

Notification – Production grants for news and current affairs media

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1. INTRODUCTION

For over 40 years, the production grant for newspapers has been a well-targeted and successful support measure, and key to Norway's high degree of media diversity. The current production grant, however, was developed in a different context and does not reflect the current changes within the media industry.

In October 2009 the Norwegian Ministry of Culture appointed the so-called Media Grant Committee to review the use of economic media-policy instruments. The Committee submitted its recommendation in December 2010.¹ The Committee recommended i.a. to adapt the production grant for newspapers to an emerging digital media landscape.

Based on the Committee's recommendation, the Ministry started its work on revising and modernising the production grant. The result – a new production grant for news and current affairs media – is presented in this notification.

The remaining document is structured as follows:

Chapter 2 offers an overview of the current media policy goals in Norway; in particular goals related to the production of news and current affairs media.

Chapter 3 presents the current aid measures for media.

Chapter 4 describes the Media Grant Committee and its evaluation of the current production grant.

Chapter 5 presents the new production grants for news and current affairs media. Where relevant, the opinions received during the consultations are also presented.

Chapter 6 presents the assessment of the aid, including the so-called “balancing test”.

Finally, three appendixes are included: *Appendix I* includes the draft regulation for a production grant for news and current affairs media. *Appendix II* includes the list of stakeholders participating in the consultations of the new scheme. *Appendix III* includes key figures and simulations of the aid.

¹ NOU 2010:14 *Lett å komme til orde, vanskelig å bli hørt – en moderne mediestøtte.*

2. MEDIA POLICY OBJECTIVES

Norwegian media policy is grounded in the so-called “infrastructure requirement” of the Norwegian Constitution (paragraph 6, article 100), which states: *“It is incumbent upon the state government to create conditions that facilitates an open and enlightened public discourse”*. This expressly obliges the government to actively ensure that individuals and groups are provided with the means to express their opinions, obtain information and participate in an open political debate.

The “infrastructure requirement” was introduced in the Norwegian Constitution in 2004. However, Norway has a long tradition of assigning to the authorities a duty to facilitate public discourse and the free flow of information, including direct subsidies to the media sector and the zero-rate of VAT on newspapers.

The main objective of Norwegian media policy, as formulated in the Ministry of Culture’s budget proposal for 2013, is rooted in the infrastructure requirement and reads as follows:

“Based on the infrastructure requirement, the main goal of media policy is to ensure a pluralistic media landscape that will provide the population access to a diverse and open public discourse, news and information of high editorial standards, and cultural expressions of high quality and great breadth. An important prerequisite to obtain this objective is the production of content reflecting the Norwegian language, culture, identity and society”.²

The overall objectives of Norwegian media policy are furthermore specified in a list of goals in the Ministry’s budget proposal³, of which the following three are of relevance for the object to be notified in this document:

- Media pluralism and media quality (“internal” pluralism)
- Diversity in media ownership (“external” pluralism)
- Editorial independence

In this context, “external” pluralism is seen as a prerequisite and a tool for achieving “internal” pluralism, i.e. access to a wide range of information and opinions.

It is also explicitly stated that the media has a clear responsibility on its own behalf to protect its democratic role. This is especially true in editorial matters, where the state should not intervene.

Regarding the production grant for newspapers, the following goal is defined in the Ministry’s budget proposal:

² Prop. 1 S (2012-2013).

³ Ibid.

“The production grants shall contribute to maintain a diversity of newspaper publications throughout Norway and stimulate local newspaper competition”.⁴

Hence, the production grant is aimed at contributing to a) the publication of newspapers in as many localities as possible, and b) local newspaper competition.

In addition to the principle of editorial independence, the media policy goals also state that the authorities should *“actively intervene in the press sector as little as possible”* and that there should be no further specific goals in this field.⁵

⁴ Ibid.

⁵ Prop. 1 S (2012-2013). The goal of ensuring editorial independence has influenced the design of many media policy measures. For example, the rules that govern the allocation of the production grant for newspapers has been designed as “objective” as possible, in order to leave as little latitude of choice as possible to individual civil servants or politicians when allocating grants. A number of other regulations are also designed to ensure the media’s editorial independence. For instance, both the Media Ownership Act (designed to prevent the excessive dominance of any one owner in the media sector) and the Editorial Independence Act (which prohibits the intervention of shareholders in the day-to-day editorial decisions of media enterprises) are designed so that the various media institutions shall have independence and represent unique voices in the public debate.

3. OVERVIEW OF CURRENT AID MEASURES

This chapter offers a short presentation of current aid measures for news and current affairs media (see table 3.1 for overview). Please note that this chapter gives an overview of *all* existing aid measures for the media, including aid measures that are not subject to changes and consequently not subject to notification. As a general rule, a beneficiary cannot receive grant under more than one grant scheme.⁶

Table 3.1 Current aid measures for news and current affairs media

Direct vs. Indirect	Sector	Incentives
Direct	The press	<ul style="list-style-type: none">- Production grant for newspapers- Production grant for Sami newspapers- Production grant for minority language publications- Production grant for weekly and monthly niche publications- Distribution aid (Troms and Finnmark)
	Broadcasting	<ul style="list-style-type: none">- License fee (NRK)- Project grant for local broadcasting
Indirect	The press	<ul style="list-style-type: none">- Zero-rate of VAT on newspapers
	Broadcasting	<ul style="list-style-type: none">- Reduced VAT (NRK)

3.1 The production grant for newspapers

The production grant for newspapers was originally introduced in 1969, with the aim of maintaining a plurality of daily newspapers. It was introduced as a response to the potential prospect that newspapers would continue to disappear from the market, similar to what had occurred in Sweden and Denmark during the 1960s. Between 1950 and 1969, approximately 40 newspaper titles disappeared in Norway.⁷ The majority were centre to right-leaning publications that held secondary positions in their respective markets (so-called “number two” newspapers).

From 1969 to 1984 the aid took the form of a production grant based on the number of tons of newsprint multiplied by a grant rate. The rate differed according to the

⁶ There are two exceptions to this rule: The first exception is the zero VAT regime on newspapers, which benefits all printed newspapers in Norway, regardless of whether they receive other aid. The second exception is the distribution aid for newspapers in Finnmark, which benefits publications that may also receive the general production grant for newspapers (see more below).

⁷ NOU 2010:14, Section 4.2.1.

competitive position of the respective newspapers. The production grant was selective, in the sense that it targeted specific newspapers and varied according to the newspaper's competitive position. The purpose was primarily to promote newspapers in difficult market positions.

Since 1984 the grant has been calculated on the basis of the number of copies distributed, i.e. circulation multiplied by number of issues. One reason why the paper-grant was replaced by a production grant was that the former grant scheme provided the recipients with an incentive to increase the number of pages of each edition, in order to maximise grants. Since 1984, the main features of the scheme have remained unchanged.

Today, there are four direct production grant schemes targeting the Norwegian press sector (see table 3.2 below).

Table 3.2 Overview of the different production grant scheme for news media, their value and number of recipients

Name of grant scheme	Value (in 2012)	Number of recipients (in 2012)
The production grant for newspapers	287,9 million NOK	138
The production grant for Sami newspapers	23,4 million NOK	4
The production grant for minority-language publications	0,8 million NOK	3
The production grant for weekly and monthly niche publications	16 million NOK	6

The different grant schemes are in practice mutually exclusive, as the target groups differ. In the case of the production grant for newspapers and the production grant for minority-language publications, it is explicitly stated that grants cannot be allocated to publications that receive other forms of operating grants. A similar provision is included in the draft regulations⁸ on the new production grant for news and current affairs media, presented later in this document (see chapter 5).

3.1.1 The production grant for newspapers

The main direct subsidy scheme aimed at maintaining a plurality of publications is the production grant for newspapers.⁹ It is also the largest grant scheme: It makes up for nearly 90 per cent of the direct press-subsidies. The aim of the grant is to “*provide for economically disadvantaged newspapers and newspapers with a limited circulation*”.¹⁰

⁸ Cf. Appendix I “Draft Regulation”.

⁹ Forskrift 26. November 2009 nr 1409 om produksjonstilskudd til dagsaviser

¹⁰ Ibid.

For 2013, NOK 307, 9 million has been allocated to the production grant, an increase of NOK 20 million compared to 2012. The increase was justified as a compensation for a de facto decrease in subsidy allocations since 2006.

Even though it is not formally stated in the regulatory framework, publication on newsprint is currently functioning as an absolute condition for aid: Today, the regulation is addressed to newspapers, and circulation-figures for sold printed newspapers function both as qualification- and allocation-criteria.

According to the current regulations paragraph 3, no. 1, the grant is allocated to newspapers that “*contain news and current affair content of a daily press nature, that clearly differentiate themselves from other types of publications*”. Media that are published daily, on paper will, in most cases, contain a broad range of news and current affairs content. Thus, historically, there has been no need for detailed content requirements.

The current regulation paragraph 3, no. 3 requires that newspapers “*receive genuine payment for subscriptions, non-subscription sales and advertisements in accordance with a publicly available price list in order to be eligible for grants*”. Furthermore, the regulations paragraph 3, no. 5 require that a newspaper must sell “*at least half of its approved net circulation through subscription*” in order to receive a grant. The purpose of this provision has been to exclude non-subscription newspapers, which historically have been profitable.

According to the regulations paragraph 4, newspapers are grouped according to their circulation, publication frequency and local competition. The distribution of funds *between* these groups of newspapers is determined by the Ministry each year based on the economic development within the different groups.

In accordance with the main objectives of the grant two categories of newspapers receive grants:

1. Small, local newspapers (i.e. newspapers with a circulation of less than 6,000 copies, of which at least half is sold in the counties they are established).
2. Newspapers that face a difficult competitive environment (i.e. the “number two”¹¹ newspapers, including the so-called “nationwide ideological”¹² newspapers).

Of these two groups, the number two newspapers receive by far the largest amount of subsidies. The subsidy allocated to these newspapers is calculated based on the approved circulation multiplied by the number of editions per calendar year. The five “nationwide ideological” newspapers and the twenty-four other number two newspapers

¹¹ “Number two” newspapers are defined as newspapers with one or several larger competitors within the municipality where the newspaper is published.

¹² “National ideological newspapers” are defined as newspapers representing specific beliefs, ideologies or business interests that are not (or only to a limited extent) covered by mainstream media. The following five newspapers belong to this group: Dagen, Dagsavisen, Klassekampen, Nationen and Vårt Land.

that comprise this group, received approximately 80 per cent of the total production grant in 2012.

Small, local newspapers (in the regulations defined as “number one” or “sole” newspapers, with a limited circulation) receive a fixed amount based on the number of editions per week. In addition, the smallest newspapers, those with a circulation of 1,000-4,000 copies, receive an extra subsidy, cf. the regulations paragraph 7.

The Norwegian Media Authority manages the grant scheme.

The tables below summarise the number of newspapers that received production grants in 2012 (cf. table 3.3), total production grants 2008-2012 (cf. table 3.4), and the key financial figures of newspapers that received production grants in 2011 (cf. table 3.5).

Table 3.3 Number of newspapers that received production grants in 2012

Type of newspapers	Number of newspapers
Small, local newspapers	109
“Number two” newspapers	24
- Regular “number two” newspapers	19
- “Nationwide ideological” newspapers	5
In total	138

Table 3.4 Production grants per type of newspaper (2008-2012, in mill. NOK)

	2008	2009	2010	2011	2012
Small, local newspapers	50,4	50,7	53,1	54,6	55,8
“Number two” newspapers	210,8	213,7	219,8	224,5	231,8
- Regular “number two” newspapers	79,9	78,9	80,6	80,4	79,9
- “Nationwide ideological” newspapers	130,9	134,8	139,2	144,1	151,9
Total	261,3	264,5	272,9	279,1	287,6

Table 3.5 Key financial figures for newspapers receiving production grants, 2011

	Total	Small, local newspapers	“Number two” newspapers		
			“Nationwide ideological” newspapers	Other “number two” newspapers	“Number two” newspapers in total
Number of newspapers	138	108	5	24	29
Profits/loss before grant	- 216 mill. NOK	- 2 mill. NOK	- 140 mill. NOK	- 78 mill. NOK	- 218 mill. NOK
Production grant	279 mill. NOK	54 mill. NOK	144 mill. NOK	81 mill. NOK	225 mill. NOK
Profits/loss after grant (before tax)	64 mill. NOK	57 mill. NOK	4 mill. NOK	3 mill. NOK	7 mill. NOK
Operating margin before grant*	- 14 per cent	- 2 per cent	- 45 per cent	- 19 per cent	- 30 per cent
Equity ratio	58 per cent	64 per cent	49 per cent	52 per cent	47 per cent

*Operating profit/loss as a percentage of operating revenue.

3.1.2 The production grant for Sami newspapers

The objective of the grant for Sami newspapers is to “*foster democratic debate, informed opinions and the development of languages in the Sami community*”.¹³ For 2013 a total of NOK 24,1 million is allocated to this grant.

Aid is granted to newspapers that target the Sami community. The qualification criteria under this scheme generally correspond to the criteria under the production grant, cf. above, except for the circulation criteria, which state that the aid is only allocated to newspapers with a circulation of at least 750 copies and a minimum of 48 editions annually. The Norwegian Media Authority manages the grant.

¹³ Forskrift 17. mars 1997 nr. 248 om tilskudd til samiske aviser.

3.1.3 The production grant for minority language publications

The objective of the production grant for minority language newspapers is to “*promote the publications for language minorities and the development of high editorial quality of these publications*”.¹⁴ For 2013 a total of NOK 0,8 million has been allocated to this grant.

The aid is granted to publications that cover editorial content from both Norway and the minorities’ country of origin. In order to receive aid under this scheme, the publications must i.a. be published regularly (at least six times per year) and average a net circulation of at least 400 copies. The Norwegian Media Authority manages the grant.

3.1.4 The production grant for weekly and monthly niche publications

The production grant for weekly and monthly niche publications targets a finite list of weekly and monthly niche publications. In 2012, approximately NOK 15 million was given to a total of 9 recipients. The purpose of the scheme is to maintain and develop weekly and monthly niche publications with various cultural and social opinions. The Arts Council of Norway manages the grant.

3.2 Distribution aid

Distribution aid is granted to newspapers published in the county of Finnmark. For 2013 a total of NOK 1,9 million is allocated to this type of aid. Distribution aid may be granted to newspapers that also receive regular production grants. However, the distribution grant is aimed at covering extra costs related to newspaper distribution in Finnmark due to the sparse population of the region and distances involved. The Norwegian Media Authority manages the distribution aid.

3.3 Zero rate of VAT on newspapers

The zero rate of VAT on newspapers was introduced in 1970 in parallel with – and for the same reasons as – direct press subsidies.¹⁵ The zero rate was granted in order to maintain the “pluralism of daily newspapers”, and thereby lay the foundations for the development of a wide range of informed opinions within society. It was also argued that Norwegian culture would suffer if the standard rate of VAT were to be applied to the “printed word” and that in a small language community like Norway there were strong reasons for exempting written publications from a tax on consumption. The zero rate of VAT is therefore linked to the overall media policy goals of promoting freedom of expression, diversity and quality.

The Norwegian VAT provisions are based on the same basic principles as the VAT legislation in the EU Member States. VAT is collected on the supply of goods and

¹⁴ Forskrift 22. oktober 2003 nr. 1256 om tilskudd til minoritetsspråklige publikasjoner.

¹⁵ Newspapers were, however, already exempt from the predecessor of the VAT, the so-called turnover tax, which had been in place since 1935.

services that fall within the scope of the VAT Act. The importation and self-supply of goods and services are also taxable.

In Norway the standard rate of VAT is at present 25 per cent of the net price (taxable base). On foodstuffs the VAT rate is 14 per cent. Certain services are subject to a reduced rate of 8 per cent, e.g. passenger transport, movie-theatre tickets and accommodation in hotels.

According to section 6-1 of the VAT Act, newspapers are exempted with credit for input tax (the supply is “zero-rated”). The same rate applies to books and periodicals. In order to be zero-rated, the newspaper must be printed on paper and published regularly, with at least one edition per week. In 2010, the Ministry of Finance estimated that the loss of revenue from the zero rate of VAT on newspapers totals NOK 1.8 billion.

In the vast majority of EU countries, print editions of newspapers are subject to a zero rate or reduced rate of VAT. Most countries apply the same rate to journals, magazines, etc. as to traditional print newspapers. However, there are some countries that levy the standard VAT rate on newspapers and magazines, including Bulgaria, Lithuania and Slovakia.¹⁶

The zero-rate on newspapers does not cover digital media services, which are therefore subject to the standard rate of VAT. This is in accordance with the VAT directive (Directive 2006/112/EC), which does not permit reduced rates for such services, cf. Article 98 (2).

The Norwegian Government is not considering changes to the existing VAT system for news media. Norway will maintain the zero rate of VAT on printed newspapers, and full VAT on digital news media. The decline in circulation of printed newspapers – and the growth in the consumption of digital news media – implies, however, that the value of the zero-rate of VAT will decline over time, as readers move from zero-rated printed newspapers with zero-rated VAT to digital platforms for which a standard rate of VAT is charged.

3.4 The licence fee

The licence fee is the most important direct support scheme for broadcasting. The rationale for the fee is to ensure that the public service broadcaster, the NRK, continues to serve social, cultural and democratic needs of the Norwegian society. The license fee is a mandatory government fee levied on all households that hold a broadcast receiver. The fee is set annually in the national budget. For 2013, Parliament set the fee to NOK 2482 for each household. Revenue from the fee is estimated at approximately NOK 5.1 billion in 2013.

¹⁶ NOU 2010:14, Section 4.6.

3.5 The project grant for local broadcasting

The main objective of the project grant for local broadcasting is to support high quality in and a financially viable local broadcasting. The project grant is allocated to projects that fulfil these objectives.¹⁷ For 2013, NOK 13, 5 million is allocated to this grant. The Norwegian Media Authority manages the grant. The Ministry is currently reviewing this grant scheme.

