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Communications
Canada

① EVALUATION ASSESSMENT
OF BILL C-58

Evaluation Assessment

Rapport préparatoire d'évaluation

PROGRAM EVALUATION • DIVISION • DE L'ÉVALUATION DES PROGRAMMES

Queen

① EVALUATION ASSESSMENT
OF BILL C-58

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Ce rapport préparatoire d'évaluation a été préparé par la Division de l'évaluation des programmes du Ministère des communications du Canada.

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EXECUTIVE SUMMARY

The following report presents the findings of the assessment of the evaluation requirements for Bill C-58.

Section 19 of the Tax Act, or **Bill C-58** as it is commonly referred to, is part of an array of legislative measures designed to support the Canadian periodical and newspaper industries. **Bill C-58** disallows as a tax deductible expense any advertising which is placed in non-Canadian media and is aimed at Canadian markets.

The primary objective of **Bill C-58** is to keep Canadian advertising dollars in Canada. Recent escalation of bilateral trade negotiations with the U.S., however, has thrown into sharp focus the issues associated with such protective measures.

This evaluation assessment:

- (1) provides an historical analysis of the development of **Bill C-58**;
- (2) identifies the main features and objectives of the legislation;
- (3) identifies the issues that would be addressed in a subsequent evaluation study;
- (4) assesses the feasibility of undertaking an evaluation; and
- (5) presents various evaluation options.

The assessment study has determined that the program objectives and program profile have been adequately defined and that the relationship between the objectives of **Bill C-58** and its intended impacts and effects are plausible enough to allow a meaningful evaluation to proceed.

The following evaluation questions have been identified by issues:

1. Program Validity

Is **Bill C-58** successful in diverting advertising revenue away from non-Canadian toward Canadian media?

How and to what extent has **Bill C-58** prevented foreign investors from establishing publishing businesses in Canada?

2. Objectives Achievement

In what manner and to what extent does the enforcement of **Bill C-58** complement, duplicate, overlap or work at cross purposes with other legislation or program initiatives?

Has **Bill C-58** created greater stability and viability in the periodical and newspaper industries?

What is the nature and degree of change in these industries; since **Bill C - 58** came into force?

3. Enforcement of the Legislation

Is there reasonable compliance with the Act such that the current state of the industry is a true reflection of the intended effects of the Act and not a distortion?

Are the decision criteria used to define Canadian periodicals and newspapers being applied consistently?

How might these criteria be communicated to advertisers in advance to allow for financial planning and compliance?

4. Alternatives

Are there alternative mechanisms to **Bill C-58** that would retain its' original objectives yet avoid its drawbacks?

SOMMAIRE

Le présent rapport donne les conclusions de l'analyse des critères d'évaluation du projet de loi C-58.

L'article 19 de la loi de l'impôt, communément appelée projet de loi C-58, fait partie d'une série de mesures législatives visant à appuyer l'industrie canadienne de l'édition des périodiques et des journaux. Le projet de loi C-58 interdit de déduire de revenu imposable les sommes consacrés à la publicité faite à l'intention des marchés canadiens dans des médias étrangers.

L'objectif premier du projet de loi C-58 est de garder au pays les fonds canadiens affectés à la publicité. Toutefois, les questions associées à de telles mesures protectionnistes sont devenues le point de mire des discussions par suite de l'intensification récente des négociations de libre-échange avec les Etats-Unis.

L'étude préparatoire

- (1) fait l'historique de l'élaboration du projet de loi C-58;
- (2) détermine les principales caractéristiques et les objectifs de la loi;
- (3) détermine les questions qui seront examinées lors d'une évaluation ultérieure;
- (4) examine la faisabilité d'une évaluation;
- (5) présente enfin diverses options pour l'évaluation.

Cette étude préparatoire à l'évaluation a permis de déterminer que les objectifs et le profil du programme ont bien été définis et que le lien entre les objectifs du projet de loi C-58 et les répercussions prévues est suffisamment vraisemblable pour qu'une évaluation significative puisse être réalisée.

Les questions suivantes ont été identifiées et regroupées par sujet:

1. Validité du programme

Le projet de loi C-58 permettra-t-il de faire en sorte que ce soient les médias canadiens plutôt qu'étrangers qui bénéficient des recettes publicitaires?

De quelle façon et dans quelle mesure le projet de loi C-58 empêchera-t-il les investisseurs d'ouvrir des maisons d'édition au Canada?

2. Réalisation des objectifs

De quelle façon et dans quelle mesure est-ce que l'application du projet de loi C-58 complète, réitère ou chevauche celle d'autres lois ou programmes ou encore va à l'encontre d'autres lois ou programmes?

Le projet de loi C-58 a-t-il amené une plus grande stabilité ou viabilité au sein de l'industrie de l'édition des périodiques et des journaux?

Quelle est la nature et l'ampleur des changements survenus dans cette industrie depuis l'entrée en vigueur de cette loi?

3. Application de la loi

Est-ce que la loi est suffisamment bien respectée pour que l'état actuel de l'industrie illustre réellement les effets qu'elle devait avoir?

Les critères servant à déterminer ce qu'est un périodique ou un journal canadien sont-ils appliqués sans exception?

Comment ces critères pourraient-ils être communiqués à l'avance aux annonceurs pour leur permettre de les respecter et d'effectuer leur planification financière en conséquence?

4. Solutions de rechange

Existe-t-il d'autres mécanismes à part le projet de loi C-58 qui permettraient d'atteindre les objectifs initiaux sans en avoir les inconvénients.

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The primary objective of Bill C-58 is to keep Canadian advertising dollars in Canada. Recent escalation of bilateral trade negotiations with the U.S., however, has thrown into sharp focus the issues associated with such protective measures.

This evaluation assessment:

- (1) provides an historical analysis of the development of Bill C-58;
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The following evaluation questions have been identified by issues:

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Is Bill C-58 successful in diverting advertising revenue away from non-Canadian toward Canadian media?

How and to what extent has Bill C-58 prevented foreign investors from establishing publishing business^{es} in Canada?

2. Objectives Achievement

In what manner and to what extent does the enforcement of Bill C-58 complement, duplicate, overlap or work at cross purposes with other legislation or program initiatives?

Has Bill C-58 created greater stability and viability in the periodical and newspaper industries?

What is the nature and degree of change in these industries; since Bill C-58 came into force?

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Are the decision criteria used to define Canadian periodicals and newspapers being applied consistently?

How might these criteria be communicated to advertisers in advance to allow for financial planning and compliance?

4. Alternatives

Are there alternative mechanisms to Bill C-58 that would retain its' original objectives yet avoid its drawbacks?

1.0 INTRODUCTION

Section 19 of the Tax Act, or Bill C-58 as it is commonly referred to, is part of a number of legislative measures designed to support the Canadian periodical and newspaper industries. Bill C-58 disallows as a tax deduction any advertising expense incurred in a non-Canadian periodical or newspaper if that advertising is aimed at Canadian markets.

The primary objective of Bill C-58 is to keep Canadian advertising dollars in Canada and therefore ensure the continued survival of the Canadian periodical and newspaper industries.

The major purposes of this evaluation assessment are:

1. To provide an historical analysis of the development of Bill C-58;
2. To identify the main features and objectives of the legislation;
3. To identify the issues that would be addressed in a subsequent evaluation study;
4. To assess the feasibility of undertaking an evaluation; and
5. To present various evaluation options.

1.0 INTRODUCTION (Cont'd)

This assessment frames the major issues surrounding Bill C-58 within an overall plan that states the terms of reference for an evaluation. The Act itself, the minutes of the Parliamentary standing Committee¹, the House of Commons debates, the Cultural Affairs and Broadcasting Sector of the DOC and a previous Impact study of Bill C-58² have been reviewed or consulted to determine the scope and objectives of the program³.

Discussions with the Publishing Policy Division of the Cultural Affairs and Broadcasting sector of the DOC were undertaken to get an understanding of how the provisions of Bill C-58 are monitored and enforced and to identify any problems or issues arising out of the administration of the program. Reviewed in this report are the history and development of policy measures which dealt with periodical publishing in the post-war era and which culminated in Bill C-58. The summary of this review appears in Appendix I. This report also describes the subsequent monitoring activities of Revenue Canada of the periodical industry, vis-a-vis Bill C-58, and the environment within which these activities operate.

Evaluation issues and approaches will be defined and indicators which could be used to evaluate the issues will be identified. Following from this will be a proposal for a number of studies which would address the evaluation issues along with estimates of time, costs and resource requirements. Various evaluation options will be described and the implications of conducting different options will be examined. Finally, this assessment will report its findings and recommendations.

2.0 PROGRAM PROFILE

2.1 Mandate

Sections 19.1 and 19.2 of the Tax Act received Royal assent July 16, 1976 (See Exhibit I). Bill C-58 in toto was proclaimed and came into force in September of the same year¹¹. Bill C-58 amended Section 19 of the Income Tax Act vis-a-vis periodicals by repealing subsections 19(1), 19(2) and 19(4) and replacing the two former subsections with 19(1). Abrogation of subsection 19(4) henceforth cancelled the status of exemption that arts, education, and religious periodicals had enjoyed.

Section 19(1) in its current form disallows, as a tax deduction any advertising outlay in non-Canadian newspapers and periodicals if the advertising is aimed at Canadian consumers. This subsection, incidentally, still allows as a tax deductible expense, advertising outlays in non-Canadian periodicals by Canadian advertisers wishing to export.

Abrogation of subsection 19(2) made it impossible for TIME and Readers' Digest to continue their Canadian editions (with their attendant advertising clientele) since they were now defined as non-Canadian periodicals.

