

November 25, 2016,

Honourable Mélanie Joly,
Minister of Canadian Heritage

filed online at:

http://www.canadiancontentconsultations.ca/more-ideas/survey_tools/more-ideas

Dear Minister Joly,

**Re: Department of Canadian Heritage: Canadian Content in a Digital World
Consultations**

1. Pelmorex Media Inc. ("Pelmorex") is pleased to have the opportunity to participate in the Department of Canadian Heritage's Canadian Content in a Digital World Consultations. Pelmorex is a Canadian owned and operated digital media company. In the attached brief, we have provided some background information about Pelmorex, followed by our comments and recommendations.
2. We look forward to following the progress of these consultations and invite the Minister to contact the undersigned directly if Pelmorex can be of further assistance in this important undertaking.

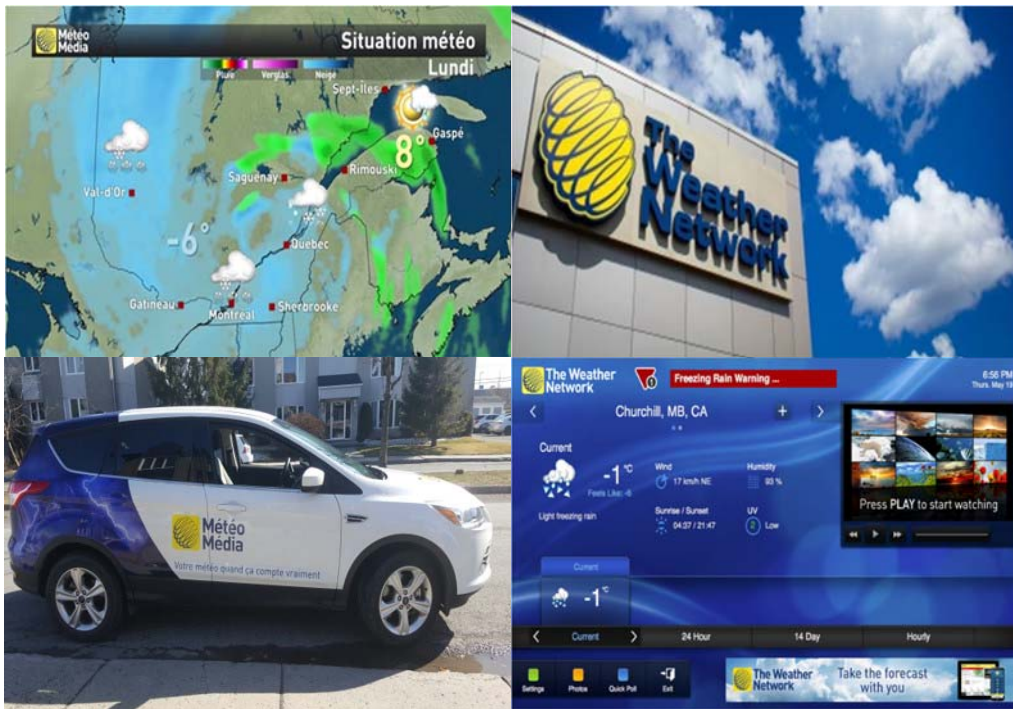
Yours truly,



Paul Temple
Sr. Vice President, Regulatory & Strategic Affairs
Pelmorex Media Inc.

Attachment: ***Submission of Pelmorex Media Inc. on the Department of Canadian Heritage's Canadian Content in a Digital World Consultations***

**Submission of Pelmorex Media Inc.
on the Department of Canadian Heritage's
Canadian Content in a Digital World Consultations**



Submitted: Friday, November 25, 2016.

