighton Argus*, just to name a few. We employ about 3,000 people; 1,000 of those are journalists and 1,000 are salespeople. Our news brands are now as important to us digitally as they are in print, and both at Newsquest and across the regional publishing industry great progress has been made in digitising the business in recent years. For example, at Newsquest, 30% of advertising revenue now comes from digital advertising and, of course, we command huge online audiences. In fact, in many of the towns and cities in which we publish, we now reach approximately 70% of the adults in those respective towns every month. For example, 70% of adults in York visit the yorkpress website every month. When you compare that to the much vaunted Facebook audience—Facebook’s penetration in the UK is about 50%—you can start to appreciate, certainly in audience terms, although not necessarily in revenue terms, the power of local news brands. For the newspaper industry as a whole, national and local news brands reach 48 million people a month across the UK, across its various platforms in digital and print. As you can see, we do not have an audience problem, but we do have a revenue problem. There have been well-documented, very steep declines in advertising revenue, which is weakening and undermining the economic model that supports quality journalism in the UK up and down the country.

NMA members nationally and locally publish about 1,100 titles and are responsible for about 87,000 jobs across the industry. News publishers are responsible for 60% of total investment in news production in the UK. We rely largely on advertising revenue to fund our journalism. As I am sure we will talk about today, journalism, the curation of news and accurate fact-checking, is an expensive business.

From a local perspective, it is worth saying that we believe local newspapers occupy a unique position in the media landscape in the UK. Not only are they the primary source of reporting for local events but they play a very important role in defining the public and political agenda at a local level in our towns and cities. We take a very important role in championing good causes and issues in our towns and cities and championing and supporting local businesses, and there is a good degree of academic evidence to say that that has a very positive impact on a sense of community and social cohesion.

Matt Rogerson: I am Matt Rogerson, Head of Public Policy at the Guardian Media Group. For those of you who do not know, the Guardian Media Group is the publisher of the *Guardian* and *Observer* and the publisher of theguardian.com, which is a news and current affairs website, an app and a range of other digital services. We have gone from being the ninth-largest British newspaper to becoming one of the world’s

greatest sources of English-speaking news. We vie with the *New York Times* to hold the number one spot for reliable, serious journalism. As a business, we have, over time, diversified away from print advertising as a source of revenue; it is now less than 10% of our total revenue base. We have a range of other revenue sources, which include digital advertising, some e-commerce and money from philanthropic organisations to help to fund specific areas of work that we do. One other area, which I have totally forgotten but which is the most important one, is subscriptions, membership and contributions. Please forgive me if any of you have been on the *Guardian* website recently and have been asked to donate, but that is a key revenue source for us. As digital advertising declines as a source of revenue, we see reconnecting with our readers and asking them to help fund the *Guardian* as a key source of revenue going forward.

- Q86 **Baroness Stowell of Beeston:** That is quite a nice segue into the first set of questions, which is about sources of revenue. Both of you have talked already about the decline in advertising revenue and the way in which you are off-setting it. Is there anything specific you want to add to what you have already said about how your respective organisations are getting revenue from other sources, in light of the reduction of revenue from advertising? If you were in the room when the last set of witnesses were here, you would have heard the lady from Procter & Gamble talk about whitelists and how they proactively decide where they want to place their ads, rather than being at the mercy of a blacklist. We have in front of us a great example of membership of whitelists. I would imagine that, if that was a model that was more widespread, you would be able to command greater prices for the space on your sites. What do you think about that? It was raised in the last session. Were you here for that bit? Did you hear what she said?

Henry Faure Walker: Yes—I came in in the second half. There are two parts to that question. Essentially your question is about what we, as publishers, are doing to diversify our revenue stream. To take a step back, revenue decline has been very aggressive, certainly from a regional newspaper perspective. In 2004, the advertising revenues in regional newspapers were about £3 billion, and they are now under £1 billion, so that is a very dramatic decline in a little over 10 years.

Baroness Stowell of Beeston: Is that the industry as a whole?

Henry Faure Walker: That would be the regional and local industry. There was £3 billion worth of advertising in 2004, or £3.1 billion. That was when advertising peaked. The economy was strong then. In 2016, it was a little under £1 billion, and it will be a little less in 2017 again.

The Chairman: What was the peak year?

Henry Faure Walker: It was 2004, which is arguably when the economy was strong, and was before digital started to have a significant impact on advertising budgets and the shift of those budgets. There is a lot of good

work going on to diversify, but you cannot make up for that scale of revenue decline.

Digital display advertising is a very important part of what we do at both the local and national level, and we have grown that quite significantly. We grow our digital display revenues by about 15% to 20% per annum. As a local publisher, we are diversifying into what we call digital marketing services, so we are training most of our salespeople in the ability to sell Facebook advertising, Google AdWords, website build or SEO services, a bit like an ad agency would. We are trying to diversify into that, which is not a pure advertising business. We have quite aggressively developed a magazine business locally, where we see a better advertising trend in magazines than we do in newspaper advertising.

Matt Rogerson: In terms of stats, Enders Analysis has suggested that, for every £31 that has been lost in print advertising, news organisations have gained just £1 back in digital advertising, so you can see that there is a stark difference there. The print sector share of the advertising market has gone from 30% of the total share in 2008 down to 10% in 2018, so there has been a stark shift in terms of the share that the print sector has.

