Submission for the Pre-Budget Consultations
in Advance of the 2024 Federal Budget

Submission by the
Canadian Association of Broadcasters

4 August 2023

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

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

Recommendation 3: Prioritize and support Canadian-owned media by dedicating 70 per cent of the Government of Canada's advertising expenditures to local radio, TV, print, and Canadian-owned digital media.

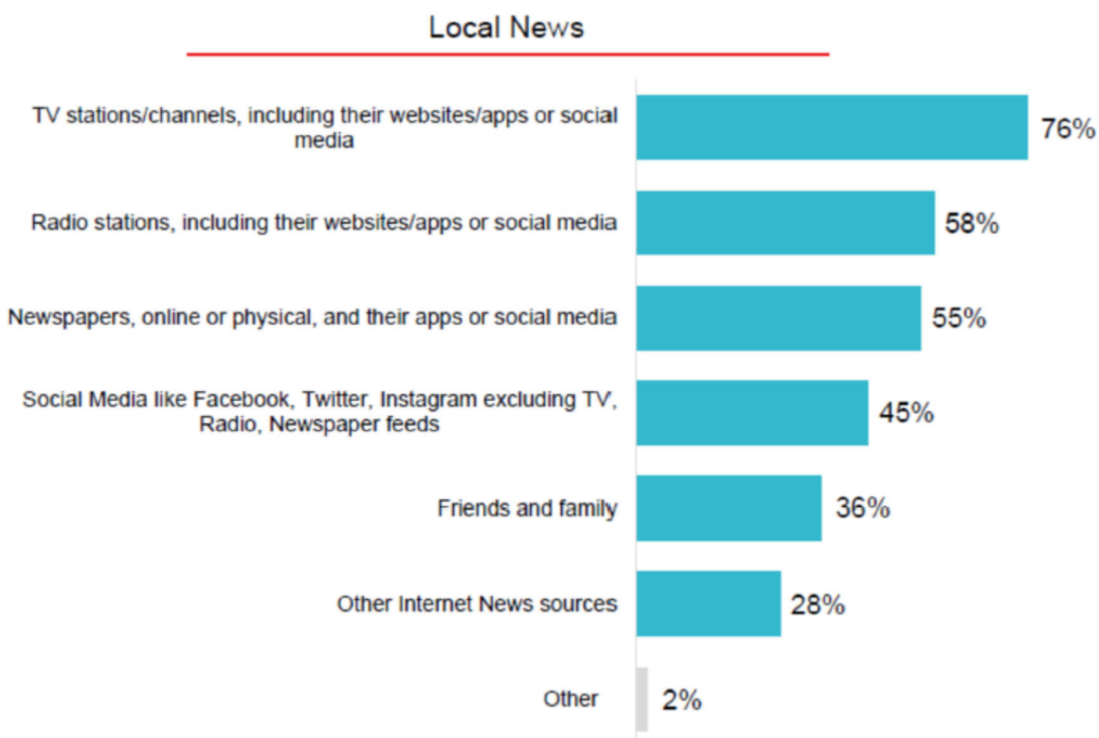
Recommendation 4: Tie any increase in funding to the Canadian Broadcasting Corporation/ Société Radio-Canada to the public broadcaster's exit from the advertising market.

Introduction

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

Private broadcasters are trusted by Canadians as their primary source for local news in communities across the country, as indicated in the 2023 Edelman Trust Barometer, and as demonstrated in the following chart:

Sources for local news, Canadians 12+, December 2020 - January 2021:



SOURCE: Solutions Research Group.

