

**Supporting Canadian Journalism:
An assessment of selected federal government programs**

- Over the next five years, the Government of Canada will spend over \$1 billion on activities and programs that affect journalism in Canada.
- Of that total, an estimated \$595 million will be spent across three recently-announced Budget programs to support and assist journalism organizations. Each of the three programs is discussed in this Research Note.
- Separate from those programs, and at the same time, a substantial amount of taxpayers' dollars will be used by the Canadian Broadcasting Corporation for online services that compete against the same journalism organizations.

Introduction

On March 19, 2019, in the federal Budget, the Government of Canada announced a package of measures to assist journalism in Canada, totaling \$595 million over five years, with a particular focus on newspapers. This Research Note has been prepared to help place those assistance measures in context.

This note will deal with the following issues:

- The crisis in Canadian local print journalism is real.
- The root cause is structural, and searching for scapegoats runs the risk of leading to solutions that will not work.
- The need for benchmarks and measurements to help determine if the federal Budget programs will be effective.
- The need to assess whether other federal government programs are using tax dollars in ways that are consistent with the goals of the just-announced assistance programs.
- An initial assessment of the three main programs announced in the federal Budget.
- Additional comments and suggestions.

The crisis in Canadian local print journalism is real

In 1950, the combined paid circulation of Canada's daily newspapers was equivalent to about 102 per cent of the number of households in Canada. By 2000, that had fallen to just under 45 per cent. And last year – 2018 – the combined paid circulation (print and digital) of Canada's daily newspapers was equivalent to about 13 per cent of the number of Canadian households.

In 2000, paid circulation of Canadian daily newspapers was more than five million; in 2018, the paid circulation (print and digital) had fallen to less than two million.

The circulation trends are illustrated in Figures 1 and 2.

Until about 2008, one of the principal sources of revenue for Canadian daily newspapers was classified advertising. But the availability of free classified ads on the Internet (e.g., Kijiji, Craigslist) has caused classified advertising revenues in Canadian dailies to decline by more than 90 per cent from 2008 to 2018. The classified advertising trends are shown in Figure 3.

In Figure 4, we have tracked the operating revenue of Canadian newspapers (daily and community) from 2000 to 2018. To be as consistent as possible over time, we have primarily used the available industry data for the two main sources of revenue – advertising and circulation.

On that basis, as can be seen in Figure 4, total revenue for the Canadian newspaper industry was about \$4.7 billion in 2008. By 2018, that had fallen to about \$2.2 billion, a decline of more than 50 per cent.

Figure 5 presents data for Canadian daily newspapers, from 2000 to 2018, indicating the revenue from advertising and from circulation. Figure 6 presents a similar breakdown for the revenue of community newspapers.

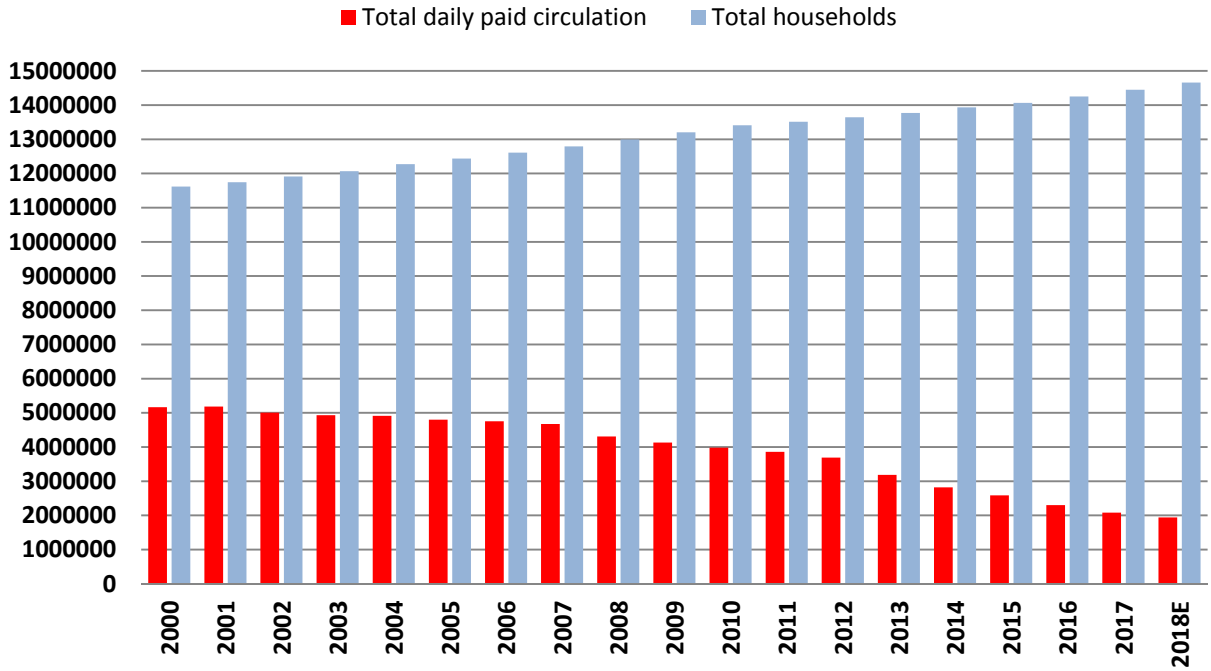
As can be seen from Figure 5, from 2008 to 2018, the proportion of revenue accounted for by circulation has grown, albeit within declining overall totals.