To the fundamental question that you asked about our environments, increasingly you are seeing that advertising is disconnected from content. Advertising follows audiences; it does not follow quality environments. The impact is that the platforms that have the most personal data on the most people are the most attractive to advertisers. The two platforms that have the most personal data on the most people are Google and Facebook. Therefore, advertisers book to follow an audience around the web, regardless of where they go, in terms of the quality environment. That is a fundamental change in the way that the advertising industry has worked. It de-links from quality content and absolutely attaches to the audience.

As an organisation, we have to make the case that, as well as having a good audience that visits the *Guardian* and reads our content online, seeing advertising in that environment is more effective than a citizen seeing advertising on Facebook or the long tail of the web. We agree with you that our content is valuable and that advertisers want to be next to our content, so we will put a baseline price mark on advertising against our content, that is higher than that for the long tail of the web. Advertisers do not necessarily always want to pay for advertising next to higher-quality content; they sometimes prefer to go for clicks rather than quality.

Baroness Stowell of Beeston: I have one other question before we move on. What do you feel about the future of print news in light of all of this movement online with advertising? Where do you see the future for print?

Henry Faure Walker: I always like to be optimistic, but it is important that I share my honest perspective. In spite of the great work that is going on in terms of digital innovation, certainly among local news publishers—as I say, we are doing a good job in terms of huge online audiences and diversification—unless something changes significantly in the revenue outlook, and we are still seeing steep revenue decline, more local newspapers will close and hit the wall.

The most recent example was the *Oldham Evening Chronicle*, which was an independently owned small evening newspaper in Oldham, which unfortunately closed its doors at the beginning of September. It went into administration. The administrators turned up on Friday afternoon and made 49 staff redundant. It is a tough business and, unless we see something significant change on the revenue outlook, through either support from government or better behaviour in the advertising agency land, it is going to be tough.

From a Newsquest perspective, we have the advantage of scale. It helps that we have scale and can share our technology and back-office resources, but the outlook is not a good one.

Q87 **Baroness Quin:** You have partly answered this question, but I am wondering how far the decline is inevitable and how far it is reversible. I wondered if you also felt the decline was built on a false premise and, if it is, how that might influence how things turn out in future.

Matt Rogerson: It is important to remember that research suggest that print is still an excellent medium for retaining the attention of citizens and consumers, and provides a good return on investment for advertisers. I have brought along a sample, which I will leave behind with you, of an edition we did with Marks & Spencer, in which we did an innovative and creative exposition of its advert, which is very engaging and gets its message across very well. As we move towards periods of the year like Christmas, we find that print advertising holds up pretty well.

As Phil suggested in the session previously, that there has been a big sell on digital advertising and the value of digital advertising versus print. It is becoming a bit of a dogma now. That has taken hold with some of the advertising community, and they are moving into digital and programmatic, rather than spreading it across multiple media channels. We are in the business of trying to convince them that that is not the right way to go and that this is still an incredibly valuable medium, but there is a fundamental change happening. If you decouple advertising from content and follow the user across the web to platforms where people spend time, that makes it harder and harder for the quality environments such as journalism to hold and attract advertising.

Q88 **Baroness McIntosh of Hudnall:** I really want to pull the thread out of that point. I absolutely get that there is volume in following some users across the web, as you put it, but I am interested that you make that very stark distinction between people and content. Presumably there is

quality to be had in people as well as in content. There is something about what you provide, by way of a readership, that is unique to you, which must be true of all of the other members of your association, for example, Mr Walker. How do advertisers segment the audience when they come to think about people rather than content? It does not feel as though that is a legitimate distinction to make.

Matt Rogerson: I am not an expert on the segmentation of the UK population, but my other part-time focus is on fake news and how fake news is distributed on these platforms. You can see that a platform like Facebook has about 16 different segments. If you are an advertiser looking to target *Guardian* readers, there will be a Venn diagram of *Guardian* readers versus audience segments. If you are advertising on Facebook, you will target it at the audience rather than somebody who is reading the *Guardian*. You will look at the demographics of a reader of the *Guardian*—

Baroness McIntosh of Hudnall: You find the same people, but you go elsewhere to look for them.

Matt Rogerson: That is exactly right. The challenge with a platform like Facebook is that it is largely unaccountable for where the advertising impressions land in the news feed. There are millions if not billions of versions of the YouTube scenario, with advertising appearing next to perhaps not the most savoury of content, but it is not in the public domain because each of those feeds is unique to the user. That fundamental attachment is great business for them, but for quality content providers it is a real challenge.

Q89 **Lord Gordon of Strathblane:** Mr Chairman, I should declare an interest at the start. I was on the board of Johnston Press for a number of years, the last few years of which coincided with the arrival of Henry Faure Walker as a rising star in the company and subsequently the industry. Could we look at how reversible or irreversible this decline is? The figures you gave, Mr Rogerson, were quite frightening: £31 lost in print is compensated by about £1 in digital. Digital is such an effective advertising medium. If you have such a wide reach digitally, why are the figures quite so starkly bad?

Matt Rogerson: It is a good question. We can dictate the base price at which our inventory is sold online. When we have a direct relationship with brands, they are able to buy adverts from theguardian.com in full knowledge that there is basically no fraud on our website, that every single piece of content will have been vetted and legalised by our extensive legal teams, which are costly, and that they will be situated in a place of their choosing on our website.

