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Financialization of Canadian Media

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Abstract

Canada, since the 1980s, has exhibited among the highest levels of media ownership concentration in the world. This has been the subject of numerous federal inquiries, including a Royal Commission on Newspapers in 1980-81. Concentration went to another level in 2000 when convergence saw the country's private television networks partner with major newspaper companies. Most of these arrangements did not survive the decade, dissolving either through bankruptcy or voluntarily. The global financial crisis of 2008-09 saw the country's largest news media company, Canwest Global Communications, declare bankruptcy. Its newspaper and television divisions were sold to separate owners, with the newspapers being bought by a consortium of its creditors called Postmedia Network led by several US hedge funds. This contravened Canada's 25-percent limit on foreign ownership of print media, but a two-tiered share structure that kept foreign voting control below the limit was allowed by the federal government. In 2014, Postmedia bought Sun Media, the country's second-largest newspaper chain. The purchase was approved by the federal Competition Bureau despite the monopoly on English-language daily newspaper publishing it gave Postmedia in most major Canadian cities. Following that approval, and despite its promises to maintain competition in cities where it owned two dailies, Postmedia combined the newsrooms of its newspapers in those cities. This resulted in yet another federal inquiry, which began in early 2016. The situation in Canadian media can be seen as a result of financialization, which began in 1945 with a listing for the public sale of shares in the predecessor company of Postmedia. This allowed for it to be the victim of a hostile takeover in the 1990s and to eventually fall into ownership by hedge funds. A lack of limits on media ownership and weak enforcement of competition laws and foreign ownership limits has assisted this financialization.

Keywords: Canadian media, concentration of media ownership, convergence, financialzation, mergers and takeovers

Introduction

Decades before the concept of financialization emerged, media industries in Canada began exhibiting under "continentalization" with the United States the symptoms that would later transform the world economy under globalization. As a result, media in Canada are among the mostly highly concentrated in ownership after suffering a disastrous experiment with convergence at the millennium, and despite supposed limits on foreign ownership their remains are now being picked over by US "vulture capitalists". Canadian media thus serve as something of a "canary in the coal mine" for media in other countries now undergoing the same process.

Proximity to the United States allowed the first radio waves and then television broadcasts to cross the Canadian border unimpeded, prompting the federal government to enact some stringent media regulations. The content requirements of its own broadcasters were designed to protect the country's culture from being overwhelmed by American fare. Canadian broadcasters had to carry a certain percentage of home-grown programming in order to encourage the development of Canadian artists. Ownership restrictions were also put in place, as foreigners were limited to a minority position in the ownership of Canadian media. The proliferation of American magazines distributed in Canada led to a requirement that publishers have a certain percentage of Canadian content for their advertisers to qualify for a tax deduction of the expense. The form of regulation adopted, however, was a "back-door" strategy, however, and it ultimately failed to prevent foreign domination due to the ingenuity of media investors. Thus the depredations of high finance wreaked havoc on Canadian media.

Financialization arose first on a wave of deregulation in the 1980s brought by the Reagan presidency in the US, and then took off on the back of globalization brought in the 1990s by advances in communication technology – first satellite transmission and then the Internet. Aided by deregulation and globalization, financiers came to excel at extracting value out of enterprises in the phenomenon that came to be called financialization. Their manipulations would crash the world economy in 2008, but that hardly deterred the vulture capitalists, who picked up the pieces at bargain prices to begin the cycle again. Included were some of the biggest newspaper companies in North America, including the largest in Canada, and then the next-largest.

Financialization was the name given to the doubling of the US financial sector starting in the 1980s at the same time that its manufacturing output was halved due to globalization. Epstein (2005: 3) defined it in his 2005 book *Financialization and the World Economy* as "the ascendancy of "shareholder value" as a mode of corporate governance". According to Palley, financialization was a process whereby "markets, financial institutions, and financial elites gain greater influence over economic policy and economic outcomes" (Palley 2007: 2). Its principal impacts, he noted, were to:

1. elevate the significance of the financial sector relative to the real sector,

2. transfer income from the real sector to the financial sector, and
3. increase income inequality and contribute to wage stagnation (Palley 2007: 2).

According to Foroohar in her 2016 book *Makers and Takers*, financialization is an "economic illness" which has led to both to income inequality and declining investment in needed research and development in favor of quarterly dividends and stock buybacks to enrich investors (Foroohar 2016: 5). "Financialization is undermining our economic growth, our social stability, and even our democracy" (Foroohar 2016: 7). The rise of finance has "led to the fall of American business", according to Foroohar (2016: 8) because it has "come to rule – rather than fuel – the real economy".

Along with neoliberalism and globalization, financialization transformed world economy starting in the 1980s. It especially transformed media industries, which became highly financialized. In her 2010 book *Journalism in Crisis: Corporate Media and Financialization*, Almiron (2010: 159) characterized financialization as "the primacy of financial over industrial logics". In a "truly alarming" development, she noted, "finance capital has become the real owner of the world’s top news-media firms" (Almiron 2010: 154). This has come at a cost not just for their journalism but for their very *raison d'être*. "Media corporatization first and later their financalization have constituted a scenario that turns journalistic autonomy into an illusion", she noted. "Financialized multimedia communication groups are today more of a market power – with multimedia influences and convergent interests with financial groups – than guardians of liberty, creators of consensus, egalitarian democratizers, or subverters of the structures of authority" (Almiron 2010: 174, 175-176). The journalism of financialized news media companies tended to act not as a check and balance on corporate power, she added, but instead acted on behalf of the financial elite and shied away from reporting on its financial engineering.

