



GOVERNMENT RESPONSE TO THE SIXTH REPORT OF THE STANDING  
COMMITTEE ON CANADIAN HERITAGE ENTITLED DISRUPTION: CHANGE  
AND CHURNING IN CANADA'S MEDIA LANDSCAPE

The Honourable Hedy Fry, P.C., M.P.  
Chair, Standing Committee on Canadian Heritage  
House of Commons  
Ottawa, Ontario  
K1A 0A6

OCT 16 2017

Dear Ms. Fry:

Pursuant to House of Commons Standing Order 109, the Government of Canada is pleased to respond to the Sixth Report of the Standing Committee on Canadian Heritage (the Committee), entitled, "*Disruption: Change and Churning in Canada's Media Landscape*" tabled in the House of Commons on June 15, 2017.

The Government of Canada would like to thank members of the Committee for their hard work in developing the report and for the effort put into crafting the recommendations. We are grateful to all those who appeared before the Committee to express their points of view and provide evidence and expert advice.

The Government recognizes the important role media and journalism play in Canadian society and more specifically, their role as fundamental pillars of our democratic process. The creation and dissemination of local, regional, national and international news and information on traditional and digital platforms is valued by Canadians. At the same time, the Government of Canada recognizes the challenges brought about by the rise of digital media and platforms, particularly on the business models and revenue sources of traditional media.

In a speech at the end of September, the Minister of Canadian Heritage outlined a future-focused approach to grow and strengthen Canada's culture and creative industries. This approach will support Canadian creators, reflect Canada's cultural diversity, strengthen a healthy democracy, and drive social and economic innovation. The approach will lay the groundwork for upcoming changes to legislation, policies, strategies and programs.

The Government has carefully considered the Sixth Report of the Standing Committee on Canadian Heritage entitled *Disruption: Change and Churning in Canada's Media Landscape*. The Committee's work has been important to us and has been taken

into consideration. The Government is taking actions that support the directions set out in the Committee's report.

The Government of Canada will address the recommendations put forward by the Committee by grouping them into five themes: 1) Support for news and journalistic content, 2) A fair, efficient and competitive marketplace, 3) Tax recommendations, 4) The broadcasting system and, 5) Disseminating federal information.

The Government continues to respect the independence of press councils and journalists including in the application of existing ethics guidelines.

### **Support for news and journalistic content (Recommendations #1, 2, 7)**

The Government of Canada recognizes that a vibrant, local and reliable news media ecosystem is a pillar of democracy. This is why each year, \$74.8 million is provided through the Canada Periodical Fund (CPF) to ensure Canadians have access to diverse Canadian content in paid magazines, paid non-daily newspapers, and digital periodicals. In 2017-2018 alone, 368 non-daily newspapers received more than \$17 million from the Fund.

The CPF consists of three components, Aid to Publishers (\$71.3 million), Business Innovation (\$1.5 million) and Collective Initiatives (\$2 million), which aim to enable Canadian periodicals to overcome market disadvantages. The Aid to Publishers component gives publishers the flexibility to use the funds according to their needs, including to invest in digital content creation and the development of digital business models. As the Committee is aware, the Business Innovation component encourages innovation to adapt to changing market conditions, while the Collective Initiatives component supports associations that work towards increasing the overall sustainability of the Canadian print magazine and non-daily newspaper industries.

In addition to supporting creation and business development, the CPF has measures in place to support diversity in the periodical ecosystem. For example, publishers catering to Indigenous, ethnocultural, lesbian, gay, bisexual, and transgender (LGBT), and official language minority audiences are afforded enhanced funding and special eligibility criteria to improve their access to the program. In 2017-18, the CPF supported 38 ethnocultural and 13 Indigenous community newspapers. Supported periodicals were published in 39 languages other than English and French, including several in Indigenous languages. CPF support for official-language minority periodicals is complemented by the Community Life component of the Development of Official Languages Communities Program administered by the Official Languages Branch, which provides funding to minority-language media, including community newspapers, in order to encourage community sustainability.