¹⁷ Forskrift 7. september 2001 nr. 1108 om tilskudd til lokalkringkasting.

4. THE NEED FOR A REVIEW

For over 40 years, the production grant for newspapers has been a well-targeted and successful scheme and an important reason why Norway has maintained a high degree of media diversity. In 2012, more than 228 newspapers were published, in nearly 200 municipalities in Norway. This figure represents an increase from 1969, the year the production grant was introduced, when a total of 191 newspapers were published. Furthermore, the level of media consumptions is also relatively high: In 2012, 66 per cent of the Norwegian population read a newspaper daily, rising to 86 per cent of the population if digital newspapers are included.¹⁸ Evaluations further indicate that the grant system has been well targeted when it comes to supporting economically disadvantaged newspapers, especially small local newspapers and newspapers with a larger competitor in the same place of publication.¹⁹

Nevertheless, the current production grant was developed in a different context and does not reflect the ongoing changes within the media industry. In order to address these challenges, the Ministry of Culture in October 2009 appointed the Media Grant Committee to review the use of economic policy instruments for the media. The Committee consisted of eleven members representing various interests within the media industry as well as researchers and other specialists.

4.1 The Media Grant Committee

In its recommendation, submitted in December 2010, the Media Grant Committee concluded that the current business models of the media industry are under pressure, and that subsidy measures are necessary to guarantee the population broad access to news and public debate of high quality. The committee concluded:

- The position of the printed newspapers is being challenged by new players who are distributing similar products, yet free of charge and with significantly lower advertising prices. Furthermore, after several years of supplying access to content free of charge, the willingness to pay for news content on the Internet is low.
- The broadcasting industry is also being challenged by similar products, primarily radio-like and television-like services online, in addition to an increasing number of start-ups within the industry as a result of digitisation.
- In the online market the challenges include strong competition due to low market barriers, a growing number of new substitutes, and decreasing customer loyalty.

A unanimous Committee proposed to maintain the production grant for newspapers. However, the Committee found that the current allocation criteria (according to which grants are linked to the number of publications and paper circulation) should be

¹⁸ TNS Gallup (2013) "Færre leser papiravisene – men mediehusene øker. Avislesning 2012".

¹⁹ NOU 2010:14.

changed so that the allocation becomes “platform-independent”, i.e. so that grants are awarded regardless of how the content is distributed.

Furthermore, the Committee made reference to the fact that a platform-neutral production grant will stimulate digital publishing and new production and distribution strategies for newspapers that receive direct grants.

The Committee also referred to the fact that printed newspapers currently receiving production grants will be penalized twice if they develop digital news publications. This is partly due to the fact that an “online reader” generates less revenue than a “paper reader”, partly because newspapers will receive less of the production grant when moving readers from paper to online. The Committee therefore argued that there are currently weak incentives to establish an online presence for newspapers that are entitled to grants.

4.1.1 Committee recommendation – allocation criteria

The Committee proposed new criteria for the allocation of grants.

For the so-called “number two” newspapers, which currently receive grants based on their annual circulation, the Committee proposed new criteria based on a combination of user payment, editorial staffing and net coverage:

- “User payment” includes the newspaper’s total revenue from subscriptions, non-subscription sales and other forms of user payment.
- “Editorial staffing” refers to the editorial resources of the newspapers, in other words the costs associated with the production of editorial content in the media.
- “Net coverage” means the number of users who are exposed to the content at least once, regardless of the platform, measured in relation to reader and viewer measurements.

For small, local newspapers, which currently receive fixed amounts per weekly publication, the Committee found that the “*combination of criteria that are used for the number two-newspapers (would) not be appropriate...*”. The Committee therefore proposed to maintain the system of fixed grants, but to forego the requirement that the publication must be printed on paper. The Committee found that paid subscriptions should be a prerequisite for a base grant, with the addition of an extra grant per weekly publication regardless of the chosen media platform.

4.1.2 Committee recommendation – qualification criteria

The Committee did not discuss the qualification criteria to any great extent, but recommended that an evaluation of such criteria should be conducted at a later point in time.

4.2 Consultation of the Committee's report

The Media Grant Committee's report was made subject to a public consultation in January 2011 with a deadline for comments set in April 2012. A total of 167 stakeholders commented on the report.

A majority of the stakeholders supported the Committee's conclusion that the media grant scheme has been successful and an important contributor to the diversity of the Norwegian media landscape. Overall, the stakeholders also supported the Committee's proposal to make the production grant platform-neutral. A summary of comments from the key stakeholders is given below:

- The Norwegian Media Businesses' Association (MBL) finds that the production grant has been important in maintaining diversity and quality as well as ensuring the existence of newspapers throughout the entire country. The MBL furthermore finds that the qualification criteria for the production grants should be changed, so that it becomes independent of the publication technology.
- The Trade Organization for Local Newspapers in Norway (LLA) points out that digitisation should not be a goal in itself and that it is not the government's task to accelerate the development in specific directions. The LLA therefore recommends a separate grant for digital media in parallel with the current press subsidies rather changing the current system: *"The risk of uncertain negative consequences would thus be less, and a permanent grant scheme may become more targeted since the parties would be able to build on several years of experience and accumulated knowledge."*
- The Association of Norwegian Editors (NR) finds that the Norwegian system for media grants has been a success, and states: *"Norway is currently a world leader as regards the number of newspapers in relation to its population and per capita newspaper reading. (...) There are probably several reasons for this: historical, topographical, political and financial. We are nevertheless in no doubt that the combination of VAT exemption and production grants for newspapers, in addition to certain other instruments (...) have been and are significant contributions to maintaining and developing an abundance and diversity of newspapers that is quite unique in a global context."*
- The Norwegian Union of Journalists (NJ) finds that the combination of direct and indirect grants has contributed to the development of media diversity and media consumption that one hardly finds any comparison to in other countries. The NJ points out that the media create *"social value far beyond what is evident from the stock exchange and company accounts and that it is in this context that we must understand the need for media grants"*. The NJ is of the opinion that the production grant should be increased and expanded, and that it must be restructured in the form of a platform-neutral, direct grant to stimulate journalistic content regardless of publishing platform.

4.3 The Ministry's conclusion

The Ministry finds that the justification for the production grant for news media is still very much valid. There is, however, a strong need for revising the existing scheme in order to make it more platform-natural. Most importantly, the current scheme is “paper based”, in the sense that grants are strictly allocated to printed newspapers and grants are calculated on the basis of circulation and number of weekly editions. Hence, the production grant may hinder the development of online publications, new products as well as new distribution strategies within the news industry. As detailed above, this is caused by the fact that newspapers receiving production grants run the risk of receiving less state funding when expanding digitally.

In the national budget for 2012, the Ministry announced a revision of the current production grant, and in the national budget for 2013 a model for this revision was presented.

5. DESCRIPTION OF THE REVISED PRODUCTION GRANT SCHEME

The notified production grant scheme is based on the current grant scheme for news and current affairs newspapers, however, with two major changes:

- Firstly, it introduces changes in the *qualification criteria*, eliminating the current criterion that only printed newspapers qualify. Any news and current affairs media, paper based or digital, which fulfil the qualification criteria, will be eligible for grants under the new scheme.²⁰
- Secondly, it introduces changes in the *allocation of the grant*, by including digital publications when calculating grants. This implies that the production grant will be calculated based circulation and frequency on all platforms, and not strictly on the basis of the circulation of printed newspapers.

In addition to these two major changes, the notified scheme also introduces several minor modifications to be described in detail below (see also draft regulations in appendix I).

The new scheme has been subject to three public consultations. In the first consultation (spring 2012), a draft regulation of the new scheme was circulated. Based on the first consultation, the Ministry saw a need for a second consultation (autumn 2012) in which three additional proposals were circulated.²¹ Finally, a third consultation (spring 2013) was conducted in which an additional three issues were circulated.²²

All the major stakeholders participated in the consultations (see appendix II for a list of stakeholders). The consultations demonstrates that the stakeholders in general support the need for revising the existing grant scheme so that it will no longer be limited to traditional distributions platforms, i.e. newsprint. They also demonstrate a general support for the main elements of the revised scheme. The stakeholders' comments to the consultations are recounted where relevant.

5.1 Overview of the grant scheme

In this chapter the Ministry describes the production grant scheme in detail. The chapter is structured according to the draft regulations for the production grant for news and current affairs media (hereafter “the regulations”, see appendix I).

The regulations consist of four key elements:

²⁰ With the exception of traditional (linear) broadcasting that is expressly excluded from the proposal (see explanation in chapter 6).

²¹ These proposals were: a) the inclusion of non-subscription news media, b) the introduction of a grant ceiling, and c) the introduction of a “claw-back” mechanism.

²² These proposals were: a) to allow distribution of a limited amount of dividends to shareholders, b) restrictions on the transactions between recipients of grants and parent companies and other associated subjects etc., and c) a proposal to change the previously consulted “Oslo- rate” to a “Nationwide- rate”.

- Chapter 1: General provisions (Objectives and definitions)
- Chapter 2: Conditions of grant (Eligibility criteria)
- Chapter 3: Calculations of grants (Allocation of grants)
- Chapter 4: Concluding provisions (Administration and supervision)

Chapter 1: Objectives

The regulations' chapter 1 states the purpose and scope of the production grant, including: 1) the main objectives of the scheme, 2) the publishing platforms covered by the scheme, and 3) criteria for the exclusion of media that receive other forms of government operating grants.

Chapter 2: Eligibility criteria

The regulations chapter 2 sets the criteria that must be fulfilled in order for a medium to be eligible for grants. Three categories of criteria must be fulfilled: 1) criteria related to content, 2) criteria related to organization, management and use of the grant, and 3) criteria related to circulation, publication frequency and competitive position.

Chapter 3: Allocation of grants

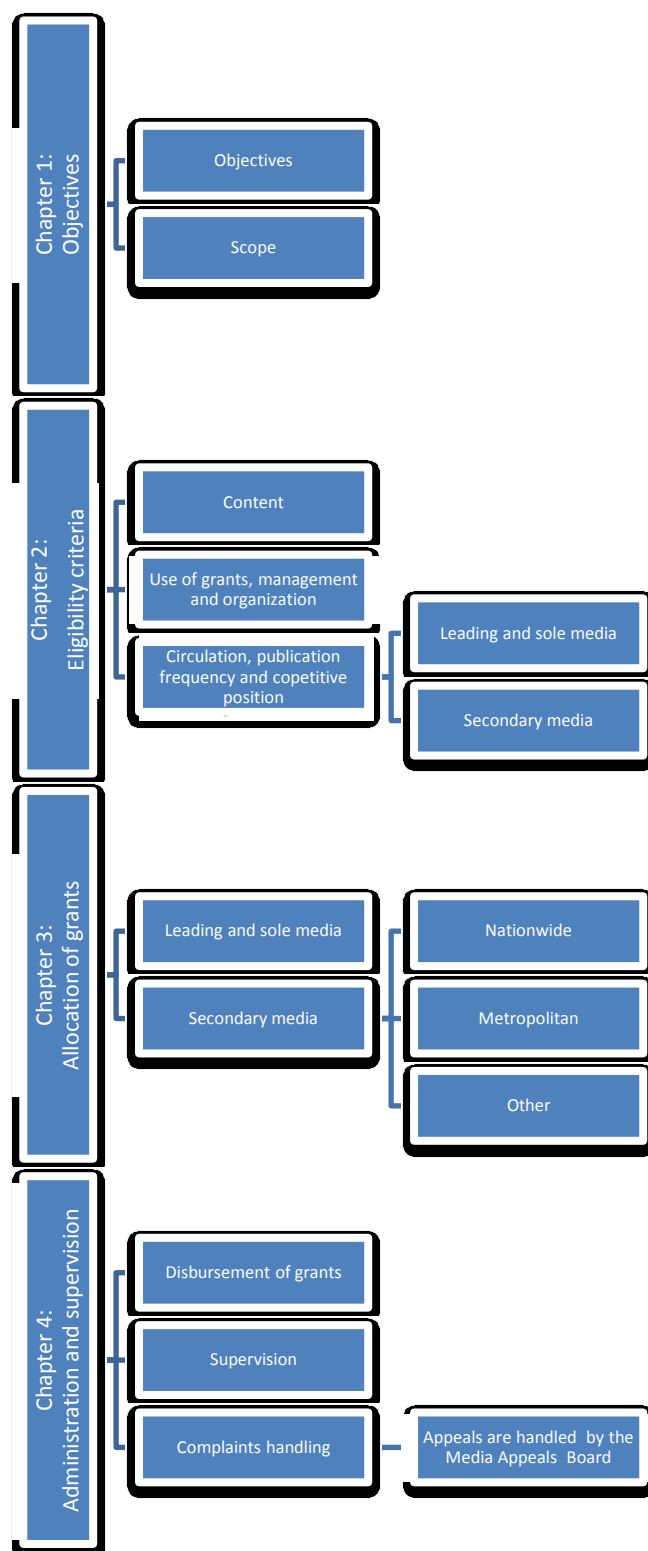
Chapter 3 of the regulations contains provisions concerning the allocation of grants, including provisions on: 1) allocation to leading and sole media and secondary media, 2) grant limits, 3) stipulation of grant amounts and rates, 4) rules on allocation to newly established media, and 5) transitional provisions for media that no longer will be entitled to receive grants.

Chapter 4: Administration and supervision

The regulations chapter 4 contains provisions on the management and supervision of the grant scheme by the Norwegian Media Authority. The chapter contains provisions on: 1) administration and appeals, 2) recipients' duty to disclose information, and 3) disbursement of grants.

See figure 5.1 for a graphic overview of the main elements in the regulations.

Figure 5.1 Overview of the regulations for production grants to news and current affairs media



5.2 Objectives (chapter 1)

Chapter 1 of the regulations states the overall purpose and scope of the grant scheme (section 1) and key definitions (section 2).

5.2.1 *Purpose and scope*

Section 1 of the regulations states the overall purpose and scope of the grant scheme. This provision states that the main objectives of the scheme is; a) to promote news media in markets that are too small to be sustainable, and b) to promote alternatives to the leading news media in larger markets. This twofold objective corresponds to the two groups of news media that are covered by the scheme, but separated according to their competitive positions: 1) leading and sole media (in the current scheme labelled “small, local newspapers”)²³ and 2) secondary media (in the current scheme labelled “number two newspapers”).²⁴ Furthermore, this provision underlines that the objective of the scheme is to promote the dissemination of a broad range of news, current affairs and political/social debate.

The third paragraph of section 1, defines the scope of the production grant. According to this provision, the grant may be allocated to any media with a broad range of news and current affairs content regardless of publishing platform, with the exception of traditional (linear) broadcasting (see more chapter 6).²⁵ Section 1, fourth paragraph, excludes also media that receive other government operating grants.

Relatively few stakeholders commented on the provisions on the scope and objectives of the scheme, and those who did were in general terms in favour of the proposal.

5.2.2 *Definition of grant objects*

Section 2 contains the key definitions of the regulations, most importantly, the grant objects.

The scheme distinguishes between “the principal medium” and “associated media products”. “The principal medium” is defined as the largest medium (in terms of revenues), cf. Section 2, first paragraph. “Associated media products” are defined as media that share more than 50 per cent of news, current affairs and debate content with the principal medium.

A key characteristic of the new media landscape is that media houses publish editorial content on a number of different media platforms. Hence, it is no longer relevant to equate the medium (newspaper) with the distribution channel (newsprint). Some of the offerings of media companies that operate on different media platforms may include services that are without relevance to the objectives of the scheme. Such services should not be covered by the scheme, i.e. should not be included in the calculation of

²³ Cf. Section 2, seventh paragraph and Section 5 no. 1.

²⁴ Cf. Section 2, seventh paragraph and Section 5 no. 2.

²⁵ Broadcasting and local broadcasting as defined in Section 1-1 of the Broadcasting Act.

the grant. Consequently, the Ministry deems it necessary to define what parts of a portfolio of associated media products may be included in the scheme and to distinguish between the principal medium and the associated media products.

For instance, if a media company publishes a printed newspaper, an online news site and a tablet news service, of which the newspaper has the largest revenue, the newspaper is defined as the “principal medium”. In order for the tablet news service or the news site to be defined as associated media products, they must share at least 50 per cent of the news, current affairs and debate content with the newspaper.

When the principal medium and the associated media products have been identified, the next step will be to assess whether or not these media fulfil the eligibility criteria. The eligibility criteria in Section 3 must only be fulfilled by the principal medium (cf. below).