> The economic house of cards built by the financial system based on the culture of greed, as so many times before in history, would have a far less chance of progressing in modern societies if journalism hadn’t failed in its role. This failure was encouraged by the progressive deregulation of the media – that is, by approving rules designed to benefit the consolidation and growth of giant corporate owners rather than public service (Almiron 2010: 166).

This paper utilizes the historical analysis to explore in retrospect the factors which made media in Canada especially subject to the forces of financialization. It finds that measures enacted in the 1960s to insulate Canadian media from US domination under the threat of the so-called "continentalization" ironically made them more subject to financialization under globalization. This was only the first of four identifiable phases in the financialization of Canadian media.

The Concentration Phase – 1966 to 1980

By 1970, the report of a Special Senate Committee on Mass Media noted, "genuine" newspaper competition existed in only five Canadian cities. "Of Canada's eleven largest cities, chains enjoy monopolies in seven" (*The Uncertain Mirror* 1970: 4). The Southam, Thomson and FP Publications chains by then controlled 44.7 percent of the country's daily newspaper circulation, compared with 25 percent in 1958. In 1980, 59 percent of English-language dailies were owned by only two chains after Thomson acquired FP Publications. Dealings between the two remaining chains to reduce competition even further resulted in the so-called "Black Wednesday", when the long-publishing *Ottawa Journal* and *Winnipeg Tribune* were closed by Thomson and Southam, respectively, giving each chain another local monopoly. A Royal Commission on Newspapers was quickly formed to investigate by then-prime minister Pierre Trudeau. Its report pointed out less than a year later what was obvious to everyone. "Newspaper competition, of the kind that used to be, is virtually dead in Canada", it noted. "This ought not to have been allowed to happen" (*Royal Commission* 1981: 215, 218).

Consolidation of media ownership in Canada, as in the US, was encouraged by high profits and large economies of scale in the newspaper industry, which resulted in considerable cost savings through consolidated ownership. Tax measures were another driving force behind media ownership concentration. The trading of shares on stock markets also made newspaper companies subject to the short-term demands of the marketplace and created pressure for ever-increasing earnings to continually inflate the company's stock price. Any commitment to quality journalism was replaced by a legal duty to shareholders to instead prioritize the financial bottom line. Editors at publicly-traded newspaper companies as a result reported corporate pressure to fatten quarterly earnings, usually by cutting back on journalism by laying off expensive reporters (Cranberg et al. 2001). The financial success of newspapers was thus arguably the worst thing that ever happened to them as a news medium. Newspapers became big businesses, continually squeezed at publicly-traded chains for ever-increasing quarterly profits by corporate managers who often had no background in journalism. Ironically, they were often aided in their quest for profits by constitutional guarantees of press freedom that prevented government regulators from reining in all but the worst examples of their corporate excess. At best, anti-trust regulators could only prevent the most blatant collusion and anti-competitive behavior, and then only in the US, as such laws in Canada had a scant effect on media consolidation. In two of the country's ten provinces – Saskatchewan and New Brunswick – all of the daily newspapers came to be owned by one company.

The initial impetus to media consolidation was a tax measure designed to prevent Canada's magazine industry from being extinguished by American competition. A Royal Commission on Publications established in 1960 suggested measures to protect domestic magazines, such as *Maclean's* and *Saturday Night*, from Canadian editions of popular US magazines, such as

Time and *Reader's Digest*, from siphoning off most of the industry's advertising revenues (*Royal Commission* 1961). Section 19 of the Income Tax Act, which disallowed Canadian advertisers from deducting from their taxable income the cost of advertising in publications that were not at least 75 percent Canadian owned, was thus enacted in 1965 (Acheson and Maule 2000). While intended mainly to protect the country's magazine industry, newspaper publishers lobbied for inclusion in the measure due to attempts by growing US chains to buy Canadian dailies. This protected Canadian newspaper companies from foreign competition, and the few large domestic chains thus proceeded to grow larger (Edge 2001).

FP Publications was a Western Canadian partnership formed in 1958 by the owners of the *Calgary Albertan* and *Winnipeg Free Press*. It grew with its 1959 acquisition of the *Ottawa Journal* and turned into a national chain after buying the *Vancouver Sun* in 1963. FP was briefly the largest newspaper group in Canada, slightly ahead of the family-owned Southam chain, following its merger with the *Toronto Globe and Mail* in 1965. Buying newspapers from second-generation owners was the main growth strategy of FP Publications, and it grew even larger in 1973 with the acquisition of the *Montreal Star*. The company's stock became widely held following the deaths of its founders by the end of that decade, however, and in 1980 Thomson Newspapers outbid emerging newspaper baron Conrad Black for it. Thomson avoided competitive markets, however, so it sold the *Vancouver Sun* to Southam, which already owned the jointly published *Province*. This side deal to Thomson's closure of the *Ottawa Journal* and Southam's closure of the *Winnipeg Tribune* on August 27, 1980 (a/k/a Black Wednesday) was part of the events that prompted the Royal Commission on Newspapers.