A "Canadian" periodical is interpreted as one; that is 75% Canadian-owned, whose chairman and 75% of the Board of Directors are Canadian citizens, and whose context had to be not substantially (20 per cent or more) the same as a non-Canadian periodical. This new definition is contained in Section 19(5) of the Act which was proclaimed in its present form in 1977-78.

2.0 PROGRAM PROFILE (Cont'd)

2.2 Objectives

The specific objective of the legislation is:

1. to keep advertising dollars, associated with Canadian media, in Canada.

This objective seeks to accomplish the following general objectives:

1. to promote fortified national periodical, newspaper and broadcast industries;
2. to improve the quality of the publishing industry;
3. to promote Canadian Heritage and Identity.

A more detailed discussion of these objectives occurs in Appendix I, the Historical Context of Bill C-58.

2.3 Description and Activities

Under the Tax Act Revenue Canada grants as a tax deduction to Canadian advertisers, any costs amounted from advertising in Canadian media. Section 19, or Bill C-58, however, disallows that tax deduction if advertising is placed in a non-Canadian periodical, newspaper or broadcast medium.

2.0 PROGRAM PROFILE (Cont'd)

2.3 Description and Activities (Cont'd)

The program organization of Revenue Canada is divided among four activities: Return processing; Compliance; Notices of Objection and Appeals and; Administration¹². The two activities which are appropriate to an evaluation of Bill C-58 are Returns Processing and Compliance.

Returns Processing

The Public Enquiries function of Returns processing among other activities receives inquiries for explanations of the applicability of deductions or exemptions to advance rulings. Some of these inquiries are from advertisers wishing to comply with current Canadian content and ownership legislation. An issue raised from this function, which will be expanded on in Section 5 of this report, concerns the confidentiality of the aforesaid rulings.

The other activity of Revenue Canada which has implications for an evaluation of Bill C-58, is Compliance.

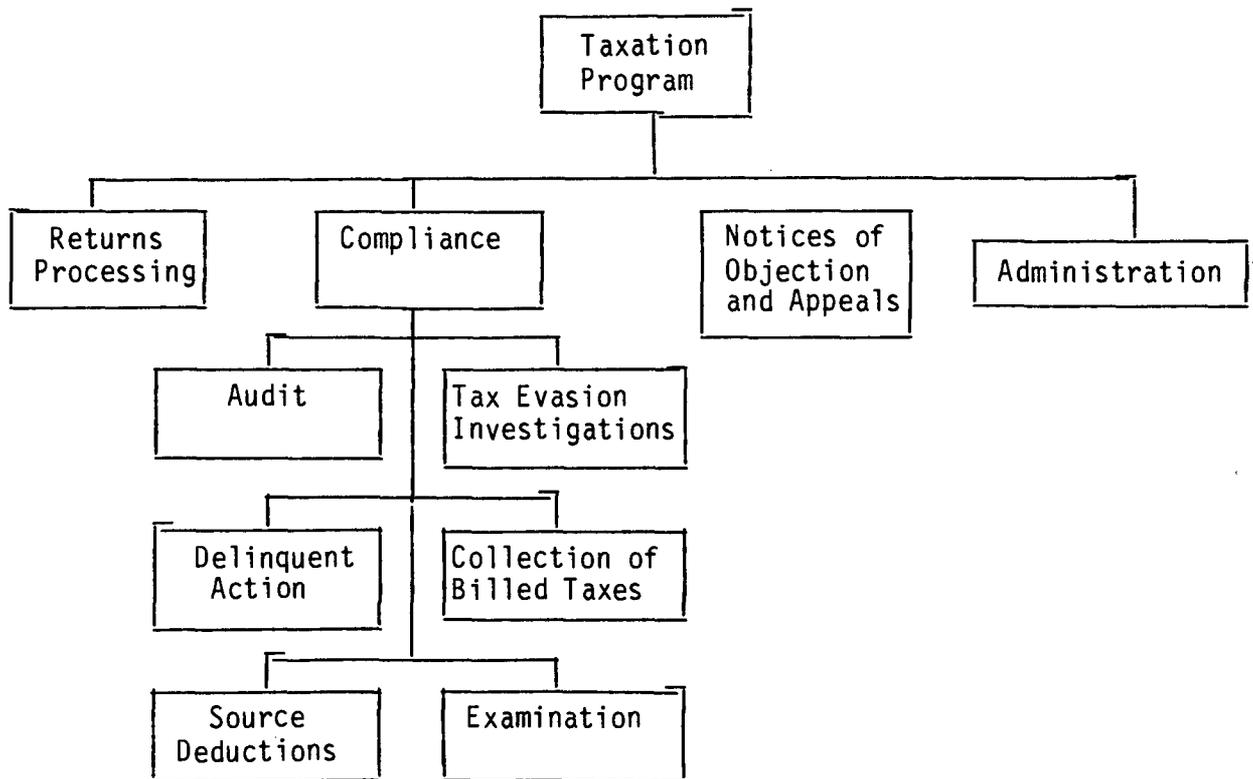
Compliance

This section of the Department has 6 sub-activities as illustrated in Table 1. The sub-activities most relevant to an evaluation are Audit, Tax Evasion Investigation and Examination. They will now be examined in more detail.

2.0 PROGRAM PROFILE (Cont'd)

2.3 Description and Activities (Cont'd)

TABLE 1: Revenue Canada Compliance Activity



Source: Revenue Canada, Taxation, Estimates Part III, 1985/86, p.12.

Audit

The audit activity functions to detect non-compliance among taxpayers whose income is from other than salaries and wages. This includes corporations and companies. The fundamental purpose of audit is to maximize future voluntary compliance. It is an investigation of this sub-activity that may have special relevance to an evaluation of Bill C-58 since close scrutiny will reveal whether or not the legislation is effective.

2.0 PROGRAM PROFILE (Cont'd)

2.3 Description and Activities (Cont'd)

Tax Evasion Investigation

Like the Audit function, the Investigation function serves to discourage evasion by investigating and prosecuting flagrant cases of tax cheating. This is another mechanism that should be evaluated for its effect on compliance to Bill C-58.

Examination

There are three operations associated with Revenue Canada's Examination sub-activity. The most important of these, as far as an evaluation of Bill C-58 is concerned, is Post-Assessing. Post Assessing consists of the scrutiny of certain claims for deductions or exemptions. All claims initially are processed, un-scrutinized, to expedite the flow of returns, however certain claims are further examined and supporting documents requested to ensure full compliance.

As in the case of auditing and Tax Evasion Investigations, the Compliance operation of Examination must be evaluated if a study of Bill C-58 is to take place. It is here that false claims for tax exemptions for advertising can be caught if that advertising appears in non-Canadian rather than Canadian media.

2.0 PROGRAM PROFILE (Cont'd)

2.3 Description and Activities (Cont'd)

Bill C-58 is one of many assistance programs aimed at the strengthening of the Canadian publishing industry. Tariff Item #99221-1 and the Postal Subsidy are discussed in detail in Section 4 of this report. Other programs include:

- Canada Council grants
- Natural Science and Engineering Research Council Scientific Publication grants
- Social Science and Humanities Research Council grants
- FIRA
- Federal Sales Tax Exemption

The Federal programs derive their funding from various sources and are aimed, primarily, at the periodical publishing industry. Further discussion of these programs can be found in the DOC Evaluation Assessment of the Concessionary Postal Rate Subsidy Program (1985, p.6).

2.0 PROGRAM PROFILE (Cont'd)

2.4 Resources

Since Compliance with Bill C-58 is monitored as part of the overall activities of Revenue Canada and is not designated to a particular unit of operations it is difficult to determine the personnel resources needed for its application. It is estimated that not more than one person year is used to ensure compliance.

3.0 COMPONENT CONTEXT

Bill C-58, as was mentioned earlier is part of a body of legislative interventions designed to support the Canadian periodical, newspaper and broadcast industries. As far as the Canadian periodical and newspaper industry are concerned, the three most important government measures which supposedly help to secure the industries' viability and health are:

1. Bill C-58, (Section 19 of the Income Tax Act);
2. Tariff item #99221-1 of the Customs Act and;
3. The Postal Subsidy Program.

3.1 The Postal Subsidy Program

The Concessionary Postal Rate Subsidy has already been evaluated by the DOC to assess its effectiveness with respect to Canadian periodicals and Newspapers.¹³

The Program was implemented to:

- encourage a more informed, better educated public;
- encourage a financially healthier Canadian publishing industry; and
- to improve Canadian Access to Canadian cultural products.

3.0 COMPONENT CONTEXT (Cont'd)

3.1 The Postal Subsidy Program (Cont'd)

The study concluded that although the Canadian periodicals industry was very dependent on the postal system, the Concessionary postal Rate Subsidy Program should be abolished. It was felt that the industry as a whole could take moderate increments in postal rates (up to market levels) without suffering significant financial burden. This increased cost could be successfully absorbed by the consumers and advertisers with a minimum loss of subscriptions, advertising revenues and information to the public.

The Culture and Communications Study Team Report to the Task Force on Program Review (Nielsen Report) published recently (march 1986) endorses the recommendations to discontinue subsidization.

The Team recommended to the Task force that the "rate concessions to major daily newspapers be eliminated within a year" and that the DOC consult "with smaller daily newspapers, weekly newspapers and periodical publishers... as soon as possible to achieve agreement on an acceptable phase-out schedule". (p.349)

Within the broader context of support to the publishing industry the effects of abolishing the Postal Subsidy Program must be considered in an evaluation of Bill C-58.

3.0 COMPONENT CONTEXT (Cont'd)

3.2 Tariff Item #99221-1

The Customs Act was amended following a recommendation of the 1961 Royal Commission on Publications. It's intended effect was to limit "overflow advertising"¹⁴. Overflow advertising is advertising in U.S. media which reach a Canadian market.

