

\* TIGER

DOC

Trade Position Study

Phase 2A

August 16, 1985

The  
Canada  
Consulting  
Group  
Inc.

**DOC TRADE POSITION STUDY - PHASE 2A**

**MAJOR TARIFF AND NON-TARIFF BARRIERS**

In

**Telecom  
Computers  
Broadcasting  
And  
Culture**

**IN BOTH CANADA AND THE UNITED STATES**

**August 16, 1985**

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## INTRODUCTION AND STRUCTURE OF THE DOCUMENT

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This document identifies the Canadian/U.S. tariff and major non-tariff barriers which impact on industries under Department of Communications' jurisdiction.

The document begins with the general classification and description of non-tariff barriers, followed by specific information on tariff and non-tariff barriers in each of the following sectors:

### Telecom

- a. Equipment
- b. Services

### Computer

- a. Equipment
- b. Services (particularly Software)

### Broadcasting

- a. Radio and Television
- b. Cable

### Culture

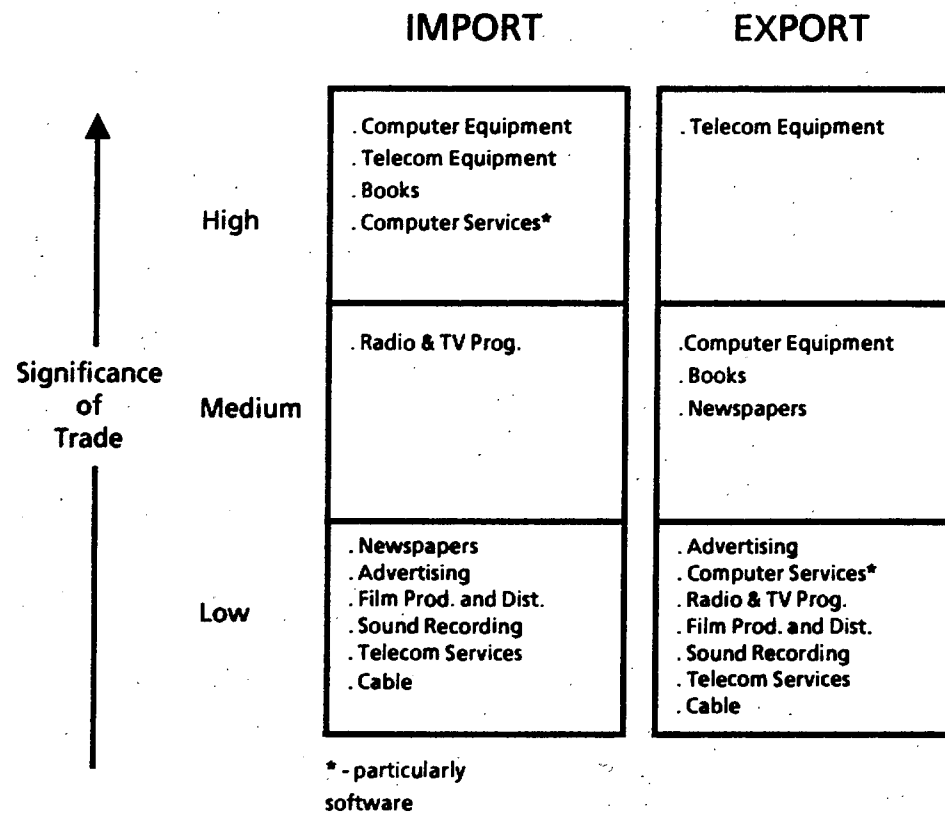
- a. Film
- b. Printing and Publishing (Newspapers and Books)
- c. Sound Recording
- d. Advertising

While the major areas of DOC responsibility - Telecom, Computer, Broadcasting and Culture - are all represented in this document, the trade sensitive areas have received most emphasis. A detailed summary of our research sources is provided in the Appendix

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IN PHASE 1 OF THIS STUDY WE POSITIONED DOC'S SECTORS OF RESPONSIBILITY IN TERMS OF THE SIGNIFICANCE OF IMPORT AND EXPORT TRADE

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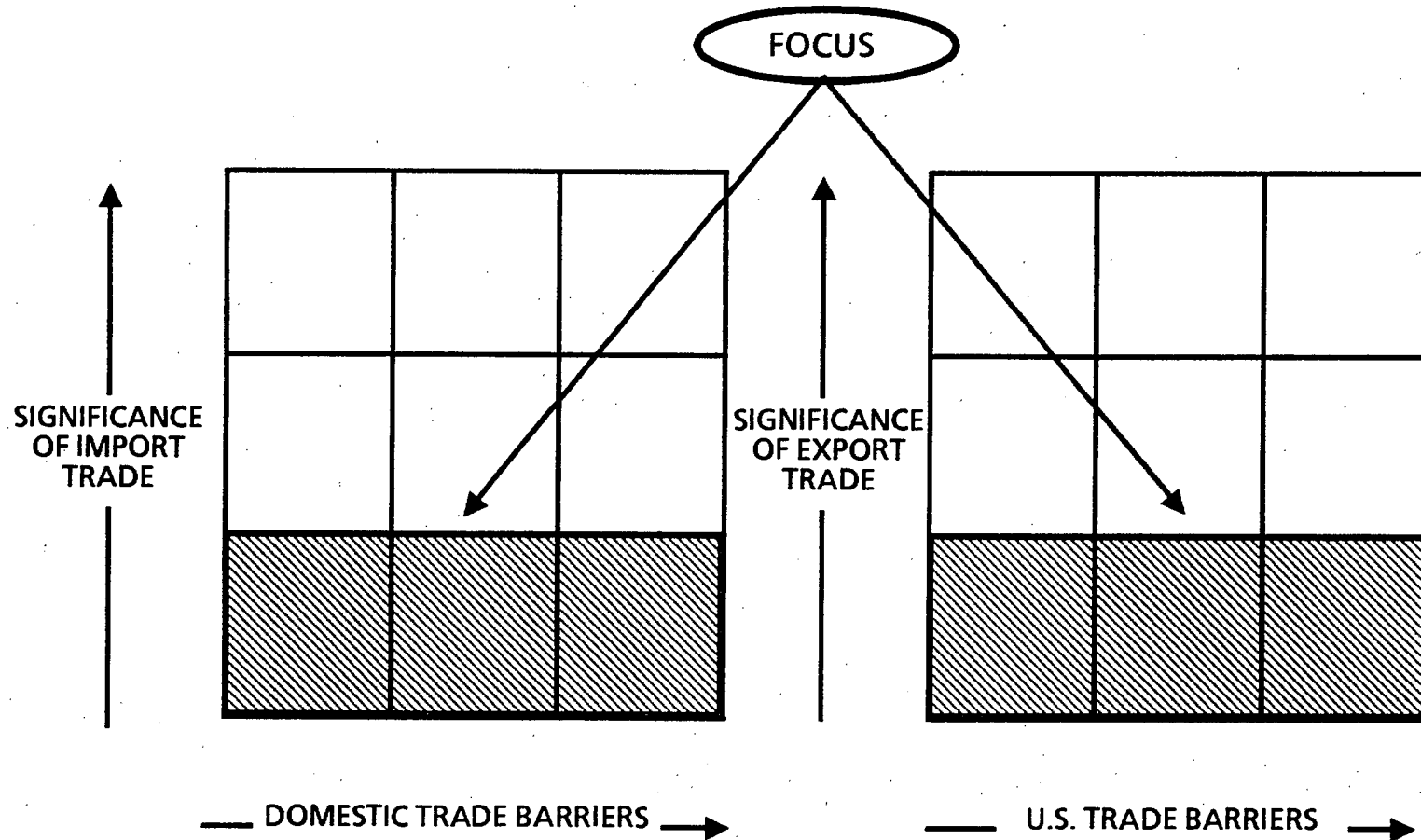


PHASE I

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IN THIS PHASE WE COMPLETE THE POSITIONING OF THESE IMPORTANT SECTORS BY  
EVALUATING TRADE BARRIERS

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I. IN GENERAL: A RANGE OF DIFFERENT TYPES OF NON-TARIFF BARRIER EXISTS IN BOTH CANADA AND THE UNITED STATES

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A. Non-tariff barriers can be organized into nine overall classifications

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B. A variety of Canadian non-tariff barriers apply to all industries

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C. The United States also has a number of non-tariff barriers which affect all industries

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## A. NON-TARIFF BARRIERS CAN BE ORGANIZED INTO NINE OVERALL CLASSIFICATIONS

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### CLASSIFICATION OF NON-TARIFF BARRIERS\*

CLASS	BARRIER
Advisory Support/Loan/Subsidy	Provide discriminatory assistance to domestically located or owned entities
Competition Policy/Competitive Environment	Exempts industrial conspiracy directed at export markets and permits vertical integration of industry
Distribution Constraints	Impede free distribution of foreign goods and/or services in domestic market
Immigration Policy	Limits free movement of people between countries
Ownership Constraints	Restrict degree of foreign ownership in domestic industry, thereby preventing free market access to foreigners
Procurement Policies	Favour domestic producers/suppliers over foreign ones, thereby preventing free market access to foreigners
Quotas/Embargos	Limit access to domestic market by foreigners
Regulation/Special Legislation (including Standards and Copyright)	Discourages/prohibits free competition in domestic market
Tax Incentives/Penalties	Encourage domestic investment, regional development, R&D and job creation

\* GATT classifies non-tariff barriers as follows: internal taxes, subsidies, quantitative restrictions, anti-dumping and countervailing duties, administrative barriers, and government procurement

**B. A VARIETY OF CANADIAN NON-TARIFF BARRIERS APPLY TO ALL INDUSTRIES**

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1. At the federal level, non-tariff barriers are administered by various departments

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2. Provincial jurisdiction encourages non-tariff barriers based on loans, subsidies, procurement policies and taxes, shown here for selected provinces

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1. AT THE FEDERAL LEVEL, NON-TARIFF BARRIERS ARE ADMINISTERED BY VARIOUS DEPARTMENTS

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Federal non-tariff barriers occur in the form of loans ...

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... Competition policy, ownership constraints ...

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... And tax incentives ...

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... Some of which apply only to Canadian-controlled corporations, others to all businesses located in Canada

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**FEDERAL NON-TARIFF BARRIERS OCCUR IN THE FORM OF LOANS ...**

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Advisory Support	Advice to Canadians	External Affairs	Advisory assistance to Canadians considering doing business abroad	IAP p.50
Loan	Federal Business Development Bank (FBDB)	FBDB	Medium and long-term financing to small Canadian companies	IAP p.50
Loan	Export Development Corporation (EDC)	EDC	Assistance to certain Canadian companies in the form of insurance, guarantees and export financing	IAP p.50
Loan/ Subsidy	Industrial and Regional Development Program	DRIE	Grants, loans, loan guarantees to small and medium-sized private firms, associations and non-profit organizations in Canada	IAP p.48
Subsidy	Program for Export Market Development (PEMD)	DRIE/External Affairs	50-50 sharing of costs of soliciting export orders	IAP p.48



... COMPETITION POLICY, OWNERSHIP CONSTRAINTS ...

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Competition Policy	Competition Policy	Consumer and Corporate Affairs	Exemption for industrial conspiracy directed at export markets	
Ownership Constraint	Investment Canada Act	DRIE	Review Board restricting foreign ownership of business in Canada	Investment Canada Act
Embargo/ Quota/ Legislation	Counter-vailing duties/ Anti-dumping policy	Department of National Revenue, Customs and Excise	Potential imposition of countervailing duties in cases of subsidized imports or other instances of unfair competition	Revenue Canada Customs and Excise



... AND TAX INCENTIVES ...

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Tax Incentive	Investment Tax Credits (ITC)	Revenue Canada	20% ITC for R&D expenditures for individuals and large corporations; 35% for small, Canadian-controlled corporations; 20-40% refund of ITCs for corporation having zero tax payable	CA Magazine June '84
Tax Incentive	Share Purchase Tax Credit (SPTC)	Revenue Canada	Up to 25% SPTC for investment in companies engaging in R&D	CA Magazine Aug. '84
Tax Incentive	Sales tax exemption	Revenue Canada	Sale of goods of Canadian-controlled private manufacturers with sales less than \$50,000 is exempt from sales tax	TEA V.G.6
Tax Incentive	Capital Gains Tax Treatment	Revenue Canada	Realized capital gains are exempt from tax . \$10,000 limit in 1985 . \$500,000 life-time exemption	ITA s.41



... SOME OF WHICH APPLY ONLY TO CANADIAN-CONTROLLED CORPORATIONS, OTHERS  
 TO ALL BUSINESSES LOCATED IN CANADA

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Tax Incentive	Preferential Income Tax	Revenue Canada	25% tax rate on income up to \$200,000 for small, Canadian private corporations	CA Magazine June '84
Tax Incentive	Deduction of capital losses	Revenue Canada	One-half of realized capital losses incurred on sale of debt or shares of Canadian - controlled private corporations is deductible	TEA V.G.4
Tax Incentive	Inventory Deduction	Revenue Canada	Businesses may deduct 3% of tangible opening inventories	ITA s.20(17)
Tax Incentive	Accelerated Capital Cost Allowance (CCA)	Revenue Canada	Accelerated depreciation rates allowed for businesses for capital investment	TEA IV.8
Tax Incentive	R&D Write-off	Revenue Canada	Current and capital R&D expenditures may be written off immediately	TEA V.F.1

2. PROVINCIAL JURISDICTION ENCOURAGES NON-TARIFF BARRIERS BASED ON LOANS, SUBSIDIES, PROCUREMENT POLICIES AND TAXES, SHOWN HERE FOR SELECTED PROVINCES

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Virtually all provinces have preferential procurement and tax programs

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Quebec also offers loans and subsidies for local businesses and exporters ...

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... Plus assistance in capital formation and encouragement of investment in Quebec companies

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In Ontario subsidies focus on training ...

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... Financial assistance to new Ontario businesses ...

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... And procurement policies which favour Canadian suppliers

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British Columbia offers tax incentives ...

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... And financial assistance for businesses locating in the province

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**VIRTUALLY ALL PROVINCES HAVE PREFERENTIAL PROCUREMENT AND TAX PROGRAMS**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Procurement Policies	Various provincial policies	Provincial governments . excluding Ontario	Local purchasing preferences exist at the provincial level, e.g., Quebec government buys most of its books from Quebec distributors	Globerman, p.10
Tax Incentive	Tax Exemptions	Provincial and local governments	Exemptions from certain property, sales and excise taxes	Various provincial publications
Tax Incentive	Reduced Corporate Income Tax Rates	Provincial governments	Reduced rates available to small business and manufacturing companies	Various provincial publications
Tax Incentive	Investment Tax Credits	Provincial governments	Tax credits available for investment in R&D, specific machinery and equipment and regional loation	Various provincial publications



QUEBEC ALSO OFFERS LOANS AND SUBSIDIES FOR LOCAL BUSINESSES AND EXPORTERS ...

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Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Loan/ Subsidy	Quebec Société de Développement Industriel (SDI)	Quebec Department of Industry and Commerce	Interest rebate grants, interest free loans, term loans, loan guarantees, risk capital for secure manufacturing and service companies located in Quebec and satisfying certain Canadian-related criteria	IAP,p.343- 352
Subsidy	Export Development Assistance (APEX)	Quebec Department of Industry and Trade	50-50 cost sharing of expenses relating to the development of marketing plans, promotional tools, distribution networks, export services and enterprises outside Quebec. Available to Quebec companies. Maximum of \$50,000 per project	IAP,p.352- 353

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**... PLUS ASSISTANCE IN CAPITAL FORMATION AND ENCOURAGEMENT OF INVESTMENT  
IN QUEBEC COMPANIES**

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<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Subsidy	Quebec Assistance for the Capitalization of Business	Société de Développement Industriel	50-50 sharing of costs for feasibility studies (\$10,000 maximum) plus sharing of costs associated with share issues by developing Quebec companies desiring a listing on the stock exchange.	IAP, p. 354-355
Tax/ Incentive	Quebec Stock Savings Plans (QSSP)	Quebec Ministry of Revenue	50-150% of purchase price of shares of Quebec companies to a limit of the lesser of 20% of total income and \$20,000, is tax deductible. Available to Quebec residents. Interest on funds borrowed to acquire shares is also deductible	1983 Conference Report, p. 164

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**IN ONTARIO, SUBSIDIES FOCUS ON TRAINING ...**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Subsidy	International Marketing Intern Program	Ontario Ministry of Industry and Trade	50% of salary of university graduates for two years employed in an export marketing capacity	IAP, p.318
Subsidy	Training in Business and Industry (TIBI)	Ontario Colleges of Applied Arts & Technology	One-third cost sharing of development costs of courses aimed at helping workers adapt to changing work environments	IAP, p.324-325
Subsidy	Ontario Training Incentive Program (OTIP)	Ontario Colleges of Applied Arts & Technology	Supplements national training program with \$1,000 annual bonus	IAP, p.319-323
Subsidy/Tax Incentive	Small Business Development Corporations Act (SBDCA)	Ontario Ministry of Revenue	Grants or tax credits equal to 30% of equity investment in a Small Business Development Corporation	IAP, p.303-305



... FINANCIAL ASSISTANCE TO NEW ONTARIO BUSINESSES ...

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Subsidy	Ontario Export Success Fund (ESF)	Ontario Ministry of Industry and Trade	50-50 cost sharing of marketing costs up to \$35,000 for new or expanding exporters Product must be manufactured in Ontario and include at least 50% Canadian value added	"The Export Success Fund"
Loan/ Subsidy	Ontario Development Corporation (ODC)	Ontario Development Corporation	Incentive loans, guarantees, leasing, working capital for exports. Aimed at high technology businesses and tourism. Includes book publishing	IAP, p. 293-296
Loan/ Subsidy	The Board of Industrial Leadership and Development (BILD)	Various Ontario ministries and agencies	Financial assistance to new or existing Ontario companies to stimulate the Ontario economy	IAP, p. 301



**... AND PROCUREMENT POLICIES WHICH FAVOUR CANADIAN SUPPLIERS**

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<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Procurement Policy	"Made In Canada" Policy	Ontario Ministry of Industry and Trade	Ontario ministries must pay up to a 10% premium for additional Canadian content when purchasing goods	Ontario Ministry of Industry and Trade
Procurement Policy	Industrial Development Review Policy	Ontario Ministry of Industry and Trade	Re: Government purchases greater than \$250,000 • favour Canadian suppliers, Canadian technology; look at employment implications of purchase	Ontario Ministry of Industry and Trade

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**BRITISH COLUMBIA OFFERS TAX INCENTIVES ...**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Subsidy	B.C. Product Development Management Program	B.C. Ministry of Industry and Small Business Development	Subsidies to taxable Canadian manufacturing corporations located in B.C. for the assessment and implementation of product development projects	IAP, p.227
Loan/ Subsidy	B.C. Development Corporation (BCDC)	Independent Board of Directors of BCDC	Loans, loan guarantees, equity participation and leasebacks to all types of businesses located in B.C.	IAP, p.228-231
Loan	Low Interest Funding Today (LIFT)	B.C. Ministry of Industry and Small Business Development	Low interest loans to small and medium-sized businesses located in B.C. . \$65.3 M in 1983-84	B.C. Economic Bulletin
Subsidy	Market Development Program	B.C. Ministry of Industry and Small Business Development	B.C. firms can obtain one economy return air fare from B.C. to a potential export market . Maximum of \$2,000	B.C. Economic Bulletin



**... AND FINANCIAL ASSISTANCE FOR BUSINESSES LOCATING IN THE PROVINCE**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Subsidy	Incoming Buyers Program	Ministry of Industry and Small Business Development	Firms may obtain air fare to sites outside B.C. to attract outside buyers . Maximum of \$2,000	B.C. Economic Bulletin
Subsidy	Management Assistance	Ministry of Industry and Small Business Development	50% of costs incurred in the hiring of outside consultants to assist in management or planning studies	B.C. Economic Bulletin

C. THE UNITED STATES ALSO HAS A NUMBER OF NON-TARIFF BARRIERS WHICH AFFECT ALL INDUSTRIES

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1. As in Canada, U.S. federal non-tariff barriers are administered by a variety of departments and agencies

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2. Many non-tariff barriers in the United States originate at the state and local government level

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3. Florida and Massachusetts have representative financial assistance and tax incentive programs, and virtually all states have some form of restrictive procurement policy

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1. AS IN CANADA, U.S. FEDERAL NON-TARIFF BARRIERS ARE ADMINISTERED BY A VARIETY OF DEPARTMENT AND AGENCIES

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The U.S. government encourages regional development, preference to American suppliers ...

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... Provides assistance to small U.S. businesses ...

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... Offers incentives and assistance to American exporters ...

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... Through the tax code, provides many incentives to all U.S. businesses ...

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... And assists venture capital formation and export activities

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In addition, competition policy promotes exports and contingent protection regulations protect U.S. businesses from unfair foreign competition

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Other legislation creates red tape for foreign companies and can restrict exports from the U.S. by foreign-owned firms

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THE U.S. GOVERNMENT ENCOURAGES REGIONAL DEVELOPMENT, PREFERENCE TO AMERICAN SUPPLIERS ...

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Loans/ Subsidies	Regional Development Assistance	Various federal government departments (e.g. Housing and Urban Development, Economic Development Administration)	Financial assistance for local development of transportation, water and sewer lines, schools, hospitals, housing, and general construction and development. Ongoing technical and advisory assistance re: marketing, accounting, finance and management. Guaranteed loans.	"Doing Business In The U.S." Price Waterhouse
Procurement Policy	Various policies eg) Buy America Act, Defense procurement rules with "no-foreign" clauses	Various, ranging from individual procurement officers, to committee/boards, to elected officials	Preferential treatment given to domestic suppliers over foreign competitors. Significant element of administrative discretion indicated here (e.g. vendor qualification, security classifications, anti-foreign biases, special interest group pressures, etc.)	Canada Consulting Research



... PROVIDES ASSISTANCE TO SMALL U.S. BUSINESSES ...

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Advisory Support	Assistance to Small Business	Small Business Administration (SBA)	Advocacy and assistance for small business in dealing with government	SBA publication
Advisory Support	Assistance to Small Business	SBA	Programs to assist women and veterans in business	SBA publication
Loan/ Subsidy	Assistance to Small Business	SBA	Financial assistance (coordinated with Exim Bank re: exporters) <ul style="list-style-type: none"> <li>. guarantee on private lender loans</li> <li>. lender of last resort</li> <li>. variety of special loan programs</li> </ul>	SBA publication
Advisory Support/ Loan	Assistance to Small Business	SBA	Facilitate and assist small business venture capital funds (Small Business Investment Companies)	SBA publication
Advisory Support/ Loan	Assistance to Small Business	SBA	General procurement assistance re: federal government purchases	SBA publication
Loan/ Subsidy	Small Business Innovation Research Program (SBIR)	Various federal agencies	Financial assistance with R&D and feasibility studies provided to small technology based businesses	Government publications



**... OFFERS INCENTIVES AND ASSISTANCE TO AMERICAN EXPORTERS ...**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Advisory Support	Assistance to Small Business	Small Business Administration	Special assistance re: procurement for minority owned firms	SBA publication
Advisory Support	Assistance to Small Business	SBA	Management counselling, including export market penetration	SBA publication
Loan/ Subsidy	Export Assistance	Export-Import Bank (Exim Bank)	Insurance of export sales and related receivables and inventory financing. Guarantees of financing extended to foreign buyers. Export credit insurance and guarantees cover goods and related services	Exim Bank publication
Subsidy	Foreign Trade Zones (FTZ) i.e. Designated and controlled area for storing, sorting, packaging and manipulation of goods	U.S. customs	Shelter from normal import/export duties and administration. Quotas usually not applicable to operations within FTZs - example: San Jose, California, serves "Silicon Valley" with assembly, testing and manufacturing facilities	"Doing Business In The U.S."



... THROUGH THE TAX CODE, PROVIDES MANY INCENTIVES TO ALL U.S. BUSINESSES ...

