

1. Documentaries such as The Great Hack and The Social Dilemma have shown how social media platforms such as Facebook use the data recorded from user clicks and online engagement to drive targeted advertising revenue. Can you confirm that a system is in place to maximise advertising revenue by generating targeted advertisements for users using data previously collected from them? Can you provide some detail as to how this works?

Facebook is an ads-supported platform, which means that selling ads allows us to offer everyone else the ability to connect and use our services for free. The personalisation of these ads generates significant benefits for advertisers - in particular Australian small businesses - and consumers. But it is not correct to suggest that this business model drives usage at all costs or is incompatible with privacy. We provide more detail about how personalised ads work below.

The advertising market, both online and offline, has not only grown in size but also transformed in terms of the value offered to advertisers and consumers over the past two decades, and in part this is due to personalised advertising. In the past, advertising was a frustrating part of a business's operations, because it was very expensive and yet its direct impact on sales could not be measured. Businesses suspected that large amounts of money were wasted because consumers saw ads for products or services they were not interested in. Consumers were annoyed because they were bombarded with ads they did not find interesting or useful. Furthermore, the fact that advertising in general required large amounts of money restricted the ability of smaller businesses to grow, as they could not afford to advertise.¹ Personalised advertising - which is a feature of both online and offline advertising - seeks to address these issues.

On Facebook, when a person takes an action such as following a Page or liking a post, we use that information to personalise their experience in all content that they see, including the ads that they see. Businesses can also choose to send us information about the actions people take on their websites and apps, and we use that information to show Facebook users more relevant content. We call this personalisation, and it is how we try to show our users content that they care about, instead of things that do not interest them.

An example of how this works in practice is available via our Ads Manager tool², which provides an easy, step-by-step process, through which any advertiser can build a bespoke advertising campaign in minutes, by:

¹ Catherine Tucker, 'ACCC Digital Platforms Inquiry Submission', 27 November 2018, available at: <https://www.accc.gov.au/system/files/Facebook%20Australia%20-%20expert%20report%20from%20Professor%20Catherine%20Tucker%20%28Nove....pdf>

² Available at <https://www.facebook.com/adsmanager/manage>

1. First, selecting a marketing objective. Over a dozen objectives are available, including promoting the advertiser's Facebook Page and posts, connecting users with the advertiser's business on Facebook, sending users to the advertiser's own website, installing the advertiser's app, and raising attendance at a specific event.
2. Second, choosing an audience on an anonymised basis according to certain characteristics such as location, age, gender and language. Identifying details of specific users are not shared with advertisers in this process.
3. Third, choosing placement options (i.e. where the advertiser wants to run the ad), for example on Facebook or Instagram.
4. Fourth, setting a budget (either for the life of the ad, or a daily budget which resets every day) and specifying how long the advertiser wants its ad to run.
5. Fifth, choosing an ad format and creating the ad, utilising innovative ad formats such as carousel images, videos and ephemeral videos.

For consumers, we provide transparency about how ads work, and also controls to manage the ads they see, via a number of tools. For example, you can tap "Why Am I Seeing This?"³ on any ad in News Feed to get more information and control what you see going forward. This shows a person the reasons why they are seeing a certain ad, whether it's based on interests that matched that person with the ad or actions they took on the business' website, and where possible, a person will be able to see how that information was gathered. From there, one also has easy access to controls, like Ad Preferences,⁴ which lets people manage the ads they see, learn more about how ads work and hide ads from specific advertisers or topics.

We also offer Off-Facebook Activity,⁵ which lets people see a summary of the apps and websites that send Facebook information about their activity, and clear this information from their account if they want to.

And the controls we offer for people to manage their activity are not just related to ads. We also offer tools like Manage Activity⁶, Privacy Checkup⁷ and

³ <https://about.fb.com/news/2019/07/understand-why-youre-seeing-ads/>

⁴ <https://www.facebook.com/help/247395082112892>

⁵ <https://about.fb.com/news/2019/08/off-facebook-activity/>

⁶ Facebook, 'Introducing Manage Activity', *Facebook Newsroom*, blog post 2 June 2020, <https://about.fb.com/news/2020/06/introducing-manage-activity/>

⁷ Facebook, 'Guiding you through your privacy choices', *Facebook Newsroom*, blog post 6 January 2020, <https://about.fb.com/news/2020/01/privacy-checkup/>

ways to view and download your information⁸, so you can easily customise your overall experience on Facebook based on what's right for you.

