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MEDIA OWNERSHIP CHANGES 1987 AND 2006: FROM ALAN BOND TO CVC

Abstract

The changes to media ownership policy in 1987 led to unprecedented instability in Australia's media with many deleterious consequences over the next few years. The changes in October 2006 are the most far-reaching since then, and it is still impossible to know what their ramifications will be. The most significant move so far has been James Packer's sale of half of PBL to the international private equity group CVC for $4.5 billion. Analysts have so far neglected to examine what this might portend for the future of Australian media.

On the same day — 18 October 2006 — that the House of Representatives passed the laws making media ownership more permissive, Kerry Stokes bought into West Australian Newspapers and, much more spectacularly, James Packer announced the sale of half of Publishing and Broadcasting Limited (PBL), including most of his major media assets, to the international private equity company CVC Asia Pacific for around $4.5 billion dollars. Minister Helen Coonan expressed surprise at the speed of the deals (Parkinson, 2006).

The ownership policy changes were the biggest since 1987, and the rapid moves by the moguls evoked memories of the drama that followed. Then the Hawke government, after prolonged internal stalemate, changed the rules so that TV channel licensees, instead of being restricted to controlling two stations, were allowed to expand to own channels reaching up to 60 per cent of the Australian population. At the same time, it introduced a new principle restricting cross-media ownership.

The effect, and perhaps the intent, of the new laws was to advantage Packer and Murdoch and to disadvantage the other two major media companies, Fairfax and the Herald and Weekly Times. Murdoch, who had become an American citizen, had to sell his TV holdings, while Packer, who owned no newspapers, was unencumbered by the cross-media ownership laws. On the other hand, their mix of assets made expansion very difficult for the other two. Murdoch used the funds from his sale of Channel Ten to take over the Herald and Weekly Times, while Packer was bought out by Alan Bond. One stockbroker estimated that, before the policy change, the combined sale of the Channels Nine and Ten would have been around $800 million. Instead they fetched $1.9 billion, a government-generated windfall of $1.1 billion for the two proprietors.

The policy amendments produced one of the most extraordinary flurries of ownership changes that Australia has ever witnessed in any industry. In less than a year from December 1986, when the government first signalled its move, 12 of the 19 metropolitan daily newspapers changed owners, three of them twice, while one closed. Eleven of the 17 metropolitan television channels changed owners, two of them twice. None of the four companies which had dominated Australian television in November 1986 was still involved a year later (Tiffen, 1994).

However, the new owners had incurred massive debt levels, and over the next five years all exited the industry. Advertising revenues remained buoyant, but the networks' indebtedness meant that, for the first time since the 1950s, metropolitan television stations made substantial losses. When all areas of the economy were hit by the high interest rate regime of 1989–91, there were further shakeouts and collapses.

According to the journalists' union, 1200 journalistic jobs were lost in three years, caused especially by the closure of all of Australia's afternoon newspapers. In absolute terms, this was the biggest ever decline in journalists' employment, and in proportional terms was on a par with the loss of jobs during the Great Depression years following 1929. According to the Australian Broadcasting Tribunal, commercial television staff numbers reached a peak of 7745 in 1988 but declined to 6316 three years later.

Although impossible to quantify or prove, in a wider sense Australian media consumers were also victims of the corporate chaos. Cost-cutting became the dominant theme inside the industry. It is also arguable that the sense of financial crisis allowed a decline in public and political expectations about the social obligations that could be demanded of channel owners in exchange for their privileged access to the spectrum. The *Broadcasting Services Act*, passed in 1992, was the most thorough rewriting of broadcasting rules in Australian history, and brought much lighter touch regulation.

The cross-media ownership rules remained, however. By this time, Kerry Packer had regained control of Channel Nine at a bargain price from a bankrupt Alan Bond. Conveniently forgetting that he had given them his support five years earlier, and that the policy changes had made him a fortune, now he was railing against the cross-media provisions and picturing himself as a victim of them.

With the election of the Howard government, the prime minister often expressed his wish to have the laws changed, but was conveniently blocked by the Senate for the first nine years. He also expressed the novel idea that he would only introduce change when all the major media players agreed, an idea that has yet to be applied to other areas of policy.

Now that new legislation has eventually passed, what will the effect be? Will it have the same dramatic — and in many ways deleterious — impact as the 1987 legislation? Although there is likely to be continuing movement among the central companies, which may well produce even greater concentration of ownership, it is important to realise how, in fundamental ways, the situation in 2006 is different from that 20 years earlier.