The Southam chain had been founded in 1895 by printer William Southam when, as publisher of the *Hamilton Spectator*, he and his two sons bought the *Ottawa Citizen*. The Southam Company expanded to Western Canada in 1907, when it bought the *Calgary Herald* and added the *Winnipeg Tribune* in 1920 and the *Vancouver Province* in 1923. Fifty years after the founding of the company, the Southam family's second generation sought to pass the leadership of the chain to younger family members. They looked for a mechanism for more easily trading shares in company ownership while still preserving control over its operations within the extended Southam clan. Some family members favored the sale and public trading of only non-voting shares, while restricting ownership of voting shares to William Southam's descendants. This strategy preserved family ownership of many newspaper companies, including the New York Times Co. But according to Southam historian Charles Bruce, traders on the Toronto Stock Exchange were only interested in voting stock.

> The investment dealers held out for listing of voting common [shares] without restriction. They pointed out that in any event the future of the company lay in Southam hands; perhaps there was more danger in the

possibility of private trading (for instance, in the case of family disagreement) than in open dealings on the market (Bruce 1968: 204).

When Southam went public with its share issue in 1945, about a third of the company's existing 100 shareholders were non-family members and together they held about 20 percent of its stock (Bruce 1968: 14). To allay the concerns of some Southam family members that the share issue risked control of the company migrating to outsiders, directors issued a public statement in 1945. It codified the long-standing company policy of providing its local publishers with decision-making authority "to preserve complete political independence and to present news fairly and accurately" (Bruce 1968: 207).

The Takeover Phase – 1981 to 1999

By the mid-1980s, Southam fortunes declined and the sale of shares by family members reduced family holdings to below 30 percent, making the company vulnerable to a hostile takeover. Unusual trading in Southam shares in the mid-1985 prompted rumors of a billion-dollar takeover bid (Enchin 1985). As Southam's share price soared amid the speculation, a special meeting of shareholders passed a bylaw requiring a 50-percent quorum to approve transactions involving more than 10 percent of the company's shares (Jorgensen 1985). As trading in Southam shares became frantic by the month's end amid renewed takeover speculation, a swap of shares was announced with Torstar Corp., publisher of Canada's largest daily, the *Toronto Star*. In exchange for a 30-percent interest in the smaller Torstar, Southam traded 20 percent of its shares in a 'near merger' that made its takeover a practical impossibility (Assael 1993). The deal included a 10-year standstill period, during which Torstar could not increase its holdings in the larger company, but that was later reduced to five years after a legal challenge by minority shareholders (Partridge 1988).

To bolster its defenses against takeover, Southam management decided to rationalize its operations in an attempt to boost its stock price and make it a less-inviting target for acquisitors. Instead of quality journalism, improving Southam's financial performance became the priority, with a declared target of a 15-percent profit margin, up from 13.8 percent in 1987 (Leach 1988). Southam management, then into its fourth generation of family direction, also looked in vain to the higher branches of the family tree for future leadership among the hundreds of great-great-grandchildren of William Southam. Unable to find a suitable family candidate, the head of its Coles Books subsidiary was named CEO of Southam in 1992, but profits fell by 95 percent that year and its share price plunged, again making it a ripe takeover target.

After losing the bidding war with Thomson for FP Publications in 1980, Conrad Black's Hollinger Inc. was again an interested buyer when Southam became vulnerable to takeover in 1985, purchasing five percent of its stock. Following Southam's share swap with Torstar, however, Hollinger sold its holdings at a profit and used the proceeds to start an international newspaper empire instead. It first bought the money-losing *Daily Telegraph* in London for a bargain price and joined a non-union movement out of Fleet Street, by 1993 cutting almost three-quarters of the paper's 1986 workforce (Siklos 1996). Soon the *Telegraph*'s annual earnings exceeded the original purchase price paid by Hollinger, and it became the profit engine that drove the newspaper chain's expansion to become the third-largest in the world by 1997, as measured by circulation (Jones 1998).

In the mid-1980s, Hollinger began buying newspapers in the US, and by 1997 its subsidiary American Publishing Co. had grown into the second-largest newspaper chain in the US as measured by number of titles, although it did not even place in the top ten by circulation (Siklos 1996). Its 340 newspapers were mostly smaller dailies and weeklies, but they also included the Chicago *Sun-Times*. In 1989 Hollinger bought the financially-ailing *Jerusalem Post* and not only imposed a cost-cutting regime in its newsroom, installing a time clock on which journalists were required to punch in and out, but it also brought a radical change to its once-liberal politics (Frenkel 1994).

According to biographer Richard Siklos, Black set his sights on Southam after the standstill agreement expired in 1990, making repeated offers to Torstar for its stake in the chain, which had since been increased to 22.5 percent. Torstar, frustrated by rising Southam losses of Cdn$153 million in 1991 and Cdn$263 million in 1992, also faced capital expenditures of Cdn$400 million for new presses. Finally in November 1992 it sold its holdings in Southam to Black for Cdn$18.10 a share, or a 15 percent premium over market value (Siklos 1996). Southam family members quickly sought a counterbalance to the man they had prevented from taking over the family firm with the 1985 Torstar share swap. One of the few Canadian businessmen with the resources to match Black was Montreal businessman Paul Desmarais, whose Power Corp. held an estimated Cdn$27 billion in assets, including a chain of 41 newspapers in the province Quebec, including Montreal's *La Presse*. Company directors approached Desmarais to sound out his feelings toward the traditional Southam values of quality newspapering, and they found him sympathetic. Southam falling share price, however, created a problem for the company with its bankers due to its increased debt-to-equity ratio, and raising cash by issuing shares from its treasury to Desmarais would solve that problem in addition to diluting Black's ownership and creating a shareholder with equal or greater power (Siklos 1996).

