Cultural Policy for the Digital Age:

Richard Stursberg

Executive Summary

The Minister of Canadian Heritage has initiated a major review of cultural policy to see how best **"to strengthen the creation, discovery and export of Canadian content"** in the digital age.

Over the last ten years, digital media have opened new worlds of opportunity to creators and consumers of Canadian content.

New platforms have emerged (YouTube, Facebook, Twitter, Instagram), along with powerful search engines (Google), high speed video streaming (Netflix), on-line shopping (Amazon) and sophisticated internet content sites (Huffington Post, Tyee).

Novel forms of content have also emerged from blogs to tweets to multi-player video games and YouTube channels.

Traditional media are evolving in this environment. Many newspapers now reach larger audiences through their websites than they do in print. Canadians spend almost as much time with digital content as they do watching television. Younger Canadians, in fact, spend dramatically more time on-line than they do in front of the TV.

These sets of changes have created important new opportunities for the development of Canadian culture. At the same time, they have created significant challenges for traditional media.

The central policy question is how to adapt the existing support measures to ensure that Canadian digital content flourishes and that the more traditional media can make the transition into the new online world.

The paper, "Cultural Policy for the Digital Age", proposes a significant set of changes to the existing production and distribution support measures to make them future-facing. **In particular, it assumes that nobody can predict what future business models will succeed or how consumer demand will evolve.** The wisest course it argues is, therefore, to make all future support measures:

PLATFORM AGNOSTIC

To permit the financing of content for the new platforms;

CONTENT AGNOSTIC,

to expand the potential pool of investors in Canadian content; and

PRODUCER AGNOSTIC,

so that news, magazines and digital content can be supported.

To accomplish this requires the creation of a new "arms-length" agency - The Canadian Content Investment Agency (CCIA) - that would be responsible for all federal financial support to Canadian content.

The Agency would replace Telefilm Canada (TFC) and the Canada Media Fund (CMF). It would only offer tax credits to support the production, promotion and export of Canadian content. In effect, the Agency would amount to an extension of the Canadian Audio Visual certification Office (CAVCO).

To succeed in the digital age, it is, as the Minister of Canadian Heritage notes, essential that Canada have **"strong, adaptable and competitive businesses that are able to manage risk effectively, diversify revenue and attract investment from many sources"**.

To ensure that Canadian media companies can be strong requires that they operate in a market that functions fairly and efficiently. It is essential that all competitors play by the same set of rules. This requires that:

› Netflix and others like them pay HST and make a financial contribution to the production of Canadian content;

› Digital advertising pay HST; and

› Production subsidies to foreign competitors be abolished.

These changes would ensure that Canadian companies do not operate at a disadvantage in their home market. They would also yield significant new revenues to the federal government and the provinces.

The federal government would have gained somewhere between $288-354 million in 2014 had this proposed changes been in effect, rising to $350-464 million in 2020. For their part, the provinces would have gained between $188-294 million in 2014, rising to $296-478 million by 2020.

If the federal government were also to apply section 19.1 of the Income Tax Act to digital advertising as it has to traditional advertising, it would have increased the revenues of Canadian media companies by between $482-820 million in 2014, rising to $827-1.4 billion in 2020. Injections of amounts of money of this magnitude would also clearly strengthen Canadian media companies and increase their capacity to finance Canadian content.

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I. The Purpose of the Paper

The Minister of Canadian Heritage has initiated a major review of cultural policy to see how best "to strengthen the creation, discovery and export of Canadian content" in the digital age.

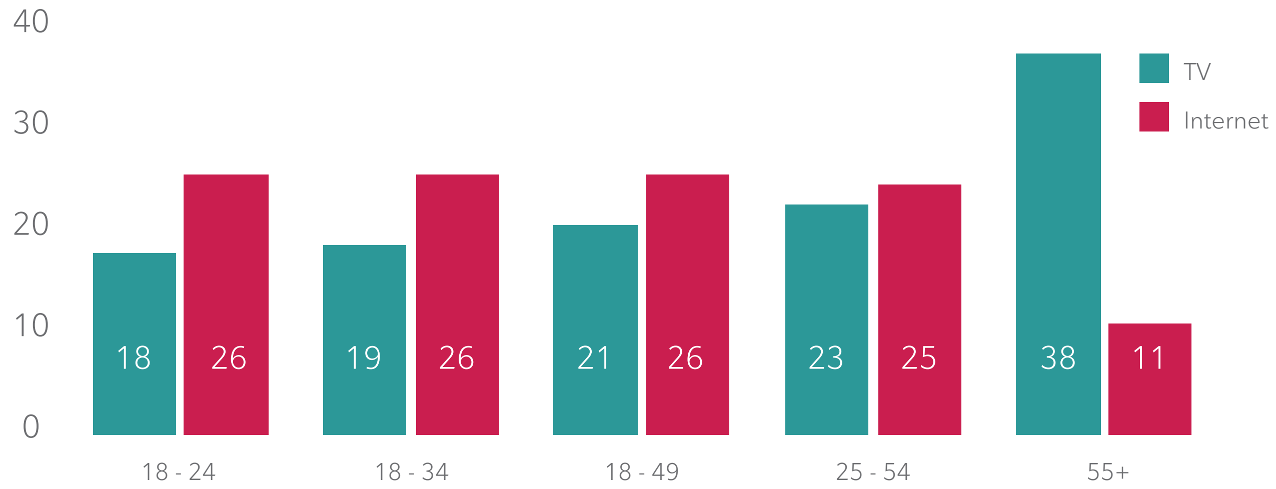
Over the last ten years, digital media have opened new worlds of opportunity to creators and consumers of Canadian content.

New platforms have emerged (YouTube, Facebook, Twitter, Instagram), along with powerful search engines (Google), high speed video streaming (Netflix), online shopping (Amazon) and sophisticated Internet content sites (Huffington Post, Tyee).

New forms of content have also emerged, from blogs to tweets to multi-player video games and YouTube Channels.

Traditional media habits are evolving in this new environment. Many newspapers now reach larger audiences through their multi-media websites than they do in print. Canadians now spend almost as much time with digital content as they do watching television. Younger Canadians, in fact, spend dramatically more time on-line than they do in front of the TV.[1]

Figure 1: Weekly per Capita Hours, TV and Internet, by Age Group, 2014/15, Canada



Source: Thinktv, "Reach and Time Spent: Major Media Comparison – Canada 2015 Broadcast Year".

The digital revolution has made it relatively easy and inexpensive for a billion content creators around the world to bring their product to the market without the help of such traditional distributors as publishing companies and television networks.

It has also enabled audiences to access and enjoy a far greater range of entertainment and information than ever before. While the quality of the new content is mixed, as one would expect in any new media market, it is also true that many traditional, professionally-produced TV shows, films, documentaries, and sports broadcasts, as well as some professional news products, have expanded their audiences by digital means.

The important point is that creators and consumers of content have been liberated by the internet. Choice and diversity have flourished.[2]

There have been changes in the economics of content as well. New industries and companies are proliferating: there are more than five hundred Subscription Video Content on Demand (SVOD) services available globally. Many enterprises formally restricted by their distribution channels to local markets are now able to sell their product globally.

[1] Adults 18+, spent on average 28 hours per week watching television in the 2015 broadcast year and 20 hours per week online. Thinktv, "Reach and Time Spent: Major Media Comparison – Canada 2015 Broadcast Year".)

[2] For example, Media Technology Monitor reported in April 2016 that 4 in 10 English Canadians (18+) were watching full length television shows and movies online. (MTM, "Streaming Video – Analysis of the English-Language Market", April 26 2016.)

Of course, there are also economic challenges raised by all of this disruption.

- New platforms such as Facebook and Google have allowed for improved aggregation and distribution of news but they have also drawn advertising revenue from newspapers and television which remain very important sources of news and opinion in our domestic culture. In many instances, traditional news media provides the content for the online news aggregators.
- Over-the-top (OTT) content services such as Amazon and Netflix erode audiences for domestic cable companies and broadcasters which may over time undercut the foundations of Canadian program productions.
- As the supply of content has expanded exponentially, the marketing and promotion of content has become considerably more difficult and expensive.

It is clear that the Internet is having a major impact on the creation and distribution of Canadian content. The Minister was wise, therefore, to call for a broad based review of Canadian cultural policy in light of the dramatic changes that are occurring.

This paper proposes a way forward to meet the Minister's objectives that involves supporting the creation of Canadian content for all platforms, including film, TV, newspapers, magazines, YouTube channels, Internet sites and OTT operators.

The Canadian government has, over many years, provided considerable financial support to the creation of Canadian content. Most of this money has gone to TV (notably drama, comedy, kids and documentaries) and feature films. Some has been made available for books, magazines, music and the performing arts. No direct financial support has ever been offered for newspapers, TV news, or sports.

In the areas of TV and feature films, the support has taken a number of forms, including:

- Establishing a comprehensive regulatory regime that requires broadcasters and distributors to fund and air Canadian programming;
- Labour based production tax credits for both TV and films, through the Canadian Audio-Visual Certification Office (CAVCO);
- The Canadian Media Fund (CMF) for support to TV; and
- Telefilm Canada (TFC) to support the production and marketing of films.

