



Government of Canada
Department of Communications

Gouvernement du Canada
Ministère des Communications

THE STUDY ON
ALTERNATIVE MEANS OF SUPPORTING
THE CANADIAN PERIODICAL PUBLISHING INDUSTRY
(THE POSTAL SUBSIDY PROGRAM)

Background Study

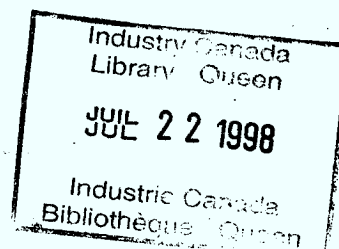
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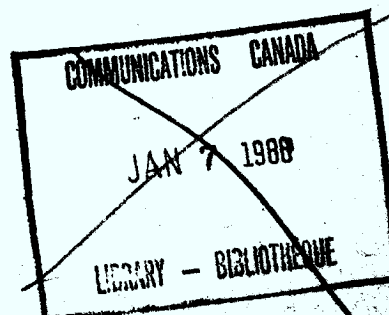
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(THE POSTAL SUBSIDY PROGRAM)



JANUARY 30, 1986

DOC
PROGRAM EVALUATION SERIES



This is one of five Background Studies that form part of the evaluation of the Postal Subsidy Program.

The Study was conducted by Coopers & Lybrand for the Program Evaluation Division of the Department of Communications, Canada.

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

DEPARTMENT OF COMMUNICATIONS

REPORT

OF THE STUDY ON

ALTERNATIVE MEANS OF SUPPORTING

THE CANADIAN PERIODICAL PUBLISHING INDUSTRY

JANUARY 30, 1986

Coopers
& Lybrand

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DEPARTMENT OF COMMUNICATIONS

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EXECUTIVE SUMMARY

The fundamental purpose of our study was to assess and report on various means of providing support to the periodical industry during a phase-in of higher postal rates in the event that the current postal subsidy program is reduced or eliminated. In order to perform such assessment, we have identified alternative forms of subsidy, selected certain of those alternatives for further examination following consultation with the Department, reviewed available consulting reports, and applied the selected alternatives to available case study data for individual publishers to analyze the financial impact of implementing the selected alternatives.

Our study has identified seven alternatives as potential means of providing support to the periodical publishing industry. Four of the alternatives have been reviewed and the financial impact of implementing each analyzed. The remaining three have been reviewed but judged not suitable for further analysis. The alternatives include:

Alternatives Reviewed and Financial Impact Analyzed:

1. Rebate of Distribution Expenses to Publishers
2. Tax Credit
3. Rebate the Minimum Distribution Expense
4. Rebate of Distribution Expense to Distributors/Discount to Publishers

Other Alternatives Reviewed:

5. Tax Deduction to Subscribers for Subscriptions
6. Tax Credit to Subscribers for Subscriptions
7. Refundable Vouchers to Subscribers for Subscriptions

For those alternatives analyzed we have conducted our review using case study data for each of a large, medium and small monthly circulation publisher. The classification of each is based on selected data as follows:

| | Large Circulation | Medium Circulation | Small Circulation |
|---|----------------------|-----------------------|----------------------|
| Approximate total monthly distribution | 1,000,000 | 35,000 | 20,000 |
| Total monthly operating costs | \$2,000,000 | \$ 250,000 | \$ 50,000 |

The financial impact on each of the above publishers has been assessed assuming varying percentage reductions in the present postal subsidy over varying phase-in periods ranging from 5 to 10 years. Calculations are based on the difference between current subsidized second class distribution rates and the applicable third class rate, if reclassified. At the Department's request the alternatives have also been reviewed assuming a hypothetical revised second class rate of \$.35 per item. The resulting analysis present the annual cost to the Federal Government of providing a rebate or tax credit to the publisher or distributor, the increased distribution expense to the publisher and the carrying cost to the publisher or distributor assuming that rebates or tax credits will be applied annually. All analysis assume that publishers will be required to pay the third class or revised second class mailing rate and to apply for a rebate of the applicable portion of their increase in cost during the phase-in period.

In addition to a review of the financial implications of each alternative we have attempted to identify the operational implications for each as they would apply to the Department or applicable publisher/distributor. These implications include the added administrative burden functions as well as the benefits or drawbacks associated with the proposed implementation of a specific alternative.

In summary, we have assessed and ranked the four alternatives selected for review and financial analysis, in order of their recommended implementation, as follows:

1. Rebate of Distribution Expense to Publishers
2. Tax Credit
3. Rebate of Distribution Expense to Distributors/Discount to Publishers
4. Rebate the Minimum Distribution Expense

SOMMAIRE ET RECOMMANDATIONS

Le but essentiel de notre étude était d'évaluer les divers moyens d'aider l'industrie des périodiques au cours de l'application progressive de l'augmentation des tarifs postaux, advenant que le programme de subsides postaux en vigueur soit réduit ou éliminé, et de rédiger un rapport à ce sujet. Afin d'effectuer l'évaluation, nous avons examiné d'autres formes de subventions et, en consultation avec le Ministère, nous avons décidé d'étudier de plus près un certain nombre d'entre elles. Nous avons également examiné les rapports des spécialistes et appliqué les moyens de subvention choisis aux données fournies par les études de cas de certains éditeurs de façon à en analyser l'incidence financière.

L'étude a permis de déterminer sept façons d'aider l'industrie de l'édition des périodiques. Après examen, nous avons décidé d'analyser l'incidence financière de quatre de ces possibilités, ayant jugé que les trois autres ne se prêtaient pas à une analyse plus approfondie. Les sept moyens de subvention choisis sont les suivants :

Subventions examinées dont l'incidence financière a été analysée :

1. Remboursement des frais de distribution aux éditeurs
2. Crédits d'impôt
3. Remboursement des frais minimum de distribution
4. Remboursement des frais de distribution aux distributeurs ou remboursement aux éditeurs

Autres subventions examinées :

5. Déduction d'impôt pour les abonnés
6. Crédit d'impôt accordé aux abonnés
7. Bons de remboursement remis aux abonnés

En ce qui concerne les moyens de subvention analysés, nous avons effectué notre étude au moyen de données tirées d'études de cas portant chacune sur un éditeur de publication mensuelle de grand, moyen ou petit tirage. Chacun est classé de la façon suivante, en fonction des données choisies :

| | Grand tirage | Moyen tirage | Petit tirage |
|---|---------------------|-------------------|------------------|
| Total approximatif de la circulation mensuelle | <u>1,000,000 \$</u> | <u>35,000 \$</u> | <u>20,000 \$</u> |
| Total des coûts d'exploitation mensuels | <u>2,000,000 \$</u> | <u>250,000 \$</u> | <u>50,000 \$</u> |

L'incidence financière sur chaque type d'éditeurs susmentionné a été évaluée en fonction de réductions présumées, d'un pourcentage variable, qui seraient progressivement appliquées au cours de périodes variant de cinq à dix ans. Les calculs sont fondés sur la différence entre les tarifs d'envoi de deuxième classe actuellement subventionnés et le tarif applicable de troisième classe, s'il était reclassifié. A la demande du Ministère, les moyens choisis ont également été examinés en fonction d'un tarif hypothétique révisé de deuxième classe de 0,35 \$ par envoi. L'analyse finale donne pour le gouvernement fédéral, le coût annuel du remboursement ou du crédit d'impôt accordé à l'éditeur ou au distributeur, pour l'éditeur, celui d'une augmentation des frais de distribution et pour l'éditeur ou le distributeur, celui des frais de transport, si l'on présume que les rabais ou les crédits d'impôts seront appliqués annuellement. Aux fins de l'analyse, il est présumé que les éditeurs devront payer les tarifs d'envoi de troisième classe ou les tarifs d'envoi révisés de deuxième classe et qu'ils devront présenter une demande de remboursement pour la partie admissible de l'augmentation de leurs coûts au cours de la période de mise en oeuvre progressive.

Non seulement nous avons analysé l'incidence financière de chaque moyen de subvention, mais nous avons aussi essayé de déterminer les effets de chacun sur les opérations du Ministère et celles de l'éditeur ou du distributeur en question, c'est-à-dire le fardeau administratif supplémentaire ainsi que les avantages ou les inconvénients de la mise en oeuvre proposée de chaque moyen.

Enfin, nous avons classé les quatre moyens de subvention ayant fait l'objet d'une analyse financière par ordre de recommandation, soit :

1. Remboursement des frais de distribution aux éditeurs
2. Crédit d'impôt
3. Remboursement des frais de distribution aux distributeurs/
remboursement aux éditeurs
4. Remboursement des frais minimum de distribution.

I. INTRODUCTION

On behalf of the Program Evaluation Division of the Department of Communications we have conducted a study of an "Alternative Means of Supporting the Canadian Periodical Publishing Industry". The purpose of this study, in conjunction with others being carried out, is to assess and report on various means of providing support to the periodical industry during a phase-in of higher postal rates in the event that the current postal subsidy program is reduced or eliminated. The study is part of an overall review of the postal subsidies program contemplated in a Departmental Evaluation Assessment report dated March 5, 1985.

Under the current postal subsidies program, the Department of Communications purchases rate reductions from Canada Post for delivering certain types of mail including publishers books, library books, newspapers, periodicals and educational films. Typically publications falling within the program are entitled to second class mailing privileges allowing for a minimum postage per individually addressed item of 4.5¢ per 200 grams or less. The Department is currently reviewing the rationale for the program and its cost in relation to the objectives for which the program was originally implemented and to determine if there are alternatives to the subsidy that would accomplish the same objectives.

Under the terms of reference, the following objectives were defined for our study:

- * Identification of potential alternatives to the postal subsidy measures now available to periodical publishers and selection of appropriate alternatives for further analysis and review;
- * Analysis of selected alternatives including a review of the operational aspects of each, computation of the financial costs and identification of the non-financial advantages and disadvantages; and

- * Presentation of an oral report on the results of our analysis and a final written report on our findings.

During the course of our review we have completed the following activities:

- * Alternative forms of subsidy were identified and reviewed with Departmental officials;
- * Certain of the alternatives were chosen for follow-up examination and review;
- * Consulting reports issued by Woods Gordon and Ekos Research Associates, Incorporated and other data made available by the Department were reviewed in detail to determine if reported information was sufficient to complete our proposed financial analysis;
- * Additional reports prepared by four consulting groups completing studies associated with the Department's postal subsidy evaluation were reviewed to familiarize ourselves with the nature and level of financial data and other information on publishers contained in the reports; and
- * The information obtained from our review of specific case studies was used to analyze the financial impact of implementing the selected alternatives.

As a second part of our study, in addition to the above, we were to determine the experience and/or perception of recent postal subsidy reductions on magazine publishers in the United States. A copy of the resulting report has been provided under separate cover.

In the following report we document the alternative means identified for supporting the publishing industry, the alternatives chosen for further analysis, and the financial and non-financial implications relating to those alternatives chosen for review.

II. ALTERNATIVE MEANS OF PROVIDING SUPPORT

Our study has identified seven alternatives as potential means of providing support to the periodical publishing industry during the phase-in of higher postal rates. The alternatives include subsidies to publishers, subscribers and distributors as follows:

Subsidies to Publishers

1. Rebate of Distribution Expenses
2. Tax Credit
3. Rebate the Minimum Distribution Expense

Subsidies to Distributors

4. Rebate of Distribution Expense to Distributors/Discount to Publishers

Subsidies to Subscribers

5. Tax Deduction for Subscriptions
6. Tax Credit for Subscriptions
7. Refundable Vouchers for Subscriptions

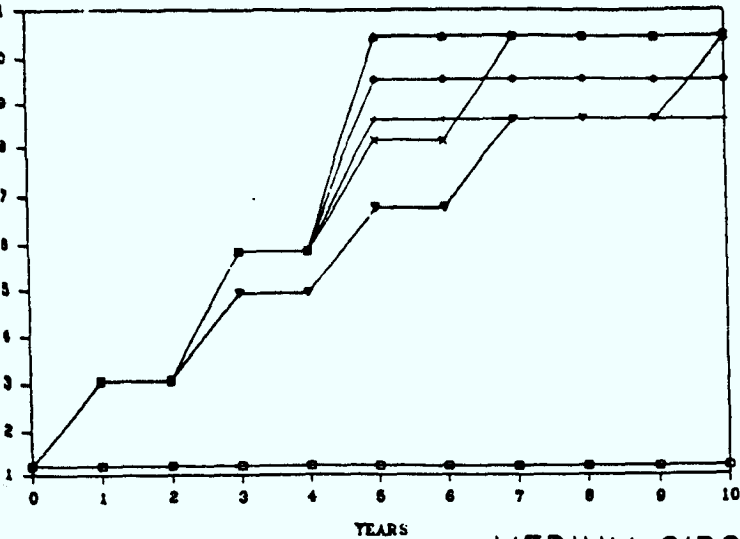
Each of the above seven alternatives are reviewed and their disposition discussed in this report.

The three alternatives identified as providing subsidies to subscribers were reviewed with Departmental officials and subsequently judged not to be suitable for further analysis. A description of each and the reasons for not conducting further review are noted later in this report.

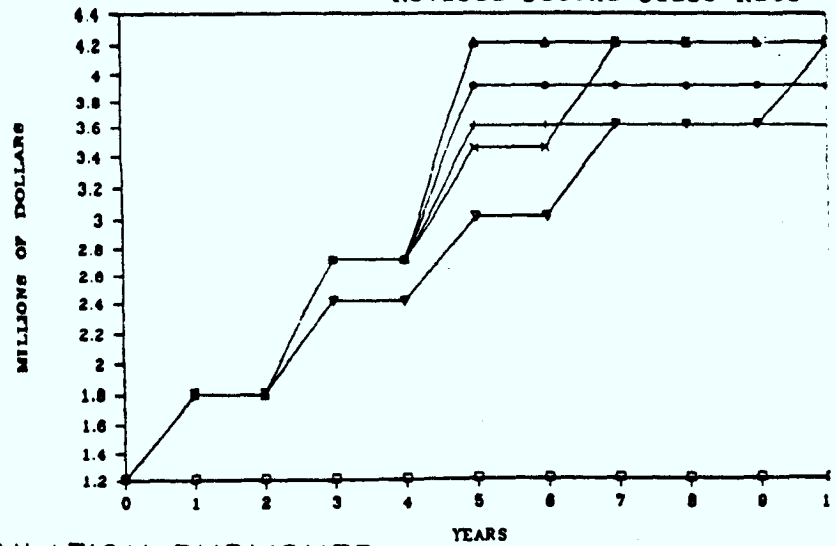
For the remaining four alternatives we have conducted our review using and building on case study data gathered as part of the Department's overall project. Each alternative has been applied to case study data for a large, medium and small circulation publisher. The resulting financial analysis