Executive summary

- a. Pelmorex Media Inc. is an innovative, entrepreneurial, multi-platform Canadian content company, which operates in Canada under the Weather Network and MétéoMédia brands.
- b. As a provider of weather, environmental and public safety information content, we are very much technology based.
- c. We have a track record of moving quickly into all digital platforms, while maintaining a strong presence within the traditional broadcasting sector.
- d. We believe video content, including video within the regulated Canadian broadcasting system, will continue to play an important role in informing, enlightening and entertaining Canadians.
- e. We are increasingly worried that the Canadian market place advantages foreign online competitors, providing them with a competitive advantage over Canadian content providers when competing for advertising revenues in the digital environment. Unless addressed, the decline of Canadian content creators and distributors may very well continue to the point of collapse.
- f. Our recommendations include:
 - i. broadening Government of Canada programs such as the SR&ED Tax Incentive as well as targeted programs to assist small and medium sized companies to attract skilled workers,
 - ii. the implementation of a national program similar to the Ontario Digital Media Tax Credit but amended to include support for digital products that provide content that is news, current events or weather content,
 - iii. taking a positive approach to supporting Canadian online content by permitting Canadian businesses to deduct a prescribed multiple of their advertising expenditures, perhaps 125% of advertising paid to Canadian digital media companies,
 - iv. implementing measures to enable the collection of set-top-box audience measurement data and to address the undue preference which vertically integrated companies are able to provide themselves,
 - v. regulatory measures that promote a diversity of voices be maintained and strengthened within the regulated Canadian broadcasting system to counter the dominance of large and vertically integrated companies so as to ensure Canadians have access to a diversity of voices when consuming content in the digital world,
 - vi. provisions allowing access to BDUs' set-top-box and IPTV platforms to allow content producers to innovate and deliver live and on-demand personalized content to Canadians.

Our story

1. Celebrating its 27th year, Pelmorex Media Inc. (“Pelmorex”) is the parent company of The Weather Network and MétéoMédia, Canada's most popular weather and information services on TV, web and mobile applications. Pelmorex also operates Canada's National Alerting Aggregation and Dissemination System which aggregates and distributes emergency alerts issued by authorized government agencies (See alertready.ca and enalerte.ca).
2. Internationally, Pelmorex also operates in Spain, the United States, France, Germany Ireland, India, South Africa, Australia and Latin America under the banners [The Weather Network](http://TheWeatherNetwork.com), [MétéoMédia](http://MétéoMédia.com), Eltiempo.es, Clima.com and Wetterplus.de.
3. While our roots may have been in the conventional medium of analog television, Pelmorex was very quick to adopt digital technology and our company's growth in the past few years reflects that transition to a multiplatform, digital media company. In 1995, during the very early days of the internet, we launched our theweathernetwork.com and meteomedia.com websites, one of the first Canadian companies to do so. Within ten years we had launched additional websites specifically designed to be accessed by mobile devices, as well as desktop applications to allow for instant access to weather information on PC and Apple computers.
4. In 2006, we were one of the first companies to launch a smartphone application specifically for Blackberry. After that, a rapid succession of applications were developed and launched for iPhone, Android, Nokia and Microsoft smartphones. Following that, “smart” TV and other IPTV applications for Roku, Samsung, Apple TV, etc. were developed. In the space of ten years, we have designed and launched over 60 major software applications in addition to dozens of minor updates for various smartphone, tablet and over-the-top television devices. Today we are working on multiple applications specifically designed for internet connected or “over-the-top” TV services.
5. Almost all of this work is done internally within Pelmorex. Every one of our products are designed to provide Canadian consumers access to our services in their choice of English or French.
6. In 2010, we built and launched the National Alert Aggregation & Dissemination (NAAD) System which acts as Canada's backbone system to collect and distribute public safety and threat-to-life messages from Environment Canada, as well as provincial and territorial emergency management officials. Since its inception in June of 2010, we have received, authenticated and distributed, Canada-wide, over 200,000 public safety messages.
7. Because we were an early adaptor and embraced digital technology, today we are a leader in Canada and as noted, have expanded beyond our borders. We will serve over 9 billion digital pages-views to Canadians this year, while our smart phone apps are used by Canadians over 21 million times each month. Our popular iPhone and iPad weather Apps are consistently ranked among the top free applications. Within a few short years, our social media following in Canada has grown to over 2M followers on Twitter, Facebook, Pinterest, and Instagram. In total, over 20 million Canadians use our services an estimate 3.5 billion times, over the course of a year.
8. Internationally, in 2015, we launched our Live TV App Channel. This over-the-top, video rich weather service, available on Apple TV, Android TV, Roku, Amazon Fire and other

devices, provides localized content, including video to 62 markets in the U.S. Thanks to innovative services such as this, our global reach has now surpassed 43 million users.