In 2015, the federal government alone spent $644M on direct subsidies to production financing, increasing to almost $1.2 billion if provincial tax credits are included.[3] These amounts do not include the federal subsidies to the CBC (just over $1 billion) or to the NFB (slightly more than $60 M).

Support measures such as the CMF are focused on the independent production industry. Broadcasters' affiliated production companies are limited in terms of how much money they can draw from CAVCO or the CMF. The independent production industry's prioritized access to these financial resources is different from the situation in the UK or US, where broadcasters are much more deeply involved in production.

In Canada, the role of the broadcaster for programs other than news and sports has been to provide a license fee to the producer when a program is commissioned. The license fee then triggers access to CMF and CAVCO financing for the producer. The license fee entitles the broadcaster to exhibit the program on a limited number of platforms and for a limited time and frequency in Canada. The producer retains all other rights for sales in the rest of the world.

Feature film financing works in a similar way. Instead of the broadcaster, a film distributor provides a guarantee to the producer. The guarantee entitles the distributor to sell the movie and triggers the producer's access to CAVCO and TFC financing.

The system has worked well, up to a point. It has generated significant volumes of Canadian film and television production ($2.96 billion in 2014/15) and employed considerable numbers of Canadians (24,400 direct jobs and 37,700 spin-off jobs).[4] It has also created very large pools of skilled writers, directors, actors and technicians, laying the basis for strong growth in the future.

Where the system has not worked well is in creating shows and films that English Canadians watch in large numbers. Despite the significant resources expended, English Canadians still overwhelmingly prefer foreign TV shows and films to their own.

The same is true of exports. The track record on sales to other countries is poor, particularly when compared to the investments that have been made in the sector. Total foreign pre-sales revenues peaked at a modest level in 2012 and have been more or less flat ever since. By way of comparison, the UK's cultural exports are 6 times Canada's on a per capita basis.[5]

The reasons for this twin set of failures lies in part in the operations of TFC and the CMF. They have only reluctantly embraced the centrality of audiences as a key measure of success and - in the case of CMF - has not regarded exports as part of its mandate.

[3] CMPA, "Profile 2015", p. 38.

[4] CMPA, "Profile 2015", pp. 24 and 38.

[5] UNESCO, "The Globalization of Cultural Trade: A Shift in Consumption – International flows of cultural goods and services 2004 – 2013", 2016, pp. 100-108, Statistics Canada, Office for National Statistics (UK).

The other reason for the failures derives from the structure of the industry. By concentrating its policy tools on independent producers, the government has focused on the most poorly capitalized part of the industry. With little access to equity, the producers are understandably risk averse. They focus, therefore, on making safe bets, rather than taking the risks that might lead to international success.

For their part, broadcasters - the best capitalized parts of the system - have little incentive to be major players in television production. As noted earlier, they are limited in their access to the major subsidies and despite having the largest direct financial investment in a program, are prohibited from participating in the "back end". As a result, they have no financial incentive to invest in large budget productions that stand the best chance of export success.

Beyond films and TV, there is little support for other very important forms of cultural content. Despite its centrality to Canadian political, economic and cultural life, news, whether on TV or in newspapers, is not directly subsidized.

Nor does digital content receive much assistance from the majority of government funding mechanisms. This is an obvious gap, since, as noted earlier, Canadians are increasingly consuming content on non-traditional platforms. Despite the change in media consumption patterns, however, the government's support measures remain rooted in the old platforms of TV and movie screens. In 2014/15, the CMF and Telefilm appear to have devoted less than 10% of their production and development funding to new digital media initiatives not directly linked to traditional television programs and film.[6]

The central policy challenge is how to adapt the existing support measures to the challenges of the 21st century and the changes that are taking place in Canada's media environment.

II. Current Status of the Conventional Media Industries

A. Revenue

Advertising revenue has been steadily moving from traditional advertising channels, including newspapers and over-the-air (OTA) television and radio to the digital sphere. Internet revenue has increased dramatically and now accounts for the largest share of all reported media advertising revenue.

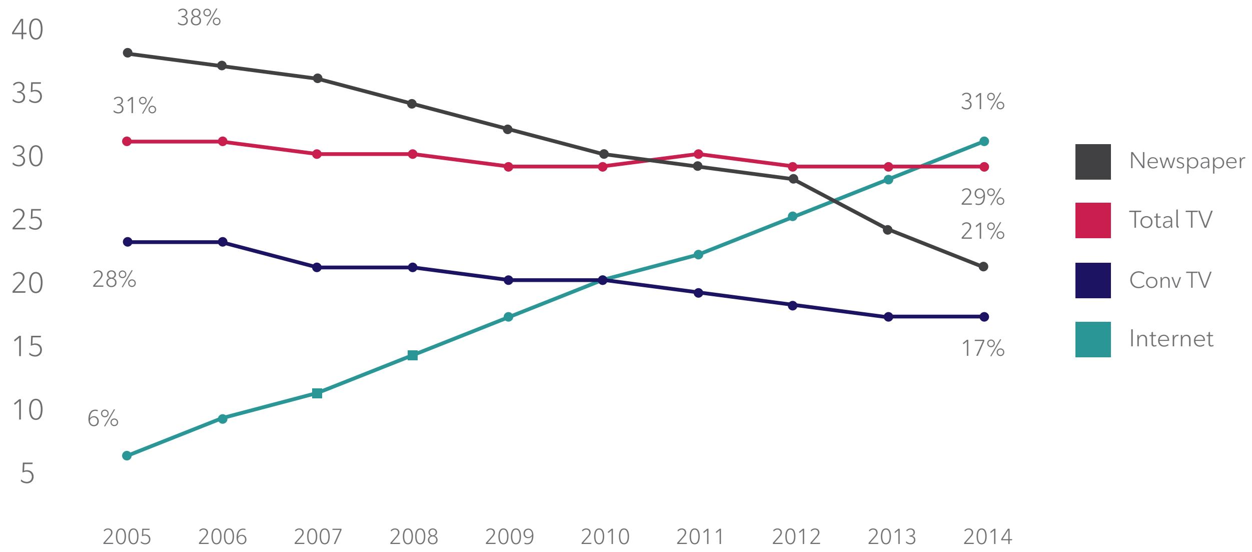
Table 1: Newspaper, Total Television, Conventional Television, Internet and Total Reported Advertising Revenues, 2005 to 2014, Canada, $M

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Newspaper	3,676	3,839	3,875	3,880	3,429	3,491	3,427	3,550	2,936	2,590
	38%	37%	36%	34%	32%	30%	29%	28%	24%	21%
Total Television	3,014	3,241	3,299	3,393	3,104	3,391	3,658	3,582	3,510	3,503
	31%	31%	30%	30%	29%	29%	30%	29%	29%	29%
Conventional TV	2,226	2,335	2,326	2,345	2,084	2,262	2,302	2,189	2,072	2,099
	23%	23%	21%	21%	20%	20%	19%	18%	17%	17%
Internet	562	901	1,243	1,609	1,845	2,279	2,674	3,085	3,418	3,793
	6%	9%	11%	14%	17%	20%	22%	25%	28%	31%
Total	9,576	10,314	10,875	11,415	10,641	11,520	12,017	12,469	12,151	12,052

Source: Thinktv, "Net Advertising Revenue, 2005 to 2014".

[6] CMF, Annual Report, 2014/15. Telefilm, Annual Report 2014/15.

Figure 2: Share of Reported Media Advertising Revenues, Newspaper, Total TV, Conventional TV, Internet, Canada, 2005 to 2014



Source: Thinktv, "Net Advertising Revenue, 2005 to 2014".

Digital revenue is flowing primarily to new digital companies rather than to the digital operations of traditional media companies, and this trend is expected to continue. Some estimates suggest that already as much as 85% of all digital revenue is captured by two companies, Facebook and Google.[7] By 2020, as much as 50% of the Canadian advertising market will be digital ($6.5 billion), with the vast bulk of that revenue going to the United States.[8] HST is not captured on advertising revenues bound for the US.

While a portion of the revenue earned by companies like Facebook and Google is shared with content creators, the amount is dwarfed in Canada by the support of traditional players to content makers.

New digital subscription revenue for over-the-top (OTT) television services and YouTube channels is growing. It too, flows primarily to the US, tax free. It is estimated that $445 million in Netflix subscription revenues left Canada last year for the United States.[9]

B. Financial Health of Traditional Media

Overall, the financial situation of the traditional Canadian media companies, whether TV, newspapers, magazines or film, is problematic.

Magazines and newspapers are seeing drops in both traditional advertising revenue and transactional revenue (whether by subscription or retail). New digital revenue streams have not been able to offset these declines in any significant way, despite the industry's efforts to extend their content on to the new platforms.