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Tax Incentive	Accelerated Cost Recovery System (ACRS)	Internal Revenue Service (IRS)	Accelerated depreciation tax shelter on certain categories of capital investment	U.S. Tax Code
Tax Incentive	Investment Tax Credit (ITC)	IRS	Reduction in taxes equal to percentage of cost of certain new capital properties	U.S. Tax Code
Tax Incentive	Targeted Jobs Credit	IRS	Tax credit equal to portion of wages paid to certain newly-hired employees	U.S. Tax Code
Tax Incentive	Research Activities Credit	IRS	Tax credit equal to 25% of "excess" qualified research expenditures	U.S. Tax Code
Tax Incentive	Capital Gains Tax Rate	IRS	Reduced rate of tax on gain on sale of certain properties	U.S. Tax Code
Tax Incentive	Foreign Sales Corporations	IRS	15%-32% of export related income exempt from tax	U.S. Tax Code



... AND ASSISTS VENTURE CAPITAL FORMATION AND EXPORT ACTIVITIES

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Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Tax Incentive	R&D partnerships	Internal Revenue Service (IRS)	Attractive individual tax attributes to facilitate R&D venture capital formation	U.S. Tax Code
Tax Incentive	Domestic International Sales Corporation (DISC)	IRS	Part of export income sheltered from tax if reinvested in export related facilities in U.S. Recent tax increases have reduced attractiveness of DISCs	U.S. Tax Code

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**IN ADDITION, COMPETITION POLICY PROMOTES EXPORTS AND CONTINGENT PROTECTION REGULATIONS PROTECT U.S. BUSINESSES FROM UNFAIR FOREIGN COMPETITION**

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Competition policy	Webb-Pomerance Export Trade Act	Commerce Dept.	Legalize cartels for export sales and distribution	U.S. Trade Law
Quotas/ Embargos/ Regulation/ (with linkage to tariffs via countervailing duties)	Import relief provisions of U.S. trade law (Contingent protection)	U.S. International Trade Commission (U.S. ITC)	<p>Potential imposition of countervailing duties in cases of subsidized imports or sales of imports at below fair market value ("dumping")</p> <p>Investigation of unfair competition, or practices regarding import trade and injury to domestic competitors resulting therefrom, leading to possible adjustment assistance or import relief</p> <p>Enforcement of U.S. rights under international trade agreements and response to foreign trade practices which restrain or discriminate against U.S. commerce</p>	U.S. ITC publications and U.S. trade law



**OTHER LEGISLATION CREATES RED TAPE FOR FOREIGN COMPANIES AND CAN RESTRICT EXPORTS FROM THE U.S. BY FOREIGN-OWNED FIRMS**

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<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Special Legislation	International Investment Survey Act of 1976	U.S. Department of Commerce	Businesses located in the U.S. in which a foreign person or business has a direct investment are required to file Direct Investment Survey Reports.	Foreign Investment
Export Quotas	Export Administration Act of 1969	U.S. Dept. of Commerce, Export Council	Council prohibits or curtails exports of foreign-owned U.S. firms if exports are detrimental to U.S. interests	Barriers to foreign Investment, p. 32-33

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**2. MANY NON-TARIFF BARRIERS IN THE UNITED STATES ORIGINATE AT THE STATE AND LOCAL GOVERNMENT LEVEL**

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Industrial Development Bonds are a major source of low cost financing often made available to businesses locating in the U.S.

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Procurement preferences for American companies, a variety of tax credits or exemptions and a broad array of advisory assistance round out the non-tariff barriers operating in many U.S. states and communities

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**INDUSTRIAL DEVELOPMENT BONDS ARE A MAJOR SOURCE OF LOW COST FINANCING  
OFTEN MADE AVAILABLE TO BUSINESSES LOCATING IN THE U.S.**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
<b>Subsidy</b>	<b>Industrial Development Bonds</b>	<b>Local government/agencies</b>	<b>Tax exempt bonds, used to finance capital assets under long term lease to private businesses, thereby lowering effective financing costs for those businesses</b>	<b>U.S. Tax Code</b>
<b>Advisory Support Loan/Subsidy</b>	<b>Variety of special assistance programs (see later detailed summaries for Florida and Massachusetts)</b>	<b>State and local governments and agencies</b>	<b>State operated hi-tech venture capital funds Local development credit assistance Special incentives for establishing industrial facilities in high unemployment areas Recruiting and training assistance Equity or debt financing as provider of last resort Assistance with market analysis, feasibility study etc. Industrial mortgage insurance</b>	<b>Various state publications</b>



**PROCUREMENT PREFERENCES FOR AMERICAN COMPANIES, A VARIETY OF TAX CREDITS OR EXEMPTIONS AND A BROAD ARRAY OF ADVISORY ASSISTANCE ROUND OUT THE NON-TARIFF BARRIERS OPERATING IN MANY U.S. STATES AND COMMUNITIES**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Advisory/ Loan/ Subsidy	Variety of special assistance programs (continued)	State and local governments and agencies	Assistance with plant location, regulatory compliance. Preferential treatment regarding site development, financing, and municipal taxes.	Various state publications
Procurement Policy	Preference given to in state suppliers (see later summary)	Various state and local bodies	Often informal and discretionary preference (e.g. "Buy Florida")	U.S. government publications
Tax Incentive	Tax Credits	State and local government	Investment tax credits, exemption from certain property sales and excise taxes Job creation tax credits	Various state publications

**3. FLORIDA AND MASSACHUSETTS HAVE REPRESENTATIVE FINANCIAL ASSISTANCE AND TAX INCENTIVE PROGRAMS, AND VIRTUALLY ALL STATES HAVE SOME FORM OF RESTRICTIVE PROCUREMENT**

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In both Massachusetts and Florida financial assistance programs supplement or facilitate financing for certain types of businesses

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Massachusetts offers a variety of tax exemptions, credits and deductions in addition to the provisions of the Federal Tax Code

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Similarly, Florida has tax exemptions which both augment federal incentives and address specific areas under state jurisdiction (e.g., sales and ad valorem taxes)

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State procurement practices and policies are one pervasive example of non-tariff barriers in the United States

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Reciprocity, a form of contingent protection at the state level appears to be an increasingly popular method to protect local industry

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**IN BOTH MASSACHUSETTS AND FLORIDA FINANCIAL ASSISTANCE PROGRAMS  
SUPPLEMENT OR FACILITATE FINANCING FOR AVAILABLE TO CERTAIN TYPES OF  
BUSINESSES**

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**FINANCIAL ASSISTANCE**

**Massachusetts**

**Florida**

Industrial Revenue Bonds and Industrial Mortgage Insurance through Massachusetts Industrial Finance Agency (MIFA)

Medium and long-term loans through the Massachusetts Business Development Corp. (MBDC)  
. financing range: \$75,000-\$500,000

High-risk capital loans through the Massachusetts Capital Resource Company (MCRC)  
. maximum loan amount: \$5 million

Loan and/or equity financing to developing companies through the Massachusetts Community Development Finance Corp. (CDFC)

Venture capital financing and advisory management assistance through the Massachusetts Technology Development Corp (MTDC)  
. initial investment range:  
\$100,000-\$250,000

Industrial Development Bank

Long-term fixed asset financing via loans through the Florida First Capital Finance Corporation (FFCFC)

Loans to developing companies through the Community Development Corporation Support and Assistance Program

Venture capital financing through various state Small Business Investment Corporations (SBICs) e.g., First Tampa Corporation

Source: Canada Consulting research based on Massachusetts and Florida Department of Commerce bulletins

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## MASSACHUSETTS OFFERS A VARIETY OF TAX EXEMPTIONS, CREDITS AND DEDUCTIONS IN ADDITION TO THE PROVISIONS OF THE FEDERAL TAX CODE

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### MASSACHUSETTS TAX INCENTIVES

#### A. TAX EXEMPTIONS:

1. Sales tax exemption for
  - . machinery and parts used by manufacturing and R&D intensive corporations
  - . all services
  - . all utilities
2. Local property tax exemption for
  - . tangible and real property

N.B.: real estate not included (but may be exempt under negotiated "ad hoc" local government incentives)

#### B. TAX CREDITS:

1. Investment tax credit of 3% on
  - . cost of depreciable property

N.B.: In addition to federal investment tax credit
2. Jobs tax credit of
  - . 50% of first-year wages and 25% of second-year wages for employment of eligible persons

#### C. TAX DEDUCTIONS:

1. Corporate income tax deduction for
    - . losses incurred during first five years of operation
    - . dividends received from certain corporations
-



**SIMILARILY, FLORIDA HAS TAX EXEMPTIONS WHICH BOTH AUGMENT FEDERAL INCENTIVES AND ADDRESS SPECIFIC AREAS UNDER STATE JURISDICTION (E.G., SALES AND AD VALOREM TAXES)**

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### FLORIDA TAX INCENTIVES

#### A. TAX EXEMPTIONS

1. Sales tax exemptions for
  - . new machinery and equipment
  - . containers, packaging and intermediate materials
  - . R&D costs
  - . equipment used in motion picture, television and sound recording industries
2. Inventory tax exemption
3. Corporate income tax exemption for
  - . foreign source dividends
4. Corporate franchise tax exemption
5. Ad valorem tax exemption on
  - . goods-in-transit

#### B. TAX CREDITS

1. Corporate income tax credits for
  - . job creation
  - . in designated enterprise zones

Source: Canada Consulting based on Florida Department of Commerce Bulletins

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## STATE PROCUREMENT PRACTICES AND POLICIES ARE ONE PERVASIVE EXAMPLE OF NON-TARIFF BARRIERS IN THE UNITED STATES

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### SUMMARY OF STATE "BUY AMERICAN" LAWS 1983

	<u>Description And Effect</u>	<u>States Involved</u>	
		<u>Number</u>	<u>Representative Examples</u>
<b>Buy American Laws</b>			
General	Preference to American goods and services in all industries. Extent of enforcement varies, and is often discretionary and arbitrary	6	Alabama, Hawaii, Kansas, New Jersey, North Dakota, Oklahoma
Product-specific	Product specific preference to American suppliers. No hi-tech or communication industries specifically noted	27	All New England, New York, Ohio, Michigan, Minnesota, Pennsylvania
<b>Buy Local Practices</b>			
General	Preference to in-state bidders in all industries	14	Massachusetts, California
Product-specific	Industry-specific preference to in-state bidders (no hi-tech or communications)	6	Florida, Alaska
Set Asides	Preference to certain classes of bidders (e.g., small or minority owned). Tends to effectively exclude out-of-state bidders	18	New York, New Jersey, Tennessee, California, Illinois, Louisiana

---



**RECIPROCITY, A FORM OF CONTINGENT PROTECTION AT THE STATE LEVEL APPEARS TO BE AN INCREASINGLY POPULAR METHOD TO PROTECT LOCAL INDUSTRY**

---

**SUMMARY OF STATE "BUY AMERICAN" LAWS  
1983**

	<u>Description And Effect</u>	<u>States Involved</u>	
		<u>Number</u>	<u>Representative Examples</u>
Choice among equal or equivalent bids	Preference to in-state competitor	Virtually All	
Reciprocity	Reciprocal preference when out of state bidder from a "Buy Local" state. Increasing popularity	14	Florida, Pennsylvania, Maryland, Kansas

Source: Canada Consulting based on U.S. Department of State Foreign Service Institute seminar publication

---



TELECOM

**II. TRADE BARRIERS IN THE TELECOM AREA HAVE CONTRIBUTED TO CANADA'S HEALTHY DOMESTIC INDUSTRY**

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**A. Canada has several barriers to import trade in telecom equipment**

---

**B. The telecom services industries in both Canada and the U.S. have similar non-tariff barriers**

---

**A. CANADA HAS SEVERAL BARRIERS TO IMPORT TRADE IN TELECOM EQUIPMENT**

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1. The telecom equipment industry is of considerable significance to Canada

---

2. Across the board in telecom equipment, Canadian tariffs are significantly higher than those in the U.S.

---

3. The ownership structure of telecom in Canada plus an array of government programs are the major Canadian barriers to import trade

---

4. Barriers to Canadian telecom equipment imports are comparable to barriers to exports into the U.S.A.

---

??

1. THE TELECOM EQUIPMENT INDUSTRY IS OF CONSIDERABLE SIGNIFICANCE TO CANADA

---

In our Phase 1 report, we found that both imports and exports of telecom equipment rank high in significance to Canada

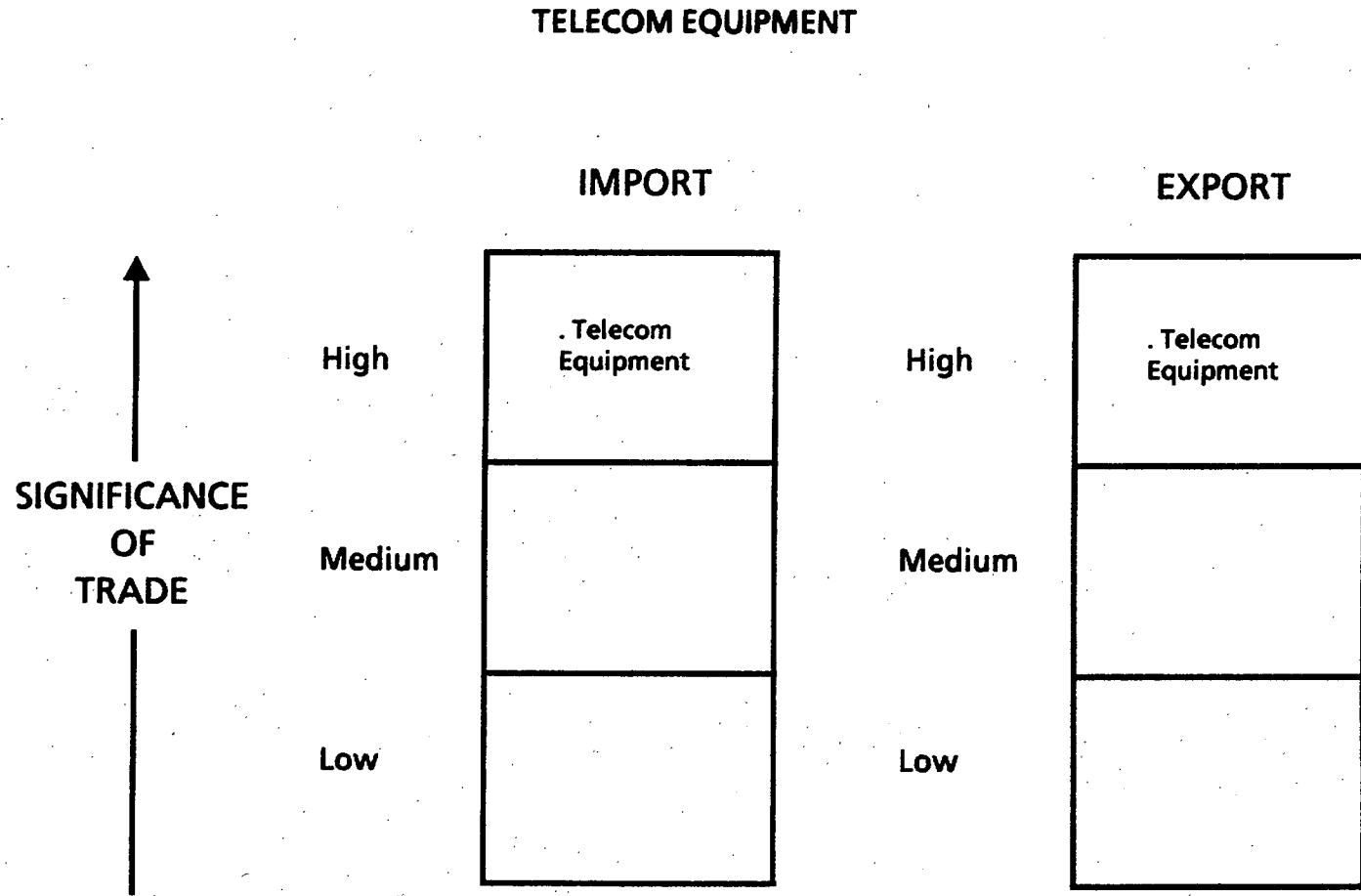
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Canada-U.S. trade in telecom equipment is more significant to Canada than it is to the United States

---

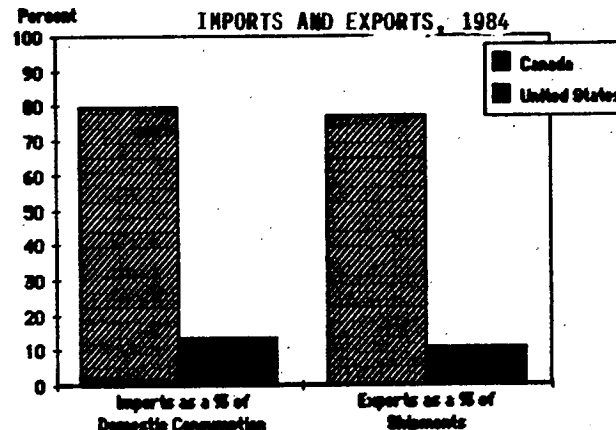
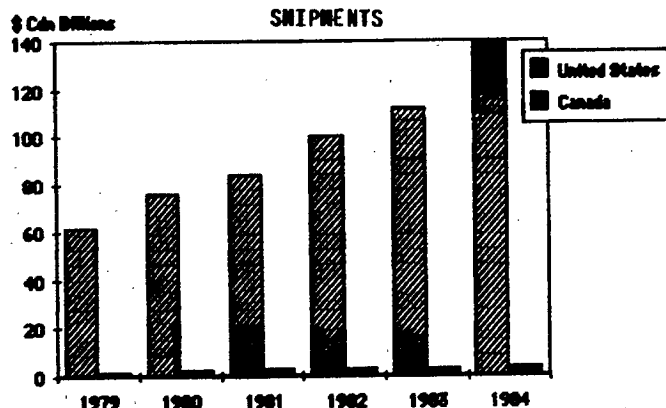
IN OUR PHASE 1 REPORT, WE FOUND THAT BOTH IMPORTS AND EXPORTS OF TELECOM EQUIPMENT RANK HIGH IN SIGNIFICANCE TO CANADA

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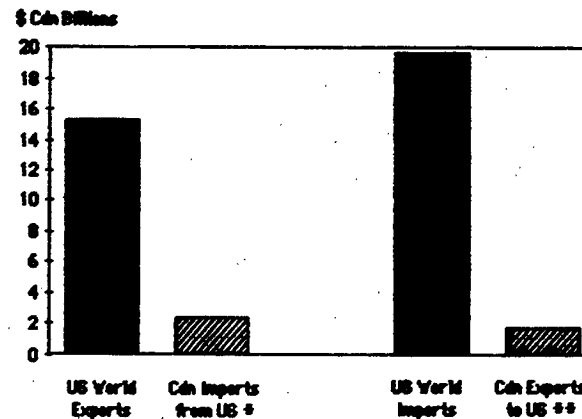
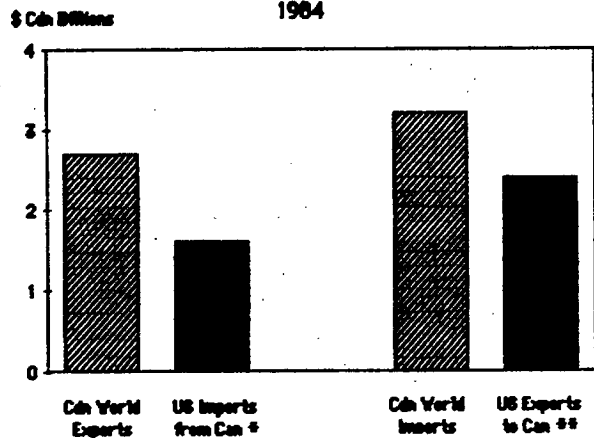
CANADA-U.S. TRADE IN TELECOM EQUIPMENT IS MORE SIGNIFICANT TO CANADA THAN IT IS TO THE UNITED STATES

TELECOMMUNICATIONS EQUIPMENT  
KEY U.S./CANADA TRADE RELATIONSHIPS



SIGNIFICANCE OF U.S. TRADE TO CANADA  
1984

SIGNIFICANCE OF CANADIAN TRADE TO US 1984



\* - Canadian Export data

\*\* - Canadian Import data

Source: Canada Consulting based on U.S. and Canadian government data

2. ACROSS THE BOARD IN TELECOM EQUIPMENT, CANADIAN TARIFFS ARE SIGNIFICANTLY HIGHER THAN THOSE IN THE U.S.

---

Tariff Item	Canadian Tariffs		U.S. Tariffs	
	1982	1987	1982	1987
Telegraph Equipment	12.9%	10.2%	6.1%	5.6%
Telegraph Parts	12.0%	10.2%	6.1%	5.6%
Telephone Apparatus, Instruments, Parts	17.5%	17.5%	8.5%	8.5%
Radio Telegraphic; Telephone Apparatus	12.9% or 17.5%	10.2% or 17.5%	4.2-9.2%	2.4-8.0%
Television Apparatus and parts (includes satellite apparatus)	11.0%	11.0%	4.0%(1985)	3.6%
Communications Satellites	11.0%	11.0%	free	free

Source: Statistics Canada, Canadian and U.S. Customs Offices

---

3. THE OWNERSHIP STRUCTURE OF TELECOM IN CANADA PLUS AN ARRAY OF GOVERNMENT PROGRAMS ARE THE MAJOR CANADIAN BARRIERS TO IMPORT TRADE

---

Vertical integration in the Canadian telecommunication industry, and the preferential procurement that results, is the single most significant Canadian non-tariff barrier in telecom equipment

---

?  
Def'n of NTB

British Columbia offers subsidies and incentives targetted at high-technology industries

---

Ontario and Quebec offer similar assistance through high technology centres and tax incentives

---

Some technical and registration requirements, plus an uncertain competitive environment, are two telecom equipment non-tariff barriers in the U.S.

---

? NTB

Some also claim that federal funding of the U.S. space and defence programs confers a technological advantage on U.S. companies, relative to their foreign and foreign-owned competitors

---

strengthen  
re ATD

State and local governments also encourage high technology companies to locate within their boundaries

---





**VERTICAL INTEGRATION IN THE CANADIAN TELECOMMUNICATIONS INDUSTRY, AND THE PREFERENTIAL PROCUREMENT THAT RESULTS, IS THE MOST SIGNIFICANT CANADIAN NON-TARIFF BARRIER IN TELECOM EQUIPMENT**

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Advisory Support/ Loan	Communications Research Centre (CRC)	Department of Communications (DOC)	Technology transfer and developmental funding to high technology organizations.	CRC
Advisory Support/ Subsidy	Industrial Research Assistance Program (IRAS)	National Research Council	Technical advice funds for use by Canadian companies in support of technical investigations or R&D projects	IAP, p.57-62
Procurement Policy	Vertical Integration	n/a	Northern Telecom and Microtel are both subsidiaries of and the major suppliers to Bell Canada and BC Tel	DGIE submission
Regulation	Telecom Standards	DOC	DOC standards are somewhat different than FCC standards	DGIE submission
Procurement Policy	Provincial government industrial development policies	Provincial Governments	Publicly-owned provincial telecom carriers favour Canadian or provincial suppliers	DGIE submission

*not a barrier*

*NO - Can/USA agree.*

\* - Some of these barriers also apply to computer equipment and are repeated in that section



**BRITISH COLUMBIA OFFERS SUBSIDIES AND INCENTIVES TARGETTED AT HIGH-TECHNOLOGY INDUSTRIES**

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Subsidy	B.C. Discovery Foundation	Discovery Park Province of B.C.	Financing on a 50-50 basis, up to a maximum of \$250,000 to manufacturers, processors and high technology business	IAP, p. 231
Subsidy	Technical Assistance Program (TAP)	B.C. Ministry of Industry, Small Business Development	Matching grants to high technology companies for hiring outside professionals to assist in corporate planning	B.C. Economic Bulletin
Subsidy	Small Manufacturers Incentive Program (SMIP)	B.C. Ministry of Industry and Small Business Development	Interest free loans to high technology companies . \$2. million/year	B.C. Economic Bulletin
Loan/ Subsidy	Defence Industry Productivity Program (DIPP)	B.C. Department of Industry, Trade and Commerce	Loans and/or subsidies for product development and equipment acquisition for defence and civil export sales	B.C. Economic Bulletin
Subsidy/ Tax Incentive	Venture Capital Corporations (VCCs)	B.C. government	Grants or tax credits to investors in VCCs	B.C. Economic Bulletins

\* - These barriers also apply to computer equipment industry and are repeated in that section



**ONTARIO AND QUEBEC OFFER SIMILAR ASSISTANCE THROUGH HIGH TECHNOLOGY CENTRES AND TAX INCENTIVES**

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Advisory Support/ Subsidy	Ontario High High Technology Centres	Ontario Ministry of Industry and Trade	Research funding, joint venture funding and assistance to Ontario companies	IAP, p.306- 307
Advisory Support	Ontario High Technology Centres	Ontario Ministry of Industry and Trade	Six centres providing assistance to Ontario businesses in order to improve productivity by applying technology to ensure international competitiveness	IAP,p.307- 310
Subsidy (Venture Capital)	Ontario IDEA Corporation	BILD/Ministry of Industry and Trade	Technology focussed venture capital financing for Ontario businesses	IAP,p.302
Tax Incentive	Wage Credit	Quebec Department of Revenue	10% credit against corporate income taxes for scientific research wages	QTA s102-655L
Tax Incentive	Corporate income tax credit for Quebec firms	Quebec Department of Revenue	10% credit against corporate taxes for scientific research wages	QTA 102-655H

\* - These barriers also apply to the computer equipment industry and is repeated in the section

## II. TELECOM - A. EQUIPMENT

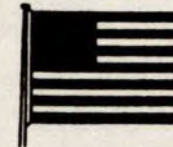
Non-Tariff Barriers  
United States - Federal



II-11

**SOME TECHNICAL AND REGISTRATION REQUIREMENTS, PLUS AN UNCERTAIN COMPETITIVE ENVIRONMENT, ARE TWO TELECOM EQUIPMENT NON-TARIFF BARRIERS IN THE U.S.**

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Regulation/ Standards	Federal Communi- cations Commission (FCC) Registration Program	FCC	All telecom equipment manufacturers must register with the FCC before connection with the public switched telephone network • Application processing requires 6-8 weeks • Certain technical standards and maintenance conditions must be satisfied	U.S. National Study on Trade in Services
Competition Policy	Vertical Integration Within U.S. Telecom Industry		Some claims persist that independent suppliers find it difficult to penetrate the U.S. telecom market. The R&D link between regional Bell operating companies and Bell labs, which in turn has a continuing manufacturing link with AT&T Technologies, gives some credence to these claims	



**SOME ALSO CLAIM THAT FEDERAL FUNDING OF THE U.S. SPACE AND DEFENCE PROGRAMS CONFERS A TECHNOLOGICAL ADVANTAGE ON U.S. COMPANIES, RELATIVE TO THEIR FOREIGN AND FOREIGN-OWNED COMPETITORS**

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Subsidy/ Procurement Policy	U.S. space and military spending	Department of Defense NASA	Large U.S. defense and space budgets provide spin-off benefits to primary and subcontractors in areas of R&D and product process technology. Benefits accrue primarily to U.S. firms, in part because of discriminatory procurement policies and perhaps more importantly discretionary administrative practices	\$2.

