



Communications  
Canada

**ALTERNATIVES TO THE FEDERAL  
EXCISE TAX EXEMPTION FOR  
NEWSPAPERS, PERIODICALS  
AND BOOKS**

# **Background Study**

## **Etude de fond**

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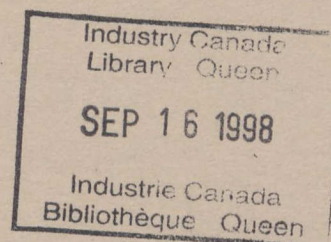
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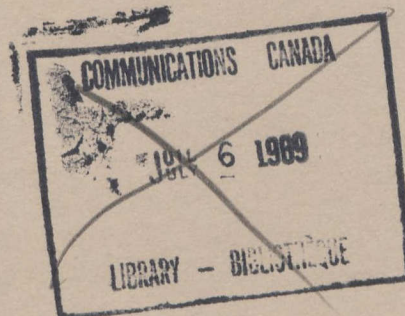
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EXCISE TAX EXEMPTION FOR  
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AND BOOKS**



**MAY 1986**



**COMMUNICATIONS CANADA  
PROGRAM EVALUATION SERIES**



This is one of two Background Studies that form part of the evaluation of Federal Excise Tax Exemption.

This Study was conducted by Fox, Jones for the Program Evaluation Division of Communications Canada.

The views expressed herein are the views of the author and do not necessarily represent the views or policies of Communications Canada.

La présente est une des deux études de fond portant sur l'évaluation de L'Abolition des exemptions de la taxe d'accise fédérale.

L'étude a été entreprise par Fox, Jones pour le compte de la Division de l'évaluation des programmes de Communications Canada.

Les points de vue exprimés ici sont ceux de l'auteur et ne reflètent pas nécessairement ceux de Communications Canada.

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## EXECUTIVE SUMMARY

### Objective of study

The aims of the study were to assess various means of providing support to Canadian cultural industries if the federal excise tax exemptions were removed; to consider both direct assistance and tax measures; and to consider which measures are most appropriate in view of:

- \* the types of industries and products requiring support;
- \* the duration of required support;
- \* the depth of required support.

The study also set out to assess how well each alternative fits current tax policy, and to estimate the relative cost of each alternative.

### Alternatives examined

We looked at newspapers, periodicals and books as separate categories, and for each examined the opportunities presented by:

- \* **direct subsidies**, by which funds are directly transferred or otherwise made available by the government to identified recipients;
- \* **indirect subsidies**, such as incentives for readers to buy Canadian-authored titles (CATS);
- \* **taxation benefits**, such as credits for publishers, advertisers or investors in the industry;
- \* **regulatory steps**, for example, of a kind that could affect the competitive position of Canadian-owned firms.

### Primary reason for acceptances

We found no ready means available of fully indemnifying Canadian firms for removal of the FST exemption that do not carry with them significant disadvantages.

### Primary reasons for rejections

Of the alternatives examined, two would be acceptable to the Canadian-owned book publishing sector: the granting of exemption licences to Canadian firms, which for them would be a continuation of the status-quo; and direct grants. We found, however, that licensing, although attractively simple, would create difficulties for Canada internationally, since the imposition of FST would then appear to outsiders to have the force of a disguised import duty on foreign books. Grants would be less contentious because they could be announced simply as an extension of existing Canada Council, Social Sciences and Humanities Research Council or DOC programs; but our analysis shows that grants also have serious drawbacks as a measure to counteract the effects of a tax.

A third alternative that would find approval would be a federal equivalent of the WINTARIO half-back program. However, we can find no suitable vehicle that could be used to implement such a measure.

### Looking ahead

Whether or not the FST exemption is removed, it is generally recognized that, with one or two exceptions, the Canadian-owned sector of the book publishing industry leads a precarious existence. We believe that some of the options we have assessed may have potential as instruments of long-term government help to the industry. We believe that a particularly strong case exists for taking a fresh look at how the government might assist Canadian publishers to extend their activities overseas.

## SOMMAIRE EXECUTIF

### Objectifs de l'enquête

Notre enquête avait pour objectifs d'évaluer les méthodes d'assistance aux industries culturelles canadiennes qui s'ouvriraient advenant l'abolition des exemptions de la taxe d'accise fédérale, de réaliser une analyse de l'assistance directe et des mesures fiscales et de faire ressortir la meilleure méthode d'assistance financière selon:

- \* le genre des industries et des produits à appuyer financièrement;
- \* la durée de l'aide nécessaire;
- \* l'importance de cette aide.

Nous avons aussi tenu compte des rapports entre chaque méthode d'assistance et les politiques fiscales actuelles et du fardeau financier que représenterait chacune des solutions proposées.

### Solutions passées en revue

Nous avons considéré les journaux, les périodiques et les livres comme autant de catégories distinctes et étudié pour chacune les avantages procurés par:

- \* les subsides directs, c'est-à-dire les crédits consentis directement par le gouvernement à des bénéficiaires identifiables;
- \* les subsides indirects, soit des encouragements favorisant l'achat d'ouvrages d'auteurs canadiens;
- \* les avantages fiscaux, c'est-à-dire des crédits réservés aux éditeurs, aux publicistes et aux investisseurs de l'industrie;
- \* les contrôles, tel un règlement favorisant les sociétés canadiennes sur le marché.

### Principal critère d'acceptation

Nous n'avons pas découvert de manière d'indemniser pleinement les sociétés canadiennes contre l'abolition de la taxe de vente



fédérale sans entraîner de sérieux désavantages.

### Principal critère de rejet

Deux des solutions passées en revue pourraient être considérées comme acceptables par les éditeurs canadiens de livres: a) l'octroi de licences d'exemption aux sociétés canadiennes, ce qui reviendrait au statu quo; b) les subsides directs. Nous avons cependant pu constater que les licences, pour simples qu'elles puissent paraître comme solution, viendraient à créer des difficultés pour le Canada dans le monde étant donné que l'imposition de la taxe de vente semblerait revenir pour les étrangers à une taxe d'importation sur les ouvrages non canadiens. Les subsides directes créeraient moins de difficultés étant donné qu'ils pourraient être considérés comme des extensions de programmes déjà en marche au Conseil des Arts du Canada, au Conseil de recherches sur les sciences sociales et les humanités ou au ministère des Communications; nous avons toutefois constaté que les subsides eux aussi présentent de graves inconvénients comme mesure adoptée pour compenser les effets de la taxe de vente.

Il existe une troisième possibilité acceptable: l'organisation d'un programme fédéral créé sur le modèle du programme "Half-Back" de WINTARIO. Nous n'avons pas pu trouver de mécanisme qui pourrait mettre en vigueur une telle solution.

### L'avenir

Que l'on fasse tomber ou pas l'exemption de taxe de vente fédérale, on constate généralement que, à une ou deux exceptions près, le secteur de l'édition canadienne mène présentement une existence fort précaire. Nous croyons que certaines des options que nous avons soulignées pourront aider le gouvernement à fournir à l'industrie canadienne une assistance à long terme satisfaisante. Nous croyons de plus qu'il convient que l'on se penche sérieusement sur les solutions à apporter pour favoriser l'expansion des activités des éditeurs canadiens à l'étranger.



## 1. INTRODUCTION

### 1.1 BACKGROUND

Books, periodicals and newspapers are exempt from Federal Excise Tax (FST). If a decision is made to remove the FST exemption, the Department of Communications (DOC) would like to assess the impact on these industries, and also to estimate the return to the government. DOC also wishes to examine ways in which the Canadian-owned sector may be protected from any adverse financial effects resulting from the imposition of FST. This report deals specifically with the issue of holding "the Canadian-owned sector" harmless. It identifies a number of alternative means of support and assesses each in terms of practicality, effectiveness, acceptability to the industry and cost-effectiveness. The assessment criteria are described more fully in Section 1.3 below.