Table 2: Newspaper and Magazine Circulation Revenues (Print+Digital), Cable/IPTV/Satellite Programming Subscription Revenues, 2011 to 2015, Canada, $M

	2011	2012	2013	2014	2015
Newspapers:	870	843	801	762	726
Magazines:	745	748	718	702	686
Cable/IPTV/Satellite:	8,005	8,062	8,289	8,052	8,025

Source: PwC – Newspaper and Magazine Publishing Markets in Canada, June 2016. CRTC, Broadcasting Distribution, Statistical and Financial Summaries, 2011 - 2015.

[7] J. Herrman, The New York Times, "Media Websites Battle Faltering Ad Revenue and Traffic", April 17 2016. According to this article, Google and Facebook alone accounted for 85 cents of every new dollar spent on Internet advertising in the U.S. in the first quarter of 2016.

[8] Nordicity, "Digital Media at the Crossroads", January 2016, p. 13.

[9] Nordicity, "Digital Media at the Crossroads", January 2016, p. 22.

Newspaper companies are in trouble around the world. In Canada, the sector is additionally weighed down by a high concentration of ownership in one company, Postmedia, which is struggling with a high level of debt.[10]

Table 3: Postmedia Network Canada Corp., Revenues, Assets and Liabilities, 2012 to 2015, 000

	2012	2013	2014	2015
Revenue	$831,877	$751,583	$674,255	$750,283
Comprehensive Loss attributable to equity holders	$(83,563)	$(98,731)	$(124,159)	$(264,849)
Total Assets		$862,797	$740,594	$874,097
Total Liabilities		$728,564	$729,650	$963,387

Source: Postmedia Network Canada Corp., "Annual Report 2015", pp. 58 - 61. Postmedia Network Canada Corp., "Annual Report 2014", pp. 60 - 62.

The four major English-language conventional networks - Global, CBC, CTV, CITY - are all losing money. Two of the three French-language conventional networks were unprofitable in 2015 and revenues are decreasing. Conventional TV networks remain the biggest commissioners of original Canadian drama and comedy.

Table 4: Conventional Television Groups, Revenues and Profits/Losses, 2011-2015, M

		2011	2012	2013	2014	2015
Bell Media:	Revenues	$837	$811	$776	$736	$724
	PBIT	$58	$(15)	$3	$(39)	$(24)
Corus:	Revenues	$522	$447	$417	$404	$405
	PBIT	$35	$23	$(6)	$(25)	$(29)
Rogers:	Revenues	$298	$291	$273	$228	$222
	PBIT	$(0)	$(41)	$(49)	$(85)	$(83)
CBC English:	Revenues	$778	$806	$718	$799	$615
	PBIT	$(11)	$(18)	$(18)	$(12)	$(6)
SRC:	Revenues	$561	$563	$493	$529	$492
	PBIT	$(9)	$(13)	$(10)	$(12)	$(5)
Quebecor:	Revenues	$260	$257	$249	$229	$214
	PBIT	$36	$25	$25	$0	$(3)
Remstar:	Revenues	$66	$73	$77	$67	$67
	PBIT	$3	$0	$1	$(3)	$4
Total Groups:	Revenues	$3,323	$3,247	$3,003	$2,993	$2,739
	PBIT	$112	$(37)	$(54)	$(175)	$(146)

Source: CRTC, Aggregate Annual Returns, 2011 – 2015.

[10] Postmedia, "Postmedia announces execution of Support Agreements for a Recapitalization Transaction", July 7 2016.

Conventional television is also the only source of local TV news, a product that is costly to produce and increasingly unprofitable given the shift in advertising revenue away from the sector. [11]

Table 5: Private Conventional Television, Local News, Revenues, Expenses and Operating Income, 2013, 2014 and 2015 (September to February), M

		2013	2014	2015 (Sept-Feb)
Local News	Revenues	$297.38	$271.59	$133.22
	Expenses	$340.04	$345.03	$174.02
	Op.Income	$(42.66)	$(73.44)	$(40.80)

Source: CRTC, Broadcasting Notice of Consultation CRTC 2015-421.

Pay and specialty television is beginning to feel similar pressure as a result of cable unbundling (ie. pick and pay packaging), the decline in conventional advertising and the impact of unregulated competitors (Netflix).

Table 6: Pay, PPV, VOD and Specialty, Revenues and Profits, 2011 - 2015, M

	2011	2012	2013	2014	2015
Revenues	$3,748	$3,968	$4,091	$4,236	$4,255
PBIT $	$931	$913	$1,083	$1,010	$885
PBIT %	24.8%	23.0%	26.5%	23.8%	20.8%

The simultaneous challenges to both print and local television news, generally considered to be pillars of civic discourse, will not necessarily be compensated for by digital media. It would seem that this needs special attention in terms of future policy.

The decline of TV revenues will also reduce license fees to independent producers. The pressure on the cable companies (who currently commit 5% of gross revenues to support program production) from OTT competitors will aggravate the problem. A reduction of as much as $450M in money available to independent producers may be seen by 2020.[12]

The Canadian feature film industry remains a marginal business. Canadian films in the English language accounted for only on average 1.2% of total box office revenues over the past 8 years. The share of total box office accounted for by French-language films has decreased significantly and has now settled around 9% to 10%.

[11] In Broadcasting Regulatory Policy CRTC 2016-224, the CRTC set out changes to its policy framework for local and community programming. The Commission estimates that these changes could allow the vertically integrated broadcasting companies to re-direct up to $65M from their community channels to local news on their conventional television stations and in addition, could provide up to $20M in funding for local news on independent television stations. It is not clear at this point if these policy changes will be effective in addressing the challenges faced by local television news.

[12] Nordicity, "Digital Media at the Crossroads", January 2016, pp. 26 - 27.

Table 7: Box Office Revenues for English-language and French-language Canadian Films, Share of Total Box Office, Canada, 2007 - 2014, $M

	2007	2008	2009	2010	2011	2012	2013	2014
English-language Market								
Canadian Films	$6.9	$8.5	$6.8	$12.1	$8.1	$13.9	$11.2	$16.3
%	0.9%	1.1%	0.8%	1.4%	0.9%	1.5%	1.2%	2.0%
Foreign Films	$722.2	$786.0	$855.0	$867.9	$845.8	$937.2	$893.0	$809.1
%	99.1%	98.9%	99.2%	98.6%	99.2%	98.5%	97.6%	98.0%
Total	$729.1	$794.5	$862.0	$880.0	$852.9	$951.2	$915.3	$825.3
French-language Market								
Canadian Films	$20.8	$17.4	$27.0	$20.1	$19.8	$12.9	$12.6	$12.1
%	16.2%	13.8%	18.6%	13.4%	13.5%	9.0%	9.0%	10.0%
Foreign Films	$107.6	$108.5	$118.0	$129.8	$127.3	$130.2	$126.7	$108.4
%	83.7%	86.2%	81.4%	86.6%	86.5%	91.0%	91.0%	90.0%
Total	$128.5	$125.9	$145.0	$149.9	$147.1	$143.1	$139.3	$120.5

Source: CMPA, "Profile 2015", p.100

Consideration of the economics of traditional media is important to any discussion of public policy because conventional players remain the largest producers of important genres of content in Canada, as well as the largest financial supporters of Canadian content generally. Thus they will continue to be a prime vehicle through which the Minister can achieve cultural policy goals.

III. The Central Policy Challenge

The policy challenge, as articulated by the Minister, is to "strengthen the creation, discovery and export of Canadian content" in the digital age. That will require the adaption of the government's existing support measures to the new digital realities.

The central premise in designing these changes should be that nobody can predict the outcome of the vast digital disruption that is occurring.

This means that the policy tools must be reformed to ensure that they encourage traditional media companies to take advantage of their digital opportunities while also stimulating the emergence of new and innovative Canadian content creators.

The tools must be agnostic with respect to the formats, content, platforms and producers that will succeed in the future.

It also means that the existing tools must be strengthened, made more flexible, more transparent and quicker to respond. Certainty and speed to market are essential to success in the new digital marketplace.

Finally, if the tools are to be made content and platform agnostic, there will be greater demands for support. This will require a recalibration of the funds available to current recipients if funding levels remain the same. However, should the government wish to increase funding, it will need to find additional revenue sources, some of which are identified later in this paper.

A. Performance of the Major Support Measures

As noted earlier, the key supports for the production and distribution/marketing of Canadian movies and TV are:

- License fees from Canadian broadcasters
- The CMF, which is financed by the Canadian government and part of the 5% levy that is paid by satellite and cable companies;
- The Canadian Audio-Visual Certification Office (CAVCO), which provides tax credits (cash rebates) from the Canadian government; and
- Telefilm Canada (TFC), which is also financed out of the public treasury.

Over the last ten years, governments have spent almost $9 billion supporting independent television production. Of this amount, $6.3 billion went to English language television shows, with the balance ($2.5 billion) going to support French-language television shows. [13]

Table 8: Public Funding for Canadian Television Production, 2006 - 2015, M

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Tax Credits	$480	$562	$514	$493	$531	$582	$761	$657	$698	$760	$6,038
CTF/CMF	$249	$252	$242	$275	$307	$282	$303	$300	$282	$286	$2,778
Total	$729	$814	$756	$768	$838	$864	$1,064	$957	$980	$1,046	$8,816

Source: CMPA, "Profile 2010", pp. 44 and 46. CMPA, "Profile 2015", pp. 59 and 61.