\* This barrier also applies to computer equipment and is repeated in that section



**STATE AND LOCAL GOVERNMENTS ALSO ENCOURAGE HIGH TECHNOLOGY COMPANIES TO LOCATE WITHIN THEIR BOUNDARIES**

---

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Advisory Support/ Subsidy	R&D/High Technology "incubator" parks	State and local governments	Publicly owned industrial development parks encourage clustered development of high technology industry. Incentives for location in these areas include cooperative R&D with local universities, proximity to suppliers and customers, qualified and available human resources and other "quality of life" attributes	State government publications

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**4. BARRIERS TO CANADIAN TELECOM EQUIPMENT IMPORTS ARE COMPARABLE TO BARRIERS TO EXPORTS INTO THE U.S.A.**

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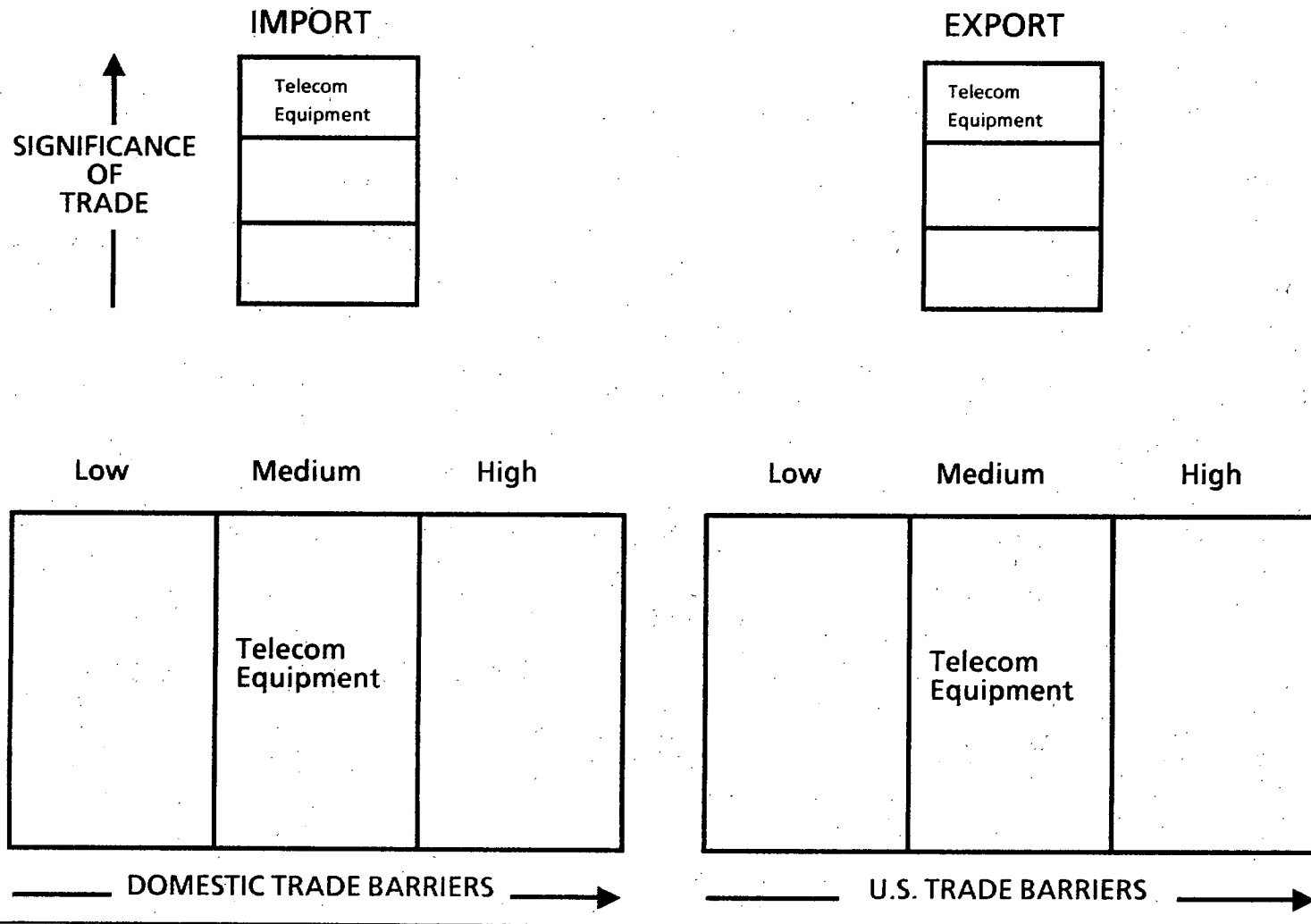
**Domestic trade barriers are moderate in telecom equipment, as are the corresponding U.S. trade barriers**

---

**Moderate trade barriers in the U.S. have not dampened Canada's success in the key telecom equipment industry**

---

DOMESTIC TRADE BARRIERS ARE MODERATE IN TELECOM EQUIPMENT, AS ARE THE COMPRABLE U.S. TRADE BARRIERS

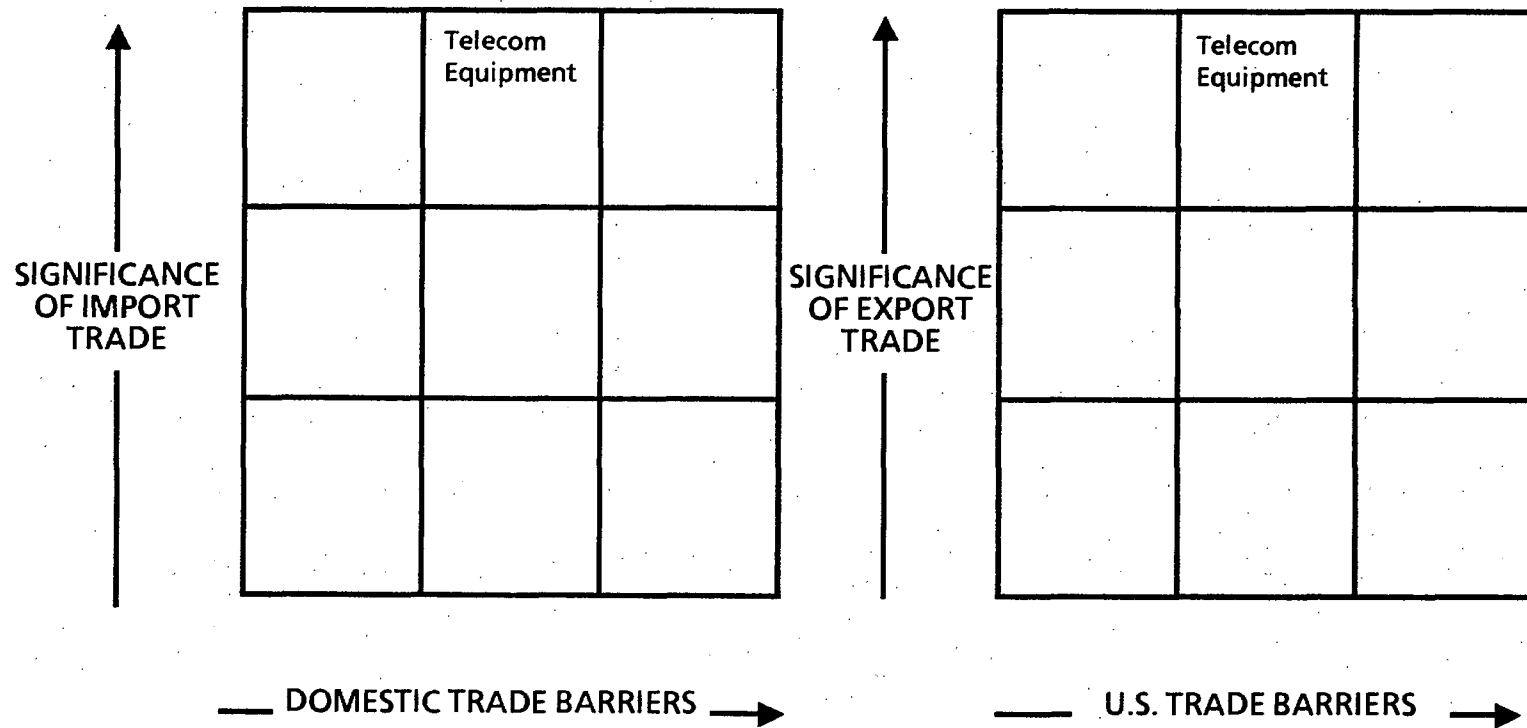




MODERATE TRADE BARRIERS IN THE U.S. HAVE NOT DAMPENED HELPED CANADA'S SUCCESS IN THE KEY TELECOM EQUIPMENT INDUSTRY

---

DOC TRADE POSITION STUDY  
TELECOM EQUIPMENT



**B. THE TELECOM SERVICES INDUSTRIES IN BOTH CANADA AND THE U.S. HAVE SIMILAR NON-TARIFF BARRIERS**

---

1. Trade in telecom services between the huge U.S. industry and its relatively small Canadian counterpart is not significant in dollar terms

---

2. There are many parallels between telecom services trade barriers in both Canada and the United States

---

3. High trade barriers and insignificant trade characterize the telecom services industry

---

1. TRADE IN TELECOM SERVICES BETWEEN THE HUGE U.S. INDUSTRY AND ITS  
RELATIVELY SMALL CANADIAN COUNTERPART IS NOT SIGNIFICANT IN DOLLAR  
TERMS

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Referring again to Phase 1, we found that telecom services are not yet significant in terms of Canadian trade

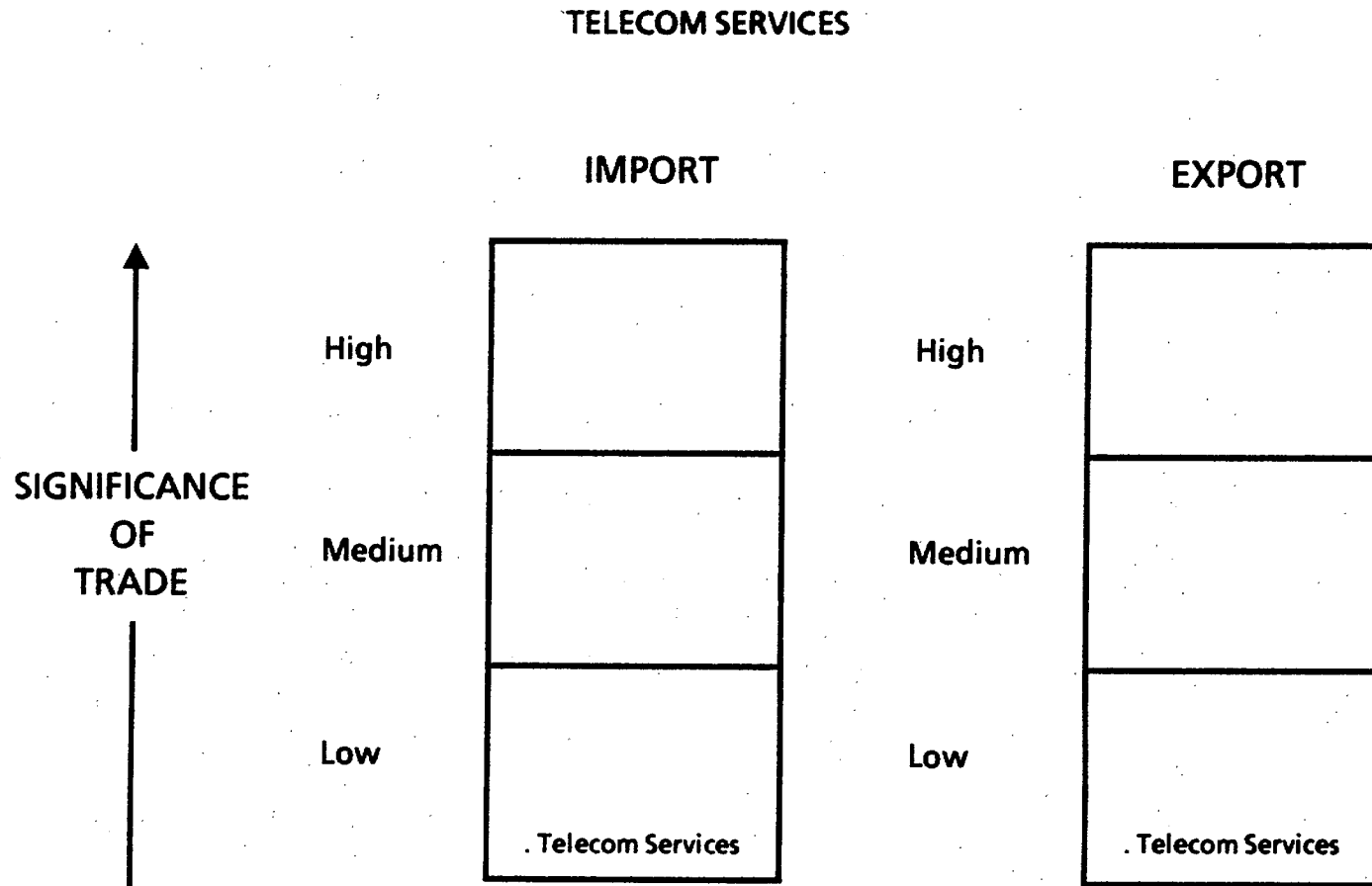
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The Bell systems dominate the telecom services industry in both countries, though less so in Canada.

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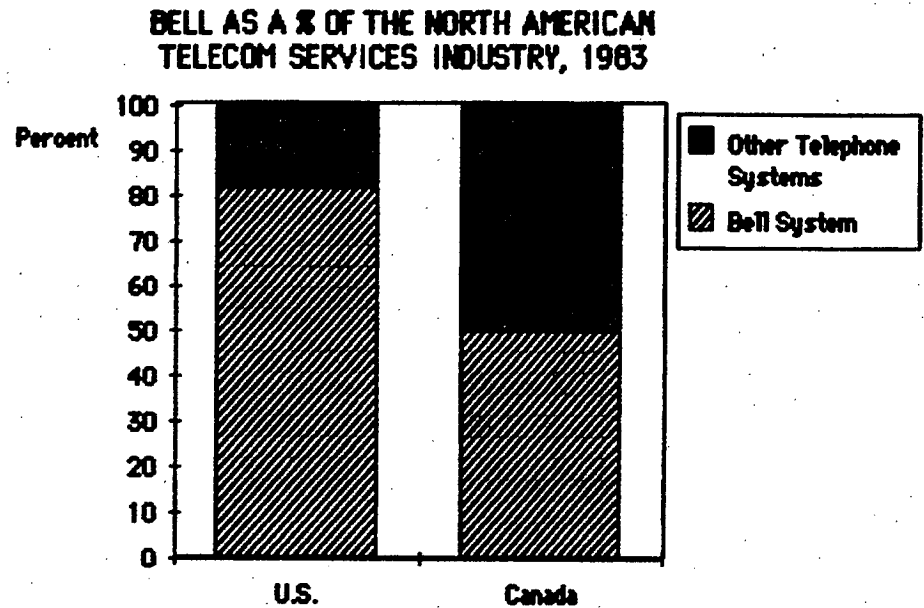
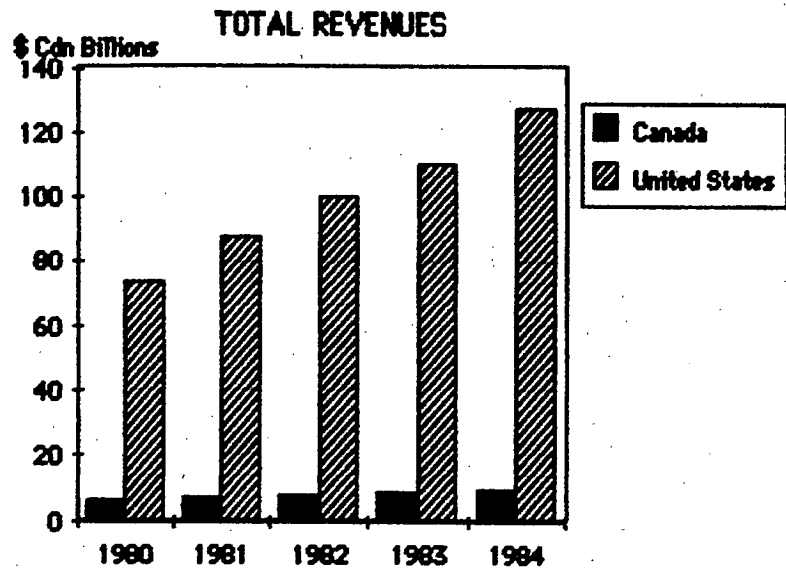
REFERRING AGAIN TO PHASE 1, WE FOUND THAT TELECOM SERVICES ARE NOT YET SIGNIFICANT IN TERMS OF CANADIAN TRADE

---



THE BELL SYSTEMS DOMINATE THE TELECOM SERVICES INDUSTRY IN BOTH COUNTRIES, THOUGH LESS SO IN CANADA

TELECOMMUNICATIONS SERVICES  
CANADA VS. U.S.A.



Source: Canada Consulting based on Bell annual reports, Statistics Canada and U.S. Department of Commerce data

2. THERE ARE MANY PARALLELS BETWEEN TELECOM SERVICES TRADE BARRIERS IN CANADA AND THE UNITED STATES

---

Distribution constraints are major Canadian non-tariff barriers in telecom services

---

Provincial ownership of the Canadian telecom system also blocks foreign competition

---

The U.S. has distribution and ownership constraints which act as barriers to trade in telecom services

---



**DISTRIBUTION CONSTRAINTS ARE MAJOR CANADIAN NON-TARIFF BARRIERS IN TELECOM SERVICES**

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Distribution Constraint	CRTC Telecom Decision 1984-18	CRTC	U.S. interexchange carriers that have interexchange agreements with Telecom Canada cannot carry Canada - Canada traffic via the U.S.	CRTC 1984-18
Distribution Constraint	CRTC Telecom Public Notice 1984-24	CRTC	Prohibits Canada - U.S. based resellers who do not have an agreement with Canadian phone companies - Under consideration by CRTC	CRTC
Procurement Policy	Federal government procurement of informatics	Federal government	Departments (e.g., Government Telecommunications Agency) must demonstrate that there are specific reasons for using foreign owned services rather than procuring domestic computer facilities	Canada Consulting Research
Tax Incentive	Exemption from sales tax base	Revenue Canada	Services are exempt from the federal sales tax base (exception: cable is subject to a 6% sales tax)	ETA Schedule III



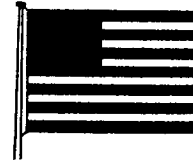
**PROVINCIAL OWNERSHIP OF THE CANADIAN TELECOM SYSTEM ALSO BLOCKS FOREIGN COMPETITION**

---

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
<b>Competitive Environment</b>	<b>Provincial government ownership and regulation of telecom system</b>	<b>Provincial governments</b>	<b>Large parts of the Canadian telecommunications system are provincially owned and/or regulated. Historic monopoly acts as market/industry entry barrier</b>	<b>Provincial Legislation</b>

---





**THE U.S. HAS DISTRIBUTION AND OWNERSHIP CONSTRAINTS WHICH ACT AS BARRIERS TO TRADE IN TELECOM SERVICES**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Distribution Constraint		Federal Communications Commission (FCC)	Canadian interexchange carriers can not carry U.S.-U.S. traffic via Canada	FCC
Ownership Constraint	Telecom Regulations	FCC	Telecom services using radio frequencies must be at least 30% U.S. owned	U.S. Dept. of Commerce
Ownership Constraint	Telegraph Merger Authorizations	FCC	FCC can not approve a merger among telegraph carriers which would result in more than 20% of stock being foreign owned or controlled.	Canada Consulting Research
Ownership Constraint	Communications Satellite Corp (Comsat) ownership	FCC	Prohibits more than 20% foreign ownership in Comsat shares	Canada Consulting Research

**3. HIGH TRADE BARRIERS AND INSIGNIFICANT TRADE CHARACTERIZE THE TELECOM SERVICES INDUSTRY**

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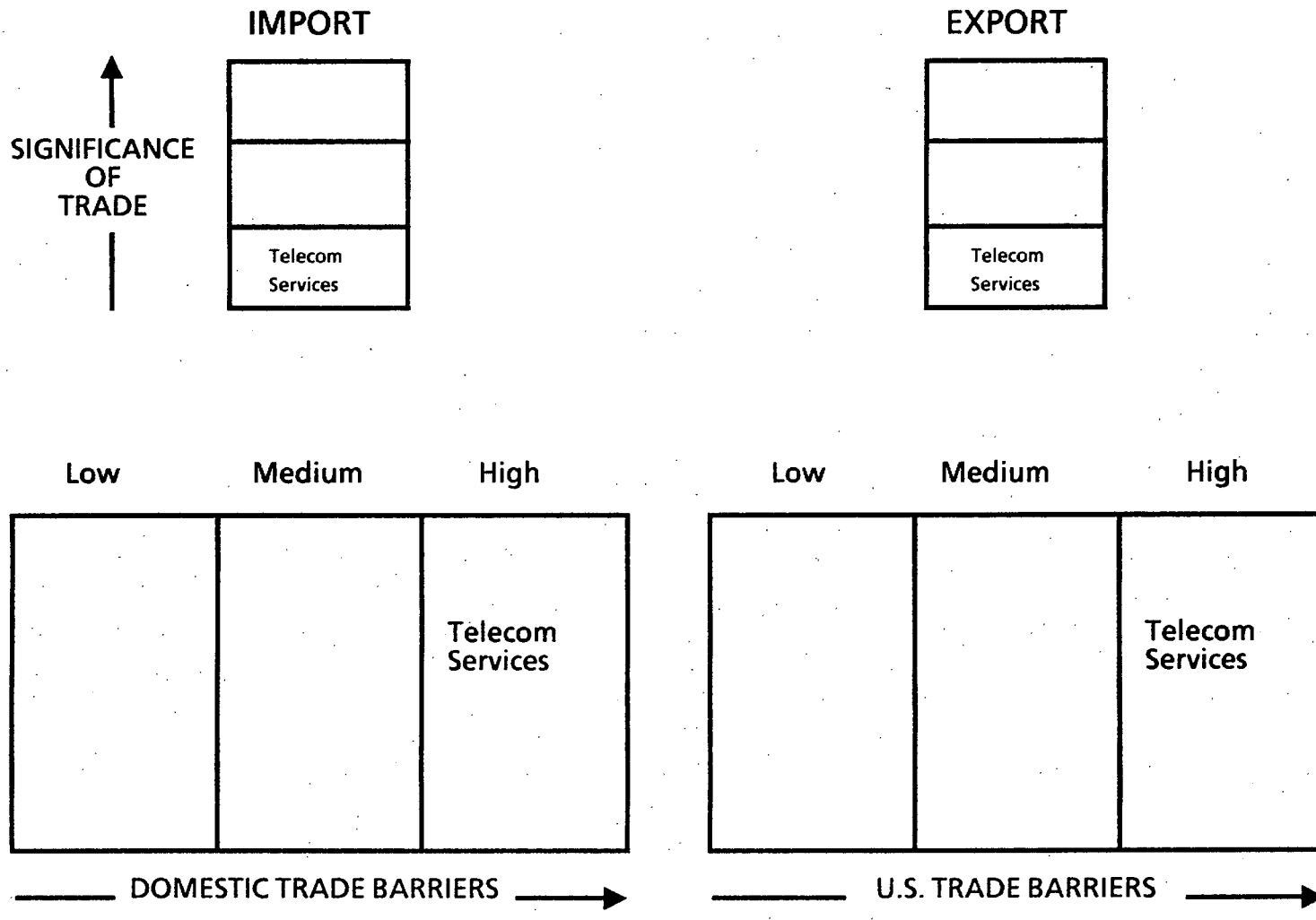
**Barriers to trade in telecom services are high in both the U.S. and Canada**