(One of the key factors in that change was the decline in classified advertising revenues, which declined faster than the decline in circulation, as virtually the entire category was “unbundled” from newspapers by Internet-based alternatives.)

In the case of community newspapers (Figure 6), the data confirm that most community newspapers are distributed on a “controlled”, or free-to-the-consumer, basis.

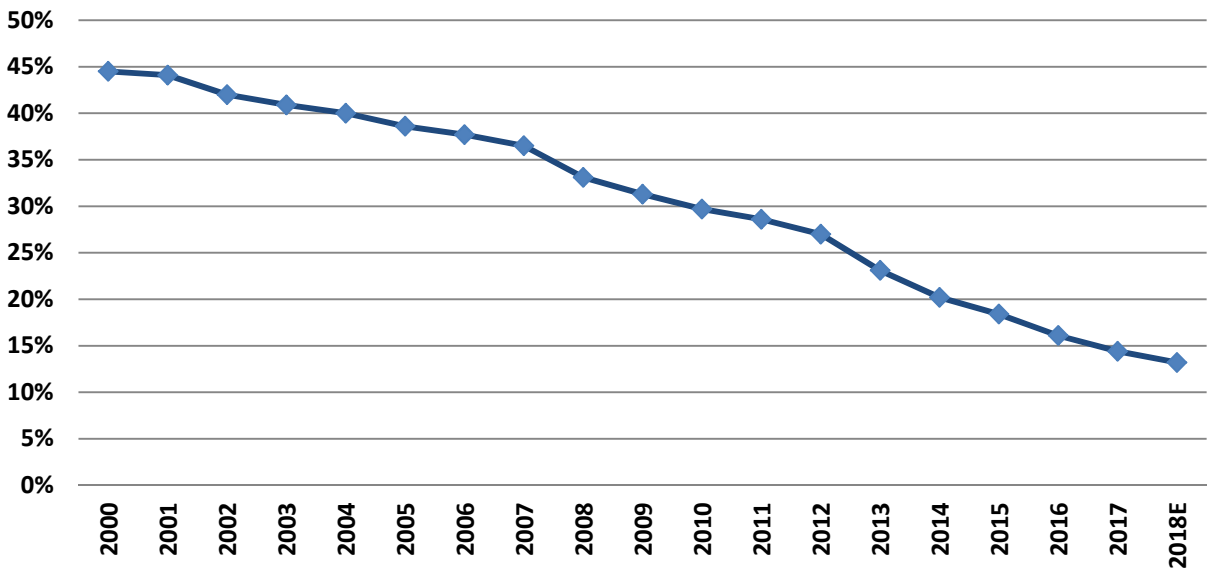
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1. Total daily newspaper paid circulation, and total households, Canada, 2000-2018



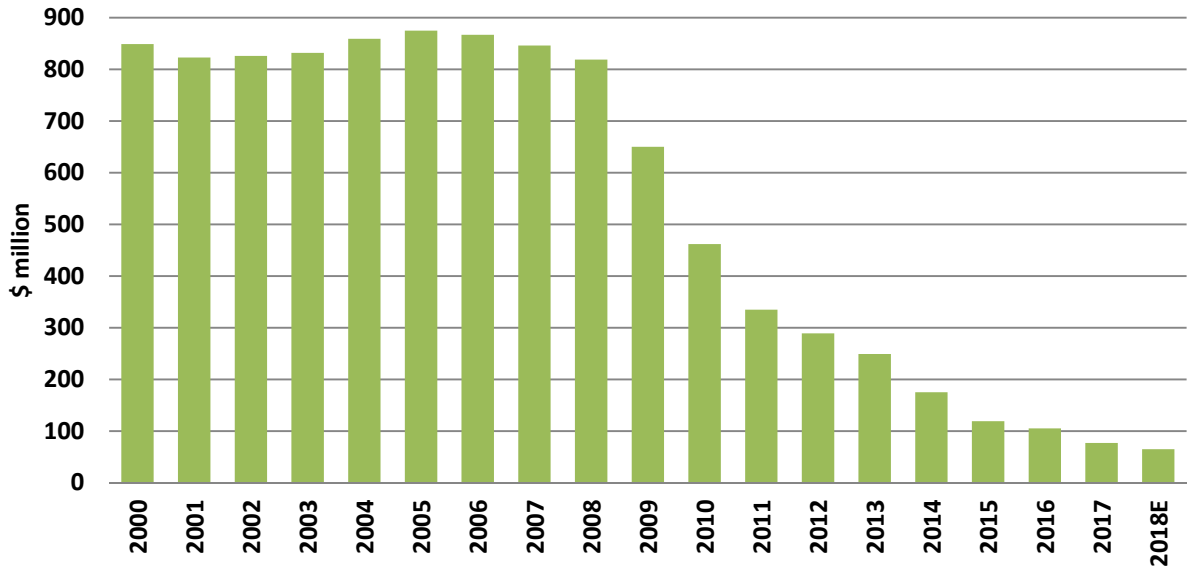
SOURCE: CARD; CNA; Newspapers Canada; News Media Canada; ABC; AAM; CCAB; Statistics Canada; Communications Management Inc. (NOTE: Beginning in 2013, Newspapers Canada started including paid digital circulation with paid print circulation.)

