



November 7, 2016

To: **The Hon. Melanie Joly, Minister of Canadian Heritage
Canadian Content in a Digital World**
From: **Duff Jamison, Chair, AWNA Govt. Relations Committee
Dennis Merrell, AWNA Executive Director**
Subject: **How we can help Canadian content creators in a digital world**

Community newspapers seem to be flying under the radar in the discussion about print media's future. Although we look and feel the same as our larger metro daily cousins, we have some unique qualities that differentiate us.

1. **Print advertising** is the mainstay of any newspaper model - daily or weekly. Community newspapers rely primarily on local businesses, community organizations, schools and local government and somewhat less on National advertising and classifieds, which were once the major revenue streams for the dailies. That isn't to suggest national advertising is not important to community newspapers. It most certainly is and this category has experienced the greatest decline over the past four years. The majority of community newspapers tend to free distribution and total market coverage. That total market coverage has made advertising inserts distribution an important and reliable revenue stream.
2. **Community newspapers** generally serve market populations of less than 100,000 and the majority would be well under that. They are the original hyper local guys providing the primary source of local news and very cost-effective advertising for local business, government, school and organizations. Readers are comfortable getting most local news in print once or twice per week. They need and want to know what's happening in their community, but they don't demand it the minute it happens. Although community newspapers may lack the digital horsepower of a Globe and Mail,

when it is important to get the story out quickly they can capably do that on their digital platforms.

3. **Free content**, the nirvana of the digital age, is old news in the community newspaper industry. Although many paid subscription weeklies remain in small markets, in the larger markets, they've long delivered community news free to residents paid for by advertisers seeking total market coverage.
4. The true secret sauce of a successful community newspaper is **operating like it is community-owned**. Not 'arm's length' as can be the case at a daily, but in the trenches as active community participants. A service club of sorts, really. Publishers, like local politicians and community leaders, are in the business of building a stronger, healthier place for everyone. They are fully integrated into the community leaving no doubt in anyone's mind that the newspaper has the best interests of the community in mind. When done right the newspaper earns credibility and respect with its readers, and their support when, inevitably, they must criticize the leaders and institutions they feel have let the community down.

Print advertising revenues, by far and away the largest source of revenue for Canada's community newspapers, are in decline. It's a similar story for the remaining paid community papers. **Digital advertising revenues tied to our news reporting remain insignificant** simply because community newspaper websites and social media feeds do not generate the traffic required to cover their reporting costs. It's not even close today or in the foreseeable future. Community newspapers are pursuing opportunities to provide digital marketing services (social media, search and geo-targeting) in their communities. It's still to be proven, however, whether a small market can generate sufficient digital profits to support local journalism.

Not often mentioned in the discussion, is that **many local advertisers and organizations remain dependent on local media to reach local residents and consumers**. In most communities under 100,000, print media deliver the largest audience by far. Although most small weeklies have websites and FB groups and Twitter feeds, etc. it has proven very difficult to build to any real mass of followers. Without the market penetration of local media, therefore, most would find it extremely difficult, if not impossible to reach the vast majority of local residents. On top of their marketing needs, these businesses have their own challenges brought on by globalization and the digital revolution. Online competitors (Amazon and mega retailers including Walmart, etc.) threaten the very viability of these local businesses that are the foundation of advertising support for community papers. Just as is the case with local media, government and a well-functioning democracy, the threat to local media's long-standing symbiotic relationship with local advertisers goes much deeper than print media's problems.

Community newspapers, like all media must compete for readers' time and attention. Time spent on digital devices is 'made up' by reducing time spent on other activities including: reading, watching TV, listening to the radio and participating in everything else from physical exercise to games, to conversation around the dinner table. Yet somehow publishers must navigate through the clutter to deliver the local news.

Most worrying of all is that it seems fewer and fewer people really give a damn. It brings to mind the old saying; **"They won't miss us 'till we're gone"**. In our affluent Western societies people, for the most part, are content with their lives and disengaged with politics to a large extent. Their complacency (or for some – disenchantment) is evidenced by low voter turnouts and disinterest in joining the community or civic organizations created to build better communities. It's unlikely the general public has given much thought to a world without media watchdogs.

Does government have a role? Probably. Here are some ideas we should all think about:

- **The Federal government could replenish its print advertising budget.** While local governments remain solid advertisers, federal and provincial advertising has nearly dried up. A decade ago the federal government spent 47% of its ad budget in newspapers – 28% in dailies and 19% in community, ethnic and aboriginal weeklies. In the 2014-15 fiscal year, they spent 7% in total on newspapers – 1% in dailies and 6% in weeklies. In that same time period, the spending on Internet companies rose from 6% to 28%. Most of that money went to U.S. firms like Google. Simply having the federal and provincial governments make a serious commitment to include community newspapers in advertising budgets would go a long way to supporting local journalism.

