Canadian Content in the 21st Century: A Policy Guide

March, 2017

What the Federal Government Can Do

There is a range of regulatory tools that can be used by the federal government to help grow, strengthen and sustain Canadian content in the Digital Age. Some already exist and can be maintained. Others would be new initiatives. The adoption of any suite of regulations should be guided by a set of principles, including:

- **Platform and content agnostic:** government support (tax credits and production funds) should be made equally available to all media providers delivering quality Canadian content, whether through Internet, film, broadcast, newspapers or magazines.
- **Transition assistance:** government support should assist in the transition of traditional media services to digital.
- **Balance:** instituting the right mix of tax policy and regulatory support.

Maintain and expand existing federal supports

Maintain the current mix of tax and regulatory tools designed to promote and support Canadian content:

- Minimum 30 per cent of broadcast budgets spent on Canadian content, including programs of national interest and local news, as currently required by the CRTC.
- Minimum evening airtime of Canadian TV content, as mandated by the CRTC.
- Five per cent revenue levy on cable, IPTV and satellite ("BDU") companies to sponsor Canadian production funds through vehicles such as the Canada Media Fund, as directed by the CRTC.
- Federal film production tax credits covering 15 per cent of labour costs.
- Stable long-term funding of the CBC under a politically independent board of directors.

To *expand* federal support, the government should create a Journalism Tax Credit available to media outlets that hire professional, feet-on-the-street journalists for local or regional news coverage. A Journalism Tax Credit could be:

- Based upon the Ontario Digital Tax Credit model which covers 35 per cent of labour costs, or alternatively modelled upon federal or provincial film tax credits.
- Tied directly to maintaining and increasing the headcount of field journalists reporting on local or regional news.
- Applicable to any broadcast, print or digital news organization: i.e. "platform agnostic."

Expand eligibility of the Canada Media Fund

Extend access to the $300-million Canada Media Fund (CMF) to local news production.

Local and community TV stations currently receive $150 million of the $440-million BDU levy. That amount can be increased, especially if the government adopts other proposals (below) to grow the BDU levy by requiring Internet companies to contribute to Canadian content.

Receipt of local TV funds through the CMF, such as the proposed Journalism Tax Credit, should be tied directly to maintaining and increasing the headcount of field journalists.

Revenue levy on foreign and domestic Over-the-Top (OTT) television service providers

Streaming video companies are capturing a growing share of audiences and so should deliver a commitment to Canadian content comparable to the obligations of traditional, licensed television Video-On-Demand or linear cable services. These obligations include:

- Five per cent of Canadian-earned revenue must be reinvested in Canadian film production funds. For an online broadcaster such as Netflix, this is approximately $30 million annually on Canadian subscriber revenue.
- A minimum inventory of Canadian programming.

The new revenue would shore up the existing film and TV production funds such as the Canada Media Fund.

Revenue levy on domestic ISP providers

As more television is streamed online and the Internet becomes the primary source of news and information, Internet Service Providers play an increasingly dominant role in the Canadian television and news media landscape. They are the toll gate through which every byte of data must pass.

As such, ISPs should contribute their fair share to that system, but without affecting low income consumers. A five per cent levy on monthly internet bills above $25 could inject more than $118 million annually to support the production of Canadian news and entertainment.

Like the proposed Journalism Tax Credit, this revenue should be available on a platform agnostic basis to any recognized news organization through existing and future tax credits.

Unifor: Canada's Media Union

Unifor is Canada's largest union in the private sector, representing more than 310,000 workers. With 12,500 journalists and media workers in television, newspapers, magazines, news websites and film production, we are Canada's primary media union.

About 5,000 Unifor members work in each of print and broadcast, including Canada's major newspapers and broadcasters, with the rest largely in TV and film production and commercial printing. Our focus is both on news journalism and more broadly on the state of Canadian content, including entertainment programming.

Ensure foreign Internet providers pay their fair share of sales tax

Foreign Internet companies should remit the appropriate sales taxes on Canadian subscriber fees (generating about $22 million per year in federal HST payments from Netflix alone).

Other foreign Internet media (such as Google and Facebook) should collect and remit HST on advertising revenue from Canada (generating between $423 million and $718 million by 2020).