The Government acknowledges that news media are facing industry-wide challenges as they adapt to changing technology, demographics, audience preferences and competition for advertising dollars. In 2015, an evaluation of the CPF found that the Fund contributed to the sustainability of the Canadian periodical industry but should continue to evolve in light of growing structural challenges. The CPF is exploring options to better meet the needs of Canadian periodicals to ensure that they can continue informing, entertaining and educating Canadians across the country.

The Government of Canada is committed to a renewed, nation-to-nation relationship with Indigenous peoples, based on recognition of rights, respect, cooperation, and partnership, and we recognize that increasing the representation of Indigenous perspectives in the full range of arts and media is an important aspect of reconciliation. In this context, we take seriously the Committee's recommendations related to Indigenous issues.

Regarding the recommendation for the Aboriginal Peoples' Television Networks (APTN), we note that APTN is a private organization, independent of government. As such, the Government is not commenting on the specifics of this recommendation, and continues to respect the independence of APTN. The Committee is encouraged to engage directly with APTN on this recommendation.

**A fair, efficient and competitive marketplace (Recommendations #3, 12, 13, 17, 20)**

The Government of Canada recognizes the importance of a fair, efficient and competitive telecommunications marketplace in driving innovation and leveraging the opportunities made possible by digital technology. Access to affordable broadband Internet, particularly in rural and remote regions, is essential to the participation of Canadians in the digital economy.

Therefore, the Government of Canada agrees that Innovation, Science and Economic Development Canada (ISED) and the Canadian Radio-television and Telecommunications Commission (CRTC) should continue efforts to improve affordable Internet access across the country. To meet this end, the Government is focused on the three core objectives of quality, coverage, and price. Specific actions are being taken to make these objectives a reality.

The Connect to Innovate program will invest \$500 million by 2021 to expand and improve broadband access in rural and remote areas. Budget 2017 proposed funding of \$13.2 million for a new Affordable Access program, which will help service providers offer low-cost home Internet packages to interested low-income families.

In December 2016, the CRTC also released a decision whereby it classified broadband Internet as a basic telecommunications service, established new broadband targets, and announced a new \$750 million fund to help achieve them. Indigenous and

Northern Affairs Canada and Infrastructure Canada also administer infrastructure programs that support community broadband development.

The Committee's recommendation to generate revenue by expanding broadcast distribution levies so that they apply to broadband distribution would conflict with the principle of affordable access. The open Internet has been a powerful enabler of innovation, driving economic growth, entrepreneurship, and social change in Canada and around the world. The future prosperity of Canadians depends on access to an open Internet where Canadians have the power to freely innovate, communicate, and access the content of their choice in accordance with Canadian laws. Therefore, the Government does not intend to expand the current levy on broadcast distribution undertakings.

The Government of Canada shares the Committee's view that a free and independent media is a pillar of a free and democratic society. However, the issue of preserving a diversity of voices in Canadian media does not only arise in the context of mergers, but also with respect to bankruptcies, unilateral withdrawals of a market participant from a region, and in relation to media whose business model rests principally on the reporting of information prepared by others, such as press agencies.

As such, the Committee's recommendation to require a review of diversity of views for media company mergers would likely only cover one subset of cases where diversity of voices is likely to be affected in a rapidly evolving industry. In addition, news and information reported through the Internet play an increasingly important role in the delivery of news information to Canadians and this contributes to the diversity of voices.

The Government supports the development of start-up companies. For example, the new Innovation Canada coordinates and simplifies available support to help Canadian companies, including new digital media companies, grow and succeed. The Accelerated Growth Service provides targeted support to high-growth companies while all digital media companies are eligible to apply for funding under the new Strategic Innovation Fund. These efforts complement programming from other government organizations such as the Business Development Bank of Canada, Regional Development Agencies, the Department of Canadian Heritage, as well as from provincial/territorial governments.

Support for federal initiatives and priorities are drawn from the Consolidated Revenue Fund, using existing revenue. Moreover, the objective for spectrum auctions is to make a valuable public resource available to service providers to enable the delivery of next-generation mobile services, while ensuring a fair return to Canadians for the use of the spectrum. Spectrum auction proceeds are remitted to the Consolidated Revenue Fund.