Over the same period of time, $1.4 billion in public funding was directed to theatrical film production.

Table 9: Public Funding for Canadian film Production, 2006 - 2015, M

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Tax Credits	$86	$67	$54	$49	$69	$84	$98	$99	$96	$86	$788
CFF/Telefilm	$48	$64	$68	$65	$67	$67	$60	$66	$60	$58	$623
Total	$134	$131	$122	$114	$136	$151	$158	$165	$156	$144	$1,411

Source: CMPA, "Profile 2010", p. 67. CMPA, "Profile 2015", p. 91

Unfortunately, there is little indication that these expenditures have resulted in significant gains for the viewership of Canadian films and at least in English Canada, the viewership of Canadian television shows. Nor have these measures resulted in a significant increase in exports.

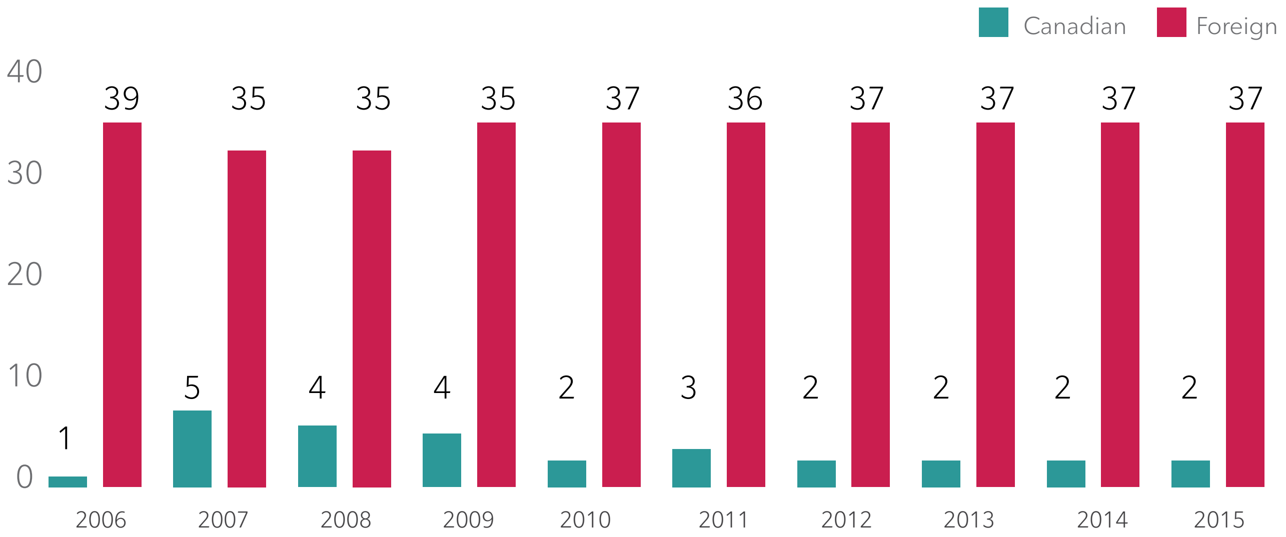
As we have seen for feature films, English Canadian movies took - on average - only 1.2% of the domestic box office. When the Feature Film Fund was first established by the Canadian government, the target was 5% of the domestic box office.

The same thing is broadly true of English Canadian television. Despite regulatory requirements to devote half of their prime time inventory to Canadian programs, the number of Canadian entertainment shows[14] in the top 40 shows watched by Canadians in prime time has averaged three per year. This means that on average 93% of the most watched prime time entertainment television shows are consistently foreign.

[13] Tax credit data in Tables 9 and 10 include federal and provincial tax credits.

[14] i.e. non-news, non-sports shows of the type currently eligible to receive public funds

Figure 3: Number of Canadian and Foreign Entertainment Programs in the Top 40 Prime Time English TV Programs, Canada, 2006 to 2015



Source: Numeris, November 1 to November 30, 2004 to 2015, English Canadian and U.S. services, Ind. 2+ AMA, Total Canada.

Canadian film and television exports have had limited success.

As far as TV is concerned, the export value of television production as a percentage of total production costs doubled over the period 2006-2012, but has remained roughly constant since then. [15]

The export value of Canadian film as a percentage of total production costs has varied widely over the period, but has been in the range of 30% for the past few years, comparable to the percentage at the beginning of the period.

Table 10: Volume and Export Value of Canadian Televison and Film Production, 2006 to 2015, M

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Canadian Television	$1,896	$2,131	$2,128	$2,231	$2,041	$2,111	$2,671	$2,305	$2,376	$2,608
TV Export Value	$192	$252	$225	$267	$284	$348	$534	$456	$491	$539
%	10%	12%	11%	12%	14%	16%	20%	20%	21%	21%
Canadian Film	$360	$298	$323	$260	$363	$326	$340	$374	$343	$349
Film Export Value	$98	$28	$37	$42	$83	$72	$103	$112	$130	$103
%	27%	9%	11%	16%	23%	22%	30%	30%	38%	30%

Source: CMPA, "Profile 2015", pp. 10, 49 and 84.

Overall, as a recent report by UNESCO shows[16], the export value of all Canadian cultural goods actually decreased significantly over the period 2004 to 2013, both absolutely and on a per capita basis, compared for example to the U.K. where the export value of cultural goods increased both absolutely and on a per capita basis. In 2013, the export value of U.K. cultural goods on a per capita basis was $256US compared to $44US for Canada, almost six times greater.[17]

[15] The export value of Canadian television production is defined in Profile 2015 as foreign presales and distribution advances for all projects certified by CAVCO and estimates of presales and distribution advances for non-CAVCO-certified productions, excluding foreign location and services productions. (CMPA, "Profile 2015", p. 10). Export value also reasonably could include foreign post-production sales - - i.e. sales outside of the production financing structure. Only limited data are available from CMF on foreign post production sales. 44% of television productions that received CMF funding in 2012/13 have reported on their post-production sales, totaling $66.6M. Of this total, sales in Canada accounted for $9.3M, with the balance ($57.4M) accounted for by foreign sales. (CMF, Annual Report, 2014/15) The total volume of television production with CMF funding in 2012/13 was $2.3B. (CMPA, "Profile 2015, p. 59) As such, reported foreign post-production sales on television production funded by the CMF in 2012/13 equal 2.5% of the total Canadian television production volume.

[16] UNESCO, "The Globalization of Cultural Trade: A Shift in Consumption – International flows of cultural goods and services 2004 – 2013", 2016.

[17] The UNESCO report on cultural trade defines cultural goods as "consumer goods conveying ideas, symbols and ways of life, i.e. books, magazines, multimedia products, software, recordings, films, videos, audiovisual programmes, crafts and fashion."

Figure 4: Export Value of Cultural Goods per capita, Canada and the U.K., $US

Source: UNESCO, "The Globalization of Cultural Trade: A Shift in Consumption – International flows of cultural goods and services 2004 – 2013", 2016, pp. 100-108, Statistics Canada, Office for National Statistics (UK).

Daily newspapers have no financial support from any level of government.

Magazine support measures are limited to The Canadian Periodical Fund, which provided $75 M in support for magazines and non-daily newspapers in 2015, equal to less than 3% of their estimated revenues in that year.[18] By way of comparison, federal government support for independent television program production as a percentage of total television production revenues in Canada in 2013 (the most recent year that production revenue data are available from Statistics Canada) equaled 15%, without accounting for provincial subsidies and tax credits.[19]

There are very limited supports for digital media, despite it being the most important area of cultural growth. The CMF and Telefilm appear to have devoted less than 10% of their production and development funding to new digital media initiatives not directly linked to traditional television programs and film.[20]

A comparison of the various support measures shows that:

1. They treat the different cultural media very differently. TV and film are heavily subsidized (although TV news, reality shows and talk shows receive no support whatever), while daily newspapers receive nothing and magazines receive very little.
2. The existing support measures for TV and film are not effective. They generate neither significant audiences nor exports.
3. Although Canadians 18-54 spend more time on digital platforms than they do watching TV, the new platforms cannot trigger materially significant subsidy support for their content.

[18] Canadian Heritage, "2014-15 Departmental Performance Report", pp.42-43. PwC – Newspaper and Magazine Publishing Markets in Canada, June 2016. Thinktv, "Net Advertising Revenue, 2005 to 2014". Non-daily newspaper revenues are for 2014.

[19] CMPA, "Profile 2015", p. 59. Statistics Canada, Film, television and video production, 2013", CANSIM tables 361-0038, 0059 and 0060.

[20] CMF, Annual Report, 2014/15. Telefilm, Annual Report 2014/15.

B. Principles to Guide Future Policy

Overall, it is important to be clear about the objectives for any future support measures. Trying to do everything means doing nothing well. The following key principles need to underpin future policy.

(i) Production

(a) Adapting to the Digital Age

All future production and distribution/marketing subsidies should be platform, producer and content agnostic.