The challenge comes when you move to open ad exchanges, where we have less control over our ad inventory. Say you are an advertiser and you say that you want to advertise against a certain audience. It is then up to the ad exchange to pick which inventory it chooses to decide where its adverts go. There is more margin for the ad exchange to pick

impressions on websites that are not premium content like the *Guardian*, so their incentive is to push adverts in that direction.

Lord Gordon of Strathblane: Mr Walker, wearing your NMA hat, you told the Committee in written evidence that “the value chain is unfairly skewed in favour of those who aggregate and distribute content at zero cost, to the detriment of publishers who produce it at considerable financial and legal risk”. How can you redress that situation? Is the fact that you are dealing with two virtual monopolies an added difficulty?

Henry Faure Walker: There is a problem of dominance in the marketplace. The duopoly of Facebook and Google is a problem. They command about 80% of digital advertising, so we think that there is a case for the CMA to review the digital advertising market and make some recommendations as to how it can foster a more competitive marketplace. Google has huge dominance in the value chain of digital advertising. It owns the search platform; it also owns the Google Display Network, which is a very significant ad exchange that most publishers use to provide their advertising inventory. It also owns something called DoubleClick for Publishers, which most publishers use to serve advertising on their sites. It also owns the Android mobile operating system, so there is a real issue here with Google’s dominance in the marketplace.

Lord Gordon of Strathblane: I am going to ask you to go into some detail on this, because I do not understand exactly how this works. Why are you in bed with Google and Facebook in the first place? Who negotiates the terms at which you give your content to them? Your content is important to them.

Matt Rogerson: The “in bed with” is inflammatory.

Lord Gordon of Strathblane: Sorry.

Matt Rogerson: Google, on its own website, says that it has the world’s largest demand pool. If you are seeking to sell your inventory, you go to where the world’s largest demand pool is, which means that most publishers have a relationship with Google, which is productive in many ways.

There are various challenges. When you become that dominant in the market, if there is not competition to keep that company honest in terms of where it displays programmatic advertising and how algorithms work, you need some kind of third party looking at the behaviour of that organisation. That is where the CMA stepping into the market and checking the rules that govern how advertising is displayed on the open web would be a really important step forward.

The challenge is that, as Google has grown, it has acquired different businesses across the open web. It has a perfect sight of all transactions that go on, on the web. Until April this year, it had something in place called Last Look, which meant that it could see all the prices paid by

other ad exchanges that fed into its ad exchange and beat them by, say, a penny. Then it would win the bid and get the revenues.

Lord Gordon of Strathblane: In any other business that would be punishable by law.

Matt Rogerson: It stopped that in April, but it has what I understand is a small levy on third-party ad exchanges that feed into the Google ad exchange. Those are the areas where there may be no issue to answer or there may be an issue to answer, but the global digital advertising market is an \$80 billion industry, and just to sit back and accept the situation is not necessarily the way forward.

Henry Faure Walker: To give a simpler perspective on why we interact with Google and Facebook, we want to be successful in digital. In order to do that, we have to embrace the opportunity that is provided by Facebook and Google. Google, being the gateway to the web, is a huge source of traffic.

Lord Gordon of Strathblane: Is it the only gateway to the web?

Henry Faure Walker: It is not the only gateway, and Facebook is probably the other significant gateway. Forty per cent of traffic to the Newsquest websites comes from Facebook—from our journalists posting a story or a headline or a picture on Facebook that then drives the traffic of the user from Facebook through to our website. We are hugely dependent on it for traffic to our websites. We argue that it is hugely dependent on us in terms of our content. In the NMA submission, we referenced the NewsWhip study that said that 47% of all engagements—that is, sharing, liking or commenting on a Facebook post on social media, which is basically Facebook—comes from news content.

We also quoted, in our submission, Google's comment that, "Professional publishers provide the lion's share of quality content that benefits users". Yes, we are getting all the traffic from that, and that is important for our much smaller digital advertising business, but they are obviously benefiting hugely, and they have admitted that. You can see in the data that they rely on our content, but we are getting only a very few crumbs on the revenue table, which is creating an economic issue in our business.

Lord Gordon of Strathblane: Going back to my final point on enlightened self-interest, surely they realise that, unless they give you a bigger share of the ad revenue, you are not going to be there to supply the content in future years.

Henry Faure Walker: We would hope so. We are in dialogue with them but they are very slow to move. One needs to put more pressure on Google and Facebook, possibly through regulation, so that we can create a more balanced marketplace.

The Chairman: Mr Rogerson, do you have anything to add?

Matt Rogerson: Yes. There is a growing divide between the two businesses. Google has reacted to the issue of fake news on its platform by engaging with publishers in quite a meaningful way in trying to address some of those issues. That is because Google is a business that is based on high-quality information, and Google Home will rely on high-quality information as much as Google Search does. The attitude that we have seen from Facebook is it talks the talk in terms of wanting to value news providers but, ultimately, it is an attention business, and there will be other things beyond news that will gain the attention of its users. Therefore, it is less concerned about the absence of the news industry from their platform. I would just cite the experiments going on in eastern Europe, where they have taken news completely out of the main newsfeed and given it a secondary newsfeed on the platform. That gives you the sense that they could almost do without it, because it is a bit of a headache for them in terms of it being on the platform.

