

22 July 2019

## **Submission to the House of Commons Standing Committee on Finance Pre-Budget 2020 Consultation**

To achieve the social consensus needed to take meaningful action to transition to a low carbon economy, FRIENDS recommends this series of measure to ensure Canadians have access to the factual media they need to make informed decisions:

We respectfully offer the following recommendations to make this possible:

1. Modernize Section 19 of the Income Tax Act, to ensure that foreign digital advertising expenses are non-deductible, just as foreign offline advertising is. Annually, this will generate approximately \$1.6 billion for the public and repatriate approximately \$500 million in advertising revenues to Canadian media.
2. Increase the CBC/Radio Canada budget to \$50 per capita in the first post-election budget and ensure that CBC/Radio Canada's budget meets the average per capita investment in public broadcasting among OECD countries by 2023. Finance this increase with a 1% levy on all data-prominent telecommunications services to shift CBC/SRC funding to a more predictable model that is insulated from political caprice.
3. Direct the CRTC to amend the Digital Media Exemption Order to restore fairness to the broadcasting system and ensure that all broadcasters make equitable contributions to support Canadian storytelling. Countries such as Germany and France are now requiring large digital media companies to contribute to domestic entertainment content production. Canada should too. This is in fact a fiscal matter, as the Government of Canada is currently footing the bill to top up the Canadian Media Fund. The Fund would be overflowing if internet broadcasters like Netflix and Amazon were required to contribute to it as their Canadian competitors must.
4. End the free ride for foreign digital giants: Ensure that foreign internet businesses with more than \$1 million in annual Canadian revenue collect and

remit sales taxes. Ensure they pay corporate income taxes on their Canadian revenues. And mandate that they pay content creators and journalists fair royalties for use of copyrighted material. Each of these measures will restore fairness to the tax system and materially reduce the Government's deficit.

5. Hold social media companies to account: Ensure that large social media companies are held legally responsible for the content they disseminate, just as are conventional media. This too is a fiscal measure. The Republican-controlled US Federal Trade Commission, for example, just fined Facebook \$5 billion US. The Privacy Commissioner of Canada has accused Facebook of violating Canadian privacy laws. Similar fines are both appropriate and fiscally-responsible.

FRIENDS of Canadian Broadcasting is an independent watchdog for Canadian content on air, and online. We enjoy the support of 364,000 Canadians, whose after-tax gifts finance our work. FRIENDS is not affiliated with any broadcaster or political party.

Floods and forest fires are above ideology, wreaking havoc on progressives and conservatives in equal measure. Humanity must find a way to reverse the damage we inflict on the planet, before it becomes uninhabitable.

Experts say the window for effective action is narrow and closing fast. Some suggest that we have less than a decade to make the changes necessary to our survival.

But the question of how to address the climate emergency is proving contentious. Canada must somehow marshal some consensus on this issue. The subject matter is complex, and while opinions differ as to the best way forward, a citizenry that lacks reliable information amid widespread disinformation is not equipped to tackle serious matters like climate change.

This brings us to the state of Canadian journalism, which provides the oxygen Canadians and our democracy need to make informed decisions.

To be blunt, Canadian journalism is in free fall. During the past ten years, 16,000 jobs in the Canadian journalism industry have vanished and 250 media outlets have closed. This decline has been magnified by federal government policy. More on that in a moment. The bottom line is that Canadians now have access to far less reliable, objective journalism – that professionally-produced information we collectively need

to make informed choices about the big issues of our day, of which the survival of the species is surely a top contender.

As conventional media and the professional Canadian journalism and stories they produce disappear, social media has arrived to fill the void. Two players in particular, Facebook and Google (which owns YouTube), have risen to the top. Neither of these two behemoths employs a single journalist, yet, shockingly, Facebook is the number one source of news in Canada today.

Think about that for a second. Faced with a political issue so severe it could result in human extinction, a plurality of Canadians are deciding what to do based on information gleaned from a company that is notorious for spreading manifestly false and illegal content. The recent controversy around a doctored video of US House Speaker Nancy Pelosi is a case in point. The video was altered to make Pelosi - who doesn't drink - appear drunk. Facebook refused to take it down. Instead, they committed to placing a small label next to the video, notifying viewers that the veracity of the video is "disputed" - presuming they bother to read the fine print at all. In other words, Facebook's response to deliberately incendiary content, the sole purpose of which is to exploit social tensions and undermine democracy, was to continue presenting the video to tens of millions of users. If this is the company that is meant to inform Canadians about climate change, we might as well throw in the towel.

