

August 3, 2017

The Honourable Wayne Easter, P.C., M.P.
Chair, Standing Committee on Finance
Sixth Floor, 131 Queen Street
House of Commons
Ottawa ON K1A 0A6

Via email

Re: Pre-Budget Consultations in advance of the 2018 budget

1. Pelmorex Corp. is a Canadian owned and operated digital media company that makes unique contributions to Canadian programming and public safety. We are best known as the parent company of The Weather Network and MétéoMédia, Canada's most popular weather forecast and information services on television, web and mobile applications. But we also operate Canada's National Alerting Aggregation and Dissemination (NAAD) System, which validates and distributes emergency alerts issued by authorized government agencies (See alertready.ca and enalert.ca).
2. Pelmorex is pleased to provide comments to the Standing Committee on Finance's consultations in advance of the 2018 budget. Even from our analog television roots, we have always invested in research and innovation to deliver the most accurate, local and relevant content to Canadians. This innovative spirit drove our early adoption and constant expansion of digital distribution options, and has resulted in the integrated media and data business we are today. As such we can provide first-hand insight into many of the consultation's themes identified by the Standing Committee.
3. We can also comment on the challenges inherent in growing a digital media business in a borderless world. Most significant is the ongoing competitive threat from the largest digital media companies in the world, which operate in Canada with less regulatory oversight and can leverage their dominance in web and mobile operating systems to favour and promote their own content properties. Targeted federal measures can help Canadian businesses innovate and monetize their content in the face of growing international competition.
4. Specifically, we recommend the 2018 budget:
 - Adopt the Standing Committee on Canadian Heritage's recommendation to amend the *Income Tax Act* to allow a deduction for digital advertising expenditures on Canadian-owned platforms; and
 - Commit to broadening federal programs such as the Scientific Research and Experimental Development tax incentive as well as targeted programs to assist small and medium sized companies to attract skilled workers.

We are pleased to outline these recommendations further in this submission.

Pelmorex – a history of innovation

5. Pelmorex is known as Canada's trusted source for weather forecasts and news – originally through our The Weather Network and MétéoMédia television service, and now also through our websites, mobile apps and smart TV apps. But our business has always been based on constant innovation. More than a quarter century ago we developed and deployed pioneering localization technology to more than 1,000 cable headends so we could deliver local forecasts to cable subscribers in communities of all sizes across Canada. We have continually adapted and updated that proprietary technology to remain compatible with new TV distribution platforms and to deliver high-definition signals.
6. Pelmorex has also always sought to deliver our content over new digital platforms as they emerge. In 1995 we launched our theweathernetwork.com and meteomedia.com websites. Within ten years we had launched additional websites specifically designed to be accessed by mobile devices, as well as desktop applications to allow for instant access to weather information on PC and Apple computers. In 2006 we launched a smartphone application specifically for Blackberry, which was quickly followed by applications for iPhone, Android, Nokia and Microsoft smartphones. Following that, smart TV and other IPTV applications for Roku, Samsung, Apple TV, etc. were developed.
7. Over the past decade, Pelmorex has designed and launched more than 60 major software applications in addition to dozens of minor updates for various smartphone, tablet and over-the-top television devices. Today we are working on multiple applications specifically designed for internet connected TV services. Almost all of this work is done internally within Pelmorex. Every one of our products are designed to provide Canadian consumers access to our services in their choice of English or French.
8. In 2010, we developed and deployed the NAAD System, the backbone infrastructure that enables emergency management officials to distribute potentially life-saving emergency alerts instantly and without charge to the public via all radio and television broadcasters, as well as cable and satellite distributors across Canada. The NAAD System now authorizes and distributes more than 4,000 public alert messages per month, on average, and by April 2018 it will enable the distribution of critical alert messages to wireless devices.
9. Pelmorex's early adoption of new distribution technologies, enabled by our own commitment to research and innovation, has resulted in our position as a digital leader in Canada. Digital distribution options have also allowed us to expand internationally. We own and operate Eltiempo.es, the leading digital weather service in Spain, and also provide services in the United States, France, Germany, Ireland, India, South Africa, Australia and Latin America.
10. However, the borderless digital world has also brought new competitors to Canada, including the largest and most profitable companies in the world. For this reason, we need to continue to invest in skilled employees, research and innovation to maintain competitive in Canada and abroad. The Government also recognizes that targeted measures could help Canadian

businesses to be more competitive. Specifically, we have provided recommendations below in response to the consultation question:

“What measures would help businesses to undertake research, innovation and commercialization, purchase advanced technology and equipment, invest in the training and development of their employees, participate in global value chains and increase their international market share?”