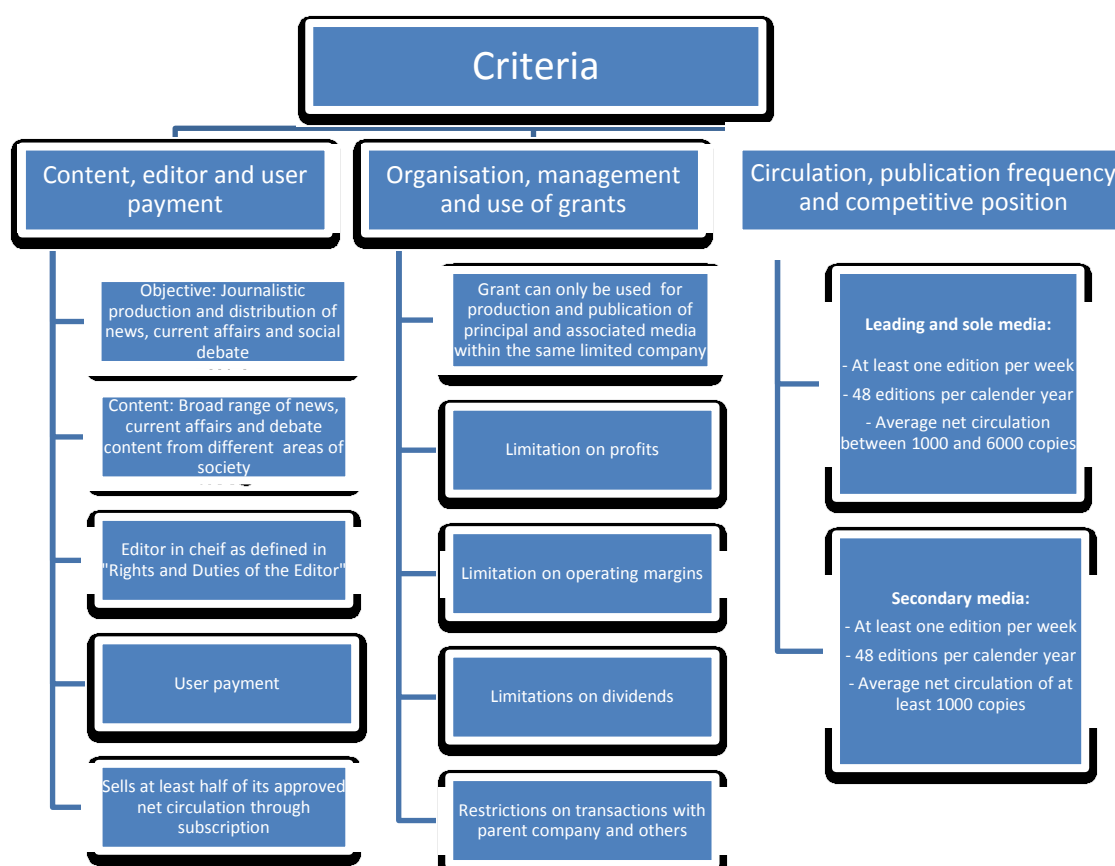
5.3 Eligibility criteria (chapter 2)

According to the regulations in chapter 2, a medium must fulfil several criteria in order to be eligible for grants. The criteria fall into the following three categories:

- a. Criteria related to the medium’s content, editor and user payment, cf. Section 3.
- b. Criteria related to the medium’s organization, management and use of the grant, cf. Section 5
- c. Criteria related to the medium’s circulation, publication frequency and competitive position, cf. Section 4.

Figure 5.2 gives a graphical overview of the eligibility criteria.

Figure 5.2 Overview of the eligibility criteria



5.3.1 Criteria related to content, editor and user payment

In order to fulfil the objectives of the production grant, it is essential that the grant targets media whose objective it is to provide news, current affairs and social debate from different areas of society to the general public. Media must thus fulfil the following criteria in order to be eligible for the grant:

- Criteria related to the medium's objective and content, cf. Section 3, nos. 1 and 2.
- Criteria related to the medium's editor in chief, cf. Section 3, no. 3.
- Criteria related to user payment, cf. Section 3, no. 4.
- Criteria related to circulation sold through subscription, cf. Section 3, no. 5.

Only the principal medium must fulfil the general criteria in Section 3.

5.3.1.1 Objective and content criteria

Section 3, nos. 1 and 2 stipulates the criteria concerning the objective and content of the medium.

The objective criterion in Section 3, no. 1 states that grants may only be awarded to media that *"have a primary objective of engaging in journalistic production and the*

distribution of news, current affairs and social debate to the general public". Furthermore, the objective criterion states that grants may not be awarded to *"media that are aimed primarily at members or employees of specific organizations, associations or companies"*.

The content criterion in Section 3, no. 2 states that grants may only be awarded to media that *"have a broad range of news, current affairs and debate content from different areas of society"*. The content criterion excludes *"media that primarily contain material from just one or a few areas of society, or which primarily contain material aimed at a specific professional, political, ideological, religious or ethnic background"* ("niche media").²⁶

The rationale behind the objective and content criterion is to ensure that the grant is awarded to media that fulfil the key media policy objectives of the production grant. The goal of the production grant has always been to promote *broad* and *general* public debate. Media that are published daily on newsprint will normally contain a broad range of news and current affairs. On electronic platforms, however, a much wider range of products – including niche products – may be financially sustainable, due to considerably lower production and distribution costs. In this respect, the objective and content criteria represent essential mechanisms to eliminate media that do not fulfil the political objectives of the scheme.

The stakeholders mainly commented on one particular element of the new content criterion, namely that grants should not be awarded to "niche media". Several stakeholders were concerned that this may exclude publications with an explicit political view, in particular that this may affect the so-called "nationwide ideological" newspapers. The stakeholders' responses to the consultations imply that the majority accept more detailed content criteria.

The purpose of the new provision related to "niche media", is not to disqualify broad news media with a particular political or other profile, but to ensure that grants promote the broad and general public debate. The content criterion does not exclude news media with a religious or political view, as long as the medium provides a broad range of news etc. Several of the media that will be eligible for grants provide news and current affairs from different areas of society and represent specific political or religious views. The newspapers Dagen and Vårt Land will for instance both qualify as nationwide secondary media. These newspapers provide news and current affairs content from different areas of society with a distinct protestant Christian view. In contrast, a congregational publication that provides content solely on activities within the congregation will not meet the qualification criteria, since such a publication will not provide a broad range of news etc. from different areas of society.

²⁶ Furthermore, the scheme explicitly states that grants shall not be *"awarded to media that have as its primary objective advertising or marketing"* or media in which *"a majority of the content consists of advertisements"*.

5.3.1.2 Editor in chief

According to Section 3, no. 3 a medium must have an editor in chief, as defined in the provisions of the declaration “Rights and Duties of the Editor”.²⁷ The Ministry finds that this criterion ensures that the grant is awarded to professionally edited media that base their activities on the industry’s ethical norms – in contrast to aggregators or user-controlled services, such as social media services, blogs etc. Relatively few stakeholders commented on this proposal, and those who did were in general terms in favour.

5.3.1.3 Genuine payment

According to Section 3, no. 4, a medium must receive genuine payment in order to be eligible for support. The Ministry regards the willingness to pay as a user-defined measure of quality, in the sense that users will only pay for content they find attractive.

During the consultation, the online news site Nettavisen stated that the exclusion of news media financed exclusively by advertisement revenues was prejudicial to such media. Furthermore, Nettavisen claimed that news media financed exclusively by advertisement revenues serve an important role in ensuring a pluralistic media landscape.

The Ministry finds that the principle of editorial independence implies that the scheme should avoid direct quality assessments carried out by the government. The criterion of user payment is objective and contributes to the scheme’s focus. The readers’ willingness to pay for a service may furthermore be regarded as an indirect indication of quality. As a result of the low cost involved in establishing a basic “electronic medium”, available services span the whole continuum from basic private websites and blogs to professional news services fully comparable to the established newspapers. User payment is a simple, objective and effective measure of the value and quality of the different services.

Further, a media outlet that relies on user payment will have an incentive to differentiate its editorial content from that of its competitors, to stimulate the readers’ willingness to pay for the service. In contrast, free news media that base their business models on advertising revenues will have incentives to offer “mainstream” content, to maximize the number of users. Consequently, it can be assumed that the payment criterion in the grant scheme indirectly promotes editorial pluralism.

The Ministry would also like to stress that both the eligibility criteria related to circulations and number of editions and the provisions that regulate allocations in the current scheme are based on the industry’s system of calculating circulation, which

²⁷ This joint declaration of the Norwegian Media Business Association and the Association of Norwegian Editors, was issued in 1953 and revised in 1974 and 2003. The declaration provides norms on the editors’ ethical guidelines and duties.

presupposes user payment. If one were to abandon payment as a basic criterion, it would require a fundamental restructuring of the scheme.

The user payment only applies to payment for access to the broad news and current affairs content, and may not be extended to *any* type of content (e.g. ring tones, user clubs etc.).

In general, those who commented on this question supported user payment as a basic requirement for support. This includes the Association of Norwegian Editors (NR), The Trade Organisation for Local Newspapers in Norway (LLA), as well as the two media owners Schibsted and Mentor Media.

5.3.1.4 Subscription

According to Section 3, no. 5, the principal medium must sell "*at least half of its approved circulation through subscription*" in order to receive grants. The purpose of this provision is to exclude media that are purchased individually.

In the second consultation, the Ministry proposed to remove the subscription requirement, so that single-copied news media may be qualified for the production grant, in practice by removing Section 3, no. 5 of the draft regulation. After an overall assessment, the Ministry has, however, decided to retain the requirement that at least half of the circulation must be sold as subscriptions. There are several reasons for this:

Firstly, the Ministry's analysis of the scheme indicates that an inclusion of media that are sold individually is unlikely to have any practical significance in the near future. The Ministry's calculations indicate that the single-copied news media most likely to be included in the scheme in the future (Dagbladet), would probably not qualify before 2016 at the earliest.

Secondly, several of the consulted parties requested a broader assessment of the potential impact of the proposal. Many of the current recipients foresee that their grants would diminish, should one or several major players be included in the scheme. Furthermore, several of the consulted parties also highlighted that some of the single-copy media operate highly successful online news services. Consequently, state aid to single copy printed media may have the potential to disrupt competition in the online media market.

As the potential consequences of the proposal are not yet fully assessed, the Ministry will postpone the inclusion of single-copied news media until the potential implications are fully assessed.

5.3.2 *Criteria related to organization, management and use of grants*

The purpose of the criteria in Section 5 is to ensure that the grant is well-focused and proportional. This section includes several mechanisms to ensure that the grant 1) is actually used for the production of media that are eligible for aid, 2) is not awarded to

media with high profits and operating margins, 3) is not used to pay dividends to the owners, and 4) is not used for cross-subsidising parent companies and other associated companies.

Section 5 includes the following criteria:

- The grant may only be used for the production and publication of the principal medium or associated media products, organized in the same limited company, cf. Section 5, first paragraph.
- Limitations on profits and operating margins, cf. Section 5, third and fourth paragraph.
- Limitations on dividends, cf. Section 5, fifth paragraph.
- Criteria for transactions between media companies and parent companies and other associated companies, cf. Section 5, sixth and seventh paragraph.
- Rules on exclusion from the scheme, cf. Section 5, ninth paragraph.

5.3.2.1 Criteria on the use of the grant and organization of the recipient company

According to Section 5, first and second paragraphs, grants may only be used for the production and publication of the principal medium or associated media products that are organized in the same limited company as the principal medium.

This means that beneficiaries may use the grants to finance the activities of both its principal medium (i.e. a print newspaper) and its various associated media products (i.e. a online news paper that shares more than 50 per cent of news, current affairs and debate content with the print newspaper) as defined in Section 2, paragraphs one and two.

In order to use the grants on associated media products, the associated media must be organized in the same limited company as the principal medium. The rationale behind this criterion is to avoid complicated corporate structures that may make it difficult to assess if the grant is used for the production and publication of the principal medium.

Section 5, first paragraph also states that a media company must be organized as a limited company as defined in Act 13. June 1997 no. 44 relating to limited liability companies (Limited Liability Companies Act) Section 1-1. This ensures that beneficiaries must follow the rules of the Limited Liability Companies Act, which sets several formal criteria on how a limited liability company must be operated.

Finally, Section 5, second paragraph states that media either controlled by public bodies or authorities, or for which such public bodies assume financial responsibility or hold an ownership interest exceeding 49 per cent, are not entitled to aid.

Media companies that those not fulfil the criteria in this paragraph, will lose their entitlement to grant, cf. Section 5, ninth paragraph.

5.3.2.2 Limitations on operating profits

Grants will not be awarded to media with profits before tax exceeding NOK 2 million the previous accounting year, or NOK 6 million over the last three accounting years, cf. Section 5, third paragraph. This ensures that the grant is proportional and not awarded to profitable media companies that do not require aid.

Media that formerly have received production grants but are no longer entitled to grants pursuant to this provision, will receive aid amounts that are gradually reduced over a three year-period according to the provisions in Section 7.

5.3.2.3 Limitations on operating margins

Section 5, fourth paragraph states that media with an average operating margin exceeding 10 per cent over the last three years, including the production grant, will get a corresponding reduction in the grant. The reduction of the grant will bring the average operating margin down to 10 per cent. The reduction of the grant is carried out either by a reduction in next year's grant or, where the medium no longer qualifies for grants, by repayment. The first year of the scheme is not included in the allocation of the operating margin. This mechanism has been introduced on the EFTA Surveillance Authority's recommendation.

The proposal for this mechanism was well received by the stakeholders in the consultation. The two main newspaper organizations (MBL and LLA) proposed some adjustments, which in practice would have increased the permitted level of profitability before this provision would be activated. The Ministry has considered the proposals from MBL and LLA, but finds no justification for implementing these, as they would make the provision less effective.

5.3.2.4 Limitations on dividends

According to Section 5, fifth paragraph, media companies that are awarded production grants may distribute dividends, provided that all of the following criteria are fulfilled:

- Dividends per year may not exceed the interest rate on the company's equity, set according to the average effective year rate for government bonds yield for 10 years in the year before the current grant year, with an addition of 2 percentage points to reflect commercial risk.
- Dividends per year may not exceed 25 per cent of the production grant received for the previous year.
- Dividends per year may not exceed NOK 1 million.

For media companies that are members of a group of companies in accordance with Section 1-3 of the Limited Liability Companies Act, group contributions shall be considered as dividends.

The Ministry finds that a total ban on dividends may prevent media companies from raising venture capital and, thus, hinder necessary development and innovation. The principal purpose for permitting a limited amount of dividend is to make it more attractive to invest in news media, in particular in smaller companies which otherwise can have difficulties raising capital. This is reflected in the fact that the criteria limit the amount of dividends that may be distributed to the shareholders. Dividends up to 1 million NOK may not be of great relevance to a large secondary news media, but it might prove vital to a sole or leading news media with a limited circulation.

Companies that violate this provision will be excluded from the scheme for a period of three years without any transitional grant, cf. Section 5, ninth paragraph. The Media Authority may pursuant to the regulations Section 8 exempt companies from exclusion in cases where an insignificant amount of dividends has been distributed as a result of an error.

The consulted parties that commented on the proposal were in general in favor of the proposal. A majority of the stakeholders, including the two main newspaper organizations (MBL and LLA), did however ask for a more liberal model. In contrast, The Norwegian Union of Journalists and the newspaper Klassekampen argued that there should still be a ban on dividends, in order to secure the social and political legitimacy of the grant scheme. In the final regulations, the Ministry did liberalize the model for distributing dividends, in order to meet the recommendations from the industry.

5.3.2.5 Criteria for transactions between media companies and others

Section 5, sixth and seventh paragraph, set criteria for transactions between media companies and other related parties in order to ensure that the grant is not used to cross-subsidize other companies etc. According to this provision, company transactions with group companies and other related parties must not deviate from market terms and have a commercial rationale that is in the recipient medium's interest. This means, for instance, that a media company that sells administrative services to its parent company must charge a market price for the transaction.

Companies which have made transactions in violation of this provision will be excluded from the scheme for a period of three years without any transitional grant, cf. Section 5, ninth paragraph.

According to Section 5, eighth paragraph, the Media Authority may require a media company to provide a specified list of significant transactions referred to in Section 5, sixth and seventh paragraphs, and that the media company's CEO, chairman and external auditor confirm that such transactions are commercially justified, in the recipient medium's interest and made on normal commercial terms.

The consulted parties that commented on these criteria were in general in favour of the proposal.

5.3.3 Criteria related to circulation, publication frequency and competitive position

Section 4 of the regulations sets the criteria defining the two types of media that grants may be awarded to:

- a) Leading and sole media²⁸
- b) Secondary media²⁹

Leading and sole media must publish at least one edition per week, and have an average net circulation between 1,000 and 6,000 copies in order to be eligible for grants.

Secondary media must publish at least one edition per week and have an average net circulation of at least 1,000. Leading and sole media and secondary media that have weekly publications must have at least 48 editions per calendar year. Media that have two weekly editions must have at least 96 editions per calendar year; cf. Section 4, second paragraph.

The criteria in Section 4 may be fulfilled on the basis of the principal medium's circulation and publication frequency, or on the basis of a combination of the principal medium and its associated media products' total circulation and publication frequency.

The guidelines for the calculation of net circulation of copies are stipulated by the Norwegian Media Authority, cf. Section 12. These guidelines are set in accordance with the industry standard for calculating circulation, as stipulated by the Norwegian Media Businesses Association (MBL). The MBL has recently adopted a set of new guidelines for the calculation of net circulation, which adapts the guidelines to digital publishing. The Ministry therefore foresees that the new MBL guidelines may be used as a basis for the Media Authority's assessment of the eligibility criteria and the allocation of grants. A description of the new MBL guidelines is given in fact-sheet 5.1.

²⁸ "Sole medium" is defined as a medium that lacks competition at the publishing site. "Leading medium" is defined as the medium that has the largest circulation at the publishing site, cf. Section 2, seventh paragraph.

²⁹ "Secondary media" are defined as media that have a competitor with a greater circulation at the publishing site, cf. Section 2, seventh paragraph.

Fact sheet 5.1 Industry standard for calculating net circulation of copies³⁰

Step 1: Subscribers

Accrued revenues from subscriptions divided by weighted average price = number of subscribers

Step 2: Papers given to local messengers (paperboys)

The newspaper can add 1 per cent of its number of subscribers as “messenger copies” or a number equal to its paid messengers

Step 3: Single copies

Revenues from sale of single copies divided with weighted price of one single copy and number of editions = number of single copies

Step 4: Free copies

The newspaper can add a number of copies distributed to owners, employees, members of the board, advertisers, etc. according to a fixed table

Step 5: Discounted copies

The newspaper may include discounted copies to subscribers, provided that the discounted subscriptions do not exceed more than 20 per cent of the total number of subscriptions, and the discount does not exceed 25 per cent of the regular price for subscription

Step 6: Digital copies

The digital circulation is calculated according to step 1 and step 3

Table 5.1 gives an example of the calculation of circulations for the newspaper Dagsavisen.