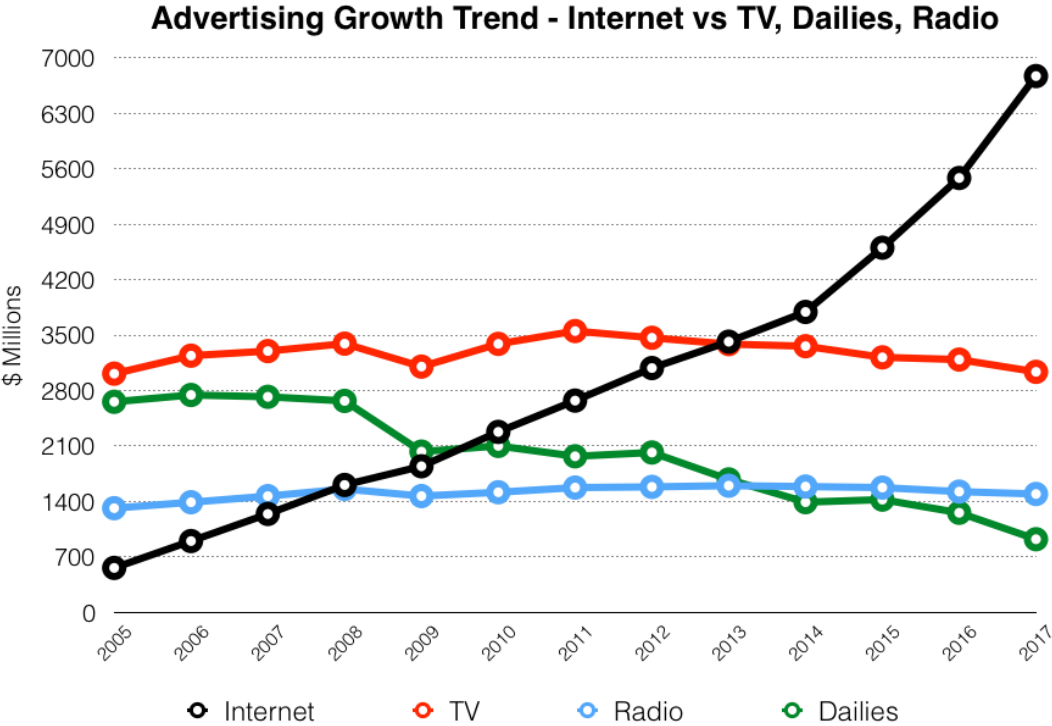
This is the same company that is held in disregard by lawmakers worldwide, that has admitted to monumental privacy failures that benefit its bottom line and the role it played in Russian interference during the US 2016 Presidential election. This is the company that live broadcast to billions around the world and millions in Canada the hate filled rampage in Christchurch, New Zealand that left 50 dead. This is the company that routinely is the conduit for misinformation that is often intended to incite hatred.

How did we get here? Why are Canadian media failing?

It's all about the money. Advertising money that is.

The online ad business is booming and together Facebook and Google control the vast majority of it, an estimated 75% of the market.

According to the Interactive Advertising Bureau, Canadian internet ad revenue continued its remarkable, double-digit growth in 2017, rising sharply by 1.3 billion or +23% to \$6.8 billion, 9% over forecast. In 2018, the figure grew to \$7.7 billion. It will only grow further.



Sources: Interactive Advertising Bureau of Canada and thinktv

Spending on digital advertising now eclipses all other media combined - nearly 80% of it going to US. Billions of Canadian advertising dollars - money that once funded Canadian content creation and journalism - now flows to Silicon Valley, tax-free.

Starved of advertising revenue, Canadian newspapers, radio stations and television broadcasters face a bleak future. The professional journalism and reliable information once produced by these Canadian outlets is becoming increasingly scarce, with grave consequences for public debate - especially where complex and contentious question like climate change are at issue.

The policy of the Government of Canada makes this very bad situation worse.

Ottawa actually enriches American internet publishers - including unscrupulous firms like Facebook - by subsidizing the price of their products and allowing them to ignore most Canadian laws, regulations, and taxes. The value of this special treatment is at least \$2.75 billion every year for just Facebook, Google and Netflix, more than double what is invested in CBC each year.

One of these exemptions is particularly harmful.

A loophole in Section 19 of the Income Tax Act permits Canadian businesses to deduct the full cost of ads sold by Facebook and Google from their corporate income tax bill, even though identical expenses with foreign TV, radio, and newspapers are not deductible under the Act.

This internet advertising tax loophole makes products sold by Google and Facebook significantly cheaper than they otherwise would be, tilting the playing field in favour of these American tech giants.

The internet advertising loophole in Section 19 cost Canadian governments \$1.6 billion in 2018. The price will likely reach \$2 billion in 2019. In addition to the benefit of saving taxpayers billions, we estimate that closing the loophole would result in about \$500 million being repatriated to Canadian media - both conventional and digital. That's almost five times the annual value of Ottawa's media bailout, and it won't cost the treasury a dime. Actually, the measure is decidedly revenue positive.