According to Siklos, this instead sowed the seed of Southam's demise and allowed Black to eventually take the company over. Black and Desmarais owned neighboring vacation homes in Palm Beach, Florida, noted Siklos, and the two men 'shared a fascination with Southam and had discussed their respective ambitions to own it over the years' (Siklos 1996: 307). It was in Palm Beach that Black and Desmarais promised the first right of refusal for each should the other decide to sell his shares. When Southam announced a loss of Cdn$53.4 million for 1995, Desmarais agreed to sell his shares to Black, giving him 41 percent ownership of Southam (Siklos 1996).

Black's gaining of effective control over Southam came on the eve of Hollinger's 1996 annual meeting, at which he made comments that alarmed many Canadians who had again become concerned about the increased level of concentration of ownership of the country's press. In his speech to shareholders, Black both pointed to the reasons behind the demise of family control of the Southam newspapers and pointed out his opposition to its traditional operating philosophy. "Southam management long accepted inadequate returns for the shareholders, published generally undistinguished products for the readers and received exaggerated laudations from the working press for the resulting lack of financial and editorial rigour" (Miller 1998: 62). He chided Southam management for panicking in 1985 at the takeover rumors that prompted the share swap with Torstar that ultimately proved its undoing. "If the Southam management had been a little more courageous it could have still been a family-controlled company" (Miller 1998: 62).

Black quickly moved to gain majority control of Southam through a succession of maneuvers which exemplified the ingenuity inherent in financilization. He first offered shareholders Cdn$18.75 a share in a bid to acquire enough stock to give him more than 50 percent ownership, then he increased the offer to Cdn$20 when that proved insufficient. The acquisition of 8.5 million shares as a result gave Hollinger 50.7 percent of the company in November 1996 (Fitzgerald 1996). Black then moved to buy up all remaining company stock, first using his majority control in April 1997 to distribute the firm's accumulated cash reserves in a Cdn$2.50 per share special dividend (Dalglish 1997). This enriched Black most of all, by Cdn$47 million, and enabled his Hollinger to one week later to make a surprise Cdn$923-million bid to buy out Southam's other shareholders. It was not accepted by enough shareholders to enable Black to make Southam a private company again by having it de-listed from stock exchanges, as only 15.6 percent of Southam's minority shareholders accepted it, giving Hollinger a 58.6 percent ownership (Mahood 1997).

The following year, Black acquired a key block of more than 8 million Southam shares from a U.S. mutual fund for Cdn$31.68 each, a premium of 22 percent above the market price, raising his ownership of Southam to 69.2 percent (Mahood 1998). That set the stage for his second bid for the remainder of Southam shares, which was again made with the benefit of creative financing. First, Hollinger used its majority control of Southam to declare a special dividend of Cdn$7 a share, to be financed by borrowing Cdn$532 million. Then it offered Cdn$22 a share for the remaining Southam stock in a bid that was largely financed by the special dividend (Dalglish 1998). That offer was rejected by independent members of the Southam board, but when Hollinger increased it to Cdn$25.25 early in 1999, they voted to recommend it (Dalglish 1999a). When the offer expired two weeks later, more than 90 percent of the 22 million remaining Southam shares had been tendered, raising Hollinger's ownership of the company to 97 percent (Shecter 1999). Under Ontario securities law, that paved the way for Black to force the remaining shareholders out and delist the company that Southam family members had taken public 54 years before (Dalglish 1999b).

Black's ownership of Southam was short-lived, however. He announced in 1999 that he would sell the newspaper chain in order to accept an appointment to the UK House of Lords. The Canadian Prime Minister Jean Chretien had blocked the appointment, citing an obscure 80-year-old rule prohibiting Canadians from accepting foreign titles (Freeman 1999). Black, a dual Canadian and British citizen, renounced his Canadian citizenship, which made him a foreign owner of the press holdings in his native land. Under the Canadian tax law, advertisers would no longer be allowed to claim as an income-tax deduction the expense of purchasing space on his pages (Scoffield 1999).

The Convergence Phase – 2000 to 2009

Convergence gained popularity throughout the 1990s in large part through the efforts of New York-based investment bank Goldman Sachs, which held an annual "Communicopia" conference touting the riches to be made from multimedia conglomeration. Media companies increasingly sought to leverage the computer revolution that had transformed the newspaper industry through photographic typesetting and word processing starting in the 1970s and which promised to revolutionize all communication via the Internet (Aufderheide 1999, Killebrew 2002, Knee et al. 2009). The January 2000 merger of Time Warner and America Online galvanized corporate enthusiasm for convergence ironically just as a new millennium dawned (Motavalli 2002, Klein 2003, Swisher and Dickey 2003, Munk 2004). North of the border, a ban on joint newspaper-television ownership in Canada had been allowed to lapse in the mid-1980s (Bartley 1988). As a result, convergence transformed Canada's media landscape in 2000 to a much greater extent than in other countries with restrictions on cross-ownership, such as the US, the UK and Australia.