LARGE CIRCULATION PUBLISHER

Third Class Rate

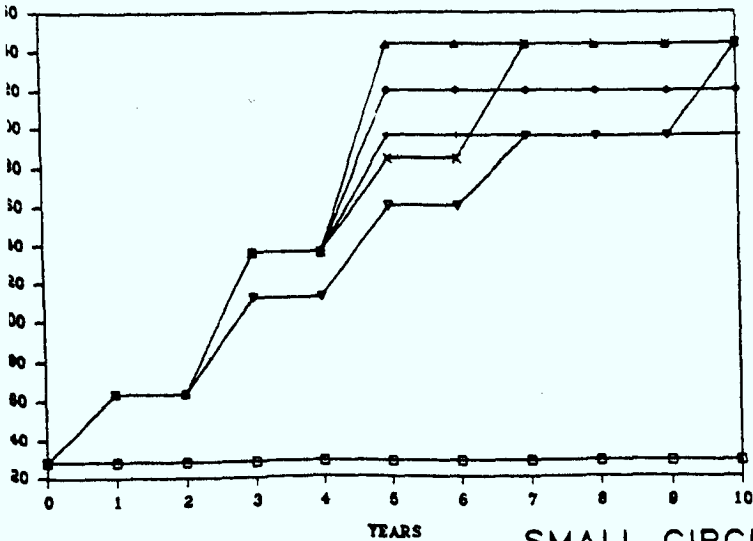


Revised Second Class Rate

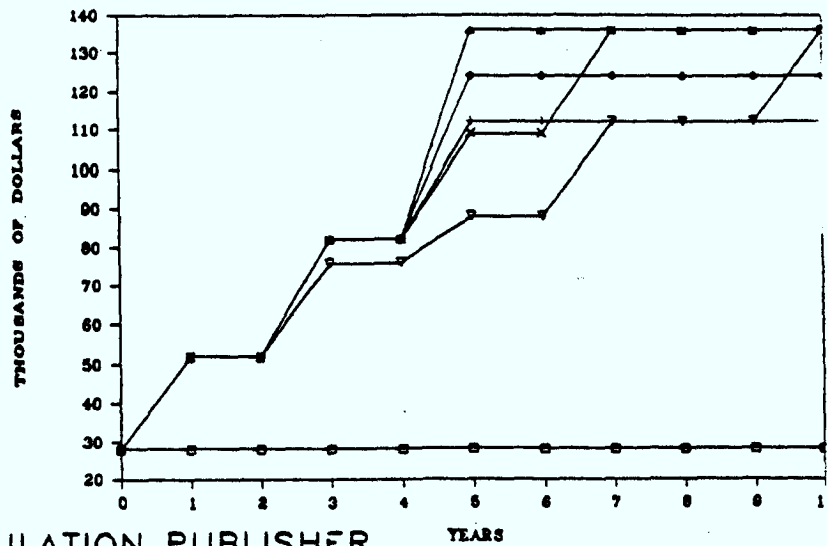


MEDIUM CIRCULATION PUBLISHER

Third Class Rate

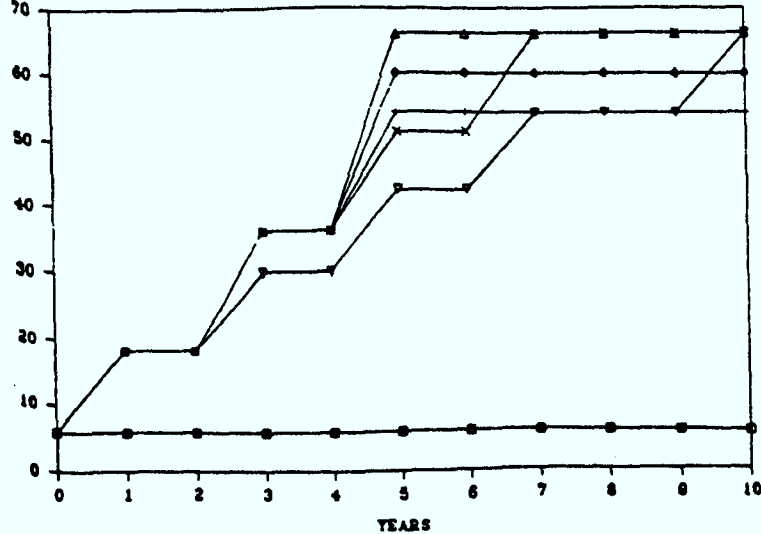


Revised Second Class Rate

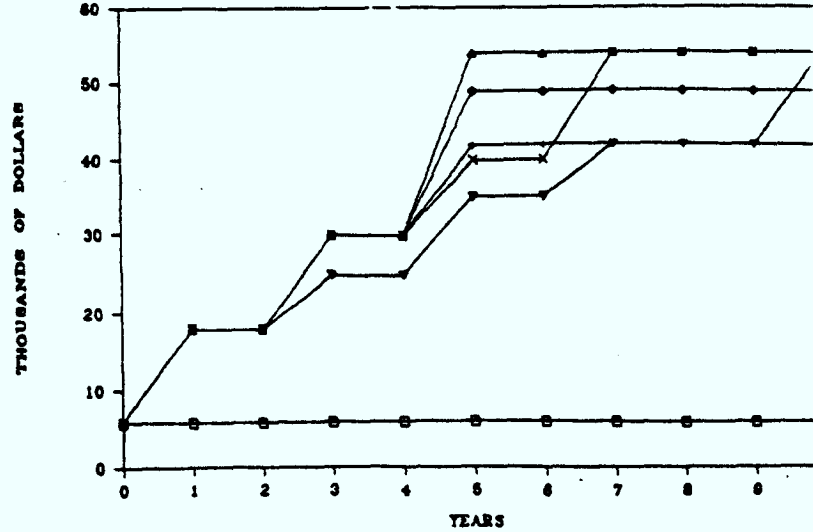


SMALL CIRCULATION PUBLISHER

Third Class Rate



Revised Second Class Rate

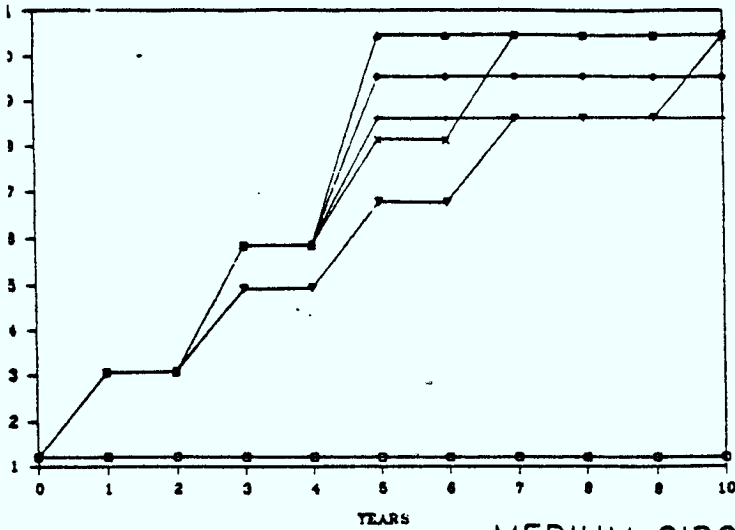


- - Current distribution cost
- | - Scenario 1
- ◇ - Scenario 2

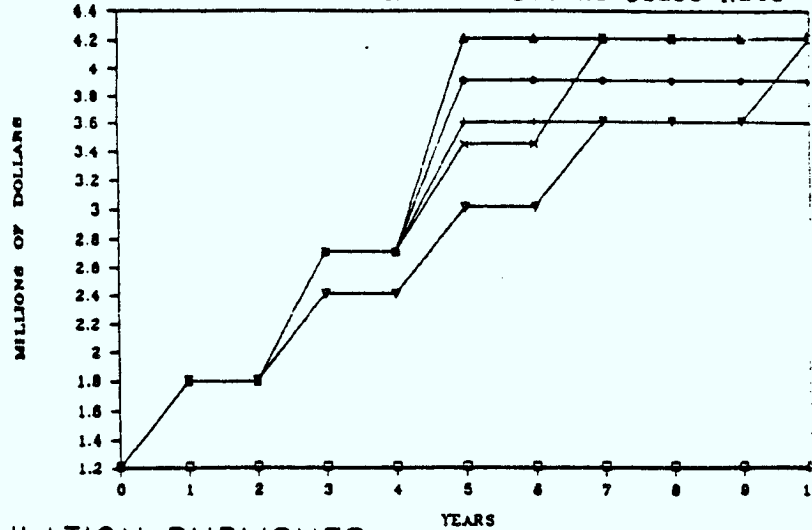
- △ - Scenario 3
- × - Scenario 4
- ▽ - Scenario 5

LARGE CIRCULATION PUBLISHER

Third Class Rate

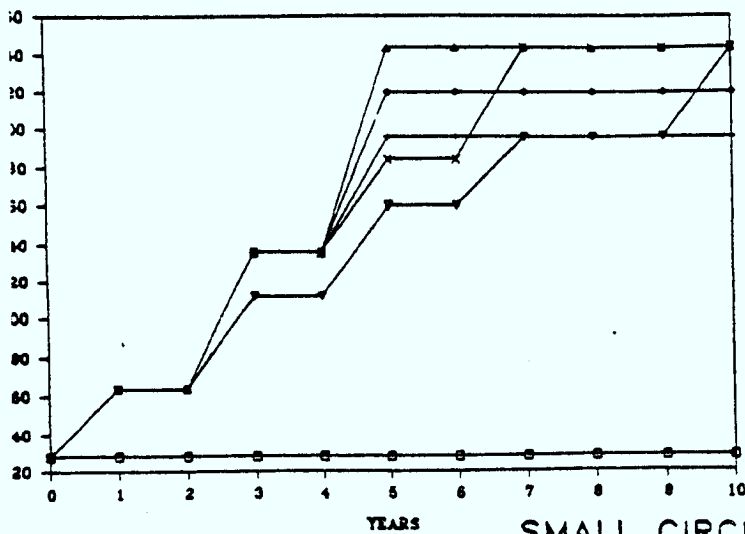


Revised Second Class Rate

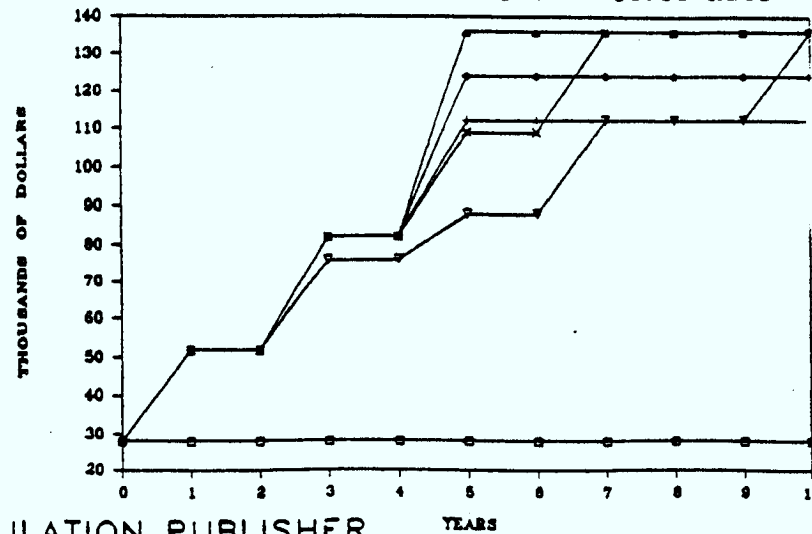


MEDIUM CIRCULATION PUBLISHER

Third Class Rate

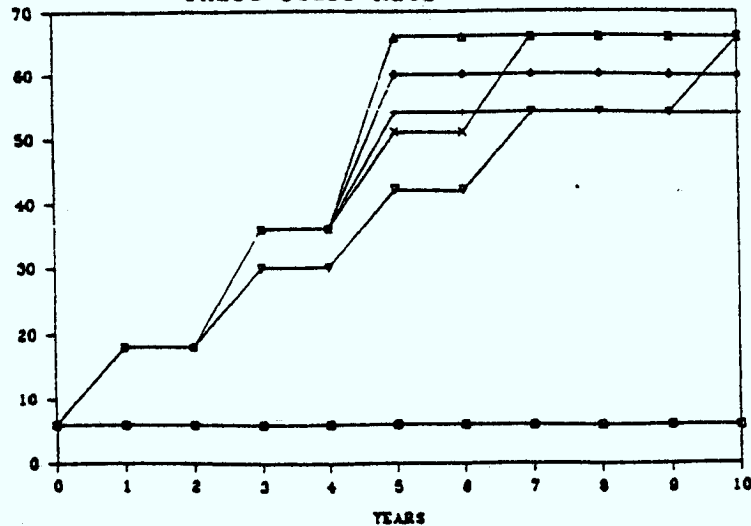


Revised Second Class Rate

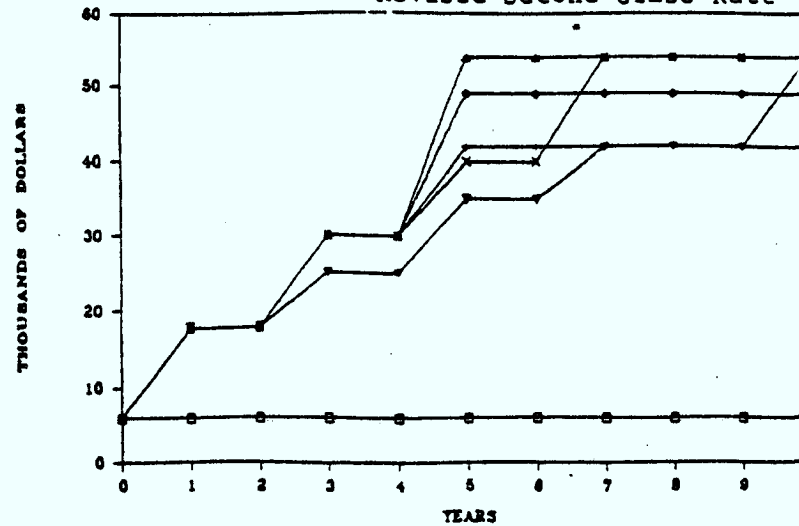


SMALL CIRCULATION PUBLISHER

Third Class Rate



Revised Second Class Rate



- - Current distribution cost
- | - Scenario 1
- ◇ - Scenario 2

- △ - Scenario 3
- × - Scenario 4
- ▽ - Scenario 5

ALTERNATIVE 1 -

REBATE OF DISTRIBUTION EXPENSES TO PUBLISHERS

Operational Description

A rebate of distribution expense is, as the wording implies, a refund of all or any portion of the increased postal costs incurred by a publisher during a phase-in of higher postal rates. It is based on the difference between current subsidized second class mailing rates and the "normal" third class or revised second class mailing rates that would be paid under any program to phase out the subsidies.

It is assumed that publishers would be required to pay the "normal" third class or revised second class rate even during the phase-in period and to apply for a rebate of a portion of the increased cost depending on the option selected for implementation. It is anticipated that the publisher will file an annual return requesting a refund of the applicable portion of its increased postal costs. As the phase-in period extends the publisher will have to absorb that portion of the increased costs not refunded.

Financial Analysis

The following schedules (pages 10 to 15) present the financial implications of a rebate system for each of the large, medium and small circulation publishers chosen for analysis under each of the phase-in options previously detailed. The schedules have been depicted in graph form on the opposite page showing the effect on distribution costs under each scenario. The schedules present the amount of rebate, the increased distribution cost to be absorbed by the publisher, expressed in dollars and as a percentage of current expense, and the carrying cost of the rebate until received. The calculations are presented for both a third class mailing rate (pages 10 to 12) and the assumed revised second class rate of \$.35 per item (pages 13 to 15).

Publishers will have to:

- a) Account for distributed subscriptions identifying those for which the subsidy is applicable and the related cost;
- b) File rebate claims during the phase-in period; and
- c) Maintain a system subject to audit verification.

The Department will have to:

- a) Set up a rebate processing section, the staffing of which will depend on the number of claims to be processed and timing for processing claims in relation to either a calendar year, the publisher's financial year or some other reporting period;
- b) Develop reporting forms and a supporting manual for distribution to publishers to detail the method of filing and claim preparation;
- c) Develop procedures and guidelines for conducting either desk or field audits of claims filed; and
- d) Develop a system, most likely computerized, to monitor and account for all publishers, the status of claims processed, claims paid or outstanding, and estimates of the future claims to be filed.