As noted earlier, the vast bulk of the current subsidies are limited to TV and film. And even then, they are restricted to particular genres (drama, kids, docs and performing arts). This creates a kind of straight jacket, ensuring assistance to particular kinds of TV, but making no room for content that is central to the political and cultural life of the country (eg. news content), let alone innovative new digital content.

The current measures are also focused almost completely on traditional platforms (TV screens and movie theatres). They fail to acknowledge that content is now much more likely to be consumed on new platforms. For younger people, YouTube, Facebook, Snapchat and other popular apps are the platforms of preference, and support should be available for Canadian content built on them.

Finally, the vast bulk of financial support goes to the independent television production community. Others, including broadcasters are ineligible to receive support directly to make drama or comedy programs. This arrangement is very different from the UK and the USA where the big networks have affiliated production houses (eg. BBC has BBC Studios, ABC has Disney). This allows those who have the greatest financial interest in the success of a show to be able to make sure they succeed both with audiences and foreign sales.

It also ensures that there are companies in place big enough to handle the complex risks involved in program production and export. In the U.S., for every 5 scripts that are purchased, only 1 will be made into a pilot; and for every 20 pilots made, only 6 will result in programs that go to air; and of those, only 35% will last more than a single season.[21] The economics of the business require, therefore, that companies have a large portfolio of projects.

They must be big enough to be able to fail consistently, so that they can ultimately succeed.

(b) Maximizing Transparency and Efficiency

All production subsidies should be structured to maximize their efficiency and transparency.

The current regimes are extremely complex and costly. To receive financing for a TV show requires the completion of numerous forms for the CMF and CAVCO, as well as extensive follow up and reporting. It is very difficult to estimate the costs to a producer to conform with the funds administrative requirements. All we know for certain is that producers paid almost $3.4 million in fees alone in 2014/15 to file applications with CAVCO.[22] This amount does not include any of the producers other compliance and administrative expenses.

It also costs a good deal to administer multiple funding organizations. For 2014 and 2015, the total annual administrative expense for TFC, the CMF and CAVCO combined was on average $35 M. TFC was the most expensive (approximately 13% of budget, although it administers a slew of very small programs), the CMF second (at around 4.5%) and CAVCO being the least expensive (1%). It does not seem unreasonable to assume that the total administrative costs borne by the producers may be more or less the costs to the agencies themselves.

[21] https://priceonomics.com/the-economics-of-a-hit-tv-show/https://priceonomics.com/the-economics-of-a-hit-tv-show/

[22] http://canada.pch.gc.ca/eng/1453227828891http://canada.pch.gc.ca/eng/1453227828891

Table 11: CMF, Telefilm and CAVCO, Total Expenses, Administrative Expenses 2014 and 2015, M

		2014	2015
CMF	Total Expenses	$367	$379
	Admin Expenses	$17	$16
	Admin %	4.7%	4.3%
Telefilm	Total Expenses	$118	$113
	Admin Expenses	$16	$14
	Admin %	13.5%	12.5%
CPTC	Total Expenses	$281	$303
	Admin Expenses	$3	$3
	Admin %	1.1%	1.0%
Total	Total Expenses	$766	$795
	Admin Expenses	$36	$34
	Admin %	4.8%	4.2%

Source: CMF, Annual Report 2015. Telefilm Annual Report 2015.

http://canada.pch.gc.ca/eng/1453227828891

(c) Making Funding Market Driven and Flexible

The support regimes must be responsive to the market and new business models.

The current funding mechanisms dictate the kind of shows that can be made, rather than reflecting what the market may want. In the case of the CMF, for example, its funding is geared toward dramas and documentaries in which all the main creative positions are held by Canadians (i.e., 10/10.) This effectively forces producers to focus on these types of shows, and place Canadians in all creative roles which limits opportunities to engage in co-ventures that could maximize foreign sales.

In addition, multiple filing deadlines are required, and different definitions of programming genres are used between agencies, all of which can significantly delay the speed of market entry.

CAVCO certificates take from 3 to 4 months to be issued once an application has been filed and longer in some cases. Once the production is completed, the producer must file detailed costs with CAVCO to receive their tax credits. Some producers claim that this can require over a year, thereby incurring further carrying costs on the show.

The CMF application process involves deadlines by which money must be committed, which can affect the speed with which producers can react to changes in the market. As well, the CMF changes its guidelines almost every year, which further increases uncertainty.

(d) Strengthening Marketing, Discoverability and Exports

For Canadians to know that Canadian content is available, it is essential that it be properly marketed and promoted. This is also true for sales to foreign audiences.

The existing support measures for marketing and promotion are very modest. The CMF provides limited support for attendance at markets and the hiring of publicists, while TFC provides modest financing for the marketing and promotion of feature films. The CRTC, for its part, does not allow broadcasters to count marketing and promotion costs toward Canadian programming expenditure requirements.

As noted earlier, these measures seem to have had little success in supporting the export of Canadian TV and films. It is worth noting that for neither TFC or CMF are exports central to their objectives.

TFC's "success index" assigns a 10% weighting to the importance of exports. The rest of the index focusses on prizes (30%), box office (40%), domestic sales (10%) and the ratio of private to public funding (10%).

The CMF's "envelope" calculations, on the other hand, do not take exports into consideration at all. Rather, the allocation of money to the broadcasters "envelopes" is based on: total hours tuned (40% which includes repeats), original first run audience success (15%), historic performance (ie. amount received by a broadcaster in the past years (15%), regional (20%) and digital investment (10%).

(ii) Revenue

(e) Focusing on Canadian Content

All Canadian subsidies should focus exclusively on Canadian content.

Foreign Production Service Tax Credits (PSTCs) are available to non-Canadian companies shooting TV and films in Canada. They cost the federal treasury significant amounts of money (around $111 M per year until recently when they increased by almost 2/3).[23]

Table 12: Volume of Foreign Location and Service Production, Film or Video Production Services Tax Credit (PSTC), $US/$CDN Exchange Rate 2006 to 2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total Volume ($M):	1,669	1,433	1,770	1,445	1,508	1,874	1,687	1,740	1,826	2,600
Est. PSTC ($M):	106	91	112	91	95	118	107	110	115	164
$1US = $1CDN	1.13	1.07	1.07	1.14	1.03	0.99	1.00	1.03	1.10	1.28
	1,472	1,334	1,660	1,266	1,466	1,895	1,689	1,691	1,654	2,034
Exchg Adv/Disadv ($M):	197	99	110	179	42	-21	-2	49	172	566

Source: CMPA, "Profile 2015", p. 110. Canadian Heritage, "Federal Tax Credit Programs for the Film and Television Production Industry", January 2015. Bank of Canada, Average Annual Exchange Rates (http://www.bankofcanada.ca/rates/exchange/annual-average-exchange-rates/)

As the above table shows, when the Canadian dollar trades at $.72, the value of the boost provided by the foreign exchange differential dwarfs the value of the PSTC. At the same time, as the Canadian dollar falls against the US dollar and more foreign production comes to Canada, the draw on the federal treasury increases. An enormous amount of federal money is thus spent in a manner that has no direct benefit for Canadian creators and audiences.

Although the PSTC has been very important to the growth of the film and television industries in Canada, it is not the principle driver of levels of production.

If the federal government were to abandon the PSTC, the provincial tax credits would remain to support foreign productions. Indeed, as noted later in the paper, the new revenues that are proposed would yield a significant windfall gain of at minimum $150 million, which would make up for the lost federal credits.

In policy terms, it might also be valuable to distinguish the federal and provincial roles. If these changes were made, the federal government would have responsibility for financing Canadian content, while the provinces would be responsible for industrial support measures.

[23] CAVCO estimated that the PSTC in 2013 was worth $110M on $1.74B of foreign location and service production, equal to 6.3% of the total value. Table 11 applies that percentage to the totals for each year over the period 2006 to 2015.

If the PSTC was withdrawn and the money made available for Canadian content, it is unlikely, given provincial supports and the historic exchange rate, that foreign production would retreat from Canada.

(f) Leveling the Playing Field

All companies should play by the same set of rules.

Canada has long asked content distributors to support the cost of Canadian content creation. At the broadest level of principle, it seems only fair that all distributors participating in a market, whether foreign or domestic, should be treated equally.

At present, cable and broadcasting companies must pay HST (5% federal and various amounts provincially) and contribute to the financing of Canadian shows. The cable and satellite companies are also - as noted earlier - obliged to contribute 5% of gross revenues to the creation of Canadian television (provided most importantly to the CMF).

For their part, the broadcasters are required to spend 30% of their gross revenues on Canadian programs through the CRTC's Canadian Program Expenditure rules (CPE). Of that, a minimum of 5% must be spent on Programs of National Interest (PNI), which includes drama, documentaries and national award shows. These program expenditure requirements are the most important source of support to the creation of Canadian shows.

Contributions to the production of Canadian programming by regulated private Canadian broadcasting companies totaled $2.7 billion in 2014/15.