By the end of that year, Canada's two private television networks had partnered with national newspaper properties, as had the largest privately-owned French-language network in the province of Quebec. CTV, the country's largest private network, was acquired by telecom giant Bell Canada Enterprises, which then partnered with the *Globe and Mail* national newspaper to create a Cdn$4-billion multimedia enterprise initially known as Bell Globemedia. Canwest Global Communications, which owned the national network Global Television, bought Canada's largest newspaper chain, Southam Inc., for Cdn$3.2 billion. Quebecor, a newspaper company that started in Quebec but had expanded nationwide with its 1998 purchase of the Sun Media newspaper chain, then paid Cdn$5.4 billion for Quebec's largest cable company, Group Videotron, which owned the TVA network in Quebec (Edge 2007).

This consolidation raised Canada's level of media ownership concentration, which was already among the world's highest (Winseck 2002).

A parliamentary review of broadcasting policy called on the federal government in 2003 to issue a ‘clear and unequivocal policy’ on cross-media ownership (*Standing Committee* 2003: 405). A Senate inquiry into Canada’s news media suggested in 2006 implementing a process to review news media mergers in order to prevent dominance by one owner in any market (*Standing Senate Committee* 2006a). By then, however, momentum for media ownership reform in Canada had stalled with the election earlier that year of a deregulationist Conservative government. Before 2006 ended, Canada’s new minister in charge of broadcasting, who was a former CTV and Canwest executive, issued a policy response to the senate report that officially blessed convergence as a business model for Canadian media, stating: "The government recognizes that convergence has become an essential business strategy for media organizations to stay competitive in a highly competitive and diverse marketplace" (Canadian Heritage 2006b: 13).

With the 2001 bursting of the stock market "bubble" in technology stocks, however, the price of media company shares fell sharply. Canwest Global Communications, which had taken on close to Cdn$4 billion in debt in acquiring the Southam newspaper chain, posted a quarterly loss of Cdn$37 million. Advertising sales slowed down with the deepening recession and Canwest struggled with the cost of servicing its debt. From a high of Cdn$22 in 2000, its share price fell below Cdn$7 in mid-2002. In October 2002, the price of Canwest shares fell to Cdn$3.32 and the company cut costs and moved to further lower its debt. In early 2003, it sold four minor daily newspapers and twenty-one weeklies for Cdn$193.5 million.

Quebecor encountered similar problems from its takeover of Groupe Videotron. It was financed in partnership with the Quebec provincial pension plan, which took 45-percent ownership of a new holding company called Quebecor Media. Quebecor took on massive short-term debt to finance its share of the all-cash acquisition, but the sale of non-core assets, such as Videotron’s home telephone division and its Microcell mobile phone company, had been planned to lower that debt. The falling economy prevented their sale, however, and Quebecor was forced to enter the US junk bond market to raise Cdn$1.3 billion. By the end of 2000, Quebecor was an estimated Cdn$6.7 billion in debt. It sold its 11-percent holding in forestry firm Abitibi-Consolidated Inc. for Cdn$600 million and 25 percent of its wholly-owned subsidiary Quebecor World, the world’s largest printing company, for Cdn$500 million (Marotte 2001a). In September 2002, after four consecutive quarters of losses, Quebecor’s debt stood at Cdn$4 billion, which prompted bond rating agency Standard & Poor’s to place it on credit watch (Marotte 2002). From a high of Cdn$61.50 before its Videotron purchase, Quebecor stock bottomed out in 2002 at Cdn$12.25. By early 2003, however, Quebecor had sold more assets, paid off most of its high-interest debt, restructured other debt, and was taken off credit watch by Standard & Poor’s (Gibbens 2003). With the improving economy, Quebecor Media began turning a modest profit by mid-2003 and was able to pay down more debt, which stood at Cdn$1.4 billion by that fall (Silcoff 2003).

Unlike Canwest and Quebecor, Bell Globemedia was a privately-owned partnership that did not trade shares on the stock market, and it also did not carry high levels of debt. It thus weathered the recession of the early 2000s better than its debt-laden, publicly-traded counterparts. Bell Globemedia even managed to finance a modest expansion during the downturn, paying Cdn$74 million in 2001 for Quebec television network TQS (Marotte 2001b). It also paid Cdn$100 million in early 2003 for a 15-percent interest in Maple Leaf Sports & Entertainment, which owned two professional sports teams, the cable television networks that broadcast their games, and the arena where they were played (Lewis 2003).

With the ensuing economic recovery, the financial fortunes of all three Canadian convergence players improved. Canwest recovered to the point where it again began making acquisitions. In early 2006, it bought 30 percent of the US magazine *The New Republic* for USCdn$2.3 million and a year later bought the rest for a reported USCdn$5 million. It bought radio stations in New Zealand and Turkey in 2006 and bid for the English-language *Jerusalem Post* newspaper in Israel. In early 2007, despite still being deeply in debt, Canwest made another major acquisition, buying thirteen Canadian cable television channels for Cdn$2.3 billion. Quebecor Media's financial fortunes also experienced a turnaround in the mid-2000s and through its cable television and cellular divisions it began to expand into such areas as broadband Internet and 3G wireless telephony. Its TVA network helped demonstrate the cross-promotional potential of convergence in 2003 with the hit program Star Academie, which was described as a cross between American Idol and Big Brother. It was heavily cross-promoted in Quebecor's French-language newspapers and boosted Quebecor's online and cable divisions. Analysts began rethinking the possibilities of media convergence, at least in the unique Quebec market. "If convergence can work anywhere", wrote one, "it should work in Quebec, a homogenous island of French-speakers in the New World where Quebecor is Number 1 in most media categories".

