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

Submission by the
Canadian Association of Broadcasters

October 2022

Recommendation 1: Eliminate the tax-deductibility of advertising purchased on foreign-owned, internet-delivered media sites and services.

Recommendation 2: Extend the Canadian journalism labour tax credit to broadcast news organizations.

Recommendation 3: Any increase in funding to the Canadian Broadcasting Corporation and Société Radio-Canada must be tied to the public broadcaster exiting the advertising market.

The Canadian Association of Broadcasters (CAB) is the national voice of Canada's private broadcasters, representing the vast majority of Canadian programming services, including private radio and television stations and discretionary services.

Private broadcasters are trusted by Canadians as their primary source for local news in small, medium and large communities across the country. They represent a diversity of editorial voices with critical news and information programming in English, French, Indigenous and other languages serving Canada's diverse ethnic communities.

Background on Recommendations

Canada's private broadcasters are currently facing significant challenges to their traditional business models. Those challenges are based on a once-in-a-century combination of changes in technology, economics and demographics.

At the core of the challenges is the technology revolution, which has altered our basic definition of what constitutes a media market.

For example, in 2012, Canadian private radio stations accounted for 68.3 per cent of the Canadian radio/audio market. By 2021, that percentage was down to 44.1 per cent. [1] Private radio is not only facing more competitors for listeners, it is also facing a changing sequence of commercial-buying, in which tech-driven options are capturing a significant share of advertising revenues, over and above the competition for listeners.

The patterns for Canada's private television services are similar. In 2012, Canadian private conventional TV accounted for 22.0 per cent of the Canadian market; by 2021, that was down to 12.6 per cent. In 2012, Canadian private discretionary TV services (specialty and pay) accounted for 40.7 per cent of the Canadian market; by 2021, that was down to 30.8 per cent.[2]

The tech-driven fragmentation of the Canadian broadcasting market was already evident before the COVID-19 pandemic. From 2015 to 2019, private radio revenue in Canada fell from $1.61 billion to $1.46 billion – a decline of about $150 million. And then the pandemic made it worse. Canada's private radio revenue fell a further $300 million from 2019 to 2020, and then fell again (by about $76 million) from 2020 to 2021. Compared to the figure for 2019, private radio had a revenue loss of $677 million in the pandemic years of 2020 and 2021.[3]

For Canada's private conventional television, revenue fell from $1.89 billion in 2015 to $1.67 billion in 2019 – a decline of about $217 million. In the first pandemic year (2020), it fell a further $279 million. There was some recovery in the second pandemic year (2021), but the total revenue was still about $140 million less than it had been in 2019. Compared to the figure

[1] Based on revenue data from the CRTC and Statistics Canada; compiled by Communications Management Inc.
[2] Ibid.
[3] Based on data from Statistics Canada.

for 2019, private conventional television had a revenue loss of $419 million in the pandemic years of 2020 and 2021.[4]

For private discretionary (specialty and pay) services, revenue fell from about $4.1 billion in 2015 to about $4.0 billion in 2019. It then declined by $256 million in 2020, and a further $21 million in 2021. Compared to the figure from 2019, private discretionary services had a revenue loss of $533 million in the pandemic years of 2020 and 2021.[5]

The combined revenue losses for private radio, private conventional television, and private discretionary television amount to $1.6 billion in revenues that left the system in 2020 and 2021.

But that total, and its components, is not simply an abstract statistical exercise. These are the radio and television services on which we depend for our local news, for local community information, for our coverage of sports, for introduction to Canadian music, and, when required, for alerting our communities in times of emergency.

In addition, based on the most current estimates and projections, it appears that many private broadcasters are still facing a difficult combination of uncertainty and volatility.

The recommendations below are vital to helping to ensure that Canada's private broadcasters can continue to provide robust news and information programming that properly reflects Canadians' experiences.

[4] Ibid.
[5] Based on data from Statistics Canada and the CRTC.

Recommendation 1: ***Eliminate the tax-deductibility of advertising purchased on foreign-owned, internet-delivered media sites and services.***

Section 19 of the *Income Tax Act* (ITA) allows for advertising to be a tax-deductible expense for Canadian companies. Since the 1960's, successive governments have taken steps to ensure that these deductions were not used by Canadian companies to advertise with foreign-owned broadcasters or publications.

The rationale for these limitations was always clear: To help ensure that Canada has a vibrant and sustainable media sector, with Canadian voices telling Canadian stories. The concern was that foreign broadcasters and publications could use their financial might to undermine the Canadian industry, and supporting such business activity ran counter to Canada's socioeconomic well-being.

At the time, the concern was border-area broadcasters and "split-run" publications which provided no tangible benefit to Canadians in terms of jobs and infrastructure, and had no interest in providing Canadians news or stories that are vital to Canada's cultural sovereignty and democracy.

Unfortunately, the ITA has not kept pace with the important changes in how media and content is delivered to Canadians, and allows for full tax deductibility of advertising expenses on foreign internet-delivered media. It does this in part due to antiquated definitions of "newspaper" and "broadcasting" that do not reflect the current technological realities. In fact, Canada Revenue Agency's definition of broadcasting now differs from that of the broadcast regulator, the Canadian Radio-television and Telecommunications Commission.