³⁰ This standard is developed by MBL. In the guidelines, digital copies is defined as a) e-newspapers (digital newspapers nearly identical to the principal newspapers), and b) other digital products (media products with at least 50 per cent of original content, compared with the principal newspaper) Bundled sales of print and digital media are counted as one copy.

Table 5.1 Example of calculation of circulation for the newspaper Dagsavisen

Type of circulation	Copies
Number of subscribers	19 607
Messenger copies	1 135
Single copies	1 163
Free copies	1 000
Discounted copies	366
Digital copies	32
Total circulation	23 303

The criteria related to circulation etc. are identical to the criteria in force under the current production grant scheme. The Ministry finds that the current system ensures a focused allocation of the grants.

The only area where the current limits may appear less focused is in relation to the leading and sole newspapers with a circulation of between 4,000 and 6,000 (see appendix III). As a group, these newspapers show an operating profit before grants. However, with reference to the falling circulations and increased competition in the advertising market, the Ministry has concluded that the circulation limit should be maintained for the time being. The Ministry emphasizes that, according to the regulations, Section 6, third paragraph, any medium with an operating profit above NOK 2 million yearly (or NOK 6 million over the last three years) will not be entitled to grants. This ensures a proportionate scheme, even though the particular category of newspapers with a circulation between 4,000 and 6,000 at present has a relatively healthy financial situation compared to the other categories of recipients.

Neither of the two main newspaper organizations (MBL and LLA) commented on this issue. The media house Polaris Media agreed with the Ministry's conclusion, and referred to the important role newspapers with a circulation of between 4,000 and 6,000 play for the dissemination of local information, debate and identity in their communities.

5.4 Allocation of grants (chapter 3)

When the Norwegian Media Authority has established that a medium is entitled to receive grants, i.e. that it is covered by the scope of the grant (according to the regulations chapter 1) and that it fulfils all the criteria (according to the regulations chapter 2), the grant will be calculated according to the regulations chapter 3. The

grant is calculated differently for leading and sole media and secondary media (see a detailed description in chapter 5.4.2 and 5.4.3).

The regulations chapter 3 includes the following provisions on the allocation of the grant:

- a. Allocation of grants to leading and sole media, cf. Section 6, first paragraph.
- b. Allocation of grants to secondary media, cf. Section 6, second paragraph.
- c. Grant limits, Section 6, third paragraph.
- d. Stipulation of grant amounts and rates, cf. Section 6, fourth paragraph.
- e. Additional grants to newly established media, cf. Section 6, fifth paragraph.
- f. Transitional provisions for media that no longer qualify for grants, cf. Section 7.

The provisions on grant limits, stipulation of grants amounts and rates, additional grants to newly established media, and the transitional provisions apply to both leading and sole media and secondary media.

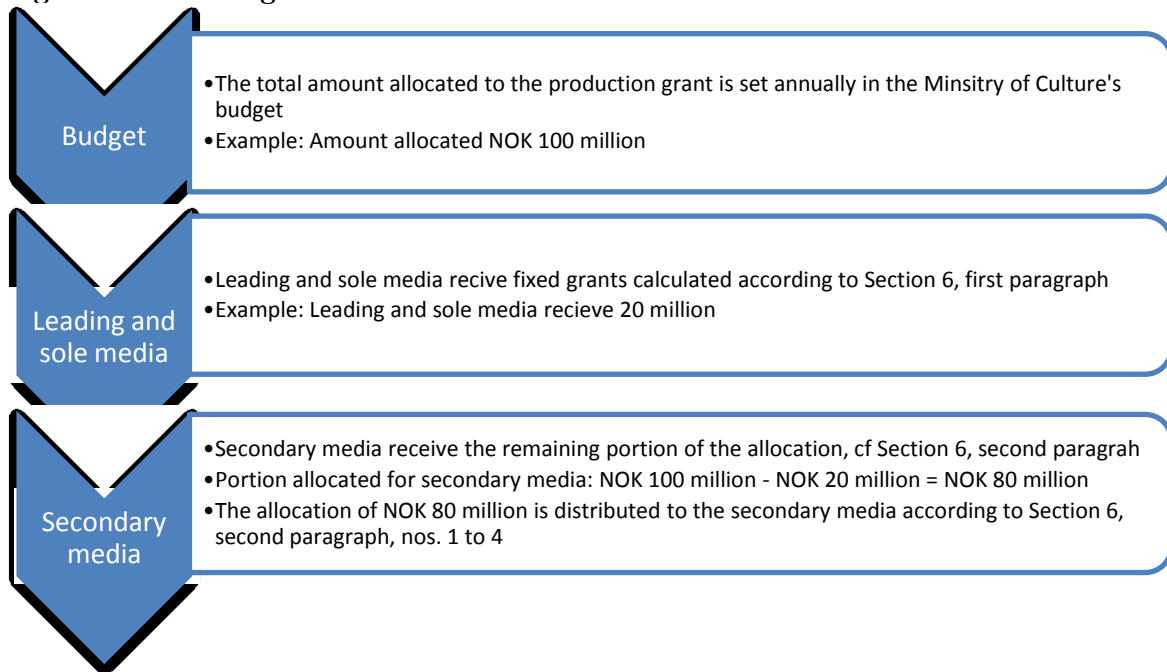
The allocation of grants to the leading and sole media and the secondary media differ in two respects: Firstly, the amount allocated for secondary media is higher than for the leading and sole media. Secondly, the grants are calculated differently, as the leading and sole media receive a fixed base grant according to their number of editions, while secondary media receive grants according to number of editions, circulation and a rate.

The Ministry allocates the grant funds to be distributed to the different groups each year, based on a stipulation of grant rates and fixed amounts cf. Section 6, fourth paragraph. These stipulations are based on the annual allocation to the grant scheme over the national budget and the industry's economic development during the previous year. The proportion of funds granted to sole and leading media and secondary media has over the last years been approximately 20/80 per cent in favour of secondary media (see table 3.3 and 3.4 for an overview). Based on established practice, the annual allocation of the production grant is also subject to consultation with the two main press organisations (MBL and LLA), cf. Section 6, fourth paragraph.

The total amount allocated to the production grant scheme is set on an annual basis in the Ministry's budget. The amount allocated for the production grant in the national budget is decided by the Parliament, based on the government's budget proposal. Both the government's budget proposal and the final budget decision of the Parliament is based on political priorities, and may vary from year to year.

An overview of how the budget allocation is distributed to leading and sole media and secondary media is described in figure 5.3.

Figure 5.3 The budget allocation



Before the distribution of funds between leading and sole media and secondary media is finally decided, the Ministry receives a recommendation from the Norwegian Media Authority. In its recommendation, the Media Authority assesses whether the calculation should be altered, taking into account the size of the annual budget grant, the financial performance of the recipient media and the provisions for allocating of grants according to the regulations, cf. the regulations Section 6, fourth paragraph.

The Media Authority assesses the calculation according to the following three steps:

Step 1. Distribution of funds between leading and sole media and secondary media

Based on information about the media's economy, the Norwegian Media Authority assesses whether the distribution of budgetary funds between leading and sole media and secondary media should be adjusted compared to last year's allocation. If the different media's financial performance indicates a need for adjustment, the distribution between the two categories of news media will be adjusted. A minor increase or decrease in the budget allocation will normally lead to a corresponding increase-/decrease in grants distributed proportionally between the two newspaper groups. If the budget allocation changes significantly, the Media Authority will normally request the industry organizations' advice on the distribution of funds between leading and sole media and the secondary media.

Step 2. Setting of the fixed grant to leading and sole media (and secondary media with one weekly publication only)

On the basis of the distribution of funds between leading and sole media and secondary media, cf. step 1, the Norwegian Media Authority determine base grants and amounts

to be granted to leading and sole media. These receive a fixed base grant for each weekly edition, a fixed amount for each additional weekly edition, and an extra grant for media with a circulation of less than 4,000. Traditionally, news media with a circulation of less than 4,000 perform financially weaker than media with a circulation between 4,000 and 6,000. The Media Authority therefore initially assesses whether the additional subsidy to media with a circulation less than 4,000 is sufficient to ensure the survival of these, and, if necessary, recommends raising the additional grants to these. This assessment is based on the financial performance of the media. The setting of the fixed grants is based on the previous year's grants, adjusted for inflation (as far as this is possible within the budget).

Step 3. Determination of rates for calculating contributions to secondary media

The remaining portion of the funds, is distributed between the secondary media. The grant to secondary media is awarded according to the news media's circulation multiplied with its number of editions and one of the following three grant rates: rate 1 (nationwide secondary media), rate 2 (metropolitan secondary media, i.e. media in Oslo, Bergen, Stavanger and Trondheim) and rate 3 (other secondary media). The Media Authority will each year assess the need for adjustments of the various rate levels. This assessment will take into account the financial performance of the various groups of secondary media. For instance, if the financial performance of the media in Oslo, Bergen, Stavanger and Trondheim (the rate 2 media) have been particularly weak, the Media Authority may recommend an increase in rate 2, so that these media receive a larger proportion of the grant allocated to secondary media.

After the Norwegian Media Authority has concluded its assessment of the allocation of funds between the leading and sole media and secondary media, a proposal is submitted to the Ministry for a final decision. If there is a discrepancy between the Media Authority's proposal and the views of the industry organizations concerning the allocation of grants, the Ministry may consult the industry organizations before reaching a final decision.

5.4.1 Allocation to leading and sole media

The grant for leading and sole media is calculated according to Section 6, first paragraph, no1. According to this section, all leading and sole media receive a fixed base grant and a fixed amount for each edition above weekly publication. Since the grant scheme is platform-neutral, editions may be published on any platform covered by the scheme. This entails for example that a newspaper could reduce the number of weekly editions on paper without receiving less grant, provided that a (paid) electronic edition replaces the print issue.

According to Section 6, first paragraph nos. 2 and 3, leading and sole media established in northern Norway and media with a circulation below 4,000 copies receive extra grants according to the following rules:

- Leading and sole media with a publishing site in the counties of Nordland, Troms and Finnmark receive grants at double the rate in Section 6, first paragraph no. 1, for issues published on paper. The Ministry considers the rate for northern Norway as justified taking into account the special costs associated with newspaper distribution in this region. The Ministry however also takes into account that such costs are associated with physical distribution exclusively, in other words that it is not more costly to publish on electronic platforms in northern Norway than in other locations.
- Leading and sole media with a circulation below 4,000 copies receive an extra grant. These media receive an extra grant due to their vulnerable financial position compared to leading and sole media with higher circulations.

Example 5.1 Examples of allocation of grants to sole media

Example 1: Svelvikposten

Svelviksposten is a sole newspaper published in Svelvik in the county of Vestfold. In 2012 the newspaper had a paid circulation of 2,348 (including pdf-versions) and 48 editions. It thus qualifies for a fixed base grant and the additional grant for media with a circulation of less than 4,000. Svelviksposten had an average profit margin including grants for the last three years of 17 per cent. It will thus receive a reduced grant cf. Section 6, fourth paragraph.

Calculation of grant:

Fixed grant:	272 149
Extra grant:	169 245
Total grant:	<u>441 393</u>
Maximum grant after reduction:	<u>93 433</u>

Example 2: Brønnøysunds Avis

Brønnøysunds Avis is a sole newspaper published in Brønnøy in the county of Nordland. In 2012 the newspaper had a paid circulation of 3,922 (including pdf-versions) and 151 paper editions. It thus qualifies for a fixed base grant, a fixed amount for two editions, the additional grant for media with a circulation of less than 4,000 and the double rate for newspapers published in northern Norway. Brønnøysunds Avis had an average profit margin including grants for the last three years of -4 per cent.

Calculation of grant:

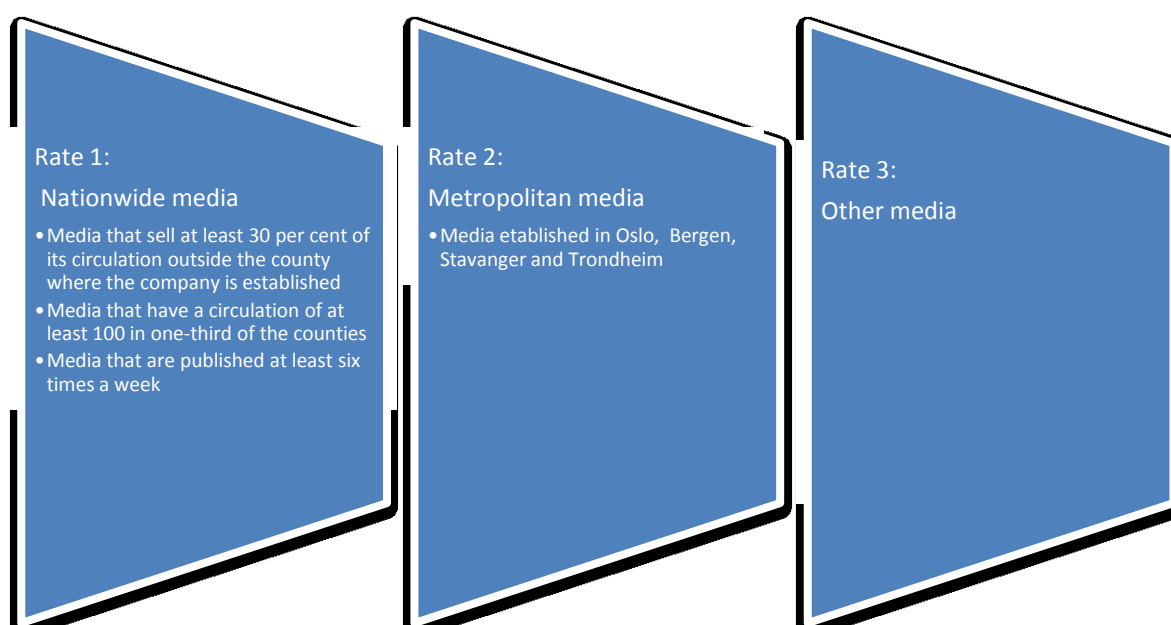
Fixed grant:		272 149
Fixed amount for two editions:	$65\,415 \times 2 =$	130 830
Sum:		<u>402 978</u>
Double rate for Northern Norway:	$402\,978 \times 2 =$	805 956
Extra grant:		169 245
Total:		<u>975 200</u>

5.4.2 Allocation to secondary media

Grants to secondary media are calculated according to Section 6, second paragraph. As mentioned above, the funds allocated to secondary media amounts to the sum that is left after the funds for leading and sole media have been calculated.

Grants to secondary media is distributed on the basis of the combined annual circulation for the principal medium and any associated media products, multiplied by the number of editions, and one of three grant rates (see figure 5.4 for an overview).

Figure 5.4 Overview of grant rates for secondary media



The criteria for nationwide media cf. the regulations Section 6, second paragraph no. 1 was proposed in the final consultation. All stakeholders were in favour of this proposal. The Ministry finds that a division into different groups reflects the genuine competitive and cost situation in the news industry. For example, the nationwide news media have a higher cost level and a more demanding competitive situation than other news media.

Grant rates to secondary media is calculated according to the following rules, on the basis of their competitive position in relation to the leading media at the place of publication cf. Section 6, second paragraph, nos. 2 to 4:

- Secondary media with a circulation of 4,000 or more receive a reduced grant if the circulation amounts to 45 per cent or more of the leading medium according to the rules in Section 6, second paragraph no. 3.

- Secondary media receive *no less* than the maximum grant in accordance with Section 6, second paragraph no. 1 if the leading medium at the place of publication has a circulation above 6,000 copies and *at least* five editions per week, cf. Section 6, second paragraph no. 4.
- Secondary media receive a maximum grant in accordance with Section 6, second paragraph no. 1 if the leading medium at the place of publication has a circulation over 6,000 copies and *fewer than* five editions per week, cf. Section 6, second paragraph no. 4.

Example 5.2 Examples of allocations of grants to secondary media

Example 3: Award of grants to a secondary media according to rate 1, Dagsavisen

Dagsavisen is a secondary newspaper published in Oslo. In 2012 the newspaper had a paid circulation of 23,303 (including pdf-versions) and 304 editions. Dagsavisen sells 36 per cent of its circulation outside Oslo, and had a circulation exceeding 100 copies in nine counties. It thus qualifies as a nationwide medium. The grant for nationwide media is calculated according to rate 1 = 6,4125. Dagsavisen has an average profit margin including grants for the last three years of – 9 per cent.

Calculation of grant:

23 303 (circulation) * 304 (editions) * 6,1425 (rate 1) = 45 426 868

Example 4: Award of grants to a secondary media according to rate 2, Rogalands Avis

Rogalands Avis is a secondary newspaper published in Stavanger in the county of Rogaland. In 2012 the newspaper had a paid circulation of 8,471 (including pdf-versions) and 304 editions. Rogalands Avis sells 1 per cent of its circulation outside Rogaland. It thus qualifies for rate 2 = 4,75. Rogalands Avis has an average profit margin including grants for the last three years of – 7 per cent.

Calculation of grant:

8 471 (circulation) * 304 (editions) * 4,75 (rate 2) = 12 232 124

5.4.3 Grant limits

Section 6, third paragraph determines the maximum amount of grants a single media company can receive. According to this provision, the combined grant may not exceed

NOK 50 million per grant object.³¹ The Ministry considers it important to limit the amount of grants each media company can receive in order to ensure a proportional and focused scheme, and also to protect against any unfortunate effects of the new eligibility criteria.

According to the same paragraph, the grant per net circulation copy may not exceed the media's average subscription price during the year prior to the grant being awarded. The reason for this provision is that there should be a correlation between the grant amount the medium receives per net circulation copy, and the price the users are willing to pay for the media. This provision ensures that recipients do not become fully dependent upon the grant scheme. Furthermore, it ensures that the amount granted to each medium correlates to the users willingness to pay for the medium. As already stated, the Ministry regards the willingness to pay as a user-defined indication of quality in the sense that users will only pay for content they deem that it is worth paying for.