Under provisions of the Schedule of Prohibited Goods, Tariff item #99221-1 bars entry of a periodical into Canada if one of its previous four issues contains advertising that is five per cent or more aimed at Canadian markets or if it contains advertising which was not carried in all its' copies which are distributed in the country of origin. Religious, literary and scholarly publications are exempted from the tariff.

Section 19 and Tariff item #99221-1 are regarded as being very positive forces in the growth and development of the Canadian periodical industry.

4.0 EVALUATION ISSUES

The overall objective of Section 19 of the Tax Act, or Bill C-58 as it is commonly known, is to support the Canadian periodical, newspaper and broadcast industries by keeping advertising dollars associated with those media in Canada. An evaluation of the possible issues related to broadcast media with respect to Bill C-58 is beyond the scope of this assessment.

Bill C-58 attempts to achieve the above objective by disallowing an exemption for income tax purposes any advertising expenditure directed toward Canadian markets if that advertising is placed in non-Canadian periodicals or newspapers. The increased revenue generated within the Canadian media advertising markets would in turn stimulate growth in these industries and thereby contribute to a viable and financially secure national press.

There is widespread agreement in the publishers, and publishers' association networks for the retention of Bill C-58. Within the context of Free Trade Talks, there is growing pressure from the U.S. to abolish Section 19. It is feared by the Canadian publishing sector that the removal of Bill C-58 would open the door to uncontrollable overflow advertising and dramatically reduce the advertising revenue base for Canadian periodicals.

4.0 EVALUATION ISSUES (Cont'd)

Apprehensions stem from the belief that removal of Bill C-58 would spell disaster for many periodical businesses. It would amount to an invitation to many foreign investors to establish their publishing businesses in Canada and the editorial content would be flown across the border. Canadian publishers and owners would experience great difficulty in keeping up with an increased competition for advertisers and readers. Removal of Bill C-58, could also mean substantial decrease in the publication and diffusion of Canadian material as well as diminished opportunity for Canadian writers, artists and technicians.

Each of the four Classes of evaluation issues suggested by the Comptroller General, is addressed in this assessment: program rationale; impacts and effects; objectives achievement and; alternatives.

Impacts and effects, and objectives achievement have been collapsed to produce the second and third issues identified below.

The four specific issues associated with Bill C-58 are:

1. **Program Validity** - the linkage between compliance with Bill C-58 and the retention of advertising dollars expended in Canada.
2. **Objectives Achievement** - improved financial health and viability of the Canadian periodical and newspaper industries.
3. **Enforcement of Tax legislation** - and monitoring of compliance with Bill C-58.
4. **Alternatives** - the possibility of substitute programs that would retain protection for the industries while avoiding negative repercussions of the legislation.

Each of these issues are described below.

4.0 EVALUATION ISSUES (Cont'd)

4.1 Program Validity

Bill C-58 was intended to keep Canadian advertising dollars in Canadian media rather than having those dollars go to foreign hands through non-Canadian periodicals and newspapers. Provisions in Section 19 of the Tax Act would make it more expensive to advertise in non-Canadian than in Canadian media. This would provide a negative incentive to advertise in Canadian periodicals and newspapers because of the tax exempt status that such advertising has.

The 1978 Study by Litvak and Maule (cited earlier) documented support for the relationship between Bill C-58 and advertising revenue of Canadian consumer magazines. Consumer magazines enjoyed an increase in share of total advertising expenditure from 2.4 per cent to 2.7 per cent or from \$80 million to \$94 million from 1975 to 1977. Bill C-58 was proclaimed in the interim year, 1976. We can assume from this the increased expense of advertising in non-Canadian periodicals (effected by Bill C-58) encouraged advertisers to use Canadian periodicals.

An evaluation study of Bill C-58 must address the issue of the continued validity of the above assumption in recent years. It must ask the question: Are the Canadian periodical and newspaper industries healthy enough now to still require Bill C-58?

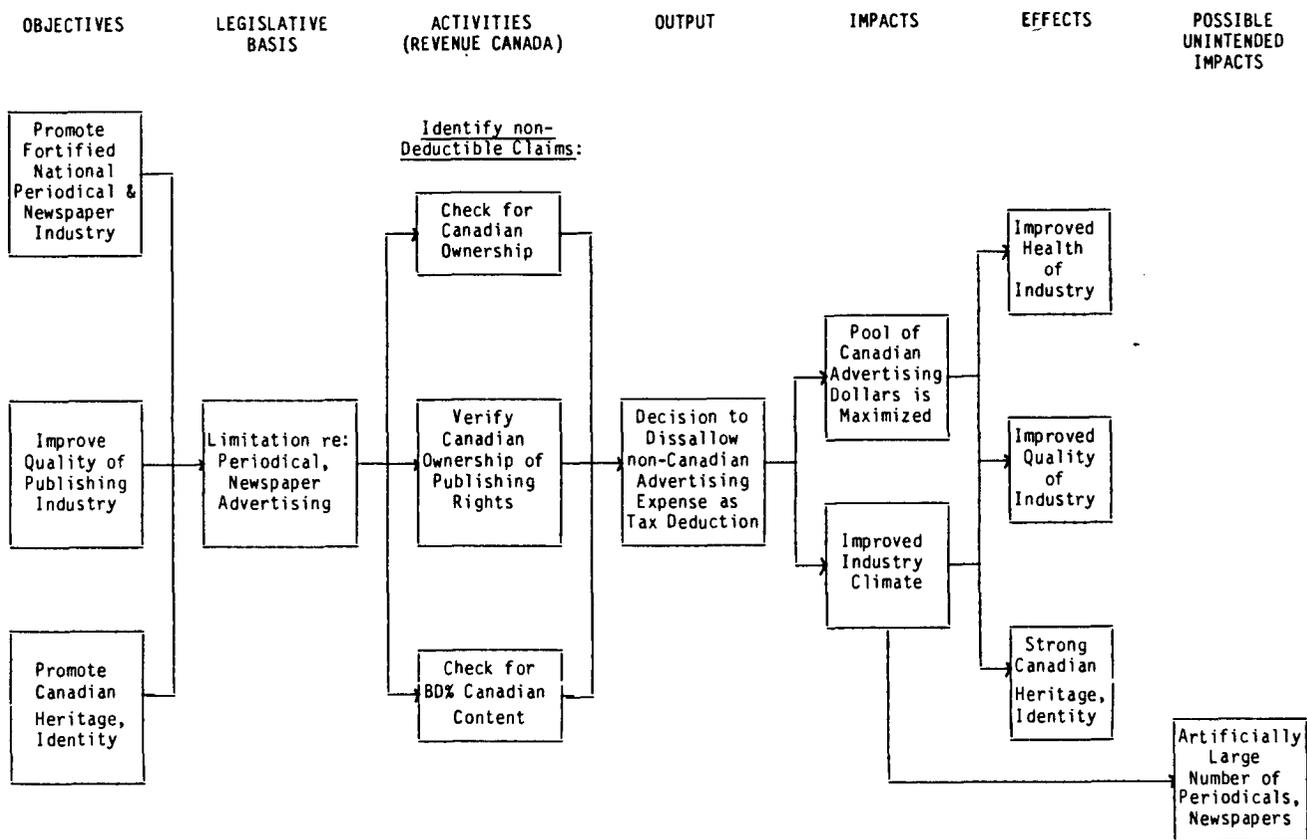
4.0 EVALUATION ISSUES (Cont'd)

4.2 Objectives Achievement

Presumably, an increase in the pool of advertising and general revenues realized by periodicals and newspapers in Canada is a positive effect of any government intervention. Bill C-58 is effective to the extent that it deters foreign investors from establishing new publishing businesses in Canada. This in turn contributes to secure the Canadian competitors with advertising revenue. Increased revenue may be a signal for the creation of new periodicals and newspapers which would fortify the existing Canadian stock. Increased stability and viability in the industries attracts new investment.

Thus, an improved climate created by discouraging non-Canadian competition will ultimately stimulate growth and development of the industry. Table 2 presents the Logic or Program Model of the relationships among the objectives of Bill C-58, its activities and output, and its intended impacts and effects. As well, the model indicates the possible unintended impact identified by this assessment.

TABLE 2: PROGRAM MODEL OF BILL C-58



4.0 EVALUATION ISSUES (Cont'd)

4.2 Objectives Achievement (Cont'd)

This model can be tested by answering the following questions:

- How and to what extent has Bill C-58 prevented foreign investors from establishing publishing business in Canada?

- In what manner and to what extent does the enforcement of Bill C-58 complement (Tariff item #99221-1, Postal Subsidy) duplicate, overlap or work at cross purposes (Free Trade) with other legislation or programs?

- Given that the stock of Canadian periodicals and newspapers is larger, has a high standard of excellence been attained as well? (Improvement must be defined in qualitative as well as quantitative terms).