Table 13: Contributionsto Canadian Programming by Regulated Private Canadian Broadcasting Companies 2014/15, M

		2014/15
Private Conventional Television:	CPE	$653
Pay&Specialty:	CPE	$1,637
BDU:	CMF	$220
	Independent Funds	$65
	Local Expression	$153
Total:		$2,727

Source: CRTC

Unregulated competitors like Netflix are not required to invest in Canadian programming and, as a result, their investment is minor. The exact amount is unknown as they have refused to disclose it publicly.

There remains some debate as to whether online content aggregators like Netflix are best understood as cable-type companies or as broadcasters. If they are cable-type companies, regulatory parity and principles of fairness would suggest they should pay the HST and the 5% of gross revenues to Canadian programming; if they are broadcasters, they should pay the HST and the 30% of their gross revenues that derives from the Canadian market on Canadian programming.

Table 14: Contribution of Netflix if classified as a BDU or Broadcast Service, 2014, M

		Contribution	
	Revenues	Program Fund (5%)	CPE (30%)
BDU	$445	$22	$ –
Broadcast Service	$445	$ –	$134

Source: Netflix revenue estimate: Nordicity, "Digital Media at the Crossroads", January 2016

This is an issue of equity and the proper functioning of the market.

In other jurisdictions, authorities have moved to ensure that Netflix and other OTTs play by the same set of rules as domestic operators. "Along with the European Union, New Zealand, Australia, Norway, South Korea, Japan, Switzerland and South Africa have introduced measures to begin collecting GST or HST equivalents (VAT) on digital on-line services."[24] The European Union has moved as well to ensure that Netflix is brought within the ambit of European audio-visual policies.

It is important to note that requiring Netflix to pay the same taxes as everyone else is not a "Netflix tax". A "Netflix tax" would be one that was applied uniquely to Netflix. Paying taxes of general application does not single out Netflix. It simply requires that everyone play by the same set of rules.

In Canada, many groups and organizations from the cultural sector have long argued that Internet Service Providers (ISPs) should also be required to make financial contributions to the creation of Canadian content.

This is not a viable or desirable option. The Supreme Court of Canada has already determined that ISPs, which are governed under the Telecommunications Act, cannot be required to make financial contributions to fulfill cultural policy goals.

At the same time, further taxing of ISPs would raise the cost of service and slow the deployment of high speed networks. This seems unwise on economic as well as cultural grounds.

(g) Ensuring Equity in Subscription and Advertising Sales

It is also reasonable on grounds of equity and the proper functioning of the market to expect foreign digital media to collect and remit HST on the subscriptions and advertising that they sell in Canada.[25]

Table 15: Revenues from the Application of HST to Netflix and the Purchase of Advertising on Foreign Digital Media, M

		2014	2020
Netflix collects and remits HST[1]	Federal HST (5%)	$22	$22
	Provincial HST (8%)	$36	36
Internet Ad Expenditures in Canada:		$3,793	$6,500
if 50% of Internet ad expenditures go to foreign services:	Federal HST (5%)	$95	$163
	Provincial HST (8%)	$152	$260
	Total HST	$247	$423
if 85% of Internet ad expenditures go to foreign services:	Federal HST (5%)	$161	$276
	Provincial HST (8%)	$258	$442
	Total HST	$419	$718

Source: thinkTV, "Net Advertising Revenue 2005 to 2014". Nordicity, "Digital Media at the Crossroads", January 2016, pp. 13 -15. J. Herrman, The New York Times, "Media Websites Battle Faltering Ad Revenues and Traffic", April 17 2016. [25]

1. The calculation of the HST revenues collected and remitted by Netflix is based on total estimated revenues of $445 M in Canada in 2014 as per Nordicity and holds that total constant to 2020.

[24] John Anderson. "An Over-the-Top Exemption." Canadian Centre for Policy Alternatives, June 2016, p. 19

[25] This estimate assumes an average provincial sales tax of 8%.

(h) Preserving the Geographical Integrity of the Canadian Market

The geographical integrity of the Canadian advertising market needs to be maintained.

In the 1970s and 1980s, the federal government implemented fiscal incentives through a targeted change in tax policy to encourage advertisers to purchase Canadian media (print, radio and television) over U.S based print, radio and television. This new policy made marketing expenditures by Canadian companies on foreign based media ineligible to be treated as a legitimate business expense (Bill C-58 amendments to section 19.1 of the Income Tax Act), and helped keep advertising revenue and taxes in Canada.

It is estimated that this Income Tax Act amendment repatriated approximately 25% of the advertising revenue that was flowing outside of the country. Unfortunately, this amendment was made in 1976, well before the existence of the Internet and therefore it does not capture digital media platforms.

This is a missed opportunity that would help Canadian media companies compete more effectively against large multinational digital media players like Facebook and Google by making them a more financially attractive buy for advertisers. It would also result in greater investment in Canadian programming and production.

Assuming that expenditures by Canadian advertisers on foreign digital media constitute from 50% to 85% of all Internet ad expenditures in Canada, such a rule could have injected $500 to $800 million back into Canada in 2014 and potentially as much as $800 million to $1.4 billion in 2020.

This is an attractive way to support the creation of Canadian content, since it simply re-directs money that is already being spent by Canadian companies and makes no draw on the federal treasury.

Table 16: Estimated Impact of extending Bill C-58 to Internet Advertising, 2014 and 2020, M

	2014	2020
Internet Adverstising Revenues:	$3,793	$6,500
Repatriated Revenues:		
if 50% of Internet ad expenditures currently go to foreign services:	$482	$827
if 85% of Internet ad expenditures currently go to foreign services:	$820	$1,405

Source: A. Donner, “The Financial Impacts of Section 19.1 of the Income Tax Act (Bill C-58) and Simultaneous Substitution”, for the Department of Communications, 1990. thinkTV, “Net Advertising Revenue 2005 to 2014”. Nordicity, “Digital Media at the Crossroads”, January 2016, pp. 13 -15. J. Herrman, The New York Times, “Media Websites Battle Faltering Ad Revenues and Traffic”, April 17 2016.

IV. Moving Forward: A New Agency

In strengthening the existing financial support mechanisms and making them future facing, it is proposed that the different funding agencies be put under one roof and then collapsed into one expanded and simplified set of tax credits.

1. The New Agency

The CMF, TFC and CAVCO should be placed under one roof, and the existing CMF and TFC production and marketing subsidies should be collapsed into an enhanced tax credit regime. The new agency – The Canadian Content Investment Agency (CCIA) – would be responsible for almost all financial support to Canadian content, outside the CBC and NFB. It would support the creation, promotion and export of all types of Canadian content.

In 2014/15, on an overall basis, the federal tax credit made up 11% of the financing of the average TV show, while money from CMF also made up 11%. This means that to hold the existing producers harmless, the credit would have to be doubled in value. It also means that if the CMF was wound up, enough money would come available to hold the government treasury harmless.

This does not mean, of course, that the federal tax credit was 11% of every Canadian program. Rather, it was - on average - 11%. Clearly, if the credit was doubled - on average - its actual value would have to vary by genre.

Table 17: Financing of Canadian Television Production, 2014/15, $M

	$	%
Private Broadcaster Liscence Fees	485	19%
Public Broadcaster Liscence Fees	252	10%
Federal Tax Credit	278	11%
Provincial Tax Credit	482	18%
Canadian Distributors	325	12%
Foreign	266	10%
CMF	286	11%
Other Public	13	.05%
Other Private	220	8%
Total	2,604	100%

Source: CMPA, "Profile 2015", p.59.

To strengthen the Minister's goal of improved exports and greater success at home, a new balance should be struck between production tax credits and marketing and promotion tax credits, in addition to the existing labour based tax credit regime administered by CAVCO.

Eliminating the CMF and TFC would bring significant benefits.

A It would dramatically simplify the application and reporting processes, since there would now be only one subsidy rather than two.

B It would save very significant costs for both producers and the government (ie, the administrative costs associated with the CMF and TFC), which could be used to subsidize more productions. As noted earlier, the administration costs for TFC and CMF combined are about $32 million. If the costs to the producers are more or less the same, there is a potential combined saving in excess of $60 million.

C It would accelerate speed to market because the tax credit system is completely predictable and can be triggered at any time during the year.

D It would be market-based because it would not prioritize any one genre of content (as existing agencies do now) to the detriment of the content that meets audience demand.

E Because a portion of the enhanced tax credit regime is labour based, it would help to stabilize and may, if anything, increase employment in the industry compared with existing arrangements. As well, the jobs that are supported are the creative ones that are the keys to future innovation in the economy.

A system based purely on tax credits that includes funding for marketing and promotion should also lead to better results for both program performance and exports. The fact that there will be less money up front available to producers will necessitate that more money by way of equity or guarantees is made available. More "at risk" money should result in the financing of shows that are more likely to be commercially successful and will incent producers to look for foreign partners that will increase opportunities for international sales. The introduction of marketing and promotion tax credits will also increase the discoverability and awareness of Canadian content.

The system would operate as the support measures operate currently. Canadian owned and controlled producers of Canadian content destined for whatever platform would be able to include the new tax credits in their financial structures.