On the recommendation of the EFTA Surveillance Authority, the Ministry has assessed whether the grant limits in this section should also be accompanied by an aid ceiling calculated on the basis of total production costs, similar to the Swedish case, in which a grant limit of 40 per cent of the production costs has been included.

The Ministry has decided not to implement an aid ceiling calculated on the basis of total production costs on the following reasons:

Firstly, the notified scheme includes several mechanisms to ensure that the grant is proportional, e.g. limitations on profits, limitations on operating margin, as well as the grant limit on NOK 50 million per grant object. The Ministry considers these mechanisms sufficient to ensure that grant levels are proportional.

Secondly, only one of the newspapers currently covered by the scheme would exceed a 40 per cent limit. As illustrated in table 5.4, in 2012, the production grant accounted for more than 30 percent of the operating costs in six of the newspapers and between 20 and 30 per cent for an additional eleven newspapers. Virtually all of these beneficiaries have a weak financial basis and operate in demanding market conditions.

³¹ The grant scheme will enter into force with a NOK 40 million aid ceiling.

*Table 5.3 The ten grant recipients with highest support intensity 2012 (in NOK) **

Media	Production grant	Operating costs	Production grant in relation to total operating costs
Bremanger Budstikke	441 394	1 087 721	40,6 per cent
Nationen	25 579 635	65 993 367	38,8 per cent
Østhavet	713 543	1 912 137	37,3 per cent
Dagen	15 224 635	45 486 543	33,5 per cent
Meråker-posten	441 394	1 356 969	32,5 per cent
Klassekampen	29 052 936	93 767 718	31,0 per cent
Dagsavisen	41 039 221	138 868 752	29,6 per cent
Vårt Land	40 996 080	139 303 816	29,4 per cent
Samningen	441 394	1 647 562	26,8 per cent
Østerdølen	287 548	1 147 000	25,1 per cent

* Nationwide secondary media is marked by red.

The media in the table falls into two categories. The media in black letters are leading and sole media that receive insignificant grant amounts. The media in red letters are nationwide secondary media. There are several reasons why the production grant represents a high percentage of the operating costs in these media:

Firstly, nationwide secondary media have higher distributions costs than local and regional media, since they cover the whole or large parts of the country. Secondly, they operate in difficult competitive conditions, since they compete with bigger, nationwide media, such as the leading nationwide newspapers. Finally, many of these recipients provide news and current affairs content with a distinct ideological, social or religious perspective. Consequently, their market potential is limited. For these reasons, the grant allocated to these media is calculated at a higher rate than for other groups of secondary media (cf. Section 6, second paragraph, no. 1). In other words, the high support intensity that some of these nationwide media enjoy is a result of a deliberate policy.

Finally, the Ministry finds that an aid ceiling in relation to 40 per cent or higher of the recipients' operating costs may have a negative effect on the media's incentives to operate effectively and to cut costs.

5.4.4 *Other provisions*

According to Section 6, fifth paragraph, newly established media may receive an extra grant for the first year they qualify for the scheme. This provision does not apply to newspapers in Nordland, Troms and Finnmark.

Section 8 includes specific criteria for media that have formerly received but no longer qualify for grants.

5.5 **Administration and supervision (chapter 4)**

The Media Authority's administration of the scheme consists of the following elements:

- *Supervision*: The Norwegian Media Authority monitors whether a medium is covered by the scope of the scheme and whether it meets the eligibility criteria in the regulations chapters 1 and 2.
- *Allocation*: The Norwegian Media Authority calculates grants according to chapter 3 of the regulations
- *Disbursement of grants*: After calculating the grants, the Norwegian Media Authority disburses the grants, normally on a quarterly basis.
- *Complaints handling*: Individual decisions made by the Norwegian Media Authority pursuant to the regulations may be appealed to the Media Appeals Board.

5.5.1 *Administrative procedures and complaints handling*

The production grant scheme is managed by the Norwegian Media Authority, cf. Section 8. This includes, inter alia, the actions indicated in the above overview.

Individual decisions made by the Norwegian Media Authority pursuant to the regulations may be appealed. Appeals are handled by the Media Authority, in accordance with the Public Administration Act Chapter VI. The Media Authority is obliged to carry out such investigations as are warranted by the appeal. The Media Authority may rescind or alter the administrative decision if it considers the appeal justified, cf. the Public Administration Act paragraph 33, second paragraph.

If the Media Authority considers the appeal not to be justified, the appeal and the Media Authority's decision shall be forwarded to the Media Appeals Board without delay, cf. the Public Administration Act paragraph 33, fourth paragraph. The Media Appeals Board may carry out a full review of the decision. This entails that the Media Appeals Board may try all aspects of the case and take new circumstances into account. It shall consider the views presented by the appellant (e.g. that a news media does not qualify for the production grant), and may also take into consideration matters not addressed by him, cf. the Public Administration Act paragraph 34, second paragraph. The Media Appeals board may make a new administrative decision or rescind the previous administrative decision and return the case to the Media Authority for a new partial or

full hearing, cf. the Public Administration Act paragraph 34, fourth paragraph. Decisions made by the Media Appeals Board are binding on the Media Authority.

The Media Appeals board is an independent appellant body. The members of the Media Appeals board are appointed by the King in Council. The Media Appeals Board cannot be instructed by Media Authority or the Ministry of Culture. Furthermore, decisions made by the Media Appeals Board pursuant to the production grant regulations may not be rejected or rescinded by the Media Authority or the Ministry of Culture.

5.5.2 Grant Committee

To support the Norwegian Media Authority with respect to the administrative procedures in accordance with Section 12 of the regulations, a Grant Committee will be established, which will assist the Media Authority with the assessment of grant applications and comment on matters pursuant to the regulations cf. Section 9 of the regulations.³²

5.5.3 Duty of disclosure

Section 10 of the regulations includes rules on a) requiring that beneficiaries disclose relevant information to the Media Authority, b) the refunding of grants that are either not used or received in conflict with the conditions of the scheme, and c) a provision assigning to the General Auditor and the Media Authority the authority to audit beneficiaries of grants.

Media that apply for grants are required to provide the Norwegian Media Authority or an authorized public accountant appointed by the Ministry access to any document or other information deemed necessary for the execution and control of the grant scheme and the preparation of statistics for the financial performance of the daily press. Failure to disclose such information or the provision of incorrect information may result in the media being disqualified from grants for a certain period of time.

According to this section, grants that are not used in accordance with the prerequisites shall be refunded. Grants received for a period of time when the medium has ceased to publish shall also be refunded.

Pursuant to Section 17 of the Parliament's appropriation regulations, the Office of the Auditor General has the authority to audit whether grants are used in accordance with conditions stipulated. The Ministry also has the authority to perform audits.

³² The Committee's members are appointed by the Ministry for a term of four years. The Ministry may stipulate further rules on the Committee's activities and composition.

5.5.4 Disbursement of grants

The grant is valid for a single calendar year (the grant year) and expires at the point in time when the criteria for the grant are no longer fulfilled (cf. Section 11). The grant will normally be disbursed on a quarterly basis.

5.5.5 Further rules

The Norwegian Media Authority may prescribe further rules on the stipulation of circulation, disbursement of grants, documentation and accounting by way of further regulations (cf. Section 12).

6. ASSESSMENT OF THE AID

6.1 State aid in the sense of article 61 (3) of the EEA Agreement

According to Article 61 (1) of the EEA agreement, a national support measure must fulfil the following cumulative conditions in order to be classified as state aid: 1) the measure must be granted by an EEA State or through State resources; 2) it has to confer an economic advantage to the undertakings; 3) this advantage must be selective and distort or threaten to distort competition; and 4) the measure must affect intra-Community trade.

The production grant involves state resources since the grant scheme is financed over the national budget.

The beneficiaries of the production grant carry out economic activities and therefore qualify as undertakings in the meaning of Article 61 (1) of the EEA Agreement. The direct grants obtained by these beneficiaries under the notified measures constitute an advantage that they would not receive under normal market conditions. The notified measures therefore provide an economic advantage to these undertakings.

The production grant benefits undertakings involved in the production of media services, which meet the eligibility conditions of the scheme exclusively. Consequently, the scheme may confer a selective advantage to the undertakings that receives the grant.

It cannot be ruled out that the beneficiaries of the grant to some extent may compete with other undertakings involved in the production of media services, including those, which do not benefit from the scheme. The Ministry therefore finds that the scheme has the potential to distort competition.

The market for news and current affairs content is predominantly national, due to the fact that beneficiaries publish in Norwegian. The Ministry therefore considers that the scheme is unlikely to have a significant effect on intra-Community trade. However, as the media services covered by the scheme constitute an economic activity open to competition and trade between EEA States, it cannot be excluded that the advantage given to the beneficiaries may affect intra-Community trade.

The Ministry considers that the production grant to news and current affairs media constitutes state aid in the meaning of Article 61 (1) of the EEA agreement.

6.2 Nature of the aid

On Norway's accession to the EEA in 1994, the existing scheme gained automatic existing aid status. However, the Ministry considers that the notified changes constitute new aid.

The Ministry considers that the changes to both the qualification criteria and the allocation of the grant are so comprehensive that they amount to alterations to existing aid, which constitutes new aid.

Under the current scheme, the production grant is disbursed exclusively according to newspaper circulation and number of editions. The proposed changes imply that beneficiaries under the existing scheme may develop digital services without risking any reduction of grants. The Ministry therefore finds that the changes to the existing aid scheme must be characterised as new aid, not only for potential new recipients of the aid, but also for the recipients under the existing aid scheme.

6.3 Legal basis

The Ministry notes that there exists no applicable EEA framework or guidelines to assess direct state aid to news and current affairs media. According to the notified measures, the main objective of the aid is to promote media pluralism and the diversity of opinions in Norway by supporting news and current affairs media. The Ministry therefore considers that the aid should be regarded as sector specific aid and that the compatibility assessment of the notified scheme should be based on article 61 (3) (c) of the EEA Agreement, which states that “*aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest*” may be considered to be compatible with the functioning of the EEA Agreement.

The Ministry also notes that several comparable cases, such as the Swedish state aid support to print media, has been assessed by the European Commission and found compatible with Article 87 (3) (c) of the EC Treaty/TFEU art. 107 (1) c.

In order for the notified measures to be compatible with Article 61 (3) (c), they must not adversely affect trading conditions to an extent contrary to the common interest. According to case law, this entails that the merits of the objective pursued by the scheme, i.e. promotion of media pluralism and diversity of opinions in Norway, must be weighed against its potential damaging effects, i.e. distortion of competition and intra-Community trade. The aid awarded under the scheme should also be proportional to the goals pursued.

The following assessment of the compatibility of the aid has been carried out in accordance with the balancing test methodology as set out by the European Commission in “Common Principles for an economic Assessment of the Compatibility of State Aid under Article 87.3 of the EC Treaty”, hereafter called “the Common Principles”.

6.4 Is the aid measure aimed at fulfilling a well-defined objective of common interest?

According to the Common Principles, the state aid must a) contribute to one or more relevant objectives of common interests, and b) contribute to efficiency or equity objectives.

6.4.1 Relevant objectives of common interests

As described in chapter 5, the purpose of the new scheme is to contribute to diversity in news and current affairs media characterized by high quality and independent journalism, including media in markets that are too small to be sustainable and alternatives to the leading media in local and nationwide markets.

In more general terms, the justification of the scheme is derived from the crucial role of news and current affairs media in scrutinizing political and democratic decisions, to promote Norwegian language, culture and identity and broad participation in public debates and democratic processes (cf. chapter 2).

Such objectives are recognized by the EU Commission as objectives of common interest, for example in the Commission's decisions with regards to grant schemes in Sweden and Finland.

6.4.2 Efficiency objectives

According to the Common Principles, state aid can only be given in cases where market failure is present. Market failure exists when the allocation of goods and services by a free market is not efficient. In such cases, the granting of state aid may produce effects and overall efficiency can be improved by adjusting undertakings' incentives through state aid (c.f. the Common Principles chapter 17).

The Ministry finds the production of high quality news media to be subject to the market failure of positive externalities, in the sense that the media do not fully internalize the whole benefit of their actions. The reason for this is two-fold. Firstly, journalistic content produced by the media is to a large extent republished and further developed by others, in similar ways as academic research is done. Hence, the external value of editorial content will not be fully internalized by the media which originally produced the content. Consequently, this may lead to sub-optimal investments in editorial content.

Secondly, besides giving individuals information and a basis for their decisions, news media play a pivotal role in securing democratic debates, scrutinizing political processes and producing content reflecting national language, culture and identity. The value of content provided by the news media may therefore be said to not only be of value to those consuming and paying for it, but for society as a whole.

Consequently, a media market characterised by market failure would not produce an optimal level of news and current affairs content without subsidies. Furthermore, the overreaching goals of ensuring a pluralistic media landscape and an open public discourse in democracy would be undermined.

Furthermore, it could be argued that Norwegian demographics – characterized by sparse population and many small communities – represent a form of market failure in it self as many localities do not provide a sufficient market basis to sustain economically viable local news media. These small societies neither have enough potential buyers nor advertisers to finance local news production. Still, it is an explicitly stated political goal to maintain a diversity of news media publications throughout Norway (c.f. chapter 2). The production grant enables the publication of news media in small local markets that otherwise probably would not have been able to sustain such news media.

6.4.3 Equity objectives

In addition to efficiency objectives, state aid can be awarded in cases where markets select winners and losers, simultaneously producing or reinforcing inequalities. The Ministry finds also this to be relevant in the case of the secondary news media.

News media, as most other journalistic media, operate in two separate markets; the consumer market and the advertising market. Analyses of newspaper economy show that holding a second position in any given market (nationally, regionally or locally) is economically difficult. The leading medium with the largest circulation will on account of its reach also be the most attractive advertising channel. As a consequence, it will receive a disproportionate share of local advertisement spending. Secondary media in the same market will on the other hand receive less advertising income than their circulation and readers would imply. This leads to lower income and a weaker economy than its competitor – which in turn will influence the media product – and eventually further reduce readership and sales (the so-called circulation spiral theory).³³ This means that the underlying dynamic in the advertising market acts in the direction of less pluralism than what would be the case if advertising revenues corresponded more closely to actual readership or user payment. The production grant for news media is constructed to counteract this market failure.

6.5 Is the aid well-designed to deliver the objective of common interest?

6.5.1 Is the aid an appropriate policy instrument to address the policy objective concerned?

According to the Common Principles 28, a state aid instrument can only be justified if it contributes to public policy objectives and to one or more of the common interest objectives of the EEA. The EEA State's choice of a particular policy instrument may be made on the basis of experience, through benchmarking or as a result of cost-benefit

³³ NOU 2010:14.

analysis. According to the Common Principles 29, a measure will constitute an appropriate instrument if i) other policy options have been considered, and ii) the advantages of using state aid can be established and demonstrated.

6.5.1.1 Non state aid policy instruments

The Ministry has assessed whether non-state aid policy instruments may deliver the policy goals concerned.

There are currently several policy instruments in force in Norway that work together to address the overall objectives of freedom of expression and media pluralism:

- The Media Ownership Act ensures a diversity of ownership in media companies, both nationally and regionally. The purpose is to promote a plurality of journalistic content and opinions and to avoid dominant ownership positions which may be utilized to promote the media owner's political or financial ends.
- The Act on Editorial Freedom in the Media safeguards the media's role as independent information source. In accordance with this act, owners of media companies may not instruct or overrule the editor in the day-to-day editing of the medium.

Although these policy instruments to a certain extent are designed to promote the same objectives as the production grant, they are not designed to provide the relevant media with financial support to operate and fulfil media policy goals for news media, namely to maintain media publications in as many places as possible and to maintain local news media pluralism, i.e. access to several alternative sources of news, current affairs and social debate where possible. These two policy instruments are neither designed to alleviate market failure nor to provide a financial basis for a pluralistic media sector.

Based on the experiences from the current production grant scheme, the Ministry finds that there is a need for a state aid instrument that specifically promotes media pluralism objectives through direct state aid.

6.5.1.2 Assessment of different state aid policy instruments

The Ministry has assessed different types of state aid instruments that may contribute to the fulfilment of the objectives concerned, several of which also were discussed by the Media Grant Committee³⁴:

Firstly, the Ministry has considered several *project based grant schemes* that may fulfil the objectives concerned:

- Grants to media development projects, i.e. projects where several market players' co-operate, for example in developing new publication platforms.

³⁴ NOU 2010:14.

- Establishment grants, in order to facilitate and facilitate the market entry of new media companies.
- Grants for the education of journalists.

A project based aid scheme may promote specific types of journalistic or other projects, but will not have the desired broad and general effect of promoting plurality and quality in the news media sector as a whole.

Secondly, the Ministry has assessed a state aid model where the *grant is calculated according to the recipients operating costs*. This model may to some extent deliver the policy goals concerned. However, a calculation of the aid according to the recipients operating costs may provide recipients of aid with incentives to inflate operating costs. Furthermore, since the aid under this model is calculated exclusively on the basis of the beneficiaries' costs, there is no direct link to the value and quality of media as experienced by the users, as opposed to a model related to circulation and number of editions as described below.

Finally, the Ministry has assessed and decided upon a model of *aid calculation according to circulation and number of publication* (cf. chapter 5). The Ministry considers this grant model to be the type of aid instrument that most precisely targets the relevant media policy objectives, of several reasons:

Firstly, the notified scheme is based on the current production grant that has been in force since 1969. The Ministry finds that the aid model has been contributed successfully in fulfilling several media policy goals:

- A very large number of newspapers continue to be published in Norway. When the direct subsidies were introduced in 1969, there were 191 titles. In 2012 the figure was 227.
- The number of geographical locations with one or more newspapers – providing a measure of geographic distribution and diversity – has also increased steadily throughout the period since the introduction of subsidies. In 1969 newspapers were published in 123 locations in Norway. In 1990 the figure had increased to 154, while in 2012, the number was 185.
- Print newspapers continue to enjoy a strong position in Norway. While total daily circulation in 1969 was approximately 2 million copies, this figure had risen to approximately 2.4 million in 2012.
- Also when it comes to news consumption the number is high: In 2012 nearly 66 per cent of the population read a newspaper on a daily basis, 86 per cent of the population if one includes also digital newspapers.

