Submission for the Pre-Budget Consultations in Advance of the 2025 Federal Budget

Submission by the
Canadian Association of Broadcasters

August 2024

Recommendation 1: Extend the Canadian journalism labour tax credit to broadcast news organizations.

Recommendation 2: 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 3: Eliminate the tax-deductibility of advertising purchased on foreign-owned, Internet-delivered media sites and services, consistent with longstanding government policy.

Recommendation 4: Tie any increase in funding for 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 relied on by Canadians as their primary source for news in communities across the country, as demonstrated in recent survey data:

- **2020-2021** – In a study for the CAB, completed in early 2021, **Solutions Research Group** found that Canadians ranked television (76%), radio (58%), and newspapers (55%), combined with their websites, as their three most important sources for local news.

- **2023** – In its **Canadian Social Survey** for 2023, **Statistics Canada** found that television ranked first in the percentage of Canadians who reported a high level of trust, followed by radio, and then print media.

- **2024** – The data for Canada in the **2024 Digital News Report** from the **Reuters Institute for the Study of Journalism** at the University of Oxford confirm television as the most important news source for Canadians.

Equally important, in 2023, Canadian private broadcasters spent over $650 million on news programming – more than any of the other media. (For comparison, spending on news by newspapers was approximately $400 million in 2023.)

Spending on 'News' by Canadian broadcasting, 2023:

(In $ million)	**Privately-owned**	**CBC/SRC-owned**		**Total**
Conventional television	379.5	114.9		494.4
Discretionary television	148.1	92.8		240.9
Total television	**527.6**	**207.7**		**735.3**
Radio	137.3	107.0		244.3
Total broadcasting	**664.9**	**314.7**		**979.6**

SOURCE: CRTC; Statistics Canada; Communications Management Inc.

However, it is uncertain whether current commitments to news and other priority content can be maintained in the face of the structural challenges facing the Canadian media ecosystem.

Industry challenges are structural, not cyclical

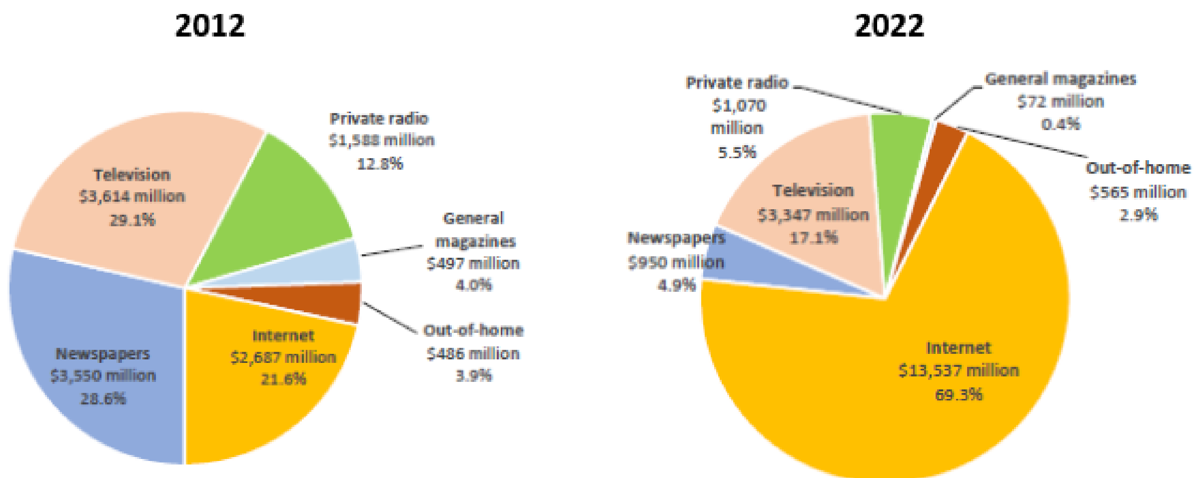
The recent pandemic-related impacts on society and the economy may create a hope that everything will go “back to normal”.

However, an examination of the data indicates that the current negative trends affecting traditional media predate the pandemic, and are, in fact, rooted in the impact of the Internet and related technological developments.

Impact on the advertising market

As set out below, in 2012, the Internet represented about one-fifth of the Canadian advertising market. By 2022, the Internet share had grown to exceed two-thirds.

Advertising market shares for selected media, Canada, 2012 and 2022:



ESTIMATED SHARE OF TOTAL ADVERTISING PLACED IN NON-CANADIAN MEDIA:
2012: 16% **2022: 52%**

SOURCE: ThinkTV; Statistics Canada; Communications Management Inc.