As noted above, personalised advertising is a growing trend across the industry -- both online and offline, and is not unique to Facebook. The trend of digitisation has been industry-wide. By way of example, Nine Network offers marketers access to 6.5 million customer IDs through direct on-demand video advertising segmented by age, sex and location. The company has the broadest reach of on-demand broadcasting in Australia, accounting for 2.6 million viewers averaging 2.25 hours spent watching per day (according to Nielsen).⁹

In addition, prior to the announcement of the Fairfax-Nine merger in 2018, Fairfax, Nine, and News Corp had agreed to explore the possibility of a partnership that would allow advertisers to target specific users as they moved between the companies' various platforms.¹⁰

We welcome debate and analysis about the impact of social media on our lives and agree that digital platforms should be transparent and accountable on important issues such as privacy and data use. However, we encourage the Committee to focus on the public record of how the advertising and digital industries use data, rather than sensationalist films that do not accurately reflect the significant steps Facebook has taken to protect user privacy and observe transparency.¹¹

⁸ Facebook, 'Updating our data access tools', *Facebook Newsroom*, blog post 30 March 2020, <https://about.fb.com/news/2020/03/data-access-tools/>

⁹ Cameron, Nadia, 'Nine touts addressable audience buying across its on-demand service, 9Now,' CMO, 6 August 2018, available at: <https://www.cmo.com.au/article/644811/nine-touts-addressable-audience-buying-across-its-on-demand-service-9now>

¹⁰ Cameron, Nadia, 'Fairfax, New and Nine join forces to launch digital identity co-op,' CMO, 14 December 2017, available at: <https://www.cmo.com.au/article/631207/fairfax-news-nine-join-forces-launch-digital-identity-co-op>

¹¹ With respect to 'The Social Dilemma', please see: <https://about.fb.com/wp-content/uploads/2020/10/What-The-Social-Dilemma-Gets-Wrong.pdf> and with respect to 'The Great Hack' please see: <https://about.fb.com/news/2019/07/ftc-agreement/> and <https://ico.org.uk/about-the-ico/news-and-events/news-and-blogs/2019/10/statement-on-an-agreement-reached-between-facebook-and-the-ico/>

2. Are interactions (or the data extrapolated from interactions) with news content/posts monetised by Facebook in any way? If so, how does your organisation justify not paying for news content, when your organisation is using data accumulated from user engagement with news content, to drive Facebook’s advertising revenue?

The amount of revenue we generate from news is virtually zero. We generate revenue from ads that are targeted based on demographic information and activity of consumers on our site; it is not related to content, including news content.

News content generates negligible advertising revenue and it is highly substitutable (meaning, when it’s not available on the platform, people continue to use Facebook for other purposes). We have provided evidence to the ACCC that the commercial value we derive from news content in Australia is virtually zero. This has been demonstrated by one notable and very public example: the change we made to our News Feed ranking algorithm in January 2018 to prioritise content from friends and family, in response to feedback from our users.¹² This change had the effect of reducing audience exposure to public content from all Pages, including news. Notwithstanding this reduction in distribution of news content, the past two years have seen an increase in revenue and people engaging on our services.¹³

Data generated by the activity of users on Facebook is also available to the publishers of that content. We provide more than a dozen different tools which can be used by news publishers to gather data and insights on the performance of their posts and advertising campaigns -- and support their operations. For example, we provide the following insights and tools:

- a. Page and domain insights (Facebook Pages product)
- b. Facebook Audience Insights (Facebook Pages product)
- c. Facebook Performance Insights (Videos)
- d. CrowdTangle (CrowdTangle is a standalone product, provided for free to news publishers which allows for monitoring of all public posts)
- e. Facebook Stories Insights (Facebook Stories product)
- f. Facebook Analytics Dashboard (Facebook Pages running ads)
- g. Monetization Manager
- h. Reference File Insights in Rights Manager
- i. Brand Collabs Manager

¹² A Mosseri, ‘Bringing people closer together’, *Facebook Newsroom*, 11 January 2018, <https://about.fb.com/news/2018/01/news-feed-fyi-bringing-people-closer-together/>

¹³ Facebook, *Q4 2018 Quarterly Earnings Presentation*, https://s21.q4cdn.com/399680738/files/doc_financials/2018/Q4/Q4-2018-Earnings-Presentation.pdf

- j. Business Manager
- k. Creator Studio
- l. Metrics for Boosted Posts

We do not currently charge for providing this data.