> Star Academie boosted TVA's audience share, was the launch vehicle for Videotron's video-on-demand service, pulled thousands of new subscribers to Videotron's high-speed Internet service, and yielded Quebecor-produced CDs, DVDs and books that were peddled in the company's music, books and video-rental shops (Olive 2003).

Its improved fortunes enabled Quebecor to embark on another expansion program. In 2004, it bought TV station Toronto 1 for Cdn$46 million (Brent 2004). In 2007, it won a takeover battle with Torstar Corp., the owner of Canada's largest daily newspaper, the *Toronto Star*, for Ontario publisher Osprey Media, which owned 54 newspapers, including twenty dailies. When added to its Sun Media chain, the Cdn$414-million purchase made Quebecor the country's largest newspaper owner, slightly ahead of Canwest (Robertson 2007a).

Bell Globemedia transformed its corporate ownership during the mid-decade economic upturn, and then engineered a major media acquisition that brought renewed concern over the concentration of media ownership in Canada. In late 2005, Bell Canada Enterprises sold most of its majority interest in Bell Globemedia to three buyers: Thomson Newspapers; the Ontario Teachers Pension Plan; and Torstar. Because Bell's ownership was reduced to 20 percent, the corporate name was changed to CTVglobemedia. In mid-2006, the company announced the acquisition for Cdn$1.4 billion of Toronto-based broadcasting company CHUM Ltd., which owned thirty-three radio stations, a dozen television stations of the CITY-TV and A Channel networks, and twenty-one cable television channels (Robertson and McNish 2006). That brought the number of television stations owned by CTVglobemedia to thirty-three, including multiple outlets in several major Canadian cities, and its cable television channels to thirty-eight.

This latest major consolidation of Canadian media ownership resulted in three companies controlling more than half of the advertising revenues in Canada. It came only three weeks after the Senate report on news media urged limits on media ownership and resulted in another round of calls for regulations to curb the growth of Big Media. Concentration of press ownership had risen to 87.4 percent by the five largest newspaper chains, while three-quarters of Canadian television stations had become concentrated in the hands of only five owners (Winseck 2008). The broadcasting regulator Canadian Radio-Television and Telecommunications Commission (CRTC) forced CTVglobemedia to divest the five-station CITY network, which it sold to cable company Rogers Communication for Cdn$375 million (Robertson 2007b). The CRTC also held "media diversity" hearings, but the policy announcement it made in early 2008 disappointed advocates of media ownership reform. In limiting cross-ownership of Canadian media, the CRTC ruled only that ownership in three media – television, radio, and newspapers – would be prohibited in any market. Critics pointed out that because no Canadian company owned outlets in all three media, the effect of the ruling was only to endorse the status quo (Edge 2008)

Where Canada's broadcasting regulator failed to limit media concentration in any meaningful way, the marketplace stepped in as a *de facto* regulator and forced a diversification of ownership. In mid-2007, Canwest followed its contentious acquisition of Alliance Atlantis with two more moves that stock market analysts questioned. First, it paid Cdn$495 million to buy back 26 percent of its newspaper division, which it had sold just two years earlier. Analysts expected Canwest to pay for the purchase by selling its majority interest in Australia's Network TEN, which it had acquired in the early 1990s and had put on the market with an asking price of A$1 billion. Despite again being almost Cdn$4 billion in debt, however, Canwest decided not to sell when it could not attract its asking price. According to the *Globe and Mail*, 'shareholders headed for the door' as a result, and Canwest's share price fell 10 percent in a month, to below Cdn$10 (Robertson 2007c).

The recession that began in late 2007 caused advertising revenues to plummet worldwide, dropping television network profits in Canada from Cdn$113 million in 2007 to only Cdn$8 million in 2008 (Robertson 2009a). Canwest missed a number of interest payments to bond holders and its stock price sank to as low as six cents in mid-2009. Canwest put its five-station E! network up for sale in an attempt to raise cash to meet its debt payments (Robertson 2009b). It sold the E! stations in two major markets – CHCH in Hamilton, Ontario, and CJNT in Montreal – for a total of Cdn$12 just to avoid their losses (Robertson 2009c). It converted its E! network station in Kelowna, British Columbia, to an affiliate of its main Global Television network, and it threatened to close its stations in Red Deer, Alberta, and Victoria, British Columbia, if buyers could not be found. Only the Alberta station CHCA was closed, however, after employees of Victoria's CHEK paid Canwest a token Cdn$1 for the station (Dakers 2015). Canwest eased its debt crisis somewhat in late 2009 by selling its majority interest in Network TEN for Cdn$634 million (Robertson 2009d). The sale also erased Cdn$582 million of Network TEN's debt from Canwest's books, lowering its total debt to an estimated Cdn$2.5 billion (Willis 2009). Just when it appeared that Canwest might escape bankruptcy, however, it was forced to file for court-ordered protection from its creditors (Robertson and Willis 2009). In early 2010, control of Canwest's television division was sold to western Canadian cable company Shaw Communications (Krashinsky et al. 2010). Its newspaper division was sold separately later that year to a group of equity investors headed by Canwest's major creditors.