Support for the development and growth of businesses contributes to the diversity of voices in the media landscape without creating new restrictions on how businesses operate. An assessment of diversity of voices in transactions taking place in the Canadian marketplace is complex given the variety of potential transactions. The Competition

Bureau is not well-suited to this function, in part given the limited number of transactions it reviews, as well as its overall economic mandate.

**Tax recommendations (Recommendations #4, 5, 6, 19)**

The Government of Canada acknowledges the Committee's diverse recommendations to modify elements of the tax system and is assessing and reviewing the impacts of the digital economy on the Canadian tax system. As the Committee is aware, changes to the tax system generally occur and are announced through the Budget process.

The Government acknowledges the Committee's recommendation to amend sections 19, 19.01, and 19.1 of the *Income Tax Act* to allow the deduction of the cost of advertising on digital platforms. In general, businesses can deduct from their taxable income any reasonable expense made to earn business income, including advertising expenses. Sections 19, 19.01, and 19.1 of the *Income Tax Act* are exceptions to these rules which limit the deductibility of advertising expenses related to advertisements placed in newspapers and periodicals or broadcast by broadcast undertakings when those advertisements are primarily directed at a market in Canada. Specifically, sections 19 and 19.1 of the *Income Tax Act* set out the non-deductibility of advertising expenses in respect of advertisements placed in foreign newspapers or broadcast by foreign broadcast undertakings whereas section 19.01 limits the deductibility of advertising expenses to 50 percent when advertisements are placed in a periodical that contains less than 80 percent Canadian content, regardless of the nationality of the owner. As such, it is presently permitted to deduct the cost of advertising on all digital platforms.

The Government acknowledges the recommendation to subject foreign news aggregators to the same tax obligations as Canadian providers. The emergence and rapid growth of the digital economy pose challenges for tax systems in all jurisdictions, including Canada. The Department of Finance is examining the issue.

The Government of Canada acknowledges the Committee's recommendation to introduce a tax credit to compensate print media companies for a portion of capital and labour investments in digital media as well as the recommendation to change the definition of a registered charity in the *Income Tax Act*.

The federal government provides support for the charitable sector through a number of charitable donations tax incentives, which are among the most generous in the world. Currently, there are about 86,000 charities and federal tax assistance associated with donation incentives for charities is expected to be \$3.6 billion in 2017.

The *Income Tax Act* does not define charity; rather, this has been established through the common law. Generally speaking, according to the common law, charity is defined as the relief of poverty, the advancement of education or religion, and certain other purposes recognized by the courts as beneficial to the public.

It is not clear that amending the *Income Tax Act* to include not-for-profit media organizations and foundations as charities would be an effective way of supporting the not-for-profit media.

**The broadcasting system (Recommendations #8, 9, 10, 11, 14, 15)**

The Government recognizes the commitment of the CRTC and CBC/Radio-Canada to ensuring Canadians have access to local information and creative content that reflects our country, its unique identity and its diversity. These two institutions play a fundamental role in ensuring that Canadians have access to news and information programming that meets their needs and supports a healthy democracy.

The CRTC is an independent public authority responsible for the regulation and supervision of the Canadian broadcasting system. Recommendations directed at the CRTC will be forwarded to the Commission for their consideration.

On June 15, 2016, the CRTC published its decision on local and community television programming. In an effort to help ensure that local television stations have the financial resources to continue providing high-quality local news and information, the CRTC rebalanced the resources already present in the broadcasting system by allowing part of the contributions to local expression to be allocated to the production of local news on local television stations.

Furthermore, as of September 1, 2017, the CRTC Independent Local News Fund gives independent stations access to approximately \$23 million to produce high-quality news programming.

Commercial English-language stations are required to broadcast at least 7 hours of local programming per week in non-metropolitan markets and at least 14 hours per week in metropolitan markets. The local programming requirements for commercial French-language stations are assessed on a case-by-case basis, using a benchmark minimum of 5 hours of local programming per week.