Any increase in distribution expenses and carrying costs, especially of the magnitude presented for the case study publishers, will have a significant impact on the financial stability of the individual publishers reviewed and the industry as a whole. Therefore, in addition to the above administrative adjustments, publishers will have to implement financial planning and budgeting processes to absorb the increasing distribution expenses and carrying costs as the higher postal rates are phased in. This will require adjustments to subscription or advertising rate pricing, increased marketing to attract a larger circulation base or implementation of cost cutting procedures.

A summary of certain key financial data presented on the schedules and impacting on the publishers' operations during any phase-in of higher rates is set out below:

| | Circulation | | |
|---|-------------|--------|--------|
| | Large | Medium | Small |
| <u>Third Class Mailing Rate -</u> | | | |
| Maximum rebate - year 1 (000's) | \$7,392 | \$ 180 | \$ 48 |
| Current subsidized annual distribution costs (000's) | 1,215 | 28 | 6 |
| Increased annual distribution costs with no rebate (000's) | \$9,240 | \$ 216 | \$ 60 |
| Percentage increase in distribution costs | 760% | 770% | 1,000% |
| Estimated annual carrying cost of the rebate - year 1 (000's) | \$ 555 | \$ 14 | \$ 4 |
| <u>Revised Second Class Mailing Rate -</u> | | | |
| Maximum rebate - year 1 (000's) | \$2,400 | \$ 84 | \$ 36 |
| Current subsidized annual distribution costs (000's) | 1,215 | 28 | 6 |
| Increased annual distribution costs with no rebate (000's) | \$3,000 | \$ 108 | \$ 48 |
| Percentage increase in distribution costs | 250% | 385% | 800% |
| Estimated annual carrying cost of the rebate - year 1 (000's) | \$ 180 | \$ 6 | \$ 3 |

Operational Implications

Any system of rebates will require the implementation of additional administrative support functions for both the Department and individual publishers during the phase-in period.

DEPARTMENT OF COMMUNICATIONS

POSTAL SUBSIDIES ALTERNATIVES PROJECT

REBATE OF DISTRIBUTION EXPENSES TO PUBLISHERS

LARGE CIRCULATION PUBLISHER

(Third Class Mailing Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Rebate | | Increased Distribution Expense | | | Estimated Annual Carrying Cost of Rebate \$000's |
|------------------------------------|---|--------------------|-------------------|-----------------------------------|-------------------|--------------|---|
| | | Monthly \$000's | Annual \$000's | Monthly \$000's | Annual \$000's | Percent % | |
| | | | | | | | |
| Scenario 1 | | | | | | | |
| 1 | 20 | 616 | 7,392 | 154 | 1,848 | 150 | 555 |
| 3 | 50 | 385 | 4,620 | 385 | 4,620 | 380 | 345 |
| 5 | 80 | 154 | 1,848 | 616 | 7,392 | 610 | 140 |
| Scenario 2 | | | | | | | |
| 1 | 20 | 616 | 7,392 | 154 | 1,848 | 150 | 555 |
| 3 | 50 | 385 | 4,620 | 385 | 4,620 | 380 | 345 |
| 5 | 90 | 77 | 924 | 693 | 8,316 | 690 | 70 |
| Scenario 3 | | | | | | | |
| 1 | 20 | 616 | 7,392 | 154 | 1,848 | 150 | 555 |
| 3 | 50 | 385 | 4,620 | 385 | 4,620 | 380 | 345 |
| 5 | 100 | - | - | 770 | 9,240 | 760 | - |
| Scenario 4 | | | | | | | |
| 1 | 20 | 616 | 7,392 | 154 | 1,848 | 150 | 555 |
| 3 | 50 | 385 | 4,620 | 385 | 4,620 | 380 | 345 |
| 5 | 75 | 193 | 2,316 | 577 | 6,924 | 570 | 175 |
| 7 | 100 | - | - | 770 | 9,240 | 760 | - |
| Scenario 5 | | | | | | | |
| 1 | 20 | 616 | 7,392 | 154 | 1,848 | 150 | 555 |
| 3 | 40 | 462 | 5,544 | 308 | 3,696 | 300 | 415 |
| 5 | 60 | 308 | 3,696 | 462 | 5,544 | 460 | 280 |
| 7 | 80 | 154 | 1,848 | 616 | 7,392 | 610 | 140 |
| 10 | 100 | - | - | 770 | 9,240 | 760 | - |

* - Calculated at an average of \$.90 per item

DEPARTMENT OF COMMUNICATIONS

POSTAL SUBSIDIES ALTERNATIVES PROJECT

REBATE OF DISTRIBUTION EXPENSES TO PUBLISHERS

MEDIUM CIRCULATION PUBLISHER

(Third Class Mailing Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Rebate | | Increased Distribution Expense | | | Estimated Annual Carrying Cost of Rebate \$000's |
|------------------------------------|---|---------|---------|-----------------------------------|---------|---------|---|
| | | Monthly | Annual | Monthly | Annual | Percent | |
| | | \$000's | \$000's | \$000's | \$000's | % | |
| <u>Scenario 1</u> | | | | | | | |
| 1 | 20 | 15 | 180 | 3 | 36 | 130 | 14 |
| 3 | 50 | 9 | 108 | 9 | 108 | 390 | 8 |
| 5 | 80 | 4 | 48 | 14 | 168 | 600 | 4 |
| <u>Scenario 2</u> | | | | | | | |
| 1 | 20 | 15 | 180 | 3 | 36 | 130 | 14 |
| 3 | 50 | 9 | 108 | 9 | 108 | 390 | 8 |
| 5 | 90 | 2 | 24 | 16 | 192 | 690 | 2 |
| <u>Scenario 3</u> | | | | | | | |
| 1 | 20 | 15 | 180 | 3 | 36 | 130 | 14 |
| 3 | 50 | 9 | 108 | 9 | 108 | 390 | 8 |
| 5 | 100 | - | - | 18 | 216 | 770 | - |
| <u>Scenario 4</u> | | | | | | | |
| 1 | 20 | 15 | 180 | 3 | 36 | 130 | 14 |
| 3 | 50 | 9 | 108 | 9 | 108 | 390 | 8 |
| 5 | 75 | 5 | 60 | 13 | 156 | 560 | 5 |
| 7 | 100 | - | - | 18 | 216 | 770 | - |
| <u>Scenario 5</u> | | | | | | | |
| 1 | 20 | 15 | 180 | 3 | 36 | 130 | 14 |
| 3 | 40 | 11 | 132 | 7 | 84 | 300 | 10 |
| 5 | 60 | 7 | 84 | 11 | 132 | 470 | 6 |
| 7 | 80 | 4 | 48 | 14 | 168 | 600 | 4 |
| 10 | 100 | - | - | 18 | 216 | 770 | - |

* - Calculated at an average of \$.60 per item

DEPARTMENT OF COMMUNICATIONS
POSTAL SUBSIDIES ALTERNATIVES PROJECT
REBATE OF DISTRIBUTION EXPENSES TO PUBLISHERS
SMALL CIRCULATION PUBLISHER
(Third Class Mailing Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Rebate | | Increased Distribution Expense | | | Estimated Annual Carrying Cost of Rebate \$000's |
|------------------------------------|---|--------------------|-------------------|-----------------------------------|-------------------|--------------|---|
| | | Monthly \$000's | Annual \$000's | Monthly \$000's | Annual \$000's | Percent % | |
| | | | | | | | |
| <u>Scenario 1</u> | | | | | | | |
| 1 | 20 | 4 | 48 | 1 | 12 | 200 | 4 |
| 3 | 50 | 3 | 30 | 2 | 30 | 500 | 2 |
| 5 | 80 | 1 | 12 | 4 | 48 | 800 | 1 |
| <u>Scenario 2</u> | | | | | | | |
| 1 | 20 | 4 | 48 | 1 | 12 | 200 | 4 |
| 3 | 50 | 3 | 30 | 2 | 30 | 500 | 2 |
| 5 | 90 | 1 | 6 | 4 | 54 | 900 | 1 |
| <u>Scenario 3</u> | | | | | | | |
| 1 | 20 | 4 | 48 | 1 | 12 | 200 | 4 |
| 3 | 50 | 3 | 30 | 2 | 30 | 500 | 2 |
| 5 | 100 | - | - | 5 | 60 | 1000 | - |
| <u>Scenario 4</u> | | | | | | | |
| 1 | 20 | 4 | 48 | 1 | 12 | 200 | 4 |
| 3 | 50 | 3 | 30 | 2 | 30 | 500 | 2 |
| 5 | 75 | 1 | 15 | 4 | 45 | 800 | 1 |
| 7 | 100 | - | - | 5 | 60 | 1000 | - |
| <u>Scenario 5</u> | | | | | | | |
| 1 | 20 | 4 | 48 | 1 | 12 | 200 | 4 |
| 3 | 40 | 3 | 36 | 2 | 24 | 400 | 3 |
| 5 | 60 | 2 | 24 | 3 | 36 | 600 | 2 |
| 7 | 80 | 1 | 12 | 4 | 48 | 800 | 1 |
| 10 | 100 | - | - | 5 | 60 | 1000 | - |

* - Calculated at an average of \$.40 per item

DEPARTMENT OF COMMUNICATIONS

POSTAL SUBSIDIES ALTERNATIVES PROJECT

REBATE OF DISTRIBUTION EXPENSES TO PUBLISHERS

LARGE CIRCULATION PUBLISHER

(Revised Second Class Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Rebate | | Increased Distribution Expense | | | Estimated Annual Carrying Cost of Rebate \$000's |
|------------------------------------|---|---------|---------|-----------------------------------|---------|---------|---|
| | | Monthly | Annual | Monthly | Annual | Percent | |
| | | \$000's | \$000's | \$000's | \$000's | % | |
| Scenario 1 | | | | | | | |
| 1 | 20 | 200 | 2,400 | 50 | 600 | 50 | 180 |
| 3 | 50 | 125 | 1,500 | 125 | 1,500 | 125 | 115 |
| 5 | 80 | 50 | 600 | 200 | 2,400 | 200 | 45 |
| Scenario 2 | | | | | | | |
| 1 | 20 | 200 | 2,400 | 50 | 600 | 50 | 180 |
| 3 | 50 | 125 | 1,500 | 125 | 1,500 | 125 | 115 |
| 5 | 90 | 25 | 300 | 225 | 2,700 | 220 | 20 |
| Scenario 3 | | | | | | | |
| 1 | 20 | 200 | 2,400 | 50 | 600 | 50 | 180 |
| 3 | 50 | 125 | 1,500 | 125 | 1,500 | 125 | 115 |
| 5 | 100 | - | - | 250 | 3,000 | 250 | - |
| Scenario 4 | | | | | | | |
| 1 | 20 | 200 | 2,400 | 50 | 600 | 50 | 180 |
| 3 | 50 | 125 | 1,500 | 125 | 1,500 | 125 | 115 |
| 5 | 75 | 63 | 756 | 187 | 2,244 | 185 | 60 |
| 7 | 100 | - | - | 250 | 3,000 | 250 | - |
| Scenario 5 | | | | | | | |
| 1 | 20 | 200 | 2,400 | 50 | 600 | 50 | 180 |
| 3 | 40 | 150 | 1,800 | 100 | 1,200 | 100 | 135 |
| 5 | 60 | 100 | 1,200 | 150 | 1,800 | 150 | 90 |
| 7 | 80 | 50 | 600 | 200 | 2,400 | 200 | 45 |
| 10 | 100 | - | - | 250 | 3,000 | 250 | - |

* - Calculated at an average of \$.35 per item

DEPARTMENT OF COMMUNICATIONS
POSTAL SUBSIDIES ALTERNATIVES PROJECT
REBATE OF DISTRIBUTION EXPENSES TO PUBLISHERS
MEDIUM CIRCULATION PUBLISHER
(Revised Second Class Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Rebate | | Increased Distribution Expense | | | Estimated Annual Carrying Cost of Rebate \$000's |
|------------------------------------|---|---------|---------|-----------------------------------|---------|---------|---|
| | | Monthly | Annual | Monthly | Annual | Percent | |
| | | \$000's | \$000's | \$000's | \$000's | % | |
| <u>Scenario 1</u> | | | | | | | |
| 1 | 20 | 7 | 84 | 2 | 24 | 85 | 6 |
| 3 | 50 | 5 | 54 | 4 | 54 | 190 | 4 |
| 5 | 80 | 2 | 24 | 7 | 84 | 300 | 2 |
| <u>Scenario 2</u> | | | | | | | |
| 1 | 20 | 7 | 84 | 2 | 24 | 85 | 6 |
| 3 | 50 | 5 | 54 | 4 | 54 | 190 | 4 |
| 5 | 90 | 1 | 12 | 8 | 96 | 340 | 1 |
| <u>Scenario 3</u> | | | | | | | |
| 1 | 20 | 7 | 84 | 2 | 24 | 85 | 6 |
| 3 | 50 | 5 | 54 | 4 | 54 | 190 | 4 |
| 5 | 100 | - | - | 9 | 108 | 385 | - |
| <u>Scenario 4</u> | | | | | | | |
| 1 | 20 | 7 | 84 | 2 | 24 | 85 | 6 |
| 3 | 50 | 5 | 54 | 4 | 54 | 190 | 4 |
| 5 | 75 | 2 | 24 | 7 | 84 | 300 | 2 |
| 7 | 100 | - | - | 9 | 108 | 385 | - |
| <u>Scenario 5</u> | | | | | | | |
| 1 | 20 | 7 | 84 | 2 | 24 | 85 | 6 |
| 3 | 40 | 5 | 60 | 4 | 48 | 170 | 5 |
| 5 | 60 | 4 | 48 | 5 | 60 | 215 | 4 |
| 7 | 80 | 2 | 24 | 7 | 84 | 300 | 2 |
| 10 | 100 | - | - | 9 | 108 | 385 | - |

* - Calculated at an average of \$.35 per item

DEPARTMENT OF COMMUNICATIONS

POSTAL SUBSIDIES ALTERNATIVES PROJECT

REBATE OF DISTRIBUTION EXPENSES TO PUBLISHERS

SMALL CIRCULATION PUBLISHER

(Revised Second Class Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Rebate | | Increased Distribution Expense | | | Estimated Annual Carrying Cost of Rebate \$000's |
|------------------------------------|---|--------------------|-------------------|-----------------------------------|-------------------|--------------|---|
| | | Monthly \$000's | Annual \$000's | Monthly \$000's | Annual \$000's | Percent % | |
| | | | | | | | |
| <u>Scenario 1</u> | | | | | | | |
| 1 | 20 | 3 | 36 | 1 | 12 | 200 | 3 |
| 3 | 50 | 2 | 24 | 2 | 24 | 400 | 2 |
| 5 | 80 | 1 | 12 | 3 | 36 | 600 | 1 |
| <u>Scenario 2</u> | | | | | | | |
| 1 | 20 | 3 | 36 | 1 | 12 | 200 | 3 |
| 3 | 50 | 2 | 24 | 2 | 24 | 400 | 2 |
| 5 | 90 | 1 | 5 | 3 | 43 | 700 | 1 |
| <u>Scenario 3</u> | | | | | | | |
| 1 | 20 | 3 | 36 | 1 | 12 | 200 | 3 |
| 3 | 50 | 2 | 24 | 2 | 24 | 400 | 2 |
| 5 | 100 | - | - | 4 | 48 | 800 | - |
| <u>Scenario 4</u> | | | | | | | |
| 1 | 20 | 3 | 36 | 1 | 12 | 200 | 3 |
| 3 | 50 | 2 | 24 | 2 | 24 | 400 | 2 |
| 5 | 75 | 1 | 12 | 3 | 36 | 600 | 1 |
| 7 | 100 | - | - | 4 | 48 | 800 | - |
| <u>Scenario 5</u> | | | | | | | |
| 1 | 20 | 3 | 36 | 1 | 12 | 200 | 3 |
| 3 | 40 | 2 | 29 | 2 | 19 | 300 | 2 |
| 5 | 60 | 2 | 19 | 2 | 29 | 500 | 2 |
| 7 | 80 | 1 | 12 | 3 | 36 | 600 | 1 |
| 10 | 100 | - | - | 4 | 48 | 800 | - |