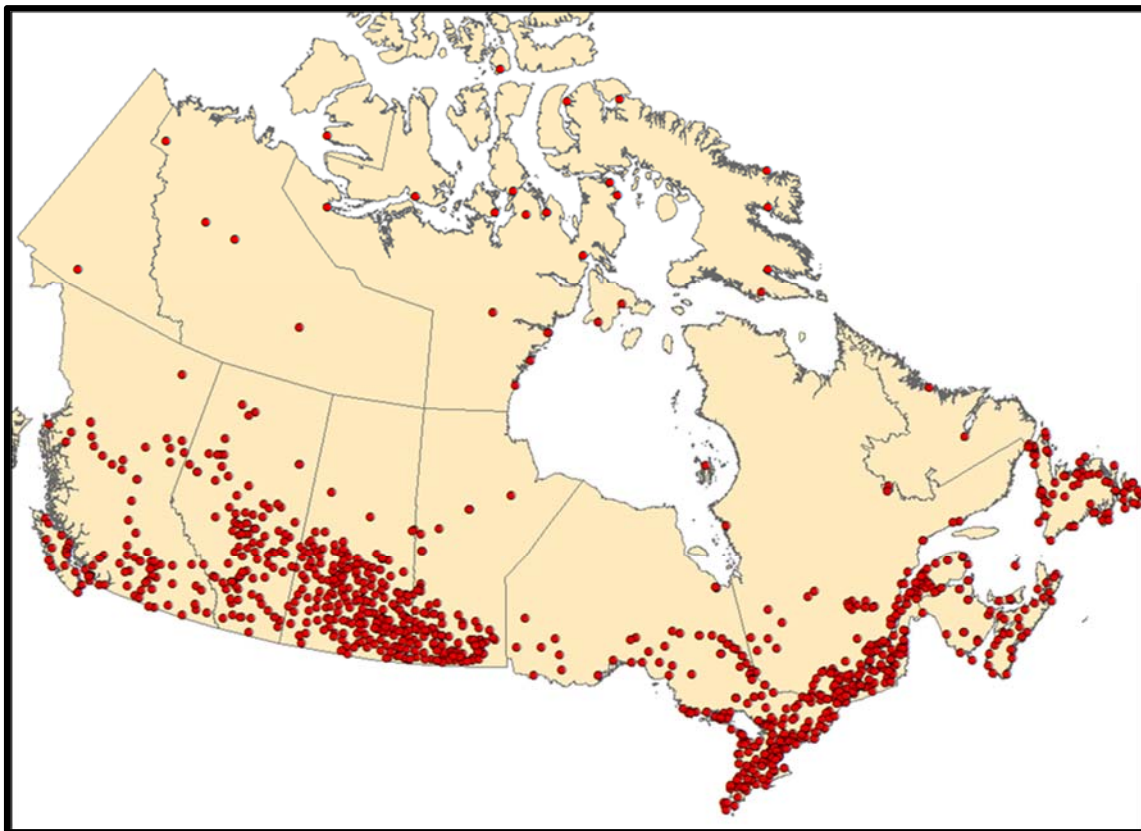
9. Much of our success today was enabled through the regulatory oversight of the Canadian broadcasting system. The objectives of the *Broadcasting Act* permitted regulators to establish a regime that helped “bootstrap” Canadian programming services like The Weather Network and MétéoMédia into the digital world. Regulations governing access for independent programming services and rules enabling broad distribution over conventional cable and satellite distribution systems helped foster brand awareness which carried over into the digital world of web, mobile and over-the-top services.
10. However, we now face a world of challenges and opportunities.

