Fédération nationale des communications

# Government of Canada Pre-budget Consultations for the 2019 Budget

August 2018

## Recommendations

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| Recommendation 1: | In the near future, provide all print media outlets with one-time comprehensive assistance to limit closures and job losses |
| Recommendation 2: | Give daily print media outlets access to the Canada Periodical Fund |
| Recommendation 3: | Give Canadian print media companies a tax credit equivalent to 30% of information production salary expenses |
| Recommendation 4: | Allow print media companies incorporated as not-for-profit organizations to become registered charities |
| Recommendation 5: | Establish a federal task force to set up an information production continuity fund |
| Recommendation 6: | Allocate a larger portion of the government advertising envelope to Canadian print media |
| Recommendation 7: | Amend the *Income Tax Act* to limit expense deductions for advertising on foreign digital platforms and reinvest the savings in the information industry |
| Recommendation 8: | Revise the *Copyright Act* to provide creators with fair, equitable remuneration |
| Recommendation 9: | Raise funding for CBC/Radio-Canada to $43.50 per capita so that it can play its role effectively |
| Recommendation 10: | Eliminate tax benefits for foreign digital platforms |
| Recommendation 11: | Force over-the-top programming services and Internet service providers to contribute to content production funding |
| Recommendation 12: | Approve the creation of an independent information network whose mandate would include managing copyright, public funding and private donations |

The Fédération nationale des communications, which represents 6,000 workers in the communications and culture sector, is pleased to participate in the pre-budget consultations, whose theme is “Economic Growth: Ensuring Canada’s Competitiveness,” by suggesting measures to “encourage Canadians and their businesses to grow the economy in the face of a changing economic landscape.”

## Fair, equitable, realistic funding

The particular role played by the media in a society such as ours is not just to promote our country’s social, political, legal and cultural values, but also to ensure that Canadians fulfil their potential in keeping with their rights and obligations.

Our culture and communications industry is a major contributor to the Canadian economy. In 2016, the culture sector’s GDP was $53.8 billion, about 3% of Canada’s total GDP. There are 652,406 jobs in the culture sector, accounting for 3.5% of total employment. **So, when you talk about culture, you’re talking about the economy.**

The Canadian media industry relies on various sources of public or private funding. In fact, it owes its existence to financial support and public investment from the various levels of government. It also has a number of more traditional revenue sources: advertising sales, subscriptions, private investment and donations.

Today more than ever, we need to react to the technological revolution that is changing cultural and information product consumption patterns and is the subject of Canada-wide discussion. Media services are being transformed, with a focus on speed, accessibility, multiple formats and user independence.

As a result of this new reality, many countries are regulating over-the-top programming services, Internet service providers (ISPs), and digital platforms. Some countries have had the cultural and economic courage to call on those service providers to become partners in the industries they are disrupting. Canada also needs to find its way forward in the digital universe, since our national and local industries are in a state of serious disarray.

The world of communications has abruptly shifted from a regulated national space where the collective interest and citizens’ rights mattered, to an unregulated international economy dominated by technological quasi-monopolies. This reality gives them enormous economic power, especially in their ability to drive out or take over competitors, thereby defying anti-trust laws and threatening our information media, our culture and the economy as a whole, which is becoming increasingly dematerialized. If those corporations could be forced to pay a fair and reasonable tax, the revenue would be substantial. According to taxation expert Marwah Rizqy, for Netflix alone, Ottawa and the provinces are missing out on potential revenue of $100 million.

The measures proposed in this brief echo previous recommendations made to the Canadian government regarding the print media and the production and distribution of Québécois and Canadian content, which underpins our cultural identity and Canada’s economic vitality.

## The print media

The print media are in crisis, and in view of the recent closures and job losses, we must underscore the fact that action is urgently needed. We no longer have the luxury of time. New measures must be introduced in the next budget. This is what we suggest:

1. **Expand the coverage of the Canada Periodical Fund and the use of payroll tax credits**

   The Canada Periodical Fund (CPF) currently supports non-daily, paid print publications. The CPF has a total annual envelope of $75 million and provides either contributions or grants. Extending eligibility to free daily and weekly newspapers, combined with a corresponding increase in its envelope, might be a significant way for the federal government to assist the Canadian print media.

   It could take the form of a refundable payroll tax credit, which would help create and preserve hundreds of jobs, which are essential for the existence a professional free press that is able to play its role effectively.