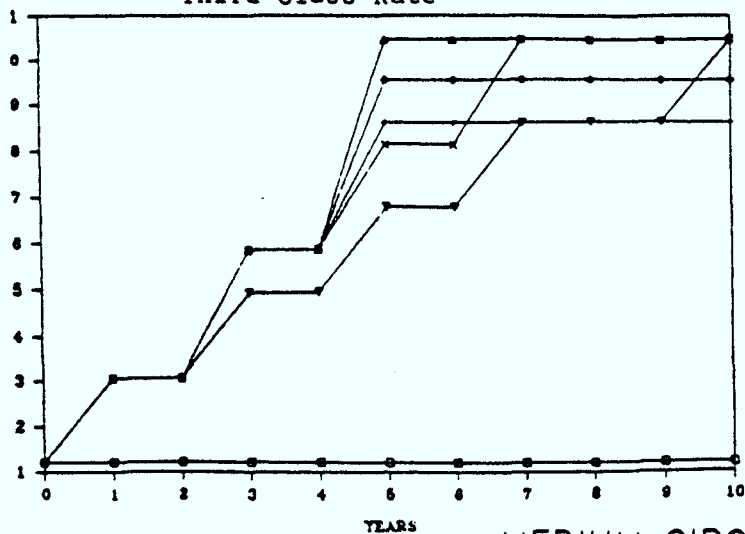
* - Calculated at an average of \$.35 per item

ALTERNATIVE 2

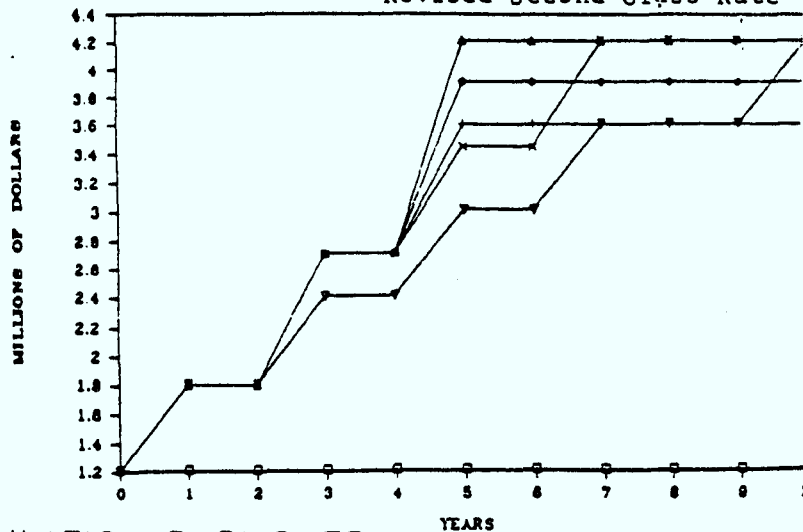
TAX CREDIT

LARGE CIRCULATION PUBLISHER

Third Class Rate

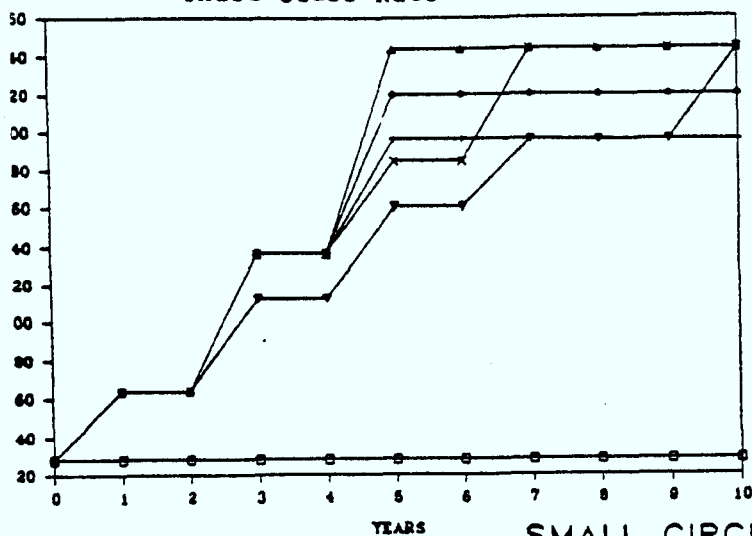


Revised Second Class Rate

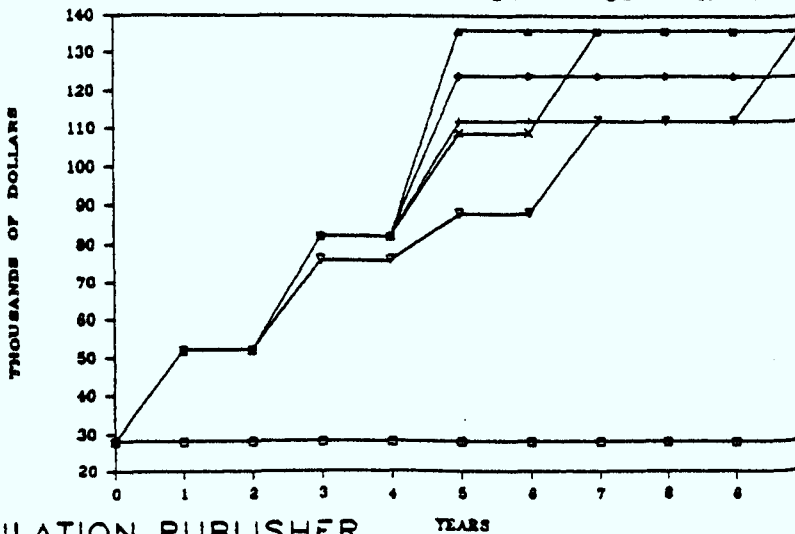


MEDIUM CIRCULATION PUBLISHER

Third Class Rate

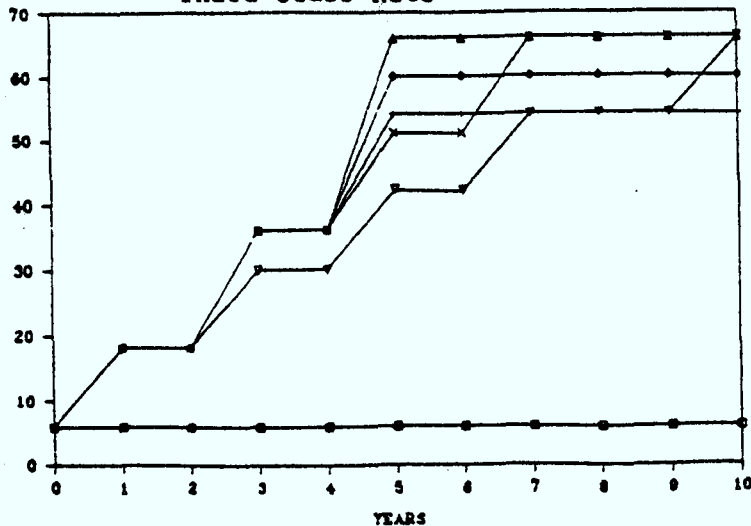


Revised Second Class Rate

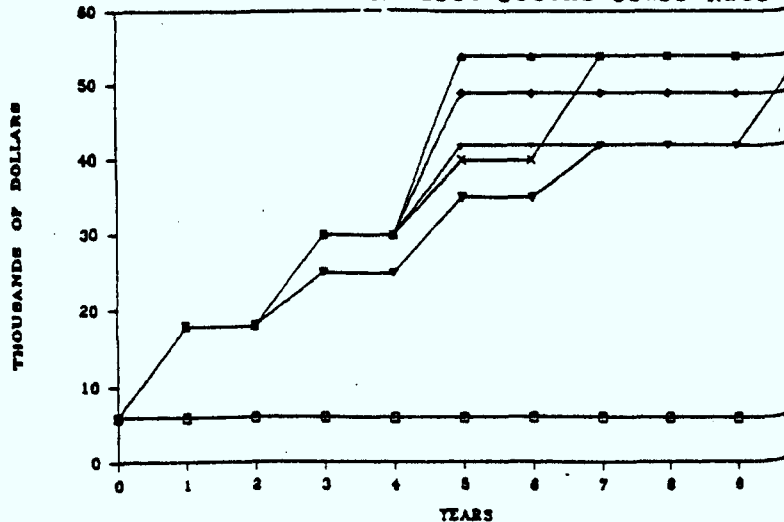


SMALL CIRCULATION PUBLISHER

Third Class Rate



Revised Second Class Rate



- - Current distribution cost
- | - Scenario 1
- ◇ - Scenario 2

- △ - Scenario 3
- × - Scenario 4
- ▽ - Scenario 5

ALTERNATIVE 2 -

TAX CREDIT

Operational Description

A tax credit system for refunding a portion of the publishers' increased distribution costs over a phase-in period is intended to accomplish the same financial result as the direct rebate of distribution expenses. However, it is directed to using the existing taxation filing system as the means of rebating the applicable portion of increased distribution expense. Publishers would realize the tax credit or rebate benefit on filing their annual returns.

Under this system, a percentage factor for the tax credit is established based on total distribution expense and the desired percentage subsidy reduction in any year. A publisher is entitled to a tax credit (deduction from taxes payable) equivalent to this percentage of distribution expenses. If the publisher has taxable income the credit or any portion thereof is offset against taxes otherwise payable. The tax credit would have to be 100% refundable permitting a cash refund of any unused portion or the entire credit should the publisher not have taxable income or be a non-profit organization.

Publishers will be required to pay the "normal" third class rate or revised second class rate during the phase-in period. The applicable portion of increased distribution expenses will be claimed as a tax credit depending on the option selected for implementation.

Financial Analysis

The following schedules (pages 20 to 25) present the financial implications of a tax credit system for each of the large, medium and small circulation publishers chosen for analysis under each of the phase-in options previously detailed. The schedules have been depicted in graph form on the opposite page showing the effect on distribution costs under each scenario.

The schedules present the amount of the tax credit (note that it is equivalent to the rebate previously discussed), the tax credit as a percentage of total distribution expenses and the carrying costs. The increased distribution expense to the publisher is not presented on the schedules, noting that it is equivalent to the increase presented under the previously detailed rebate alternative. As with the rebate, the calculations have been presented for both a third class mailing rate (pages 20 to 22) and the assumed revised second class rate of \$.35 per item (pages 23 to 25).

The estimated annual carrying cost of the tax credit, as with the rebate, is based on the costs incurred but not refundable or realized until after the filing process. Under the tax credit system it is assumed that the credit or refund would not be realized until six months after a publishers taxation year end and the filing and assessment of tax returns.

A summary of certain key financial data present on the schedules or carried forward from the rebate analysis and impacting on the publishers' operations during the phase-in of higher rates is set out below:

| | Circulation | | |
|---|-------------|------------|------------|
| | Large | Medium | Small |
| <u>Third Class Rate -</u> | | | |
| Maximum tax credit - year 1 (000's) | \$7,392 | \$ 180 | \$ 48 |
| Current subsidized annual distribution costs (000's) | 1,215 | 28 | 6 |
| Increased annual distribution costs with no rebate (000's) | \$9,240 | \$ 216 | \$ 60 |
| Percentage increase in distribution costs | 760% | 770% | 1,000% |
| Range of tax credit percentages depending on the phase-in percentage and period | 9% to 70% | 10% to 73% | 20% to 80% |
| Estimated annual carrying cost of tax credit - year 1 (000's) | \$ 740 | \$ 19 | \$ 5 |
| <u>Revised Second Class Rates -</u> | | | |
| Maximum tax credit - year 1 (000's) | \$2,400 | \$ 84 | \$ 36 |
| Current subsidized annual distribution costs (000's) | 1,215 | 28 | 6 |
| Increased annual distribution costs with no rebate (000's) | \$3,000 | \$ 108 | \$ 48 |
| Percentage increase in distribution costs | 250% | 385% | 800% |
| Range of tax credit percentages depending on the phase-in percentage and period | 7% to 56% | 8% to 60% | 9% to 65% |
| Estimated annual carrying cost of tax credit - year 1 (000's) | \$ 240 | \$ 8 | \$ 4 |

Under the tax credit system it is anticipated that a fixed percentage tax credit would be set for each of a large, medium and small publisher. This percentage would be adjusted in each year of the phase-in period. By referring to the schedules it is evident that although the percentages are relatively close for each case publisher they do vary from one to the other. To ensure that a publisher would not benefit or be adversely affected by a fixed rate further study would be required to establish a uniformly acceptable rate.

Operational Implications

It is expected that a tax credit system could be established in conjunction with the existing corporate income tax filing system. Although the publishers will require the administrative support to capture the data required for filing, the Department would not have to establish a processing section as with rebates. The tax credit would only require development of an added tax schedule for inclusion with tax returns. To enable the Department could monitor the cost of the program, Revenue Canada could accumulate the tax credit information as part of its computerized information data base. A Department rebate processing section would not be required.

The administrative support function and the financial implications to publishers are similar to those previously detailed for the "rebate of distribution expense" alternative (refer to pages 8 and 9).