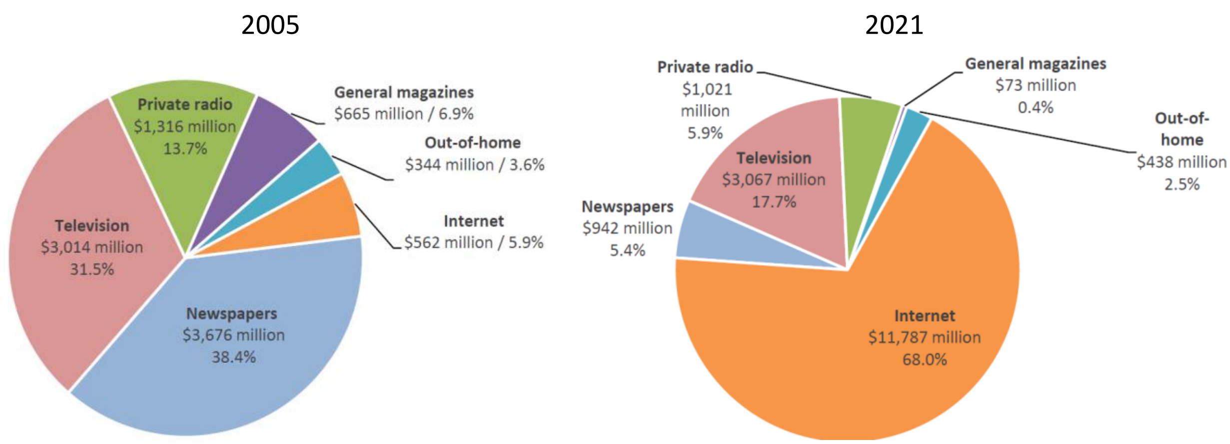
Private broadcasters present a diversity of editorial voices, providing critical news and information programming in English, French, Indigenous and other languages serving Canada's diverse ethnic communities.

Background on Recommendations

Canada's private broadcasters are currently facing significant structural challenges to their traditional business models in the face of unprecedented competition from online platforms for content, audiences and advertising dollars.

The impact of the Internet on the advertising market has been particularly profound. In 2005, the Internet represented approximately 6% of the total advertising market. By 2021, at 68%, it overwhelmed the advertising share of radio (5.9%) and television (17.7%), as demonstrated in the figure below:

Advertising market shares for selected media:

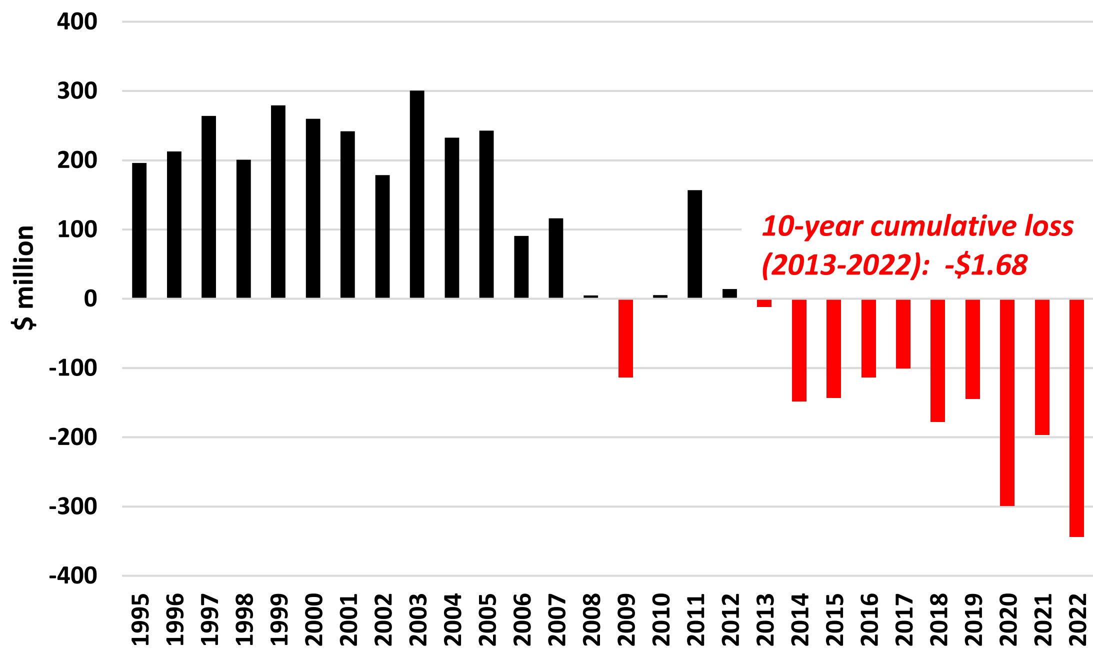


SOURCE: ThinkTV; Statistics Canada; Communications Management Inc.