Q90 **Baroness Kidron:** Lord Gordon's inquiries have taken out some of my thoughts. I want to ask you a rather procedural question. In your evidence, you put forward this rather wonderful phrase about the "programmatically" advertising landscape. Can you help us out by describing the supply chain so that we understand the working bits of it and who does what, within reason?

Matt Rogerson: That is an early Christmas present. Henry can help me out here. You have DSPs, ad exchanges and SSPs.

Baroness Kidron: Can you unpick that?

Henry Faure Walker: Demand-side platforms and supply-side platforms.

Matt Rogerson: At the centre of that mix, you have ad exchanges. Essentially, there is demand and supply at either side; the ad exchange takes demand and supply and, in the middle there is a transaction where the demand and supply are matched up together. It is highly opaque, and one of the reasons I cannot explain it to you, apart from me being an oaf, is that it is so opaque and lacks transparency. I speak to colleagues internally and, when people talk about innovation in the sector, sometimes it feels like the innovation is creating something in that value chain that extracts value—not that it helps either the brand advertiser or the publisher in terms of selling their advertising. The scale of ad fraud due to that opacity is vast. WPP released some evidence recently where they said it is potentially £16 billion next year out of a total market of £80 billion, which is, frankly, staggering.

We talked about how we are addressing the issue of the reduction in print advertising and the stasis in digital advertising. We are going through every single contract that we have with these people who sit in this value chain, ensuring that we get value for money and that we are not getting leakage out of the value chain in terms of digital advertising. It is a highly complex area. I could bring one of my colleagues in to explain it all to you in far more detail.

Baroness Kidron: That is, in fact, what I was getting at: if it is not transparent and if it is possible to allow for gross fraud, and there are lots of people doing a lot of innovative things that nobody can see, we would like some written evidence—possibly from said colleague—to really explain that to us. If it is beyond your ken, it is certainly beyond ours.

Henry Faure Walker: That is important. It is a fiendishly complicated world. In my simple mind, you have a brand, Deutsche Bank, that might say, “I want to buy some advertising at £10 per 1,000”. They are on one end of the spectrum, buying our advertising. At the other end of the spectrum, I am, at Newsquest, making available my advertising views—my online advertising inventory—into an advertising exchange. In the *Guardian* submission, there is a graph where you can see that there are a lot of middlemen—data management platforms and retargeting platforms—that are working electronically with the advertising view that I am providing to the ad exchange to target the advertising. The advertisers might only want Newsquest advertising that targets females under 35, or what have you. Those middlemen and the ad exchange are taking a huge amount of the value. Deutsche Bank, as the advertiser, may be paying £10, but by the time that I as a publisher have been paid, I am lucky if I get £1.50. In the print world, £10 coming from Deutsche Bank would probably give me £8.50. I would only lose 15% in the transaction. In the digital ecosystem, I am losing 85%. The advertisers are no better off; they are still paying the same. It is just that the middlemen, some of whom are murkier than others, are taking a very significant cut.

Baroness Kidron: I know, Matt, you want to come back on this, which I welcome. We talk a lot about the value to advertisers and publishers and so on, but what about the poor old consumer? What is happening to them in all this murkiness?

Matt Rogerson: This is a much-ignored part of this whole issue. We talk about them as consumers; they are also citizens, so we should be concerned about the diet of content that is available online. There are big questions for me about what is going to happen in the next five to 10 years to the diet of content that is available online. Ultimately, if you are losing 20% of the value that is going from an advertiser to a publisher, that 20% has to come from somewhere, so it could go into price cuts. P&G could decide, “We will invest that 20% in setting price cuts in supermarkets”. Consumers are being harmed in terms of the bottom line.

There is this great myth that I have seen in some of the submissions to this Committee that the internet is somehow free. The internet is not free. Both of our organisations invest a lot of money in the journalism that is distributed online, and we find that we do not necessarily get an amount of reward for that that is necessarily commensurate with the effort. It is not free. It is about getting some more transparency in that value chain. I included in the submission that we ran a test whereby we put £1 in one end of the machine and got 30p out of the other side. We do not know exactly how that works.

Baroness Kidron: We would love this written evidence, but I would like to ask a bit of a yes/no question. We are sitting in a legislative house. Is it time to look at it from that point of view? Where is this transparency going to come from, in your view?

Henry Faure Walker: I have already said—and it is an NMA view—that the CMA should look at a competition review of the marketplace. Although this is not an NMA view, from a local publisher perspective, as I know from speaking to other local publishers, we think it is now time to regulate and put in some form of regulation to better control the market. That would be our view.

Matt Rogerson: There are a number of very good suggestions on how the market should be addressed. A CMA review would be good to understand what is actually going on in the black box. The key thing to think about is the benefit of competition in this market. Lord Gordon asked in the previous session why it is that advertisers keep advertising on platforms where there are brand safety issues, and it was sort of answered by the fact that we need to be on those platforms. The reason they need to be on those platforms is that is where citizens are spending time and that is where their attention is. Unless there is competition in the market whereby people have different levels of brand safety on different platforms, there will be issues.

There is a guy called Ben Thompson, who writes a blog called *Stratechery*, who suggested that, whenever you allow these platforms to get bigger and to keep buying other companies that are a threat to them, that will only enhance their dominance and lead to more of this kind of behaviour. There is the CMA point and there is also the question for Parliament about whether the merger regime needs to be updated to ensure that these platforms are not allowed to just knock any competition out of the market or take that capability and use it for themselves.