As the publisher of the Rainy River Record said to a CBC reporter on the closure of his northern Ontario newspaper Sept. 27th, government's decision to pull its advertising budget from newspapers and spend it on social media makes a big difference.

- **The tax system.** Is there a role for the tax system as suggested in the recent Quebec report and advocated by some groups appearing before the Canadian Heritage Parliamentary Committee? Could Canadians buying subscriptions to Canadian media claim tax deductions at the same level as they do for donations to political parties (75%)?

Is there a way for the federal government to encourage Canadian companies to spend their advertising dollars here? This could be in the form of tax credits, or penalties for using foreign firms. The Income Tax Act limits non-Canadian legacy media, but this has not been applied to digital enterprises. (Foreign Publishers Advertising Services Act).

Tax incentives could be created to encourage investment in newspapers and other local media. Instruments could include tax credits for

those who provide public interest journalism, or tax relief to encourage reinvestment in newspapers.

Perhaps the tax system could be used to make it attractive for newspaper owners to convert their holdings to trusts? It's likely to apply only to a few newspapers, and doesn't remove the challenges of the digital revolution. It might, however, make it easier to apply public funding solutions.

- **Expand the Aid to Publishers program.** Originated by Canadian Heritage to subsidize the distribution costs of magazines and paid circulation newspapers, the rules could be updated to encourage the production of Canadian content. Many community newspapers are reaching broad audiences with free circulation, but they get no support from the fund. It will require more federal cash, perhaps significantly more cash, but the program already exists and with well-structured criteria to qualify it seems an obvious choice.
- **Copyright laws could be strengthened** to protect the work of Canadian journalists and their employers. Newspapers invest in original journalism, which is then shared, reused and rewritten by others, often for commercial gain, as the two-decades old fair dealing law does not take into account the ease of digital reproduction. Canadian content creators should get paid when large U.S. Internet companies aggregate their content.

Putting the proper mechanism in place to collect copyright fees will be critical. As an example, perhaps every time there is a Google search for a particular news item, and that item, which wouldn't exist without the journalist's efforts, is clicked on, the media outlet that employs that journalist should get paid.

- Bring the **Internet Giants** to the table. In addition to tightening up Copyright up Copyright laws, several countries, mostly European, have challenged the giants of the Internet to pay taxes on the income they generate in these countries rather than 'hide' that income in low tax jurisdictions. Could Canada take this approach to generate tax revenue, which could be redistributed to the content creators? The mechanics of this would be very challenging, but certainly it's worth a closer look. At the very least, no harm can come from leveling the playing field through fair taxation for all companies doing business in Canada.

Could tools be borrowed from the CRTC playbook? Specialty TV channels in cable/Telco packages get a slice of the viewer's cable bill payment. Could fees or content royalties be collected from Internet companies in a similar fashion? After all, a significant amount of internet traffic comes from users seeking the news content created by newspapers, yet the newspapers share very little of the revenue. Designing a fair system would be challenging with so many digital players in the chain from content creator to physical device to search or social media platform. What's evident today is that the news content creators do not share sufficiently in the digital

revenue stream to support their work and that is putting immense stress on newspaper business models.

75 per cent of Canadian digital ad revenue is going to Internet oligarchs Google and Facebook. The overwhelming market dominance of these digital content platforms is sucking up enormous volumes of advertising dollars that once underpinned the business models of the actual content creators. You would be hard pressed to find a more anti-competitive situation. Would the mere threat of government action smooth the way for some form of regulation that forced a split of their digital advertising revenues thus providing a greater share to the media companies supplying the content? Could there be some form of regulation that forced them to share more revenue with the content providers?

If the fourth estate is to survive in the face of declining print advertising revenues, something needs to change.

- **Canada Post can play a role.** In a digitally focused world snail mail may seem to be an anachronism, but it's today's reality for community newspapers. The relationship can often be strained between community newspapers and Canada Post because the newspaper is reliant on the services of the post office for rural distribution and the post office views us as a competitor chasing the same flyer business. Mailing rates have been steadily increased by five or more percent each year and rules put in place in another era are often used by Canada Post to make business difficult for the newspaper. The 70/30 rule for news content is an example. These rules and the entire working relationship need review with an eye to eliminating the things that make us adversaries and instead make us partners.

In our view, it is very unlikely there will be a 'silver bullet' solution for newspapers threatened by the public's transition to digital news consumption. What's clear is that the print advertising model is in decline and is getting to the point where it may no longer provide the revenues required to support local journalism. The jury is still out on whether or not a viable digital business model is available to small town community newspapers to replace what has been lost.

Where the decline in print revenue might lead and its impact on our democratic society is a huge concern in the community newspaper industry. Publishers are highly motivated to find solutions. We hope that our suggestions here will provide the Minister and 'Canadian Content in a Digital World' with a little food for thought as it prepares its recommendations for government.