### 1.2 METHODOLOGY AND APPROACH

Our methodology was based on extensive interviews with industry members, discussions with DOC, and close analysis of each option. We also drew heavily on the results of previous work that we have conducted on publishing in Canada, including studies of the Book Publishing Development Program and of the periodicals publishing industry as a whole. Finally we worked closely with Woods Gordon who were conducting parallel studies on the likely impact of removing the FST exemption. We held discussions and interviews with 29 organizations and received financial data on a wide range of different kinds of firms and publications. A list of organizations contacted appears in Appendix I. While understandably hostile to removal of the FST exemption, interview respondents were unfailingly helpful in furnishing information,

sometimes of a highly confidential nature, in order to assist us in estimating the impact of the tax and the likely validity of a support program.

### 1.3 BASIC PRINCIPLES OF ASSESSMENT

#### 1.3.1 Types of Measures

For the purposes of analysis, we grouped the types of measures considered into the following categories:

- o Direct subsidies by which funds are directly transferred or otherwise made available by the government to identified recipients;
- o Indirect subsidies such as incentives for readers to buy Canadian-authored titles (CATS);
- o Taxation benefits such as credits for publishers, advertisers or investors in the industry;
- o Regulatory steps, for example, of a kind that could affect the competitive position of Canadian-owned firms.

Combinations of measures were also considered.

#### 1.3.2. Assessment Criteria

Following detailed discussions with DOC, we judged the desirability of a support measure according to whether it was:

- o Capable of offsetting losses or other negative impacts suffered by Canadian-owned firms from the imposition of FST;
- o Capable of promoting the access of Canadians to Canadian materials;
- o Visible to the Canadian public in terms of the expenditure;
- o Administratively simple insofar as this could be achieved;
- o Susceptible to reasonably accurate costing;
- o Cost-effective in relation to the expected yield from removal of the FST exemption;
- o Acceptably easy to target to the desired beneficiaries;
- o Acceptably easy to exclude from non-targetted groups;

- o As fair as possible to competing groups of beneficiaries. However, we made no attempt to rank these criteria in order of importance. Rather, we considered them as an overall framework against which to examine individual options and combinations of options. There was no expectation that any single option would fully meet all the criteria.

#### 1.3.3. Analysis Model

In our opinion, further development of an analysis model is inappropriate. We consider that any attempt to rank the assessment criteria according to a formal system of numerical measurement would merely serve to disguise and undermine the real complexity of the issues under discussion.

#### 1.3.4. Selection of members of the industry for interviews

We based our approach on our extensive knowledge of who has useful opinions in the industry. In developing our interview list, we consulted fully with and sought the agreement of DOC.

The interview schedule that we used is attached (Appendix VIII).

### 1.4 The Problem of Newspapers

During the early part of the study, it became clear that newspapers could not be treated in the same way as periodicals and books. Canadian newspapers occupy all but an insignificant proportion of the total domestic market. Many are part of substantial newspaper chains owned by large holding companies. Most are not currently beneficiaries of major government support mechanisms other than the FST exemption. Second or third class mailing privileges, for example, are not generally of interest to the newspaper sector.

According to the Royal Commission on Newspapers (the Kent Commission: The Newspaper as a Business, published in 1981), two points are very clear: a) the Canadian newspaper industry is practically 100% Canadian owned, and b) it is a very profitable business:



- a) Table 21, from volume 4 of the Commission's report lists the owners of daily newspapers - all owners identified are Canadian:

<u>Owner</u>	<u># of Papers Owned</u>
Thompson Newspapers	38
Southam	14
Sterling Newspapers	11
Irving family	3
Gesca	4
Bowes Publishers	3
Toronto Sun	3
Armada	2
Northumberland Publishers	2
Quebecor	2
UniMédia	2
Torstar	1
Kitchener-Waterloo Record	1
London Free Press	1
Red Deer Advocate	1
St.Catharines Standard	1
Robinson-Blackmore (St.John's)	1
Other(not identified by Commission)	9
Total	99

- b) Table 29, from volume 4 of the Commission's report sets out the return on net assets employed (RONAE) for the newspaper industry from 1973-74 to 1979-80:

Return on net assets employed 1973/74 to 1979/80

	<u>Newspaper</u> <u>income</u> <u>(\$millions)</u>	<u>Net assets</u> <u>employed</u> <u>(\$millions)</u>	<u>Return on</u> <u>net assets</u> <u>employed</u>
1973-74		\$ 90.6	\$274.8 32.9%
1974-75		112.4	300.0 37.5
1975-76		110.1	353.1 31.2
1976-77		119.7	362.4 33.0
1977-78		118.0	377.3 31.3
1978-79		104.4	422.5 24.7
1979-80		104.3	482.3 21.6

In comparison with the RONA of the newspaper industry, most other industries show less favourably. Table 30 from the same report illustrates this:

<u>Return on net assets employed in selected industries</u>		
	<u>1975</u>	<u>1978</u>
Daily newspapers	37%	25%
Broadcasting(excluding CBC)	35	26
Other industries:		
Food	7	10
Beverage	15	25
Textile mills	9	7
Metal fabricating	14	9
Electrical products	22	9
Wholesale trade	6	5
Retail trade	25	21

Because Canadian newspapers totally dominate the domestic newspaper market, it would not be feasible for the government to counteract the adverse effect on the Canadian-owned sector of removing the FST exemption. The cost of doing so would, in fact, be higher than the revenue raised from the tax itself and would consist of:

- o Reimbursement of the tax payment;
- o Administrative costs of collection and reimbursement;
- o Compensation for cash flow losses attributable to the assumed time lag between payments and reimbursement.

In theory, it would be possible for the government to initiate a support program that would discriminate between newspapers according to their estimated need for assistance. For example, newspapers could be eligible for support if they had:

- o A circulation under a specified size; and
- o Revenues under a specified level.

We quickly found, however, that discrimination of this kind would be difficult to justify since it would appear to penalize success by weakening

the healthy and perpetuating the life of the weak. There appears to be no reason for taking such action in an industry which is generally admitted to be prosperous. Overall, we found the case for developing a support program undermined by:

- o The industry's hostility to government intervention, including subsidies;
- o The difficulty of selecting certain newspapers for support while others would face full payment of the tax;
- o The high cost of indemnifying the industry as a whole;
- o The fact that Canada's newspapers are home-owned; there is no foreign-owned sector from which the government could expect to earn revenue while holding the Canadian-owned sector harmless.

We understand that while the impact of FST on newspapers could, in some instances, be substantial, the industry would survive relatively intact. It was suggested to us that, because of this, a case existed for imposing full FST on the newspaper sector while indemnifying book and periodical publishers. We found that such a policy would be difficult to implement because:

- o The problem of finding, for tax purposes, generic definitions of a newspaper and a periodical would be far from easy;
- o Newspapers compete with periodicals for advertising and could be placed at a competitive disadvantage if it were necessary to pass on part or all of the costs of the tax to advertisers;
- o Negative "political" reaction to removal of the FST exemption are certain to be fierce from all publishers; if newspapers are singled out in a discriminatory way, reaction from that quarter would likely be even more fierce and could prove embarrassing to the government.

In summary, we consider that newspapers cannot be protected from the effects of the tax. It would, of course, be feasible to impose a lower level of tax or to stagger the full imposition of the tax over a period of years. However, such a policy would necessarily apply not just to newspapers but to all print media that are currently exempt.



## 2. PERIODICALS

### 2.1. GENERAL

Sales of Canadian periodicals account for roughly 75% of the domestic market. The Canadian-owned sector is financially much stronger than its counterpart in the book publishing industry; and its overall health does not appear to be undermined by the presence, admittedly substantial, of foreign-originated publications. The recent Woods Gordon Study of the Canadian Periodical Publishing Industry (June 1984) concluded that "...the industry enjoys one of the highest levels of Canadian ownership and consumption of all cultural industries." Thus, the FST exemption benefits Canadian periodical publishers more than foreign publishers. It follows that holding this sector harmless would carry many of the cost and other disadvantages associated with newspapers.

One of the main difficulties of developing a protective measure for periodicals is in identifying which periodicals should receive FST relief. The sector is composed of a large number (about 3000) of very different organizations producing about 5000 magazines. Some are profitable and successful, others are not for profit; some depend on advertising revenue, some on membership subscriptions, some are free of charge to the reader. Circulation may vary between a few thousand and several hundreds of thousands. This difficulty is compounded by the fact that a number of the large periodical publishers maintain publications that are substantial loss-makers. Often they do so for cultural or historical reasons, or because they consider that they have an obligation to a specific section of the community. Their ability to finance such activities is dependent on publications that do earn

profits. Indemnifying the weaker publications is not, therefore, a simple matter of identifying which they are. A web of interdependencies exists within the periodicals universe by which new publications are nurtured, and frail but culturally valuable ones are allowed to survive. We examined a range of options and discussed them fully with industry members. These are outlined and analysed below.