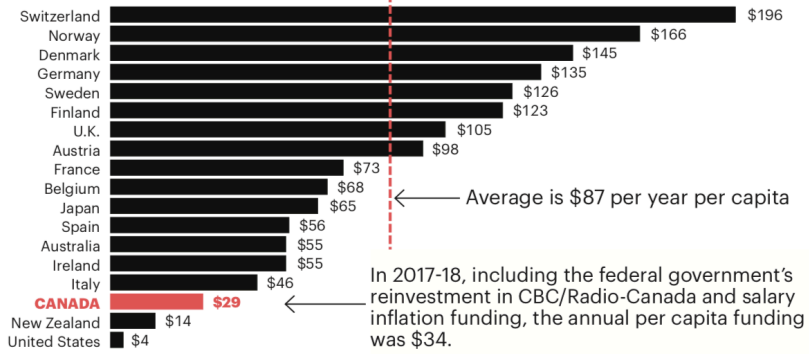
The federal government has acknowledged the problem faced by Canada's media. They produced a package of tax credits that is pathetically inadequate when compared to the magnitude of the problem. It is also worth noting that this rescue package does nothing to deal with the actual problem: the flight of advertising revenue which Canadian tax policy actively encourages.

The net effect of these costly, poorly wrought policies will be to delay, but not prevent the impending demise of Canadian media.

If the current trend continues, CBC/Radio Canada will be the last Canadian media outlet standing. But at \$34 per person per year, CBC/Radio Canada remains one of the most poorly-funded public broadcasters in the developed world. The per-capita average among wealthy democracies is about \$90.

## Canada spends less on public broadcasting than almost all other OECD countries.

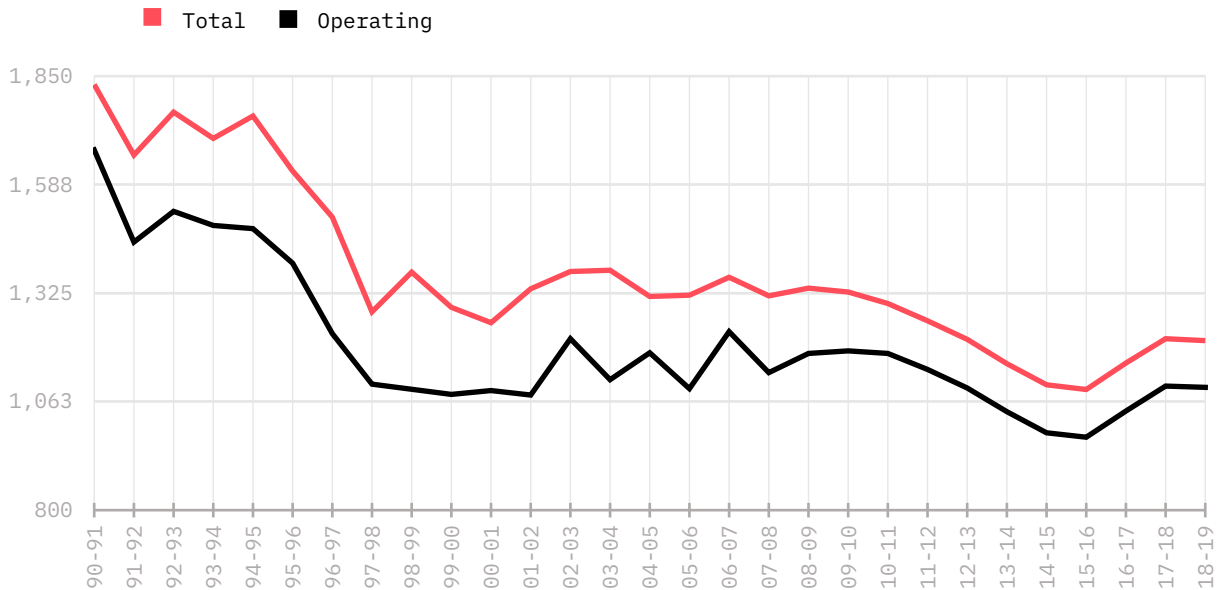
Annual per capita funding, 2016



Even after the welcome reinvestment of 2016, CBC's inflation-adjusted budget is lower than it was during the 1990s, when the Chrétien government cut its budget by a third.

# CBC annual grant (in 2018 dollars)

## Change in parliamentary appropriation



A successful transition to a low carbon economy depends on Canadians having multiple sources of quality news and information. And this trustworthy, objective news must be plentiful and prominent enough to compete with the junk news and

deliberate misinformation that masquerades as fact on Facebook, YouTube, and Twitter.

The stakes are high for the planet and for Canadian democracy. With the election just around the corner, we urge you to remember that your neighbours will be voting based on junk news and deliberate misinformation they see on Facebook. Their decisions will determine your future, your children's future, our country's future. Other countries are acting. Canada should too.