Sales tax revenue raised by this measure should benefit the public by being made available to Canadian media companies through existing and future tax credits.

Extend income tax rules to digital advertising

The federal government should ensure that the Income Tax Act rules applicable to advertising purchased in foreign print and TV media apply equally to advertisers purchasing space in digital media. The rationale for the existing tax policy – to stop rewarding foreign media companies for "trade dumping" into the Canadian market – continues to prevail in the digital age.

A change in tax rules may result in a forecasted $500-million diversion of Canadian advertising dollars from foreign digital media to Canadian-owned media.

Similarly, the change in tax rules on advertising dollars that continue leaving Canada for foreign digital media may generate between $300 million and $1.3 billion in new tax revenue, depending on the final amount of ad volume that is repatriated and the corporate tax rate that is applied to the advertising remaining in offshore media.

The corporate tax revenue raised by this measure should benefit the public by being made available to Canadian media companies through existing and future tax credits.

Allocate spectrum sales to support Canadian content

The upcoming auction of 600MHz spectrum could generate as much as $5 billion, based on some estimates. The government should allocate a portion of this new revenue to Canadian content production.

Saving Local TV: take the steps the CRTC will not

The "big four" private Canadian broadcasters - Bell Media/CTV, Rogers/City, Corus/Global News, and Videotron/TVA - have shown a profit margin of negative eight per cent since 2015. The independently owned stations in small and medium sized markets are in far worse shape, so much so that the CRTC recently threw them a lifeline with funding beginning in September 2017, which may or may not save their local news.

What may seem counterintuitive to those unfamiliar with the financial plight of the Big Four broadcasters is that each of them are controlled by media conglomerates - BCE, Rogers Communications, Quebecor, and Corus/Shaw - which also own very profitable cable, telephone, and wireless divisions.

The obvious solution is for the media conglomerates to meet the decline in TV advertising revenues by cross-subsidizing their broadcasting properties.

Unfortunately, the CRTC has suggested cross-subsidization but refused to mandate it.

Here is what the federal government can do:

- Put cross-subsidization into effect by ordering an immediate re-set on the CRTC's regulation of the Big Four local TV stations: set higher standards of programming requirements, feet-on-the-street journalist staffing, and expenditures. The Liberal cabinet can do this through a policy directive, much as the Harper government sent its own mandate to the Commission in 2013.

- Without delay, direct the CRTC to tap existing industry funds for a bigger flow of financial aid to the small, independent stations.
- Thirdly, the federal government must secure the long-term future of local TV by repairing the leaks to the industry funds (the biggest being the little known five per cent levy on cable company revenues, now declining) that help to sustain local TV. That will mean looking to the new successful players in the Internet universe: Facebook, Amazon, Netflix and Google, but also the very Canadian media companies that profit on every byte of streaming video: Bell, Rogers, Shaw, Telus, and Videotron.

Unifor's Response to the Public Policy Forum's "Shattered Mirror" report:

Unifor concurs with the description of the financial crisis in local news advanced by the Public Policy Forum in its recent report "The Shattered Mirror," i.e. the tectonic shift in the advertising market from legacy media to digital media. We also agree that new regulatory and tax measures are needed to compensate for that shift.

We have a number of caveats, however:

- A mix of tax policies and industry levies continues to be vital. Reliance solely upon changes to section 19 of the Income Tax Act is not sufficient.
- Similarly, we approach the idea of a "big fund" with some caution. If a discretionary fund was to be the exclusive delivery vehicle for the support of journalism, it would inhibit the stable and predictable financial support that a tax credit would deliver to news organizations.
- We maintain the principle that government and industry support for news organizations ought to be "platform agnostic," i.e. available to print, digital and broadcast media.
- Finally, we approach the proposal for a dedicated stream of financial support to Canadian Press with caution, unless paired with a similar stream for in-depth coverage by other news organizations. CP's mandate is more in the nature of breaking news rather than the in-depth coverage of local news provided by Canada's dailies and weeklies, coverage which citizens value the most.

For more information, please contact Unifor Media Director Howard Law at mediadirector@unifor.org

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