## 2.2 DIRECT SUBSIDIES

### 2.2.1 A Direct Grant Program for Canadian-owned publishers

We should emphasize that publishers were uniformly uneasy at the idea of dependence on grants to offset the damaging effects of a tax, largely because they considered that grant programs were more likely than sales tax exemptions to be rescinded by subsequent administrations. The advantages are:

- o Grant programs can be directed to specified sub-sectors of the industry;
- o Costs can be calculated exactly either as a lump sum or as a proportion of the total tax revenue raised;
- o Expenditures would be open to public scrutiny;
- o The government is familiar with the administration of grant programs to business.

Small publishers thought that grants represented a better option than most other mechanisms; large publishers, however, were particularly hostile, believing that they would effectively be contributing most of the revenue derived from periodicals and could not hope to be held harmless if the government's purpose was to tax the industry.

The major disadvantages of grants are:

- o All publishers generally disliked the idea of receiving grants as rebates for tax payments. Small publishers were especially concerned that grants would be retroactive and would not compensate for the serious cash-flow problems that would occur as a result of the time lag between payment of the tax and receipt of the grant;

- o Since there are over 5000 periodicals in Canada, most of them small, the costs of grant disbursements, and of administering them would be high; to indemnify the Canadian-owned sector completely would cost in the order of 75% of the tax revenue received (the proportion of the market held by Canadian-owned firms) plus administrative expenses.
- o Grants would increase the dependency of the industry on government without any compensating increase in the former's ability to reach Canadian readers;
- o If grants are scaled in accordance with the size and profitability of publishers:
  - such a scheme might appear to penalize success;
  - large publishers would find it difficult to continue subsidizing important but unprofitable publications.

### Summary

The problems involved in an industry-wide grant program are very considerable. Some periodicals would, of course, benefit from such a program; but the costs to the government would be high, the administrative burden heavy, and the response of the industry hostile. We do not believe that direct grants can usefully serve as a means of protecting Canadian periodicals from the effects of FST.

We have made general comments in Section Four of this report as to the implications of costs to both the government and the industry of attempting to implement alternatives to the federal sales tax exemption.

### 2.2.2 Other Measures

We found no other direct measures of relevance to the industry or of interest to its members.

## 2.3 INDIRECT SUBSIDIES

### 2.3.1 Rebate Program for Subscribers

This option would allow subscribers to Canadian periodicals to obtain refunds (or reductions) on subscription payments. The Ontario "half-back"



program by which Wintario tickets were redeemable at half their face value for the purchase of Canadian books and certain magazines is an example of such a program.

Without a doubt, the Ontario Halfback Program was an outstanding success as a promotional tool for selling books by Canadian authors. The supporting evidence can be found in the following reports: 1) A Study of Participants in the Half Back Program for Books by Canadian Authors, Phase I and Phase II, March 1983, prepared by the Ontario Ministry of Culture, the Policy Planning Secretariat (OMC); 2) Results of "Half Back Survey for Canadian Publishers and Retailers", an ongoing survey of 141 Canadian Publishers and Retailers, as of June 27, 1983, 43% had responded; prepared by the OMC (OMC II); 3) Statistical Reports of The Half Back Program, ending August 1983, prepared by the OMC (STATS); and, 4) Results of a Survey of the Half Back Program Among Book Retailers, July 1983, prepared by Foster Research Services (Foster).

The key findings of these reports are as follows:

- o The program ran from November 1, 1982 - May 31, 1983. The final accounting shows that over 7 million tickets were redeemed (OMC II):

Half Back Redemption Summary

	<u>Books Sold</u>	<u>Tickets Redeemed</u>	<u>Half Back \$</u>
Indep. Retail Stores(301)	304,165	2,941,640	\$1,470,820.00
Chain Store Outlets(226)	307,941	3,201,065	1,600,532.50
Wholesalers (13)	<u>182,259</u>	<u>1,250,937</u>	<u>625,468.50</u>
TOTALS:	794,365	7,393,642	\$3,696,821.00

- o Interviews with OMC personnel revealed that the program was terminated before its scheduled end-date of February 1983 because redemptions by May 31st were \$1.5 million over budget. One of the key reasons for this was the apparent over-enthusiasm on the part of libraries who collected masses of community donated, non-winning, tickets.

- o An interesting development that resulted from this was "the shift of library purchases to Canadian wholesalers, away from Baker and Taylor and other U.S. suppliers" (quoted from Annick Press Ltd., in OMC II).
- o The graph, "Half Back Program 1982/83: Redemptions by Month" (opposite), shows, that with each passing month, public awareness and usage of the program increased to the extent that in the month following the official end of the program, redemptions doubled from their previous record high. On this evidence alone, one could predict that had the program not been prematurely ended, it would have exceeded the planned budget by some \$5 million.
- o "Book retailers found the Half Back Program to be both a useful business generating tool as well as a successful means of generating customer interest in Canadian authored books". During the program period, of all Canadian authored books, 45% of those sold were Half Back sales (Foster).
- o "78% (of all publishers) stated they believed sales of Canadian authored books were higher in Ontario than they would have been without the Half Back program...67% reported that they increased orders of Canadian-authored books in Ontario, as compared to the rest of Canada, during the program period" (OMC II).
- o "50% (of all publishers) confirmed they reprinted titles of eligible books due to higher than expected sales, and 75% felt these higher sales were due to Half Back" (OMC II).
- o "86% (of all retailers) felt that Half Back was effective in increasing the number of books purchased per visit to their store...92% felt that the program had been effective in increasing customer selection of Canadian books over foreign books...91% stated that they had to re-order Canadian authored books because of the Half Back program" (OMC II) (Fosters).
- o Over 35% of consumers surveyed stated that, had it not been for the program, they would not have purchased the books that they did (OMC).

The advantages of a program of this type are:

- o It would encourage readers to subscribe to Canadian periodicals;
- o The program would be highly visible to the public;
- o Program costs could be controlled by establishing prior limits to the expenditure.

Periodical publishers found two major disadvantages :

- o Subscribers who are induced to purchase subscriptions because of financial incentives are considered to be fickle readers who distort a periodical's readership profile, and usually fail to renew their subscriptions;
- o Incentives offered to individual readers would likely be trivial amounts, insufficient to make much difference to purchasing habits.

We are not entirely impressed by these arguments since publishers themselves are acutely conscious of the price sensitivity of consumers, and certainly engage in the practice of offering incentives to subscribers. Nevertheless, there was no support at all for this option among those publishers interviewed. Moreover, from the government point of view, there are other disadvantages:

- o The costs would be high if the program were designed to have any real impact and to be fair to all potential beneficiaries; we do not know, of course, how many subscriptions of Canadian magazines are currently purchased annually;
- o A ready-made vehicle, such as lottery tickets, for subsidizing purchases of subscriptions does not appear to be available to the federal government.

### 2.3.2 The effect of Incentives on Subscriptions

No quantitative information is available.

There is, however, considerable qualitative information; magazines in particular rely massively on gift incentives in selling subscriptions, and the practice has spread in recent years to non-profit radio and television "subscription" sales (donation generation). Clearly publishers believe that incentives influence purchasing decisions, but without conducting a detailed historical study of a range of publications, it is not possible to provide hard evidence of this.



## Summary

We can see no way in which this option could be made acceptable to the industry.

## 2.4 TAXATION MEASURES

### 2.4.1 Concessionary Tax Rates for Publishers

The FST exemption is, of course, effectively a tax concession. Retaining the exemption or imposing a lower rate of FST are options that clearly do not require discussion here. We have treated this question, therefore, as referring to corporate income tax. Our assumption is that such a program would offer Canadian-owned publishers a lower-rate of corporate taxation on profits earned from periodicals.

The advantages are:

- o Efficient, profitable publishers would benefit the most;
- o Tax concessions are relatively easy to administer;
- o They are also relatively easy to phase out over a period of years;
- o Expenditures are controllable within a definable range.