Challenges & Opportunities

11. It has become a cliché, but in the digital world, there truly are no borders. Today, foreign based weather companies in Atlanta or Stockholm can just as easily serve Canadians with their websites, smartphone and tablet applications. For this reason, we need to be the best at what we do, attract skilled employees and invest to take full advantage of digital technology.
12. An example will illustrate the challenge we face. On our website we are able to leverage our meteorological and forecasting models, geographical information systems and web development skills to generate and provide weather forecasts for over 50,000 Canadian communities, schools and recreational facilities with an additional 300,000 specific locations outside of Canada, a tenfold increase from where we were a few years ago. We are able to provide Canadians with a customized weather forecast, on demand, for any postal code across Canada. We are taking these same skills to our operations in Spain, Germany and elsewhere. At the same time, foreign companies are working to provide the same levels of service to Canadians in competition to Pelmorex. This is a fact of life in the digital content world.
13. Canadians watch a lot of “television” programming and we expect them to continue to do so. The transition to digital has simply changed the means by which Canadians can access and view that programming. Whether through over-the-air, traditional cable and satellite, over-the-top, on websites, smartphones or YouTube channels, video content is increasingly consumed in the digital world. Nevertheless, Pelmorex believes there still remains the potential for a strong and vibrant delivery of Canadian television programming by means of conventional Broadcast Distribution Undertakings (“BDUs”), either through traditional means or as “over the top” (“OTT”) services.
14. Consequently, we must continue to make investments in our television service. Currently, Pelmorex’s localization technology allows us to simultaneously broadcast local weather information to over a thousand different communities across Canada on The Weather Network and MétéoMédia [see Diagram 1: below]. But that is not enough in the digital world. We have seen a proliferation of “smart” TVs as well as increased use by BDUs of internet protocol (“IPTV”) technologies and sophisticated set-top-boxes to distribute programming. These developments open the opportunity to deliver local content such as weather, environmental and alerting services to each household, customized by the viewer based on their individual interests and needs. However, this ability to allow content producers to innovate and deliver live and on-demand personalized content to Canadians requires

access to BDUs' set-top-box and IPTV platforms. To date that access has been slow or non-existent.

Diagram 1:
Communities with localized The Weather Network/MétéoMédia programming



- 15. Apart from the obvious challenge of competing with every other weather information company in the world, as noted above, we also face the ongoing challenges of heavy demands for continual re-investment in technology as well as securing skilled and experienced staff. We need to be on every platform with the latest and most competitive features. To do that we need to attract a skilled workforce of meteorologists, web and application developers, IT and GIS specialists.
- 16. The United States recently enacted regulations that make it easier for companies to claim a Research Tax Credit for software developed for internal use. While the US R&D tax credit is determined on a different basis than the Canadian Scientific Research and Experimental Development (SR&ED) Tax Incentive, it is interesting to note that the U.S. is taking steps to make its tax credit available to more businesses while Canada is not.
- 17. Therefore, broadening Government of Canada programs such as the SR&ED Tax Incentive, as well as targeted programs to assist small and medium sized companies to attract skilled workers, would be beneficial.
- 18. Additionally, Pelmorex would encourage the Government of Canada to implement a national program similar to the Ontario Digital Media Tax Credit but amended to include

support for digital products that provide content that is news, current events or weather content, a gap in the current Ontario program. Such a measure might help to ensure *“Canadians, and especially local communities, are informed about local and regional experiences through news, broadcasting, digital and print media,”* a matter currently before the House of Commons Standing Committee on Canadian Heritage.

19. While the above tax measures are targeted, Pelmorex also believes that more substantive measures are needed to overcome the overwhelming advantage foreign digital media companies like Facebook, Google, Twitter and others currently enjoy in Canada. Today the online digital landscape is dominated by large, U.S. based, global media companies. comScore Inc., which measures online activity in Canada, reports that 11 out of the top 15 corporate group websites are U.S. companies [See Figure 2 below for details].