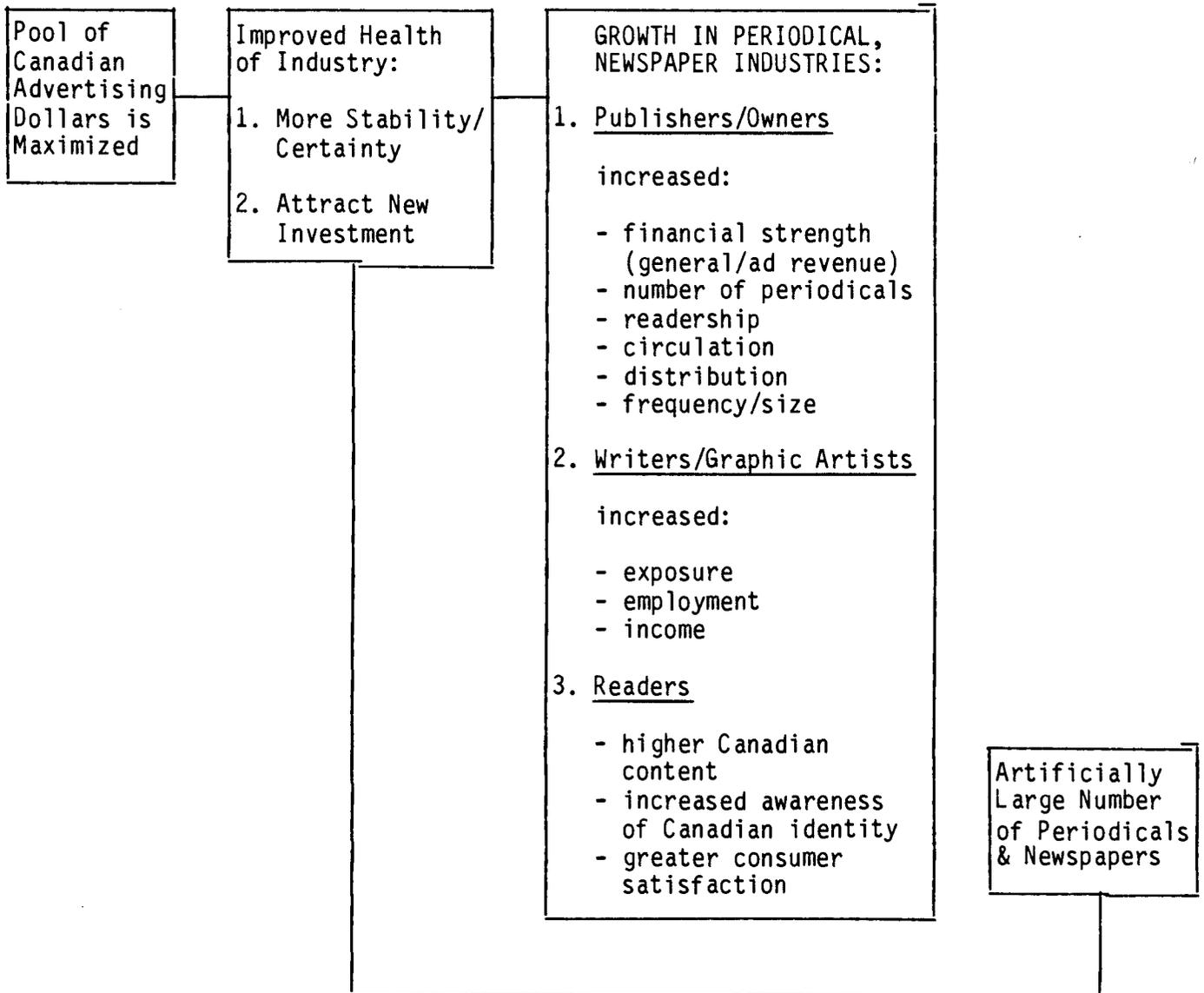
The extent to which the provisions of Bill C-58 meet their objectives can be assessed by examining the observable impacts and effects of the Bill. Table 3 is a Causal Model of Bill C-58 and illustrates the impacts, effects and indicators which have been identified. In addition, the possible unintended effect, artificial growth in the industries, is also illustrated.

TABLE 3: CASUAL MODEL OF BILL C-58

IMPACT / EFFECTS

INDICATORS

POSSIBLE
UNINTENDED
EFFECTS



4.0 EVALUATION ISSUES (Cont'd)

4.2 Objectives Achievement (Cont'd)

To the degree that growth in the periodical and newspaper industries has been realized (indicated by increases in publishers' financial strength, increases in income and employment of writers and artists, and greater reader satisfaction as well as other indices) the objectives of Bill C-58 have been achieved.

The study cited earlier, (Litvak and Maule) found evidence for an improved climate for English language periodicals publishing in Canada since the passage of Bill C-58 (see Table 4). They found that Canadian periodicals, by-and-large, had increased their circulations, pages of advertising, and their general and advertising revenue from 1975 to 1977.

Based on data published in Consumer Advertising Rates and Data (CARD) the number of consumer magazines had increased by 30 publications over the same two year period. MacLean's magazine became the first weekly news magazine in Canada and its' transformation has been attributed largely to the passage of Bill C-58.

4.0 EVALUATION ISSUES (Cont'd)

4.2 Objectives Achievement (Cont'd)

The above indices can be used as a springboard to investigating the impacts and effects of Bill C-58 on not only English language periodicals but French language periodicals as well. An evaluation could also investigate the impact of Bill C-58 on the newspaper industry.

An additional evaluation question arising from this issue is:

What is the nature and degree of change in the industry since Bill C-58 came into force?

The original drafters of Bill C-58 believed that this part of the tax law would have the tertiary effect of improving the quality of the Canadian Publishing Industry. The primary effect of increased revenue to publishers would create the secondary effect of an improved health and viability of the industries. A beneficial consequence of this chain of effects would, supposedly, be superior editorial content. It is our opinion that this latter effect, though it may be valuable in its own right, is beyond the authority of the Bill.

Bill C-58 may allow for improved financial conditions in the industry but it cannot be held accountable for the quality of its publications.

4.0 EVALUATION ISSUES (Cont'd)

4.2 Objectives Achievement (Cont'd)

At this juncture, it is noted that the original objective of promoting Canadian heritage and identity is also suspect. While it is generally agreed that the Canadian publishing sector provides an important vehicle for the dissemination of such concepts it is not within the power of Bill C-58 to create such a state. Canadian periodicals and newspapers must themselves contain characteristics and qualities conducive to the strengthening of national unity for the stated objective to be realised and this is quite a different issue than those emanating from Section 19 of the Tax Act.

In sum we believe that improved quality of publications and Canadian heritage and identity were from the outset, innappropriate objectives of Bill C-58 and will not be addressed further in this assessment.

4.3 Enforcement of Tax Legislation

The current Free Trade negotiations between Canada and the U.S. have cast a shadow of doubt over the continued enforcement of Bill C-58. Many participants in the Canadian periodical industry (owners, associations) disapprove of Bill C-58 being debated at all: as an integral component in the Canadian cultural sovereignty initiatives, Bill C-58 must remain in place as a mechanism for protecting our Canadian heritage.

TABLE 4

MAGAZINE ASSOCIATION OF CANADA CONSUMER MAGAZINES:
% CHANGE 1975-1977 IN GROSS ADVERTISING REVENUE,
PAGES OF ADVERTISING, CIRCULATION AND ADVERTISING RATES

	<u>G.A.R.</u>	<u>Pages of Advertising</u>	<u>Circulation</u>	<u>Advertising Rates</u>	
				<u>1P4C</u>	<u>IPBW</u>
Canadian Geographic	166.7	126.5	38.5	0	0
Chatelaine	7.0	-9.5	-.3	17.7	17.7
Country Guide	52.3	22.5	-4.6	18.8	18.8
Financial Post*	9.8	5.7			
Legion	141.0	62.3	10.1	45.8	51.5
Maclean's	76.0	42.5	-8.8	17.2	17.3
Miss Chatelaine	36.0	17.0	12.3	19.7	19.4
The Observer	15.6	6.1	1.3	18.7	18.9
Reader's Digest	15.7	3.6	2.5	17.7	17.7
Saturday Night	216.6	134.1	-16.5	31.0	34.1
Time	-61.1	-19.4	-42.7	-53.9	-53.8
Toronto Life	122.6	84.2	56.4	32.7	29.7

* 1977 and 1976

Source, Litvak & Maule, THE IMPACT OF BILL C-58 ON ENGLISH LANGUAGE PERIODICALS
IN CANADA, 1978, Ottawa, p. 56.

4.0 EVALUATION ISSUES (Cont'd)

4.3 Enforcement of Tax Legislation (Cont'd)

Having outlined the arguments for the maintenance of Section 19, there is, nevertheless, a growing resentment in the industry that Bill C-58 is not being adequately enforced. There is speculation that Revenue Canada has not been auditing advertisers' tax returns to verify compliance with Section 19. Revenue Canada has performed periodic audits on this section of the Tax Act and have identified large numbers of claims for which advertising expenditures were actually non-deductible. However, in terms of the dollar amounts involved, Revenue Canada felt that there was sufficient compliance with the Act.

Revenue Canada officials have expressed concern over the difficulty and expense involved in carrying out these audits. They argue that advertisers do not supply Revenue Canada with enough information. Part of the problem is administrative: advertisers submit purchase documents that do not contain sufficient space and detailed questions necessary to make a ruling (see Exhibit 2). More detailed records are retained by advertising agencies who are responsible for the purchase and billing of such advertising.

4.0 EVALUATION ISSUES (Cont'd)

4.3 Enforcement of Tax Legislation (Cont'd)

As well as the above, there is another problem that may be impeding the smooth enforcement of Bill C-58. Advertisers who do want to comply often do not know if they meet Revenue Canada's criteria for Canadian publications. Rulings are the express purview of Revenue Canada and those rulings are confidential. DOC once attempted to determine whether a particular periodical operating in Canada was Canadian under Section 19 and Revenue Canada officials refused to divulge the information.

Under these conditions, it is difficult if not impossible for a well-meaning advertiser to comply with the law by conforming, before-hand, to its' stipulations.

The tax auditors, themselves, do not possess a complete list of non-Canadian periodicals who are publishing in Canada, presumably because of the confidential nature of the assessment process.

An evaluation which addresses this issue must focus on the following questions:

4.0 EVALUATION ISSUES (Cont'd)

4.3 Enforcement of Tax Legislation (Cont'd)

- Is there reasonable compliance with the Act such that the current state of the industry is a true reflection of the intended effects of the Act and not a distortion?