Baroness Kidron: Thank you.

The Chairman: Mr Rogerson, you have sent us some evidence on the supply chain. It is interesting and we may come back to you, if we can, and ask you for some elaboration in writing. But you have sent us some very interesting material.

Q91 **Baroness McIntosh of Hudnall:** You have covered quite a lot of what I was going to ask you about, which was about regulation. In view of what you have just said about the transaction from advertiser to publisher, I would like to know the following—and, if it is in your evidence and I have missed it, I am sorry. Normally, with this kind of transaction, there is some sort of audit trail—that is normal business practice—whereby you can follow the way a pound travels from A to Z and you can see in the middle all the various bits that it has gone through. I am still struggling to understand not that it is opaque—that I do get—but why it is so opaque, and what audit mechanisms that would ordinarily be applied in the non-digital world cannot be applied there.

Secondly, is there anything else you want to say about, first, the need for, and, secondly, the nature of regulation that is a bit more robust, to say the least, than anything we can currently point to? Particularly, should it continue to be in the nature of self-regulation, or should it be externally imposed?

Matt Rogerson: I will give you a real-world example of how fraud happens. We looked on an ad exchange recently and found that quite a well-known company was offering 30 million pre-roll *Guardian* ads to the market. They would sell that to advertisers and agencies who would think they were buying *Guardian* inventory. We have no direct relationship with that organisation and we make only 650,000 pre-roll ads available in the market. There is a huge variance there between that 30 million and that 650,000. Digging into it a bit further, we found that they had been supplied the pre-roll inventory by a number of third parties, none of whom we recognised. You have a situation where there are turtles stacked on turtles in this market. By the way, the advertiser at the end of that process would probably see a spoof *Guardian* URL to suggest that it had landed somewhere on the *Guardian* website. That person who had created that spoofed URL would get some revenue from that. Many times it is people who are involved in organised crime and entrepreneurs who are creating that kind of fake content. That is an example where, if a brand is given a URL to suggest that this has been vetted and this is *Guardian* inventory, they will trust that and they will not necessarily interrogate it as much as they should.

Baroness McIntosh of Hudnall: Can I stop you for one moment? I do understand what you are saying and it is interesting, but it is about criminal behaviour. What you have just described would, in any forum, fall into the category of fraud or criminal behaviour of some kind, would it not?

Matt Rogerson: Yes.

Baroness McIntosh of Hudnall: It is stealing other people's assets, stealing identities and stealing material that can then be traded, and it defrauds the person who rightfully owns it. I am more interested, if I may, in what you appear to be saying, which is that there is stuff going on in the black box, as you describe it, in the middle, that is not necessarily criminal and is not necessarily going to defraud anybody in that sense but is extracting value, as you put it. That is possibly being done quite legally but is to the detriment of the principals in the transaction. How is that not capable of being audited? Why should you know? I do not know.

Henry Faure Walker: I hope that 2017 will be a big wake-up call to an advertising industry that has slightly, and I think still too much, fallen in love with the art and science of what we would call blind programmatic advertising buying. You may have been discussing this in the previous session, and obviously it has been well publicised by the *Times*, and a *Times* article on Friday illustrated the problem. It is not necessarily criminal, but there are certainly huge detriments to the brands in what is

going on here. The article refers to “YouTube adverts fund paedophile habits” and “Tech giants make money from videos of undressed children”—the point being that “BT, Adidas, Deutsche Bank, eBay, Amazon, Mars, Diageo and TalkTalk are among dozens of brands whose adverts appear on the videos, which are published on the Google-owned platform. Many have gained millions of views by showing young girls filming themselves in underwear”. If you will excuse me, this is a video here and a girl is rolling around on a bed filled with cuddly toys while wearing pants and a vest. If you will excuse me, the comment underneath this—it is a paedophile comment—is, “Little girl, you are a wonder. I would like to kiss your fragrant panties.” Excuse me, but I am reading from the *Times*. It has 4 million views. Underneath this you have Deutsche Bank, “Click here to discover a career to look forward to”, and, “Ads by Google”.

That is not necessarily criminal but, if I was the marketing director of Deutsche Bank, I would be straight on the phone to my ad agency and saying, “We no longer have a relationship”. But this is going on. I hope that this very positive and important publicity will change behaviour. But the ecosystem has become quite entrenched and there are a lot of vested interests, and there are a lot of middlemen making a significant amount of margin from this type of activity. I am not necessarily saying it is criminal behaviour, but it clearly is not right.

Baroness McIntosh of Hudnall: It is not ethical.

Matt Rogerson: There is a difference between freedom of speech and nihilism. I do not think any CMO of any brand would want to appear next to that stuff. The key thing with these ad exchanges, to go back to the black box, is that, if they are promising to follow an audience that is of a certain demographic, we do not know how it is programmed. We do not know whether it is programmed to follow the audience to the *Guardian*, where the cost of that advert may be higher, or whether they will follow it to YouTube and view that video or follow it to the long tail of the web, where there is no content of any interest whatsoever to anybody. Because it has expanded to such a large degree, the values and the connection between advertising and the content it funds has, as I say, become disconnected.