---

**High tariff and non-tariff barriers have undoubtedly contributed to the insignificance of trade in telecom services**

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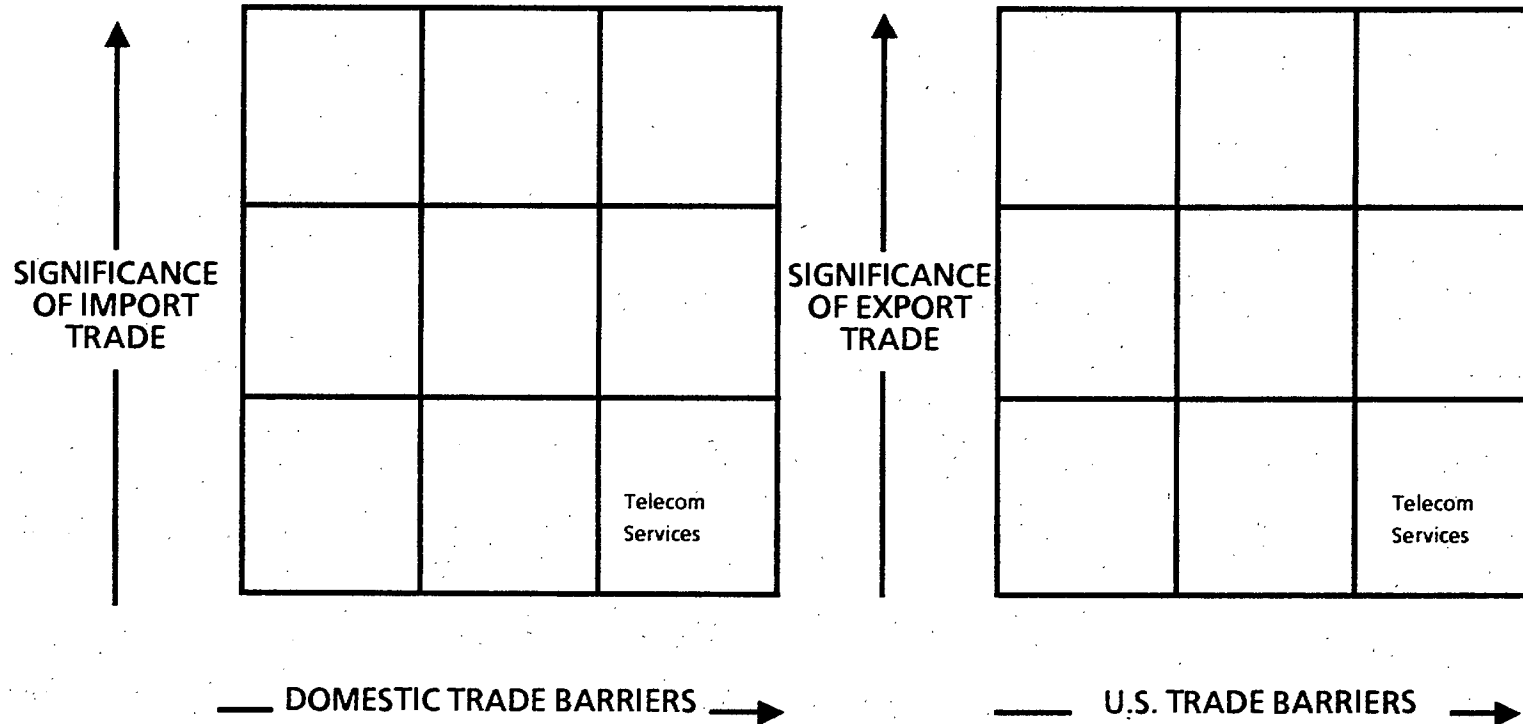
BARRIERS TO TRADE IN TELECOM SERVICES ARE HIGH IN BOTH THE U.S. AND CANADA



HIGH TARIFF AND NON-TARIFF BARRIERS HAVE UNDOUBTEDLY CONTRIBUTED TO THE INSIGNIFICANCE OF TRADE IN TELECOM SERVICES

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DOC TRADE POSITION STUDY  
TELECOM SERVICES



COMPUTER

**III. THE ABILITY OF CANADA'S COMPUTER INDUSTRY TO DEVELOP SUSTAINABLE SOURCES OF COMPETITIVE ADVANTAGE WILL BE ESSENTIAL TO ITS GROWTH AND PROSPERITY**

---

**A. Canada's computer equipment industry endures a negative trade balance and a "branch plant" operating orientation**

---

**B. U.S.-Canada trade barriers are not a critical issue facing the Canadian software industry**

---

4. DESPITE RELATIVELY HIGH NON-TARIFF BARRIERS, CANADA'S COMPUTER EQUIPMENT INDUSTRY ENDURES A NEGATIVE TRADE BALANCE AND "BRANCH PLANT" OPERATING ORIENTATION

---

1. The computer equipment industry is important to Canada, and trade with the United States is very significant to the Canadian computer equipment industry

---

2. Canadian government programs to encourage technology intensive development assist the domestic computer equipment

---

3. Domestic trade barriers are moderate, as are U.S. barriers in the computer equipment industry

---

1. THE COMPUTER EQUIPMENT INDUSTRY IS IMPORTANT TO CANADA, AND TRADE WITH THE UNITED STATES IS VERY SIGNIFICANT TO THE CANADIAN COMPUTER EQUIPMENT INDUSTRY

---

Our earlier work showed that computer equipment is a vital import, and domestic assembly operations make it an important export as well

---

Canada-U.S. computer equipment trade is highly significant to Canada, considerably more so than it is to the United States

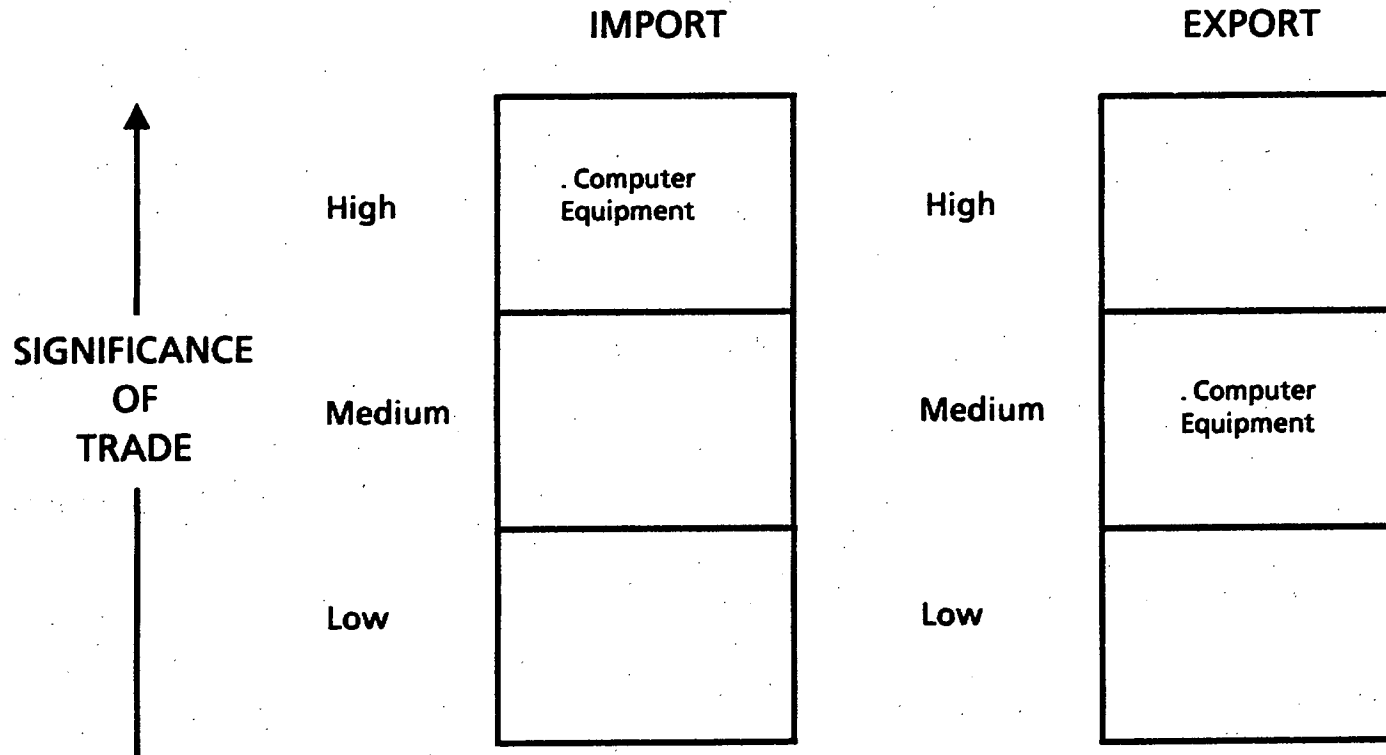
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OUR EARLIER WORK SHOWED THAT COMPUTER EQUIPMENT IS A VITAL IMPORT, AND DOMESTIC ASSEMBLY OPERATIONS MAKE IT AN IMPORTANT EXPORT AS WELL

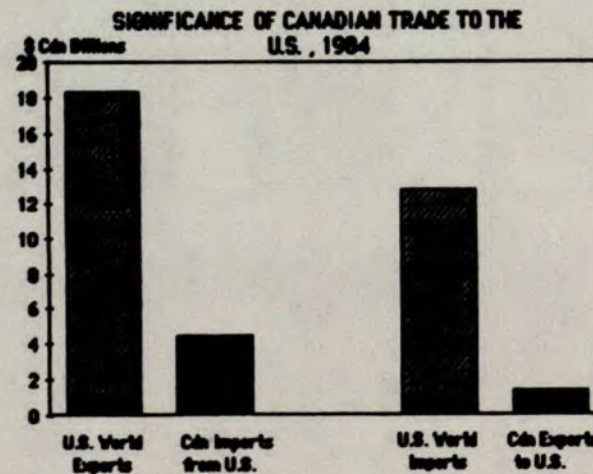
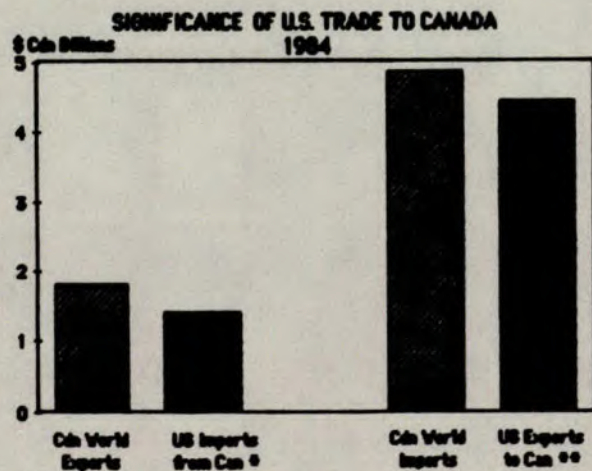
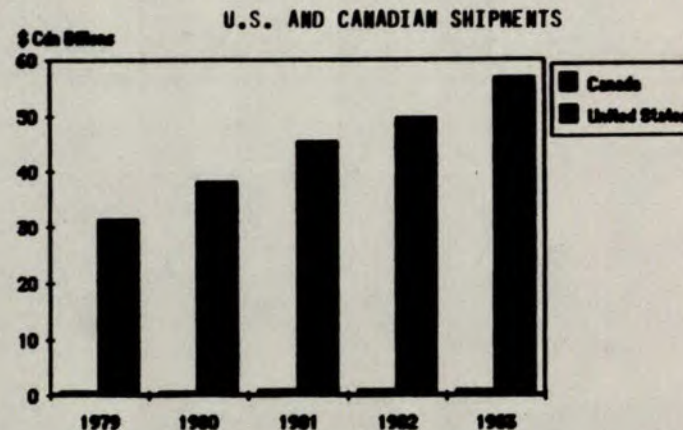
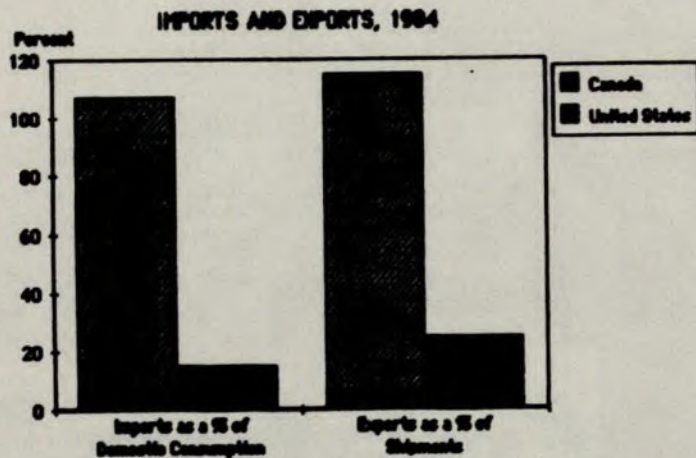
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**COMPUTER EQUIPMENT**



**CANADA-U.S. COMPUTER EQUIPMENT TRADE IS HIGHLY SIGNIFICANT TO CANADA,  
CONSIDERABLY MORE SO THAN IT IS TO THE UNITED STATES**

**OFFICE AND COMPUTING MACHINERY**



\* - Canadian Export data

\*\* - Canadian Import data

**2. CANADIAN GOVERNMENT PROGRAMS TO ENCOURAGE TECHNOLOGY INTENSIVE DEVELOPMENT ASSIST THE DOMESTIC COMPUTER EQUIPMENT INDUSTRY**

---

By 1987, Canadian tariffs on computer equipment will be equal to or less than comparable U.S. tariffs

---

Government support programs assist high tech organizations and procurement policies favour Canadian suppliers

---

British Columbia provides assistance to high technology ventures

---

Similarly, Ontario and Quebec offer support programs and tax incentives to encourage technology-based business development

---

In the United States, defense and space-related spending has financed and facilitated some technological advances made by U.S. high tech companies

---

State and local governments have programs designed to attract technology-intensive industry to their jurisdictions

---

BY 1987, CANADIAN TARIFFS ON COMPUTER EQUIPMENT WILL BE EQUAL TO OR LESS  
THAN COMPARABLE U.S. TARIFFS

---

Tariff Item	Canadian Tariffs		U.S. Tariffs	
	1982	1987	1982	1987
EDP Machines & Parts	5.1%	3.9%	4.7%	3.9%
EDP Peripherals & Parts	free	free	4.7%	3.9%
Office Machines	5.1-10.2%	free	2.0-7.0%	2.0-3.7%

---

Source: Statistics Canada, Canadian and U.S. Customs Offices

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**GOVERNMENT SUPPORT PROGRAMS ASSIST HIGH TECH ORGANIZATIONS AND  
 PROCUREMENT POLICIES FAVOUR CANADIAN SUPPLIERS**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Advisory Support/ Loan	Communications Research Centre (CRC)	Department of Communications	Technology transfer and developmental funding to high technology organizations	CRC
Advisory Support/ Subsidy	Industrial Research Assistance Program (IRAP)	National Research Council	Technical advice funds for use by Canadian companies in support of technical investigations or R&D projects	IAP, p.57-62
Procurement Policy	Federal and Provincial government policies	Federal and Provincial Governments and Crown Corporations	Federal and Provincial governments and crown corporations favor Canadian suppliers of computer equipment	Canada Consulting research

\* - These barriers also apply to telecom equipment and are repeated in that section



**BRITISH COLUMBIA PROVIDES ASSISTANCE TO HIGH TECHNOLOGY VENTURES**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Subsidy	B.C. Discovery Foundation	Discovery Park Province of B.C.	Financing on a 50-50 basis, up to a maximum of \$250,000 to manufacturers, processors and high technology business	IAP, p. 231
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Subsidy/ Tax Incentive	Venture Capital Corporations (VCCs)	B.C. government	Grants or tax credits to investors in VCCs	B.C. Economic Bulletins

\* - Same barriers apply to the telecom equipment industry and are repeated in that section



**SIMILARLY, ONTARIO AND QUEBEC OFFER SUPPORT PROGRAMS AND TAX INCENTIVES TO ENCOURAGE TECHNOLOGY-BASED BUSINESS DEVELOPMENT**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Advisory Support/ Subsidy	Ontario High High Technology Centres	Ontario Ministry of Industry and Trade	Research funding, joint venture funding and assistance to Ontario companies	IAP, p.306- 307
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Tax Incentive	Corporate income tax credit for Quebec firms	Quebec Department of Revenue	10% credit against corporate taxes for scientific research wages	QTA 102-655H

\* - Same barriers apply to the telecom equipment industry and are repeated in that section



IN THE UNITED STATES DEFENSE AND SPACE-RELATED SPENDING HAS FINANCED AND FACILITATED SOME TECHNOLOGICAL ADVANCES MADE BY U.S. HIGH TECH COMPANIES

---

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Subsidy/ Procurement Policy	U.S. Space and Military spending	Department of Defense NASA	Large U.S. defense and space budgets provide spin-off benefits to primary and sub-contractors in areas of R&D and product/process technology. Benefits accrue primarily to U.S. firms, at least in part because of discriminatory procurement policies and, perhaps more importantly discretionary administrative practices	

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**STATE AND LOCAL GOVERNMENTS HAVE PROGRAMS DESIGNED TO ATTRACT TECHNOLOGY-INTENSIVE INDUSTRY TO THEIR JURISDICTIONS**

---

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Advisory Support/ Subsidy	R&D/High-tech "incubator" parks	State and local governments	Publicly owned industrial development parks encourage clustered development of high tech industry. Incentives for location in these areas include cooperative R&D with local universities, proximity to suppliers and customers, qualified and available human resources, and other "quality of life" attributes	State government publications

3. DOMESTIC TRADE BARRIERS ARE MODERATE, AS ARE U.S. BARRIERS IN THE  
COMPUTER EQUIPMENT INDUSTRY

---

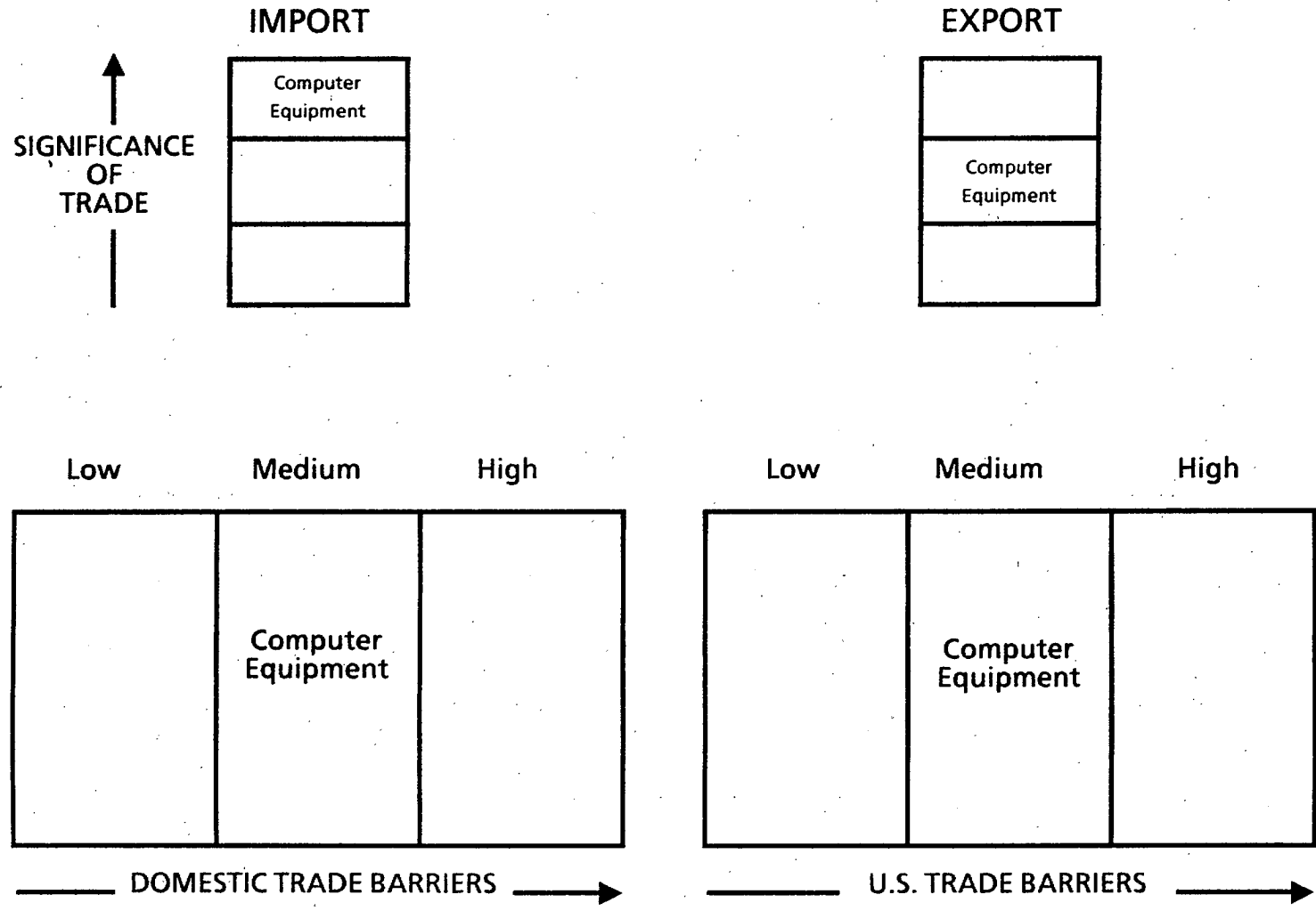
The specifics of Canadian trade barriers in computer equipment differ from those in the U.S., but the height of trade barriers in both countries is very similar

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Canada's negative balance of trade in computer equipment reflects the assembly and re-export nature of our domestic industry

---

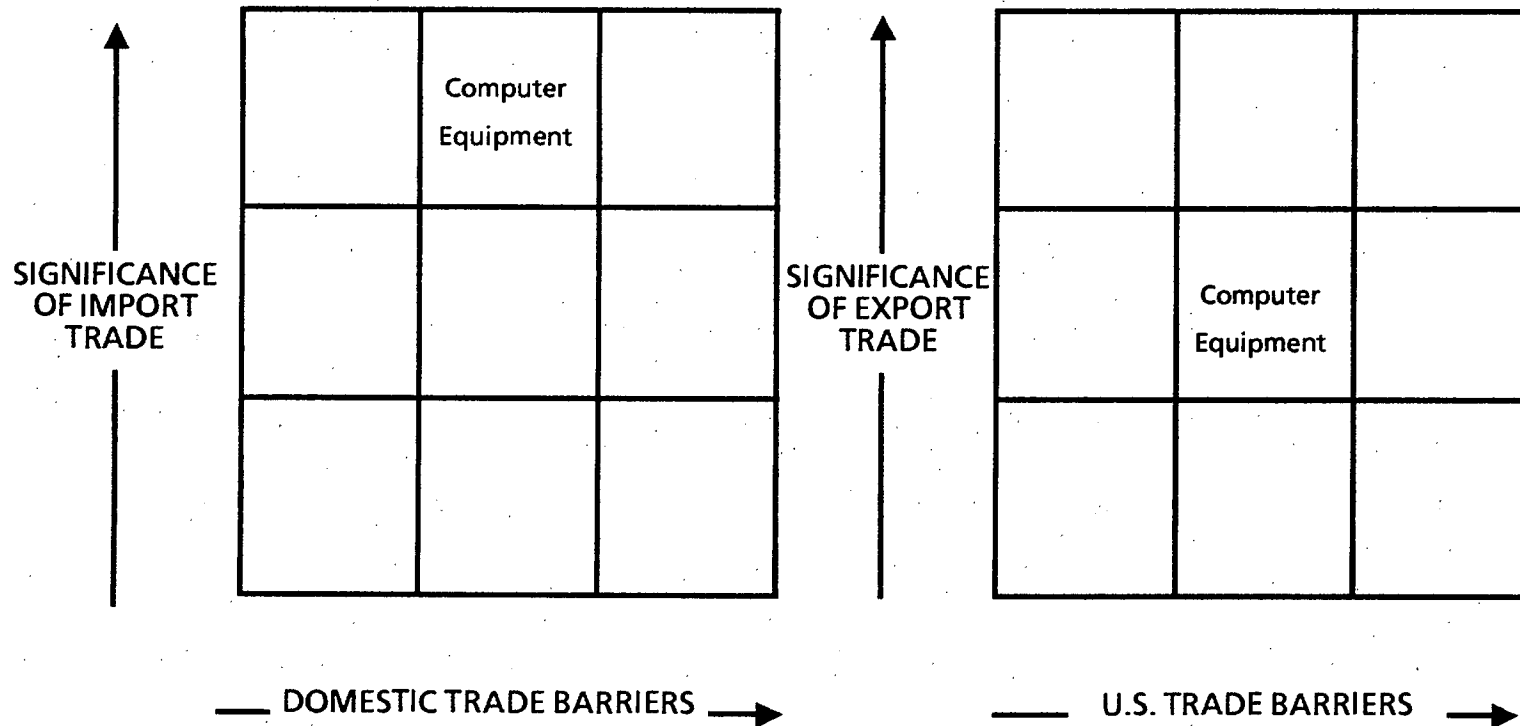
THE SPECIFICS OF CANADIAN TRADE BARRIERS IN COMPUTER EQUIPMENT DIFFER FROM THOSE IN THE U.S., BUT THE HEIGHT OF TRADE BARRIERS IN BOTH COUNTRIES IS VERY SIMILAR



CANADA'S NEGATIVE BALANCE OF TRADE IN COMPUTER EQUIPMENT REFLECTS THE ASSEMBLY AND RE-EXPORT NATURE OF OUR DOMESTIC INDUSTRY

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DOC TRADE POSITION STUDY  
COMPUTER EQUIPMENT



**B. U.S.-CANADA TRADE BARRIERS ARE NOT A CRITICAL ISSUE FACING THE CANADIAN SOFTWARE INDUSTRY**

---

1. While import trade in computer services is significant to Canada, the computer software industry in Canada is very small when compared with the U.S.A.