- Do the activities surrounding the enforcement of Bill C-58 need to be improved to make the measure more efficient and effective (i.e., frequency of audit, advertisers' reporting format)?

- How might these criteria be communicated to advertisers in advance to allow for financial planning and compliance?

4.0 EVALUATION ISSUES (Cont'd)

4.4 Alternatives

In the face of escalating free trade negotiations with the U.S. many protective measures, designed to bar bilateral trade, are being threatened with extinction. Anticipating this strong reaction, it may be a necessary exercise to consider alternative mechanisms for enticing Canadian advertisers to choose Canadian media to advertise their products and services.

An evaluation which addresses this final issue will answer the following question:

What are the alternatives to Bill C-58 which would achieve the objective of maximizing advertising revenue for Canadian periodicals and newspapers while avoiding the attendant pitfalls.

4.0 EVALUATION ISSUES (Cont'd)

4.5 Evaluation Questions

In summary, the evaluation questions are:

1. Are the Canadian periodical and newspaper industries healthy enough to still require Bill C-58?
2. How and to what extent has Bill C-58 prevented foreign investors from establishing publishing businesses in Canada?
3. In what manner and to what extent does the enforcement of Bill C-58 complement (Tariff #99221-1, Postal Subsidy), duplicate, overlap or work at cross purposes (Free Trade Talks) with other legislation or program initiatives?
4. Has Bill C-58 created greater stability and viability in the periodical and newspaper industries?
5. What is the nature and degree of change in these industries; since Bill C-58 came into force?

4.0 EVALUATION ISSUES (Cont'd)

4.5 Evaluation Questions (Cont'd)

6. Is there reasonable compliance with the act such that the current state of the industry is a true reflection of the intended effects of the act and not a distortion?
7. Do the activities surrounding the enforcement of Bill C-58 need to be improved to make the measure more efficient and effective (i.e., frequency of audit, advertisers' reporting format)?
8. How might these criteria be communicated to advertisers in advance to allow for financial planning and compliance?
9. What are the alternatives to Bill C-58?

5.0 ENVIRONMENTAL FACTORS

There are a number of environmental factors that must be acknowledged when evaluating the incremental effect of Bill C-58. Other programs, legislation and initiatives will have an influence on the effectiveness of the bill. The Customs item #99221-1, for example, exempts certain periodicals (religious, literary, and scholarly) from its' provisions while section 19 does not. Each of these pieces of legislation will benefit from the tightened enforcement of the other by providing safety nets to catch claim leakage.

Business ventures which are proposed by U.S. firms wishing to establish in Canada are automatically subject to review under the Investment Canada Act. However there are agreements both formal and informal between government departments that may be undermining this process.

Effectively this means that smaller companies could set up in Canada, having escaped scrutiny under the Investment Canada Act. This increases the importance of Bill C-58 as a safeguard against foreign investment in Canada.

6.0 METHODOLOGICAL APPROACH: TERMS OF REFERENCE

The evaluation study of Bill C-58 will focus upon those publications both French and English for which advertising is a source of revenue: periodicals and weekly and daily newspapers. The methodological design of the evaluation will measure the extent to which the specific objective - the improved health of the periodical and newspaper industries through increased revenues - has been fulfilled.

The evaluation, accordingly, should;

- a) examine the validity of Bill C-58 as an effective measure to direct advertising dollars to Canadian-owned periodicals and newspapers;
- b) determine whether Bill C-58 has contributed to the increased stability and viability of the publishing industry;
- c) examine changes in the industries that may have occurred as a result of the passage of Bill C-58;
- d) consider the current effectiveness and standards with which compliance to Bill C-58 is being enforced; and
- e) determine whether or not there are alternative measures available that would accomplish the original objectives but avoid the negative implications.

6.0 METHODOLOGICAL APPROACH: TERMS OF REFERENCE (Cont'd)

6.1 Data Sources

Table #5 outlines the information requirements, indicators and data sources that correspond with the four issues identified in Section 4 of this assessment (p.14).

The evaluation design and options follow in Section 7.

TABLE 5: DATA SOURCES

INFORMATION REQUIREMENTS	INDICATORS	SOURCE
Test continued validity of Bill C-58 to maximize advertising revenue	Increased or stabilized ad revenues to Canadian companies or decreased ad revenues to non-Canadian companies	Existing data from CARD, Statistics Canada Survey, MacLean Hunter Research Bureau
Changes in industries: Canada, U.S., England and France	Increased advertising, revenue, profit, number of periodicals, circulation, employment.	Previous studies ¹⁵ , publishers' records, industry associations records, CARD, Statistics Canada Survey
Compliance with Bill C-58	Consistency between declarations and actual advertising activities	Survey industries (publishers, owners) Report from Statistics Canada regarding compliance record of Bill C-58
Alternatives	Other programs that would achieve objectives	Comparative study of various mechanisms of support (ie: tax exemptions, direct grants, etc.)

7.0 EVALUATION DESIGN AND OPTIONS

7.1 Evaluation Components

We propose 4 components to this evaluation. They are:

1. Time series analysis of level of advertising revenue and other quantitative changes of Canadian periodicals and newspapers from 1970 to the present;
2. Comparative analysis of industries in France, England, the United States and Canada;
3. A two pronged study which would
 - a) examine periodical and newspaper publications to determine areas of possible non-compliance; and
 - b) request from Revenue Canada a review of the compliance and effectiveness of the current regime vis-à-vis Bill C-58.
4. Examine the following possible alternatives:
 - a) no program
 - b) tax expenditures as incentive to publishers
 - c) direct grants to publishers
 - d) no change to Bill C-58
 - e) leave Bill C-58 intact but modify compliance activities.

7.0 EVALUATION DESIGN AND OPTIONS (Cont'd)

7.2 Component Detail

7.2.1 Study #1 - Level of Advertising Revenue and other quantitative changes

This study will provide information necessary to determine whether the first stated objective of Bill C-58; increasing advertising revenue for Canadian periodicals and newspapers, has been accomplished. It will also measure the quantitative changes in Canadian newspapers and periodicals in terms of several of the indicators itemized in the causal model of Bill C-58 (p.19 of this report).

The Litvak and Maule study suggested that for many Canadian periodicals such as Saturday night, and Canadian Geographic, gross advertising revenue had increased dramatically (217% and 167% respectively) in the immediate post-passage period of Bill C-58¹⁶.

To test the continued validity of the assumptions underlying Bill C-58 it will be necessary to gather information at the aggregate level of advertising revenue by various categories (for periodicals this would include consumer, trade and educational magazines) over the time series from 1970-1986 (or to the most recent year available).

7.0 EVALUATION DESIGN AND OPTIONS (Cont'd)

7.2.1 Study #1 - Level of Advertising Revenue (Cont'd)

If Bill C-58 has achieved the intended objectives of its' original authors and proponents, we should see a growth in Canadian periodicals and newspapers exemplified by increases in the following additional indicators:

- publishers and owners - financial strength (advertising revenue and profit), number of periodicals, circulation, and frequency and size of issues.

- writer, graphic artists - employment and income.

This study will evaluate the program rationale as well as determine the impacts and effects of Bill C-58. It therefore, will address the first and second issues identified in this Assessment: program validity and objectives achievement.

7.0 EVALUATION DESIGN AND OPTIONS (Cont'd)

7.2.1 Study #1 - Level of Advertising Revenue (Cont'd)

Periodical publishing has a very large number of publishers and a wide range of products. The chief sources of statistics on Periodicals and Newspapers are Canadian Advertising Rates and Data, (CARD), Statistics Canada and The Audit Bureau of Circulations (ABC) Blue Book. The MacLean Hunter Research Bureau promises to be a very good source for Data both on past year's activities and future projections of the industries. As well, Statistics Canada is currently completing a survey of industries officials to compile much of the evidence essential for this study.

The following table cites information extracted from CARD:

TABLE #6: 1979-1984 COMPONENTS OF NET ADVERTISING REVENUES BY MEDIA (,000.00)

	1979	1980	1981	1982	1983	1984
<u>Periodicals</u>						
magazines, general	138,288	166,933	197,704	213,004	228,000	255,000
business	88,117	129,566	145,950	136,775	142,000	168,000
religious, school, other	11,274	19,191	28,853	8,847	10,000	11,000
<u>Newspapers</u>						
Dailies - Nat'l	155,507	199,935	249,102	222,504	232,000	270,000
- local	494,917	535,347	622,246	659,533	735,000	810,000
Weekend						
Supplements - Nat'l	15,660	24,620	23,119	17,166	16,000	15,000
- local	3,914	6,160	16,776	20,120	19,000	18,000
NOTE: Data for 1983 and 1984 are estimates of MacLean Hunter's Research Bureau.						

7.0 EVALUATION DESIGN AND OPTIONS (Cont'd)

7.2.1 Study #1 - Level of Advertising Revenue (Cont'd)

TABLE #6: 1979-1984 COMPONENTS OF NET ADVERTISING REVENUES BY MEDIA (,000.00)
(CONT'D)

STUDY #1 - TASKS

	ACTIVITY	COST (\$)
TASK #1	EXAMINE PUBLISHED DATA OF STATISTICS CANADA, ABC BLUE BOOK	15,000
TASK #2	ANALYSE DATA	10,000
TASK #3	FINAL REPORT	5,000
	TOTAL	30,000

NOTE: The current survey being undertaken by Statistics Canada captures information on small and medium sized firms and not just the larger firms represented by other sources. For this reason it is strongly recommended that this source be tapped.