This data is only one part of the overall value that Facebook drives for news publishers (which more broadly also includes: free organic distribution of their content; customised tools and products to help news publishers monetise their content; initiatives to assist publishers to innovate with online news content; direct investments by commissioning Australian news content that can appear on online services, including Facebook; and the indirect value to publishers such as brand awareness and community-building). The question is predicated on the assumption that news publishers provide more value to Facebook than vice versa, and all evidence available during the development of this legislation would suggest the opposite.

The question is also predicated on the incorrect assumption that we do not currently enter into commercial arrangements with news publishers. We already have existing agreements with Australian news organisations, including licensing their news content. Over the last two years, we have been actively engaged with 30 local media organisations to: enter into commercial deals to pay for premium news content¹⁴; provide grants for subscription projects and COVID-19 relief funding for regional news organisations¹⁵; and fund accelerators to help publishers innovate in response to disruption in their industry.¹⁶

¹⁴ Facebook for Media, *Facebook partners with Australian news publishers to fund news shows on Facebook Watch*, <https://www.facebook.com/formedia/blog/facebook-partners-with-australian-news-publishers-to-fund-news-shows-on-facebook-watch>

¹⁵ A Kapoor and A Hunter, *Australian newsrooms can now apply to the COVID-19 news relief fund*, blog post published 18 May 2020, <https://www.facebook.com/journalismproject/programs/grants/coronavirus-australian-relief-fund>

¹⁶ A Hunter, *Facebook Expands Local News Accelerator To Support Australia & New Zealand Publishers*, blog post published 18 September 2019, <https://www.facebook.com/journalismproject/facebook-accelerator-program-australia-new-zealand>

3. Could you provide a percentage figure for how often news content across Australia is engaged/interacted with on Facebook but the source site is not actually visited?

We do not keep records of how often news content across Australia is engaged/interacted with on Facebook but the source site is not actually visited. However, we regularly provide individual publishers with a wide range of engagement data for their content on Facebook (see above) and they also have records of referral traffic to their sites; this means that publishers may be better placed to assess this information.

4. At what rate over the past 5 years has engagement/interaction increased on Facebook, with respect to news articles in Australia? By way of particular example could you provide data for a regional newspaper in North Queensland, such as the Townsville Bulletin or Cairns Post?

We do not have records of how often news content across Australia is engaged/interacted with on Facebook over the past five years. We do, however, provide individual publishers with a wide range of engagement data about how their content performs our services (see above).

To assist the Committee with respect to its interest in North Queensland publications, we note that a submission filed with the Committee provides details that in February 2019, Bundaberg Regional Council established Bundaberg Now (www.bundabergnow.com) as a community news service that uses Facebook to share news, maximise engagement and to extend its audience reach. At 14 January 2021, the Bundaberg Now Facebook page had 28,000 likes from a catchment population of just under 100,000 people and according to Google Analytics the website receives about 100,000 unique visitors per month.¹⁷

¹⁷ Submission to the Committee by Bundaberg Regional Council, 15 January 2021, available at: <https://www.aph.gov.au/DocumentStore.ashx?id=e6e8b51f-01e7-436d-9fc8-391cd16bd7c2&subId=699969>.

5. How does Facebook justify not paying for news content that is being increasingly accessed by users, when the outlets producing content, like NewsCorp, have had to shut offices right around Australia last year due to loss of revenue?

The challenges facing the Australian news industry have existed since the commercial phase of the internet began and Australian newspaper circulation began to decline in the 1990s. These challenges stem from tectonic changes in technology and consumer behaviour. Technology has driven down the cost to distribute and access information -- which has increased access to diverse news sources -- and has also seen a diversification in the channels for advertising. For example, the advent of 24-hour cable television news channels drew significant consumer attention and advertising business away from newspapers; then the proliferation of the smartphone led to an even more rapid acceleration of choices for consumers in how to access news and information, including through online news services.¹⁸ These changes in technology and human behaviour built on broader trends identified in the 2012 *Report of the Independent Inquiry into the Media and Media Regulation* by the Hon R Finkelstein QC ('the Finkelstein inquiry') that shows that publishers began facing declining circulation and advertising before the broad public adoption of the internet¹⁹ (and certainly before Facebook achieved any popularity within Australia).