CTVglobemedia also suffered financially during the downturn despite its private ownership and lack of debt. In a bid to lower costs to match its falling advertising revenues, it eliminated 105 jobs at its broadcasting operations in 2008, including its all-news network CTV Newsnet (Blackwell 2008). CTVglobemedia reported a loss of Cdn$13.3 million in 2008 and forecast that its loss in 2009 would be Cdn$90-100 million. It also took a Cdn$1.7-billion accounting write-down on the book value of its television assets, which represented three-quarters of their worth (Surridge 2009). In early 2009, the network announced the elimination of 118 jobs at its A Channel network, or 28 per cent of its staff, and announced the cancellation of morning shows at several of its local stations (Hartley 2009). It also laid off more than two dozen employees at its Canada A.M. national morning show and dropped its last remaining early morning local newscast (Friend 2009). CTVglobemedia sold its share in Maple Leaf Sports & Entertainment to help pay down the debt it had taken on in the CHUM purchase. It also sold its cable channels Drive-In Classics and SexTV to radio company Corus Entertainment for Cdn$40 million (Krashinsky 2009). In 2009, it was revealed that regulatory filings by publicly-traded Torstar included financial result for privately-held CTV, in which Torstar had become a partner. They showed that CTVglobemedia had been forced to renegotiate loan agreements for its more than Cdn$1.9 billion in debt to avoid defaulting (Sturgeon 2009). Like Canwest Global, CTVglobemedia also threatened to close several of its money-losing television stations in smaller markets if it could not find a buyer or gain regulatory relief from the CRTC. In early 2009, it closed one small-market station and converted another into a rebroadcaster (Grant 2009).

The Financialization Phase – 2010 to 2016

In the financialized world of speculative investment instruments, corporate debt itself became an object of investment. Hedge funds and other investors that specialized in preying on distressed companies often bought the debt of over-leveraged newspaper owners from the original lenders for pennies on the dollar. By doing so, they could often engineer what the *Chicago Tribune* described in dissecting the painful and prolonged bankruptcy of its own parent company in 2013 as a "bargain-priced backdoor takeover" (Oneal 2013). In part, "vulture capitalists" such as Alden Global Capital, Oaktree, and Angelo Gordon were betting that newspapers had a profitable future and that their investment would eventually pay off handsomely.

Bankruptcy also became an investment instrument, with bondholders and other secured debt holders taking part of what they were owed as equity in the reorganized company, and part as continued debt. If the value of the business continued to sink below what they were still owed, another bankruptcy could be arranged. Some newspaper companies became serial bankrupts, shedding legal obligations such as taxes and pension commitments each time in so-called "strategic" bankruptcies and often emerging on the other side of the Chapter 11 process still owned by the same hedge funds (Edge 2014).

Canwest's debt was similarly bought up by speculators, including hedge fund Angelo Gordon, which paid as little as 15 cents on the dollar (Willis 2009). They formed a consortium that bid for Canwest's newspaper division at bankruptcy auction and bought it for Cdn$1.1 billion. They renamed the newspaper chain Postmedia Network after its flagship *National Post* and took the company public with a 2011 IPO. Ownership of shares in the new company by the hedge funds, principally GoldenTree Asset Management and Silver Point Capital, was estimated at 58 percent, which should have negated Postmedia's tax status as Canadian owned. That would have jeopardized its largest revenue stream, as its advertisers would no longer have been able to deduct the cost of advertising as a business expense. Instead, in an end run around the tax law, the company created a new class of non-voting shares, in which the US hedge funds held their ownership that was beyond the allowable limit, for tax purposes, of 25 percent (Gutstein 2014). The ownership was structured in such a way that it was held mostly in limited-voting shares and Canadian shareholders as a result technically controlled the company.

In a bold move, Postmedia then bought most of Canada's second-largest newspaper chain, paying Quebecor Cdn$315 million in 2014 for 175 of the 178 newspapers owned by its Sun Media division. The purchase made Postmedia by far the largest publisher of newspapers in Canada, with almost three times the paid daily circulation of second-place Torstar, and gave it both dailies in

Calgary, Edmonton, and Ottawa. It gave Postmedia an estimated 37.6 percent of Canadian paid daily newspaper circulation and 75.4 percent in the three westernmost provinces, where it owned eight of the nine largest dailies (Edge 2016). Postmedia CEO Paul Godfrey said that by combining non-editorial operations of the two chains, Postmedia expected to save an estimated Cdn$6-10 million in cost cutting efficiencies. The *Toronto Star* remarked in an editorial that Postmedia's sudden newspaper dominance was not raising much concern.

> It should. If the deal is approved by the federal Competition Bureau, one company will own almost all the significant daily papers in English Canada. In most cities, the choice for newspaper readers will be between Postmedia – and Postmedia. Most worrisome, the big decisions that will shape much of English Canada's media landscape will be made south of the border (Anonymous 2014).