DEPARTMENT OF COMMUNICATIONS
POSTAL SUBSIDIES ALTERNATIVES PROJECT

TAX CREDIT

LARGE CIRCULATION PUBLISHER

(Third Class Mailing Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Annual Tax Credit \$000's | Tax Credit As a Percentage of Total Distribution Expenses % | Estimated Annual Carrying Cost of Tax Credit \$000's |
|------------------------------------|---|---------------------------------|--|---|
| <u>Scenario 1</u> | | | | |
| 1 | 20 | 7,392 | 70 | 740 |
| 2 | 50 | 4,620 | 44 | 460 |
| 5 | 80 | 1,848 | 17 | 185 |
| <u>Scenario 2</u> | | | | |
| 1 | 20 | 7,392 | 70 | 740 |
| 2 | 50 | 4,620 | 44 | 460 |
| 5 | 90 | 924 | 9 | 95 |
| <u>Scenario 3</u> | | | | |
| 1 | 20 | 7,392 | 70 | 740 |
| 3 | 50 | 4,620 | 44 | 460 |
| 5 | 100 | - | - | - |
| <u>Scenario 4</u> | | | | |
| 1 | 20 | 7,392 | 70 | 740 |
| 3 | 50 | 4,620 | 44 | 460 |
| 5 | 75 | 2,316 | 22 | 235 |
| 7 | 100 | - | - | - |
| <u>Scenario 5</u> | | | | |
| 1 | 20 | 7,392 | 70 | 740 |
| 3 | 40 | 5,544 | 52 | 460 |
| 5 | 60 | 3,696 | 35 | 370 |
| 7 | 80 | 1,848 | 17 | 185 |
| 10 | 100 | - | - | - |

* - Calculated at an average of \$.90 per item

TAX CREDIT

MEDIUM CIRCULATION PUBLISHER

(Third Class Mailing Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Annual Tax Credit \$000's | Tax Credit As a Percentage of Total Distribution Expenses % | Es As Cat Cos Tax (\$ \$00 |
|------------------------------------|---|---------------------------------|--|---|
| <u>Scenario 1</u> | | | | |
| 1 | 20 | 180 | 73 | 19 |
| 3 | 50 | 108 | 44 | 11 |
| 5 | 80 | 48 | 20 | 5 |
| <u>Scenario 2</u> | | | | |
| 1 | 20 | 180 | 73 | 19 |
| 3 | 50 | 108 | 44 | 11 |
| 5 | 90 | 24 | 10 | 3 |
| <u>Scenario 3</u> | | | | |
| 1 | 20 | 180 | 73 | 19 |
| 3 | 50 | 108 | 44 | 11 |
| 5 | 100 | - | - | - |
| <u>Scenario 4</u> | | | | |
| 1 | 20 | 180 | 73 | 19 |
| 3 | 50 | 108 | 44 | 11 |
| 5 | 75 | 60 | 24 | 7 |
| 7 | 100 | - | - | - |
| <u>Scenario 5</u> | | | | |
| 1 | 20 | 180 | 73 | 19 |
| 3 | 40 | 132 | 54 | 13 |
| 5 | 60 | 84 | 34 | 8 |
| 7 | 80 | 48 | 20 | 5 |
| 10 | 100 | - | - | - |

* - Calculated at an average of \$.60 per item

DEPARTMENT OF COMMUNICATIONS
POSTAL SUBSIDIES ALTERNATIVES PROJECT

TAX CREDIT

SMALL CIRCULATION PUBLISHER

(Third Class Mailing Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Annual Tax Credit \$000's | Tax Credit As a Percentage of Total Distribution Expenses % | Estimated Annual Carrying Cost of Tax Credit \$000's |
|------------------------------------|---|---------------------------------|--|---|
| <u>Scenario 1</u> | | | | |
| 1 | 20 | 48 | 80 | 5 |
| 3 | 50 | 30 | 60 | 3 |
| 5 | 80 | 12 | 20 | 1 |
| <u>Scenario 2</u> | | | | |
| 1 | 20 | 48 | 80 | 5 |
| 3 | 50 | 30 | 60 | 3 |
| 5 | 90 | 6 | 20 | 1 |
| <u>Scenario 3</u> | | | | |
| 1 | 20 | 48 | 80 | 5 |
| 3 | 50 | 30 | 60 | 3 |
| 5 | 100 | - | - | - |
| <u>Scenario 4</u> | | | | |
| 1 | 20 | 48 | 80 | 5 |
| 3 | 50 | 24 | 40 | 3 |
| 5 | 75 | 12 | 20 | 1 |
| 7 | 100 | - | - | - |
| <u>Scenario 5</u> | | | | |
| 1 | 20 | 48 | 80 | 5 |
| 3 | 40 | 36 | 60 | 4 |
| 5 | 60 | 24 | 40 | 3 |
| 7 | 80 | 12 | 20 | 1 |
| 10 | 100 | - | - | - |

* - Calculated at an average of \$.40 per item

DEPARTMENT OF COMMUNICATIONS
POSTAL SUBSIDIES ALTERNATIVES PROJECT

TAX CREDIT

LARGE CIRCULATION PUBLISHER

(Revised Second Class Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Annual Tax Credit \$000's | Tax Credit As a Percentage of Total Distribution Expenses % | Estimated Annual Carrying Cost of Tax Credit \$000's |
|------------------------------------|---|---------------------------------|--|---|
| <u>Scenario 1</u> | | | | |
| 1 | 20 | 2,400 | 56 | 240 |
| 3 | 50 | 1,500 | 35 | 150 |
| 5 | 80 | 600 | 14 | 60 |
| <u>Scenario 2</u> | | | | |
| 1 | 20 | 2,400 | 56 | 240 |
| 3 | 50 | 1,500 | 35 | 150 |
| 5 | 90 | 300 | 7 | 30 |
| <u>Scenario 3</u> | | | | |
| 1 | 20 | 2,400 | 56 | 240 |
| 3 | 50 | 1,500 | 35 | 150 |
| 5 | 100 | - | - | - |
| <u>Scenario 4</u> | | | | |
| 1 | 20 | 2,400 | 56 | 240 |
| 3 | 50 | 1,500 | 35 | 150 |
| 5 | 75 | 756 | 18 | 80 |
| 7 | 100 | - | - | - |
| <u>Scenario 5</u> | | | | |
| 1 | 20 | 2,400 | 56 | 240 |
| 3 | 40 | 1,800 | 42 | 180 |
| 5 | 60 | 1,200 | 28 | 120 |
| 7 | 80 | 600 | 14 | 60 |
| 10 | 100 | - | - | - |

* - Calculated at an average of \$.35 per item

DEPARTMENT OF COMMUNICATIONS
POSTAL SUBSIDIES ALTERNATIVES PROJECT

TAX CREDIT

MEDIUM CIRCULATION PUBLISHER

(Revised Second Class Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Annual Tax Credit \$000's | Tax Credit As a Percentage of Total Distribution Expenses % | Estimated Annual Carrying Cost of Tax Credit \$000's |
|------------------------------------|---|---------------------------------|--|---|
| <u>Scenario 1</u> | | | | |
| 1 | 20 | 84 | 60 | 8 |
| 3 | 50 | 54 | 39 | 5 |
| 5 | 80 | 24 | 17 | 3 |
| <u>Scenario 2</u> | | | | |
| 1 | 20 | 84 | 60 | 8 |
| 3 | 50 | 54 | 39 | 5 |
| 5 | 90 | 12 | 8 | 1 |
| <u>Scenario 3</u> | | | | |
| 1 | 20 | 84 | 60 | 8 |
| 3 | 50 | 54 | 39 | 5 |
| 5 | 100 | - | - | - |
| <u>Scenario 4</u> | | | | |
| 1 | 20 | 84 | 60 | 8 |
| 3 | 50 | 54 | 39 | 5 |
| 5 | 75 | 24 | 17 | 3 |
| 7 | 100 | - | - | - |
| <u>Scenario 5</u> | | | | |
| 1 | 20 | 84 | 60 | 8 |
| 3 | 40 | 60 | 43 | 7 |
| 5 | 60 | 48 | 34 | 5 |
| 7 | 80 | 24 | 17 | 3 |
| 10 | 100 | - | - | - |

* - Calculated at an average of \$.35 per item

DEPARTMENT OF COMMUNICATIONS
POSTAL SUBSIDIES ALTERNATIVES PROJECT

TAX CREDIT

SMALL CIRCULATION PUBLISHER

(Revised Second Class Rate) *

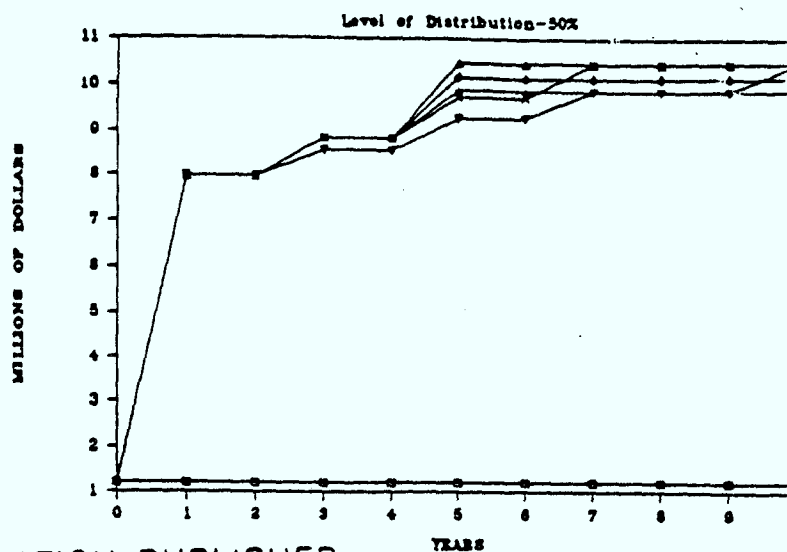
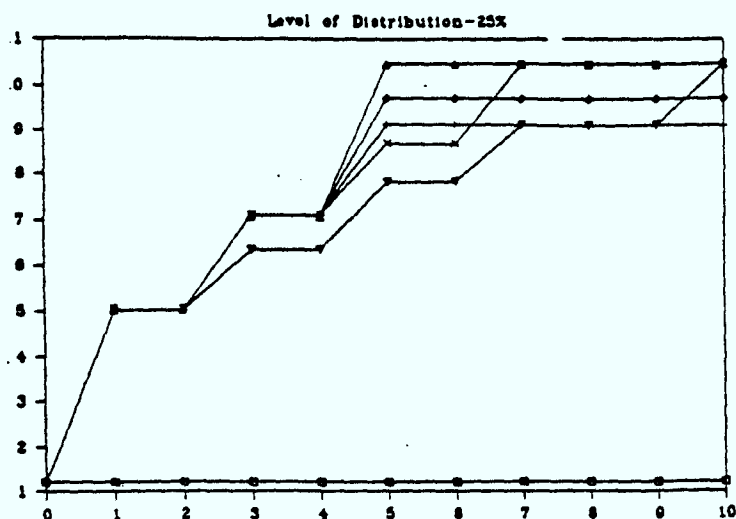
| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Annual Tax Credit \$000's | Tax Credit As a Percentage of Total Distribution Expenses % | Estimated Annual Carrying Cost of Tax Credit \$000's |
|------------------------------------|---|---------------------------------|--|---|
| <u>Scenario 1</u> | | | | |
| 1 | 20 | 36 | 65 | 4 |
| 3 | 50 | 24 | 44 | 3 |
| 5 | 80 | 12 | 22 | 1 |
| <u>Scenario 2</u> | | | | |
| 1 | 20 | 36 | 65 | 4 |
| 3 | 50 | 24 | 44 | 3 |
| 5 | 90 | 5 | 9 | 1 |
| <u>Scenario 3</u> | | | | |
| 1 | 20 | 36 | 65 | 4 |
| 3 | 50 | 24 | 44 | 3 |
| 5 | 100 | - | - | - |
| <u>Scenario 4</u> | | | | |
| 1 | 20 | 36 | 65 | 4 |
| 3 | 50 | 24 | 44 | 3 |
| 5 | 75 | 12 | 22 | 1 |
| 7 | 100 | - | - | - |
| <u>Scenario 5</u> | | | | |
| 1 | 20 | 36 | 65 | 4 |
| 3 | 40 | 29 | 53 | 3 |
| 5 | 60 | 19 | 35 | 2 |
| 7 | 80 | 12 | 22 | 1 |
| 10 | 100 | - | - | - |

* - Calculated at an average of \$.35 per item

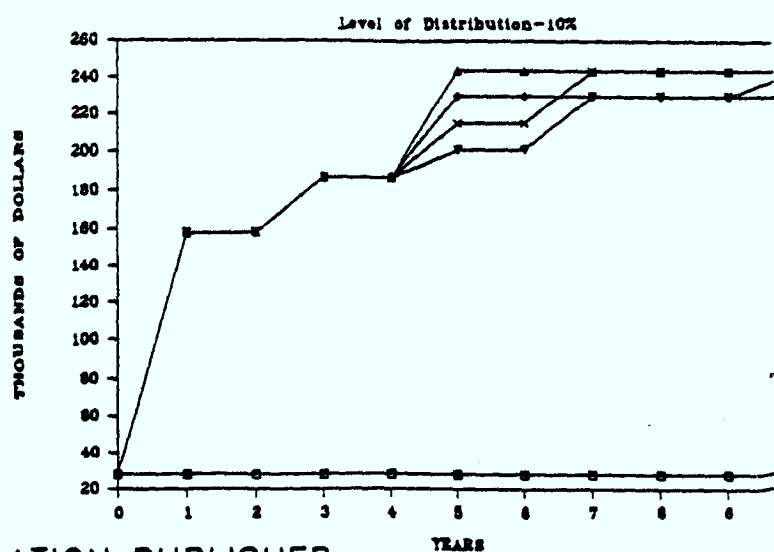
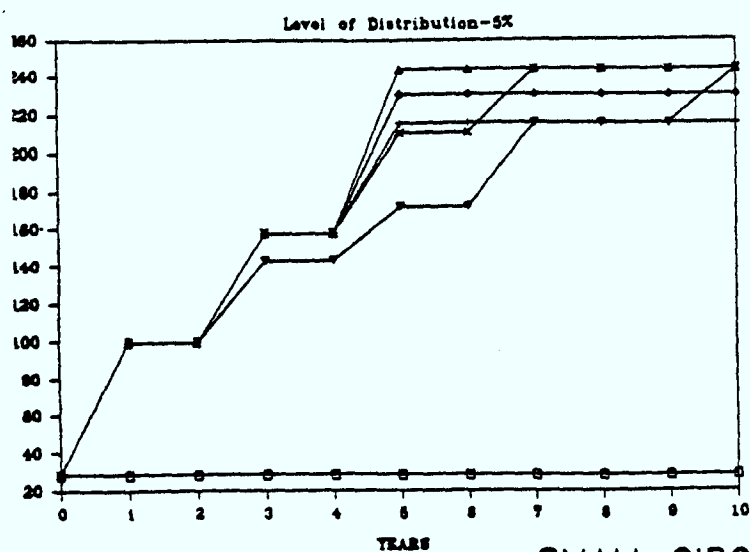
ALTERNATIVE 3

REBATE THE MINIMUM DISTRIBUTION EXPENSE

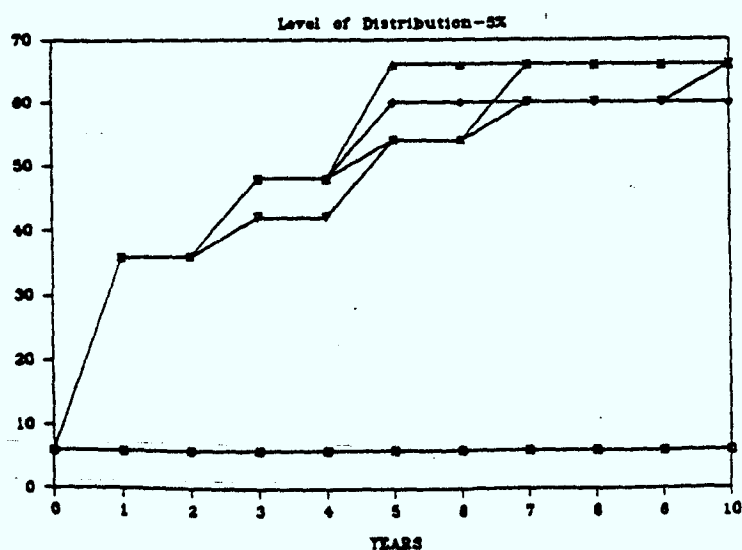
LARGE CIRCULATION PUBLISHER



MEDIUM CIRCULATION PUBLISHER



SMALL CIRCULATION PUBLISHER



□ - Current distribution cost
 | - Scenario 1
 ◇ - Scenario 2

△ - Scenario 3
 x - Scenario 4
 ▽ - Scenario 5

ALTERNATIVE 3 -

REBATE THE MINIMUM DISTRIBUTION EXPENSE

Operational Description

A rebate based on a minimum distribution expense assumes that distribution costs can be expressed as a percentage of total publication costs. For non-subsidized publications a minimum and uniform percentage could be established for the industry. It is expected that all subsidized publishers can or should be able to absorb any increase in costs up to the minimum or bench mark level and that increased costs above that level can be phased in over the subsidy reduction period.