7.0 EVALUATION DESIGN AND OPTIONS (Cont'd)

7.2.2 Study #2 - Comparative Analysis

One way to determine whether identified changes in the Canadian periodical and newspaper industries are a result of Bill C-58 is to conduct an international comparative analysis. If Bill C-58 is responsible for an increase in advertising revenues for Canadian media and not other factors (such as changes in the global economic climate or changes in tastes for information sources) then the industries in Canada should differ significantly from those of other nations with no similar program. If Canadian periodicals, for example, showed a marked increase in advertising revenue for the years immediately following the passage of Bill C-58 and sustained or increased the level of revenue, while other countries such as France, England and the United States show dissimilar trends, then it can be assumed that Bill C-58 has a positive impact.

We propose a comparative analysis among the four countries: Canada, the United States, France and England, with data to be gathered from the following time points, 1970, 1975, 1980 and 1985.

7.0 EVALUATION DESIGN AND OPTIONS (Cont'd)

7.2.2 Study #2 - Comparative Analysis (Cont'd)

STUDY #2 - TASKS

	ACTIVITY	COST (\$)
TASK #1	DETERMINE DATA SOURCES FROM INDUSTRIES IN ENGLAND, FRANCE, THE U.S. AND CANADA AND EXAMINE	10,000
TASK #2	ANALYSE DATA	10,000
TASK #3	FINAL REPORT	5,000
	TOTAL	25,000

7.0 EVALUATION DESIGN AND OPTIONS (Cont'd)

7.2.3 Study #3 - Compliance with Bill C-58

In order to make an informed decision regarding the usefulness of Bill C-58 as a mechanism for keeping Canadian advertising dollars in Canada we must determine whether the Act's provisions are being effectively implemented. We propose a two pronged study that will involve:

- a) an examination of periodicals and newspapers to determine whether there are blatant cases of non-compliance with Bill C-58; and
- b) a request from Revenue Canada to review current compliance and effectiveness of Bill C-58 and to submit a report to the DOC.

EXAMINATION OF THE INDUSTRIES

This branch of the study will survey publishers and associations to determine areas of possible non-compliance. It will be necessary to document cases of fraudulent tax evasive practices in order to assess the level of non-compliance that may exist.

7.0 EVALUATION DESIGN AND OPTIONS (Cont'd)

7.2.3 Study #3 - Compliance with Bill C-58 (Cont'd)

REQUEST FOR A REPORT FROM REVENUE CANADA

Revenue Canada should be asked for a report on the current level of compliance and effectiveness to determine the need for Bill C-58. Revenue Canada could supply information such as the number of fraudulent claims made by advertisers who advertise in non-Canadian periodicals and newspapers directed at Canadian markets. They could also determine the loss of Government revenue resulting from such illegal claims. In addition Revenue Canada could examine the forms on which advertisers must submit claims. Such an examination may reveal that there are more efficient means of gathering detailed information necessary for making rulings.

We may be able to assess from such a report whether or not adequate resources are being allotted to the process or whether the potential abuse of the system is sufficient to warrant the retention of the Bill.

7.0 EVALUATION DESIGN AND OPTIONS (Cont'd)

7.2.3 Study #3 - Compliance with Bill C-58 (Cont'd)

It is also necessary to find whether the process for making tax claims is as free from administrative barriers as possible. In particular; Are advertisers given enough information prior to making a claim that will help them establish whether a periodical, for example, is Canadian or non-Canadian? If not, how might this information be made available?

A good reason for conducting interviews with advertisers and agencies is inspired by the knowledge that foreign publishers may be currently examining the impact of Bill C-58 on the decisions of advertisers and agencies. Information that can be derived from an evaluation by DOC on the same topic can provide Canadian policy makers with valuable tools for the upcoming free trade negotiations.

This study will examine the third issue identified by this assessment - enforcement of this particular piece of tax legislation.

8.0 RECOMMENDATIONS

It is recommended that Option C: A comprehensive evaluation be adopted. This approach would address all issues in the discussion. In our opinion the questions of whether or not Bill C-58 is effective cannot be answered definitively unless a thorough understanding of its enforcement is obtained.

7.0 EVALUATION DESIGN AND OPTIONS (Cont'd)

STUDY #3 - TASKS

	ACTIVITY	COST (\$)
TASK #1	SURVEY PUBLISHERS, OWNERS TO DETERMINE LEVEL OF NON-COMPLIANCE	2,000
TASK #2	ANALYSE SURVEY DATA	2,000
TASK #3	SOLICIT REPORT FROM REVENUE CANADA	NO COST TO DOC
TASK #4	INTEGRATE RESULTS OF SURVEY AND REVENUE CANADA REPORT	1,000
TASK #5	FINAL REPORT	5,000
	TOTAL	10,000

7.0 EVALUATION DESIGN AND OPTIONS (Cont'd)

7.2.4 Study #4 - Alternatives

The increased pressure, in bilateral trade negotiations, for removal of current barriers to U.S. entry of media products into Canada, forces the issue of alternatives. Are there other kinds of support programs that would equally accomplish the objectives of Section 19 without its' negative implications for enhanced trade?

To answer this question it will be necessary to compare and contrast the various options available. Alternative programs could include: a) no program; b) a tax expenditure as an incentive to publishers; c) direct grants to publishers; d) no change; or e) retain Bill C-58 but modify the compliance requirements to strengthen enforcement. This last study, obviously addresses the fourth and final issue identified in this assessment.

STUDY #4 - TASKS

	ACTIVITY	COST (\$)
TASK #1	COMPARE AND CONTRAST PROGRAM OPTIONS	5,000
TASK #2	ANALYSE DATA	5,000
TASK #3	FINAL REPORT	5,000
	TOTAL	15,000

7.0 EVALUATION DESIGN AND OPTIONS (Cont'd)

7.3 Options

7.3.1 Option A: No Evaluation At This Time

7.3.2 Option B: Strategic Evaluation

A strategic evaluation would address the three important issues of program validity, objectives achievement and alternatives but would ignore the issue of enforcement of Bill C-58 - Study #3.

This latter issue may be an internal audit rather than a program evaluation question hence beyond the jurisdiction of DPE to investigate.

A second reason for choosing this strategic evaluation option may lie in the logic of its' proposed inquiry: If Bill C-58 is already argued to be an effective defense against the unnecessary export of Canadian advertising dollars, what need is there for exploring the forces that keep it in place?

The cost of such an evaluation is estimated at \$80,000.

7.3.3 Option C: Comprehensive Evaluation

An evaluation addressing all the issues would cost an estimated \$90,000. It would include all studies and address all identified issues. It would provide a very comprehensive parcel of information with which sound policy judgements could be made.

APPENDIX I

HISTORICAL CONTEXT
OF BILL C-58

In this section, the history of the Canadian periodical industry will be traced in order to provide a context within which present and future discussions of the issues can take place.⁴ The economic survival of Canadian periodicals has been influenced by both political and Cultural considerations; governments, Royal Commissions and official inquiries have seen periodicals as one policy approach to advance the concept of a strong Canadian national identity. They were seen as a vehicle to promote Canadian culture as distinct from American culture by providing Canadian authors and graphic artists an environment in which to flourish. Periodicals could, increasingly, become a medium for the promulgation of topics and issues aired and discussed from a Canadian perspective.

The ambivalence of Canadian governments over what should be done with periodicals has been a recurring theme in Canada's history. The inconsistency in policy direction revolves around such issues as freedom of access to all forms of information and the perceived threat of inundation with U.S. media. Unlike other industries such as furniture, steel and food, the periodical industry has a unique political and cultural dimension. This has resulted in the development of a particular rationale for assuring the economic viability of the industry.

Litvak and Maule (see notation #1) describe four general periods or landmarks that represent salient developments in policy dealing with periodical publishing: pre-1960 developments; the Royal Commission on Publications (O'Leary); the Senate Committee Report on the mass media (Davey); and Bill C-58. These will now be briefly discussed.

Pre-1960

Prior to 1960, government policy concerning the periodical industry was created largely to appease the Canadian publishers' demands to protect the industry from foreign publishing interests. Proximity to the U.S., a common North American language and culture and a relatively sparse and dispersed population posed considerable obstacles for the establishment of a uniquely Canadian periodical industry.

Canadian publishers in 1922 articulated three demands on government to defend the industry against U.S. periodical invasion into Canada: a. that current tariffs on printed and advertising matter be applied to advertisements contained in foreign magazines; b. that these tariffs be applied to entry of any paper into Canada in the form of finished magazines and; c. that all duties on paper, ink, engravings and other raw materials be removed. This latter demand would repeal a customs act provision that reduced Canadian publishers' ability to compete with U.S. periodicals.

The demands represents a strong protectionist attitude that was reminiscent of earlier industry lobbying for government intervention. The plea to stem the flow, into Canada, of U.S. periodicals rested on seven points: U.S. magazines were full of salacious material, demoralizing to Canadian youth; misguided Canadian youth were being lured south; U.S. publications, especially those of the Hearst Dynasty were repugnant to British sentiment; U.S. magazines were an economic threat because their advertisements encouraged Canadians to buy American rather than Canadian products; Canadian periodicals had to fight for their economic survival without the added threat of foreign competition;

Pre-1960 (Cont'd)

periodicals were perceived as crucial to the dissemination of the national sentiment and ideals; and finally Canadian publishers could not sell US. circulation to Canadian advertisers because the latter were not interested in doing business in the U.S. market.

These arguments represented, in summary, a considerable interest in economic and cultural protectionism that culminated in the 1960 Report of the Royal Commission on Publications which was spurred by the burgeoning issue of National Cultural identity.

In the early 1930's a tariff was placed on magazines and periodicals the price of which was determined by advertising content. Magazines with 20% or less advertising content were allowed free entry into Canada, those with up to 30% paid two cents a copy and those with greater than 30 per cent paid five cents per copy. This tariff was not levied against religious, educational, scientific, philanthropic, agricultural, labour, and fraternal publications.