---

2. Weak Canadian copyright legislation may have limited somewhat U.S. software exports into Canada

---

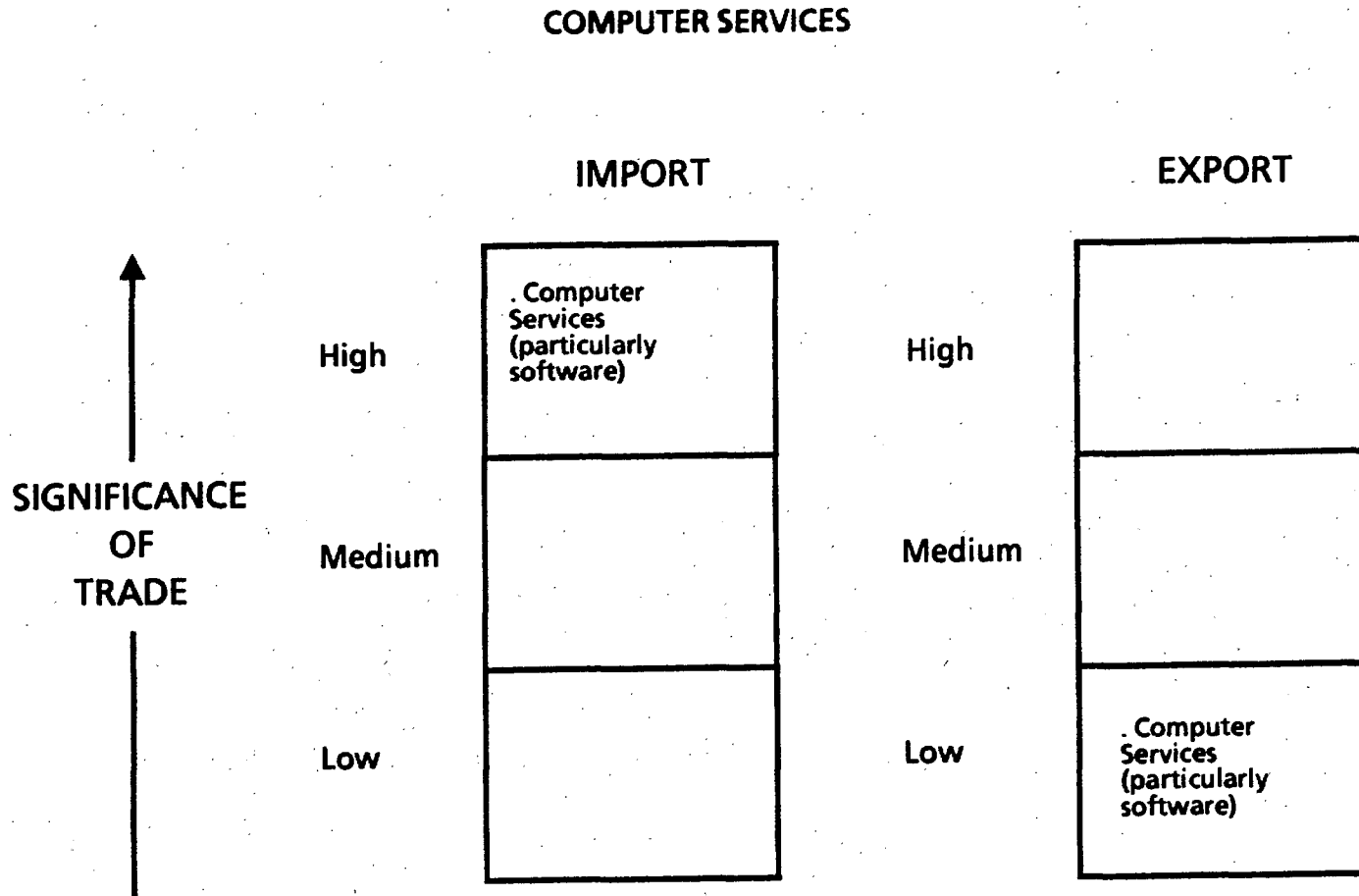
3. Trade barriers appear to have had only a limited impact on Canada-U.S. trade in computer software

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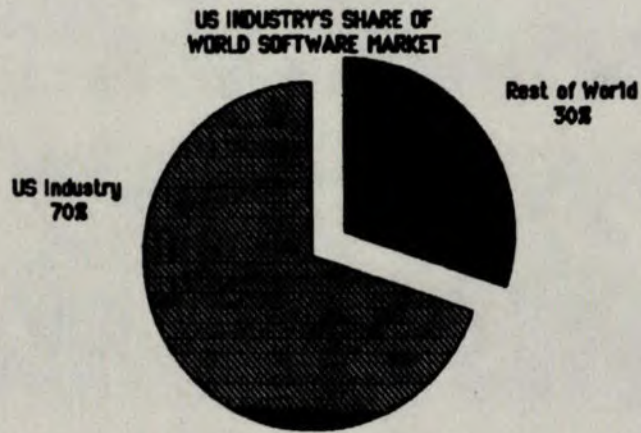
OUR WORK IN PHASE 1 SHOWED THAT IMPORTS OF COMPUTER SERVICES,  
PARTICULARLY SOFTWARE, ARE PREDOMINANT

---

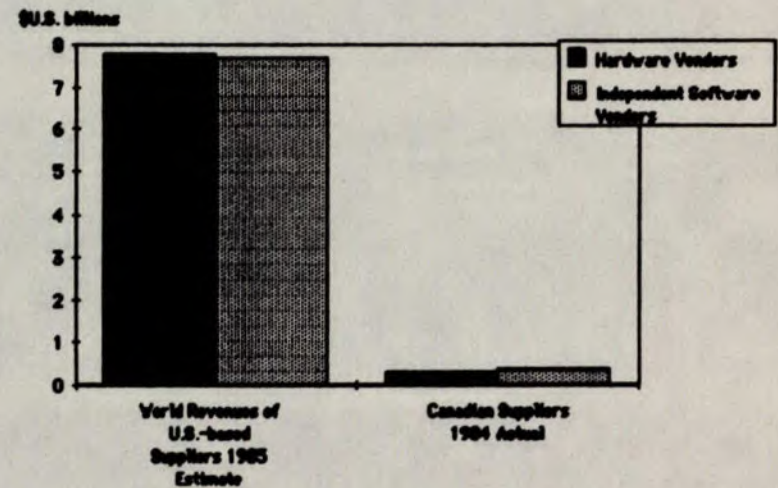


# THE U.S. SOFTWARE INDUSTRY DOMINATES THE WORLD AND, BY COMPARISON, DWARFS THE CANADIAN INDUSTRY

## COMPUTER SOFTWARE



**COMPARATIVE SOFTWARE REVENUES:  
Canada vs. U.S.**



Source: Canada Consulting based on Evans Research data and International Data Corporation estimates (as per Standard & Poor's industry survey)



**2. WEAK CANADIAN COPYRIGHT LEGISLATION MAY HAVE LIMITED SOMEWHAT U.S. SOFTWARE EXPORTS INTO CANADA**

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The U.S. has some tariffs on computer software

---

A major irritant to the U.S. is the alleged inadequacy of Canadian copyright law in the area of software piracy

---

The United States defence and space programs provide subsidies which sustain American state-of-the-art expertise in the software industry

---

THE U.S. HAS SOME TARIFFS ON COMPUTER SOFTWARE

---

Tariff Item	Canadian Tariffs		U.S. Tariffs
	1982	1987	
Computer software . magnetic tape or diskette	free	free	free under the Nairobi Protocol until Aug. 11/85. 0.9¢/linear or square foot there- after

Source: Statistics Canada, Canadian and U.S. Customs Offices

---



**A MAJOR IRRITANT TO THE U.S. IS THE ALLEGED INADEQUACY OF CANADIAN  
COPYRIGHT LAW IN THE AREA OF SOFTWARE PIRACY**

---

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Special Legislation	Copyright Act	Consumer and Corporate Affairs	Inadequate protection against pirating of U.S. software	DGIE Submission

---



**THE UNITED STATES DEFENCE AND SPACE PROGRAMS PROVIDE SUBSIDIES WHICH  
SUSTAIN AMERICAN STATE-OF-THE ART EXPERTISE IN THE SOFTWARE INDUSTRY**

---

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Subsidy	Software Technology for Adaptable and Reliable Systems (STARS)	U.S. Department of Defense	Defense-related software R&D project • \$5 million in 1984 budget	"U.S. Software Industry"
Subsidy	Strategic Computing Project	U.S. Department of Defense	R&D for multi-parallel processing and artificial intelligence software	"U.S. Software Industry"
Subsidy	Space Station	NASA	Space-related software R&D project	"U.S. Software Industry"

---

3. TRADE BARRIERS APPEAR TO HAVE HAD ONLY A LIMITED IMPACT ON CANADA-U.S. TRADE IN COMPUTER SOFTWARE

---

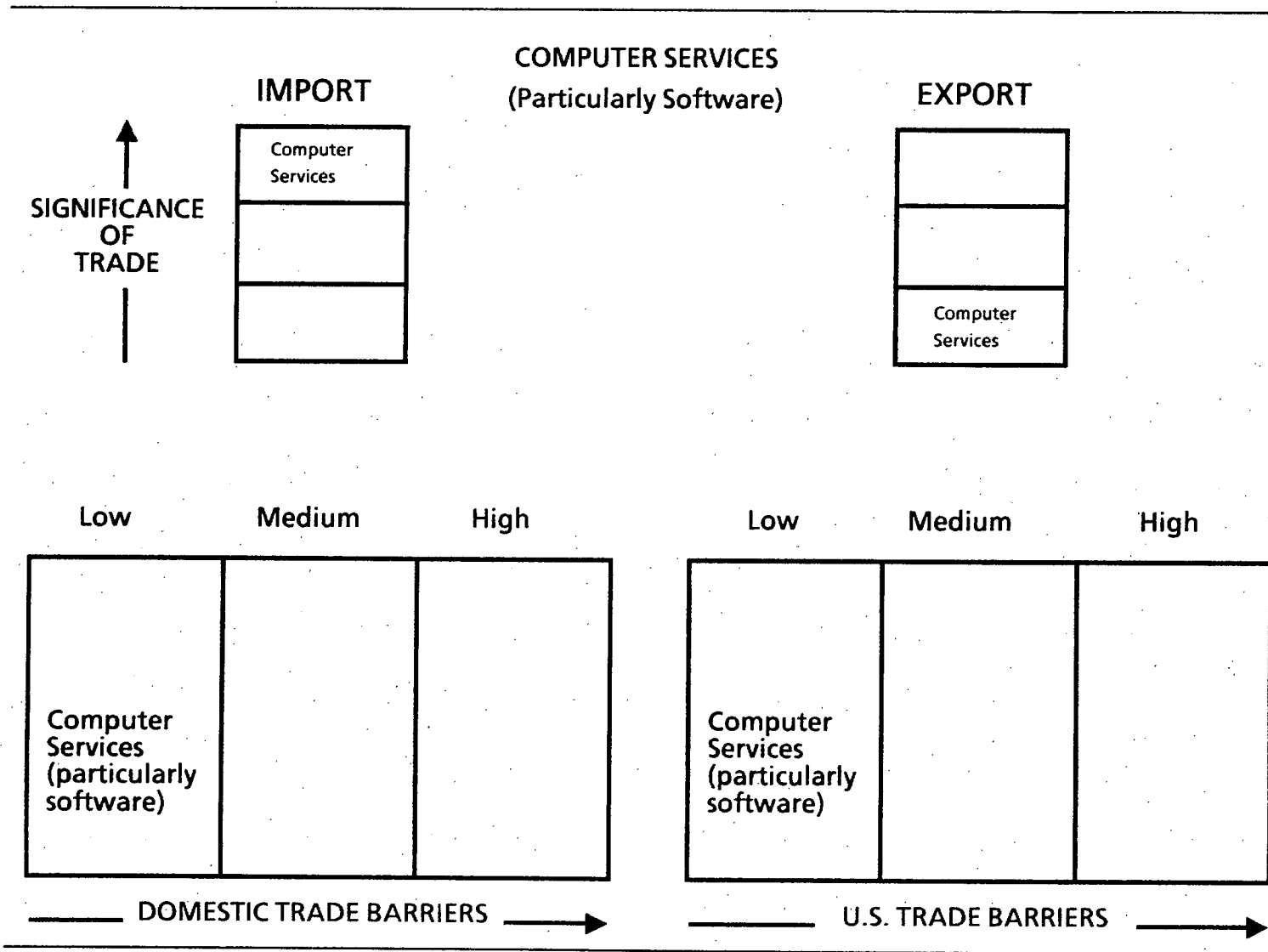
Domestic computer software trade barriers are low in both Canada and the United States

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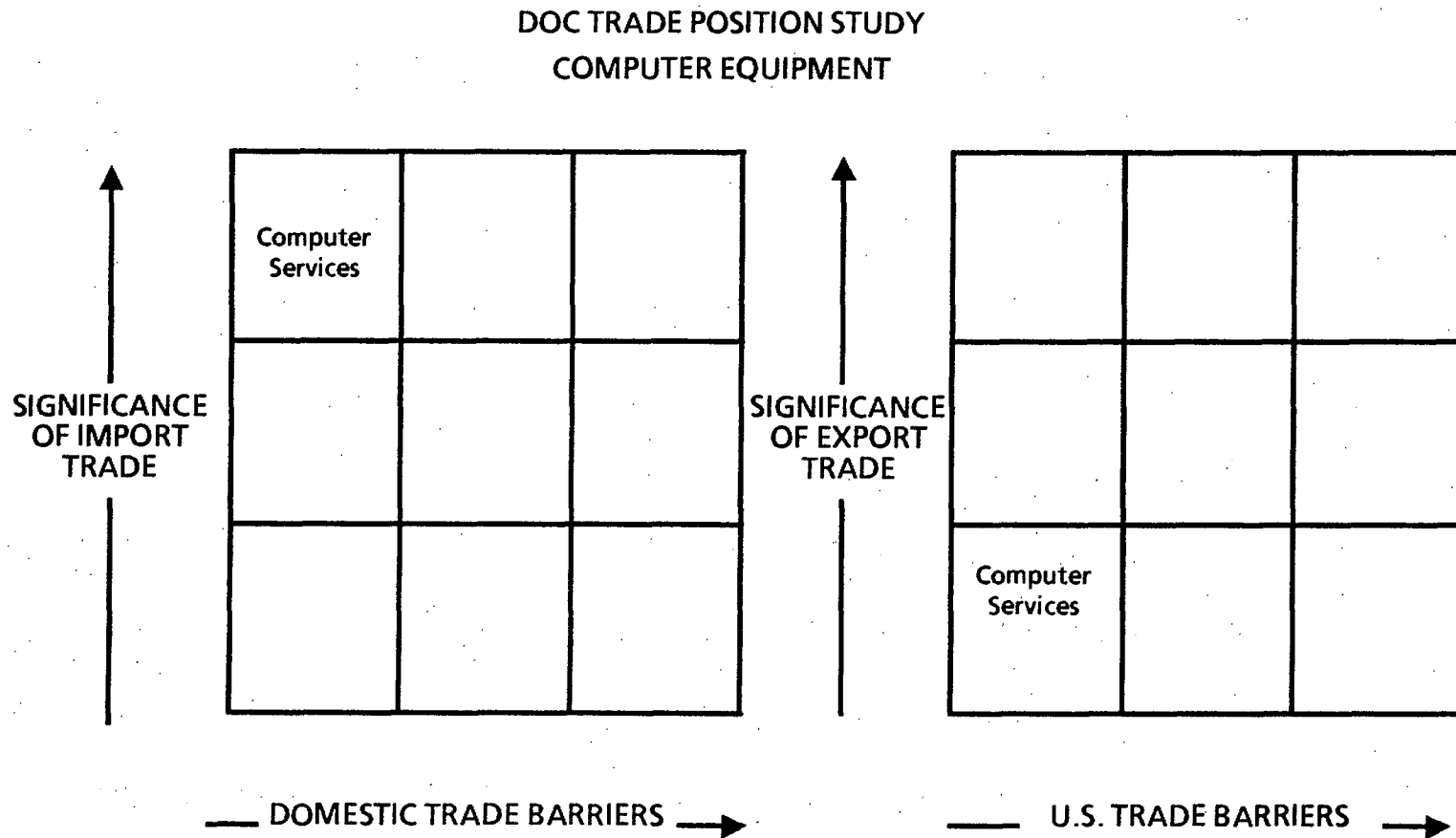
In spite of low U.S. trade barriers, Canadian software exports to the U.S. are not significant

---

DOMESTIC COMPUTER SOFTWARE TRADE BARRIERS ARE LOW IN BOTH CANADA AND THE UNITED STATES



IN SPITE OF LOW U.S. TRADE BARRIERS, CANADIAN SOFTWARE EXPORTS TO THE U.S. ARE NOT SIGNIFICANT



BROADCASTING



**IV. CANADIAN TRADE BARRIERS GOVERNING BROADCASTING HAVE ATTEMPTED TO PROMOTE CANADIAN CONTENT AND OWNERSHIP IN THIS INDUSTRY**

---

**A. Trade barriers have had little impact on Canadian Radio and TV exports to the U.S., but have helped the Canadian broadcasting industry fight U.S. competition at home**

---

**B. Canadian ownership rules have allowed the domestic cable TV industry in Canada to develop and mature free of foreign competition**

---

**A. TRADE BARRIERS HAVE HAD LITTLE IMPACT ON CANADIAN RADIO AND TV EXPORTS TO THE U.S., BUT HAVE HELPED THE CANADIAN BROADCASTING INDUSTRY FIGHT U.S. COMPETITION AT HOME**

---

1. Dollar volumes involved in programming trade are modest, but this trade is important to national identity

---

2. Canadian broadcasting non-tariff barriers - a major regulatory burden to the industry - exist at the federal level

---

3. The United States has ownership restrictions and tax penalties governing broadcasting which closely parallel those that exist in Canada

---

4. Canadian content requirements cause Canada's domestic trade barriers to be higher than those in the U.S.A.

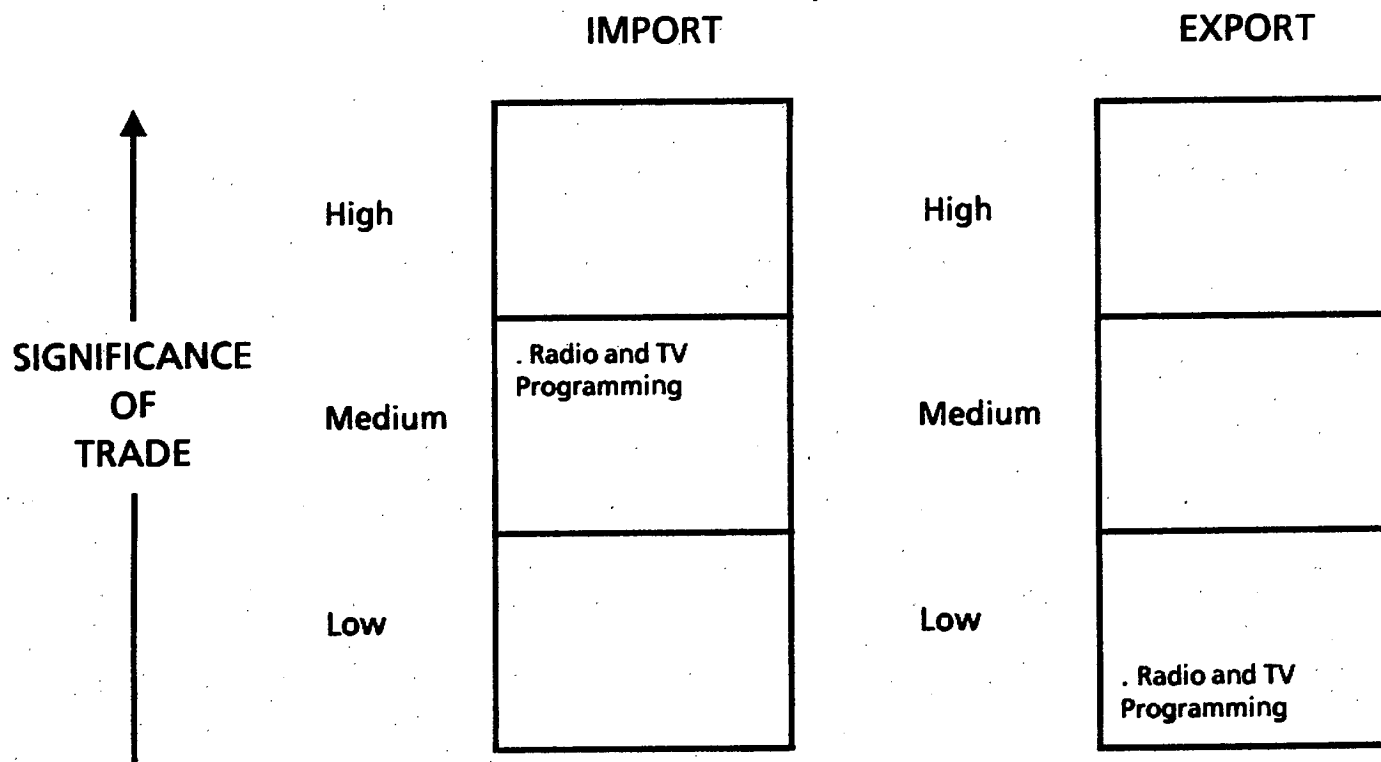
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5. Despite high barriers at home, the impact of U.S. broadcasting remains high in Canada, and is of concern for reasons of national and cultural identity

---

1. DOLLAR VOLUMES INVOLVED IN PROGRAMMING TRADE ARE MODEST, BUT THIS TRADE IS IMPORTANT TO NATIONAL IDENTITY

---



**2. CANADIAN BROADCASTING NON-TARIFF BARRIERS - A MAJOR REGULATORY BURDEN TO THE INDUSTRY - EXIST AT THE FEDERAL LEVEL**

---

Barriers erected to promote Canadian-owned broadcasting include ownership restrictions, tax penalties on cross-border advertising ...