Again publishers were unhappy with this option, principally because they felt that tax concessions would be easy to withdraw. Among the principal

disadvantages are:

- o Unprofitable and not-for-profit publications would derive no benefit;
- o Cash-flow difficulties caused by payments of FST on manufacturing costs would not be eased;
- o If the imposition of FST effectively reduces profits, then income tax concessions will have correspondingly less impact;
- o Improved access of Canadians to Canadian publications would not occur as a result of this measure.

## Summary

Income tax concessions would principally benefit the strongest publishers. Those that, for whatever reason, make no profits would have to be compensated by alternative methods. Unfortunately, whether or not a publication will make a profit is not necessarily predictable. Thus, it would not be possible to make an a priori listing of beneficiaries. Moreover, a "bad" year for a publisher would result in a lower level of benefit, an outcome that would be entirely contrary to the program's intention. Consequently, even for profit-making publications, income tax concessions could not be a satisfactory means of counteracting the effects of FST.

### 2.4.2 Tax Credits for Advertisers

This measure would permit firms that advertise in Canadian publications to write off more than 100% of the cost against income for tax purposes. For example, a write-off of 150% would mean that an advertiser could count every \$1 of advertising expenditure in eligible periodicals as \$1.50.

A very rough estimate of the cost of tax credits is as follows:

- o over \$2 billion is spent annually on advertising in newspapers and periodicals in Canada). If a write-off of 150% were offered against income for tax purposes, and if the average marginal tax rate paid by the relevant advertisers was 25%, then the cost would be \$250 million.

The advantages are:

- o More advertising funds would flow to Canadian periodicals;
- o It would permit publishers to reap the program benefits in advance of, or in parallel with, payments of FST; thus cash flow problems would be eased.

Among the periodical publishers interviewed, reactions to this option were mixed. In itself, the idea was felt to be attractive. However, few

publishers believed that it would be a practical method for the government to provide compensation.

Among the most serious disadvantages are:

- o A very high proportion of Canadian advertising in periodicals is placed with Canadian-owned publications; consequently there would be no possibility of diverting significant advertising expenditure from foreign to national media;
- o The tax expenditure could be very substantial and could exceed the revenue earned from the imposition of FST (over \$2 billion is spent annually on advertising in periodicals and newspapers in Canada);
- o Periodicals that do not depend on advertising would receive no benefit;
- o The major beneficiaries would be those publications that receive the highest levels of advertising; these are usually also the most profitable members of the industry;
- o It could distort the advertising market, attracting a larger flow of advertising funds to newspapers and periodicals at the expense of other Canadian-owned media.
- o Establishing a level of supplementary write-off sufficient to be of interest to advertisers, but modest enough to be cost-effective to the government, could prove to be very difficult.

### Summary

Despite the attractiveness of this option for certain publishers, the drawbacks are substantial. Large sectors of the industry would not benefit, and costs would be difficult to contain. In our view, this is not a viable alternative.

## 2.5 REGULATORY MEASURES

### 2.5.1 Licensing Canadian-owned Publications

A measure of this kind would permit firms to apply for a licence exempting them from the tax. Given the large share of the market held by Canadian periodicals, it would not be in the government's interest simply to license all Canadian-owned publishing firms since this would effectively



remove most of the expected revenue from the imposition of FST. However, certain kinds of periodicals could be declared eligible for exemption, and a set of criteria could be established to determine eligibility. Examples of such criteria are:

- o Circulation size;
- o Size of publishing firm;
- o Regional location;
- o Ratio of editorial to advertising content.

The problem with licensing is the element of discrimination it implies between different kinds of periodicals (or periodical publishers). Among the most obvious disadvantages are:

- o If circulation size is chosen as a criterion for licensing (e.g. periodicals with a circulation of less than a specified figure), then there would be a strong disincentive to grow and become more viable;
- o Similarly, if size of publisher were to be a criterion, firms would be motivated to fragment in order to disguise growth;
- o Segmenting the industry by region or "cultural" orientation would likely be interpreted as penalizing certain sectors and would ignore the cross-subsidization of loss-making periodicals by profitable ones of the same stable.

#### Summary

Periodicals licensed not to pay FST would, of course, be unharmed by removal of the FST exemption on the periodicals industry in general. Licensing all Canadian-owned periodicals would effectively achieve the aim of preserving the health of the industry. However, this would also severely reduce the government's income from imposition of the tax. Moreover, it is possible that such a measure would be interpreted internationally as equivalent to imposing a tariff duty on imported publications. The implications of this extend beyond the question of FST. Involved are Canada's international trade agreements and,

equally important, the political dimensions of what could be viewed as an attempt to restrict the free flow of information across borders. For the present purposes, it is neither necessary, nor within the scope of this study, to examine such issues.

Selective licensing is an alternative possibility. In our view, however, it raises problems that cannot easily be resolved. In particular, neither we nor those publishers whom we interviewed could identify an equitable method by which such a measure could serve its intended purposes since it would imply the arbitrary exclusion of significant segments of the industry.

We are, therefore, unable to recommend selective licensing as a viable alternative.

## 2.6 CONCLUSIONS

Of the alternatives examined for the periodicals, two drew a degree of support from publishers: tax credits for advertisers, and widespread licensing. For the reasons outlined above, neither of these alternatives seems viable. Nor are any of the other options examined likely to succeed in holding the Canadian-owned sector harmless in an equitable and cost-effective manner. Our conclusion, therefore, is that if a decision is made to remove the FST exemption, the industry cannot be protected from the adverse effects. The most reasonable means of cushioning the blow, would be to introduce the tax gradually, adding a few percentage points per year until the full taxation level is reached. This would allow the industry to adjust over a period of time.

It is also possible that removal of the federal sales tax exemption might trigger equivalent provincial action; it is hard to estimate the degree to which this might happen , but FST and PST tend to go hand-in-hand.

### 3. BOOKS

#### 3.1 GENERAL

Imported books account for about 75% of the Canadian domestic market. Consequently, the FST exemption benefits imported books more than those published in Canada. This ratio of sales of imported to domestically-published books has been stable for at least 10 years.

Unlike the newspaper and magazine publishers, the problems of survival for the majority of Canadian-owned book publishers are acute and have been documented in a number of studies (see Appendix II). While imposing FST on periodicals might seriously damage a substantial number of publications, perhaps causing their demise, the Canadian-owned sector would probably remain financially viable. Such may not be the case in the books sector. Without exception, the Canadian publishers interviewed expressed the view that all firms, regardless of nationality, would be forced to pass the cost of FST onto the consumer. At the same time, they emphasized that price resistance among readers appears to be increasing.

Although no data are available on the effect of price increases on book purchases, Statistics Canada does publish an annual series on total domestic sales, and a price index for "Reading". The statistics show that prices of reading matter increased faster than the general Consumer Price Index(CPI) during the early seventies and that sales of books underwent considerable real growth. However, the data also bear out the publishers' claim that price resistance has been growing recently (see Appendix III).

A study conducted in the U.K. in 1984\* included an analysis of the price elasticity of demand for books in Great Britain and the United States. The results of this analysis indicated that, in both countries, there is a price elasticity of roughly unity. This means that for every unit increase in prices, sales of books will decrease by one unit when allowance is made for changes in income.

In Canada the primary data is unsatisfactory, and the evidence is therefore much less clear. We conducted regression analyses, using Statistics Canada data, based on indices for Book Sales, Reading Prices, and GNP for the period 1975 to 1983. These regression analyses were carried out to obtain a feel of the forces affecting book sales.

By far the strongest linear relationship with book sales was GNP, which suggests that, over the period in question, general economic growth has been the prime generator of the growth in sales of books. We also detected a strong non-linear (polynomial) relationship between book sales and prices, the explanation of which may be that while the price increases of the seventies had a positive effect on publishers' revenue, the tide may have turned during the eighties, and additional price increases are now having a significant negative effect. None of this evidence is, of course, definitive. Nevertheless, it suggests that the impact of introducing FST on prices to the consumer could be very significant for all book publishers in Canada whether or not they are under Canadian ownership.