Figure 2: Online Usage - Top 15 by Corporate Group

	Media	Total Unique Visitors/Viewers (000)	Total Views (MM)	Total Visits (000)
Rank	TOTAL Canada	30,491	101,378	3,663,178
1	Google Sites	28,863	17,781	1,985,709
2	Microsoft Sites	25,976	3,060	733,423
3	Facebook	24,787	14,854	1,156,647
4	Yahoo Sites	21,272	2,484	302,691
5	eBay	18,624	1,489	193,696
6	Amazon Sites	18,538	747	113,545
7	CBC-Radio Canada	16,361	314	123,942
8	Bell Media	18,003	488	134,194
9	Apple Inc.	17,568	84	24,358
10	Linkedin	13,941	334	94,462
11	Wikimedia Foundation	14,920	219	78,652
12	AOL, Inc.	14,986	226	65,108
13	Pelmorex Weather/MétéoMédia	14,099	169	75,374
14	Rogers Digital Media	11,943	226	56,723
15	CBS Interactive	11,897	113	39,287

20. As shown above, on every metric the U.S. companies overwhelm the Canadian online marketplace. Their size and reach also provide them other critical advantages over Canadian online content providers.

21. Leveraged by their U.S. or global user base and by operating “outside” of Canada, they are able to collect vast amounts of user data that would otherwise not be permissible for Canadian online services. The more relaxed privacy rules in the United States enables them to track and profile individual internet users in far greater detail than their Canadian competitors. This richer, detailed, often personal information can then be used to demand higher rates from Canadian advertisers, providing U.S. firms with a built-in competitive advantage.

22. A less obvious but equally troublesome concern is the sheer volume of advertising dollars taken out of the country by foreign online services. For example, it is reported that just Google's Canadian advertising revenues in 2014 were \$1,896,500,000 or half of all Canadian online advertising dollars.¹ This leaves little advertising revenue left for Canadian content creators and aggregators to sustain their business models. Sadly, these foreign online competitors also contribute little if any tax dollars to the Canadian economy.
23. It is Pelmorex's view, if we are to encourage the creation and distribution of Canadian digital content by Canadian players, steps must be taken to offset the size, data and tax advantages enjoyed by foreign firms. Specifically, we propose a positive measure to encourage advertising on Canadian online services as explained below.
24. Currently, subsection 19(1) of the Income Tax Act denies a deduction for advertisements directed to the Canadian market that are placed in foreign newspapers. Similarly, subsection 19.1(1) prohibits a tax deduction to Canadian taxpayers for the cost of advertising with foreign broadcasters and section 19.01 provides the same restrictions for advertising in foreign periodicals. These provisions have the intent of discouraging Canadian advertisers from using foreign media to advertise to their Canadian customers.
25. Canadian digital media companies are increasingly facing the same foreign competitive challenges as broadcasters and print media. But rather than create a disincentive for advertisers to use foreign digital media suppliers, we believe that it would be a more positive step to encourage Canadian businesses to use Canadian digital media companies. To that end, if Canadian businesses were permitted to deduct a prescribed multiple of their advertising expenditures, perhaps 125% of advertising paid to Canadian digital media companies, then this would encourage spending within Canada and serve to counterbalance the overwhelming advantage currently enjoyed by the dominate foreign online services.
26. In much the same way that information about the online user is critical to attracting advertisers, the ability to provide such rich television audience viewership data would not only make television programming services more competitive in attracting advertisers, but would also lead to increased revenues, the development of more and better Canadian programming and would allow television programmers to better understand their viewers' habits and preferences.
27. However, within the regulated broadcasting industry, television programming services like The Weather Network and MétéoMédia are unable to provide advertisers with the breadth and depth of audience viewing data that web and mobile content providers are able to supply their advertising clients. While television programming services now largely operate in a digital environment transmitting digital content over digital distribution networks, the delivery of rich audience measurement data that is or could be collected by the set-top-boxes ("STBs") deployed by BDUs is not being made available to television programming services about their own audiences.