Baroness McIntosh of Hudnall: I just want to see whether I have understood this, because I think I heard you say, as you worked your way through this, something that suggested to me that, at some point, the industry fell in love with the beguiling nature of the electronics and the digital stuff and that it will have to fall out of love with that in order for the behaviour that has now given rise to to change. Is that right?

Henry Faure Walker: There needs to be a much better understanding of the context in which your advertising is appearing rather than just going after a specific audience through the ad exchanges, where the advertiser is oblivious as to which content that advert is appearing next to and on what platforms. To my example, that can be fiendishly damaging for your brand in which you have invested many millions of pounds.

Matt Rogerson: There is a good example today: we covered in the *Guardian* that health experts are calling for more regulation of fatty foods in relation to adverts to children on television. There is already quite a heavy regime on television to ensure that not too much advertising is shown. Sky helpfully pointed out in its evidence that, in relation to online, which is where children spend their time, there is little to no regulation. I read that story this morning and thought, again, we have this completely wrongheaded approach to regulation whereby we are not following where people are. We have a greater and greater focus on the regulation of media such as print and television, which are highly regulated—we are very conscientious, we pre-vet everything and self-regulation is not an opt in—whereas the online world is completely without regulation.

Q92 **Baroness Kidron:** I am really interested in the word “values” that you just threw in there in the middle of all that. We are hearing more and more about regulation and looking at that. Do you think there is an ethics/values piece in all this that we are missing? Is there someone who could hold it?

Matt Rogerson: Yes. I am fortunate in that I work for an organisation that cares about values and we do not take certain types of advertising because it does not fit with the values that our organisation lives. I am fortunate in that we care about media plurality and ensuring that there is a healthy plurality of media sources. I would hope that there is a sense of wanting to reward quality rather than just clicks in the digital advertising ecosystem. That is what we are pushing for: to suggest that having your advertising associated with quality content rather than dross or worse is in the interests of brands.

There is a worrying trend, though, in 2017, which is that you find increasingly that brands, even in news environments, want to be associated less and less with what you could describe as hard news and they will only want to be associated with more lifestyle-type content. As an example, we have had suggestions that advertising should be blocked where the words “Theresa May” appear. I know she has had a bad year, but I do not think it is enough to block advertising next to that. There is a fundamental problem for news publishers, which is if that people shy away from funding the sort of journalism that enables citizens to remain informed in a democracy, that is a real threat to national newspapers, and to local newspapers as well.

Q93 **Lord Goodlad:** I have a question on digital advertising and then one, if I may, on Europe. First, what further regulatory, financial or legislative measures, if any, should be adopted to ensure publisher confidence in digital media advertising? Secondly, what impact would a failure to agree a legal mechanism for the transfer of personal data from the European Union to the United Kingdom after Brexit have on British advertising? This is a rather difficult one: are there any benefits at all to the UK advertising industry from Brexit?

Henry Faure Walker: On regulation, we believe that digital platforms should be legally responsible for the content that they publish. Obviously,

from a newspaper perspective, I am subject to the laws of the UK in terms of publication, libel, obscenity and anti-terrorism, whereas YouTube, Google and Facebook are not subject to those laws.

Lord Goodlad: That implies primary legislation.

Henry Faure Walker: Yes, and we would be behind that.

Lord Goodlad: What would it say?

Henry Faure Walker: It should effectively say that YouTube and Facebook are publishers—they say they are not publishers—and, as publishers, they are subject to the laws of the UK that go with that in terms of libel, obscenity, anti-terrorism, et cetera. If I publish terrorist content that has been published on YouTube, I would be breaching the law, but they get away with it.

Lord Goodlad: What would the content of the legislation be? Would it include regulation of some sort?

Henry Faure Walker: I have not thought about it a great deal. The simple point is that they should be treated as publishers and therefore they should be subject to the same content-publishing laws that a news publisher or a magazine publisher is.

Lord Goodlad: You would leave it to the courts.

Henry Faure Walker: Exactly, yes.

Matt Rogerson: There is an ongoing debate about responsibility. The situation at the moment is that online platforms benefit from exemptions in both US and European law. In the US, it is Section 230 of the Communications Decency Act and, in the EU, it is the e-commerce directive. That suggests that platforms are effectively the same as BT's pipes that go into your homes; they are a mere conduit and, therefore, they are not responsible for the content that comes into your home. There is this vexed discussion about whether they are a publisher or a pipe. I do not really care whether they are a publisher, but they need to take more responsibility for their content. We will have to translate the e-commerce directive into UK law through this Parliament, and that is a good opportunity for policymakers in the UK to have a debate about what these platforms are and what we think their responsibilities should be. That is a key point.

In terms of Europe, it is an interesting one. As I think I wrote in the submission, the loss of data flows would be good and bad for the publishing industry, because we think there is quite a lot of fat that is lost in the digital advertising ecosystem. If we returned to a simpler time when there was not all the mystery sitting between us and the brands, there would be an opportunity for us to regain some of the advertising that has been lost, or certainly the leakage that has been lost, to the digital advertising market and the efficiency that has been lost. But at the same time, publishers rely on third parties to deliver advertising and

therefore, on the basis of the current business model, if we were not able to transmit data between those different companies in a responsible way, that would have a serious impact on us and on lots of other publishers in the UK.