Details of the calculations are given in Appendix IV. However, because the Reading Price Index (RPI) produced by Statistics Canada is a composite that includes several kinds of reading matter (not just books), the conclusions to be drawn from the exercise have to be treated with caution.

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\*. National Book Committee: Economic Analysis of the Impact of VAT on Books, November 1984.



The RPI is derived from government CPI figures. It is a sub-index of one of seven major indices entitled: "Recreation, Reading, and Education". The CPI is given an absolute value of 100, while all sub-aggregates are given relative weights to measure changes in retail prices, determined by costed retail figures, so that the sum total will equal 100. An example using the 1982 CPI illustrates this:

CPI 100			
:			
:			
Recreation, Reading and Education			
8.3 of 100			
:			
:			
Reading Materials and other Printed Matter (RPI)			
0.84 of 8.3			
:	:	:	:
:	:	:	:
Newspapers	Magazines/Periodicals	Books/Pamphlets	All Other
0.35	0.21	0.25	0.03

These relative weights are multiplied by the amount spent as determined in the Family Expenditures Survey. In the case of expenditures on reading material, each sub-aggregate is determined as follows:

- o Newspapers: costed from subscription and news stand copy rates;
- o Magazines/Periodicals: costed from annual subscription rates of ten popular magazines (e.g.:Time, Macleans, Actualité);
- o Books/Pamphlets(except textbooks): costed from a) the top five selling paperbacks in 3 different categories, at each major outlet, and, b) the 10 best selling hardcovers between the price \$14.95 and \$34.95, at each major outlet.
- o All Other: costed from all other reading material and printed matter.

We do not think that it is practical to try to take this form of analysis further, nor to draw more than very approximate and tentative conclusions from it.

In examining the alternative ways in which the book publishing industry

could be protected from the adverse effects of FST, we paid close attention to two important issues:

- o The fragility of some sectors of the industry;
- o The substantial industry support currently offered at both federal and provincial levels; these support programs cover a much broader cross-section of the Canadian-owned sector than is the case for periodicals; thus, the means are already in place to provide substantial assistance to book publishers.

A third issue has a significant bearing on all measures that seek to discriminate between Canadian-authored and foreign-authored titles (CATS and FATS). This is the so-called Florence Agreement which is concerned with the free flow of books and the removal of trade obstacles. A brief description of the Florence Agreement is given in Appendix V. Canada is not a signatory to the agreement, but now effectively abides by its principles by permitting the duty-free entry of foreign books into Canada. Any government measure that might be interpreted as discriminatory against the entry of foreign books into the Canadian market would provoke protests not only from Canadian publishers but also from other countries. Moreover, Canada does have an agreement with the United States by which the two-way flow of books is tariff-free. The implications of discriminating between U.S. and Canadian books to the detriment of the former may be far-reaching, particularly in view of the government's expressed desire to negotiate a free-trade pact with the United States.

### 3.2 DIRECT SUBSIDIES

#### 3.2.1 A Direct Grant Program for Canadian-Owned Publishers

This could be launched as a new initiative, or it could be channeled through the Book Publishing Development Program (BPDP) or the Canada Council. Since the Canada Council makes qualitative judgements on individual titles,

and is concerned primarily with the cultural rather than industrial aspects of publishing, it is probably not suitable as the executive body for an overall industry measure. If the grant route is chosen, a logical administrative location could be the BPDP, although some changes would probably be needed in its eligibility requirements. Alternatively, a separate body could be established, perhaps along the lines of the Société de Développement des Industries de la Culture et des Communications (SODICC) which was set up by the Quebec government in 1978 to respond to the needs for financial assistance of local cultural industries. We discuss the SODICC option briefly below.

The advantages of direct grants are:

- o Since the BPDP is already in place, the administration of an additional or expanded grant program for the industry could be based on current experience and should present few difficulties;
- o Additional grants would receive the support of a significant number of publishers;
- o The expenditure would be open to public scrutiny;
- o The costs could be specified exactly.

In general, the Canadian publishers interviewed were not averse to the idea of increased grants, although many were unable to see how a grant program could be used to offset the effects of a tax. A major question was whether grant entitlement would take into consideration the important role played by agency titles (books imported and distributed by national publishers) in the survival of many firms. It was also pointed out to us that booksellers, whose health is vital to the publishing industry, could be adversely affected by tax-induced price increases even if such increases only effectively applied to imported books. We found that the disadvantages of using grants to offset the effects of FST are significant:

- o According to a recent DOC evaluation of the BPDP, the program has been of only limited value in improving the health of the Canadian-owned sector of the industry;

- o There is little evidence to suggest that direct grant subsidies for publishers have any effect on the final price of books; consequently, it is unlikely that additional grants would help to counteract FST-induced price resistance at the consumer level;
- o Long-term dependency on the government would increase;
- o The program would presumably not benefit foreign-owned firms; but such firms nevertheless publish Canadian writers who could, therefore, be placed at a disadvantage simply by having a publisher who is the "wrong" kind of corporate citizen. The idea of awarding grants for publishing Canadian titles (rather than on the basis of Canadian-ownership of the firm) is not workable; first, because it would likely be politically unacceptable to award government funds to foreign firms whenever they publish a Canadian author; and second, because the number of titles published each year in Canada is estimated at about 5,000 (not including reprints); it is inconceivable that a program could be devised to cope with this number of individual awards.
- o If grants are awarded to all Canadian publishers to the level of their FST payments, then the chances are high that the measure will be interpreted as a move against:
  - a) foreign-owned corporate citizens; and
  - b) the free importation of books.

This is a politically difficult scenario.

If grants are awarded to selected Canadian publishers on the basis of "need", then some Canadian publishers will not benefit. This would likely be unacceptable to the industry.

#### Summary

Direct grants are definitely a potential means of holding the Canadian-owned sector harmless. However, there are two basic concerns associated with grants:

- o The international impact of discriminating between national and foreign firms and products in a way that appears to penalize the latter;
- o The inefficacy of grants as a means of securing the health and vitality of the Canadian-owned sector of the industry.



Additionally, we do not believe the industry would be happy with a selective grant program on the lines of the BPDP by which certain publishers, even in the Canadian-owned sector, would not be eligible.

On balance, therefore, we consider that direct grants, however awarded, would carry a number of problems, some of them likely to prove intractable. Grants can, of course, play a significant role in the development and sustenance of cultural industries; but we feel they are inappropriate as a measure to counteract the effects of a tax.

### 3.2.2 Loan Guarantees

It is a common complaint among publishers that banks are reluctant to extend adequate operating loans to industry members because of the latter's general lack of tangible collateral such as plant and machinery. We know from our own experience of working with the industry that there is a degree of substance to this claim.

The advantages of a loan guarantee program would be:

- o It would be popular with some sections of the industry;
- o Initial costs would be low, although they could rise substantially in later years;
- o They would be subject to public scrutiny.

The purpose of a loan guarantee is to increase publishers' access to credit so that they can improve cash flow or undertake investments in new publishing projects. Although many publishers would support federal loan guarantees, we cannot see that such a measure has any direct relevance to protecting the industry from the effects of FST. Some other specific disadvantages are:

- o It is doubtful whether encouraging firms to increase their debt burden would effectively strengthen the industry; many firms are currently unable comfortably to support their existing debt level;

- o There would be little or no effect on the final price of CATS;
- o Canadian banks may be reluctant to cooperate;
- o Loan guarantees can be complex to organize and administer.

#### Summary

We can find no obvious relationship between loan guarantees, whether needed by the industry or not, and the task of counteracting the adverse effects of FST.

#### 3.2.3 A Federal Equivalent of SODICC

SODICC is an organ of the Quebec government that provides loans, loan guarantees and equity participation to cultural enterprises. It is beyond the scope of the present study to examine whether a federal equivalent of SODICC would be an appropriate way for the government to assist Canadian publishers. We believe that this is one of a number of initiatives that the government may contemplate to help the industry; and we have made some other suggestions in this respect in Section 3.6.

Equity investment, or the provision of a loan are not matters that can be decided upon quickly; they are capital measures; they would apply to selected firms; and no firm would expect to benefit from them every year. FST, on the other hand, affects operating funds, not capital; and, if imposed, would apply to all firms in the industry on a regular basis. Consequently, we can see no way in which a federal version of SODICC could be an adequate means of indemnifying publishers for the adverse impact of FST.