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... Loans and other assistance to Canadian producers, restrictions on licensee eligibility, ...

---

... Exclusive franchises regarding pay TV, ...

---

... Canadian content requirements for AM broadcasts ...

---

... Which also apply to FM broadcasts

---

Similar content rules govern TV broadcasters as well, ...

---

... And pay TV must also abide by Canadian content regulations

---



**BARRIERS ERECTED TO PROMOTE CANADIAN-OWNED BROADCASTING INCLUDE OWNERSHIP RESTRICTIONS, TAX PENALTIES ON CROSS-BORDER ADVERTISING ...**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Ownership Constraint		CRTC	No Canadian broadcasting or cable television company may be more than 20% foreign owned	Globerman, p.7
Legislation	Copyright Act	Department of Consumer and Corporate Affairs	Canadian recording companies may exercise compulsory licenses against music in recordings made in Canada or elsewhere	Copyright Act
Tax Incentive	100% Capital Cost Allowances (CCA)	Canadian Film and Video Certification Office	100% CCA for certified films and tapes . limit of one half of allowable deduction in year of investment	Interpretation Bulletin IT-441
Tax Penalty	Tax treatment of advertising expenditures	Revenue Canada	Advertising directed at U.S. stations are not deductible as business expenses	ITA s19(1) Bill C-58

\* - These barriers also apply to cable and are repeated in that section



**... LOANS AND OTHER ASSISTANCE TO CANADIAN PRODUCERS, RESTRICTIONS ON  
LICENSEE ELIGIBILITY, ...**

---

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Loan/ Subsidy	Canadian Broadcast Program Development Fund (CBPDF)	Telefilm Canada	Loans, loan guarantees and equity assistance to Canadian producers and TV broadcasters in producing eligible productions . \$34M in 1983-84	CBPDF: Memorandum
Distribution Constraint	Licensee eligibility restrictions	CRTC	Only certain Canadian corporations are eligible to hold broadcasting licenses	Broadcasting Act Ch. 376
Distribution Constraint	Canadian Broadcasting Corporation (CBC)	CBC	State-owned broadcaster that gives first priority to Canadian programs	Canada Consulting Research

---



... EXCLUSIVE FRANCHISES REGARDING PAY TV, ...

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Regulation	AM&FM Radio and TV Broadcasting Regulations	CRTC		Broad-casting Act
	a. Content		The broadcasting of certain subjects is prohibited eg) birth control, offensive programs	Ch. 379 s 5,9 Ch. 380 s 6,11 Ch. 381 s 6,20
	b. Promotion		The promotion of certain products/services is prohibited eg) certain securities; beer, wine, liquor (with exceptions); certain food and drugs	Ch. 379 s 8,10,11 Ch. 380 s 10,12,13 Ch. 381 s 14,18,19
Distribution Constraint	Licensing restrictions	CRTC	TSN and Muchmusic have exclusive franchises to offer sports and rock music programming on pay TV	Globerman, p.7



... CANADIAN CONTENT REQUIREMENTS FOR AM BROADCASTS ...

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Regulation	Radio (AM) Broadcasting Regulations	CRTC		Broad-casting Act, Ch. 379
	Content Restrictions			
			i) Mandatory 30% Canadian content of music broadcast between 6 a.m. and midnight	s.12
			ii) Limit of 15% foreign language broadcasting (ie., other than French or English) except where permitted by licence	s.18
			iii)	<u>Minimum Canadian Content</u>
			<u>Type of Station</u>	
			Easy Listening	20%
			Instrumental Easy Listening	10%
			Rock	20%
			Country	30%
			Special Interest	7%





... WHICH ALSO APPLY TO FM BROADCASTS

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Regulation	Regulations under the Radio (FM) Broadcasting Regulations	CRTC		Broad-casting Act, Ch.380
	a. Format restrictions		Time devotion to segments presented in a foreground format (1 theme, minimum of 15 minutes, no interruptions): . 20% for CBC FM license or joint FM license stations . 12% for independent license stations	s. 21
	b. Content restrictions		i) Must comply to content categories ii) Limit of 15% foreign language broadcasting except where permitted by license	s. 26

The Canada Consulting Group Inc.

IV. BROADCASTING - A. RADIO AND TV  
Non-Tariff Barriers  
Canada - Federal



IV-10

SIMILAR CONTENT RULES GOVERN TV BROADCASTS AS WELL, ...

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Regulation	Television Broadcasting Regulations	CRTC		Broad-casting Act, Ch.381
	Content Restrictions		<ul style="list-style-type: none"><li>i) Limits non-Canadian programs to<ul style="list-style-type: none"><li>. 40% between 6 a.m. &amp; 12 a.m.</li><li>or . 40% between 6 p.m. &amp; 12 a.m. if public station</li><li>. 50% between 6 p.m. &amp; 12 a.m. if private station</li></ul></li><li>ii) One classified ad program allowed per day if<ul style="list-style-type: none"><li>1. time duration is 15 minutes to one hour</li><li>2. broadcast between 12 a.m. &amp; 4 p.m.</li></ul></li></ul>	<ul style="list-style-type: none"><li>s. 8</li><li>s. 10</li></ul>



**... AND PAY TV MUST ALSO ABIDE BY CANADIAN CONTENT REGULATIONS**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Regulation	Pay TV regulations	CRTC		Pay TV Regulations
	Content Restrictions		<ul style="list-style-type: none"> <li>i) No abusive, racial, religious, etc. programming permitted</li> <li>ii) Must indicate if suitable for adult viewing only at start of program</li> <li>iii) Minimum Canadian content:               <ul style="list-style-type: none"> <li>. 45% of subscriber revenues and 60% of programming budget to acquisition and production of Canadian programs</li> <li>. 30% of broadcast time</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>s.6</li> <li>s.7</li> </ul>

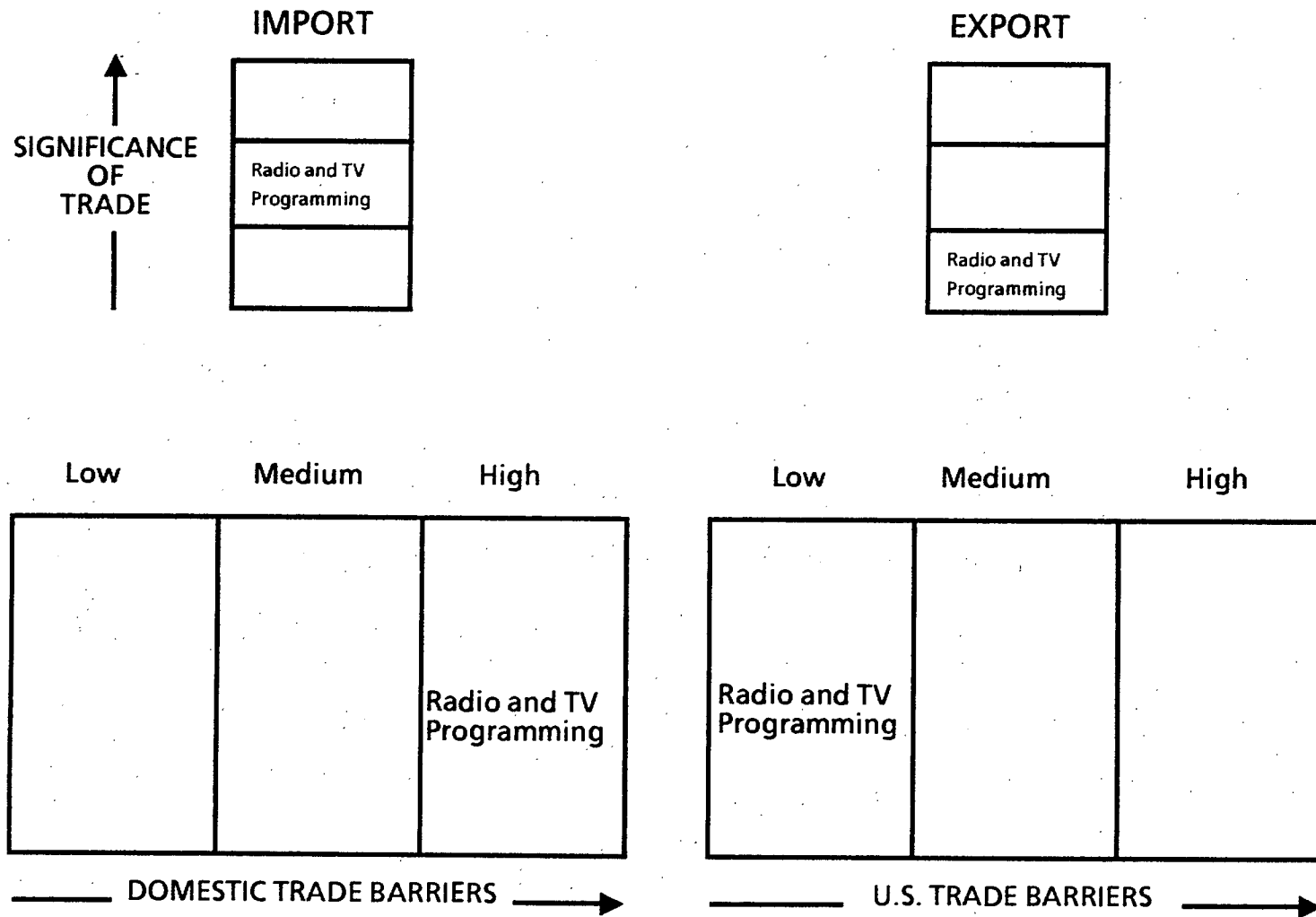


**3. THE UNITED STATES HAS OWNERSHIP RESTRICTIONS AND TAX PENALTIES GOVERNING BROADCASTING WHICH CLOSELY PARALLEL THOSE THAT EXIST IN CANADA**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Special Legislation	Communications Act	Federal Communications Commission (FCC)	Prohibits broadcasting licence issuance or renewal to foreign governments and corporations where more than 20% of their capital stock is foreign-controlled . excludes cable	Communi-cations Act
Special Legislation	National Association of Broadcasters (NAB) Code of Good Practices	NAB	Censors programming	U.S. National Study on Trade In Services p. 28
Tax Penalty	U.S. Trade Act, Omnibus Trade Bill	Internal Revenue Service/FCC	U.S. broadcaster can not deduct expenses relating to advertisements placed in Canadian broadcast media	U.S. Department of Commerce

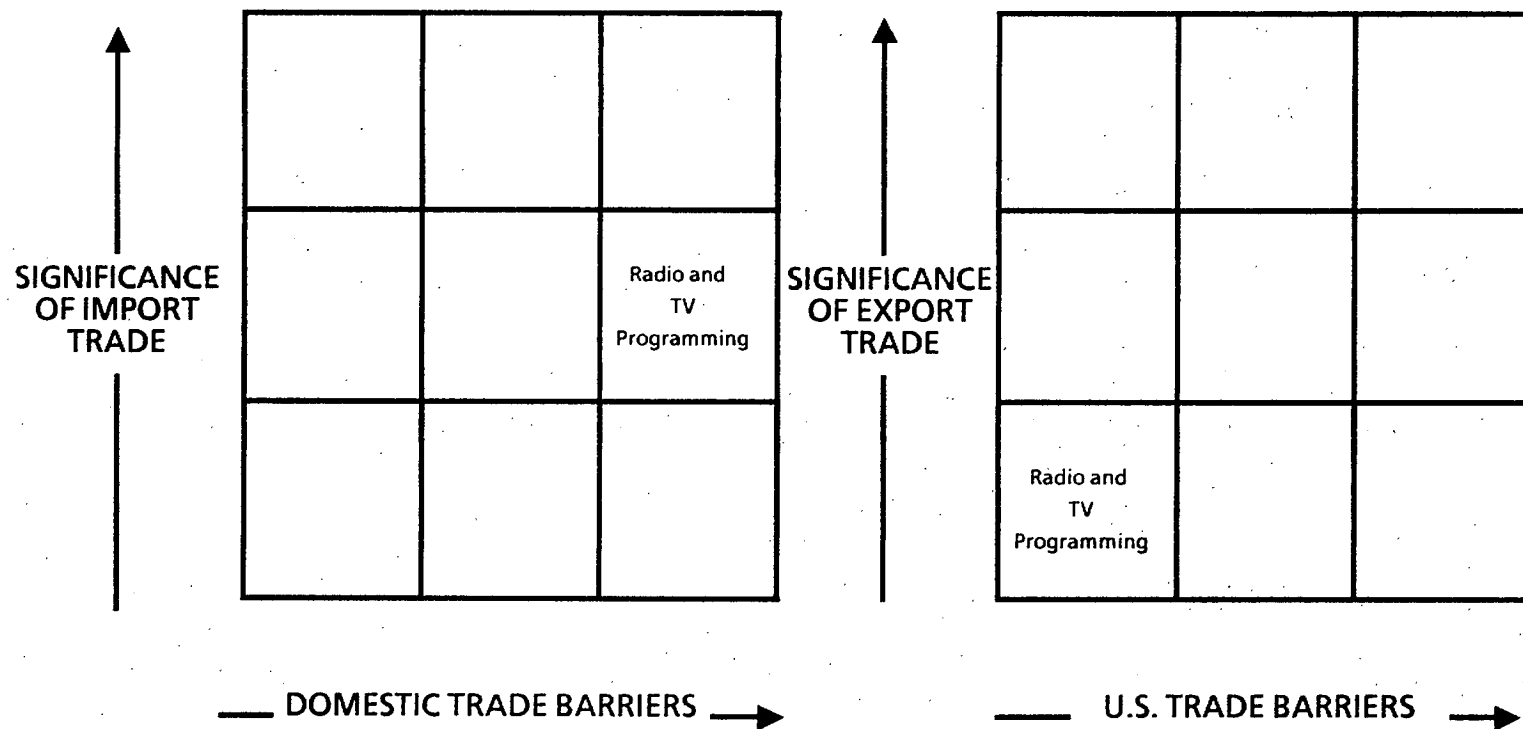
\* - Some of these barriers also apply to the cable and are repeated in that section

4. CANADIAN CONTENT REQUIREMENTS CAUSE CANADA'S DOMESTIC TRADE BARRIERS TO BE HIGHER THAN THOSE IN THE U.S.A.



5. DESPITE HIGH BARRIERS AT HOME, THE IMPACT OF U.S. BROADCASTING REMAINS HIGH IN CANADA, AND IS OF CONCERN FOR REASONS OF NATIONAL AND CULTURAL IDENTITY

DOC TRADE POSITION STUDY  
BROADCASTING: RADIO & TV



**B. CANADIAN OWNERSHIP ROLES HAVE ALLOWED THE DOMESTIC CABLE TV INDUSTRY IN CANADA TO DEVELOP AND MATURE FREE OF FOREIGN COMPETITION**

---

1. The Canada and U.S. cable TV industries are at very different stages of development, and Canada-U.S. trade is not significant

---

2. Canadian non-tariff barriers are high in cable TV

---

3. A major difference between the Canadian and American non-tariff barriers in cable TV is the absence of explicit foreign ownership restrictions in the U.S.A.

---

4. Compensation for retransmission of U.S. broadcasts in Canada is the major non-tariff issue facing Canadian cable TV companies

---

1. THE CANADA AND U.S. CABLE TV INDUSTRIES ARE AT VERY DIFFERENT STAGES OF DEVELOPMENT, AND CANADA-U.S. TRADE IS NOT SIGNIFICANT

---

As Phase 1 of this study has demonstrated, cable television's role in trade is presently restricted to the carriage of specialty program service imports

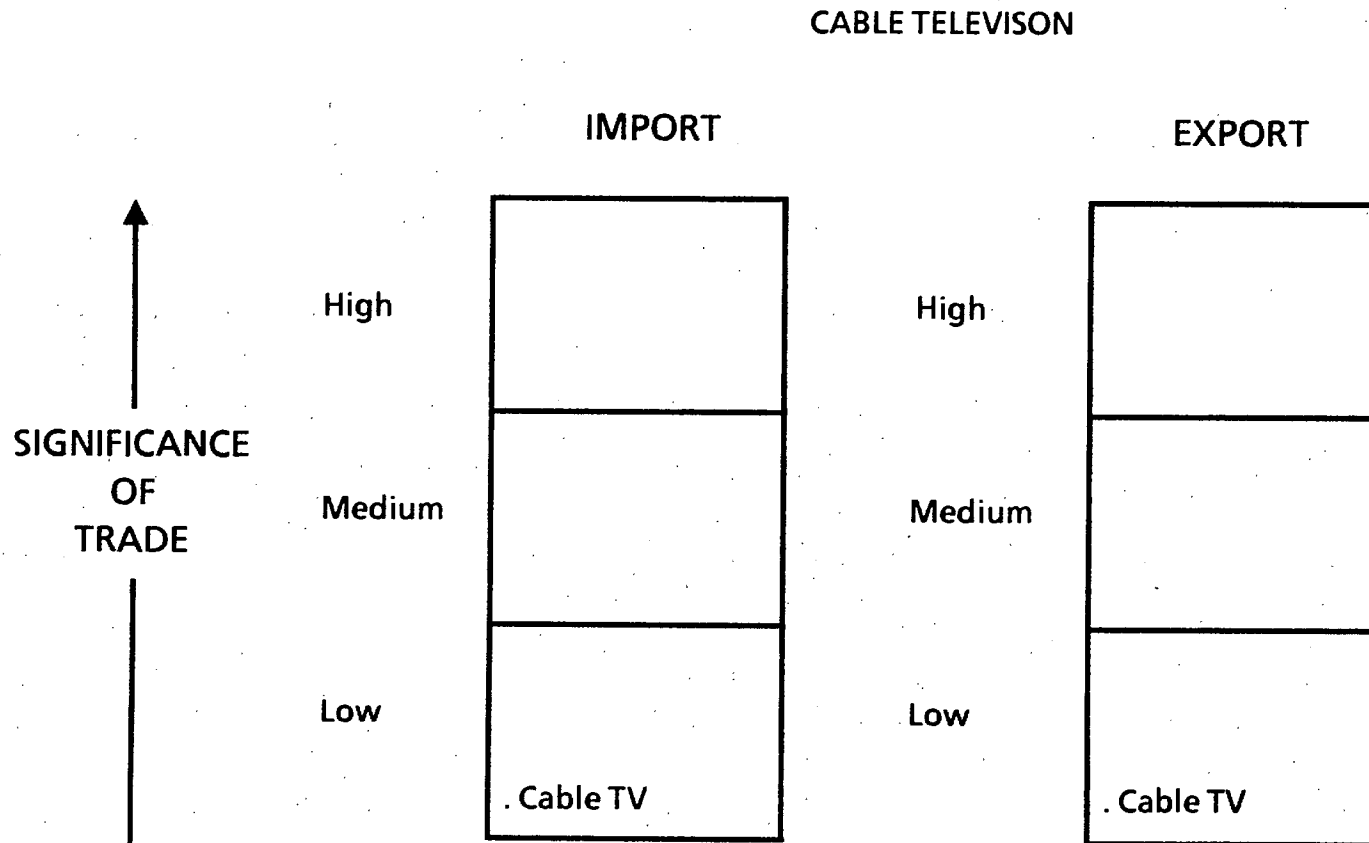
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The Canadian cable TV industry is much more mature in terms of market penetration than in the U.S.A., but rapid growth in the U.S. has partially closed this "penetration gap".

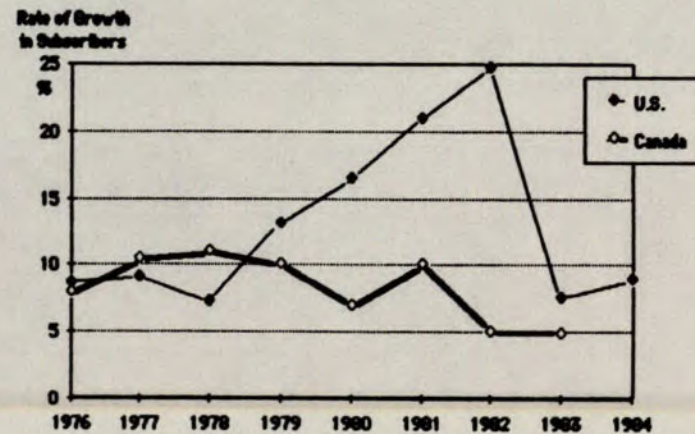
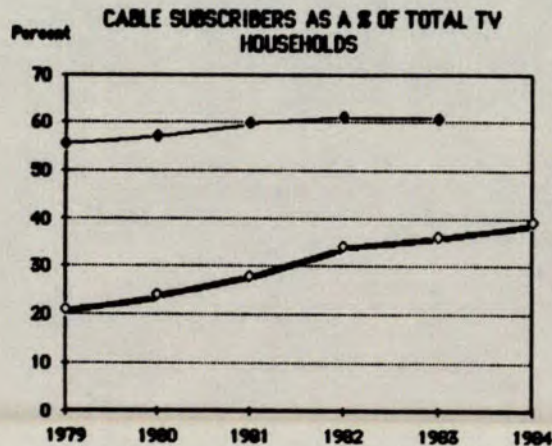
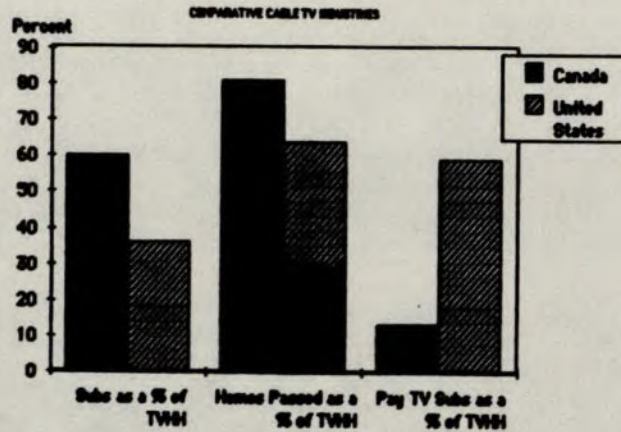
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AS PHASE 1 OF THIS STUDY HAS DEMONSTRATED, CABLE TELEVISION'S ROLE IN TRADE IS PRESENTLY RESTRICTED TO THE CARRIAGE OF SPECIALTY PROGRAM SERVICE IMPORTS



THE CANADIAN CABLE TV INDUSTRY IS MUCH MORE MATURE IN TERMS OF MARKET PENETRATION THAN IN THE U.S.A., BUT RAPID GROWTH IN THE U.S. HAS PARTIALLY CLOSED THIS 'PENETRATION' GAP



## 2. CANADIAN NON-TARIFF BARRIERS ARE HIGH IN CABLE TV

---

Cable TV is subject to some of the same ownership, legislative and tax related non-tariff barriers as is radio and TV

---

A priority list of cable programming limits distribution of foreign programs on Canadian cable TV

---

Although simultaneous substitution and retransmission compensation provoke charges from U.S. broadcasters of unfair competition, the Canadian view is that both protect the legitimate interests of Canadian copyright holders

---



**CABLE TV IS SUBJECT TO SOME OF THE SAME OWNERSHIP, LEGISLATIVE AND TAX RELATED NON-TARIFF BARRIERS AS IS RADIO AND TV**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Ownership Constraint		CRTC	No Canadian broadcasting or cable television company may be more than 20% foreign owned	Globerman, p.7
Legislation	Copyright Act	Department of Consumer and Corporate Affairs	Canadian recording companies may exercise compulsory licenses against music in recordings made in Canada or elsewhere	Copyright Act
Tax Penalty	Tax treatment of advertising expenditures	Revenue Canada	Advertising directed at U.S. stations are not deductible as business expenses	ITA s19(1) Bill C-58
Distribution Constraint	Licensee eligibility restrictions	CRTC	Only certain Canadian corporations are eligible to hold broadcasting licenses	Broadcasting Ch. 376

\* - These barriers also apply to radio and television and are repeated in that section



**A PRIORITY LIST FOR CABLE PROGRAMMING LIMITS DISTRIBUTION OF FOREIGN PROGRAMS ON CANADIAN CABLE TV**

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Distribution Constraint	Cable TV Regulations	CRTC	Order of priority for program distribution of all licensees: 1. CBC owned and operated (O&O) local TV station signals 2. Educational O&O local TV station signals 3. All other local signals 4. All other regional CBC O&O stations 5. Regional CBC affiliate stations 6. Community channels 7. Extra-regional CBC O&O stations 8. Extra-regional educational O&O stations 9. All others	Broadcasting Act ch. 374 5.6



ALTHOUGH SIMULTANEOUS SUBSTITUTION AND RETRANSMISSION COMPENSATION PROVOKE CHARGES FROM U.S. BROADCASTERS OF UNFAIR COMPETITION, THE CANADIAN VIEW IS THAT BOTH PROTECT THE LEGITIMATE INTERESTS OF CANADIAN COPYRIGHT HOLDERS

---

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Special Legislation	Cable TV Regulations	CRTC	Canadian broadcasters may apply, to cable companies for simultaneous substitution of their signal on U.S. stations • protects Canadian advertiser and copyright privileges of broadcaster	Broad-casting Act, CH. 374; s.19
Legislation	Copyright Legislation	Consumer and Corporate Affairs	Cable TV companies in Canada can retransmit broadcasts without compensating U.S. broadcasters	

---

3. A MAJOR DIFFERENCE BETWEEN CANADIAN AND AMERICAN NON-TARIFF BARRIERS IN CABLE TV IS THE ABSENCE OF EXPLICIT FOREIGN OWNERSHIP RESTRICTIONS IN THE U.S.A.