The following example is illustrative of this alternative:

Assumptions:

- a) The industry standard (bench mark) is 25% ie. distribution expense is 25% of total publication costs;
- b) The subsidized publisher's current distribution expense is 10% of total publication costs; and
- c) The publisher's distribution expense will increase to 50% of total publication costs without a subsidy.

Rebate Process:

- a) The publisher is required to absorb the 15% increase to the standard (bench mark) without a phase-in rebate; and
- b) The additional 25% above the bench mark will be subject to the rebate process over the phase-in period using the subsidy reduction percentages.

Publishers would be required to pay the "normal" third class rate or subsidized second class rate during the phase-in period and to apply for a rebate of a portion of the increased cost depending on the option selected for implementation. The publisher will file an annual return requesting a refund of the applicable portion of its increased postal costs above the bench mark. As the phase-in period extends the publisher will have to absorb the additional portion of the increased costs not refunded.

Financial Analysis

The following schedules (pages 30 to 32) present the financial implications of a rebate based on a minimum level of distribution expense for each of the large, medium and small circulation publishers. The schedules have been depicted in graph form on the opposite page showing the effect on distribution costs under each senario. The calculations have been presented assuming two minimum levels of distribution expense expressed as a percentage of total publication costs for each circulation size. The schedules present the amount of rebate, the increased distribution cost to be absorbed including any increase to the assumed level of distribution expense, expressed in dollars and as a percentage of current expense, and the carrying cost of the rebate until received. The carrying costs are based on realizing the rebate three months following the year for which the annual filing is made.

No calculations have been presented for a revised second class rate of \$.35 per item because there is no industry standard or bench mark for the revised rate against which to measure the financial impact.

The following table summarizes distribution expense as a percentage of current publication costs both with and without the current subsidy for each of the case study publishers reviewed:

| | Distribution Expense As A Percent of Publication Costs | |
|--------|---|-------------------------|
| | With Subsidy % | Without Subsidy % |
| Large | 8 | 71 |
| Medium | 2 | 17 |
| Small | 1 | 11 |

The above table identifies a significant variation in distribution costs as a percentage of publication costs when the subsidy is removed. The attached schedules (pages 30 to 32) also reflect little uniform correlation between the large, medium and small publishers.

Minimum distribution expense as a percentage of total publication costs could differ substantially between publishers depending on circulation size, the volume of sales which are attributed to subscriptions and other factors affecting publication costs. Setting a minimum level of distribution expense could be affected by individual publisher economies or efficiencies bearing little relation to distribution costs.

Operational Implications

Setting the minimum percentage distribution level will require a major study or review of financial data for varying sized publishers, including analysis of factors affecting publication costs. If, in fact, the result of this review is a system of differing minimum levels, a classification system will have to be established and each publisher categorized accordingly before the rebate process is recommended.

The administrative support function required for this alternative and the financial implications to publishers are similar to those previously detailed for the "rebate of distribution expense" alternative (refer to pages 8 and 9).

Department of Communications
Postal Subsidies Alternative Project
Rebate the Minimum Distribution Expense
Large Circulation Publisher
(Third Class Mailing Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Assumed Level of Distribution Expense - 25% | | | | | | Assumed Level of Distribution Expenses - 50% | | | | | | Estimated Annual Carrying Cost of Rebate \$000's | |
|---------------------------------|---|---|---------|---|---------|-------------------------------------|---|---|---------------|---|---------------------------------|-------------------------------------|-----|---|--|
| | | Annual Rebate | | Increased Distribution Expenses | | | | Estimated Annual Carrying Cost of Rebate \$000's | Annual Rebate | | Increased Distribution Expenses | | | | |
| | | Percent of Publication Costs % | \$000's | Percent of Publication Costs % | \$000's | Percent of Current Costs % | Percent of Publication Costs % | | \$000's | Percent of Publication Costs % | \$000's | Percent of Current Costs % | | | |
| | | | | | | | | | | | | | | | |
| Scenario 1. | | | | | | | | | | | | | | | |
| 1 | 20 | 37 | 5,427 | 26 | 3,813 | 315 | 405 | 17 | 2,493 | 46 | 6,747 | 555 | 190 | | |
| 2 | 50 | 23 | 3,373 | 40 | 5,867 | 485 | 250 | 11 | 1,613 | 52 | 7,627 | 630 | 120 | | |
| 5 | 80 | 9 | 1,320 | 54 | 7,920 | 650 | 100 | 4 | 587 | 59 | 8,653 | 715 | 45 | | |
| Scenario 2 | | | | | | | | | | | | | | | |
| 1 | 20 | 37 | 5,427 | 26 | 3,813 | 315 | 405 | 17 | 2,493 | 46 | 6,747 | 555 | 190 | | |
| 3 | 50 | 23 | 3,373 | 40 | 5,867 | 485 | 250 | 11 | 1,613 | 52 | 7,627 | 630 | 120 | | |
| 5 | 90 | 5 | 733 | 58 | 8,507 | 700 | 55 | 2 | 293 | 61 | 8,947 | 740 | 20 | | |
| Scenario 3 | | | | | | | | | | | | | | | |
| 1 | 20 | 37 | 5,427 | 26 | 3,813 | 315 | 405 | 17 | 2,493 | 46 | 6,747 | 555 | 190 | | |
| 3 | 50 | 23 | 3,373 | 40 | 5,867 | 485 | 250 | 11 | 1,613 | 52 | 7,627 | 630 | 120 | | |
| 5 | 100 | - | - | 63 | 9,240 | 760 | - | - | - | 63 | 9,240 | 760 | - | | |
| Scenario 4 | | | | | | | | | | | | | | | |
| 1 | 20 | 37 | 5,427 | 26 | 3,813 | 315 | 405 | 17 | 2,493 | 46 | 6,747 | 555 | 190 | | |
| 3 | 50 | 23 | 3,373 | 40 | 5,867 | 485 | 250 | 11 | 1,613 | 52 | 7,627 | 630 | 120 | | |
| 5 | 75 | 12 | 1,760 | 51 | 7,480 | 620 | 130 | 5 | 733 | 58 | 8,507 | 700 | 55 | | |
| 7 | 100 | - | - | 63 | 9,240 | 760 | - | - | - | 63 | 9,240 | 760 | - | | |
| Scenario 5 | | | | | | | | | | | | | | | |
| 1 | 20 | 37 | 5,427 | 26 | 3,813 | 315 | 405 | 17 | 2,493 | 46 | 6,747 | 555 | 190 | | |
| 3 | 40 | 28 | 4,107 | 35 | 5,133 | 425 | 310 | 13 | 1,907 | 50 | 7,333 | 605 | 140 | | |
| 5 | 60 | 18 | 2,640 | 45 | 6,600 | 545 | 200 | 8 | 1,173 | 55 | 8,067 | 665 | 90 | | |
| 7 | 80 | 9 | 1,320 | 54 | 7,920 | 650 | 100 | 4 | 587 | 59 | 8,653 | 715 | 45 | | |
| 10 | 100 | - | - | 63 | 9,240 | 760 | - | - | - | 63 | 9,240 | 760 | - | | |

* Calculated at an average of \$.90 per item

Department of Communications
Postal Subsidies Alternative Project
Rebate the Minimum Distribution Expense
Medium Circulation Publisher
(Third Class Mailing Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Assumed Level of Distribution Expense - 5% | | | | | | Assumed Level of Distribution Expenses - 10% | | | | | | Estimated Annual Carrying Cost of Rebate \$000's |
|---------------------------------|---|--|---------|---|---------|---|---|--|---|---------|---|-----|---|---|
| | | Annual Rebate | | Increased Distribution Expenses | | Estimated Annual Carrying Cost of Rebate \$000's | Annual Rebate | | Increased Distribution Expenses | | Estimated Annual Carrying Cost of Rebate \$000's | | | |
| | | Percent of Publication Costs % | \$000's | Percent of Publication Costs % | \$000's | | Percent of Publication Costs % | \$000's | Percent of Publication Costs % | \$000's | | | | |
| | | | | | | | | | | | | | | |
| Scenario 1 | | | | | | | | | | | | | | |
| 1 | 20 | 10 | 144 | 5 | 72 | 260 | 11 | 6 | 86 | 9 | 130 | 465 | 6 | |
| 2 | 50 | 6 | 86 | 9 | 130 | 465 | 6 | 4 | 58 | 11 | 158 | 565 | 4 | |
| 5 | 80 | 2 | 29 | 13 | 187 | 670 | 2 | 1 | 14 | 14 | 202 | 720 | 1 | |
| Scenario 2 | | | | | | | | | | | | | | |
| 1 | 20 | 10 | 144 | 5 | 72 | 260 | 11 | 6 | 86 | 9 | 130 | 465 | 6 | |
| 3 | 50 | 6 | 86 | 9 | 130 | 465 | 6 | 4 | 58 | 11 | 158 | 565 | 4 | |
| 5 | 90 | 1 | 14 | 14 | 202 | 720 | 1 | 1 | 14 | 14 | 202 | 720 | 1 | |
| Scenario 3 | | | | | | | | | | | | | | |
| 1 | 20 | 10 | 144 | 5 | 72 | 260 | 11 | 6 | 86 | 9 | 130 | 465 | 6 | |
| 3 | 50 | 6 | 86 | 9 | 130 | 465 | 6 | 4 | 58 | 11 | 158 | 565 | 4 | |
| 5 | 100 | - | - | 15 | 216 | 770 | - | - | - | 15 | 216 | 770 | - | |
| Scenario 4 | | | | | | | | | | | | | | |
| 1 | 20 | 10 | 144 | 5 | 72 | 260 | 11 | 6 | 86 | 9 | 130 | 465 | 6 | |
| 3 | 50 | 6 | 86 | 9 | 130 | 465 | 6 | 4 | 58 | 11 | 158 | 565 | 4 | |
| 5 | 75 | 3 | 43 | 12 | 173 | 620 | 3 | 2 | 29 | 13 | 187 | 670 | 2 | |
| 7 | 100 | - | - | 15 | 216 | 770 | - | - | - | 15 | 216 | 770 | - | |
| Scenario 5 | | | | | | | | | | | | | | |
| 1 | 20 | 10 | 144 | 5 | 72 | 260 | 11 | 6 | 86 | 9 | 138 | 465 | 6 | |
| 3 | 40 | 7 | 101 | 8 | 115 | 410 | 8 | 4 | 58 | 11 | 158 | 565 | 4 | |
| 5 | 60 | 5 | 72 | 10 | 144 | 515 | 5 | 3 | 43 | 12 | 173 | 620 | 3 | |
| 7 | 80 | 2 | 29 | 13 | 187 | 670 | 2 | 1 | 14 | 14 | 202 | 720 | 1 | |
| 10 | 100 | - | - | 15 | 216 | 770 | - | - | - | 15 | 216 | 770 | - | |

* Calculated at an average of \$.60 per item

Department of Communications
Postal Subsidies Alternative Project
Rebate the Minimum Distribution Expense
Small Circulation Publisher
(Third Class Mailing Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Assumed Level of Distribution Expense - 5% | | | | | | Assumed Level of Distribution Expenses - 7% | | | | | | Estimated Annual Carrying Cost of Rebate \$000's |
|---------------------------------|---|--|---------|---|---------|-------------------------------------|---|---|---------|---|---------|-------------------------------------|---|---|
| | | Annual Rebate | | Increased Distribution Expenses | | | Estimated Annual Carrying Cost of Rebate \$000's | Annual Rebate | | Increased Distribution Expenses | | | | |
| | | Percent of Publication Costs % | \$000's | Percent of Publication Costs % | \$000's | Percent of Current Costs % | | Percent of Publication Costs % | \$000's | Percent of Publication Costs % | \$000's | Percent of Current Costs % | | |
| | | | | | | | | | | | | | | |
| Scenario 1 | | | | | | | | | | | | | | |
| 1 | 20 | 5 | 30 | 5 | 30 | 500 | 2 | 3 | 18 | 7 | 42 | 700 | 2 | |
| 2 | 50 | 3 | 18 | 7 | 42 | 700 | 2 | 2 | 12 | 8 | 48 | 800 | 1 | |
| 5 | 80 | 1 | 6 | 9 | 54 | 900 | 1 | 1 | 6 | 9 | 54 | 900 | 1 | |
| Scenario 2 | | | | | | | | | | | | | | |
| 1 | 20 | 5 | 30 | 5 | 30 | 500 | 2 | 3 | 18 | 7 | 42 | 700 | 2 | |
| 3 | 50 | 3 | 18 | 7 | 42 | 700 | 2 | 2 | 12 | 8 | 48 | 800 | 1 | |
| 5 | 90 | 1 | 6 | 9 | 54 | 900 | 1 | - | - | 10 | 60 | 1,000 | - | |
| Scenario 3 | | | | | | | | | | | | | | |
| 1 | 20 | 5 | 30 | 5 | 30 | 500 | 2 | 3 | 18 | 7 | 42 | 700 | 2 | |
| 3 | 50 | 3 | 18 | 7 | 42 | 700 | 2 | 2 | 12 | 8 | 48 | 800 | 1 | |
| 5 | 100 | - | - | 10 | 60 | 1,000 | - | - | - | 10 | 60 | 1,000 | - | |
| Scenario 4 | | | | | | | | | | | | | | |
| 1 | 20 | 5 | 30 | 5 | 30 | 500 | 2 | 3 | 18 | 7 | 42 | 700 | 2 | |
| 3 | 50 | 3 | 18 | 7 | 42 | 700 | 2 | 2 | 12 | 8 | 48 | 800 | 1 | |
| 5 | 75 | 2 | 12 | 8 | 48 | 800 | 1 | 1 | 6 | 9 | 54 | 900 | 1 | |
| 7 | 100 | - | - | 10 | 60 | 1,000 | - | - | - | 10 | 60 | 1,000 | - | |
| Scenario 5 | | | | | | | | | | | | | | |
| 1 | 20 | 5 | 30 | 5 | 30 | 500 | 2 | 3 | 18 | 7 | 42 | 700 | 2 | |
| 3 | 40 | 4 | 24 | 6 | 36 | 600 | 2 | 2 | 12 | 8 | 48 | 800 | 1 | |
| 5 | 60 | 2 | 12 | 8 | 48 | 800 | 1 | 2 | 12 | 8 | 48 | 800 | 1 | |
| 7 | 80 | 1 | 6 | 9 | 54 | 900 | 1 | 1 | 6 | 9 | 54 | 900 | 1 | |
| 10 | 100 | - | - | 10 | 60 | 1,000 | - | - | - | 10 | 60 | 1,000 | - | |