### 3.3 INDIRECT SUBSIDIES

#### 3.3.1 A rebate program for Purchasers of CATS

The precedent is the Wintario half-back program which is reported as having been successful in stimulating sales of Canadian publications. We have

already described this program with reference to periodicals in Section 2.3 and we noted that, at the federal level, there is no lottery that could be used to implement such a program. Other means would, therefore, have to be sought (possibilities include theatre and concert tickets.)

The advantages would be:

- o The measure would encourage purchases of CATS without discriminating against FATS;
- o It would be visible and subject to public scrutiny;
- o Unlike measures aimed at subsidizing firms, it would directly foster the access of Canadians to Canadian publications;
- o With some limited research, it should be possible to make reasonably accurate estimates of program costs.

Ontario publishers, even those that claim to dislike government intervention in the industry, were enthusiastic about the Wintario half-back program and would be happy to see a federal equivalent. The most significant disadvantages are:

- o The current lack of an obvious vehicle for such a program; research would be required to see whether a suitable vehicle can be created;
- o It may be difficult to apply the program fairly to purchases made by schools and libraries; for these, an alternative compensating mechanism may be needed.
- o The administrative requirements of such a program could be complex.

#### Summary

An initiative of this kind would undoubtedly meet with the approval of the industry, and it would likely be very acceptable to the public. Whether it is a viable option is a question that requires separate research, given the absence of a federal equivalent of Wintario.

### 3.4 TAXATION MEASURES

#### 3.4.1 Tax Credits on Profits from CATS

This measure would permit publishers to claim a reduced rate of taxation on profits earned from sales of Canadian-authored titles. The advantages are:

- o Tax credits can be relatively easy to administer;
- o They would specifically motivate the publication and promotion of Canadian-authored titles;
- o Cost would be relatively easy to calculate;
- o Foreign-authored titles would not benefit, but foreign-owned publishers established in Canada would benefit; this would avoid the use of the taxation system to discriminate against any group of Canadian corporate citizens.

Publishers were uniformly sceptical about this option, principally because of the lack of profitability of many Canadian titles. If a book fails to earn profits, then a tax credit against income is of no value. The main disadvantages are:

- o Many Canadian publishers pay little or no tax; in a sample of grant-recipient publishers examined during the evaluation of the BPDP, over 60% paid no tax in the latest financial year under study (1981/1982);
- o Identifying the profitability of individual groups of titles might pose problems for many firms;
- o A large proportion of CATS makes losses;
- o The influence of tax credits on the final price of CATS to the consumer would likely be minimal; therefore, if books are, as we believe, highly price sensitive, and FST causes a reduction in sales, a tax credit scheme would not directly help to foster a healthier industry;
- o Public visibility would be low.

#### Summary

We can find no way in which this kind of measure could be made to work.



### 3.4.2 Tax Credits for Canadian Investors in the Publishing Industry

Tax credits of this kind would aim at stimulating investment in the Canadian publishing industry by allowing investors to write off a proportion (or even 100%) of an eligible investment against taxable income. If the tax credits were applicable to foreign-owned publishers established in Canada, the measure might help to Canadianize such firms, as well as providing much-needed capital for firms already under Canadian ownership.

The advantages are:

- o The measure would stimulate investment in the industry at little or no risk to the investor;
- o The Canadian-owned sector would be strengthened;
- o Given the small size of the industry, the cost to the government would likely be modest and would, in any case, be controllable.

In general, publishers felt that although such a measure could be of benefit to the industry, it would not be appropriate as a means of counteracting the effects of imposing FST on books. The main disadvantages are:

- o The Canadian-owned sector as a whole would not benefit uniformly: some firms would not wish to attract outside investors: others would probably be unable to do so;
- o It would be difficult to estimate the size and timing of the expenditures;
- o The effects of imposing FST would be at the operating level and could be expected to continue over time; the stimulation of new investment is a capital measure from which firms could expect to benefit at infrequent intervals; capital measures are not generally a suitable means of solving operating problems;
- o An investment tax credit would conflict with new government tax regulations that stipulate a minimum level of tax payment for high-income earners.

### Summary

As a measure to help the survival and growth of the industry, tax credits of this kind may have some merit. As a means of holding Canadian firms harmless from the effects of FST, we do not consider that they would be effective.

## 3.5 REGULATORY MEASURES

### 3.5.1 Licensing Canadian-owned Publishers

As in the case of Periodicals, this measure would permit firms to acquire a licence exempting them from payment of FST. Unlike periodicals, even if all Canadian-owned publishers were licensed, there would still remain the substantial portion of foreign-owned firms from which FST revenue would be collectible. Some advantages are:

- o Many Canadian-owned publishers are agents for foreign publishers and depend on agency business for a significant proportion of their revenue; if they were licensed not to pay FST regardless of the origin of a book, they could attract business from foreign-owned competitors;
- o Administering a licensing program should present no difficulty;
- o Since a large proportion of Canadian-authored titles are published by Canadian firms, licensing could help to keep down the costs of these titles and thereby assist in keeping them price-competitive.

However, the question of licensing is considerably more complex than may appear. It carries, in fact, some serious disadvantages:

- o It overtly discriminates against foreign-owned corporate citizens;
- o Canadian authors published by foreign-owned firms would not benefit;
- o Books imported by foreign-owned agents would not benefit; there is a danger that the measure would be interpreted internationally as a modified form of import duty which, as described in Section 2.5, may have political as well as economic implications unfavourable to Canada.

### Summary

Licensing would achieve the objective of holding the Canadian-owned sector harmless. The Canadian publishers interviewed would support a measure of this kind. However, they expressed strong doubts that it would be feasible in the context of Canada's current negotiations with the United States on free trade. We share those doubts. While in theory the measure may appear attractive, in practice we believe it would be difficult to implement without causing considerable negative reactions from foreign publishers located in Canada and also from their countries of origin.

#### 3.5.2 A Canadian Manufacturing Clause

It has been suggested that Canada should consider the potential of instituting a "Manufacturing Clause" by which foreign books would be exposed to loss of copyright if they were to be imported into Canada in quantities exceeding a pre-defined limit (say 3000). The aim of such a clause would be to allow Canadian publishers to bid for the rights and to reap the profits on international best-sellers, thereby strengthening their overall viability. It would also constitute a statement in the strongest possible terms that the Canadian market is separate from, and not an appendage of, those of the United States and the U.K.

The precedent for a "Manufacturing Clause" was set in the United States where it was instituted in the late nineteenth century and continued, in an increasingly attenuated form, until 1982. Although there is some support in Canada for a "Manufacturing Clause", the publishers whom we interviewed for the present assignment were clearly not in favour of pursuing this idea. The general comment was that "the time is over" for discriminatory measures of this kind. Most publishers were more concerned that government initiatives should not interfere with the free flow of books internationally. We believe

that, without strong support from the industry, the case for conducting a closer examination of this option is weak.

### 3.6 OTHER MEASURES

Among the most serious difficulties facing Canadian-owned publishers are:

- o The high proportion of book sales accounted for by imports (70 - 75%);
- o A low export profile.

Measures to reduce imports would almost certainly not be acceptable to the public, would not be supported even by Canadian publishers, and would likely create political difficulties for Canada. On the other hand, assistance to develop export markets carries no such difficulties.

Canada's principal competitors in book export markets are the United States, the United Kingdom and France. All three have long recognized both the political and the economic significance of export book marketing conducted by government and government-financed agencies; and, while paying due attention to the advanced economies, they have recognized too the significance of markets in the developing world.

In the United States, the U.S. Information Agency has been responsible for a wide range of programs including large scale donations, low-price books in translation, the highly successful Ladder Series for students of English as a second language, the Franklin Book Programs and many others. The United States Agency for International Development (USAID) has also organized book export programs for Third World countries. A brief list of U.S. book export initiatives is given in Appendix VI.