---

The U.S. omnibus trade bill has retaliated against the Canadian tax penalty associated with cross-border advertising

---

Local governments have on occasion acted on an ad hoc basis to restrict the participation of foreign-owned firms in the U.S. cable industry

---



**THE U.S. OMNIBUS TRADE BILL HAS RETALIATED AGAINST THE CANADIAN TAX PENALTY ASSOCIATED WITH CROSS-BORDER ADVERTISING**

---

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Special Legislation	National Association of Broadcasters (NAB) Code of Good Practices	NAB	Censors programming	U.S. National Study on Trade In Services p. 28
Special Legislation	NAB Code	NAB	Television advertising limited to 18 minutes per hour	NAB Code
Tax Penalty	U.S. Trade Act, Omnibus Trade Bill	Internal Revenue Service/FCC	U.S. advertiser can not deduct expenses relating to advertisements placed in Canadian broadcast media	U.S. Department of Commerce

\* - These barriers also apply to radio and television broadcasting and are repeated in that section

---





**LOCAL GOVERNMENTS HAVE ON OCCASION ACTED ON AN AD HOC BASIS TO RESTRICT THE PARTICIPATION OF FOREIGN-OWNED FIRMS IN THE U.S. CABLE INDUSTRY**

---

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Distribution Constraint	Cable TV Regulations	Federal Communications Commission (FCC)	Local broadcasters are guaranteed priority carriage	U.S. Cable TV Regulations
Special Legislation	Compulsory License	FCC	Canadian cable broadcasts are subject to a compulsory license at a nominal royalty	U.S. National Study on Trade in Services
Ownership Constraint	Local Ownership Requirements	Local Governments and Agencies	Some U.S. cities (e.g., Minneapolis) have tried to restrict access to broadcasting licenses by foreign-owned cable companies	Canada Consulting Research

---

**4. COMPENSATION FOR RETRANSMISSION OF U.S. BROADCASTS IN CANADA IS THE MAJOR NON-TARIFF ISSUE NOW FACING CANADIAN CABLE TV COMPANIES**

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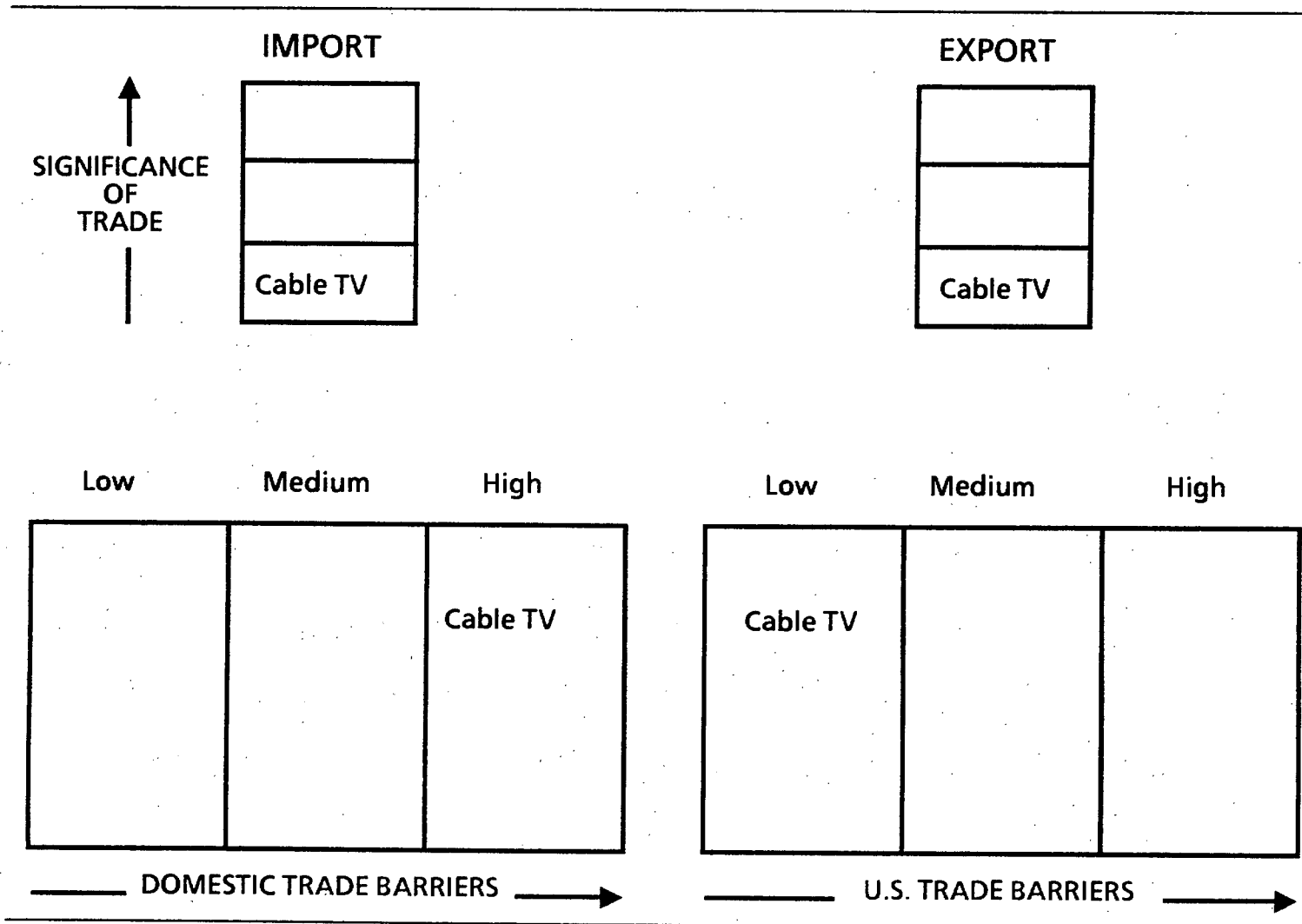
Low demand for Canadian programming in the U.S. has probably led to little perceived need for trade barriers, although limits on foreign ownership may be emerging as an issue

---

Given the insignificance of trade in cable TV, the asymmetry of Canada-U.S. trade barriers may be of limited concern

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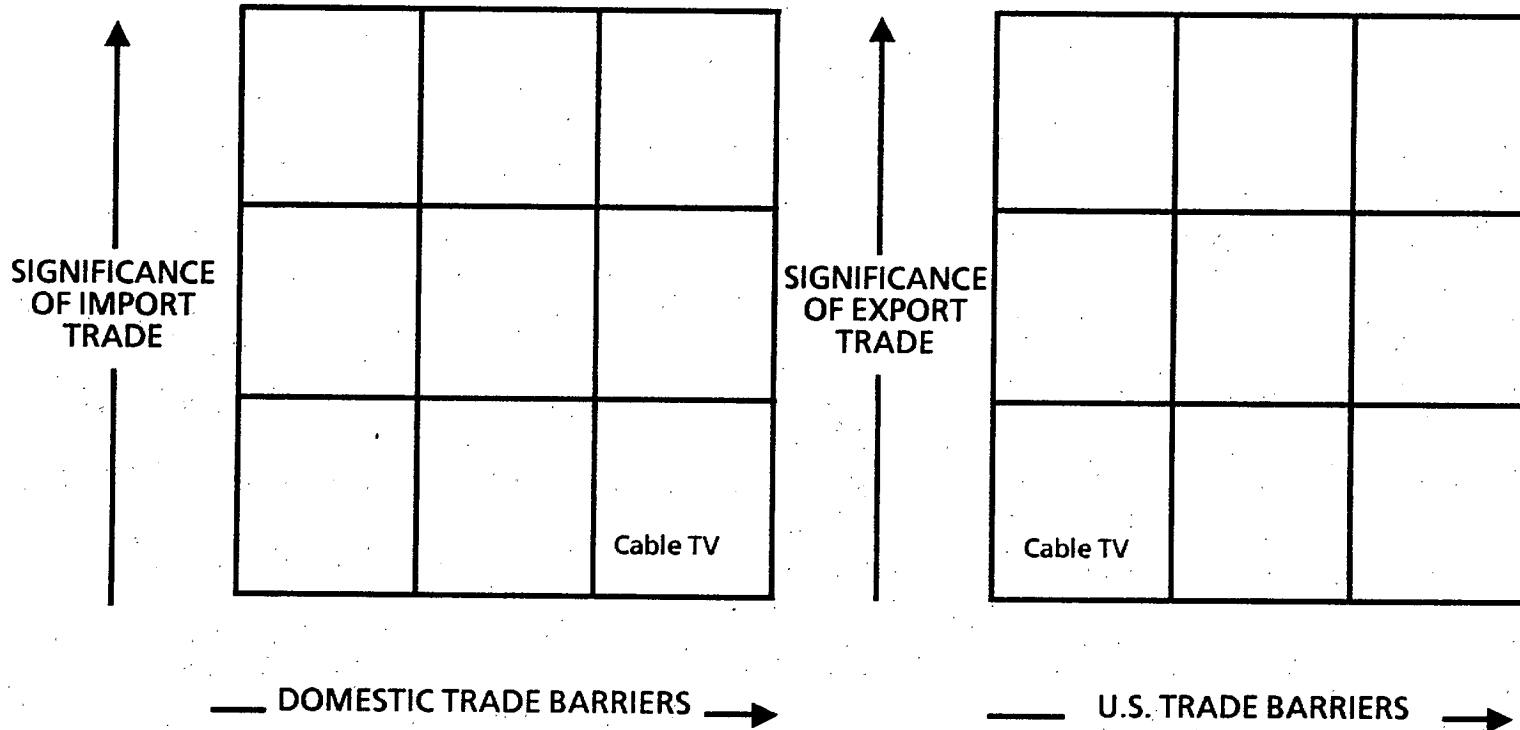
LOW DEMAND FOR CANADIAN PROGRAMMING IN THE U.S. HAS PROBABLY LED TO LITTLE PERCEIVED NEED FOR TRADE BARRIERS, ALTHOUGH LIMITS ON FOREIGN OWNERSHIP MAY BE EMERGING AS AN ISSUE



GIVEN THE INSIGNIFICANCE OF TRADE IN CABLE TV, THE ASYMMETRY OF CANADA-U.S. TRADE BARRIERS MAY BE OF LIMITED CONCERN

---

DOC TRADE POSITION STUDY  
BROADCASTING: CABLE TV



CULTURE

**V. BY AND LARGE, TARIFF AND NON-TARIFF BARRIERS IN CULTURAL INDUSTRIES ARE HIGHER IN CANADA THAN IN THE UNITED STATES**

---

**A. A variety of federal and provincial non-tariff barriers in Canada apply to all of the film, printing and publishing and sound recording industries**

---

**B. The dominance of the U.S. film industry is reflected in the Canadian market despite Canadian non-tariff barriers**

---

**C. A trade deficit in key cultural goods such as books and periodicals has attracted high Canadian import barriers**

---

**D. The Canada-United States sound recording industry is characterized by high barriers, minimal trade, and American cultural dominance**

---

**E. Although advertising is a major Canadian industry, trade issues play a relatively minor role**

---

**A. A VARIETY OF FEDERAL AND PROVINCIAL NON-TARIFF BARRIERS IN CANADA  
APPLY TO ALL OF THE FILM, PRINTING AND PUBLISHING AND SOUND RECORDING  
INDUSTRIES**

---

**Federal non-tariff barriers covering all culture industries consist mainly of tax incentives**

...

---

**... While provincial barriers are dominated by loan and subsidy programs**

---



## FEDERAL NON-TARIFF BARRIERS COVERING ALL CULTURE INDUSTRIES CONSIST MAINLY OF TAX INCENTIVES . . .

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Subsidy	Special Program of Cultural Initiatives (SPCI)	Department of Communications	Grants and contributions to registered non-profit cultural organizations	SPCI, DOC
Regulation/ Special Legislation	Cultural Property Import and Export Act	Revenue Canada	Delays import and export of heritage goods • can work as a barrier to export as well as to import	The Arts 'Profile' DOC
Tax Incentive	Capital Cost Allowance (CCA)	Revenue Canada	Works of art by Canadian artists are depreciable on a 20% declining balance basis for businesses	TEA VIII.6
Tax Incentive	Federal sales tax exemption	Revenue Canada	Goods purchased by artisans that reflect Canadian culture or heritage are exempt from federal sales tax	CPTE p.56
Tax Incentive	Deduction of charitable donations	Revenue Canada	Charitable donations are deductible from income for tax purposes • estimated tax expenditure of \$35M	ITA S110 (1) (a) Globerman, p.15

\* - Applies to Film, Printing and Publishing and Sound Recording sections





... WHILE PROVINCIAL BARRIERS ARE DOMINATED BY LOAN AND SUBSIDY PROGRAMS

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Subsidy	Various subsidy programs	B.C. Department of Culture and Youth	Provide opportunities to B.C. residents for participation in cultural activities	B.C. Department of Culture and Youth
Loan	Société de développement des industries de la culture et des communications (SODIC)	SODIC	Lend risk capital at low interest rates	Film Sector profile, DOC
Subsidy/ Loan	Provincial Arts Councils (e.g., Ontario Arts Council)	Provincial Arts Councils	Grants to artists and arts organizations engaged in the production, performance and exhibition of the arts . restricted to Canadian-controlled firms	Ontario Arts Council

\* - Applies to Film, Printing and Publishing and Sound Recording sections

**B. THE DOMINANCE OF THE U.S. FILM INDUSTRY IS REFLECTED IN THE CANADIAN MARKET DESPITE CANADIAN NON-TARIFF BARRIERS**

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1. Foreign content is high in the Canadian film industry

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2. Canadian tariffs on films and motion pictures are higher than those in the U.S.

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3. Canadian non-tariff barriers consist mainly of assistance programs, while U.S. barriers relate primarily to industry structure

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4. If one ignores industry entry barriers which affect all independent film producers, trade barriers in the U.S. may be considered low

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5. High entry barriers and (possibly as a result) low demand for Canadian films in the U.S. market have worked to keep Canadian exports to the U.S. low

---

**1. FOREIGN CONTENT IS HIGH IN THE CANADIAN FILM INDUSTRY**

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Our work in Phase 1 showed that the film industry in Canada is dominated by foreign productions, although the absolute dollar volume of trade is low

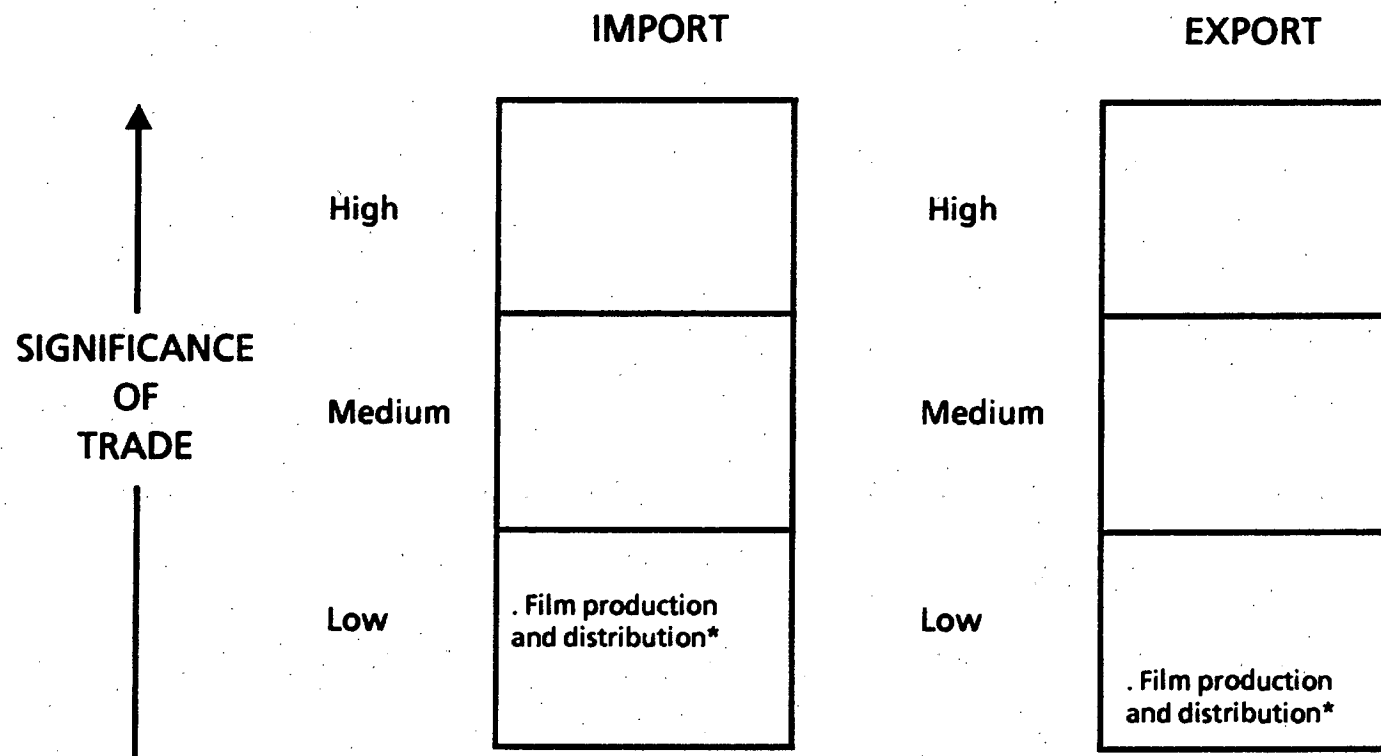
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In fact, foreign content appears to have increased in the 1980 to 1982 period

---

OUR WORK IN PHASE 1, SHOWED THAT THE FILM INDUSTRY IN CANADA IS DOMINATED BY FOREIGN PRODUCTIONS, ALTHOUGH THE ABSOLUTE DOLLAR VOLUME OF TRADE IS LOW

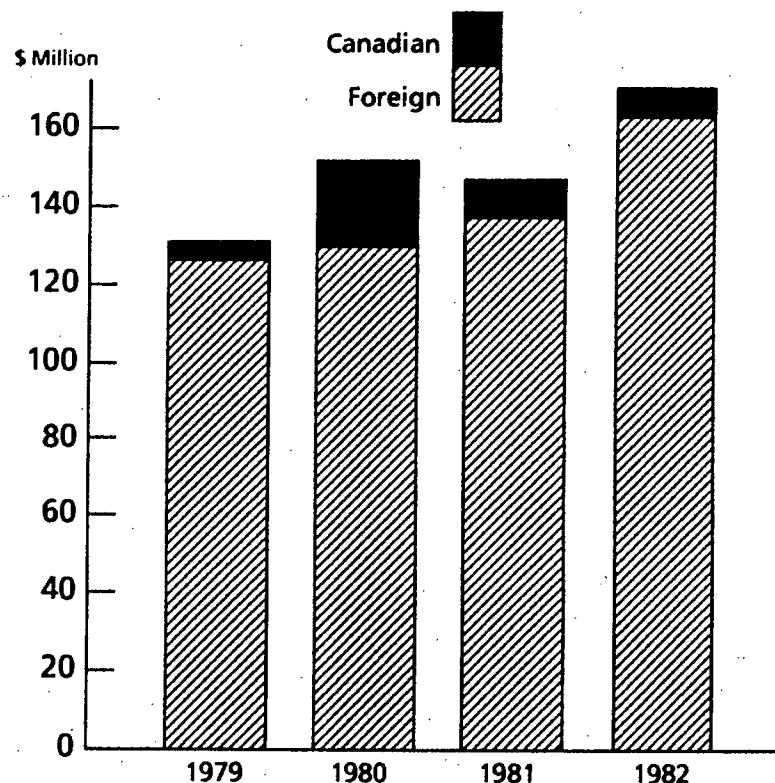
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\* - Motion picture theatres are a domestic service business

IN FACT, FOREIGN CONTENT APPEARS TO HAVE INCREASED IN THE 1980 TO 1982 PERIOD

FOREIGN CONTENT IN CANADIAN FILM INDUSTRY



CANADIAN FILM DISTRIBUTOR PAYMENTS TO PRODUCERS BY ORIGIN OF PRODUCTION COPYRIGHT

Source: Canada Consulting based on Statistics Canada

2. CANADIAN TARIFFS ON FILMS AND MOTION PICTURE ARE HIGHER THAN THOSE IN THE U.S.

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Tariff Item	Canadian Tariffs		U.S. Tariffs
	1982	1987	
Films, motion pictures, tv programs on film	1.1¢/linear foot	1.1¢/linear foot	.12¢/linear foot
Motion picture films . news features	free	free	.12¢/linear foot
Motion pictures, tv programs, commercials on magnetic tape	14.6%	11.3%	.25¢/linear foot

Source: Statistics Canada, Canadian and U.S. Customs Offices

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**3. CANADIAN NON-TARIFF BARRIERS CONSIST MAINLY OF ASSISTANCE PROGRAMS,  
WHILE U.S. BARRIERS RELATE PRIMARILY TO INDUSTRY STRUCTURE**

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Federally, the Canadian film industry benefits primarily from a variety of advisory assistance programs . . .

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. . . And subsidy programs . . .

---

. . . For all facets of film-making

---

Provincially, censor boards provide barriers to film distribution

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Exclusive distribution agreements within the U.S. film industry are more in the nature of industry entry barriers, and are not trade barriers per se

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**FEDERALLY, THE CANADIAN FILM INDUSTRY BENEFITS PRIMARILY FROM A VARIETY OF ADVISORY ASSISTANCE PROGRAMS ...**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Advisory Support	Interfirm Comparison Program	Department of Regional Industrial Expansion (DRIE)	Free advice on a firm's profitability, productivity and competitiveness for Canadian-owned film and video industry	Structure of the Canadian Film/Video-tape Industry
Advisory Support	National Training Program		Assist producers, directors, distributors, and laboratories in development of business, marketing, financial planning and other related skills	Structure of the Canadian Film/Video-tape Industry
Advisory Support	Promotional Advice	Telefilm Canada	Promotional assistance in foreign markets for Canadian film/video industry . \$1.9M in 1984-85	NFVP
Loan	Interim Financing Fund	Telefilm Canada	Loans to producers to aid production while permanent financing is finalized . 20% of production cost up to \$250,000. Interest rate = prime + 1.	NFVP





... AND SUBSIDY PROGRAMS ...