Secondly, as grant levels are calculated on the basis of circulation and number of editions, the grant scheme is designed to facilitate the production of content that is in

high demand among media users. An aid model based on these parameters yields a simple, objective and effective measure of the value and quality of the different media covered by the scheme, as experienced by the users. The public role of the media in a democratic society implies that this type of quality assessment should not be conducted by the government.

Finally, and perhaps most importantly, the appropriateness of the instrument must be considered in a historical context. The Norwegian press has adapted to the current aid scheme. The present structure of newspapers may partly be seen as a product of the specific state aid scheme that has been effective in Norway for more than 40 years. A radical change of state aid instruments may therefore yield unpredictable and harmful consequences for the structure of the press. Consequently, a shift of support mechanisms may have adverse effects on the ability of the sector to fulfil its crucial role in society. The Ministry also finds that the potential negative consequences that may arise from a shift in state aid models should be assigned particular importance during the current period in which the media sector is adapting to digital productions platforms.

6.5.2 Is there an incentive effect, i.e. does the aid change the behavior of the aid recipient?

According to the Common Principles chapter 2.4, aid must lead to an incentive effect for the recipients, hence aid must alter the behaviour of the beneficiaries in such a way that they engage in activities that contribute to the achievement of the objectives concerned that i) they would not carry out without the aid, or ii) which they would carry out in a restricted manner.

This implies that it must be demonstrated that the aid is not used to subsidize the costs of an activity a company in any case would perform, i.e. the effects intended by the aid must likely lead to the achievement of the targeted policy objectives.

6.5.2.1 Efficiency objectives

The correction of market failures and the improvement of market conditions for the press may be demonstrated by a contrafactual analysis, i.e. by comparing the potential outcome with and without the aid.

Since all beneficiaries of the existing production grant scheme will be qualified to receive aid under the new production grant scheme, the Ministry has conducted a contrafactual analysis, comparing the recipient's current situation to a situation where the production grant is absent.

Appendix III demonstrate that a large majority of the beneficiaries of the existing scheme exhibit total net losses before aid. Consequently, beneficiaries, if the grant scheme were abolished, would have to replace the aid with other sources of income or reduce costs to stay in business.

Replacement of the aid with other sources of income

The main sources of income in the media sector are user payment and advertisements. The Ministry assumes that there is a limit to the potential increase of income from user payment or advertising. Consequently, it does not seem likely that the media would be able to increase their income sufficiently. Some media may, however, react to the potential elimination of aid by increasing the price per copy. Depending on the price elasticity of the demand, higher prices will lead to reduced circulation numbers, i.e. a reduction of copies sold per inhabitant.

Reduction of operating costs

It seems likely that an absence of aid may lead to a reduction of the media's operating costs. A reduction of the operating costs may be achieved by one or more of the following actions:

- A reduction of editions published per week.
- A reduction of staff and the human resources allocated to the production of journalistic content.
- A reduction of the distributions costs that may lead to more digital publishing.

Uncertain profitability and risk of commercial failure

The Ministry considers it likely that the risk of commercial failure or uncertain profitability may force some of the most economically challenged media companies to discontinue their operations (cf. appendix III).

6.5.2.2 Conclusion

The Ministry finds that it can be demonstrated that state aid will change the behaviour of the undertakings benefitting from the scheme in such a way that it contributes to the media policy objectives pursued.

Firstly, the Ministry deems it probable that a significant number of the current recipients will discontinue their operations if the grant is removed, because it will no longer be economically viable to continue without the grant.

Secondly, a removal of the grant is likely to force media companies to reduce costs, resulting in a possible lowering of journalistic standards and/or a reduction of editions published per week. Reduced editorial standards or fewer editions may weaken the recipients' ability to fulfil its role in society.

Finally, some media may react to an absence or reduction of aid by increasing the price per copy. Depending on the price elasticity of the demand, higher prices will lead to reduced circulation numbers, i.e. a reduction of copies sold per inhabitant.

Consequently, higher prices per copy may also weaken the media's role in promoting broad participation in public debates and democratic processes

6.5.3 Is the aid measure proportionate to the problem tackled, i.e. could the same change in behavior not be obtained with less aid?

According to the Common Principles chapter 2.5, aid is considered to be proportionate only if the same result could not be reached with less aid and/or less distortion. The amount and the intensity of the aid must be limited to the minimum needed for the aided activity to take place.

In relation to state aid to the media, there are no guidelines which define the maximum aid intensities. However, the Ministry would like to underline that the EU Commission has identified an appropriate level of state aid to the press sector in several cases. In the Commission decision concerning state aid to the press in Sweden, the Commission concluded that the aid should cover a maximum of 40 per cent of total operating costs for high- and medium-frequency newspapers and 75 per cent for low-frequency newspapers. In the Commission decision on state aid to newspapers in national minority languages in Finland, 40 per cent of the undertakings' operating costs were considered to be proportionate.

Although the said cases may have some similarities to the scheme notified, the aid schemes in Sweden and Finland differ from the Norwegian scheme in several ways; i.a. in relation to the design of the aid instrument, the objectives pursued by the aid and the mechanisms ensuring that the aid is proportional.

The notified scheme includes several mechanisms to ensure that the grant is proportional, e.g. limitations on profits and the level of operating margin, cf. chapter 5.3.2. Furthermore, the combined grant cannot exceed NOK 50 million per grant object.³⁵ The Ministry finds that these mechanisms are sufficient to ensure that grant levels are proportional. Further reasons for not implementing an aid ceiling in relation to the recipients operating costs are given in chapter 5.4.3.

6.5.3.1 Could the same result be reached with less aid?

The Ministry has evaluated whether the recipient media may fulfil the media objectives with less aid. Since the notified scheme is similar to the current aid scheme, the Ministry has assessed the financial status of the undertakings that are covered by the current production grant (see appendix table 1).

Due to different calculation methods, the aid mechanism's proportionality is assessed in relation to the individual types of newspaper covered by the scheme.

Leading and sole media

These media receive a relatively small amount of the aid (see table 3.3 and 3.4). Furthermore, the low net operating profits indicate that the aid these undertakings receive is proportional and well targeted.

³⁵ The grant scheme will enter into force with a NOK 40 million aid ceiling.

The largest newspapers within this group (the sole media and sole media with circulations between 4000 and 6000 copies) are currently financially relatively strong. Although these newspapers currently show operating profits before grants, the Ministry will maintain the circulation limit at 6000 copies due to falling newsprint circulation and the more demanding advertising market these media face. Furthermore, individual newspapers within the group are weaker financially than the group as a whole. This indicates that the financial situation may deteriorate over time. The Ministry furthermore emphasizes that the proportionality of aid to these undertakings is augmented by other measures, such as the limitation on profits and dividends etc.

Secondary media

The five nationwide media and the other nineteen secondary media receive the largest aid amounts amongst the recipients of the production grant. Nevertheless, these recipients remain the most vulnerable. After subsidies, the so-called “nationwide ideological” newspapers had an average operating profit of NOK 11 million, while the other secondary newspapers had an average operating loss of minus NOK 1 million (see appendix III). The financial situation of these media has furthermore been vulnerable over several years.

The market conditions may vary according to where the secondary medium is published and distributed. This is reflected in the different grant rates for the secondary media, which vary according to where the media are published, cf. Section 6, second paragraph. The grant rates for the nationwide secondary media are highest, followed by the metropolitan secondary media, and finally the other secondary media. The rationale for the different grant rates are justified by specific costs incurred by the different groups of secondary media. All groups of secondary media are in a difficult competitive position. The metropolitan secondary media have however higher costs related to labour, office space etc. compared to the rest of the country. The nationwide secondary newspapers are furthermore subject to higher distribution costs due to a nationwide distribution of newspapers.

6.5.3.2 Mechanisms to secure proportionality of the aid

As described in detail in chapter 5, the Ministry has included several mechanisms to ensure that the grant is proportionate:

- Grants will not be awarded if the media company's profits, excluding grants, amounts to more than 2 million NOK for the preceding year, or more than 6 million NOK over the last three years c.f. Section 5, third paragraph.
- Grants will be reduced if the media company shows an average operating margin above 10 per cent in the last three years, c.f. Section 5, fourth paragraph.
- Limitations on dividends, c.f. Section 5, fifth paragraph.

- Grant limits, the total amount of aid media company can receive under the grant is limited to NOK 50 million per year, c.f. Section 6, third paragraph.

6.5.3.3 Conclusion

The Ministry finds that the financial position of the newspapers covered by the existing production grant demonstrates that the state aid is proportionate. The mechanisms described above prevent overcompensation.

6.5.4 *Distortions of competition*

The assessment of the product markets and geographical markets affected by the aid is assessed individually below with respect to the leading and sole media, the secondary media published locally and the nationwide secondary media.

6.5.4.1 Leading and sole media

The *geographical market* for leading and sole media is primarily local and to some extent regional, as these media per definition operate in small, local markets.

Due to the local and regional nature of the leading and sole media covered by the scheme, the Ministry finds that the *product market* for these media is limited to other local news media that operate in the same geographical areas as the recipients of the grant. In the local product markets concerned, the main substitute media are private local radio broadcasters, or local radio and television broadcasts by the NRK.

The NRK has 12 regional services. This implies that the regional footprint of the NRK covers a larger geographic area than the leading and sole media. Consequently, the editorial content of the regional services of the NRK overlap only to a limited degree with that of the leading and sole media. This implies that the readers of the papers may not be inclined to view the NRK regional services as a de facto substitute to the leading and media covered by the scheme.

There are approximately 250 local radios in Norway, located in 141 license areas. As these radios are dependent upon access to scarce radio frequencies, the largest of these are subject to content requirements by the Norwegian Media Authority. The present licence period expires in 2017. Some of these radios may operate in overlapping geographical markets. However, as most commercial radios rely heavily on music, the Ministry assumes that the local radios to a very limited degree operate in the same product markets as the leading and sole media.

As mentioned in chapter 3.4 and 3.5, both the NRK and local radios are covered by other state aid schemes.

In sum, the Ministry concludes that the leading and sole media operate in markets with few or no other substitutes. Consequently, state aid targeting these media probably has little or no effect on competition.

6.5.4.2 Secondary media

As described in chapter 5.5, the secondary media are divided into three groups according to their competitive positions and cost levels. There are therefore three different grant rates for the secondary media covered by the scheme. The Ministry finds that the different grant rates reflect the competitive climate in the different *geographical markets* that the secondary media operate in.

Nationwide secondary media

The nationwide secondary media offer a broad variety of news and current affairs to a national market. These news media operate in the same geographical market as nationwide broadcasters (the NRK, TV 2 etc) and nationwide newspapers that do not qualify for the production grant (Aftenposten, VG etc). Even though it is not a requirement, the nationwide media covered by the scheme provide news and current affairs content with distinct ideological, social or religious perspectives.³⁶ Because of the distinct perspectives of the content that these recipients provide, they have few substitutes within their product markets.

The Ministry finds that state aid to nationwide secondary media may have some effects on competition. However, as these media largely have a specialized editorial content, they may to a certain degree be deemed to operate in separate product markets. In addition, the recipients in this group are per definition not leaders in their respective markets. In sum, the Ministry assumes that the distorting effect of the grant to nationwide secondary media is of a limited nature. Furthermore, the Ministry finds that it could be argued that the presence of the grant promotes competition in the market for nationwide media. This is due to the fact that a number of the present nationwide media would probably not be able to operate without grant.

Metropolitan secondary media

The secondary media in the metropolitan areas operate in a market for news services where local private broadcasting and local broadcasting by the NRK and other commercial companies are available. In addition, the recipients in this group are per definition not leaders in their respective markets, as they face competition from the leading media in the localities where they are published. In sum, the Ministry assumes the grant to metropolitan secondary media to contribute a healthy competitive environment in the areas where they are present.

Other secondary media

The Ministry considers the group “other secondary media” to have the same substitutes as mentioned under the metropolitan secondary media. Consequently the

³⁶ As for today, the following news media will qualify as nationwide secondary media: Vårt Land and Dagen (religious perspectives), Klassekampen (socialistic ideological perspectives), Nationen (rural perspectives) and Dagsavisen (social-democratic ideological perspectives).

Ministry finds that it can be argued that the grant to these news media promote competition in the areas where they are operating.

6.5.4.3 Effects on intra-community trade

The grant is calculated according to circulation in Norway. This implies that the scheme in principle is limited to news and current affairs media in Norwegian. The media that are qualified for the notified scheme publish in Norwegian. However, the Ministry would like to point out that the scheme does not rule out publications in other languages than Norwegian. The scheme furthermore does not include any national ownership requirements.

Since the scheme in practice is limited to media in Norwegian, the Ministry considers the effects on intra-community trade to be limited.

6.5.4.4 Media not covered by the scheme

In this chapter the Ministry gives an overview of media services not covered by the scheme.

Leading and sole media with circulation above 6000 copies

Media with relatively large circulations and/or which are the sole or largest media in the county of publication operate under favourable competitive conditions and often have a strong financial position. These media, consequently, do not require grants.

Linear broadcasting news media

There are two reasons why linear broadcast news media is excluded.

Firstly, broadcasting services differ substantially from other types of news media with regard to its business model, as it is not based on circulation figures or editions. Consequently, it would be complicated to include broadcasting services in the existing scheme. In both the current scheme and the proposal for a new scheme, the eligibility criteria and allocation criteria are based on circulation and publication frequency. A grant scheme for linear broadcasting would require a completely different grant model.

Secondly, other forms of public support to the broadcasting sector exist. The NRK is funded by a mandatory licence fee on all households that possess a television receiver. The revenues from the licence fee amounts to more than NOK 5 billion. In addition, a separate grant scheme for local broadcasting exists. This grant scheme was not addressed in the consultations, but the Ministry has instructed the Norwegian Media Authority to make this scheme subject to an evaluation. The Norwegian Media Authority will finalise the evaluation in August 2013.

Further, it should be noted that the exclusion of broadcasting services applies merely to traditional, linear broadcasting. Audiovisual on-line news services on the internet may be eligible for grants, provided these services meet the other eligibility criteria of the grant scheme.

Free media services

A wide variety of free news services are provided in the Norwegian market. For the purpose of this document, three separate categories of free news services are identified: free daily and weekly newspapers, free online news services that are offered as an integral part of established media offerings and stand-alone online news services.

Free daily or weekly newspapers are less common in Norway than in many other EEA countries. There are no examples of large free newspapers with significant market-shares. In the Commission decision on the Swedish grant scheme to the press, the Commission stated that free newspapers do not fall within the same product market as paid newspapers, due to the specific content and format of free newspapers. The Ministry considers this principle applicable also to the Norwegian market.

The established media houses offer popular free online services as a part of established media offerings. These online services may be regarded as one of several platforms for publication of the same journalistic content. Most of the recipients offer this type of online news services.

According to the regulations Section 5, the grant may only be used for the production and publication of the principal medium or the associated media products that are organised in the same limited company as the principal medium. This implies that the grant may be used for the production and publication of associated free online news services, provided that the free service shares more than 50 per cent of news, current affairs and debate content with the principal medium, cf. the regulations Section 2, second paragraph. The rationale is that the high quality news content produced by the principal medium should not be limited to publications that charge a user fee. An important goal for the grant scheme is to facilitate distribution of high quality news content on all media platforms, in order to support the recipient medias' important role in society. In this context, the Ministry finds that the beneficiaries' contribution to media pluralism and quality, thus, should be distributed as widely as possible, on all platforms and types of services, and not be limited to services that charges user payment. Consequently, online news services that are offered as an integral part of established media offerings may be financed by media that qualify for the grant. However, free news services are not relevant for the calculation of the grant.

Stand-alone online news media services fall outside the grant scheme. There are some examples of such services, the most important being Nettavisen. Such services may to some extent offer similar content as that of online services offered as integral parts of established media offerings. Stand alone free news media are not covered by the scheme because user payment is a simple, objective and effective unit of measurement of the value and quality of the different services, as experienced by the users. If free media services were included in the scheme, this would open up for a vast array of services of varying quality and content. This would probably necessitate some kind of monitoring of the quality of these services, to preserve the legitimacy of the grant scheme. As the principle of editorial independence is a key element in media policy in

Norway, such a system would neither be viable nor desirable. In contrast, online news services that are part of established media offerings do not raise similar concerns with respect to quality, since at least 50 per cent of the editorial content is offered as part of media services that readers have demonstrated a willingness to pay for.

Stand-alone free media services that provide the same type of content as the recipients, i.e. news and current affairs content, may be covered by the scheme, provided that they change their business models to user payment and meet the other conditions for the scheme.

Trade press, weekly popular press and niche media

The goal of the production grant is to promote the broad and general public debate, hence the weekly popular press the trade press and other narrow niche publications are excluded from the scheme. The democratic function of the media lies mainly in its role as a source of general news and debate – because this broad scope of news content gives readers a basis for developing independent and informed opinions about political, social and other issues, which is a prerequisite for active participation in democratic processes.

The extension of the grant scheme to include other media than print newspapers has made it necessary to introduce new content criteria to ensure that the scheme still targets the relevant objectives. The criteria are linked partly to the objectives of the business and partly to the published content:

The media enterprise must have as primary objective journalistic production and distribution of news, current affairs and social debate to the general public. Grants are not awarded to media whose primary objective it is to engage in advertising or marketing. In addition, grants are not awarded to media that are aimed primarily at members or employees of specific organisations, associations or companies.