A columnist in the *Globe and Mail* observed that Postmedia had "thrown down the gauntlet to Canadian regulators, and forced the country to have a conversation that it has long avoided: How much are we willing to compromise the principles of a diverse and competitive press in the name of keeping it alive? ... This doesn't just alter Canada's print-media landscape; it takes a bulldozer to it" (Parkinson 2014). *National Post* columnist John Ivison (2014) argued that his employer should be allowed to take over its largest competitor without regulatory interference due to the dire economic situation facing the industry. "Newspaper owners aren't bluffing this time", he wrote. "They are fighting to survive. Everyone knows this – they see it before their eyes as their papers shrink in size, personnel and ambition. Against this gloomy backdrop, it seems unlikely that the regulator or the federal government will be motivated to intervene and block a deal that offers ballast to an industry buffeted by choppy waters". In an interview with *Media*, the magazine of the Canadian Association of Journalists, Ivison downplayed fears over increased consolidation of Canada's newspaper industry. "At ground level, there's no trepidation that we're going to see merged newsrooms or anything like that", he said. "The people who are running this company know newspapers. I would not have said that in every iteration of this company ... and they know that any attempt to integrate the editorial products would be self-defeating" (Quoted in Burgess 2015: 13).

But according to the Competition Bureau, the sale was "unlikely to substantially lessen or prevent competition' in those cities. After reviewing the acquisition for five months, but without holding hearings, it issued Postmedia a "no action" letter in early 2015, meaning it would not challenge the purchase. The Bureau said it found very little evidence of direct rivalry between the parties' newspapers with respect to advertising". "Its economic analysis showed that the newspapers were also not close rivals from the perspective of the readers" (*Competition Bureau* 2015).

With its purchase of Sun Media approved, Postmedia made its most audacious move yet.

It announced in January 2016 that because its revenues were dropping, despite its promises it would combine the newsrooms of its duopoly dailies in Vancouver, Calgary, Edmonton, and Ottawa to help save Cdn$50 million a year. Suddenly 90 journalists were unemployed, with more expected to follow once Postmedia dealt with its unions in Vancouver. There, the owners of the *Vancouver Sun* and *Province* had promised to keep separate newsrooms indefinitely to gain federal approval for what was otherwise ruled an illegal merger between competitors (Edge 2001). Even since announcing its purchase of Sun Media in 2014, Postmedia had repeatedly promised – publicly and privately – to do the same in Calgary, Edmonton, and Ottawa. In announcing the Sun Media purchase in 2014, Godfrey said the duplicate dailies Postmedia acquired would continue to operate independently with their own newsrooms (Artuso 2014). Godfrey reiterated when the purchase was approved in 2015 that Postmedia planned to follow in those cities the model that had been used for decades in Vancouver, seeking efficiencies in administration and production, but keeping separate newsrooms (Dobby and Bradshaw 2015). The former editor of the *Edmonton Journal* revealed that Godfrey had made similar promises privately to local stakeholders as well. "I attended two of his private dinners in fine Alberta restaurants where he vowed to keep the newsrooms separate", she wrote (Goodhand 2016).

Postmedia’s promises had been spread skillfully through political channels. The *National Post* reported that the chairman of its board called the mayors of Edmonton and Ottawa, as well as the premiers of Alberta and Ontario. Godfrey reportedly made similar calls to the mayor of Calgary, the federal Heritage minister, the Prime Minister’s Office, and several other cabinet ministers. "Even the leaders of the Opposition parties were brought into the loop", noted the *Post’s* backgrounder to the deal that was published in Postmedia dailies across the country. "Liberal leader Justin Trudeau was reached moments before Postmedia executives took to the microphones to announce the deal" (Tedesco 2014).

Conclusion

Despite its promises to keep separate newsrooms at its duplicate dailies in Calgary, Edmonton, and Ottawa, Postmedia announced in early 2016 it would combine them due to falling advertising revenues. It also announced it would combine newsrooms of the *Vancouver Sun* and *Province* despite assurances given by its corporate ancestor to the Restrictive Trade Practices Commission in the 1950s that it would never do so. This prompted the newly-elected Liberal government in Ottawa to convene hearings on Media and Local Communities in February 2016. As its revenues continued to fall throughout that year, Postmedia announced it had restructured its debt and eliminated more than half of the Cdn$648 million total by exchanging its second-tier debt for shares. This allowed the company to keep its head above water and continue operating without defaulting on its obligations (Milstead 2017). In October 2016 it announced it would cut 20 percent of its labor costs by first offering voluntary buyouts and then making layoffs if necessary.

In early 2017 the company laid off twenty-one workers at three of its newspapers in Eastern Canada. Postmedia CEO Paul Godfrey responded to concerns that the declining quality of the company's newspapers might drive readers away by telling an interviewer: "Are our papers as good as they used to be? No, but they haven't become unacceptable" (Johnston 2017). In March 2017 the company announced 54 layoffs at its *Vancouver Sun* and *Province*.

The unrestrained forces of financialization have wreaked havoc on Canadian media, first through concentration of ownership starting in the 1960s, which was aided by ineffective anti-trust regulations. From chains buying independent newspapers, chains began to devour other chains during the takeover phase starting in the 1980s. Convergence of media emerged at the millennium as cross-ownership of media picked up where concentration had left off. Finally, in the 21st Century we have seen the full flowering of financialization that has left Canadian media a shell of its former self.

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