The result has been demonstrably negative, on multiple fronts.

From an economic point of view, the current approach has helped promote a massive growth in digital advertising, with much of that being captured by the largest foreign digital platforms. This effectively creates an increasingly untenable trade imbalance between Canadian media companies and our massive, unregulated foreign competitors.

It also means the Crown is forgoing tax revenue to support economic activity that diverts those critical socioeconomic benefits away from the Canadian economy.

Finally – and perhaps most importantly – the declines in advertising revenue for Canadian media companies as this activity flows to foreign entities means less revenue for broadcasters, and fewer resources to help support Canadian newsrooms.

The current challenge of these massive foreign digital players into Canada's domestic advertising market is far more substantial than those that spurred the initial policy decisions to exclude tax deductibility on ad spending in foreign media in the 1960's and 1970's. At that time,

concerns were raised over the possibility of 10% of Canada's ad spending going to American media.

In 2021, spending on foreign digital advertising exceeded $12 billion[6]. Spending on digital advertising in Canada now exceeds that of traditional media, with few signs of this trend relenting.

The vast majority of digital advertising expenditures ultimately benefit foreign platforms, including Google and Facebook, the dominant players in Canada's online advertising market. A number of estimates place their share at more than three-quarters of Canada's online advertising market.[7]

The removal of the eligibility for the tax deductibility for advertising through foreign digital services will likely not result in the abandonment of this avenue by Canadian advertisers, but even if a marginal amount of this spending were redirected towards Canadian media organizations, it would provide a hundreds of millions in additional advertising revenue to support Canadian newsrooms and businesses.

Addressing this oversight in the ITA would address these economic and cultural policy concerns while actually saving the federal government money that it currently forgoes by allowing these tax incentives for investing outside of our own economy.

Recommendation 2: *Extending the Canadian journalism labour tax credit to broadcast news organizations.*

In Budgets 2019 and 2020, the government took steps to institute a Canadian journalism labour tax credit, which allows Qualified Canadian Journalism Organizations[8] to receive a tax credit worth up to 25 per cent of their labour expenditures.

As these measures were developed, the approach focused on print media organizations, and explicitly excluded Canada's radio and television broadcasters. In fact, any news organization that is licensed as a broadcast undertaking is ineligible.

This runs counter to Canadians' own preferences for where they seek their news and information, and who they trust most. Canada's private broadcasters remain the primary source of news and information in communities across the country.   A 2021 survey from Solutions Research Group demonstrated that television is the source most often mentioned for local news by respondents (76%), followed by radio (58%).[9]

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[6] IAB Canada, "2021 Internet Ad Revenue Survey," June 2022
[7] Communications Management Inc., based on data from ThinkTV, IAB Canada, eMarketer/InsiderIntelligence, and GroupM.
[8] As defined in XXX
[9] *Canadian Consumers and Radio: Lessons from COVID-19*, Solutions Research Group, February 2021, page 13.

Moreover, it doesn't represent the reality of modern news media organizations. "Print" media organizations are as likely to engage in the dissemination of audio and video feeds as part of their reporting as broadcasters. All modern Canadian news organizations exist on multiple platforms.

Canadians deserve a diversity of quality local news and information sources that they value and know they can trust. The current application of this tax credit exclusively to print news is arbitrary, unfair, and does not acknowledge the significant pressures and challenges that online and foreign media have applied on Canadian media companies' ability to continue to support their newsrooms.

Extending the Canadian journalism labour tax credit to broadcast news organizations will help ensure that Canadians can continue to access the vital local news content they need and trust.

Recommendation 3: *Any increase in funding to the Canadian Broadcasting Corporation and Société Radio-Canada must be tied to the public broadcaster exiting the advertising market.*

The Canadian Broadcasting Corporation (CBC) and Société Radio-Canada (SRC) serve as Canada's public broadcaster, with a clear and defined public service mandate outlined in the *Broadcasting Act*. To meet this mandate, the current parliamentary appropriation exceeded $1.3 billion in 2020-21.

Despite this significant government support, CBC/SRC continues to compete in the advertising market with Canada's private broadcasters. Canada's private broadcasters rely entirely on revenues generated through advertising and subscription revenue to support their operations.

Moreover, the public broadcaster's pursuit of advertising leads it to stray from its essential public service mandate, and into market-driven choices that place it in direct competition with private Canadian media companies. This results in the public broadcaster using its substantial public appropriation as an unfair advantage when competing for talent throughout its organization, and when pricing their advertising.

It also leads to the public broadcaster choosing popular programming that does not align with its public service goals. Continuing to allow it to depend on advertising in various forms as part of its revenue model will only drive it further off course.

CBC/SRC's divergence from its mandate and towards a market-driven strategy is most evident in the "branded-content service", Tandem. This service provides a range of advertising options, including sponsored content, product placement and branded content for corporate clients. This is completely inconsistent with the mandate of CBC/SRC as stated in the Broadcasting Act.

The challenges in the advertising market for Canada's private broadcasters are profound, and the presence of a publicly subsidized competitor only deepens these issues. As such, any

consideration of added funding for CBC/SRC must be tied directly to the public broadcaster's immediate exit from the advertising market.