The principal agency involved in promoting the sales and use of British books overseas is the British Council which, in the year 1983/1984 alone,

supported the sale of 1.5 million textbooks, organized 272 overseas exhibits of 80,000 British books and nearly 6,000 periodicals, sent thousands of review copies of books to specialized journals abroad, spent about \$2.5 million on book presentations to 820 educational and cultural institutions in developing countries, directly or indirectly assisted over a quarter of a million students to learn English (using British textbooks) and many thousands more to undertake British-oriented courses of study in other subjects. Maintaining extensive libraries of British books in other countries is also a major activity of the Council. The Book Development Council in the U.K. is a separate body that also plays an important role in British book exports by providing various kinds of expert help to member publishers.

In France, the Ministry of Culture is particularly active in Francophone Africa where it maintains cultural centres, libraries of French books, and makes presentations of books to local municipalities and schools. It also supports the activities of other agencies including the Office de Promotion de l'Edition Française (OPEF) which assists French publishers to export, and organizes overseas book exhibitions and book trade missions, and the Association Française pour la Diffusion du Livre Scientifique, Technique, et Medical (SODEXPORT) which, as its name implies, is concerned with the export of specialized books.

British publishers have traditionally exported between 40% and 50% of their annual output. The figure for France is around 20%. By contrast, leaving aside paperback romances, the share of Canadian book production sold abroad is probably between 2% and 3%\*, despite the fact that the United States, our closest neighbour, is the largest book market in the world.

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\*. See Appendix VII for the basis of this estimate.



We recognize that a degree of export assistance is currently available to Canadian publishers through the BPDP. Nevertheless, most of our programs of support to publishers are of a defensive nature. They are designed to ensure survival in a domestic market besieged by competitors from other countries. We believe a more aggressive posture is both possible and necessary. In our view, a strong case exists for examining the whole question of Canadian book exports: the potential in both the developed and developing worlds, the nature of the competition, and the need for government assistance.

### 3.7 CONCLUSIONS

There are no ready means available of fully indemnifying Canadian firms for removal of the FST exemption that do not carry with them significant disadvantages. Of the alternatives examined, two would be acceptable to the Canadian-owned sector: the granting of exemption licences to Canadian firms, which for them would be a continuation of the status quo; and direct grants. We believe licensing, although attractively simple, would create difficulties for Canada internationally, since the imposition of FST would then appear to outsiders to have the force of a disguised import duty on books. Grants would be less contentious because they could be announced simply as an extension of existing Canada Council or DOC programs; although, as our analysis shows, grants also have serious disadvantages.

A third alternative that would find approval would be a federal equivalent of the Wintario half-back program. However, we can find no suitable vehicle that could be used to implement such a measure.

Whether or not the FST exemption is removed, it is generally recognized that, with one or two exceptions, the Canadian-owned sector of the book publishing industry leads a precarious existence. We feel that some of the options we have assessed, while inappropriate for offsetting the effects of

FST, may have potential as instruments of long-term government help to the industry. As outlined in Section 3.6, we believe a particularly strong case exists for taking a fresh look at how the government might assist Canadian publishers to extend their activities overseas.

#### 4. GENERAL COMMENTS

##### 4.1 How we chose the alternatives

We based our choice on very considerable knowledge of the industry and of government programs; we deliberately made the list comprehensive, and thereby included alternatives which had some very obvious strikes against them.

The list was extensively discussed with and approved by D.O.C.

We looked at the options we selected because we wanted to cover all bases and it was theoretically possible to negotiate going in those directions.

##### 4.2 Are there alternatives we did not choose to examine?

We are not aware of particular alternatives of any practicality that we have not covered in our report; some of those we have considered would, of course, face considerable international problems if they were to be implemented (on top of internal problems):

- As far as the General Agreement on Tariffs and Trade is concerned, one could theoretically make a very good case that books in particular and, to a lesser degree, periodicals, suffer from the huge pressure of imports on the market, and that one could therefore justify the imposition of an import duty on incoming books and perhaps periodicals. However, the current climate of U.S./Canada trade agreements, disagreements and negotiations makes this a most unlikely avenue for pursuit.
- Canada is not a signatory to the Florence agreement (which guarantees the free movement of print materials across frontiers), although Canada tacitly abides by it.

- Under the zero rating tariff agreement in regard to books imported from the U.S. into Canada, Canada could theoretically impose an import duty on such books, but has agreed (as of 1979) to set the tariff at zero percent.

#### 4.3 Fit of alternatives with current federal tax policy

A companion paper by Woods Gordon deals with the implications of repealing the existing federal sales tax exemption.

It would not be useful for us to attempt to pursue the technical implications of each hypothetical alternative to fit with existing federal tax policy, since we reached the overall conclusion that no practical alternative should seriously be considered.

#### 4.4 Estimate of cost of administering the alternatives

For almost every alternative, there is a range of sub-alternatives and controls that would permit the government to control the overall costs of the measure. Since we have not found any practical alternatives to the present federal sales tax exemption, we cannot make cost estimations that would have any practical value. For example, one extremely rough approach to estimating grant administration costs would be to determine the cost to the Government of administering the Book Publishing Development Program. We do not have access to internal DOC budgets, but these would yield the cost of administering that program. However, the administration of a grant program is necessarily related to its size and constituency, and these are factors that cannot be usefully estimated if the principal of using grants is found to be unworkable. It should be noted that we were specifically asked to concentrate in this study on matters of principal and practicality, addressing questions of potential costs only if solid alternatives were identified.

As far as costs to the industry are concerned, a range of costs would be involved in many of the alternatives considered (direct and indirect subsidies, some tax measures, some regulatory measures) since they would involve extra bookkeeping and special forms. It would be most difficult to estimate these costs in advance, and is not an appropriate undertaking since these alternatives have been rejected for other reasons.



## APPENDICES

## APPENDIX I

### List of Interviewees and Contacts

#### Associations:

- . Canadian Newspaper Publishers Association
- . Canadian Business Press
- . Canadian Periodical Publishers Association
- . Association of Canadian Publishers
- . Canadian Book Publishers Council
- . Canadian Medical Association
- . Ontario Association of Certified Engineering Technicians & Technologists

#### Periodicals

- . Southam Communications
- . Maclean-Hunter
- . CB Media Ltd
- . Metro Toronto Business Journal
- . SELC Publishing Inc.
- . Key Publishers
- . The Idler

#### Books

- . University of Toronto Press
- . Lester & Orpen Dennys
- . Irwin Publishers
- . Simon & Pierre
- . Playwrights Union of Canada
- . ECW Press
- . Dundurn Press Ltd.
- . Crabtree Publishing Company
- . Copp Clark Pitman
- . Women's Press
- . Britnell Bookshop

#### Other

- . Metro Toronto School Board
- . Ontario Ministry of Citizenship & Culture
- . Statistics Canada

## APPENDIX II

### Some Studies of the Canadian Book Publishing Industry

- The Canadian Book Industry,  
Department of Industry, Trade & Commerce - 1970
- Ontario Royal Commission on Book Publishing - 1972
- A Study of Book Publishing in Canada  
Secretary of State - 1976
- Canadian Publishing  
An Industrial Strategy for its  
Preservation & Development in the  
Eighties.  
Association of Canadian Publishers - 1980
- Trade Publishing in Canada, Roy MacSkimming  
Book Publishing & Public Policy - 1981
- Report of the Federal Cultural Policy Review Committee  
Chapter 7 - Writing, Publishing & Reading  
Supply & Services Canada - 1982
- Canada's Cultural Industries  
Chapter 3 - Book Publishing - Paul Audley  
Canadian Institute for Economic  
Policy - 1983
- Profile of the Book Publishing Industry in Canada,  
Department of Communications - 1983

APPENDIX III

Book Publishing - Prices & Sales Growth

	<u>Consumer Price</u>	<u>Reading Price</u>	<u>Sales Index</u> (current prices)	<u>Sales Index</u> (constant prices)
1975	100	100	100	100
1976	109.6	110	112	101.8
1977	116.3	117	126	107.7
1978	126.7	120	143.7	119.8
1979	138.0	128.5	171.3	133.3
1980	151.1	145.6	195.5	134.3
1981	169.2	162.3	215.6	132.8
1982	178.3	176.6	236.5	133.9
1983	193.0	204.2	261.1	127.9

SOURCE: Based on Statistics Canada Data.