By 1935 the tariff, had had the apparent effect of decreasing circulation of American magazines in Canada by 62% while circulation of Canadian magazines enjoyed an increase of 64%. But American firms responded to restrictions at the border by changing the form of periodicals: by 1932 there were 47 subsidiaries of fiction magazines publishing their Canadian circulation in Canada.

Pre-1960 (Cont'd)

By simply shipping lithographic plates of periodicals into Canada, American firms enjoyed free entry and an enormous competitive advantage. While U.S. publications were exploiting loop holes in Canadian tax legislation, better quality Canadian magazines such as the Atlantic Monthly, Harpers Magazine, and the Literary Digest suffered a reduction in circulation.

The tax provision was repealed in 1935. As a result the U.S. importation of magazines increased 124 per cent over the next 3 years and a massive withdrawal of American magazine subsidiaries ensued: 52 left by 1937.

The exodus is attributed to the repeal which was part of the 1936 Canada-U.S. Trade Agreement. From the Trade Agreement to the mid-1950's there was little political debate over the concern of the Canadian periodical industry. In 1943, Readers Digest became incorporated in Canada and Time began publishing, out of Chicago, its Canadian edition.

In the Massey Report; the Royal Commission on National Development in the Arts, Letters and Sciences, which was tabled in 1951, recognized the unique ability of periodicals to convey "national understanding"⁵. "It is in the national interest" the report states "to give encouragement to institutions which add to the variety and richness of Canadian life"⁶.

Pre-1960 (Cont'd)

Despite the Report's delight that Canadian periodicals neither desired nor requested any protective government intervention, the prospects for survival of the Canadian periodical industry deteriorated. By 1956 the industry began demanding protection from three dangerous trends that were seriously choking the financial foundations of the Canadian magazine industry: a fall in proportion of Canadian to non-Canadian periodicals in Canada; a decline in general interest magazines; and a rise in special Canadian editions of U.S. periodicals.

By 1955: U.S. magazines had obtained 80% of the Canadian market; Canadian general interest magazines were few and, generally speaking, were thought to be financial disasters¹⁸ and; Time and Readers Digest accounted for 37 per cent of the total advertising revenues of the 12 major magazines in Canada. The freedom within which foreign periodicals could enter the Canadian industry combined with the competitive advantages of Time and Readers Digest (such as economies of scale, large readership and duty free passage of lithographic materials across the border) had created a threatening environment within which Canadian periodicals struggled to survive.

The budget of 1956 introduced a 20 per cent tax on advertising in foreign periodicals. In 1958, with a change in government, the tax was repealed and five new Canadian editions of U.S. periodicals began to publish. Pressure to outlaw this "split-run advertising" stimulated the creation of a Royal Commission in 1960 to investigate the Canadian magazine Industry - the O'Leary Commission.

The O'Leary Commission

The mandate of The Report of the Royal Commission on Publications⁷ is paraphrased in the following:

1. Inquire into and report upon the position and prospects of Canadian magazines and periodicals and the problems arising from similar foreign publications;
2. Make recommendations to government as to possible measures which would further the development of Canadian identity through a genuinely Canadian periodical press without compromising the basic tenet of freedom of press.
(p.22)

The report concluded that Canada's domestic advertising expenditure should be devoted to Canada's media of communications; only by providing Canadian publications assurance of domestic advertising, under equitable conditions, could a genuinely Canadian periodical press exist.

The O'Leary Commission put forth 13 recommendations, the two most important are:

- a) disallow deductions from income of expenditures incurred for advertising directed at Canadian markets in a foreign periodical, wherever printed;
- b) exclusion from schedule C of the Custom Act all foreign periodicals containing Canadian domestic advertising.

The O'Leary Commission (Cont'd)

The 1962 speech voiced accordance with the Commission's recommendations but a change of government supervened before any action could be taken. In 1964 the new government proposed two new measures:

1. that the Income Tax Act be ammended to prohibit deductions from income, for tax purposes, expenditures for advertising specifically directed at the Canadian market in non-Canadian periodicals. However, Canadian editions of foreign magazines, already existing in Canada such as TIME and Readers' Digest were exempted.
2. that schedule C of the Customs Tariff be amended to prevent the entry into Canada of split-runs or regional editions containing advertising specifically directed at the Canadian market and magazines whose advertising content directed at Canadian markets was greater than 5 per cent.

The Senate established a special Committee in 1968 to inquire into and report on ownership and control of mass media and the extent and nature of their impact and influence on the Canadian public.

The Report concluded that Canadian magazines were in trouble. Although the industry was not dying it was not growing and few Canadian periodicals could report with assurity that their survival was secured.

The Senate Committee Report on the Mass Media

It was assessed there were three reasons for the Industry's state of stagnation:

1. Seventy per cent of periodicals circulated in Canada is U.S. publications overflow,
2. From 1954 to 1968 the share of total advertising revenue spent on magazines dropped from 4.2 per cent to 2.4 per cent. Advertisers were switching to other media.

TIME and Readers' Digest were seen as unwanted elements in the Canadian periodical industry. Although the Committee recognized TIME and Readers' Digest as good corporate citizens whose financial success was not totally a function of their competitive advantages, their presence in and impact on the industry was intolerable. The Commission argued that the O'Leary decision to exempt TIME and Readers' Digest was deeply regrettable and that if this exemption was maintained the survival of many Canadian periodicals would be seriously threatened.

The following recommendations were advanced to counter what the Committee referred to as "creeping continentalism"⁸ which had spread as a result of an unexamined acceptance of foreign investment:

1. A repeal of the provision in the Income Tax Act which exempted TIME and Readers' Digest. Even if they remained in Canada, the Committee argued, their presence would be more equitable;

The Senate Committee Report on the Mass Media (Cont'd)

2. If the first recommendation proved ineffective and TIME and Readers' Digest continued to flourish at the expense of the Canadian periodical industry both magazines should be required to sell 75 per cent of stock in their Canadian subsidiaries to Canadian residents and Canadian residents would have to make up at least 75 per cent of their directors and officers.

Precedents had already been set for this kind of policy in the broadcasting, newspaper, uranium, banking and railroad industries. The senators were aware that this "Canadian equity participation"⁹ might flame economic retaliation by the U.S. but were unmoved by its potential threat.

Bill C-58

On May 8, 1975, the government stated that the intent of Bill C-58 was to:

- a) divert advertising revenue from TIME and Readers' Digest to Canadian-owned consumer magazines;
- b) encourage the emergence of a weekly news magazine that would report information relevant to Canadian tastes and requirements;
- c) increase the size, number and saleability of all Canadian magazines with resultant opportunities for Canadian writers and readers;

Bill C-58 (Cont'd)

- d) improve the necessary climate within which Canadian periodicals could flourish;
- e) create a situation within which Canadian writers, commentators and journalists could flourish;
- f) improve the overall quality of the periodical, newspaper and broadcast industries in order to attract more Canadian readers;
- g) enhance Canadian independence and national identity.

On this second reading of Bill C-58, the government cited similar previous legislation that had helped to improve the prospects for a healthy Canadian business press.

The next amendment to the Tax Act dealing with periodicals was made in 1976. Bill C-58 was specifically aimed at the circumstances surrounding the operations of TIME and Readers' Digest. The intent of the Bill as expressed by Litvak and Maule¹⁰

was to limit the competition for advertising revenue from foreign periodicals, by making it more expensive for Canadian advertisers to advertise in non-Canadian-owned than in Canadian owned periodicals. (p. 37)

Bill C-58 (Cont'd)

Interest groups, including publishing associations, periodical owners, professional associations, etc., expressed opinions on Bill C-58 over the course of its general debate. Positive opinions included: 1. it would mean increased revenues for Canadian periodicals; 2. there would be more and better periodicals; 3. a positive atmosphere for development of the industries would evolve; 4. there would be increased income and employment for Canadian writers and graphic artists; 5. it would attract investment to the industries and; 6. a strong national press would be promoted.

On the negative side, expressed opinions included: 1. readers would continue to prefer American magazines; 2. advertising revenue would be diverted to other media and leave the periodical industry unchanged; 3. TIME and Readers' Digest would pull out of Canada with their investments in tow; 4. only the larger companies such as MacLean-Hunter would benefit and; 5. there would be an increase in advertising costs to advertisers who could no longer advertise in TIME and Readers' Digest who charged lower prices.

Interest groups in favour of the legislation included the Canadian Periodical Publishers Association, MacLean-Hunter, Content, Chatelaine and Saturday Night magazines. opponents to the legislation included TIME, Readers' Digest, the Writers Union, the Advertising Agency of B.C., the Graphic Arts Industries Association and the Association of Canadian Advertisers.

Canadian periodicals compete with one another for readers through editorial content and they compete between themselves and U.S. (foreign) periodicals which are sold in Canada. For advertising, Canadian periodicals compete with each other, with other Canadian media (such as television and radio) and with foreign periodicals which contain advertising aimed at Canadian markets. It was hoped that competition for advertising from the latter source would be minimized by the enforcement of Bill C-58.

APPENDIX II

ASSOCIATION PROFILES

A. PERIODICALS

1. **Canadian Periodical Publishers Association**

Two Stewart St., Toronto, Ont. M5V 1H6, (416) 362-2546, Exec. Dir: Dinah Hoyle.

The CPPA consists of many small periodical companies who together generate a relatively small portion of total advertising revenue (because of narrower circulation). However, the importance of this association is attributed to its large membership. Any policy change to the industry affects a large number of firms who are potentially more vulnerable due to their relatively fragile financial stability. The association is composed of small to medium sized, culturally significant periodicals.