* Calculated at an average of \$.40 per item

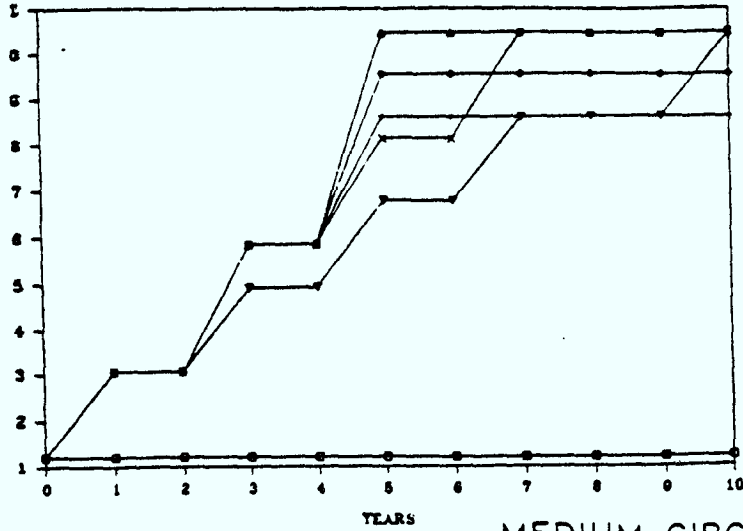
ALTERNATIVE 4

REBATE OF DISTRIBUTION EXPENSE TO DISTRIBUTORS/

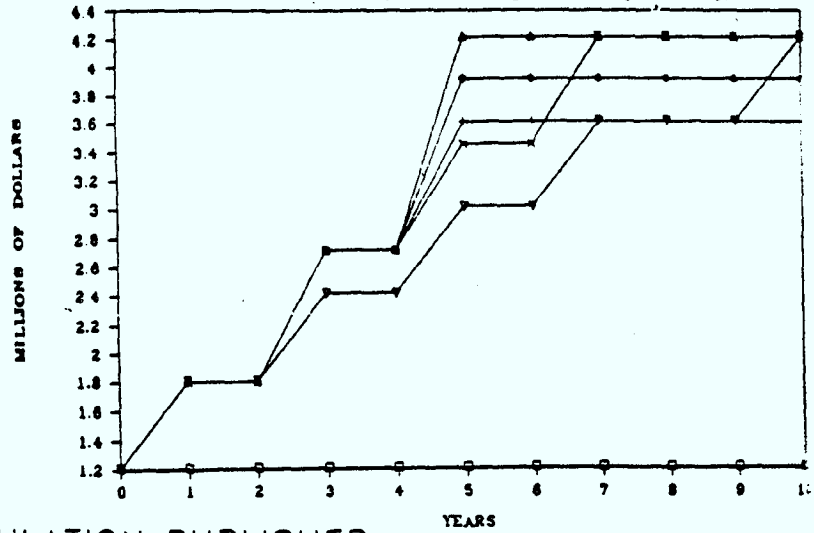
DISCOUNT TO PUBLISHERS

LARGE CIRCULATION PUBLISHER

Third Class Rate

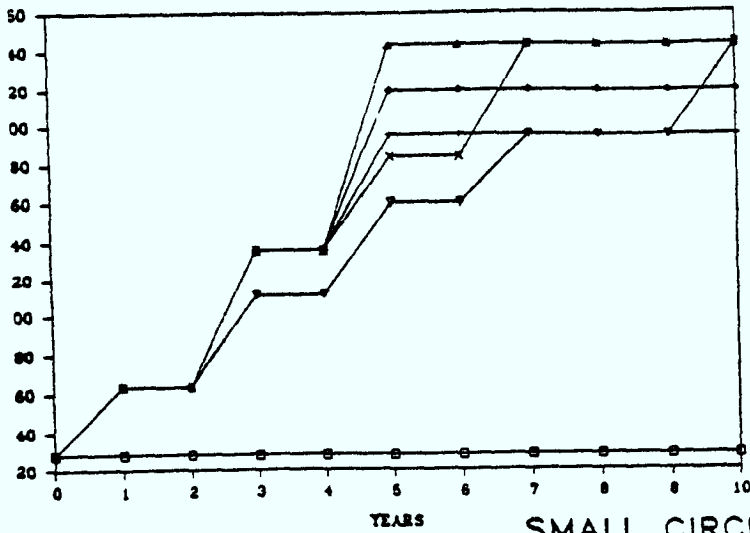


Revised Second Class Rate

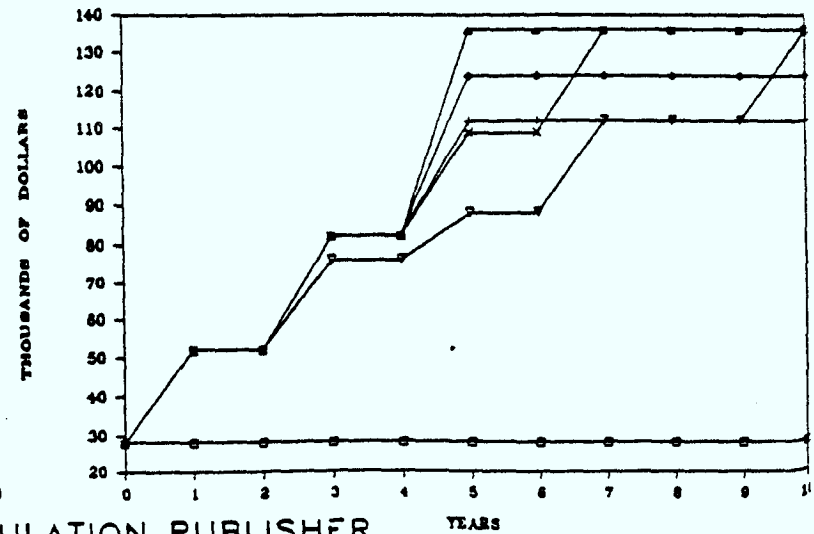


MEDIUM CIRCULATION PUBLISHER

Third Class Rate

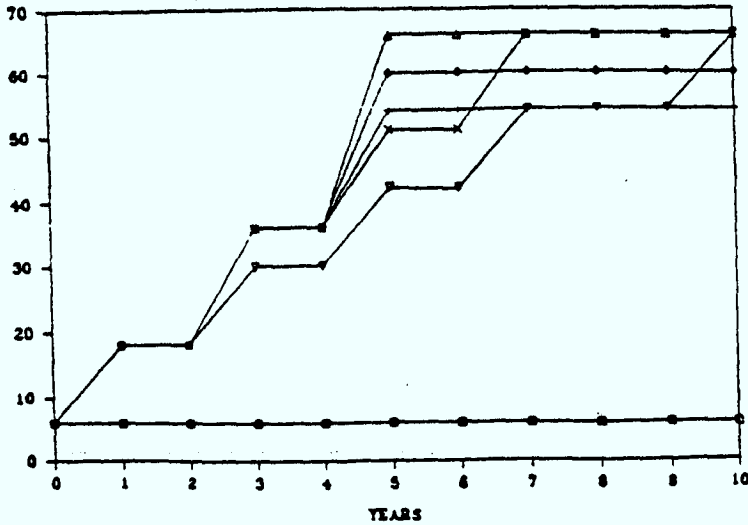


Revised Second Class Rate

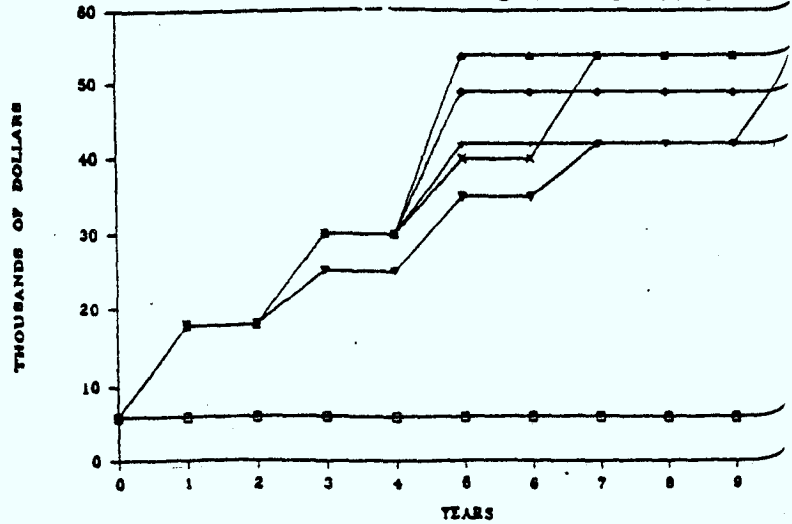


SMALL CIRCULATION PUBLISHER

Third Class Rate



Revised Second Class Rate



- - Current distribution cost
- | - Scenario 1
- ◇ - Scenario 2

- △ - Scenario 3
- × - Scenario 4
- ▽ - Scenario 5

ALTERNATIVE 4 -

REBATE OF DISTRIBUTION EXPENSE TO DISTRIBUTORS/DISCOUNT TO PUBLISHERS

Operational Description

As an alternative to having individual publishers file for rebates, a system could be implemented to have distributors file for the rebate. Distributors would include Canada Post and any other distributor or courier of periodicals.

Under this alternative a distributor would invoice a publisher for the regular third class mailing rate or the revised second class rate, if applicable. A discount would be presented on the invoice to arrive at a net amount payable by the publisher. The discount would be a preset rate approved by the Department taking into account the applicable desired phase-in option for increasing postal rates. The publisher would pay to the distributor the discounted amount thereby absorbing any increase between the current subsidized rate and the approved discounted rate.

It is anticipated that the distributor will file an annual return requesting a rebate of the discounts given to publishers, submitting copies of the discounted invoices as substantiation for the claim. Since the number of distributors would be substantially less than the number of publishers, rebates could be processed more frequently than on an annual basis.

Financial Analysis

The following schedules (pages 37 to 42) present the financial implications of the rebate or discount system for each of the large, medium and small publishers chosen for analysis under each of the phase-in options previously detailed. The schedules have been depicted in graph form on the opposite page showing the effect on distribution costs under each scenario. The schedules and graphs are identical to those presented previously for the "rebate of distribution expense" alternative (pages 10 to 15), noting that:

- a) The rebate is paid to the distributor and not the publisher;
- b) A portion of the increased distribution expense is still to be absorbed by the publisher; and
- c) The carrying cost of the rebate, if any, is a cost to be absorbed by the distributor and not the publisher. The distributor's cash flow is effected by the timing of the rebate in relation to the cost incurred and not the publisher's cash flow.

Operational Implications

The administrative support functions required for this alternative and the financial implications to publishers are similar to those previously detailed for the "rebate of distribution expense" alternative (refer to pages 8 and 9), except that:

- a) Distributors will have to provide a system to account for the discounts given; and
- b) Distributors will have to alter their financial planning and budgeting processes to absorb the potential carrying costs of the rebates.

DEPARTMENT OF COMMUNICATIONS

POSTAL SUBSIDIES ALTERNATIVES PROJECT

REBATE OF DISTRIBUTION EXPENSES TO DISTRIBUTORS

(DISCOUNT TO PUBLISHERS)

LARGE CIRCULATION PUBLISHER

(Third Class Mailing Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Rebate (Discount) | | Increased Distribution Expense | | | Estimated Annual Carrying Cost of Rebate \$000's |
|------------------------------------|---|-------------------|---------|-----------------------------------|---------|---------|---|
| | | Monthly | Annual | Monthly | Annual | Percent | |
| | | \$000's | \$000's | \$000's | \$000's | % | |
| Scenario 1 | | | | | | | |
| 1 | 20 | 616 | 7,392 | 154 | 1,848 | 150 | 555 |
| 3 | 50 | 385 | 4,620 | 385 | 4,620 | 380 | 345 |
| 5 | 80 | 154 | 1,848 | 616 | 7,392 | 610 | 140 |
| Scenario 2 | | | | | | | |
| 1 | 20 | 616 | 7,392 | 154 | 1,848 | 150 | 555 |
| 3 | 50 | 385 | 4,620 | 385 | 4,620 | 380 | 345 |
| 5 | 90 | 77 | 924 | 693 | 8,316 | 690 | 70 |
| Scenario 3 | | | | | | | |
| 1 | 20 | 616 | 7,392 | 154 | 1,848 | 150 | 555 |
| 3 | 50 | 385 | 4,620 | 385 | 4,620 | 380 | 345 |
| 5 | 100 | - | - | 770 | 9,240 | 760 | - |
| Scenario 4 | | | | | | | |
| 1 | 20 | 616 | 7,392 | 154 | 1,848 | 150 | 555 |
| 3 | 50 | 385 | 4,620 | 385 | 4,620 | 380 | 345 |
| 5 | 75 | 193 | 2,316 | 577 | 6,924 | 570 | 175 |
| 7 | 100 | - | - | 770 | 9,240 | 760 | - |
| Scenario 5 | | | | | | | |
| 1 | 20 | 616 | 7,392 | 154 | 1,848 | 150 | 555 |
| 3 | 40 | 462 | 5,544 | 308 | 3,696 | 300 | 415 |
| 5 | 60 | 308 | 3,696 | 462 | 5,544 | 460 | 280 |
| 7 | 80 | 154 | 1,848 | 616 | 7,392 | 610 | 140 |
| 10 | 100 | - | - | 770 | 9,240 | 760 | - |

* - Calculated at an average of \$.90 per item

DEPARTMENT OF COMMUNICATIONS
POSTAL SUBSIDIES ALTERNATIVES PROJECT
REBATE OF DISTRIBUTION EXPENSES TO DISTRIBUTORS
(DISCOUNT TO PUBLISHERS)
MEDIUM CIRCULATION PUBLISHER
(Third Class Mailing Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Rebate (Discount) | | Increased Distribution Expense | | | Estimated Annual Carrying Cost of Rebate \$000's |
|------------------------------------|---|-------------------|---------|-----------------------------------|---------|---------|---|
| | | Monthly | Annual | Monthly | Annual | Percent | |
| | | \$000's | \$000's | \$000's | \$000's | % | |
| <u>Scenario 1</u> | | | | | | | |
| 1 | 20 | 15 | 180 | 3 | 36 | 130 | 14 |
| 3 | 50 | 9 | 108 | 9 | 108 | 390 | 8 |
| 5 | 80 | 4 | 48 | 14 | 168 | 600 | 4 |
| <u>Scenario 2</u> | | | | | | | |
| 1 | 20 | 15 | 180 | 3 | 36 | 130 | 14 |
| 3 | 50 | 9 | 108 | 9 | 108 | 390 | 8 |
| 5 | 90 | 2 | 24 | 16 | 192 | 690 | 2 |
| <u>Scenario 3</u> | | | | | | | |
| 1 | 20 | 15 | 180 | 3 | 36 | 130 | 14 |
| 3 | 50 | 9 | 108 | 9 | 108 | 390 | 8 |
| 5 | 100 | - | - | 18 | 216 | 770 | - |
| <u>Scenario 4</u> | | | | | | | |
| 1 | 20 | 15 | 180 | 3 | 36 | 130 | 14 |
| 3 | 50 | 9 | 108 | 9 | 108 | 390 | 8 |
| 5 | 75 | 5 | 60 | 13 | 156 | 560 | 5 |
| 7 | 100 | - | - | 18 | 216 | 770 | - |
| <u>Scenario 5</u> | | | | | | | |
| 1 | 20 | 15 | 180 | 3 | 36 | 130 | 14 |
| 3 | 40 | 11 | 132 | 7 | 84 | 300 | 10 |
| 5 | 60 | 7 | 84 | 11 | 132 | 470 | 6 |
| 7 | 80 | 4 | 48 | 14 | 168 | 600 | 4 |
| 10 | 100 | - | - | 18 | 216 | 770 | - |

* - Calculated at an average of \$.60 per item

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DEPARTMENT OF COMMUNICATIONS

POSTAL SUBSIDIES ALTERNATIVES PROJECT

REBATE OF DISTRIBUTION EXPENSES TO DISTRIBUTORS

(DISCOUNT TO PUBLISHERS)