Supporting Canadian digital platforms

11. Canada’s digital media landscape is dominated by large American companies. Today, 10 of the top 15 companies in terms of online activity from Canadians are American.¹ As is clear from the table below, usage is heavily skewed towards the leading firms. Indeed, the top seven companies capture 95% of the total views generated by the top 15 companies.

Table 1: Digital (all platform) usage – Top 15 by corporate group (June 2017)

Rank	Media	Total Unique Visitors (000)	Total Views (MM)	Total Visits (000)
1	Google Sites	29,260	19,142	2,039,614
2	Microsoft Sites	26,069	2,885	584,749
3	Facebook	24,796	11,366	1,081,418
4	Yahoo Sites	20,666	1,965	260,793
5	Amazon Sites	19,295	862	119,782
6	eBay	19,068	1,310	188,931
7	Apple Inc.	18,196	60	15,994
8	Bell Media	18,188	388	131,580
9	CBC-Radio Canada Sites	17,304	323	146,897
10	LinkedIn	14,363	288	130,438
11	Pelmorex Corp.	13,980	200	91,912
12	Wikimedia Foundation Sites	13,933	194	69,419
13	Rogers Digital Media	13,326	229	57,908
14	Postmedia Network Canada Corp	13,285	206	90,253
15	AOL, Inc.	12,349	151	44,416

12. The overwhelming dominance of U.S. companies in the Canadian online marketplace also translates to their ability to attract advertising revenue, making it more difficult for Canadian companies to monetize their digital offerings and reinvest in research, innovation and commercialization. Following a 15-month study of Canada’s media landscape, the Standing Committee on Canadian Heritage concluded that the Government should intervene to address the flow of advertising dollars to foreign-owned online platforms.

¹ Source: comScore Inc.

13. Specifically, the Committee recommended that “the Government of Canada amend sections 19 (newspapers), 19.01 (periodicals) and 19.1 (broadcasters) of the Income Tax Act to allow deduction of digital advertising on Canadian-owned platforms.”² This change would increase advertising on Canadian-owned digital platforms, thereby making Canadian businesses competitive and increasing revenue to be reinvested in innovation and research. We encourage the Government to adopt this recommendation by the Heritage Committee and implement it in Budget 2018.

Supporting investment in research, development and labour

14. In addition to competing with international companies for users and advertising dollars, Canadian companies also face the demand of needing to continually reinvest in technology and skilled staff. We need to serve users on every platform with the latest and most competitive features, and we need the skilled workforce to enable this ongoing development. In our particular case, we need to attract software developers, meteorologists, web and application developers, and geographic information system specialists.
15. Recently-announced programs to help bring highly skilled workers to Canada are a positive step. We recommend the Government commit, through Budget 2018, to review and broaden programs designed to assist small and medium sized companies to attract skilled workers.
16. Similarly, we recommend that the Government also commit to reviewing the Scientific Research and Experimental Development (SR&ED) tax credit program to broaden its applicability and benefit to companies dedicated to research and innovation. In particular, the Government should revisit the changes made in the 2012 Budget which reduced the tax credit from 20% to 15% for corporations other than certain Canadian-controlled private corporations. As well, the 2012 Budget reduced the tax credit for amounts paid for contracted SR&ED and the proxy amount in lieu of overhead expenses. Reversing these changes would increase the value of the SR&ED tax and renew the incentive for companies to pursue research and innovation in Canada.

Conclusion

17. Pelmorex was built on a tradition of innovation and investment in research and development. We have consistently pursued all opportunities to reach new audiences on new platforms, both in Canada and abroad. While we will continue to invest in innovation and commercialization to expand our business, we face increasing pressure from dominant foreign competitors, including the largest and most profitable companies in the world.
18. The Committee’s focus on helping Canadian businesses to be more productive and competitive is timely and welcome. We believe we have put forward practical, targeted measures that will

² Report of the Standing Committee on Canadian Heritage – *Disruption: Change and Churning in Canada’s Media Landscape*, June 2017.

help Canadian businesses increase revenue, invest in innovation and secure the talented employees they need to compete.

19. We appreciate the opportunity to participate in this important consultation.

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