2. Total daily newspaper paid circulation as % of households, Canada, 2000-2018



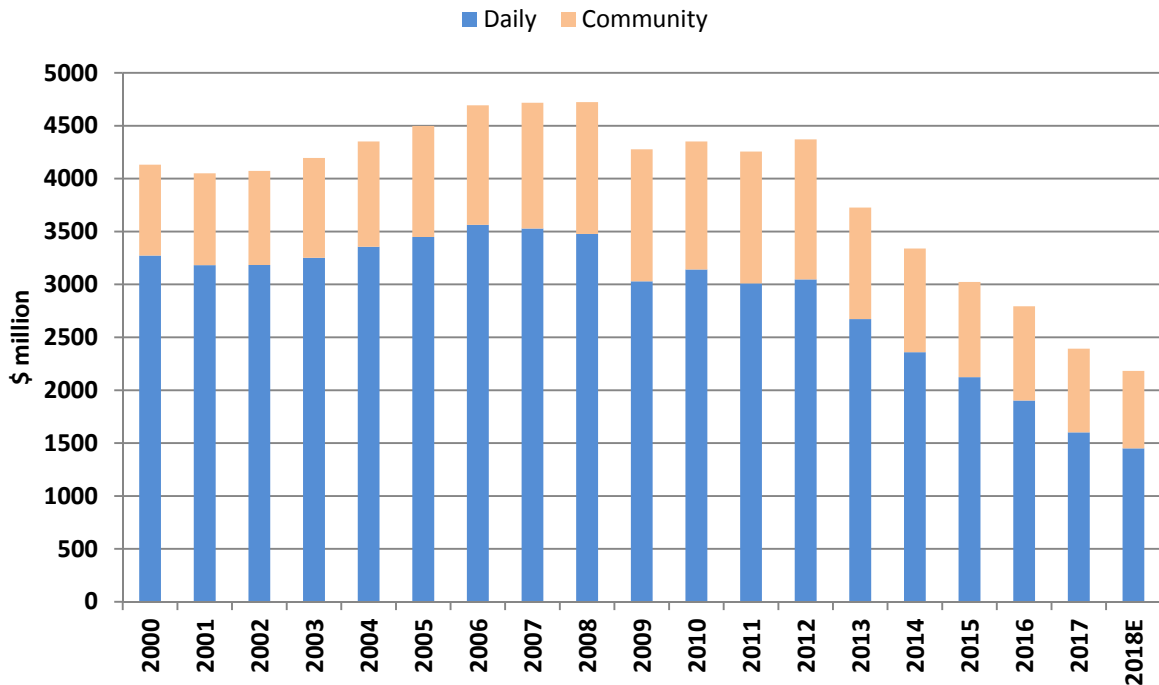
SOURCE: CARD; CNA; Newspapers Canada; News Media Canada; ABC; AAM; CCAB; Statistics Canada; Communications Management Inc.

3. Total classified advertising revenue, Canadian daily newspapers, 2000-2018



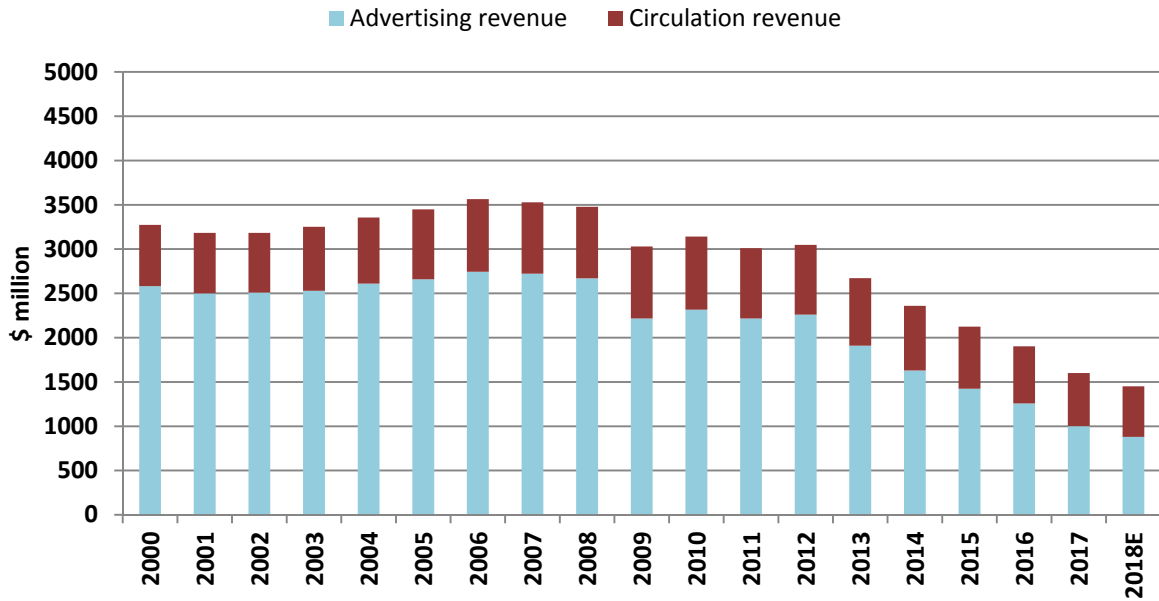
SOURCE: Television Bureau of Canada; ThinkTV; Communications Management Inc.