2. **Magazines Canada**

Ste. 501, 44 Eglinton Ave. W., Toronto, Ont. M4R 1A1, (416) 488-6576.
President: John S. Crosbie.

This Association is probably the most important in terms of its revenue generating capacity in Canada. The major Canadian periodicals such as Reader's Digest, TIME (International edition) and T.V. Guide belong to this association of less than two dozen members. It is a powerful lobbying group who's raison d'être is to protect the interests of its members.

3. Canadian Business Press

Ste. 508, 100, University Ave., Toronto, M5J 1V6. (416) 593 5497,
President: Cy Summerfield.

Canadian Business Press may provide useful information about business and trade magazines but it is generally much simpler for the purposes of an evaluation to gather information regarding consumer magazines given their wider circulation and more general audiences. Although there is no corollary to CARD for business periodicals a list of such publications (over 200) is currently being updated by the Publishing Policy Division of DOC.

4. Council of Canadian Magazines

The CCM is an organization spawned about two years ago from the CPPA. Certain members broke away because they felt that the CPPA did not meet the needs of the medium sized periodicals of which the new organization is composed.

5. Association des Editeures de Périodique Culturelles, Québec

The only french association that we are aware of, the AEPCQ, should be consulted in this evaluation.

B. NEWSPAPERS

1. Canadian Community Newspapers Association

Ste. 705, 88 University Ave., Toronto, N5J 1T6, (416) 598 4277, Exec. Dir:
Jim Dills; CCNA.

2. Canadian Daily Newspaper Publishers Association

Ste. 214, 321 Bloor St. E., Toronto, Ontario, M4W 1E7, (416) 923 3567,
President: John E. Foy.

3. Canadian Business Press

Ste. 508, 100 University Ave., Toronto, N5J 1V6, (416) 593-5497, President:
Cy Summerfield.

FOOTNOTES

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- 1 Commons Committee: Broadcasting: Films and Assistance to the Arts; Issues #24-32, 1975.
 - 2 I.A. Litvak and C.J. Maule, The Impact of Bill C-58 on English Language Periodicals in Canada, December 1978, Ottawa.
 - 3 Here the term "program" refers to nothing more than the activities and resources used by Revenue Canada to enforce compliance with Bill C-58.
 - 4 A large portion of this discussion derives from the Litvak/Maule study cited earlier which in turn derived its information from an earlier publication, I.A. Litvak and C.J. Maule, Cultural Sovereignty: The Time and Reader's Digest Case in Canada, New York: Praeger, 1974.
 - 5 From: "The Press of Canada" Royal Commission Studies (Arts, Letters and Sciences), W. Eggleston, 1951, Kings Printer, Ottawa, Canada.
 - 6 Report of the Royal Commission on National Development in the Arts, Letters and Sciences, Ottawa, Kings' Printer, 1951.
 - 7 Queens Printer, Ottawa, 1961.
 - 8 The Senate Committee, Vol. 1, p. 103.
 - 9 The Impact of Bill C-58, 1978, p. 27.
 - 10 The Impact of Bill C-58 on English Language Periodicals in Canada, 1978, Ottawa.
 - 11 The Canada Gazette, Part I, 41, 110, Oct. 9, 1976, p. 5014.
 - 12 Revenue Canada Taxation Estimates, Part III, 1985-86, p.12.
 - 13 DOC, Program Evaluation Study: Concessionary Postal Rate Subsidy Program, Draft report, January 1985.
 - 14 Department of Communications, proposal for an evaluation of Bill C-58, 1986, Ottawa, p.1.
 - 15 Eg: Litvak, Maule, 1978; Kent Commission examination of Newspaper industry: Woods & Gordon, Computer Study: Book Publishing Development Program, Toronto, Sept., 1984.
 - 16 Litvak and Maule, 1978, p. 54.
 - 17 p. 53.
 - 18 Litvak and Maule, The Impact of Bill C-58, 1978, p.20.

BILL C-58 AS ASSENTED TO JULY 16, 1976

23-24-25 ELIZABETH II

23-24-25 ELIZABETH II

CHAPTER 106

CHAPITRE 106

An Act to amend the Income Tax Act

Loi modifiant la Loi de l'impôt sur le revenu

[Assented to 16th July, 1976]

[Sanctionnée le 16 juillet 1976]

R.S., 1952, c. 148, 1970-71-72, c. 63, 1972, c. 9, 1973-74, cc. 14, 29, 30, 44, 45, 49, 51, 1974-75-76, cc. 26, 50, 58, 71, 87, 88, 95

Her Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

Sa Majesté, sur l'avis et du consentement du Sénat et de la Chambre des communes du Canada, décrète:

S.R., de 1952, c. 148, 1970-71-72, c. 63, 1972, c. 9, 1973-74, cc. 14, 29, 30, 44, 45, 49, 51, 1974-75-76, cc. 26, 50, 58, 71, 87, 88, 95

1. Subsections 19(1) and (2) of the *Income Tax Act* are repealed and the following substituted therefor:

1. Les paragraphes 19(1) et (2) de la *Loi de l'impôt sur le revenu* sont abrogés et remplacés par ce qui suit:

Limitation re advertising expense

"19. (1) In computing income, no deduction shall be made in respect of an otherwise deductible outlay or expense of a taxpayer for advertising space in an issue of a non-Canadian newspaper or periodical dated after December 31, 1975 for an advertisement directed primarily to a market in Canada."

"19. (1) Lors du calcul du revenu, il n'est accordé aucune déduction au titre d'un débours ou d'une dépense, déductible par ailleurs, faite ou engagée par un contribuable pour la publication, dans un journal ou un périodique non canadien publié après le 31 décembre 1975, d'annonces intéressant surtout le marché canadien."

Limitation des frais de publicité

2. Subsection 19(4) of the said Act is repealed.

2. Le paragraphe 19(4) de ladite loi est abrogé.

3. The said Act is further amended by adding thereto, immediately after section 19 thereof, the following section:

3. Ladite loi est en outre modifiée par l'addition, après l'article 19, de l'article suivant:

Limitation re advertising expense on broadcasting undertaking

"19.1 (1) Subject to subsection (2), in computing income, no deduction shall be made in respect of an otherwise deductible outlay or expense of a taxpayer made or incurred after this section comes into force for an advertisement directed primarily to a market in Canada and broadcast by a foreign broadcasting undertaking.

"19.1 (1) Sous réserve du paragraphe (2), lors du calcul du revenu, il n'est accordé aucune déduction au titre d'un débours ou d'une dépense, déductible par ailleurs, faite ou engagée par un contribuable, après l'entrée en vigueur du présent article, pour de la publicité essentiellement dirigée vers le marché canadien et faite par une entreprise étrangère de radiodiffusion.

Limitation des frais de publicité des entreprises de radiodiffusion

Exception

(2) Subject to subsection (3), in computing income, a deduction may be made in respect of an outlay or expense for an advertisement directed primarily to a market in

(2) Nonobstant le paragraphe (3), lors du calcul du revenu, il peut être accordé une déduction au titre d'un débours ou d'une dépense pour de la publicité essentiellement

Exception

Canada and broadcast by a foreign broadcasting undertaking pursuant to

- (a) a written agreement entered into on or before January 23, 1975; or
- (b) a written agreement entered into after January 23, 1975 and before this section comes into force if the agreement is for a term of one year or less and by its express terms is not capable of being extended or renewed.

dirigée vers le marché canadien et faite par une entreprise étrangère de radiodiffusion, en application d'un contrat écrit conclu

- a) au plus tard le 23 janvier 1975; ou
- b) entre le 23 janvier 1975 et l'entrée en vigueur du présent article, et qui ne peut dépasser un an ni, d'après ses modalités expresses, être prolongé ni renouvelé.

Limitation to exception in paragraph (2)(a)

(3) No deduction may be made in respect of an outlay or expense made or incurred pursuant to an agreement referred to in paragraph (2)(a), or an extension or renewal thereof, when the outlay or expense is made or incurred after twelve months from the commencement of this section.

(3) Il ne peut être accordé aucune déduction au titre du débours ou de la dépense découlant d'un contrat visé à l'alinéa (2)a) ou de la prolongation ou du renouvellement d'un tel contrat, lorsque ce débours ou cette dépense se produit plus de douze mois après l'entrée en vigueur du présent article.

Limites à l'exception prévues à l'alinéa (2)a)

Definitions

"foreign broadcasting undertaking"

(4) In this section, "foreign broadcasting undertaking" means a network operation or a broadcasting transmitting undertaking located outside Canada or on a ship or aircraft not registered in Canada;

(4) Dans le présent article, "entreprise étrangère de radiodiffusion" désigne l'entreprise d'émission de radiodiffusion ou d'exploitation d'un réseau située à l'étranger ou sur un navire ou un aéronef non immatriculés au Canada;

Definitions

"entreprise étrangère de radiodiffusion"

"network"

"network" includes any operation involving two or more broadcasting undertakings whereby control over all or any part of the programs or program schedules of any of the broadcasting undertakings involved in the operation is delegated to a network operator."

"réseau" comprend toute exploitation à laquelle participent deux ou plusieurs entreprises de radiodiffusion et où le contrôle de l'ensemble ou d'une partie des émissions ou des programmes d'émission de toute entreprise de radiodiffusion participant à l'exploitation est délégué à un exploitant de réseau."

"réseau"

Coming into force

4. (1) Sections 1 and 2 shall come into force on the 1st day of January, 1976.

4. (1) Les articles 1 et 2 entrent en vigueur le 1^{er} janvier 1976.

Entrée en vigueur

Idem

(2) Section 3 shall come into force on a day to be fixed by proclamation.

(2) L'article 3 entre en vigueur à la date fixée par proclamation.

Idem