Other structural forces have combined to drive down the cost of advertising. Firstly, there has been rapid growth in content production. As research commissioned by the Australian Competition and Consumer Commission (ACCC) points out, there is an abundance of content, and, according to some observers, "insufficient revenue around to support the amount of content being produced". The proliferation of resulting ad inventory has put downward pressure on advertising yields.²⁰

At the same time, innovation in advertising has driven down the cost of advertising and has transformed and improved the options available to small

¹⁸ T Flew, F Suwana and L Tam, *Digital platforms and Australian news media: report*, <https://eprints.qut.edu.au/118270/1/Flew%2C%2BSuwana%2C%2BTam%2B-%2B2018%2B-%2BDigital%2Bplatforms%2Band%2BAustralian%2Bnews%2Bmedia%2BReport.pdf>.

¹⁹ R Finkelstein, *Report of the independent inquiry into the media and media regulation [electronic resource]* (2012), <https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id:%22library/lcatalog/00380162%22>

²⁰ D Wilding, P Fray, S Molitorisz and E McKewon, *The impact of digital platforms on news and journalistic content*, report commissioned by the ACCC, <https://www.accc.gov.au/system/files/ACCC%20commissioned%20report%20-%20The%20impact%20of%20digital%20platforms%20on%20news%20and%20journalistic%20content%2C%20Centre%20for%20Media%20Transition%20%282%29.pdf>.

businesses for effective advertising. Globally, internet advertising has dropped in price by 42 per cent from 2010 to 2019 (at the same time that other forms of advertising increased in price), due to innovation and advancements in targeting that have made advertising more efficient.²¹ This increase in competition is a good development for both advertisers (like Australian small businesses) and consumers.

Coinciding with these significant trends, the revenue from classifieds that previously sustained news publishing, have been captured by pure-play online sites. In 2002, newspapers had 96% of classified revenues. By 2018, the total classified advertising market had grown to \$1.9 billion, but newspapers accounted for only 12% of the market.²²

The increased competition for time and attention, the decreasing advertising costs and the diversion of classified revenues from newspapers collectively have strained the sustainability of journalism in Australia.

Although Facebook is primarily a service used by Australians to connect with their family and friends, to participate in causes that are important to them, and to interact with their community, we recognise that our services can play a role in the news ecosystem. This is because publishers choose to share stories on our services to connect with audiences, and because Australian users choose to share news content or react to news content that they read other than on Facebook with their family and friends. Publishers control whether and how they share news on our services and they also control whether members of the public are able to share stories on Facebook.

Only a very small proportion of the content on Facebook is news, and presents a negligible source of revenue for us. Moreover, news on our services is highly substitutable. This has been demonstrated by one notable and very public example: the change we made to our News Feed ranking algorithm in January 2018 to prioritise content from friends and family, in response to feedback from our users.²³ This change had the effect of reducing audience exposure to public content from all Pages, including news. Notwithstanding this reduction in distribution of news content, the past two years have seen both an increase in revenue and in people engaging with our services.²⁴ This confirms that when

²¹ *Ibid.*

²² alphaBeta, *Australian Media Landscape Trends September 2020* <https://alphabeta.com/wp-content/uploads/2020/09/australian-media-landscape-report.pdf>

²³ A Mosseri, 'Bringing people closer together', *Facebook Newsroom*, 11 January 2018, <https://about.fb.com/news/2018/01/news-feed-fyi-bringing-people-closer-together/>

²⁴ Facebook, *Q4 2018 Quarterly Earnings Presentation*, https://s21.q4cdn.com/399680738/files/doc_financials/2018/Q4/Q4-2018-Earnings-Presentation.pdf

there is less news on Facebook, people engage with other content and our auction pricing, which is blind to the type of content our ads are shown around, adapts accordingly to changes in content liquidity.

Notwithstanding the nominal value of news to our business, we invest in purpose-built tools to help publishers better monetise their content on our services, enter into commercial deals with publishers and we have a dedicated news partnerships team that serves as a point of contact for publishers. We do so because we believe news is a public good and it plays an important social function.

There are three main ways we work with publishers:

- Firstly, publishers and the public choose to share news content on our services which results in free organic distribution of news. The monetisation preferences of the publisher are respected as part of this organic distribution -- people need to click through to the publisher's website to access that article -- whether it is paywalled or ad supported, this is all controlled by the publisher. The referral traffic we have provided to Australian media publishers from January to November 2020 alone (4.7 billion referrals) has been worth \$394 million.
- Secondly, in response to feedback from publishers that the value of this organic distribution was not sufficient, we invested in the development of customised tools and products to help news publishers more effectively monetise their content on our services. These tools drive value to publishers who choose to use them. For example, from January to late November, Australian publishers generated \$5.4 million from our revenue share programs, such as In-Stream Video advertising.
- Thirdly, we have directly invested tens of millions of dollars in content and programs, including commissioning Australian news content to appear in new products such as Facebook Watch or as part of the Facebook Accelerator program.²⁵

During the past 18 months, Facebook has directly invested cash in -- or paid for new, premium content from -- 30 Australian news organisations. We have also supported work by the Walkley Foundation and the Alliance for Journalists' Freedom as part of our broader support for the news industry.