At the same time, it will be important to be clear that if the Canadian producers want to create content for non-traditional platforms – YouTube, Facebook, Snapchat – they can only do so if those platforms are paying taxes in Canada. As well, the platforms would have to contribute to the financing of the content, just as broadcasters do now through the payment of license fees or film distributors through minimum guarantees.

2. A Cultural Diversity Fund

If the CMF and TFC are collapsed into a system of enhanced tax credits, it will be important to distinguish those parts of the existing system that are focused on commercial production and those that are focused on non-commercial production that is nevertheless important to the cultural expression of the country. These would include the programs that are currently in place at TFC and the CMF to support French language production outside Quebec, English language production within Quebec, Aboriginal production, third-language productions, multi-cultural production, English language POV documentaries and first time film makers.

The best way of dealing with these requirements is to set up a selective, juried fund that would insure that these important cultural programs are not lost. The table below estimates that pulling these program out of TFC and CMF and placing them in a separate fund would cost about $39 M to hold the existing programs harmless.

Table 18: The Cultural Diversity Fund, 2014/15, M

		2014/15
CMF:	Francophone Minority	$10.2
	Anglophone Minority	$3.5
	Aboriginal	$7.0
	English POV	$4.0
	Diverse Languages	$2.5
	Sub-total	$27.2
Telefilm:	Multicultural	$7.1
	Aboriginal	$4.5
	Sub-total	$11.6
	Total	$38.8

Source: CMF, Annual Report, 2014/15. Telefilm, Annual Report 2014/15.

This fund - The Cultural Diversity Fund - could be administered by the Canada Council, which has extensive experience managing juried funds.

3. The Points System

Given the expansion of the subsidy system to on-line newspapers, new media, etc., the point system would have to be revised to recognize the fact that different skills are required for those kinds of content than are needed for TV and movies. (ie. editors, journalist, programmers, etc.) In addition, a regime would also need to be developed to support the marketing and promotion of Canadian content, particularly abroad.

The new points system should continue to be structured in a manner that gives the greatest financial support to those productions that maximize the use of Canadian creative talent. However, there may be better and/or different ways of achieving this objective than the approach currently used. For example, one way to do this might be to award points on the basis of the highest paid workers. In other words, if the top 10 paid persons are Canadian, the project is 10/10; if the top 8 out of 10 highest paid persons are Canadian, the project is 8/10; and the same for 6/10, which would be the minimum required to access the credits system as it is now.

The projects that were 10/10 would qualify for the full new enhanced tax credit, while 6/10 productions would receive the same credit as they do now, while the 8/10's would receive something in between.

A revised points system is an excellent way to administer the enhanced tax credits, since it places the cultural focus on where it needs to be: on maximizing the incentives to employ Canadian talent.

4. Governance of CCIA

The CCIA would be structured in the normal way, with a Board of Directors and a CEO. The Minister of Canadian Heritage, however, would have the authority to give the new agency general policy direction.

Having the agency at "arms-length" from the government would ensure its independence in making decisions and ensure that the state was not involved in deciding on particular projects, particularly in the genre of news. This is fundamental to ensuring freedom of expression.

In establishing the CCIA, the Minister must provide direction to the CCIA on its overall mandate. In particular, it must be made clear that:

1 Canadian audiences and exports are to be the central measures of success. The two are intimately linked. Canadian films and TV shows that do well domestically, are more likely to sell well internationally. Put another way, Canadian shows and movies that cannot find audiences at home are unlikely to find them abroad.

2 Financial support must be content agnostic and expanded to include: news, current affairs and reality shows; on-line newspapers and magazines; and digital content. Restrictions will, of course, remain to prevent the subsidization of pornography, advertising, sports, industrial content, algorithm driven content aggregators, etc.

3 Financial support must also be platform agnostic and able to be triggered not only by the traditional TV and film platforms, but also by new platforms.

4 Finally, all financial support must be producer agnostic. There is no reason why broadcasters should not be able to operate production and distribution companies. As noted earlier, this is the normal practice in Britain and the United States.

Allowing broadcasters to act as producers would expand the number of well capitalized, knowledgeable companies in the business, increasing the possibilities of success. It would, as well, create incentives for the broadcasters to ensure that the shows they helped to finance do well both domestically and internationally.

So long as the CRTC's rules on CPE both in the aggregate and for Programs of National Interest (PNI) remain in place, there should be no immediate reduction in existing volumes of television production.

V. New Revenue Sources

Expanding the system to be content and platform agnostic could cost more money. One way of estimating what the draw might be is to see what might happen if the new tax credits for magazines, newspapers and local news were financed at the same level as TV and film are currently. As the table below shows, the increased cost to the federal treasury would have been about $500 M in 2014.

Table 19: Incremental Public Funding for Content Production if All Media were eligible, 2014, M

	TV and Film	Magazines	Newspaper	Local TV News	Incremental
Volume of Production:	$2,720	$654	$1,206	$345	$2,206
Tax Credit (Federal):	$278				
CMF	$282				
Telefilm	$60				
Total Public Funding:	$620	$149	$275	$79	$503
%	22.8%	22.8%	22.8%	22.8%	22.8%

Source: CMPA, "Profile 2015", p. 38. PwC – Newspaper and Magazine Publishing Markets in Canada, June 2016. CRTC, "Conventional Television, Statistical and Financial Summaries", 2011 – 2015. CRTC, Broadcasting Notice of Consultation CRTC 2015-421. Volume of production for consumer magazines and newspapers is set equal to estimated compensation expenses as a proxy for journalistic content.

These amounts would be the maximum draw if newspapers and TV news were financed at the same level as the rest of TV and films. In the case of magazines, they already enjoy $75 M in support; they therefore would only need to draw an incremental $74 M.

While the above figures provide guidance on the additional amount of funding that would be required to support all projects under an enhanced tax credit regime, the regime can just as easily be calibrated to support projects using the current amount of funding available for Canadian programming. In the case of film and TV, for example, it might be wise to reduce the level of public support to force the injection of more private equity. This would have the benefit of putting more private money at risk, thereby creating greater pressure to seek out the most commercially promising projects.

If the government were to pursue the creation of this new enhanced tax credit, it might be wise in the first couple of years of its operation to have a pre-clearance system for the new beneficiaries (ie. the news, digital content, the export/marketing credit and the expanded TV genres). Such a system would protect both the applicants and the government. The applicants would know in advance that the costs that they were going to claim would, in fact, be covered. And the government could see the magnitude of the draw that was likely to result and cap it if necessary. This can be easily done through the existing CAVCO filing arrangements for Part A and Part B certificates.

However, should the Government believe it is necessary to increase the amount of money available to support Canadian content, there are - as noted earlier - a number of potential sources of new revenue.

The new sources of revenue could include:

A. Having Netflix and other foreign and domestic OTT providers pay contribution at 5% of gross revenues or CPE at 30%, as well HST.

Table 20: Contribution of Netflix if classified as a BDU or Broadcast Service, 2014, M

		Contribution	
	Revenues	Program Fund (5%)	CPE (30%)
BDU	$445	$22	$ –
Broadcast Service	$445	$ –	$134

Source: Netflix revenue estimate: Nordicity, "Digital Media at the Crossroads", January 2016

This would have resulted in 2014, for Netflix alone, an increase to the public treasury of 5% contribution ($22 M) or, if it had to pay 30% of CPE an increased expenditure of $134 M on Canadian programs.

B. Imposing HST on foreign based OTT and digital advertising

In 2014, extending the HST to digital advertising on foreign services would have generated $95 to $161 M to the federal treasury. That amount of money will rise significantly over the next few years as traditional advertising revenue shrinks and digital revenues grow, increasing to $163M to $276M in 2020.

Table 21: Revenues from the Application of HST to Netflix and the Purchase of Advertising on Foreign Digital Market Media, M

		2014	2020
Netflix collects and remits HST[1]	Federal HST (5%)	22	22
	Provincial HST (8%)	36	36
Internet Ad Expenditures in Canada:		$3,793	$6,500
if 50% of Internet ad expenditures go to foreign services:	Federal HST (5%)	$95	$163
	Provincial HST (8%)	$152	$260
	Total HST	$247	$423
if 85% of Internet ad expenditures go to foreign services:	Federal HST (5%)	$161	$276
	Provincial HST (8%)	$258	$442
	Total HST	$419	$718

Source: thinkTV, "Net Advertising Revenue 2005 to 2014". Nordicity, "Digital Media at the Crossroads", January 2016, pp. 13 -15. J. Herrman, The New York Times, "Media Websites Battle Faltering Ad Revenues and Traffic", April 17 2016.

1. The calculation of the HST revenues collected and remitted by Netflix is based on total estimated revenues of $445 M in Canada in 2014 as per Nordicity and holds that total constant to 2020.

Applying the HST to digital ad revenues would also result in a windfall gain to the provinces. This could have been worth from $152M to $258M in 2014, increasing to $260M to $442M in 2020. [26]

C. Abolishing the Production Services Tax Credit (PSTC)

The PSTC was worth $164 M in 2015 and an average of roughly $111M per year over the last 10 years, depending in part on the foreign exchange rate.