Henry Faure Walker: On Brexit, my own view would be that an economic downturn, which we may be experiencing now, certainly compared with the rest of Europe, is more acutely felt by the advertising industry. Advertising tends to do well and grow fast when the economy is growing but experiences a reverse effect and can see some quite significant declines in advertising when there is a lack of confidence in the economy. I would say, from a Newsquest perspective, obviously we are a local business—we are not a European business per se—but we have definitely seen a tightening in the labour market since the vote last year. We have found it acutely difficult over the last 12 or so months to recruit sales staff. That may be a reflection of the tightening of the labour market.

On a more macro point, and this is not necessarily my own business, I would reflect on the fact that cities such as Berlin have a very significant technology and digital media ecosystem. There will be a danger, if the UK does not maintain an open labour market in terms of attracting digital talent from across the world, that it may lose out in terms of the digital start-ups or the digital investment in media. You could find that migrating to very capable and significant media ecosystems such as exist in Berlin and other European cities.

Matt Rogerson: I agree on that point on the movement of labour. The other challenge is around how you keep large digital companies here that have a European presence. After we leave the EU, we will be—I hate to say it—a relatively small country in the grand scheme of things. That impacts the ability of the Government to act where they see issues that need addressing and it also means they are likely to be in a more deregulatory mode than a regulatory mode. Anything that deregulates the market further would be bad not only for the press but for the culture and creative industries in the UK.

Q94 **The Lord Bishop of Chelmsford:** Thank you very much for a really stimulating last hour. The question I am about to ask is incredibly dull compared with what we have just been talking about, so perhaps I can just chip in with one of my own first. Baroness Quin invited our earlier witnesses to get out their crystal ball, and you have spoken about 2017 as a bit of a wake-up-call year. I was interested in what she was saying about many of us trying to avoid these adverts online. We will become much more adept at doing that, and we will be purchasing the apps that help us. I just wanted to invite you to get out your crystal ball and see what you think might happen, because there seems to me to be some strange collusion going on between those of you who need the revenue from advertising, which I fully understand, and the people who want to sell it, but meanwhile there is something else going on in the marketplace. I would just invite you to get your crystal ball out, as you

have been so interesting on everything else.

However, my question is about the regions, and regionally based media agencies. Mr Faure Walker, in your opening statement you made some very strong statements about the regions. What more could Government be doing to promote the demand for advertising services in the nations and regions in a context that is so dominated by the big players?

The Chairman: Can I ask you to be quite brief in your answers? We have a couple more questions. You have been very open with us, and for the last few questions we may end up writing to you for some more information, but we will try to take them briefly.

Henry Faure Walker: It would be helpful if Governments, both national and local, supported regional news brands more than they do, particularly given the social value that we deliver. One area where we have probably seen the most aggressive declines in advertising is in the public sector. We would encourage national government, whose advertising budget is about £140 million, to use news brands more locally and nationally. Hopefully that answers your question in terms of the regions.

Matt Rogerson: I will do the crystal ball. I think what you will see is more and more news brands moving to a membership or subscription service. The amount of freely available, quality news will probably reduce, just because we are having to work out how we fund quality journalism, and if it is not going to be via digital advertising, a lot of brands will have to work out a different model. The *Guardian's* approach is more open, because we believe there is a greater mission to our journalism, if that does not sound too pompous, in terms of informing a liberal democracy. But that will be a trend.

The other trend is that it will move from print news to television. You have seen that ITV's results recently are down about 8% on the quarter. We are the canaries in the coalmine in terms of the digital advertising market. If the continued disconnection between content and audience continues, high-quality content produced by some of our greatest broadcasters may be under threat.

Q95 **Baroness Quin:** You talked about the growth in subscriptions online. I also wonder then whether there is an increasing importance of international revenue to UK news media publishers. What is the trend there in terms of international revenue? Is it going up? Is it going up faster than you expected, or not?

Matt Rogerson: We have two major operations outside the UK; one is the Guardian US and the other is the Guardian Australia. In both cases, the advertising market is relatively stable. It is all digital advertising in both those territories. It is relatively stable, but we have the same problem, which is that the inventory that we have is judged against the long tail, so we are not able to charge the premium that we might think should be expected of high-quality content.

What our international reach does do is enables us to invite our readers to contribute and become members of the *Guardian*. It also means that we can work with foundations in, for example, the US to produce quality journalism on a particular theme and to innovate around things like "This Land is Your Land", which was a drive to get an amount of money donated by US readers to fund a very specific piece of journalism. We will see more innovative attempts like that to fund our journalism.

Baroness Quin: Do you think that the Government have a responsibility here in terms of supporting media companies that rely on advertising revenue, among other sources, to develop new relationships with the EU after Brexit and other trading partners? We are told that there will be a big focus on trying to increase trade with other parts of the world. How might that strategy relate to you?

Matt Rogerson: The principal role I would see for government agencies, beyond looking at investigations into the market, is the market. P&G and Unilever have done a brilliant job in saying enough is enough and that the market needs to be cleaned up. The central office of information, which is part of government, spends, I think, over £400 million a year on digital advertising alone. The boss, Alex Aiken, has been very vocal in saying that they will demand better standards. That £400 million is a huge amount of money to spend and, if they demanded more transparency in getting rid of opacity and leakage in the landscape, that would have a huge impact on the market.

In terms of the international efforts post Brexit, we would like to see the UK retain a relationship with the European Commission in relation to its investigations into the asymmetry between platforms and the organisations and businesses that use those platforms, because the Commission is doing some of the most innovative thinking around how you capture those platforms in a regulatory structure that works.