4. Total operating revenue (advertising+circulation), Canadian newspapers (daily and community newspapers), 2000-2018, indicating totals for daily and community newspapers



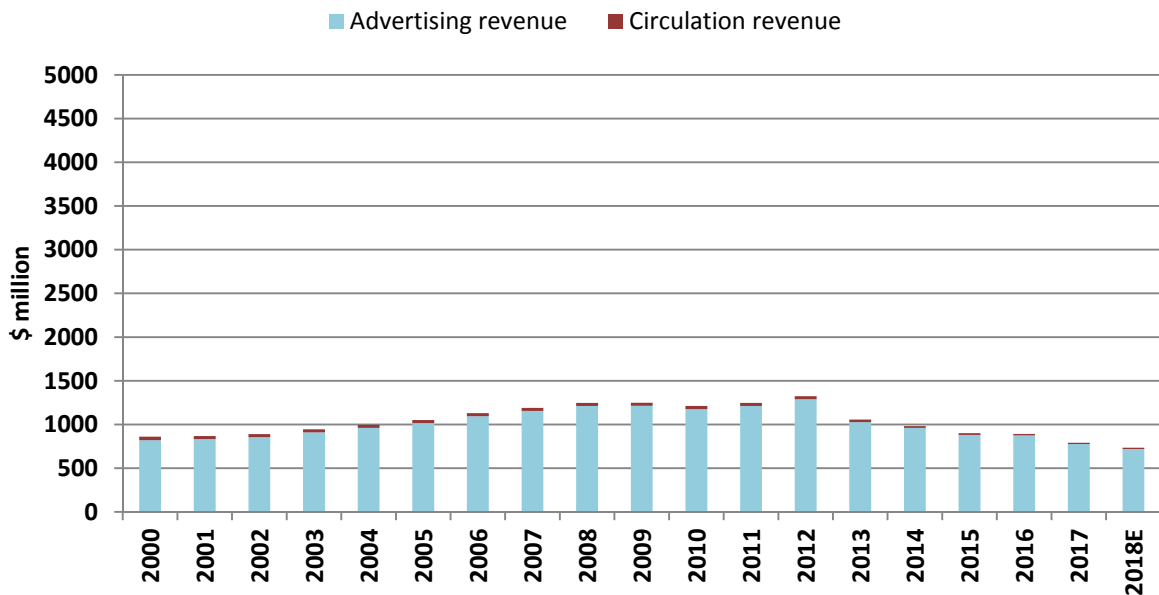
SOURCE: Statistics Canada; CNA; Newspapers Canada; News Media Canada; TVB Canada; ThinkTV; Communications Management Inc.

5. Total operating revenue (advertising+circulation), Canadian **daily** newspapers, 2000-2018, indicating totals for advertising and circulation



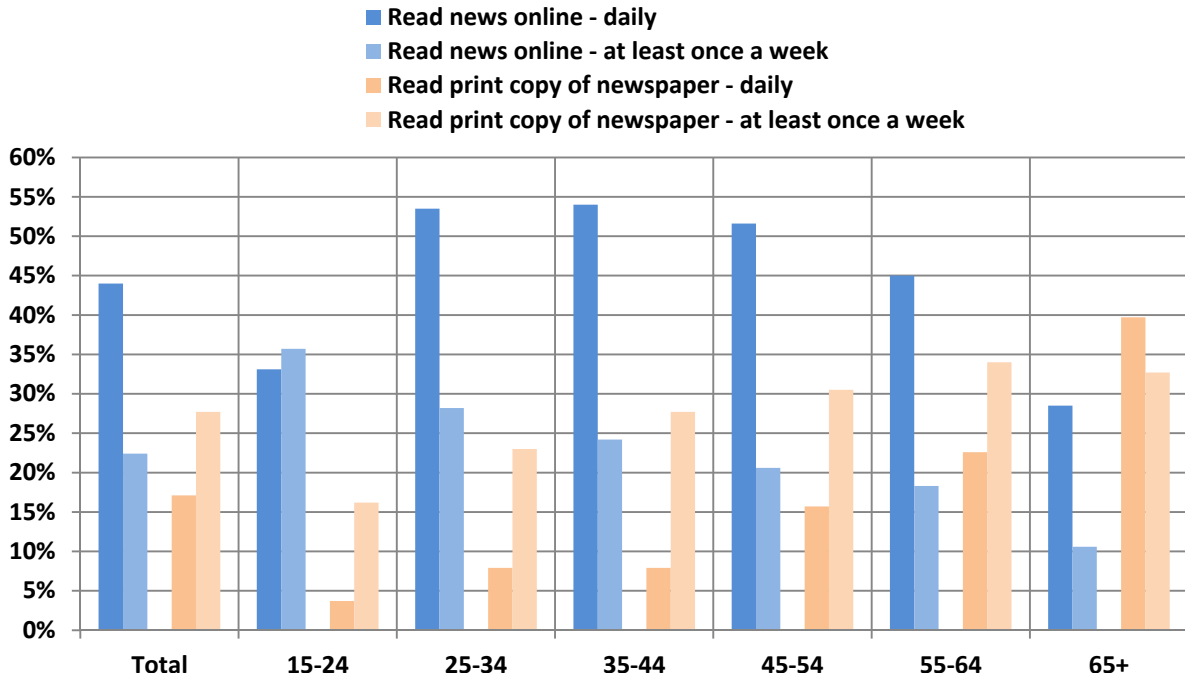
SOURCE: Statistics Canada; CNA; Newspapers Canada; News Media Canada; TVB Canada; ThinkTV; Communications Management Inc.

6. Total operating revenue (advertising+circulation), Canadian **community** newspapers, 2000-2018, indicating totals for advertising and circulation



SOURCE: Statistics Canada; CNA; Newspapers Canada; News Media Canada; TVB Canada; ThinkTV; Communications Management Inc.

7. Percentages of individuals, 15+, reporting reading news online, or reading a print copy of a newspaper, daily or at least once a week, Canada, 2016 – **by age groups**



The data in Figure 7 come from Statistics Canada’s General Social Survey.