Data released by Statistics Canada confirm serious structural issues in the Canadian broadcasting industry, particularly private conventional television which had negative PBIT in 2022 of $344 million.

As demonstrated in the following chart, our analysis shows that private conventional television has had a **10-year cumulative loss of $1.68 billion**. And, almost three-quarters of private conventional television stations had negative PBIT in 2022.

Profit before interest and taxes (PBIT), private conventional television, Canada, 1995-2022:



SOURCE: Statistics Canada; Communications Management Inc.

Revenues in the private radio sector have also declined, from a high of $1.63 billion in 2013 to $1.12 billion in 2022, and PBIT has declined from 17.1% in 2019 (the last full year before the pandemic) to 5.4% in 2022.

In fact, research undertaken by Communications Management Inc. identifies 167 radio stations as "at risk", given profitability levels lower than negative 20%, as set out in the following table. This isn't an academic statement – just two months ago, nine radio stations were shuttered.

Private radio by total operating revenue, PBIT, and by groups of stations within selected ranges of positive and negative PBIT, Canada, 2022:

	Number of stations	Total operating revenue ($'000)	Profit before interest and taxes (PBIT) ($'000)	PBIT as % of total operating revenue
Total private radio stations	**749**	**1,116,880**	**60,602**	**5.4%**
Private FM stations	628	924,101	81,309	8.8%
Private AM stations	121	192,778	-20,707	-10.7%
Stations grouped by PBIT as % of total operating revenue:				
+20% or greater	194	352,977	114,686	32.5%
10% up to 20%	134	248,707	36,675	14.7%
0% up to 10%	103	143,406	7,320	5.1%
-10% up to 0%	94	152,312	-5,870	-3.9%
-20% up to -10%	57	64,602	-9,271	-14.4%
['AT RISK'] -20% or worse	167	154,876	-82,939	-53.6%
Total stations with negative PBIT	***318***			

SOURCE: Statistics Canada.

These are not simply abstract statistics – these are the radio and television services on which Canadians rely for local news and community information, for coverage of Canadian sports, for discovering Canadian music, and for critical alerts in times of emergency.

The recommendations that follow are vital to helping to respond to the underlying structural declines and to ensure that Canada's private broadcasters can continue to provide the robust news and information programming that Canadians demand.

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

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, to help ensure that Canada has a vibrant and sustainable media sector. 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.

Unfortunately, the ITA has not kept pace with the important changes in how media and content are delivered to and consumed by Canadians – it allows for full tax deductibility of advertising expenses on foreign internet-delivered media.

The result has been demonstrably negative, helping promote a massive growth in digital advertising, with much of that being captured by the largest foreign digital platforms, representing an increasingly untenable trade imbalance between Canadian media companies and massive, unregulated foreign competitors.

The incursion of these 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. Spending on digital advertising in Canada now vastly exceeds that of traditional media, with few signs of this trend relenting. And the vast majority of digital advertising expenditures ultimately benefit Google and Facebook – a number of estimates place their share at more than three-quarters of Canada's online advertising market.[1]

Recommendation 2: *Extend 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 to receive a tax credit worth up to 25 per cent of their labour expenditures. As originally developed, the approach focused on print media organizations, and explicitly excluded Canada's radio and television broadcasters. This creates a competitive disadvantage, considering that print media now typically also provide audio, video and text, whether or not they hold a broadcasting licence.

Further, this runs counter to Canadians' own preferences for where they seek their news and information. As noted above, Solutions Research Group's 2020-2021 survey demonstrates television is Canadians' most important source for local news (76%), followed by radio (58%).

The current application of this tax credit exclusively to print news is arbitrary, unfair, and does not acknowledge the significant disruption caused by online and foreign media 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 that they value and know they can trust.

