

August 7, 2020

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

Submitted Electronically

Re: Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget

Pelmorex Corp. is the parent company of The Weather Network ("TWN") and MétéoMédia ("MM"), Canada's most popular weather forecast and information services on television, web and mobile. We are pleased to provide the attached comments and recommendations to the The House of Commons Standing Committee on Finance's pre-budget consultation process.

Should the Committee have any questions or require further information, please contact the undersigned. Thank you.

Yours truly,



Kurt Eby
Director, Regulatory & Government Relations
Pelmorex Weather Networks (Television) Inc.

List of Recommendations:

- **Recommendation 1:** That the government adopt the Standing Committee on Canadian Heritage's 2017 recommendation to amend the *Income Tax Act* to allow a deduction for digital advertising expenditures on Canadian-owned platforms.
- **Recommendation 2:** That the government implement support measures to help Canadians maintain access to Canadian television services until the economic recovery is well underway.

1. Pelmorex is a 100% Canadian, bilingual, weather content and technology company. Through constant innovation and entrepreneurship, Pelmorex has grown from the operator of The Weather Network and MeteoMedia discretionary television services to become Canada's 4th-largest digital network across desktop and mobile and the world's 3rd-largest weather information provider across all platforms. Pelmorex also operates and funds 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 2021 federal budget. We agree with the Committee Chair's assessment that this budgetary process will be particularly important in light of the tremendous and unprecedented challenges presented by the COVID-19 pandemic. Government support provided to date – the wage subsidy, cancellation of broadcast licence fees and government advertising – has been well placed, welcome and critical in helping us to weather the downturn. It will now be just as critical to identify and implement government measures to “restart the Canadian economy” that will have both immediate and long-term impacts.

Addressing the immediate and long-term impacts of COVID-19 in Canada's content sector

3. As a content- and advertising-driven technology company, Pelmorex is well-suited to comment on the effects of the ongoing pandemic. Approximately 80% of our revenue comes from advertising, which has been doubly affected as advertisers have reduced spending due to economic pressures, and Canadians are not commuting or travelling, which reduces viewing and engagement with our weather news services. As a result we experienced ad revenue declines of 40-50% in the months immediately after the pandemic was declared. With the concerted effort to reopen the economy underway, ad revenue is *slowly* returning to normal; we hope for near-normal levels of ad revenue by early 2021.
4. Pelmorex is aware that this immediate, and severe, decline in ad spending and associated revenue was experienced to similar degrees by all of Canada's television and digital publishing businesses. However, while it is a unique incident that could not have been predicted, it also needs to be viewed as having exacerbated a trend that had already been ongoing in Canada for some time. Canadian advertising spending has quickly shifted to foreign sources over the past decade, and continues to do so.
5. Specifically, in 2018 Google and Facebook alone captured 78.2% of digital ad spending in Canada, up from 75% in 2017 and 66% in 2015.¹ The result is that the rest of the Canadian digital content companies – and other foreign entities providing content in Canada – are competing for less than one quarter of all digital ad spending. And as the trend clearly shows, this available share is likely to continue to decline more going forward as Google and Facebook continue to increase their dominance.

¹*themessage.ca – Google and Facebook dominate digital advertising, but big Canadian media remains strong: report, December 18, 2019.*

6. Years of innovation and self-disruption have well-positioned Pelmorex to navigate and benefit from the ongoing shifts in consumer preferences. That said, our growth from a broadcaster to a multi-platform, content-driven innovation firm has put us in direct competition with companies like Google and Facebook. Where we previously competed with some of the largest companies in Canada – e.g. the vertically integrated broadcasters and telecommunications providers – we now also compete with the largest companies in the world.
7. As an independent company, Pelmorex must compete solely on the quality of its weather news and forecasts. We have always been prepared to do this, and Canadians have demonstrated they will overwhelmingly choose our services when given the choice. However, the ability of vertically- integrated platform and content companies to put their own content, or the content of their partners, in front of consumers is disintermediating consumer choice and continuing to tilt the competitive balance in their own favour. The continued decline of available advertising revenue exacerbates this competitive imbalance by reducing the ability to grow revenue and invest in new products and services.
8. This situation is not new to the government. Following a 15-month study of Canada’s media landscape, the Standing Committee on Canadian Heritage concluded in June 2017 that the Government should intervene to address the flow of advertising dollars to foreign-owned online platforms. 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
9. This measure recommended by the Heritage Committee would increase advertising on Canadian-owned digital platforms, thereby making Canadian businesses more competitive and increasing revenue to be reinvested in innovation and research. While Pelmorex has advocated for this measure to the Finance Committee before, we submit that it is more important than ever to adopt given the current economic situation.
 - We therefore strongly encourage the government to adopt this recommendation by the Heritage Committee and implement it in Budget 2021.
10. A more recent trend that could have significant, long-term impacts on Canada’s news and content industries is increasing risk for Canadian households to cancel their subscription television services due to the impact of COVID-19 on household finances. At the outset of the pandemic Canada’s television distributors implemented a number of measures to help Canadian families stay connected and entertained during the lockdown, including free channel previews and waiving interest fees for late bill payment.
11. As these support measures are phased out, more Canadian families are feeling the crunch caused by the impacts of the pandemic. A July 2020 survey showed that 31% of households with

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

children, and 27% of households with no kids, were seriously considering cancelling their TV subscription.³

12. Subscriptions account for nearly 68% of the \$4 billion in annual revenue in Canada's specialty TV service market. As cancelled subscriptions would be challenging to repatriate once household finances are under less pressure, mass TV service cancellations now due to COVID-19 would have significant and long-term impacts on Canadian programming services. Reduced revenue would reduce spending on Canadian content and on programming in general, and would diminish the quantity and quality of news and information available to Canadians. Cancelled subscriptions, of course, would also reduce access to the important services available through regulated TV distribution. Interim government support would therefore help ensure Canadians can continue to access the news, information and entertainment services they need, while preventing a substantial revenue decline for this important sector.

- We therefore recommend the government implement measures to help Canadians maintain access to Canadian television services until the economic recovery is well underway.

Conclusion

13. Like most businesses, Pelmorex has been significantly impacted by the ongoing COVID-19 situation. Advertising revenue was down by as much as 50% in the early months of the pandemic, and will take many more months to recover. In addition, we are now seeing warning signs that Canadian families may need to cancel their television subscriptions as a cost cutting measure caused by the pandemic. The Committee's focus on measures to restart the Canadian economy is timely and welcome. Government support to date has been invaluable, and new measures that have an immediate and long-term impact will be just as critical.

14. That said, as mentioned above the pandemic has in many ways exacerbated underlying issues that were already challenging Canadian programming services and digital publishers. It is therefore now more important than ever for the government to take action to address the outflow of advertising revenue to foreign firms.

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

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³ Cartt.ca – SRG Chart of the Week: Hit by Covid, Canadians are checking their entertainment spend, August 4, 2020.