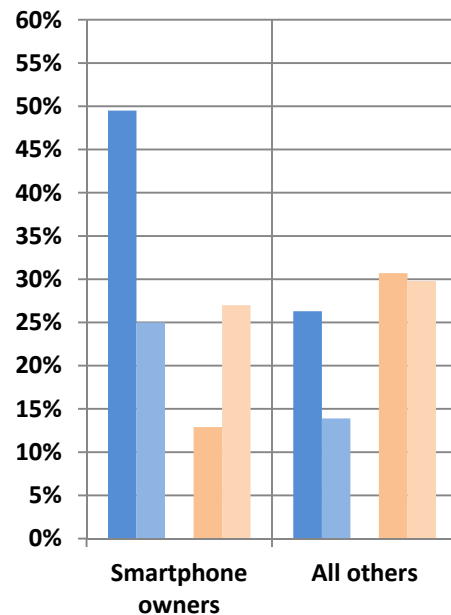
If we focus on the differences among age groups, we can see that reading news in print increases with age, and reading news online decreases with age.

While age is obviously a key influence, so is technology; when we cross-reference smartphone ownership with the data for reading news online or in print, we find that:

- Smartphone owners are almost twice as likely to read news online daily, compared to those that do not own smartphones; and
- Smartphone owners are less than half as likely to read a print copy of a newspaper daily, compared to those who do not own a smartphone.

These evolving patterns of news consumption should also be part of the context as we consider the impact of measures to assist journalism.

... and by smartphone ownership



Source: Statistics Canada.

The root cause is structural, and searching for scapegoats runs the risk of leading to solutions that will not work

As the situation facing traditional local newspapers has become more difficult, a number of observers have looked for easy scapegoats – Facebook, Google, forms of ownership. But that kind of scapegoating will bring us no closer to finding a solution to the problem.

In fact, the root cause of the collapsing business model for local journalism is the Internet itself, because it eliminates distance and it eliminates boundaries.

Initially, too many publishers approached "digital" as if it were just another platform, rather than realizing that the change was far more than just print vs. electronic.

In the pre-digital, pre-Internet era, media benefited from a scarcity premium, the ability to define territories, and the ability to earn revenue from a gatekeeping function for content produced in other places. All of that helped to subsidize local coverage.

The move to digital (and slogans like "digital first") did not always take full account of the fact that "digital" meant no boundaries and increased competition for enough of the pieces of the bundle to make what remained less profitable.

Google and Facebook might be considered to be parallel developments, not root causes. And the current forms of ownership are results, not causes. No form of ownership is immune from structural trends; two examples: *The Guardian* in the U.K. and Poynter's *Tampa Bay Times* in the U.S. have both had to reduce staff counts.

So do a thought experiment: If the Internet enabled free classifieds (e.g., Kijiji), and if news from everywhere was available online without having to pass through the local news gatekeeper, but there was no Google or Facebook, how different would the situation be for local newspapers?¹

The need for benchmarks and measurements to help determine if the federal Budget programs will be effective

As noted above, the current situation facing local journalism is structural, and public policy measures should be assessed in that context.

In addition, as a general principle, tax-supported programs should also be assessed against benchmarks and measurements, to help determine, over time, if they are effective.

The federal Budget provides estimates of the cost of the new programs to assist journalism, over a five-year period, from fiscal 2019-2020 to fiscal 2023-2024.

However, the federal Budget does not include:

1. The current metrics of the Canadian newspaper industry.

¹ That does not mean that Google and Facebook are unimportant, nor does it mean that those services should not be subject to regulatory scrutiny when and where appropriate. But the desire to blame them for the crisis in the local newspaper business model diverts attention from deeper structural issues.

2. How those metrics are expected to change over the projected five-year period if the assistance programs were not in place.
3. How those metrics are expected to be modified because of the assistance programs.

Not only must public policy be placed clearly within a correct reading of the structural nature of the problem, but it must also allow policy-makers and citizens to track the effectiveness of tax-funded interventions.

The need to assess whether other federal government programs are using tax dollars in ways that are consistent with the goals of the just-announced assistance programs

In addition to benchmarks and measurements, an assessment of public policy programs must also determine if there are any other programs or policies already in place that might impact on the goals and aims of the new programs.

In this case, it appears that the online digital activities of the Canadian Broadcasting Corporation fit into that category. Indeed, while the new federal programs to help journalism organizations are estimated to cost taxpayers \$595 million over five years, it is possible that the CBC will spend an equivalent amount of taxpayers' funds over the same five years to compete with those same journalism organizations.

A number of observers have noted the problems posed by the CBC's aggressive use of public funds to compete online with the online news products of Canadian newspapers.

On September 29, 2016, John Honderich, the Chair of the Board of Torstar Corporation (which publishes the *Toronto Star* and other newspapers), told the House of Commons Standing Committee on Canadian Heritage:

If you were to ask me ... who is our biggest newspaper competitor today, I would say it's the CBC. It's spending incredibly on its website – unlimited resources – and it's able to take advertising.²

On March 25, 2019, the Nieman Journalism Lab at Harvard University reprinted an article by Carleton University journalism professor Christopher Waddell about the programs announced in the latest federal Budget. The article included these questions:

What role does the federal government see for CBC/Radio-Canada in all this? CBC/Radio-Canada has already moved aggressively into the digital world, competing with newspapers online for news, opinion and — most important to the private sector — online advertising dollars.