Furthermore, media covered by the production grant must include a broad range of news, current affairs and debate content from different areas of society. Grants are not awarded to media in which a majority of the content consists of advertisements. In addition, grants are not awarded to media that primarily contain material from just one or a few areas of society, or which primarily contain material aimed at a specific professional, political, ideological, religious or ethnic background.

6.5.4.5 Conclusion

The Ministry finds that the grant to leading and sole media has negligible distorting effects.

State aid to secondary media may have some distortive effects as they operate in geographical markets in competition with media that do not benefit from the production grant. However, the distortive effects are of limited significance. Many of the nationwide secondary media has a distinct editorial profile that differs from those of other media in the same geographical market. Furthermore, the secondary media are

per definition not market leaders and dependent on the production grant in order to fulfil adequately the media policy goals concerned. Hence, it seems reasonable that the potential removal of the grant would force many secondary media to cease operating. If the secondary media cease to exist, it would lead to less competition in the local and national news media market, resulting eventually in fewer choices for the consumer.

6.6 Compatibility analysis – positive effects outweigh negative effects

The last and decisive step in the compatibility analysis is to evaluate whether the Member State has demonstrated that the positive effects of the aid, if any, outweigh its negative effects.

The Ministry finds that the positive effects of the scheme outweigh its potential negative effects.

As identified in the previous assessment the production grant at least exhibits the following *positive effects*. The current aid scheme has positive effects on media pluralism. The scheme promotes local media pluralism, that is, local media competition (through the support to certain secondary media). In this context, the production grant helps to promote a healthy competitive environment. Further, the scheme promotes a diversity of newspaper publications throughout Norway (cf. the support of small leading and sole newspapers). The notified scheme is targets both these forms of news pluralism.

The Ministry acknowledges that the scheme may have some *negative effects* on substitute media not covered by the scheme. However, the positive effects that follow of the scheme by far outweigh the potential distortive effects on competition. There are at least two reasons for this: Firstly, the grant scheme contributes to promote vital media policy objectives. Secondly, the grant scheme may be seen to promote competition in a number of markets.

APPENDIX I. DRAFT REGULATION

Chapter 1. General provisions

Section 1. Purpose and scope

This regulation provides rules for the distribution of production grants to news and current affairs media through Chapter 335, Item 71 of the Ministry of Culture's budget.

Production grants shall contribute to maintaining diversity in news and current affairs media characterised by high quality and independent journalism, including media in markets that are too small to be sustainable and alternatives to the leading media in major markets.

Grants pursuant to this regulation may be awarded to news and current affairs media on all publishing platforms with the exception of broadcasting and local broadcasting, cf. Section 1-1 of the Broadcasting Act.

Media that receive other forms of Government operating grants cannot receive grants pursuant to this regulation.

Section 2. Definitions

The *principal medium* is defined as the largest medium (measured in revenue) that satisfies the conditions in Section 3 within a portfolio of associated media products.

Associated media products are defined as media that share more than 50 per cent of news, current affairs and debate content with the principal medium.

An *edition* is defined as a paid and numbered product in which the main content has been updated compared with the previous edition of the product. Media that are updated continuously or consist of a portfolio of associated media products may have a maximum of one edition per day approved. The Norwegian Media Authority may stipulate further requirements for updating the content.

The *circulation* is defined as the previous year's audited average net circulation on different publishing platforms.

The *annual circulation* is defined as the circulation multiplied by the number of editions in the last calendar year.

The *publishing site* is defined as the municipality in which the medium has its main editorial office. A city district may be regarded as a publishing site if the actual geographic market for the medium is smaller than the municipality.

The *sole medium* is defined as a medium without any competition at the publishing site. The *leading medium* is defined as the medium that has the largest circulation at the publishing site. *Secondary media* are defined as media that have a competitor with a

greater circulation at the publishing site. In cases where the actual media offerings consist of a portfolio of associated services on different distribution platforms, the competitive position is defined based on the principal medium.

Chapter 2. Conditions for grants

Section 3. General conditions

Grants in accordance with this regulation may only be granted to media that:

1. have as their primary objective to engage in journalistic production and the distribution of news, current affairs and social debate to the general public. Grants are not awarded to media that have a primary objective of engaging in advertising or marketing. In addition, grants are not awarded to media that are aimed primarily at members or employees of specific organisations, associations or companies.
2. contain a broad range of news, current affairs and debate content from different areas of society. Grants are not awarded to media in which a majority of the content consists of advertisements. In addition, grants are not awarded to media that primarily contain material from just one or a few areas of society, or which primarily contain material aimed at a specific professional, political, ideological, religious or ethnic background.
3. have an editor in chief as defined in the provisions of "Redaktørplakaten" [a set of ethical guidelines for editors which also gives the editor in chief full responsibility for the editorial content].
4. receive genuine payment for news, current affairs and debate content, and advertising, according to a publicly available price list.
5. sell at least half of their approved net circulation through subscription. The product sold in non-subscription sales shall be identical with the product sold through subscription.

The above conditions must be satisfied for at least one calendar year before a grant is provided.

In cases where a media offering consists of a portfolio of associated media products on different distribution platforms, the conditions in this Section must be satisfied by the principal medium.

Section 4. Conditions related to the circulation, publication frequency and competitive position

Grants pursuant to this regulation may only be awarded to:

1. Leading and sole media that publish at least one edition per week and have an average net circulation of between 1,000 and 6,000.
2. Secondary media that publish at least one edition per week and have an average net circulation of at least 1,000.

Media that have weekly publications must have at least 48 editions per calendar year. Media that have twice weekly publications must have at least 96 editions per calendar year.

In cases where a media offering consists of a portfolio of associated media products on different distribution platforms, the conditions in this Section must be satisfied by the publications and circulation of (both) the principal medium and associated media products.

Section 5. Conditions related to the organization, management and use of grant funds

Grants can only be used for the production and publication by the principal medium or associated media products that are organised in the same limited company as the principal medium.

Media in which public institutions or authorities have a genuine right to manage, financial responsibility or more than a 49 per cent ownership interest are not entitled to aid. If the grant recipient engages in operations beyond what is described in Section 3, nos. 1 and 2, then these operations shall be organised in a separate limited company if they account for more than one-third of the company's turnover.

A grant will not be awarded if the media company's profit for the year after tax in accordance with the Limited Liability Companies Act, excluding grants pursuant to this regulation, amounts to more than NOK 2 million for the last accounting year, or more than NOK 6 million over the last three accounting years.

Media that has an average operating margin of over 10 per cent in the last three years, including the production grant, get a corresponding reduction in the grant. The first year of the scheme is not included in the calculation of the operating margin. The reduction of the grant shall bring the average operating margin down to 10 per cent. The reduction of the grant is either carried out by a reduction in next year's grants or, where the medium is not qualified to receive grants, by a repayment of the grant.

Companies that receive production grants may distribute dividends to shareholders on the following conditions:

- Dividends per year may not exceed the interest rate on the company's equity, set according to the average effective year rate for government bonds yield for 10 years in the year before the current grant year, with an addition of 2 percentage points

- Dividends per year may not exceed 25 per cent of the production grant received for the previous year.
- Dividends per year may not exceed NOK 1 000 000.

Companies that grant dividends in violation of this provision shall not be entitled to grants. For companies that are members of a group of companies, group contributions shall be regarded as dividends. If the media company is a member of a group of companies, transactions between the media company and other companies in the group shall be based on commercial rationale in the recipient medium's interest and be made on normal commercial terms, cf. Section 3-9 first paragraph of the Limited Liability Companies Act and the Public Limited Liability Companies Act. The Media Company may be charged for a portion of the parent company's operating expenses in accordance with best practices, cf. Section 3-9 of the Limited Liability Companies Act and the Public Limited Liability Companies Act, taking into account the company's commercial interest in the scheme. The media company's share of the parent company's operating expenses may not exceed 1 per cent of the company's revenue, excluding grants.

Agreements between the media company and the company's shareholders or members of the company management etc. shall be based on commercial rationale in the recipient medium's interest and be made on normal commercial terms and be made accordance with Section 3-8 of the Limited Liability Companies Act and the Public Limited Liability Companies Act. If the media company is a member of a group of companies, the previous sentence apply equally to agreements between the medium and the shareholders or members of the company management etc. in other companies that are members of the group.

The Media Authority may require that the media company provides a specified list of significant transactions referred to in the sixth and seventh paragraphs and that the media company's CEO, chairman and the company's external auditor confirms that the transactions mentioned above are based on commercial rationale in the recipient medium's interest and on normal commercial terms. The Media Authority may also request copies of statements cf. Section 3-8 second paragraph of the Limited Liability Companies Act and the Public Limited Liability Companies Act.

Media companies that lose their entitlement to the grant in accordance with the first paragraph of this section will be excluded from the grant scheme without any transitional grant. Media companies that lose their entitlement to a grant in accordance with the sixth and seventh paragraphs of this section will be excluded from the grant scheme without any transitional grant and be excluded from the grant scheme for a period of three years.

Chapter 3. Calculation of grants

Section 6. Calculations of grants

Leading and sole media that are entitled to aid receive fixed grants that are calculated as follows:

1. Leading and sole media receive a fixed base grant and a fixed amount for each edition beyond a weekly publication.
2. Leading and sole media with a publishing site in Nordland, Troms or Finnmark receive grants at double the rate in accordance with Section 1 for days when they publish on paper.
3. Leading and sole media with a circulation of less than 4,000 receive an extra grant.

The remaining portion of the allocation is distributed between secondary media that are entitled to a grant as follows:

1. Production grant is distributed on the basis of the combined annual circulation for the principal medium and all the associated media products, multiplied by the following grant rates:

Rate 1: Nationwide media, here defined as:

- a) Media that have at least 30 percent of its circulations sold outside the county where the undertaking is established.
- b) Media that have a circulation of at least 100 copies in one-third of the counties.
- c) Media which are published at least six times a week.

Rate 2: Media in Oslo, Bergen, Stavanger and Trondheim

Rate 3: Other media.

2. Secondary media with one weekly publication receive a base grant in accordance with the first paragraph.
3. Secondary media with a circulation of 4,000 or more receive a reduced grant if the circulation amounts to 45 per cent or more of the circulation of the leading medium. The grant is reduced by 2.25 per cent for each percentage point the circulation exceeds 45 per cent of the leading medium's circulation.
4. Secondary media do not receive less than the maximum grant in accordance with the first paragraph, no. 1 if the leading medium has a circulation of over

6,000 copies and *at least* five editions per week. If the leading medium has a circulation of over 6,000 copies and *fewer* than five editions, the secondary medium will receive a maximum grant in accordance with the first paragraph, no. 1. If all the media at the same publishing site have a circulation of between 2,000 and 6,000 and have at least two weekly publications, they will all receive the maximum grant in accordance with the first paragraph, no.1.

The combined grant cannot exceed NOK 40 million per grant object. The grant per net circulation copy cannot exceed the media's average subscription price for the year prior to when the grant is awarded.

Grant amounts and rates, cf. first and second paragraphs, are stipulated by the Ministry based on the allocation for the individual years and the financial performance of the various groups of grant recipients. The proposed distribution shall be presented to the media industry's main organisations for comments. Grants are calculated on the basis of information on the number of publication days, annual circulation and the competitive position.

For the first year in the grant scheme, newly established media receive an extra grant that corresponds to the base grant in accordance with the first paragraph. Newspapers in Nordland, Troms and Finnmark are not encompassed by this provision.

Section 7. Transitional schemes

Media that have received production grants and lose their entitlement to grants shall receive grants for a transitional period in accordance with the following guidelines:

1. During the first year after the change has taken place, the media will receive a grant corresponding to two-thirds of the grant they received the last year they were entitled to a grant.
2. In the second year after the change has taken place, the media will receive a grant corresponding to one-half of the grant they received the last year they were entitled to a grant.
3. In the third year after the change has taken place, the media will receive a grant corresponding to one-third of the grant they received the last year they were entitled to a grant.

Chapter 4. Concluding provisions

Section 8. Administrative procedures

The grant scheme is managed by the Norwegian Media Authority. The Norwegian Media Authority may grant dispensation from the provisions in this regulation in special circumstances.

A recommendation from the Grant Committee is obtained before the Norwegian Media Authority makes a decision on the distribution of grants pursuant to this regulation. If the editor's position is unclear with respect to Section 3, first paragraph, letter c), then the Norwegian Media Authority shall obtain an assessment from the Association of Norwegian Editors.

The Public Administration Act applies to the Norwegian Media Authority's administrative procedures pursuant to this regulation. Individual decisions made by the Norwegian Media Authority pursuant to this regulation may be appealed to the Media Appeals Board.

Section 9. Grant committee

To support the Norwegian Media Authority with respect to the administrative procedures in accordance with Section 12, a Grant Committee will be established, which will assist with the assessment of grant applications and otherwise make comments on matters pursuant to this regulation.

The Committee's members are appointed by the Ministry of Culture for a term of four years. The Ministry of Culture may stipulate further rules on the Committee's activities and composition.

Section 10. Duty of disclosure

Media that apply for grants are required to provide the Norwegian Media Authority or a government authorised public accountant appointed by the Ministry with access to any business papers or other information deemed necessary with respect to the execution and control of the grant scheme and the preparation of statistics for the financial performance of the daily press. Failure to disclose such information or providing incorrect information may result in the media losing entitlement to grants for a certain amount of time.

Funds that are not used in accordance with the prerequisites shall be refunded. Grants received during a period of time when nothing is published shall also be refunded.

Pursuant to Section 17 of the Storting's appropriation regulations, the Office of the Auditor General has the authority to audit whether the grant funds are used in accordance with the prerequisites. The Ministry of Culture also has the authority to perform an audit.

Section 11. Disbursement of grants

The grant is valid for a single calendar year (the grant year) and expires from the point in time when the conditions for the grant are no longer satisfied.

The grant will normally be disbursed on a quarterly basis.

Section 12. Further rules

The Norwegian Media Authority may prescribe further rules on the stipulation of circulation, disbursement of grants, documentation and accounting through the issuance of regulations.

Section 13. Entry into force and transitional rules

This regulation enters into force on 1. January 2014 and applies to the assessment of applications for production grants as of xxxx. Regulation no. 1409 of 26 November 2009 on production grants for daily newspapers will be repealed at the same time.

APPENDIX II. LIST OF STAKEHOLDERS PARTICIPATING IN THE CONSULTATIONS

Stakeholders (alphabetically listed)	Type of organization	First Consultation(spring 2012)	Second consultation (autumn 2012)	Third Consultation (spring 2013)
Altibox	Broadband distributor	X		
A-pressen/Amedia	Media owner	X	X	X
Arbeiderpartiet i Bergen	Local political party	X		
Bergensavisen	Newspaper	X	X	X
Bernergruppen	Media owner		X	
Dagbladet	Newspaper	X	X	
Dagen	Newspaper	X	X	X
Fagpressen	Interest organisation	X	X	
Familie og Medier	Interest organisation	X	X	X
Fanaposten	Newspaper	X		
Joint statement from the seven biggest beneficiaries of the production grant (Bergensavisen, Vårt Land, Dagsavisen, Nationen, Klassekape, Dagen og Rogalands Avis)	Newspaper		X	X
Fellesforbudet	Trade union	X		
Department of information- and media research, University of Bergen	University	X		
Klassekampen	Newspaper	X	X	X
The Trade Organization for Local Newspapers in Norway (Landslaget for lokalaviser, LLA)	Interest organisation	X	X	X
The United Federation of Trade Union (Landsorganisasjonen i Norge, LO)	Trade union	X	X	

Norwegian Media Business' Association (Mediebedriftenes landsforeing, MBL)	Interest organisation	X	X	X
Mediehuset Nettavisen	Online news site		X	
Mentor Media	Media owner	X	X	X
Nationen/Tun Media	Newspaper	X	X	X
Norwegian Union of Journalists (Norsk Journalistlag, NJ)	Interest organisation	X	X	X
Art Council Norway (Norsk Kulturråd)	Council	X		X
Norwegian Media Research Association (Norsk medieforskerlag)	Interest organisation		X	
Norsk lokalradioforbund	Interest organisation	X		
Norsk presseforbund	Interest organisation	X		
Association of Norwegian Editors (Norsk redaktørforening, NR)	Interest organisation	X	X	X
Polaris Media	Newspaper	X		
Rogalad Avis	Newspaper	X		
Schibsted Media Group	Media owner	X		
Schibsted Norge	Media owner	X	X	
Støtteutvalget for dagsaviser	Interest organisation	X		
VG	Newspaper		X	
The Norwegian Ministry of Labour	Ministry	No comments	No comments	
Ministry of Government administration, reform and church affairs	Ministry	X	No comments	
The Norwegian Ministry of Children, Equality and Social Inclusion	Ministry	No comments	No comments	No comments
The Norwegian Ministry of Fisheries and Coastal Affairs	Ministry	No comments		
The Norwegian Ministry of	Ministry	No comments	No comments	No comments

Health and Care Services				
The Norwegian Ministry of Justice and Public Security	Ministry	No comments	No comments	
The Norwegian Ministry of Local Government and Regional Development	Ministry	No comments		
The Norwegian Ministry of Education and Research	Ministry	No comments	No comments	
The Norwegian Ministry of Agriculture and Food	Ministry	No comments	No comments	No comments
The Norwegian Ministry of the Environment	Ministry	No comments		
Ministry of Trade and Industry	Ministry	No comments	No comments	No comments
The Norwegian Ministry of Transport and Communications	Ministry	No comments		
The Norwegian Ministry of Foreign Affairs	Ministry		No comments	No comments