The 1980s frenzy came about because this was seen to be the last chance to buy a television station in Australia. As the media magnate Lord Thomson had observed, television stations were a licence to print money. Australian television stations had always been very profitable, and there was an expectation that, with three dominant owners clearly controlling each network, they would become even more so. There was also an expectation that the publicly protected oligopoly would continue indefinitely. No one expects that to happen in 2006. Free-to-air

TV viewing is ceding audience share to both pay TV and internet activities. Moreover, newspaper circulations are on a long-term downward trend and, most relevant to the fate of Fairfax newspapers, the classified advertising which has always sustained them — the rivers of gold, as Rupert Murdoch described them — has been migrating to the internet.

This brings us back to the James Packer–CVC deal. The media concentration was — perhaps naturally — upon James and his strategies. Harold Mitchell played his usual role of cheerleader for the actions of the media moguls, calling Packer's move 'brilliant' and 'outstanding'. He thought James Packer was 'in the middle of doubling, quadrupling the fortune that his father Kerry left him'. He also thought it a good move for the equity company. 'Private equity firms have got a history of two to three years down the track, they refloat these businesses, usually double or triple their money.' (ABC, 2006a, 2006b) Clearly all was for the best in the best of all possible worlds.

More sober estimates also applauded the logic of Packer's move. There was speculation that a cashed-up Packer might go after Fairfax newspapers. But in Terry McCrann's view, James sees print and free-to-air TV as dinosaurs, two twentieth century businesses: 'James is completely focused on the 21st century. Specifically, online media and global gaming.' (McCrann, 2006) Another Murdoch columnist, Mark Day, offered a similar analysis: 'The reason is simple: the return on capital invested in casinos is higher than media and investors rate gaming companies at higher price-earnings levels than media. That equation signals a win for the Packer interests by delivering higher profits and higher share prices.' (Day, 2006) James himself said: 'For PBL it releases cash at a time when there is a land grab under way for gaming and entertainment assets around the world.' (Durie, 2006)

In other words, it was a good move for James to sell off his media assets to invest more profitably elsewhere. But if so, why was it a good move for CVC to buy into those media assets? Kerry Packer famously said you only get one Alan Bond in your life, a profligate and foolish buyer who thrust Packer into the realm of the super-rich. But is CVC to be seen as simply less astute than young James, happy to provide these huge amounts of capital for Packer to make better investments elsewhere?

CVC is a very different animal from Alan Bond, although both in a sense epitomise their respective business eras, the move from the egoistic buccaneering entrepreneur to the anonymous, soulless equity group interested only in the bottom line. Putting his personal dishonesty to one side, Bond was a product of the period which combined the deregulation of the banks, when it was easy to run up large debts while often keeping the lending institutions in the dark, and high inflation when debt could be gambled against easy and effortless (and sometimes fraudulent) asset appreciation. In 2006, as Alan Kohler (2006) commented, 'the catalysts for the deals are the providers of capital — super funds and banks — through their hired intermediaries, who are pursuing massive fees and short-term performance rather than long-term ownership'.

Private equity companies are defined simply as any type of equity investment in an asset in which the equity is not freely tradeable on a public stock market. They have become increasingly important in recent years (*Economist*, 2004), and are judged primarily on the return they give to their investors. A common performance threshold is a 20 per cent rate of return (Stevens, 2006). They usually achieve this by taking over under-performing companies, cutting costs, sometimes breaking them up or disposing of loss-making parts or valuable assets, and then reselling. They are not usually long-term owners, but rather aim to sell out after about three years. As John B. Fairfax, proprietor of Rural Press, observed, 'private equity has, as I understand it, a mission: to E-X-I-T, exit' (Washington and Murray, 2006).

In the current media environment, with at best slight prospects for growth in the revenues of free-to-air television and Packer's magazine stable, how does CVC think it will achieve its desired rate of return? Can they repackage assets to make their future sale more advantageous in a way Packer could not? Other possibilities include further concentration of media properties that will give them greater leverage with advertisers and suppliers. Or perhaps they are contemplating the sort of international expansion that Kerry Packer always shrank from. But, almost inevitably, one of their central strategies will involve cost-cutting, which almost certainly will impact on programming and on investment in the local industry.

In 1987, owners of television licences in Australia had to be Australian citizens and deemed to be fit and proper persons. The only person ever challenged on this latter count was Alan Bond. There was an unquestioned presumption that along with having access to a TV licence went various social obligations, although there was constant friction about what these were and whether they were being fulfilled. In 2006, market forces have very substantially supplanted social obligation. Half of Australia's leading network is now owned by an anonymous international foreign equity group, whose interest is purely in its share price and profitability. And it is far from clear that what is good for CVC is also good for Australian viewers.

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