Henry Faure Walker: I have nothing to add on the European dimension.

Q96 **Baroness Benjamin:** The News Media Association told us that the Government's apprenticeship levy scheme needs more work to make it fit for purpose. What experiences have you had of the Government's current apprenticeship levy scheme?

Henry Faure Walker: We believe in the apprenticeship scheme. We think that it is a good way in particular of getting people from more diverse backgrounds into our newsrooms, which we have probably struggled with historically. Under the apprentice scheme at Newsquest, we currently have 10 apprentices in our newsrooms and we are hoping to build that to 40 by the end of next year. I have set quite an ambitious goal: in our large newsrooms, I would like to see one in five reporter roles coming from the apprentice scheme. We are a big believer in apprentices generally.

One issue that we have with the apprenticeship levy is that it is sort of a tax, if you will forgive me. It will cost us £500,000 next year, which is

quite a significant amount of money for a business that is under some structural pressure. One of the frustrations for us is that we have struggled a bit to find adequate external training providers who can fit our needs. We have now got one; we are working with Darlington College on the journalist side. On the sales side, we have a very significant in-house sales training scheme. It is an academy, if you like; it is called the Newsquest Sales Academy. We do a lot of training through that and it is disappointing, if you like, that we are unable to offset the levy cost against internal training, because that is much more fit for our needs. That would be one area that we would raise as an area of possible redress.

Matt Rogerson: We are similarly looking at the government scheme in terms of whether there is the ability to offset those costs. The *Guardian* and the Scott Trust have had a long history of bursaries and apprenticeships within the organisation. We currently run three annual Scott Trust bursaries for aspiring journalists to study for an MA at City University, and we have a range of work experiences for people who come from BME backgrounds and people with disabilities.

A big focus for us—and our editor-in-chief said it a couple of weeks ago in a speech she gave—is that we need to get a news organisation and a news business that reflects the society that we work in. We have all learned lots of lessons from Brexit, but every news organisation is trying to work out how we get closer to the ground in understanding what is going on in this country. That is really important for our journalism, but it is also really important for the people who read us to see that we reflect who they are.

Baroness Benjamin: Sir Martin Sorrell gave us evidence last week and he told us about the advertising schools that he has opened abroad—and he has not opened any here. In your opinion, how should universities, the Government and the private sector work together to ensure that the UK advertising industry has the necessary innovation, research and skills to compete effectively in the international marketplace? That includes moral and ethical strategies, too.

The Chairman: Could you answer briefly? We may write to you for some elaboration. Mr Faure Walker, do you want to start?

Henry Faure Walker: In looking to the future, any encouragement on educational initiatives that promote and support computer science and coding will be beneficial to the UK's ability to compete or produce great individuals who succeed in digital advertising, because that is the skillset that, despite our concerns about programmatic, is in some way going to be of huge value to our industry.

Matt Rogerson: I would agree with that. There is a skills shortage in the UK. We often have to take high-quality graduates in subjects that are not related to what we do and train them up internally. As with all businesses that operate in this area—I saw there was a *Times* story this morning saying that around 2,000 employees have moved from WPP to Facebook

and Google over the last couple of years—there is that challenge of those honeypots taking in high-quality candidates. The more candidates we can train up in universities, the better.

Baroness Benjamin: What about the ethical and moral question?

Matt Rogerson: One of the issues with my fake news interest is that we really do not know what impact those platforms have had on how people have voted in various elections and referenda. They need to be much more open with data that is on those platforms with universities so that much more research can go on to understand the impact that those platforms are having on the way that people consume and act on information that they receive online. Our universities should become much more central to understanding what is going on in the industry.

The Chairman: Mr Faure Walker, Mr Rogerson, thank you very much. You have given us a huge amount to think about in terms of both this inquiry and our wider remit of the health of the digital economy, which the Committee takes seriously, and I wanted to thank you. I think it is likely that we will write to you to ask you to elaborate on some things as your answers have been so full. Baroness Bonham-Carter wants to mention one thing that she will ask you to write about.

Baroness Bonham-Carter of Yarnbury: Yes, I want to mention one thing to go on the record, which is for you, Mr Faure Walker, which is something I heard at a Google breakfast and I did not really take in. There is a local newspaper empire, or whatever, in Canada that has been rescued through a digital company. I do not know if you know what I am talking about. I do not know what I am talking about, but could you write to me? It sounded like a really interesting example of how digital can rescue local journalism.

Henry Faure Walker: I will certainly look into that and come back to you.

Baroness Bonham-Carter of Yarnbury: Thank you.

The Chairman: It is good to have note of that particular question. Thank you very much indeed for your evidence, which I said has been extremely useful. Just very briefly in conclusion, is there anything you would like to say to us in your final remarks?

Henry Faure Walker: Thank you very much for listening.

The Chairman: Mr Rogerson.

Matt Rogerson: Be bold. That is my advice to you.

Baroness Bonham-Carter of Yarnbury: Buy the *Guardian*.

Matt Rogerson: Yes, buy the *Guardian*—become a member and contribute.

It has the potential to be a very valuable part of the media ecosystem but it needs cleaning up, and anything you can do to add transparency and help to clean it up would be greatly appreciated.

The Chairman: Thank you both very much.