Does the prospect of competing against the relatively deep pockets of the CBC prevent entrepreneurs from launching news startups in communities across the

² Canada, House of Commons, Standing Committee on Canadian Heritage, Evidence, September 29, 2016 [accessed online at: <http://www.ourcommons.ca/DocumentViewer/en/42-1/CHPC/meeting-27/evidence>].

country? Should government place fences around the activities of the broadcaster it owns?³

The concept that a public broadcaster's online service is a competitor for newspapers is not limited to Canada. In Australia, the ABC has undertaken similar activities, and this is how its online activities were described in *The Guardian* on July 25, 2018:

The ABC is now essentially offering an online newspaper with audio and video on demand, alongside linear TV and radio.⁴

In the United Kingdom, the BBC has acknowledged that its online activities might impact similar activities by other news providers. On May 26, 2016, *The Guardian* reported:

BBC director general Tony Hall has ruled out ever running online ads in the UK, saying it would harm other digital businesses that rely on ads.⁵

(The BBC is also involved with the "Local Democracy" project, in which "the BBC pays for reporters employed by local publishers to cover the work of local councils and other public bodies."⁶)

Once we have established that the online activities of the CBC are, indeed, competitive with the online activities of newspapers, that leaves two important questions to be answered:

1. How does that competition affect traditional newspapers?
2. How much taxpayers' money is the CBC spending on its online digital activities, separate from what it is spending on the radio and television services it is mandated to provide under the *Broadcasting Act*?

A number of the comments quoted above dealt with advertising, and the competition for advertising dollars among online services. But that is only one way that the competition from the CBC affects newspapers.

A far more serious impact comes from the fact that the CBC offers its "online newspaper" free to consumers, thereby decreasing the ability of traditional newspapers to charge for the news and information they are offering online.

In terms of dollar figures, the CBC has revealed how much online digital advertising it sells – according to the CBC's *Annual Report* for the year ending March 31, 2018, the amount was \$42.6 million.⁷

³ Christopher Waddell, "A subsidy without a clear purpose doesn't move the Canadian news industry forward", Nieman Journalism Lab, March 25, 2019 [originally published at *The Conversation*][accessed online at: www.niemanlab.org].

⁴ Amanda Meade, "'Unprecedented hostility': Murdoch, the government, and an ABC under attack", *The Guardian*, July 25, 2018 [accessed online at: www.theguardian.com].

⁵ Jasper Jackson, "BBC will never run adverts online in UK, says director general", *The Guardian*, May 25, 2016 [accessed online at: www.theguardian.com].

⁶ Paul Linford, "BBC and publishers hail success of local democracy reporter scheme", *Hold the Front Page*, February 6, 2019 [accessed online at: www.holdthefrontpage.co.uk].

⁷ CBC/Radio-Canada, *Annual Report 2017-2018*, p. 102.

But the CBC has never revealed the exact amount of its Parliamentary Appropriation (taxpayer dollars) that it has diverted from radio and television into its online news services that compete with newspapers.

However, accounting changes by the CBC over the last two years have opened a window into at least an estimate of what the CBC is spending on its non-broadcasting online activities.

On July 13, 2018, the CBC issued a news release in which it confirmed that, for 2016, and a number of preceding years, it had been combining the financial and employee data for its online digital services with its CRTC filings for its conventional television services.⁸ In other words, the filings for those years were labelled “conventional television” but had also included online digital. That had the effect of overstating what was actually spent on conventional television, while not revealing what was spent on the online digital services.

That changed with the data for 2017, which now appear to be limited to actual revenue and expenditures for conventional television. The CBC has indicated that it does not believe it has an obligation to disclose similar data for its online digital services.

However, based on comparisons of the CBC data filed with the CRTC for the broadcast fiscal years 2016 and 2017, we believe it is possible to estimate some key metrics for the CBC’s online digital services. Using those comparisons, and referring to the CBC’s own annual reports, we have come up with two key estimates:

- First, we estimate that the CBC is spending – annually – between \$100-\$150 million of its Parliamentary Appropriation (taxpayer dollars) on its digital online services; and
- Second, it is possible that the CBC might have as many as 750-1,000 employees working on those digital online services, separate from its employee counts for radio and television.

If we add the low end of the range of taxpayer subsidy (\$100 million) to the CBC’s digital advertising revenue of \$42.6 million, that yields total annual revenue of \$142.6 million. On a revenue basis, that means that the CBC’s online digital services may already rank as one of the largest newspapers in Canada.

⁸ See: <http://www.cbc.radio-canada.ca/en/media-centre/2018/07/13/>.

■ Note/Update: The CBC subsequently changed the link for the July 13, 2018 news release to: <https://cbc.radio-canada.ca/en/media-centre/2018/july/modernizing-conventional-tv-reporting>.

**Should the CBC be in the newspaper business?
In 1951, a Royal Commission said “no”.**

“Facsimile”. For most people today, that brings to mind the fax machines that were common in many offices in recent years. But in the 1930s and 1940s, “facsimile” had a much different meaning and a much different promise – the potential for radio transmission of newspapers to small fax receivers in the home, perhaps attached to radios.