To ensure that Canadians continue to benefit from local reflection in the form of local news, the CRTC requires that a minimum level of local programming be devoted to local news. Specifically, all licensees will be required to broadcast a minimum level of local news and to allocate a percentage of their previous year's revenues to such programming, with the exhibition and expenditure levels to be determined at licence renewal based on historical levels.

The Government also recognizes the commitment of the private broadcasters to local news. In revealing their programming plans for 2017-18, Bell, Rogers and Shaw all announced that they were expanding their local news coverage.

In Budget 2016, the Government re-affirmed its commitment to CBC/Radio-Canada and its importance by re-investing \$675 million in the Corporation over five-years. CBC/Radio-Canada indicated that with this reinvestment, it will continue to implement its local, digital-first programming strategy and to reinvest in local services where it now offers local news online, 7 days a week, with programming tailored to different parts of the day.

One of the innovative ways CBC/Radio-Canada is growing as a national public broadcaster and renewing audiences is by launching its project, RAD, a creative space crossing journalism with digital technologies and aligned with the mission of finding new ways of treating and bringing News and Public Affairs to the younger generations. In addition, Radio-Canada recently created two national reporter positions in Alberta and Acadia to share local news across Canada's francophone communities. It will also pursue partnership arrangements to extend the reach of its news programs.

To keep track of reinvestment, CBC/Radio-Canada developed performance indicators specific to the additional reinvestment, which will measure the incremental impact of new funding on two key priorities: expanding its digital presence and increasing services to local markets. These results will be communicated to the Government and to Canadians at the end of each year in its Corporate Plan Summary and Annual Report.

The Government of Canada expects that, as per its mandate, CBC/Radio-Canada's programming reflect Canada and its regions to national and regional audiences and that the Corporation actively contribute to the flow and exchange of cultural expression and reflect the multicultural nature of Canada.

CBC/Radio-Canada is also an independent Crown corporation, whose senior management is responsible for its day-to-day operations and programming. While it is up to the Corporation to act on those recommendations in a manner that it deems appropriate, the Government of Canada trusts that CBC/Radio-Canada will take the Committee's hard work into account and consider the report's recommendations. The Government would encourage the Committee to continue to engage directly with the Corporation about those recommendations.

In addition, recognizing that "Canada's media industries, and the systems that allow for broadcasting, distribution and the exchange of ideas, are fundamentally changing in the digital age," and to ensure "that Canadians continue to benefit from an open and innovative Internet" the Government committed, in Budget 2017, to review and modernize both the *Broadcasting Act* and *Telecommunications Act*. The Budget indicated that this review will examine, among other issues, content creation in the digital age, net neutrality, and how to strengthen the future of Canadian media and Canadian content creation.

**Disseminating federal information (Recommendation #16)**

The Government of Canada has a responsibility to communicate with Canadians, in the official language of their choice, to help protect their interests and well-being, and promote Canada as a prosperous, diverse and welcoming country.

To maximize reach and to engage with Canadians effectively and efficiently, the Government of Canada uses new communications approaches such as digital technologies, balanced with more traditional methods. The Policy on Communications and Federal Identity and its related instruments contain requirements to ensure that communications products and activities are responsive to the specific needs and interests of regional populations and multicultural and Indigenous communities. In addition, federal government departments use various communications approaches to promote government policies, programs, services and initiatives, and to inform Canadians of their rights and responsibilities under the law including working proactively with the media.

While the Government of Canada is dedicated to reaching Canada's official language, ethnocultural, and Indigenous communities, the Canada Periodical Fund is a more direct and tailored means of supporting community newspapers.

The Government of Canada would like to reiterate its thanks to the members of the Standing Committee for the work that they completed. Rest assured that the Government takes the recommendations seriously.

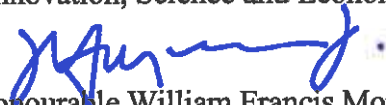
Sincerely,



The Honourable Mélanie Joly, P.C., M.P.  
Minister of Canadian Heritage



The Honourable Navdeep Singh Bains, P.C., M.P.  
Minister of Innovation, Science and Economic Development



The Honourable William Francis Morneau, P.C., M.P.  
Minister of Finance