#### APPENDIX IV

##### 1. Books Sales, Prices and GNP

<u>DF</u>	<u>R-Squared:</u>	<u>Std. Err.:</u>	<u>Coef. Var.:</u>
8	.997	3.871	2.231

#### Analysis of Variance Table

<u>Source</u>	<u>DF:</u>	<u>Sum Squares:</u>	<u>Mean Square:</u>	<u>F-Test</u>
Regression	2	26142.87	1,3071.435	872.147
Residual	6	89.926	14.988	p .0001
TOTAL:	8	26232.796		

#### Beta Coefficient Table

<u>Parameter:</u>	<u>Value:</u>	<u>Std. Err.:</u>	<u>T-Value:</u>	<u>Partial F:</u>
Intercept	-19.894	7.083	-2.809	
GNP Index	1.329	.162	8.227	67.69
RPI	-.168	.221	-.759	.577

Note: The equation is developed from indices of Reading Prices (RPI), GNP and Book Sales at current prices. The influence of RPI is not significant. A simple linear regression of GNP on Sales gives the following equation:

$$Y = 1.208x - 23.78'$$
$$N = 9 \quad R\text{-squared} = 0.996$$

Where Y = Book Sales Index (1975 = 100)  
x = GNP Index (1975 = 100)



2. Books Sales and Prices  
(Polynomial Regression)

<u>DF:</u>	<u>R-squared:</u>	<u>Std.Err.:</u>	<u>Coef. Var.:</u>
8	.868	.022	.39

Analysis of Variance Table

<u>Source</u>	<u>DF:</u>	<u>Sum Squares:</u>	<u>Mean Square:</u>	<u>F-Test:</u>
Regression	2	.02	.01	19.676
Residual	6	.003	.001	.0001 < p .005
TOTAL	8	.023		

Beta Coefficient Table

<u>Parameter:</u>	<u>Value:</u>	<u>Std.Err.:</u>	<u>T-Value:</u>	<u>Partial F:</u>
Intercept	4.926	.173	28.525	
x	1.057	.238	4.442	19.728
x-squared	-.313	.078	-3.993	15.94

Note:  $Y = 1.06x - 0.31x\text{-squared}$

Where Y = Book Sales  
x = Reading Price Index

Source: Fox, Jones & Associates

## APPENDIX V

### The Florence Agreement

This Agreement, on the Importation of Educational, Scientific and Cultural Materials, generally known as the Florence Agreement, sponsored by Unesco, was signed in Florence in 1950 and came into effect on 21 May 1952. It is concerned with the free flow of books and the removal of tariff and trade obstacles. The principal undertaking of the signatories is the exemption of books and other educational, scientific and cultural imports from customs duties, and the granting of licences and foreign exchange as far as possible for their importation. Books of every sort are included in the Agreement, not exempting those printed abroad from the work of an author in the importing country. Unbound sheets do not come under the Agreement.

The following is a list of the States adhering to the Agreement:  
Afghanistan, Austria, Barbados, Belgium, Bolivia, Cameroon, Congo (People's Republic of the), Cuba, Cyprus, Denmark, Egypt (Arab Republic of), El Salvador, Fiji, Finland, France, Gabon, Germany (Federal Republic of), Ghana, Greece, Guatemala, Haiti, Iran, Iraq, Israel, Italy, Ivory Coast, Japan, Jordan, Kenya, Khmer Republic, Laos, Libyan Arab Republic, Luxembourg, Madagascar, Malawi, Malaysia, Malta, Mauritius, Monaco, Morocco, Netherlands, New Zealand, Nicaragua, Niger, Nigeria, Norway, Pakistan, Philippines, Poland, Romania, Rwanda, Sierra Leone, Singapore, Spain, Sri Lanka (Republic of), Sweden, Switzerland, Tanzania (United Republic of), Thailand, Trinidad and Tobago, Tunisia, Uganda, United Kingdom, United States of America, Upper Volta, Viet-Nam (Republic of), Yugoslavia, Zaire (Republic of).

## APPENDIX VI

### Some Past Book Export Initiatives of the United States Information Agency (USIA)

#### Donated Books Program

Most active during the 1960s, when an Internal Revenue Service ruling allowed publishers a tax deduction of the "fair market value" of donations. This was used by publishers to dispose of overstocks cost-effectively.

#### Ladder Books in Low-Priced Editions (1957-1975)

Paperback editions of American books abridged and adapted for use by students of English as a second language.

#### Franklin Book Programs (1952-1979)

Translation and promotion of U.S. books into many different languages.

#### Joint Indo-American Textbook Program (with USAID) (Approx. 1960-1981)

Large scale reprint program of U.S. textbooks for India. Over 8 million volumes were reportedly produced during a 21 year period.

#### Source:

U.S. Books Abroad: Neglected Ambassadors, Curtis G. Benjamin, Library of Congress, Washington, 1984.

## APPENDIX VII

### Calculation of Canadian Book Exports

by Canadian Publishers - 1983

(\$000s)

Total Domestic Sales (own titles) 309.3

Exports:

Canadian owned Publishers	2.5
Foreign owned Publishers	4.2
Total:	<u>6.7</u>

TOTAL SALES: 316

Exports as a percentage of total sales = 2%

Note: Exports do not include Harlequin Books which is responsible for well over 90% of all exports of mass market paperbacks. Since Total Domestic Sales includes Harlequin Books the actual percentage of total sales represented by exports should be slightly larger than 2%. However, it seems safe to assume that it is not more than 3%.

Source: Based on Statistics Canada Data.

APPENDIX VIII

Date:

Interviewer:

INTERVIEW GUIDELINES FOR PERIODICAL AND NEWSPAPER PUBLISHERS

1. BASIC DATA

Company Name \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Telephone Number \_\_\_\_\_

Ownership: (% Canadian-owned) \_\_\_\_\_

Respondent's Name \_\_\_\_\_

Title \_\_\_\_\_

2. Description of main type of publishing undertaken:

Mass market:

Business:

Cultural:

Academic:

Other:

3. Sales from periodicals in 1984 or last financial year:

4. As a percentage of the total, what proportion of your sales were derived from:

Advertising:

Paid circulation:

5. As a percentage of the total, what proportion of your paid circulation sales were derived from:

Subscriptions:

Newsstands:

6. What is your:

Subscription price:

Newsstand or cover price:

Price to distributor:

(Get typical examples from large publishers)

7. If a cost increase of 10% were applied to your publications, would you:

Pass it all on to the reader

Pass it all on to advertisers

A combination of the above

Absorb all or part of the cost

8. If you would pass on the cost of FST to the reader, would you expect your sales to:

a) Decrease

b) Be unaffected

If a), by how much would you expect sales to decrease:

- more than 10%

- 10%

- Less than 10%

Please explain.

9. Would you expect your profits to:

Increase

Decrease

Be unaffected

Please explain.



10. What do you think would be the effect of imposing a 10% cost increase on:
  - The Canadian-owned industry
  - The foreign-owned industry
11. Are you able to provide any examples to support the view that unit sales would decline if prices increase?
12. If PST on periodicals is introduced, would you expect provincial governments to follow suit by
13. If FST is imposed, do you think that the government should initiate a support program for Canadian-owned publishers in order to counteract any adverse effect on national periodicals?
14. What kind of support program(s) do you think would be most effective?  
  
(Discuss:  
    grants  
    tax incentives  
    market assistance, etc.)
15. What is your reaction to the following compensation techniques:
  - a) A half-back type program for Canadian-authored titles. e.g. through theatre tickets.
  - b) Tax credits to publishers on profits generated by sales of Canadian-authored titles.
  - c) Tax incentives for investors wishing to invest in Canadian-owned firms. For example, investors might receive a 100% income tax credit on all such investments.
  - d) Direct grants to Canadian-owned firms to effect improvements in marketing, operations, management etc.
  - e) Unconditional grants tied to tax paid.
  - f) Equity/forgiveable loans/loan guarantees from a funding agency. (e.g. SODIQ)
  - g) Requirement that all foreign titles sold in Canada (over 5,000 copies in a year) be made available to a Canadian publisher.
16. What suggestions do you prefer?

CACC / CCAC



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FOX, JONES (FIRM).

--Alternatives to the federal excise tax exemption for newspapers, periodicals and books.

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## DATE DUE

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JUN 22 1993