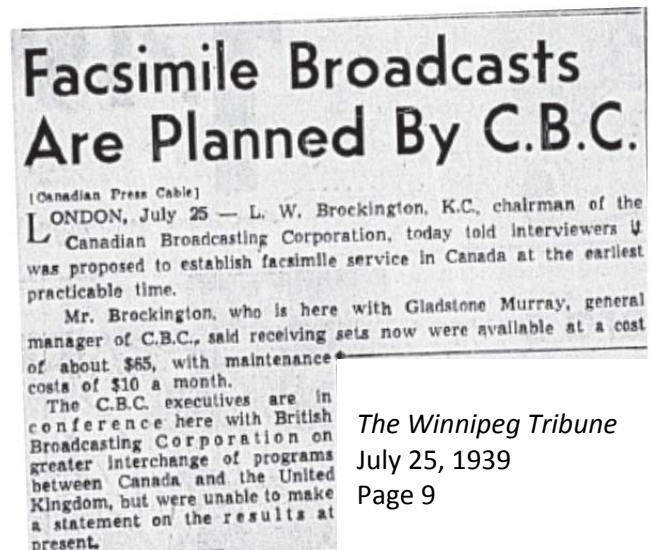
In its issue of November 23, 1935, *Newsweek* reported:

Over a facsimile transmitter, four large New York newspapers may soon radio-broadcast their full editions to the home. ... The imminence of facsimile probably accounts in part for publishers’ headlong plunge into broadcasting.⁹

Many newspapers began to experiment with facsimile, in some cases to small numbers of homes, in other cases to stores or other public places.

For example, on August 24, 1939, *The Globe and Mail* announced that it would demonstrate the technology at the Canadian National Exhibition, with this headline: “The Globe and Mail Leads With Facsimile”.¹⁰

In Canada, starting in 1936, the CBC was not only the public broadcaster, it was also the regulator of broadcasting. So tensions emerged between the CBC and the newspaper industry, over issues ranging from whether newspapers might not be granted the licences that might be needed to participate, to whether the CBC itself might try to occupy the field (a concern possibly aggravated by headlines like the one at right).



The Winnipeg Tribune
July 25, 1939
Page 9

The interest in newspaper facsimile continued into the 1940s. In June 1947, the Canadian Daily Newspaper Association presented a brief to the House of Commons Radio Committee. As reported on June 19, 1947, in *The Winnipeg Tribune*,

The very life of the press in Canada was threatened by the CBC’s discrimination against daily newspapers in the field of radio broadcasting ...¹¹

... /2

⁹ “FACSIMILE: Radio Threatens to Reach into Country’s Mailboxes”, *Newsweek*, November 23, 1935, pp. 41-2.

¹⁰ “The Globe and Mail Leads With Facsimile”, *The Globe and Mail*, August 24, 1939, p. 3.

¹¹ “Dailies Demand Bar Lifted On Paper-Owned Stations”, *The Winnipeg Tribune*, June 19, 1947, p. 1.

While some newspapers had radio licences at the time, the association was concerned that other newspapers might not be granted such licences, and might therefore be precluded from participating in the use of facsimile transmission.

According to the June 19, 1947 report in the *Tribune*:

Revealing that within a few months facsimile reproduction of printed news will become available to anyone acquiring a facsimile receiver, the brief points out that for a small sum a facsimile broadcasting transmitter can be operated, thus providing both serious competition with newspapers in which millions of dollars are invested and also creating an adjunct which will become more important in the future operation of present newspapers. In this respect the brief states at one point: “It is evident that the newspapers of Canada have a vital interest in facsimile, as a potential mechanism in newspaper production, and perhaps even for the very preservation of their existence.”¹²

In April 1949, the federal government created the Royal Commission on National Development in the Arts, Letters and Sciences, chaired by Rt. Hon. Vincent Massey, and also known as the Massey Commission.¹³

The Royal Commission’s terms of reference included broadcasting policy, so it was not surprising that it would receive a submission, in November 1949, from the Canadian Daily Newspaper Association, arguing that facsimile should be outside the licensing control of the CBC.¹⁴

The Massey Commission’s report was issued on June 1, 1951, and this is what it recommended with respect to facsimile:

We therefore recommend:

*That in any development of newspaper facsimile broadcasting in Canada, government control be limited to the technical control necessary to ensure that broadcasting channels required for this purpose are equitably and efficiently assigned.*¹⁵

By the early 1950s, however, facsimile had proved less practical than some newspapers hoped, and the introduction of television had overwhelmingly captured the imagination of consumers.

Despite that, and despite the technological differences between facsimile and today’s online services, the Royal Commission’s message remains clear: Beyond ensuring equitable and efficient use of the required technology, the public broadcaster/regulator was not envisioned as participating in what would have been, effectively, part of the newspaper business.

¹² *Ibid.*

¹³ Warren Baldwin, “Vincent Massey Heads Inquiry On Arts, Sciences”, *The Globe and Mail*, April 9, 1949, p. 17.

¹⁴ “Daily Paper by Radio Outside CBC Control Suggested by Publishers”, *The Globe and Mail*, November 18, 1949, p. 5.

¹⁵ *Report of the Royal Commission on National Development in the Arts, Letters and Sciences, 1949-1951* [published in 1951], p. 293.

An initial assessment of the three main programs announced in the federal Budget

When the Budget measures were announced, some observers indicated a philosophical aversion to news media receiving government assistance. That is a subject worthy of debate. However, the focus of this Research Note is not to debate that issue, but to provide – to the extent possible – a practical framework for analysis of the new Budget measures.