2. **New approaches for advertising**

   Despite expanding readership, the print media are in jeopardy because of the loss of a significant portion of their advertising revenue to platforms, such as Google and Facebook, that dominate and control the circulation of information online. Free, no-cost access to content does not mean that there is no cost to produce the content – quite the opposite.

   To ensure the continuity of quality journalistic information and develop new business models, it is vital to devise strategies to promote a more equitable division of advertising revenue. The government can take action now to improve the advertising revenue of Canadian newspapers. Here are three measures:

   - **Government of Canada advertising:** While adjusting its advertising practices to reflect Canadians' shift to digital media, the federal government, which claims to be concerned about the future of the media, needs to invest in Canadian companies first, not in large foreign platforms that pay no taxes and produce no local or regional content.

   - **Revision of the legislation that allows deductions for Internet advertising expenses:** Today, when a company buys advertising on Facebook, Google or YouTube, it receives the same tax benefits as it does for placing ads in local media. That section of the *Income Tax Act* has not been revised since the rise of the Internet. According to a very conservative estimate, 10% of advertising spending could revert to Canadian media if the Act were changed. This would add between $250 million and $450 million to the earnings of Canadian media outlets.

   - **An advertising tax credit:** To encourage advertisers to give preference to Canadian digital platforms for their ad placements, we recommend the introduction of a Canadian advertising tax credit.

3. **Allow print media companies to register as charities**

   Charitable status would allow not-for-profit print media outlets to receive tax-deductible donations. Consequently, we recommend that the government amend the law and regulations on charities to make them eligible.

4. **Enforcement of copyright and moral right rules for journalists, publishers and press agencies**

   The works of independent journalists and press agency employees are eligible for protection under the *Copyright Act*. However, the use of those works by content distribution platforms goes largely unremunerated. This means that the authors and publishers are losing money while companies like Google, Apple, Facebook and Amazon (GAFA) are getting rich off the intellectual property of others. The moral right to the integrity of the work and protection of its purity is too often ignored in this new world of communications. The *Copyright Act* should be revised to protect the work and the associated remuneration.

## Content production and distribution

Canadians have access to 700 Canadian and foreign television services. There is vast choice, strong competition and diversity commensurate with our expectations.. The $4.1 billion television industry is a vital economic engine for Canada and the cornerstone of our cultural industries.

Canada must continue creating cultural wealth and quality intellectual property for Canadians and for other countries. The international market is a critical contributor to the funding of our industry, with its positive effects on the Canadian economy and its presence in the world.

The public and private components of our industry are vital to the identity of our broadcasting system and are representative of the approach that Canada has taken for several other sectors of the economy. The very uniqueness of our system should not be jeopardized by certain decisions.

For example, lowering the daytime Canadian content requirement for private broadcasters to 35%, abolishing bundling, and discontinuing the Local Programming Improvement Fund (LPIF) are decisions that destabilized our system and resulted in financial losses for our public broadcaster.

We therefore propose two measures:

1. **Increase public funding for CBC/Radio-Canada**

   Canada ranks 16th out of 18 OECD countries in per capita funding for public broadcasting. At $34 per capita, public broadcasting funding in Canada is 60% lower than the $82 average for the 18 Western countries covered.

   We recommend that the government increase the taxpayer's share to $43.50 per capita. That investment would benefit both the Canadian economy and Canadian culture.

2. **Turn the technological threat into an opportunity**

   Collectively, we must ensure that, despite the economic upheaval caused by the Web giants' arrival in the marketplace, journalistic information will continue to play its role in questioning authority and as a public good that is essential to the proper functioning of our society. Accordingly, we need to develop an innovative vision for reorganizing a funding ecosystem while relying on past approaches that have been effective, particularly in the television industry. Since the money is now being made by the conveyors of content (Internet service providers, content distribution platforms, bandwidth, etc.), the latter should help fund the content that is essential to our democracy and our social cohesion.

   Establishment of an independent information network of not-for-profit organizations would enable Québécois and Canadian publishers to pool some of their resources with a view to increasing revenue, sharing it appropriately and curbing expenses. The network would provide its members with the following services:

   - Management of public funding, private donations and a newspaper continuity fund
   - Establishment and administration of a copyright management corporation
   - Digital transformation support
   - Technical and administrative services

This approach is consistent with the federal government's intent and, in particular, with its decision to invest $50 million in local print media outlets, relying on independent non-governmental organizations to administer the funds so as to preserve media independence.

We are asking the government to approve the creation of this network and provide it with the resources to fulfil its role.