¹¹ John Anderson, *An Over-the-Top Exemption*, Canadian Centre for Policy Alternatives, June 2016, pg. 11. He cites as his data source:

IAB, 2014 Actual + 2015 Estimated Canadian Internet Advertising Revenue Survey, p. 4, company Annual Reports, and the entries under "Internet Other" sheet in the GoogleDocs Workbook. Table reproduced from the Canadian Media Concentration Research Project (<http://www.cmcpr.org/media-and-internet-concentration-in-canada-report-1984-2014/>).

28. To help address this issue, the CRTC, as part of its *Let's Talk TV* proceeding, required the broadcasting industry to form a working-group to develop a set-top-box based audience measurement system. This system would collect, aggregate and report data on a consistent, standardized basis so as to allow television programming services insight into their viewership as well as enhance the information being made available to prospective advertisers.
29. The set-top-box working group, of which Pelmorex is a participant, had its first meeting in April of 2015, but has made very little progress since that time. As a result, the broadcasting industry, particularly independent television programming services, remain hampered in the market place and unable to reach their full potential. Meanwhile, it is our belief that vertically integrated programmers/distributors are benefitting by regularly sharing access to set-top-box audience measurement data between their distribution and programming groups. Pelmorex would welcome measures to address this undue preference which vertically integrated companies are able to provide themselves.
30. The issue noted above regarding the lack of access to set-top-box audience viewing data is symptomatic of a larger issue facing independent television programming services: that is the high degree of ownership concentration within a few vertically integrated corporate groups which dominate the broadcasting sector in Canada. It is well known that vertically integrated companies dominate traditional cable and satellite television distribution as well as internet service provisioning in Canada. These same vertically integrated companies dominate radio, television, pay TV and specialty programming services. Therefore, while the digital world allows for unlimited voices and unlimited content choices, only the most dominant can be heard above the noise.
31. Therefore, Pelmorex believes that regulatory measures to promote a diversity of voices must be maintained and strengthened within the regulated Canadian broadcasting system to counter this dominance so as to ensure Canadians have access to a diversity of voices when consuming content in the digital world. Rules governing the carriage of independent television programming services, their distribution, marketing, packaging and pricing by BDUs must be safeguarded. Otherwise choice and diversity of voices will be compromised.

Looking ahead

32. The tremendous growth of online advertising continues to undermine the business plans of conventional radio, TV and print content providers. An Interactive Advertising Bureau (IAB) September 2016 survey reports:

Canadian Internet advertising revenue reached \$4.604 billion in 2015, up 21% from 3.793 billion in 2014. This is a remarkable ten percentage points higher than the previous survey's 2015 forecast of 11% growth and more than \$800 million over last year. Furthermore, the Internet increased its revenue lead to +43% over Television's \$3.220 billion in 2015 (from +12% last year).

Mobile (including Tablets) drove overall 2015 revenue growth again this year, rising to over 1.6 billion revenue (\$1.620 billion), up from \$903 million in 2014. With a staggering 79% growth rate Mobile now accounts for over 1-in-3 digital ad revenue dollars, way up from almost 1-in-4 in 2015. Online which still represents the bulk of Internet ad revenue (65%) grew 3% to just under \$3 billion

(2.984 billion). Mobile's 35% share of Canadian Internet ad revenue is now at parity with the US.

33. Unless measures are taken to stimulate and grow the advertising dollars available to Canadian television and online digital content providers and distributors, more and more advertising revenue will leave the country, undermining any ability to fund Canadian content on digital platforms. Given the increasing importance to both our television programming and online digital services to grow our advertising revenues, we have focused our recommendations on that area. However, we appreciate that Canadian content creators and distributors who compete as subscription based or other value added service providers also face similar issues, which we will leave to them to address.
34. Pelmorex believes it has put forward several positive and practical measures to help Canadian content flourish in the digital world. There must be a viable business model in which to invest if Canadian content creators and distributors as to be successful. Without a reasonable opportunity to attract revenues to fund the creation and distribution of new Canadian content on digital platforms, Canadian content will suffer.

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