APPENDIX III. KEY FIGURES

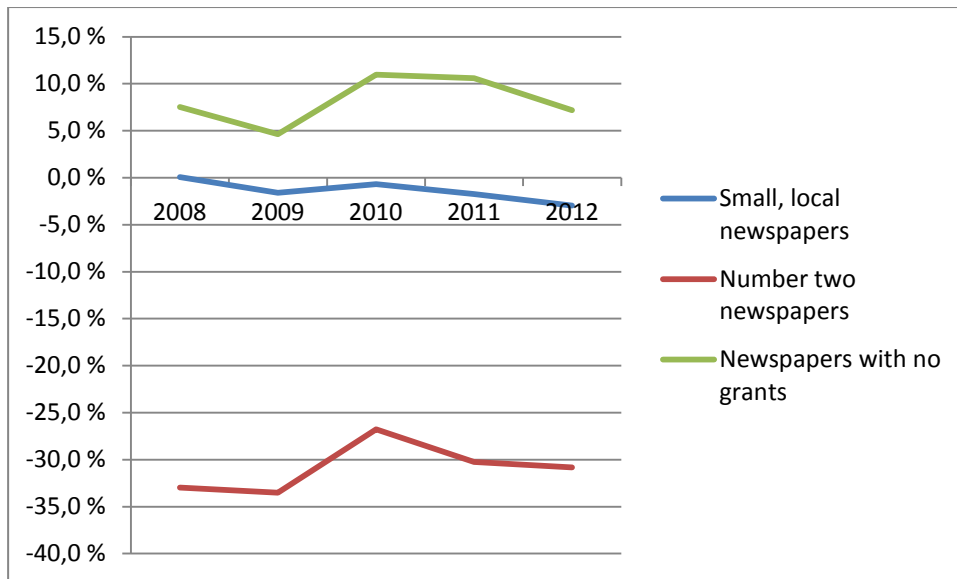
Appendix table 1. Beneficiaries' result before and after grant, 2008-2009 (in mill. NOK)

			2008	2009	2010	2011	2012
Small, local newspapers		Before grant	23	-3	12	2	-20
		After grant	73	47	65	57	36
"Number two" newspapers	"Nationwide ideological" newspapers	Before grant	-143	-147	-122	-140	-141
		After grant	-12	-14	18	4	11
	Other "number two" newspapers	Before grant	-102	-113	-69	-78	-81
		After grant	-22	-33	11	3	-2
	"Number two" newspapers in total	Before grant	-244	-260	-191	-218	-222
		After grant	-33	-46	29	7	10

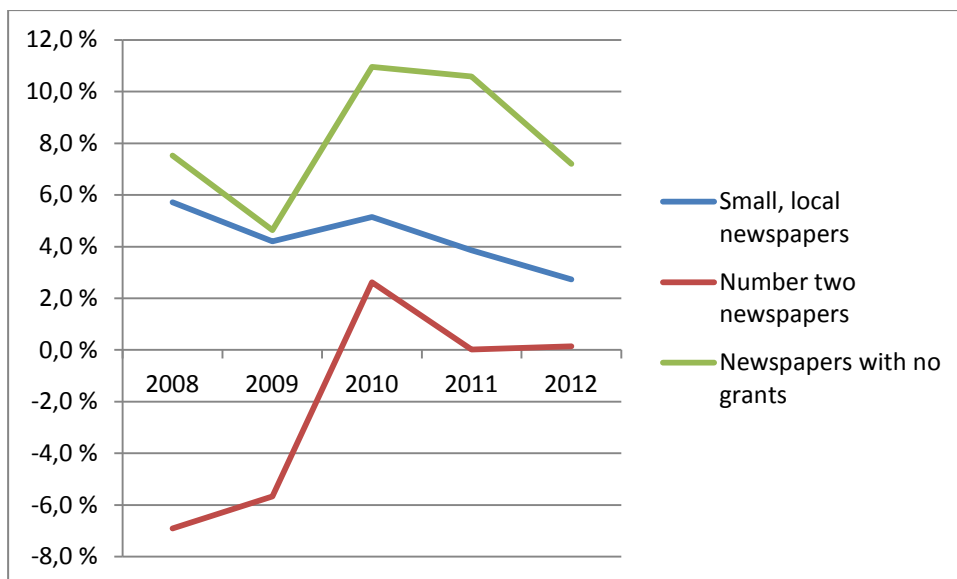
Appendix table 2. Beneficiaries' result without grant and with a fifty per cent reduced grant, 2008-2012 (in mill. NOK)

			2008	2009	2010	2011	2012
Small, local newspapers		Without grant	23	-3	12	2	-20
		With reduced grant	48	22	38	30	8
"Number two" newspapers	"Nationwide ideological" newspapers	Without grant	-143	-147	-122	-140	-141
		With reduced grant	-77	-80	-52	-68	-65
	Other "number two" newspapers	Without grant	-102	-113	-69	-78	-81
		With reduced grant	-62	-73	29	37	-41
	"Number two" newspapers in total	Without grant	-244	-260	-191	-218	-222
		With reduced grant	-139	-153	-80	-105	-106

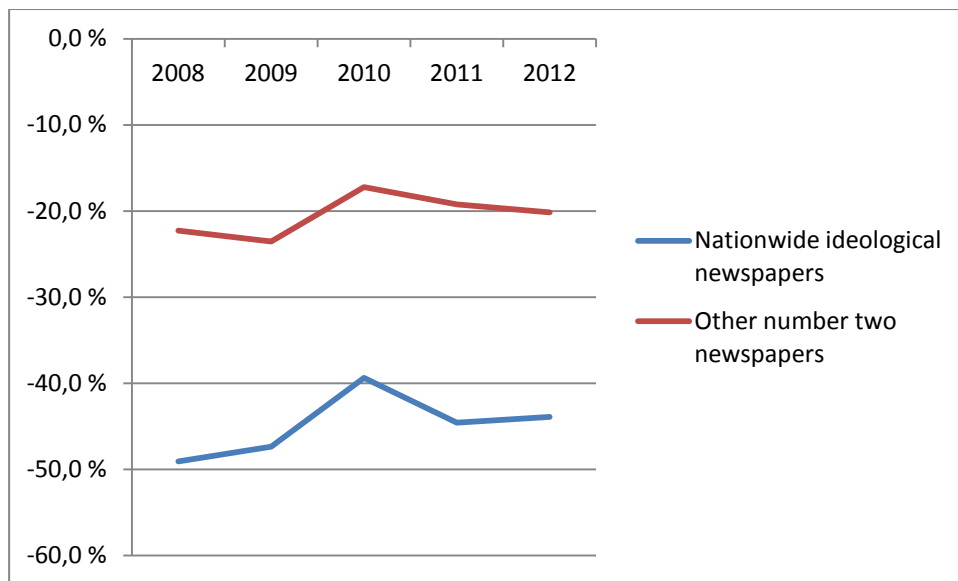
Appendix graph 1. Operating margin before grant – all newspapers



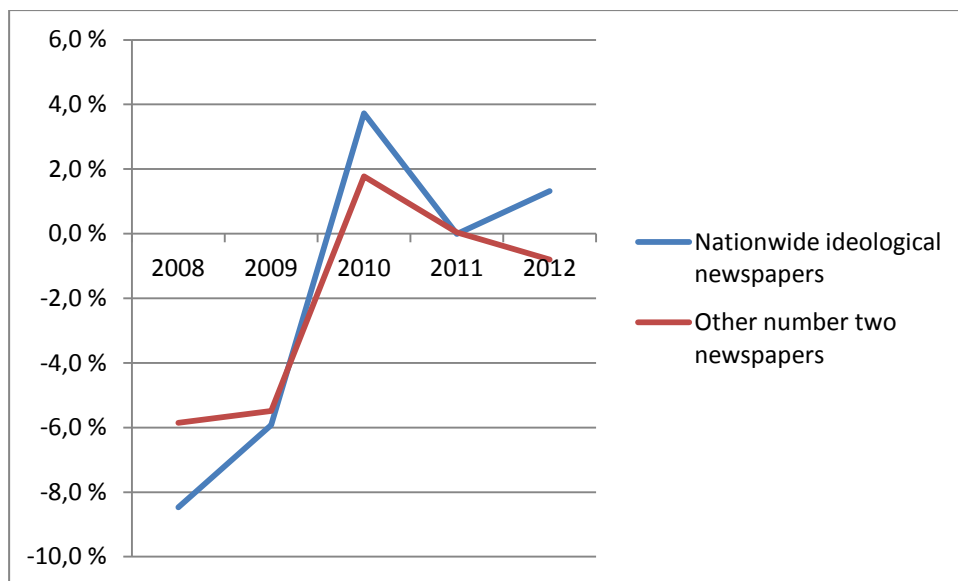
Appendix graph 2. Operating margin after grant – all newspapers



Appendix graph 3. Operating margin before grant – “number two” newspapers



Appendix graph 4. Operating margin after grant – “number two” newspapers



Appendix table 3. Stimulation of grant pursuant to the new regulation

Leading and sole media			Production grant 2012	Simulation of production grant according to new regulation
	Newspaper	Circulation 2012		
6	AKERS AVIS GRORUDDALEN	13 122	337 563	0
10	ALTAPOSTEN	4 793	1 198 448	1 198 448
11	ANDØYPOSTEN	1 734	975 203	975 203
16	ASKØYVÆRINGEN	5 108	337 564	337 564
18	AUST AGDER BLAD	3 652	572 224	572 224
352	BIRKENES-AVISA	1 379	441 394	441 394
21	BRØNNØYSUNDS AVIS	3 955	1 236 863	1 236 863
23	BYGDEBLADET	2 691	506 809	506 809
284	BØ BLAD	2 257	441 394	441 394
25	BØMLO-NYTT	3 152	572 224	572 224
316	DRANGEDALSPOSTEN	1 907	441 394	441 394
33	DRIVA	3 853	768 469	768 469
313	DØLEN	4 183	272 149	272 149
344	EIKER BLADET	2 787	506 809	506 809
322	ENEBAKK AVIS	2 864	441 394	441 394
35	FANAPOSTEN	4 679	837 564	337 564
36	FARSUNDS AVIS	5 897	599 224	599 224
37	FINNMARKSPOSTEN	1 220	713 543	713 543
42	FIRDA TIDEND	3 062	572 224	572 224
43	FIRDAPOSTEN	5 140	402 979	402 979
44	FJORDABLADET	2 741	572 224	572 224
45	FJORDENES TIDENDE	5 150	402 979	402 979
46	FJORDINGEN	4 180	402 979	402 979
238	FJUKEN	3 963	441 394	441 394
231	FRAMTID I NORD	4 455	805 958	805 958
370	FROLENDINGEN	1 561	441 394	441 394
206	FROSTINGEN	1 489	441 394	441 394
57	GAULDALSPOSTEN	1 574	441 394	441 394
243	GJESDALBUEN	3 175	506 809	506 809
60	GRANNAR	3 648	506 809	506 809
70	HARAMSNYTT	2 542	506 809	506 809
79	HORDALAND FOLKEBLAD	5 620	337 564	337 564
261	INDERØYNINGEN	1 987	441 394	441 394
84	INNHERREDS FOLKEBLAD			
84	VERDALING	4 638	402 979	402 979
249	JARLSBERG AVIS	3 974	572 224	572 224
356	KANALEN	1 744	441 394	441 394
373	KLÆBUPOSTEN	1 150	441 394	441 394
90	KRAGERØ BLAD VESTMAR	4 385	402 979	402 979
91	KVINNHERINGEN	4 320	599 224	599 224
93	LEVANGER-AVISA	4 070	402 979	402 979
286	LIERPOSTEN	3 380	441 394	441 394
94	LILLESANDS-POSTEN	3 729	506 809	506 809
211	LOFOT-TIDENDE	4 263	675 128	675 128
301	LOKALAVISA NORDSALTEN	2 867	713 543	713 543
	LOKALAVISA VERRAN-			
382	NAMDALSEID	2 152	441 394	441 394
237	MALVIK-BLADET	3 134	506 809	506 809

212	MARSTEINEN	2 368	441 394	441 394
213	MELØYAVISA	1 861	713 543	713 543
214	MERÅKER-POSTEN	1 201	441 394	441 394
102	MØRE	3 627	572 224	572 224
103	MØRE-NYTT	5 662	402 979	402 979
369	NORDDALEN	3 174	441 394	441 394
107	NORDHORDLAND	6 105	390 366	390 366
235	NORDVESTNYTT	1 605	441 394	441 394
116	NYE TROMS	4 758	805 958	805 958
119	OPDALINGEN	2 345	572 224	572 224
215	OS OG FUSAPOSTEN	5 449	337 564	337 564
190	RAKKESTAD AVIS	2 654	572 224	572 224
125	RAUMNES	5 470	402 979	402 979
128	RJUKAN ARBEIDERBLAD	2 208	703 054	703 054
135	RYFYLKE	2 656	506 809	506 809
217	RØYKEN OG HURUMS AVIS	3 691	506 809	506 809
300	SALTENPOSTEN	4 831	805 958	805 95
218	SAMNINGEN	1 418	441 394	441 34
265	SANDE AVIS	2 209	441 394	441 394
219	SELBYGGEN	3 171	441 394	441 394
295	SNÅSNINGEN	1 611	441 394	441 394
299	SOLABLADET	3 902	441 394	441 394
381	SOLUNGAVISA	2 106	441 394	441 394
365	STANGEAVISA	2 692	441 394	441 394
234	STORFJORDNYTT	1 425	441 394	441 394
221	SULAPOSTEN	2 316	441 394	441 394
222	SULDALSPPOSTEN	2 371	506 809	506 809
202	SUNNMØRINGEN	1 992	506 809	506 809
232	SVALBARDPOSTEN	2 654	441 394	441 394
223	SVELVIKSPOSTEN	2 388	441 394	441 394
283	SYDVESTEN	1 756	441 394	441 394
157	SYKKYLVSBLADET	2 971	506 809	506 809
228	SYNSTE MØRE	2 318	441 394	441 394
	SØGNE OG SONGDALEN			
321	BUDSTIKKE	3 008	441 394	441 394
159	SØR-VARANGER AVIS	3 585	975 203	975 203
285	SØVESTEN	1 484	441 394	441 394
163	TELEN	4 799	599 224	599 224
97	TRØNDERBLADET	5 338	402 979	402 979
170	TVEDESTRANDSPPOSTEN	3 520	572 224	572 224
224	TYSNES	2 419	441 394	441 394
225	TYSVÆR BYGDEBLAD	2 062	441 394	441 394
226	VAKSDAL POSTEN	2 270	441 394	441 394
176	VARINGEN	5 863	337 564	337 564
177	VENNESLA TIDENDE	3 050	506 809	506 809
	VESTAVIND BYGDEBLAD FOR			
227	SVEIO	1 621	441 394	441 394
258	VESTBY AVIS	1 611	441 394	441 394
180	VESTERAALENS AVIS	2 225	975 203	975 203
183	VESTLANDSNYTT	5 036	337 564	337 564
236	VESTNESAVISA	1 926	441 394	441 394
179	VEST-TELEMARK BLAD	5 523	402 979	402 979
289	VIGGA	2 283	441 394	441 394
186	VIKEBLADET VESTPOSTEN	4 353	402 979	402 979
318	YTRE SOGN	1 517	506 809	506 809

189	YTRINGEN	3 341	506 809	506 809
247	ØKSNESEAVISA	1 724	713 543	713 543
320	ØSTERDØLEN	894	287 548	287 548
296	ØSTHAVET	1 664	713 543	713 543
230	ØY-BLIKK	1 721	441 394	441 394
323	ØYENE	4 274	272 149	272 149
309	ØYPOSTEN	1 411	441 394	441 394
374	ÅMLIAVISA	1 400	441 394	441 394
198	ÅNDALSNES AVIS	3 818	572 224	572 224
273	ÅS AVIS	1 686	441 394	441 394
274	ÅSANE TIDENDE	2 245	506 809	506 809

Secondary media

Secondary media - nationwide media (rate 1)

	Newspapers	Circulation 2012	Production grant 2012	Simulation of production grant according to new regulation
28	DAGEN	10 060	15 224 635	14 526 640
13	DAGSAVISEN	24 497	41 039 221	40 000 000
89	KLASSEKAMPEN	15 390	29 052 936	30 001 266
105	NATIONEN	12 814	25 579 635	24 979 612
188	VÅRT LAND	24 440	40 966 080	40 000 000

Secondary media – media in Oslo, Bergen, Stavanger and Trondheim (rate 2)

	Newspapers	Circulation 2012	Production grant 2012	Simulation of production grant according to new regulation
19	BERGENSAVISEN (BA)	19 722	31 048 274	33 064 760
22	BYGDANYTT	4 646	2 382 634	2 118 576
311	FISKERIBLADET FISKAREN	8 138	6 051 487	5 875 636
130	ROGALANDS AVIS	8 732	12 074 563	12 650 485
246	SANDNESPOSTEN	3 999	1 620 459	1 823 544

Secondary media – other media (rate 3)

	Newspapers	Circulation 2012	Production grant 2012	Simulation of production grant according to new regulation
31	DEMOKRATEN	6 207	3 326 678	3 518 531
168	ITROMSØ	8 271	9 138 481	9 346 437
367	LOKALAVISA SØR-ØSTERDAL	3 212	1 607 419	1 808 870
123	PORSGRUNNS DAGBLAD	4 417	3 908 323	4 173 071

Secondary media – exceptions³⁷

	Newspapers	Circulation 2012	Production grant 2012	Simulation of production grant according to new regulation
371	ARENDALS TIDENDE	2 075	768 469	768 469
17	AURA AVIS	3 055	768 469	768 469
271	FJELL-LJOM	2 314	441 394	441 394
375	FRAMTIA	1 326	713 543	713 543
335	GAULA	1 451	441 394	441 394
61	GRENDA	2 362	768 469	768 469
357	OPP	2 326	41 394	441 394
376	SORTLANDSAVISA	1 577	713 543	713 543
220	STEINKJER-AVISA	4 560	272 149	272 149
153	STRILEN	5 363	599 224	599 224
259	VÅGANAVISA	2 352	13 543	713 543

³⁷ News media that are given flat rates according to § 7, nos. 3 or 5.