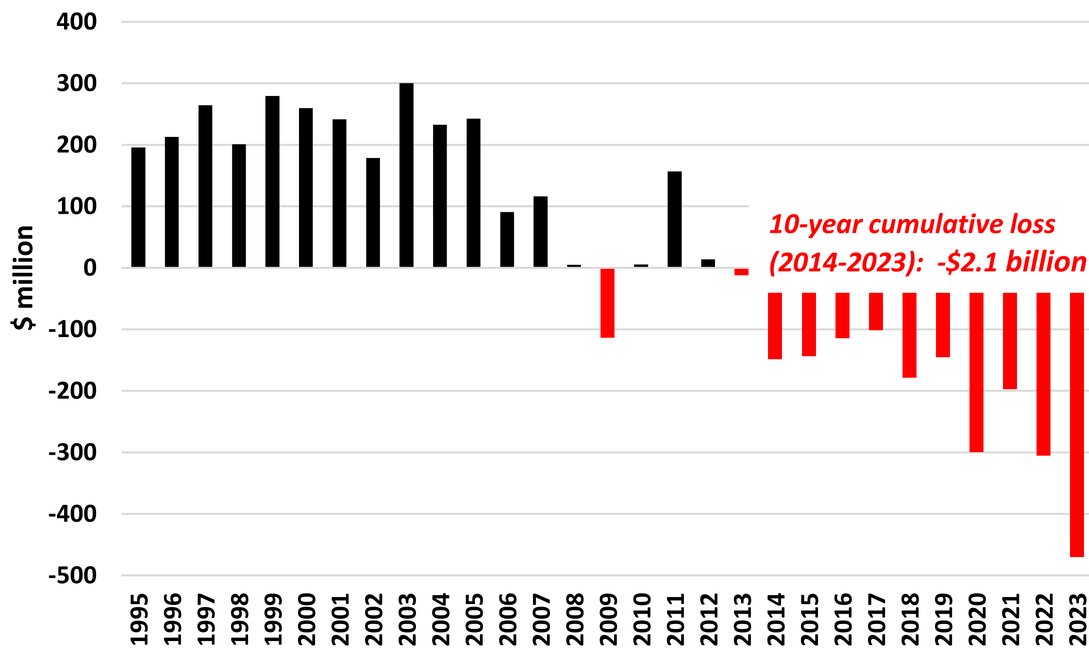
Impact on broadcasting’s revenue and profitability:

- **Private radio** total revenue decreased from $1.61 billion in 2014 to $1.11 billion in 2023 and the PBIT percentage dropped from 18.6% to 4.7%. In an analysis for the CAB, Communications Management Inc. has found 182 private radio stations “at risk” given PBIT levels lower than negative 20 percent. This isn’t an academic statement – over the last year at least ten radio stations were shuttered.

- **Private conventional television** total revenue decreased from $1.82 billion in 2014 to $1.50 billion in 2023; the PBIT percentage dropped from -8.2% to -31.3%. As shown in the following chart, from 2014 to 2023, private conventional television had a **10-year cumulative loss of $2.1 billion**, and over 80 per cent of private conventional television stations had negative PBIT in 2023.

- **Privately-owned discretionary services** total revenue decreased from $4.08 billion in 2014 to $3.73 billion in 2023; the PBIT percentage dropped from 24.4% in 2014 to 16.2% in 2023.

Profit before interest and taxes (PBIT)
Private conventional television, Canada, 1995-2023:



SOURCE: Statistics Canada; Communications Management Inc.

The "broken links" for advertising

The fact that advertising spend on radio and television is not keeping pace with broader economic indicators is further evidence that changes experienced by Canada's media industry are structural rather than cyclical.

- For private radio, the link between advertising revenues and retail trade was relatively constant between 1993 and 2012, at about $3.50 per $1,000 of retail trade. It then declined from $3.31 in 2013 to $1.35 in 2023.
- And for television, the data indicate that advertising revenues have not kept pace with GDP, with the "de-linking" starting well before the impact of COVID.

We need a viable and sustainable media model for Canada

The evolving trends and changing economic conditions discussed above should inform the government's approach to the future of Canadian media, which should be pursued with a view to:

- Ensuring the viability and sustainability of the sector; and
- Making the most effective use of current infrastructure, to preserve localness and community.

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

In last year's Fall Economic Statement, the government expanded the *Canadian journalism labour tax credit*, established in Budgets 2019 and 2020. The tax credit now allows Qualified Canadian Journalism Organizations to receive a tax credit worth up to 35 per cent of their labour expenditures. The yearly limit on labour costs that can be claimed per eligible employee was increased from $55,000 to $85,000.

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. It also creates a competitive disadvantage, considering that print media now typically also provide audio and video – historically the purview of broadcasters – in addition to text.

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%).

Extending the Canadian journalism labour tax credit to broadcast news organizations will help ensure that Canadians can continue to access the high-quality, professional local news content that they value and trust.

Recommendation 2: ***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 2022-23, the Government of Canada's advertising expenditures totalled $86.09 million, a significant decline from the previous year, where the government spent $140.8 million. Despite this reduction, the federal government remains one of the most significant advertisers in our domestic market.[1]

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.[2]

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.

Indeed, as the government spent less on advertising in the last reported year, their cuts disproportionately impacted Canadian-owned media companies. While the overall reduction in spending on advertising was 38.8%, the reduction on traditional media (including television, radio and print) was 66.1%.

As a percentage, digital media expenditures grew from 53% of the total to 71%. The vast majority of digital advertising expenditures ultimately benefit foreign platforms, particularly Google and Meta.

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.

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.

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[1] Public Services and Procurement Canada, *2022-2023 Annual Report on Government of Canada Advertising Activities*, https://www.canada.ca/content/dam/pspc-spac/documents/rapports-reports/2022-2023/adv-pub-2022-2023-eng.pdf, pg. 3-7

[2] 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

As such, dedicating 70[3] 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 3: *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 Meta – a number of estimates place their share at more than three-quarters of Canada's online advertising market.[4]

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[3] Aligned with 2013/2014 spending levels.

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

Recommendation 4: ***Any increase in funding for 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 2022-23. 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.

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, future funding to the public broadcaster must be tied to its exit from the advertising market.