SMALL CIRCULATION PUBLISHER

(Third Class Mailing Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Rebate (Discount) | | Increased Distribution Expense | | | Estimated Annual Carrying Cost of Rebate \$000's |
|------------------------------------|---|-------------------|---------|-----------------------------------|---------|---------|---|
| | | Monthly | Annual | Monthly | Annual | Percent | |
| | | \$000's | \$000's | \$000's | \$000's | % | |
| <u>Scenario 1</u> | | | | | | | |
| 1 | 20 | 4 | 48 | 1 | 12 | 200 | 4 |
| 3 | 50 | 3 | 30 | 2 | 30 | 500 | 2 |
| 5 | 80 | 1 | 12 | 4 | 48 | 800 | 1 |
| <u>Scenario 2</u> | | | | | | | |
| 1 | 20 | 4 | 48 | 1 | 12 | 200 | 4 |
| 3 | 50 | 3 | 30 | 2 | 30 | 500 | 2 |
| 5 | 90 | 1 | 6 | 4 | 54 | 900 | 1 |
| <u>Scenario 3</u> | | | | | | | |
| 1 | 20 | 4 | 48 | 1 | 12 | 200 | 4 |
| 3 | 50 | 3 | 30 | 2 | 30 | 500 | 2 |
| 5 | 100 | - | - | 5 | 60 | 1000 | - |
| <u>Scenario 4</u> | | | | | | | |
| 1 | 20 | 4 | 48 | 1 | 12 | 200 | 4 |
| 3 | 50 | 3 | 30 | 2 | 30 | 500 | 2 |
| 5 | 75 | 1 | 12 | 4 | 48 | 800 | 1 |
| 7 | 100 | - | - | 5 | 60 | 1000 | - |
| <u>Scenario 5</u> | | | | | | | |
| 1 | 20 | 4 | 48 | 1 | 12 | 200 | 4 |
| 3 | 40 | 3 | 36 | 2 | 24 | 400 | 3 |
| 5 | 60 | 2 | 24 | 3 | 36 | 600 | 2 |
| 7 | 80 | 1 | 12 | 4 | 48 | 800 | 1 |
| 10 | 100 | - | - | 5 | 60 | 1000 | - |

* - Calculated at an average of \$.40 per item

DEPARTMENT OF COMMUNICATIONS

POSTAL SUBSIDIES ALTERNATIVES PROJECT

REBATE OF DISTRIBUTION EXPENSES TO DISTRIBUTORS

(DISCOUNT TO PUBLISHERS)

LARGE CIRCULATION PUBLISHER

(Revised Second Class Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Rebate (Discount) | | Increased Distribution Expense | | | Estimated Annual Carrying Cost of Rebate \$000's |
|------------------------------------|---|--------------------|-------------------|-----------------------------------|-------------------|--------------|---|
| | | Monthly \$000's | Annual \$000's | Monthly \$000's | Annual \$000's | Percent % | |
| | | | | | | | |
| <u>Scenario 1</u> | | | | | | | |
| 1 | 20 | 200 | 2,400 | 50 | 600 | 50 | 180 |
| 3 | 50 | 125 | 1,500 | 125 | 1,500 | 125 | 115 |
| 5 | 80 | 50 | 600 | 200 | 2,400 | 200 | 45 |
| <u>Scenario 2</u> | | | | | | | |
| 1 | 20 | 200 | 2,400 | 50 | 600 | 50 | 180 |
| 3 | 50 | 125 | 1,500 | 125 | 1,500 | 125 | 115 |
| 5 | 90 | 25 | 300 | 225 | 2,700 | 220 | 20 |
| <u>Scenario 3</u> | | | | | | | |
| 1 | 20 | 200 | 2,400 | 50 | 600 | 50 | 180 |
| 3 | 50 | 125 | 1,500 | 125 | 1,500 | 125 | 115 |
| 5 | 100 | - | - | 250 | 3,000 | 250 | - |
| <u>Scenario 4</u> | | | | | | | |
| 1 | 20 | 200 | 2,400 | 50 | 600 | 50 | 180 |
| 3 | 50 | 125 | 1,500 | 125 | 1,500 | 125 | 115 |
| 5 | 75 | 63 | 756 | 187 | 2,244 | 185 | 60 |
| 7 | 100 | - | - | 250 | 3,000 | 250 | - |
| <u>Scenario 5</u> | | | | | | | |
| 1 | 20 | 200 | 2,400 | 50 | 600 | 50 | 180 |
| 3 | 40 | 150 | 1,800 | 100 | 1,200 | 100 | 135 |
| 5 | 60 | 100 | 1,200 | 150 | 1,800 | 150 | 90 |
| 7 | 80 | 50 | 600 | 200 | 2,400 | 200 | 45 |
| 10 | 100 | - | - | 250 | 3,000 | 250 | - |

* - Calculated at an average of \$.35 per item

DEPARTMENT OF COMMUNICATIONS

POSTAL SUBSIDIES ALTERNATIVES PROJECT

REBATE OF DISTRIBUTION EXPENSES TO DISTRIBUTORS

(DISCOUNT TO PUBLISHERS)

MEDIUM CIRCULATION PUBLISHER

(Revised Second Class Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Rebate (Discount) | | Increased Distribution Expense | | | Estimated Annual Carrying Cost of Rebate \$000's |
|------------------------------------|---|-------------------|---------|-----------------------------------|---------|---------|---|
| | | Monthly | Annual | Monthly | Annual | Percent | |
| | | \$000's | \$000's | \$000's | \$000's | % | |
| <u>Scenario 1</u> | | | | | | | |
| 1 | 20 | 7 | 84 | 2 | 24 | 85 | 6 |
| 3 | 50 | 5 | 54 | 4 | 54 | 190 | 4 |
| 5 | 80 | 2 | 24 | 7 | 84 | 300 | 2 |
| <u>Scenario 2</u> | | | | | | | |
| 1 | 20 | 7 | 84 | 2 | 24 | 85 | 6 |
| 3 | 50 | 5 | 54 | 4 | 54 | 190 | 4 |
| 5 | 90 | 1 | 12 | 8 | 96 | 340 | 1 |
| <u>Scenario 3</u> | | | | | | | |
| 1 | 20 | 7 | 84 | 2 | 24 | 85 | 6 |
| 3 | 50 | 5 | 54 | 4 | 54 | 190 | 4 |
| 5 | 100 | - | - | 9 | 108 | 385 | - |
| <u>Scenario 4</u> | | | | | | | |
| 1 | 20 | 7 | 84 | 2 | 24 | 85 | 6 |
| 3 | 50 | 5 | 54 | 4 | 54 | 190 | 4 |
| 5 | 75 | 2 | 27 | 7 | 81 | 300 | 2 |
| 7 | 100 | - | - | 9 | 108 | 385 | - |
| <u>Scenario 5</u> | | | | | | | |
| 1 | 20 | 7 | 84 | 2 | 24 | 85 | 6 |
| 3 | 40 | 5 | 60 | 4 | 48 | 170 | 5 |
| 5 | 60 | 4 | 48 | 5 | 60 | 215 | 4 |
| 7 | 80 | 2 | 24 | 7 | 84 | 300 | 2 |
| 10 | 100 | - | - | 9 | 108 | 385 | - |

* - Calculated at an average of \$.60 per item

DEPARTMENT OF COMMUNICATIONS

POSTAL SUBSIDIES ALTERNATIVES PROJECT

REBATE OF DISTRIBUTION EXPENSES TO DISTRIBUTORS

(DISCOUNT TO PUBLISHERS)

SMALL CIRCULATION PUBLISHER

(Revised Second Class Rate) *

| Year of Subsidy Reduction | Percent of Present Subsidy Reduction % | Rebate (Discount) | | Increased Distribution Expense | | | Estimated Annual Carrying Cost of Rebate \$000's |
|------------------------------------|---|-------------------|---------|-----------------------------------|---------|---------|---|
| | | Monthly | Annual | Monthly | Annual | Percent | |
| | | \$000's | \$000's | \$000's | \$000's | % | |
| <u>Scenario 1</u> | | | | | | | |
| 1 | 20 | 3 | 36 | 1 | 12 | 200 | 3 |
| 3 | 50 | 2 | 24 | 2 | 24 | 400 | 2 |
| 5 | 80 | 1 | 12 | 3 | 36 | 600 | 1 |
| <u>Scenario 2</u> | | | | | | | |
| 1 | 20 | 3 | 36 | 1 | 12 | 200 | 3 |
| 3 | 50 | 2 | 24 | 2 | 24 | 400 | 2 |
| 5 | 90 | 1 | 5 | 3 | 43 | 700 | .5 |
| <u>Scenario 3</u> | | | | | | | |
| 1 | 20 | 3 | 36 | 1 | 12 | 200 | 3 |
| 3 | 50 | 2 | 24 | 2 | 24 | 400 | 2 |
| 5 | 100 | - | - | 4 | 48 | 800 | - |
| <u>Scenario 4</u> | | | | | | | |
| 1 | 20 | 3 | 36 | 1 | 12 | 200 | 3 |
| 3 | 50 | 2 | 24 | 2 | 24 | 400 | 2 |
| 5 | 75 | 1 | 12 | 3 | 36 | 600 | 1 |
| 7 | 100 | - | - | 4 | 48 | 800 | - |
| <u>Scenario 5</u> | | | | | | | |
| 1 | 20 | 3 | 36 | 1 | 12 | 200 | 3 |
| 3 | 40 | 2 | 29 | 2 | 19 | 300 | 2 |
| 5 | 60 | 2 | 19 | 2 | 29 | 500 | 2 |
| 7 | 80 | 1 | 12 | 3 | 36 | 600 | 1 |
| 10 | 100 | - | - | 4 | 48 | 800 | - |

* - Calculated at an average of \$.40 per item

OTHER ALTERNATIVES REVIEWED

ALTERNATIVE 5 -

TAX DEDUCTION FOR SUBSCRIPTIONS

Under the above alternative subscribers to those designated periodicals on which subsidized postal rates currently apply would be entitled to deduct from personal taxable income some portion or all of their subscription costs. In this manner the increased distribution expense incurred by a publisher following the elimination of the postal subsidy could be passed on to subscribers in the form of increased subscription rates. By permitting a tax deduction for subscriptions the increased rates would supposedly not affect a subscribers decision to renew their subscription since their net, after tax, cost would not materially increase.

The alternative has not been analyzed further as a possible means of supporting the periodical publishing industry for the following reasons:

- a) The value of the tax deduction to subscribers is dependent on a subscriber's individual rate of tax, if any, and therefore may vary significantly;
- b) The tax deduction does not focus directly on a publisher's increased distribution costs. It is an indirect response to increasing costs which may or may not impact on a publisher's operations;
- c) It does not reduce a publisher's distribution costs over a phase-in period; and
- d) It is only a marketing tool for publishers to improve subscription revenue in hope of offsetting increased costs.

ALTERNATIVE 6 -

TAX CREDIT FOR SUBSCRIPTIONS

A tax credit for some portion or all of a subscription price is a direct deduction from income taxes payable by a subscriber. As with the tax deduction for subscriptions, it is directed to increasing the number of subscriptions or reducing the possibility of cancelled subscriptions as increased distribution expenses incurred by a publisher are passed on to the public through increased subscription prices. By permitting a tax deduction for subscriptions the increased rates would supposedly not affect a subscribers decision to renew their subscription since their net, after tax, cost would not materially increase.

The alternative has not been analyzed further as a possible means of supporting the periodical publishing industry for the following reasons:

- a) The tax deduction does not focus directly on a publisher's increased distribution costs. As with the tax credit it is an indirect response to increasing costs which may or may no impact on a publisher's operations;
- b) It does not directly reduce a publisher's distribution costs over a phase-in period;
- c) It is only a marketing tool for publishers to improve subscription revenue in hope of offsetting increased costs;
- d) Individuals would be required to file tax returns to realize the credit; and
- e) Setting the appropriate rate of tax credit would be difficult.

ALTERNATIVE 7 -

REFUNDABLE VOUCHERS FOR SUBSCRIPTIONS

Under this alternative subscribers would be given a form of voucher when purchasing specific subscriptions. If additional subscriptions are acquired, the subscriber would use the vouchers to pay for or reduce the price of the subscriptions being purchased. The receiving publisher would submit the vouchers to the Department for a cash rebate and in this manner offset their increased distribution costs.

The alternative has not been analyzed further as a possible means of supporting the periodical publishing industry for the following reasons:

- a) A voucher system would be extremely complex and difficult to control and monitor;
- b) It is only a marketing tool for publishers to improve subscription circulation in hope of offsetting increased costs.
- c) It does not focus directly on a publisher's increased distribution costs. It is an indirect response to increasing costs which may or may not impact on a publisher's operations; and
- d) It would be difficult to set an appropriate value for the voucher that would ensure the alternative's success as an means of support.

IV. CONCLUSION

We have reviewed and reported on what we consider to be seven alternative means of providing support to the periodical industry during a phase-in of higher postal rates in the event that the current postal subsidy program is reduced or eliminated. Of the seven alternatives four have been analyzed in detail and three set aside as not suitable for further analysis.

During the course of our study we have focussed our review on the direct monetary impact on publishers of a specific alternative's implementation. We have also considered the administrative burden requirements for the publishing industry and the Department or Departments involved in the implementation process.

In conclusion we have ranked the four analyzed alternatives, in order of their recommended use as means of providing support, as follows:

1. Rebate of Distribution Expense to Publishers
2. Tax Credit
3. Rebate of Distribution Expense to Distributions/Discount to Publishers
4. Rebate the Minimum Distribution Expense

Certain of the key factors and considerations impacting on the above ranking are set out below.

1. Rebate of Distribution Expense to Publishers

- * A rebate process using predetermined phase-in percentages presents the easiest alternative by which publishers can calculate the rebate and monitor and adjust for the financial impact of increasing distribution costs.

- * Any financial hardship to the publisher associated with the carrying cost of the rebate presented in this report could be reduced or eliminated by increasing the allowed number of rebate filings from the annual return format contemplated.
- * The alternative and the method of its application would be consistent for all publishers. No analysis would be required of varying factors such as size, tax status or operational situation which may affect the impact on a specific publisher.
- * From the Department's viewpoint this alternative would cost the most or as much as other less satisfactory alternatives in terms of the number of person years required to control the rebate process. This number would depend on the number of claims submitted for processing and the frequency of rebates. It is evident that the current one-half person year allotted to the subsidy program would have to be substantially increased.
- * The supporting forms, submission documentation for payment, and calculation of the proportionate rebate would be relatively easy to prepare, submit and review.

2. Tax Credit

- * The existing tax filing system could be used for processing during the phase-in period without a significant increase in Department person years.
- * The tax status of individual publishers would vary significantly requiring a flexible system to monitor and process rebates in the form of tax credits, direct refunds or a combination of both, depending on the profitability of the individual publisher.
- * The ysc system is relatively inflexible in that it would not easily permit payment or deduction of the increased distribution costs other than on an annual filing basis. Therefore, it is difficult

to eliminate or reduce the financial hardship to the publisher associated with carrying cost of the rebate.

3. Rebate of Distribution Expense to Distributors/Discount to Publishers

- * The factors and costs associated with this alternative are similar to those for the rebate to publishers alternative. However, having both distributors and publishers involved in the process introduces two sources of conflict or criticism for implementation of higher postal rates. Distributors will be burdened with the processing and administrative responsibilities and potential carrying costs of the rebates while publishers will be burdened with the increasing distribution costs.

4. Rebate the Minimum Distribution Expense

The factors and costs associated with this alternative are also similar to those for the rebate to publishers alternative with one significant additional negative factor, that being the determination of a standardized or uniform minimum percentage distribution level or levels. The percentage could, in fact, vary depending on the circulation size, volume of sales attributed to subscription, or economies and efficiencies affecting individual publishing operations. Any attempt at setting a uniform rate for application to all or certain classes of publishers would present a major source of conflict as well as requiring significant study and negotiation with the publishing industry.

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