Table 22: Volume of Foreign Location and Service Production, Film or Video Production Services Tax Credit (PSTC), $US/$CDN Exchange Rate, 2006 to 2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total Volume ($M):	1,669	1,433	1,770	1,445	1,508	1,874	1,687	1,740	1,826	2,600
Est. PSTC ($M):	106	91	112	91	95	118	107	110	115	164
1$US = $CDN	1.13	1.07	1.07	1.14	1.03	0.99	1.00	1.03	1.10	1.28
	1,472	1,334	1,660	1,266	1,466	1,895	1,689	1,691	1,654	2,034
Exchg Adv/Disadv ($M)	197	99	110	179	41	-21	-2	49	172	566

Source: CMPA, "Profile 2015", p. 110. Canadian Heritage, "Federal Tax Credit Programs for the Film and Television Production Industry", January 2015. Bank of Canada, Average Annual Exchange Rates (http://www.bankofcanada.ca/rates/exchange/annual-average-exchange-rates/)

D. Eliminating TFC and CMF

The administrative costs associated with operating TFC and the CMF in 2014 and 2015 averaged $32 M.

Table 23: CFM, Telefilm and Total Expenses and Administrative Expenses 2014 and 2015, M

		2014	2015
CMF	Total Expenses	$367	$379
	Admin Expenses	$17	$16
	Admin %	4.7%	4.3%
Telefilm	Total Expenses	$118	$113
	Admin Expenses	$16	$14
	Admin %	13.5%	12.5%
Total	Total Expenses	$485	$492
	Admin Expenses	$33	$31

Source: CMF, Annual Report 2015. Telefilm Annual Report 2015.

[26] This estimate assumes an average provincial sales tax of 8%.

Abolishing TFC and CMF would also reduce the administrative costs to producers associated with responding to their requirements. The amounts freed up for producers may be as much as the administrative costs themselves.

E. Proceeds from the 600MH2 auction

It is difficult to predict how much money the auction will generate, although conservative estimates put it as high as $5 billion. This would, of course, be one time money.

These measures combined, not including the proceeds of the spectrum auction, would have increased revenues to the federal treasury by $288 M to $354 M in 2014, increasing to $350 M to $464 M in 2020.

Table 24: Continuing New Revenue Sources for the Federal Treasury, 2014 and 2020, M

	2014	2020
Netflix collects and remits HST[1]	$22	$22
Netflix contributes to Program Fund (5%)[1]	$22	$22
Advertising on Foreign Digital Media is Subject to HST[2]		
if 50% of the Internet ad expenditures go to foreign services	$95	$163
if 85% of the Internet ad expenditures go to foreign services	$161	$276
Eliminate PTSC[3]	$115	$111
Eliminate CMF/ Telefilm (administrative costs)[4]	$33	$32
Total		
if 50% of the Internet ad expenditures go to foreign services	$288	$350
if 85% of the Internet ad expenditures go to foreign services	$354	$464

Source: thinkTV, “Net Advertising Revenue 2005 to 2014”. Nordicity, “Digital Media at the Crossroads”, January 2016, pp. 13 -15. J. Herrman, The New York Times, “Media Websites Battle Faltering Ad Revenues and Traffic”, April 17 2016.

1. The calculation of the HST revenues collected and remitted by Netflix is based on total estimated revenues of $445 M in Canada in 2014 as per Nordicity and holds that total constant to 2020.

2. This calculation is based on actual data for the Internet ad market as a whole in Canada in 2014 from thinktv and projected Internet ad revenues from Nordicity for 2020.

3. The PTSC for 2014 is the estimated actual. The PTSC for 2020 is the ten year average for the period 2006 to 2015.

4. CMF/Telefilm administrative costs are actuals for 2014. The estimated costs for 2020 are an average of 2014 and 2015 costs.

These new revenues would be in addition to:

i) the $482 M to $820 M in revenues that would have accrued to Canadian ad-supported media in 2014 from the application of changes to the Income Tax Act (Bill C-58), increasing to $827 M to $1.4 B in 2020; and

ii) the resulting increase in contribution to Canadian content assuming that these new revenues were apportioned based on the current and projected share of the advertising market and the current contribution rates.

Table 25: Incremental Ad Revenues and Canadian Content with Income Tax Amendment, 2014 and 2020, M

		2014			2020		
		Incremental Ad Revenues	Share	Incremental Cdn Content	Incremental Ad Revenues	Share	Incremental Cdn Content
if 50% of Internet ad	Repatriated	$482			$827		
expenditures goes to	Television[1]	$140	29%	$42	$174	21%	$52
foreign services:	Newspaper[2]	$104	21%	$43	$83	10%	$34
	Magazine[2]	$49	10%	$20	$83	10%	$34
	Internet[3]	$152	31%	n.a.	$389	47%	n.a.
if 85% of Internet ad	Repatriated	$820			$1,405		
expenditures goes to	Television[1]	$238	29%	$72	$295	21%	$89
foreign services:	Newspaper[2]	$176	21%	$73	$141	10%	$59
	Magazine[2]	$83	10%	$35	$134	10%	$56
	Internet[3]	$258	31%	n.a.	$661	47%	n.a

Source: thinkTV, "Net Advertising Revenue 2005 to 2014". Nordicity, "Digital Media at the Crossroads", January 2016, pp. 13 -15. J. Herrman, The New York Times, "Media Websites Battle Faltering Ad Revenues and Traffic", April 17 2016. PwC – Newspaper and Magazine Publishing Markets in Canada, June 2016.

1. assumes a 30% contribution rate in 2014 and 2020
2. assumes a 42% contribution rate in 2014 and 2020 based on available data
3. Data are not available on the contribution of Canadian digital media services to Canadian content.

If these additional advertising revenues had been available to Canadian advertiser-supported media in 2014, television ad revenues would have been from $140 M to $238 M greater in 2014, increasing to $174 M to $295 M greater in 2020. Newspaper ad revenues would have been from $104 M to $176 M greater in 2014, and could be $83 M to $141 M greater in 2020. Magazine ad revenues would have been from $49 M to $83 M greater in 2014, and could be $83 M to $134 M greater in 2020. Internet ad revenues would have been $152 M to $258 M greater, increasing to $389 M to $661 M greater in 2020. Expenditures on Canadian content would have been correspondingly greater as well.

Beyond this, extending the HST to Netflix and to advertising on foreign online services would have generated in the range of $188 M to $294 M in sales tax revenues for provincial governments in 2014, increasing to $296 M to $478 M in 2020. Provinces could use these revenues to increase provincial tax credits to replace the PTSC.

Table 26 provides a summary of the estimated increase in revenues and contributions to Canadian content in 2014 and 2020.

Table 26: Summary of Estimated Increase in Revenues and Contributions, 2014 and 2020, M

		2014	2020
Increased revenues to Federal Treasury:	Netflix collects and remits HST	$22	$22
	Ads on Foreign Digital Media subject to HST	$95 - $161	$163 - $276
	Eliminate PTSC	$115	$111
	Ads on Foreign Digital Media subject to HST	$33	$32
	Total	$266 - $332	$328 - $442
Increased revenues to Prov. Treasuries:	Netflix collects and remits HST	$36	$36
	Ads on Foreign Digital Media subject to HST	$152 - $258	$260 - $442
	Total	$188 - $294	$296 - $478
Increased contribution to CanCon:	Netflix contributes 5% or 30%	$22 - $134	$22 - $134
	Contribution from repatriated ad revenues	$106 - $180	$121 - $203
	Reduced admin costs for producers	$33	$32
	Total	$161 - $347	$175 - $369
Increased ad $ from tax amendment:	Repatriated ad revenues	$482 - $820	$827 - $1,405
	Total	$482 - $820	$827 - $1,405

VI. Conclusion

For Canada's content industries to survive and thrive in the future, it is essential that the government's support measures be broadened beyond film and TV. They need to embrace all kinds of content and all the new platforms. In the digital age, it is unwise for the government to pick cultural winners and losers.

Expanding the kinds of content and platforms that can qualify for support will put the new digital content on an equal footing with analog content. It will shift the entire system to be future facing.

It will, as well, revive the nation's news gathering capacity. It is difficult to overstate how tenuous the situations of traditional news outlets have become. It is also difficult to overstate how important the news is to the political, economic and cultural life of the country.

Opening the subsidy doors to people other than the independent producers will bring new, often much better capitalized players into the system. Injections of fresh energy and money can only be beneficial.

Collapsing the existing support agencies into an enhanced tax credit regime will dramatically simplify the system, save considerable costs and accelerate speed to market. Agility and transparency are fundamental to success in the digital age. It is clear that there are significant untapped resources available. It is also clear that they can be tapped in a way that does not increase the net draw on the federal treasury and is consistent with current international practice and the approaches that Canada has pioneered in the past.

Over the last decades, Canada has developed an extremely deep pool of very talented content creators. If the government's programs can be properly aligned to support them, there is no reason why Canadian content cannot be much more successful, not just at home but also abroad.