²⁵ Facebook for Media Blog Post, *Facebook partners with Australian news publishers to fund news shows on Facebook Watch* <https://www.facebook.com/formedia/blog/facebook-partners-with-australian-news-publishers-to-fund-news-shows-on-facebook-watch>; A Hunter, *Facebook Expands Local News Accelerator To Support Australia & New Zealand Publishers*, blog post published 18 September 2019, <https://www.facebook.com/journalismproject/facebook-accelerator-program-australia-new-zealand>

The benefits of our investments are particularly focused on small and medium publishers (especially regional and local publishers) through the Accelerator program. We have paid more than \$1.5 million to bring together 11 regional and smaller publishers with industry experts from around the globe to develop strategies for encouraging readers to subscribe and donate.²⁶ Earlier this year as part of that investment, we provided funding of \$100,000 to publishers for reader revenue projects. So far, this has generated more than AU\$1 million in customer lifetime value for that group. Participants in the Accelerators are forecast to drive an estimated AU\$7 million in lifetime customer value up to July 2020, and we have received feedback that this support helped position many of the participants to not only survive the coronavirus pandemic, but even grow their businesses during a difficult time. We have also struck commercial agreements for content with small and medium publishers.

All stakeholders engaged in this process agree on the importance of a sustainable news industry. But government policies to support news should not cut across commercial agreements by engineering artificial prices or compelling digital platforms to pay for content that does not have value to them. It is not sustainable nor rational to arbitrarily target and discriminate against two private, US companies, to make them legally and solely responsible for supporting a public good and solving the long-standing challenges of the Australian media industry.

²⁶ A Hunter, *Facebook Expands Local News Accelerator To Support Australia & New Zealand Publishers*, blog post published 18 September 2019, <https://www.facebook.com/journalismproject/facebook-accelerator-program-australia-new-zealand>.

6. What percentage of the overall advertising market in Australia does Facebook hold? What percentage of the digital advertising market?

There are a range of different figures for market participants' market shares which vary widely depending on how the market is defined and the area of focus. However, to assist the Committee, for example, in the ACCC's Final Report in the Digital Platforms Inquiry, the ACCC estimated that 53 per cent of advertising expenditure in Australia was spent online in 2018. The ACCC also estimated that Facebook received approximately 19 per cent of online advertising spend in 2018.²⁷ Based on these findings, approximately 10.1 per cent of advertising expenditure in Australia was spent on Facebook in 2018.

The advertising sector in Australia is highly competitive and we anticipate that there have been further changes in the advertising market since the ACCC prepared this estimate in 2018. This has included the move by digital platforms like Tik Tok and Apple into online advertising.

It should be highlighted that the government's stated rationale for this legislation is not Facebook's position in the digital advertising market: instead, the Government cites Facebook's role in relation to traffic referrals to news websites and claims that Facebook's share of news referrals is so high that Facebook is an "unavoidable trading partner" for news publishers. However, the ACCC's own Digital Platforms Inquiry estimates Facebook's share of news referrals is between 12 and 18 per cent; we provided evidence to the ACCC that it may be closer to 10 per cent and indicated the ACCC has defined the news referral market in a narrow way so as to exaggerate the role Facebook plays.²⁸ Either way, 10 to 18 per cent of a market is a far cry from a monopoly or substantial market power, and indicates that news publishers have a wide array of potential alternatives for accessing audiences beyond Facebook (including Google, Bing, Apple News, Microsoft News, Snap, TikTok, LinkedIn and traffic direct to their own apps and websites).

²⁷ Australian Competition and Consumer Commission, 'Digital Platforms Inquiry Final Report', p 46, available at: <https://www.accc.gov.au/publications/digital-platforms-inquiry-final-report>.

²⁸ Catherine Tucker, 'ACCC Digital Platforms Inquiry Submission', 27 November 2018, available at: <https://www.accc.gov.au/system/files/Facebook%20Australia%20-%20expert%20report%20from%20Professor%20Catherine%20Tucker%20%28Nove....pdf>