There are three main programs in the federal Budget package of measures to assist local journalism. The three measures, and the projected cost to the taxpayer over the next five years, are summarized below:¹⁶

(In millions of dollars)	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	Total
I. Refundable Labour Tax Credit for Journalism Organizations	0	75	95	95	95	360
II. Tax Credit for Digital News Subscriptions	5	26	31	36	41	138
III. Access to Charitable Tax Incentives for Not-for-Profit Journalism	6	25	32	22	11	96
Total	11	126	158	153	147	595

Before discussing each of the three programs, it is also useful to discuss the eligibility criteria listed in the Budget. The Budget proposes to set up an independent panel to refine the eligibility criteria, but it does provide an outline of the main criteria:¹⁷

- An organization will have to be recognized as a Qualified Canadian Journalism Organization (QCJO) to qualify for each of the three measures summarized above.
- A QCJO will have to meet certain conditions with respect to corporate structure and Canadian ownership.
- A QCJO will have to be “primarily engaged in the production of original news content” and “primarily focused on matters of general interest”.
- A QCJO will have to regularly employ at least two or more journalists.

The outline of criteria also indicates restrictions on participation if the journalism organization is a broadcasting undertaking or a recipient of aid from the Canada Periodical Fund.

Because of the definitions and exclusions, most observers have concluded that the assistance in the measures is primarily intended for general interest newspapers.

Three questions might usefully be raised in that context:

1. First, the newsgathering ecosystem is not limited to newspapers, magazines, and broadcasting. Other organizations – for example, Canadian Press – are also part of that system. Would Canadian Press qualify for any of the assistance measures?

¹⁶ Government of Canada, *Budget 2019*, March 19, 2019, pp. 208-209, pp. 373-376, and pp. 415-425.

¹⁷ *Ibid.*, pp. 373-376.

2. Second, if we extend the “news service” concept a little further, what about Canadian versions of organizations like ProPublica in the U.S., which receives foundation funding to work with other news organizations on specific investigative projects?
3. Third, a number of observers have noted that the eligibility criteria would tend to exclude very small start-ups. Is that, in fact, the intent of the criteria?

A brief assessment of each of the three Budget measures follows:

I. Refundable Labour Tax Credit for Journalism Organizations¹⁸

This is the largest of the three measures, estimated to cost \$360 million over five years.

It will involve a 25 per cent refundable tax credit for labour costs, with a cap on labour costs of \$55,000 per year per eligible newsroom employee, resulting in a maximum annual tax credit per employee of \$13,750.

The Budget sets out a number of additional terms and conditions for this measure, and also states that “this measure will apply to salary or wages earned in respect of a period on or after January 1, 2019”.

Initial assessment: *As noted above, the Budget does not provide metrics or projections for the newspaper industry without this measure, nor does it attempt to project the metrics with this measure in place. Nevertheless, it appears that the Labour Tax Credit will at least provide some degree of short-term assistance for organizations struggling with the structural changes outlined earlier in this Research Note, and may help “buy some time” for the transitions that will still be required.*

II. Tax Credit for Digital News Subscriptions¹⁹

This is the second-largest of the three measures, estimated to cost \$138 million over five years.

It will involve a 15 per cent non-refundable tax credit for individuals who purchase eligible digital news subscriptions, with a maximum on subscription costs of \$500 per year, and a maximum tax credit of \$75 per year. It will not apply to print subscriptions.

According to the Budget, this individual tax credit will be temporary, and “will be available in respect of eligible amounts paid after 2019 and before 2025”.

Initial assessment: *It is difficult to envision how this measure will have a major short-term impact in increasing the number of digital subscriptions to news media. It may provide a small benefit for those who are already subscribing, but most non-subscribers today are accessing online news (through a variety of sources) without paying a subscription. A 15 per cent tax credit is still less attractive than “free”.*

¹⁸ *Ibid.*, pp. 375-376.

¹⁹ *Ibid.*, p. 376.

III. Access to Charitable Tax Incentives for Not-for-Profit Journalism²⁰

This is the smallest of the three measures, estimated to cost \$96 million over five years.

The Budget proposes to allow QCJOs to apply to the Canada Revenue Agency to be granted “qualified donee” status, provided certain additional conditions are met. Once a QCJO has met those conditions, it would be able to issue charitable donation receipts.

According to the Budget, “this measure will apply as of January 1, 2020”.

Initial assessment: *Over time, this measure may prove to be a valuable tool in helping to support local journalism. However, more details will have to be worked out to determine how it will actually work. For example, are the terms and conditions to be interpreted as meaning that only self-contained non-profit journalism organizations could qualify? Or could a non-profit news service be set up to supply one or more for-profit journalism organizations with coverage of specific topics or areas?*²¹

Additional comments and suggestions

While the Budget provides some detail on the nature of the measures to support journalism, there are clearly many more details to be worked out. After reviewing the Budget material, we believe the following considerations should form part of the guidance as those details are considered:

1. First and foremost, the ability to make those details as practical as possible, and the longer-term ability to measure the success of the programs, will depend, at least in part, on setting out the key metrics for the industry, and the expectations of how each program will impact those metrics.
2. Second, this is an industry in transition, forced upon it by profound structural change. The criteria for each of the programs in the Budget should be assessed not only on their ability to help the industry’s current status, but also on their ability to encourage and enable the required transition to new business models.
3. And third, we would suggest that flexibility in the eligibility criteria might be considered in at least two cases – a) to provide at least some assistance for start-ups, since they may be developing ideas that will contribute to the required transition in business models; and b) where the journalism organizations best able to serve a local area might meet most, but not all, of the criteria.

²⁰ *Ibid.*, pp. 374-375.

²¹ For example, on May 17, 2012, *The Wall Street Journal* reported that: “The Ford Foundation has given a \$1 million grant to the Los Angeles Times to expand the paper’s news coverage in certain areas, its first grant to a major for-profit newspaper.” (Keach Hagey, “Ford Foundation Funds News Coverage”; accessed online at: www.wsj.com.)