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[1] Communications Management Inc., based on data from ThinkTV, IAB Canada, eMarketer/InsiderIntelligence, and GroupM.

Recommendation 3: ***Prioritize and support Canadian-owned media by dedicating 70 per cent of the Government of Canada's advertising expenditures to local radio, TV, print, and Canadian-owned digital media.***

In 2021-22, the Government of Canada's advertising expenditures totalled $140.76 million, making the federal government one of the most significant advertisers in our domestic market.[2]

In recent years, the Government of Canada, guided by the policies set out by the Treasury Board, has taken a "digital-first" approach to communicating with Canadians as outlined in their 2016 "streamlining" of the government's approach.[3]

While we acknowledge that usage of digital and social media platforms is increasing, the CAB cannot accede to the rationale that they are more effective or efficient in engaging with Canadians. Moreover, this policy has focused more on the "digital-first" aspect, and less on "balancing" these expenditures with traditional methods.

While advertising activities shifted modestly towards traditional media during 2020-21, due substantially to COVID-related activities, the most recent report demonstrates the Government of Canada's advertising expenditures have reverted back with 53% of expenditures in digital. At the same time, television accounted for 27% of government advertising expenditures while radio accounted for 10%.

As stated above, the vast majority of digital advertising expenditures ultimately benefit foreign platforms, particularly Google and Facebook.

The government's stated goal of effective communications with Canadians does not require such a significant portion of advertising spend to be funnelled out of the country to digital giants who have already applied their significant global duopoly power to adversely impact the Canadian advertising market.

Indeed, Meta, the parent company of Facebook, Instagram and several other social media platforms, is blocking access to Canadian news sources on its platforms as a result of the recent passage of the *Online News Act*. While the Government of Canada and other public institutions and private companies have indicated they will suspend their advertising spending with those platforms, these recent developments underscore the need to thoughtfully consider how the federal government deploys its advertising resources.

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[2] Public Services and Procurement Canada, *2021-2022 Annual Report on Government of Canada Advertising Activities*, https://www.tpsgc-pwgsc.gc.ca/pub-adv/rapports-reports/documents/rapport-annuel-annual-report-2021-2022-eng.pdf, pg. 4

[3] Government of Canada, *Policy on Communications and Federal Identity and Directive on the Management of Communications,* https://www.canada.ca/en/treasury-board-secretariat/news/2016/05/policy-on-communications-and-federal-identity-and-directive-on-the-management-of-communications.html

Prioritizing Canadian owned and controlled media will help to ensure that the Government of Canada's important advertising dollars help to support Canadian jobs, and more importantly, will help to support news organizations who are focused on local journalism and ensuring that Canadian voices continue to be heard.

As such, dedicating 70[4] per cent of Government of Canada advertising expenditures to local radio, TV, print, and Canadian-owned digital media will help to rebalance the approach to reaching Canadians in a manner that will remain effective, and help to grow and sustain Canada's news media industries. Even if the government continues to prioritize digital, Canadian media companies have more than enough inventory to meet the government's needs. Incontrovertibly, the goal of "digital first" can be achieved without lining the coffers of foreign competitors such as Meta and Google.

Recommendation 4: ***Any increase in funding to the Canadian Broadcasting Corporation/ Société Radio-Canada must be tied to the public broadcaster exiting the advertising market.***

The Canadian Broadcasting Corporation (CBC)/Société Radio-Canada (SRC) serves as Canada's public broadcaster, with a public service mandate outlined in the *Broadcasting Act*. To meet this mandate, its parliamentary appropriation exceeded $1.3 billion in 2021-22. Despite this significant government support, CBC/SRC continues to compete in the advertising market with Canada's private broadcasters, who rely predominantly on revenues generated through advertising 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 for programming that does not align with its public service goals. This results in the public broadcaster using its substantial appropriation as an unfair advantage when competing for content and when pricing advertising.

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 the problem. As such, any consideration of added funding for CBC/SRC must be tied directly to the public broadcaster's exit from the advertising market.

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[4] Aligned with 2013/2014 spending levels.