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Subsidy (equity investment)	Equity Investment Program	Telefilm Canada	Investment in fiction or documentary films of a Canadian nature . \$200,000/film maximum	NFVP
Subsidy	Promotional and test marketing assistance	Telefilm Canada	Matching grants to private Canadian theatrical features for test marketing . \$300,000 in 1984-85	NFVP
Subsidy	Film distribution assistance	Telefilm Canada	Matching grants to private sector for expenditures on prints and paid Canadian advertising for distribution of certified Canadian feature films . \$1.7M in 1984-85	NFVP
Subsidy	Script and Development Program	Telefilm Canada	Matching grants to producers for script preparation and budget development	Telefilm Canada Brochure
Subsidy	Film Festivals Bureau	Telefilm Canada	Grants in support of Canadian film festivals	IAP,p.162



... FOR ALL FACETS OF FILM-MAKING

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Subsidy	Program for Export Market Development (PEMD)	External Affairs/ DRIE	50-50 sharing of costs soliciting export orders of Canadian goods and services <ul style="list-style-type: none"> <li>• Film/videotape industry received \$150,000 in 1984-85</li> </ul>	IAP, p.68
Subsidy	Special Program for Cultural Initiatives (SPCI)	DOC	Grants and contributions to registered non-profit cultural organizations <ul style="list-style-type: none"> <li>• \$537,000 in 1984-85</li> </ul>	SPCI, DOC
Subsidy/ Loan	Canadian Broadcast Program Development Fund (CBPDF)	CFDC	Funding for the private production of dramatic, children's and variety programs to be shown on Canadian TV stations <ul style="list-style-type: none"> <li>• \$34M in 1983-84</li> <li>• \$50M in 1984-85</li> </ul>	CBPDF Memorandum
Tax Incentive	100% Capital Cost Allowance (CCA)	Canadian Film and Video Certification Office	100% CCA for certified films and tapes <ul style="list-style-type: none"> <li>• limit of one-half of allowable deduction in year of investment</li> </ul>	Int. Bull. IT-441



**PROVINCIALY, CENSOR BOARDS PROVIDE BARRIERS TO FILM DISTRIBUTION**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Distribution Constraint	Provincial Censor Boards	Various provincial government ministries e.g., Ontario Ministry of Consumer & Commercial Relations	Censor films, limiting distribution	Canada Consulting Research
Loan/ Subsidy	L'Institute Québécois du cinéma	L'Institute Québécois du cinéma	Investment, loans and subsidies for production, distribution and exhibition of Quebec films	Film Sector profile, DOC
Tax Incentive	Deduction for investment in "Quebec Films"	L'Institute Québécois du cinéma	100% capital cost deduction for investment in films certified as "Quebec Films" by the Institut Québécois du Cinéma . 50% additional deduction for individual investors	1983 Conference Report, p. 179

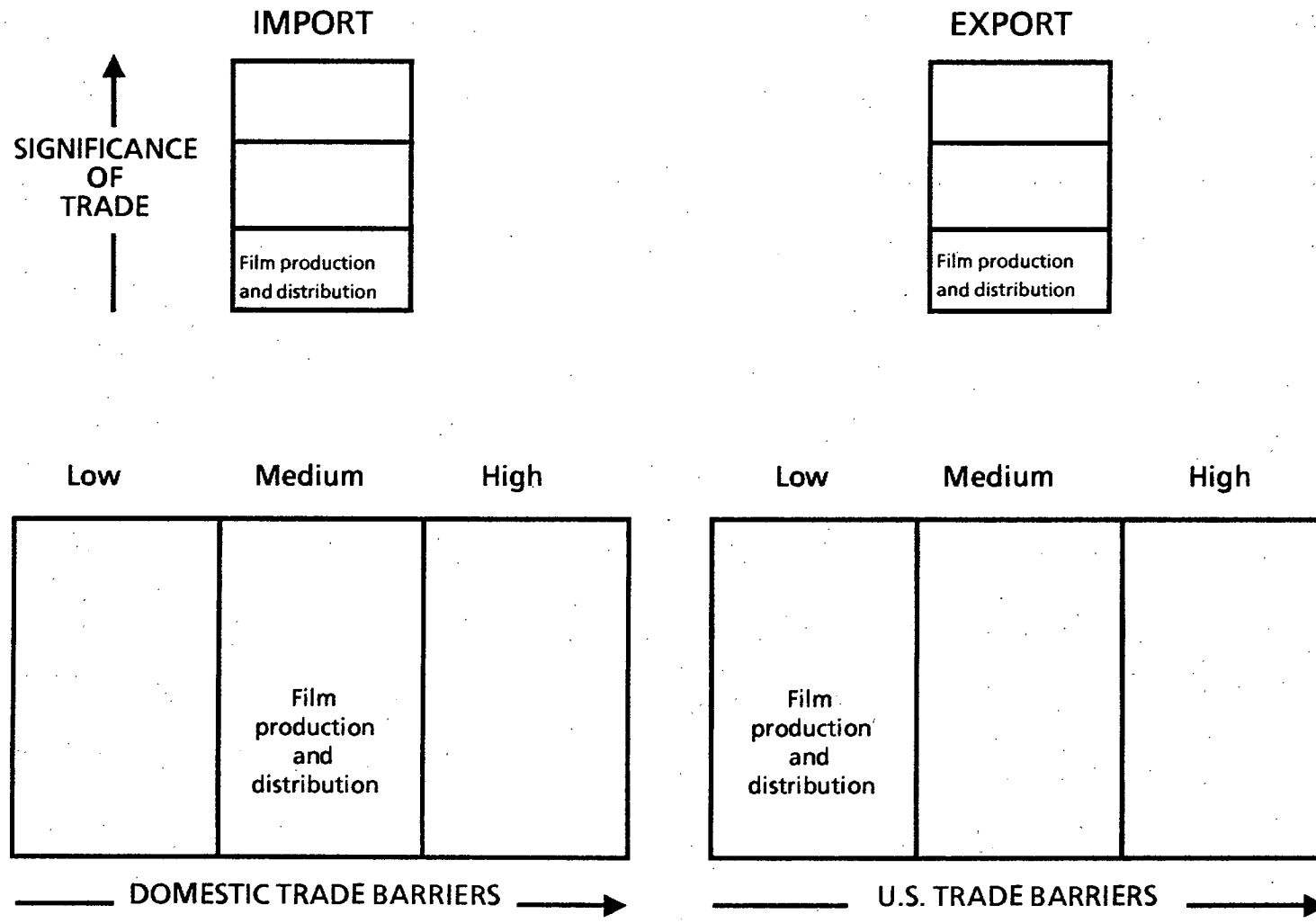
\* - Applies to Film, Printing and Publishing and Sound Recording sections



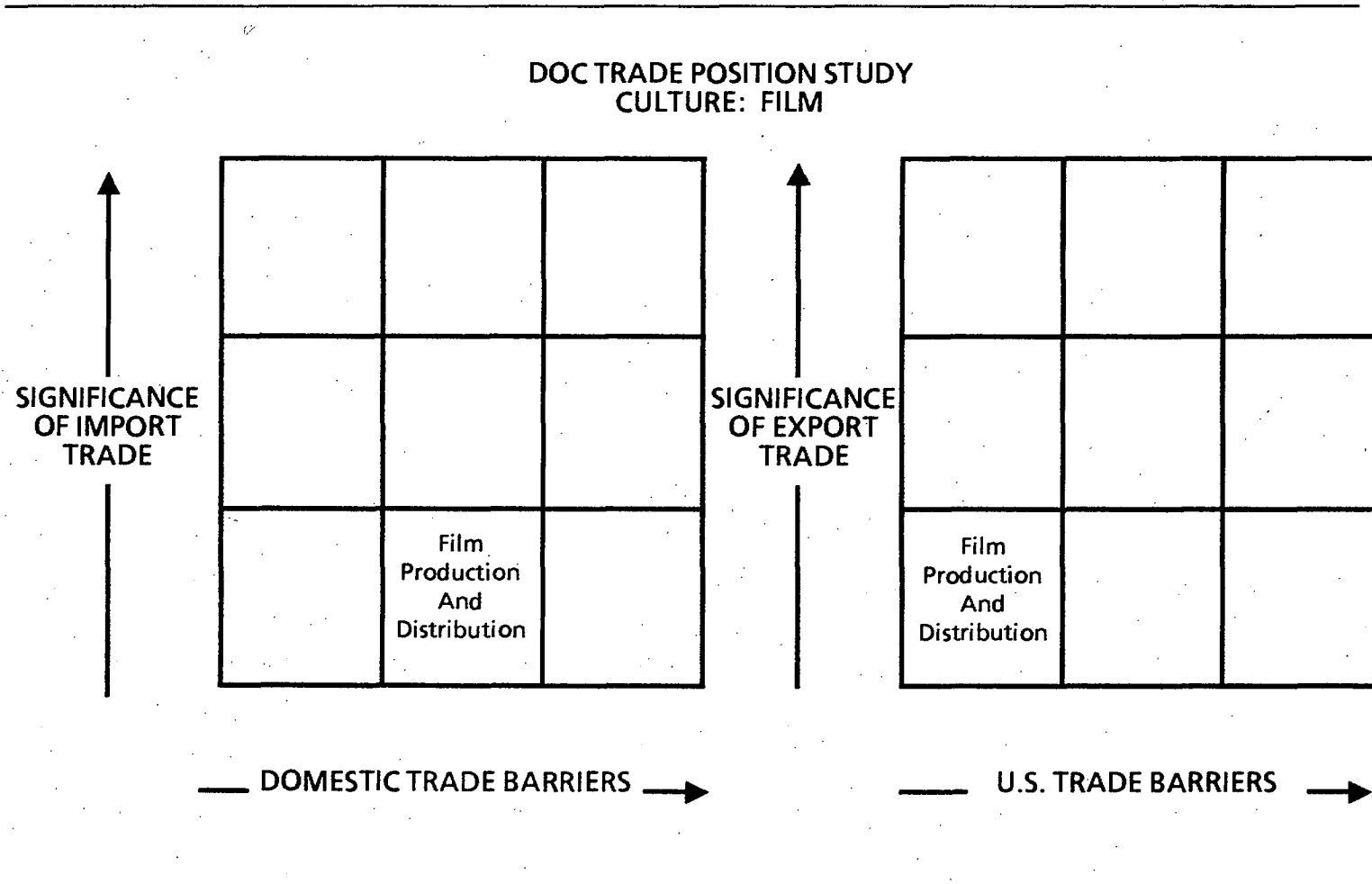
**EXCLUSIVE DISTRIBUTION AGREEMENTS WITHIN THE U.S. FILM INDUSTRY ARE MORE IN THE NATURE OF INDUSTRY ENTRY BARRIERS, AND ARE NOT TRADE BARRIERS PER SE**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Competitive Environment	Exclusive Distribution Agreements	U.S. film producers and distributors	Exclusive agreements between large U.S. film producers and major distribution (theatre) chains make it difficult for Canadian films to penetrate the U.S. film distribution market	Film sector profile, DOC
Special Legislation	Censorship	State and local governments	States and cities have the constitutional power to prevent exposure of certain books and films to children	U.S. National Study on Trade in Services p. 28
Regulation	Movie Rating System	Motion Picture Association of America	Can limit film distribution and/or its chance for television exhibition	U.S. National Study on Trade in Services p.28
Regulation	Advertising Code Administration (ACA)	ACA	All advertising for rated films must be submitted to the ACA for approval prior to public viewing	U.S. National Study on Trade in Services p. 28

4. IF ONE IGNORES INDUSTRY ENTRY BARRIERS WHICH AFFECT ALL INDEPENDENT FILM PRODUCERS, TRADE BARRIERS IN THE U.S. MAY BE CONSIDERED LOW



- 5. HIGH ENTRY BARRIERS AND (POSSIBLY AS A RESULT) LOW DEMAND FOR CANADIAN FILMS IN THE U.S. MARKET HAVE WORKED TO KEEP CANADIAN EXPORTS TO THE U.S. LOW



**C. A TRADE DEFICIT IN KEY CULTURAL GOODS SUCH AS BOOKS AND PERIODICALS HAS ATTRACTED HIGH CANADIAN IMPORT BARRIERS**

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1. Trade in printing and publishing is small in both the U.S. and Canada, yet what trade exists is predominantly bilateral between the two countries

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2. Although tariffs in the printing and publishing industry are primarily non-existent, the Canadian tariff structure discourages Canadian content and Canadian-oriented advertising in imported publications

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3. Canadian publishers receive a great deal of support, both federally and provincially, while their U.S. counterparts receive comparatively less

---

4. Canadian public policy in printing and publishing is more concerned with protecting domestic control than is, or need be, the case in the U.S.

---

5. Higher domestic trade barriers for periodicals and books reflect the heightened importance to Canada of imports in these industries

---

1. TRADE IN PRINTING AND PUBLISHING IS SMALL IN BOTH THE U.S. AND CANADA,  
YET WHAT TRADE EXISTS IS PREDOMINANTLY BILATERAL BETWEEN THE TWO  
COUNTRIES

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Our review of trade in printing and publishing indicated that the Canadian market and culture are significantly influenced by imports of books

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Bilateral trade in printing and publishing is important to both Canada and the U.S., although trade plays a minor role in this industry in both countries

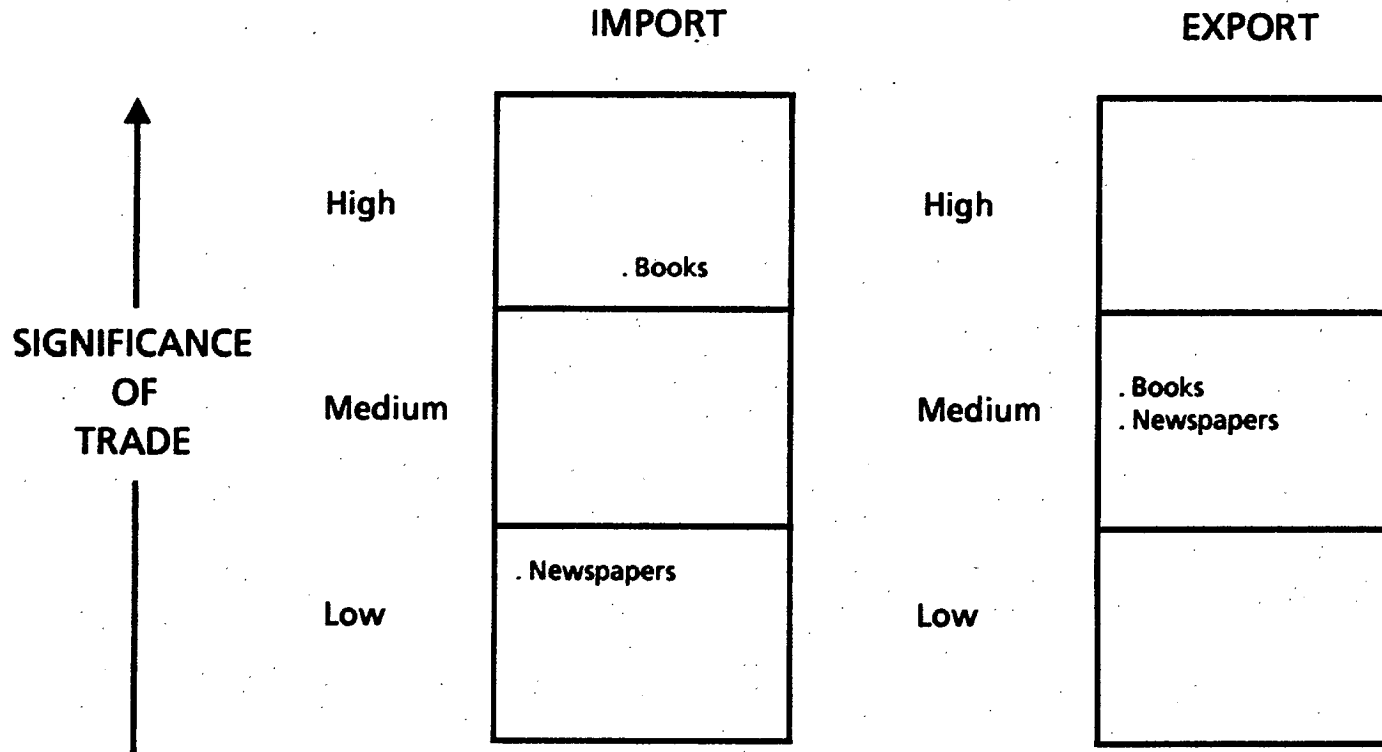
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OUR REVIEW OF TRADE IN PRINTING AND PUBLISHING INDICATED THAT THE CANADIAN MARKET AND CULTURE ARE SIGNIFICANTLY INFLUENCED BY IMPORTS OF BOOKS

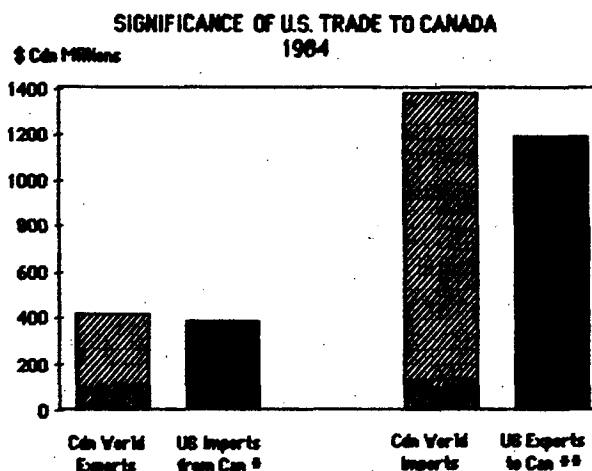
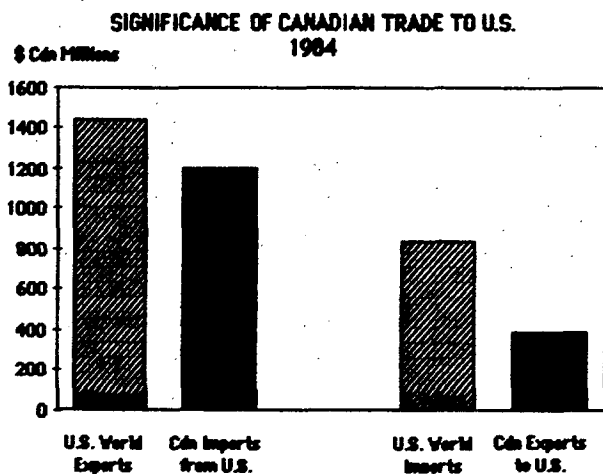
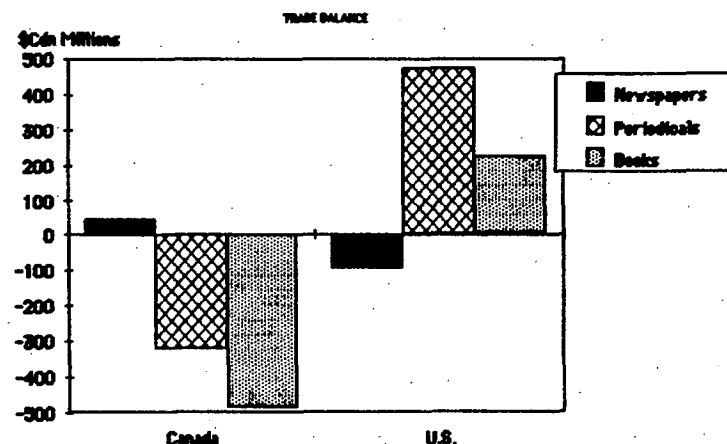
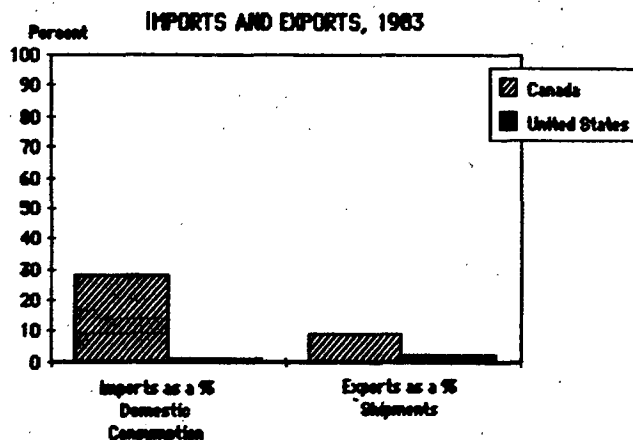
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PRINTING AND PUBLISHING  
NEWSPAPERS AND BOOKS



BILATERAL TRADE IN PRINTING AND PUBLISHING IS IMPORTANT TO BOTH CANADA AND THE U.S., ALTHOUGH TRADE PLAYS A MINOR ROLE IN THIS INDUSTRY IN BOTH COUNTRIES

PRINTING AND PUBLISHING  
KEY U.S./CANADA TRADE RELATIONSHIPS



Source: Canada Consulting based on Statistics Canada and U.S. government data

\* Canadian export data  
\*\* Canadian import data

2. ALTHOUGH TARIFFS IN THE PRINTING AND PUBLISHING INDUSTRY ARE PRIMARILY NON-EXISTENT, THE CANADIAN TARIFF STRUCTURE DISCOURAGES CANADIAN CONTENT AND CANADIAN-ORIENTED ADVERTISING IN IMPORTED PUBLICATIONS

Tariff Item	Canadian Tariffs		U.S. Tariffs	
	1982	1987	1985	1987
Books	free	free	free	free
. if pictorial	free	free	3.1%	2.9%
Periodicals & Newspapers	free	free	free	free
. circulation of 4 or more issues/year				
. circulation of less than 4 issues/year			free	free
i) contains some Canadian content	25.9%	25.9%		
ii) contains no Canadian content	free	free		

Canadian Tariff 99221-1:

Restricts imports of periodicals to those with less than 5% of their advertising aimed at Canadians

- religious, literary and scholarly publications are exempt

Source: Statistics Canada, Canadian and U.S. customs offices

**3. CANADIAN PUBLISHERS RECEIVE A GREAT DEAL OF SUPPORT, BOTH FEDERALLY AND PROVINCIALY, WHILE THEIR U.S. COUNTERPARTS RECEIVE COMPARATIVELY LESS**

---

**Federal government subsidy programs provide financial support to Canadian book publishers ...**

---

**... That amounts to over \$58 million annually**

---

**Canadian newspaper and periodical publishers, however, receive substantially less support**

---

**Provincially, support in the printing and publishing industry is in the form of government procurement and tax incentives**

---

**The U.S. printing and publishing industry receives little financial assistance, limited to postal subsidies for books**

---



**FEDERAL GOVERNMENT SUBSIDY PROGRAMS PROVIDE FINANCIAL SUPPORT TO  
 CANADIAN BOOK PUBLISHERS . . .**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Subsidy	Publishers' book rate	Federal government	Postal subsidies for books mailed in Canada . \$40 M in 81-82	Audley, p.128
Subsidy	Canada Council	Canada Council	Assistance to Canadian book publishers and programs relating to book publishing . 1984-85 budget was \$5M	Book Publishing Sector Profile, DOC
Subsidy	Program for Export Market Development (PEMD)	External Affairs/DRIE	50-50 sharing of costs of soliciting export orders of Canadian goods and services . book publishing received \$140,000 in 1983-84	IAP, p.48
Subsidy	Canadian Studies Program	Secretary of State	Support for educational material related to Canadian studies . \$3.7M budget	Book Publishing Sector Profile, DOC
Subsidy	Social Sciences and Humanities Research Council (SSHRC)	SSHRC	Aid to scholarly book publishers . \$870,000 in 1984-85	Book Publishing Sector Profile, DOC



... THAT AMOUNTS TO OVER \$58 MILLION ANNUALLY

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Subsidy/ Loan	Canadian Book Publishing Development Program	DOC/DRIE	Assistance to Canadian publishers in the areas of promotion, distribution, sales and marketing . 1985-86 budget is \$8.6M	IAP, p. 168
Subsidy to Foreign Institutions	Literary Program	External Affairs	Assistance for development of knowledge of Canadian authors and of Canadian literature . \$15,000 budget	Book Publishing Sector Profile, DOC
Legislation	Copyright Act	Consumer and Corporate Affairs	Books published in the U.S. can not enter Canada if a Canadian owns the copyright	Copyright Act



**CANADIAN NEWSPAPER AND PERIODICAL PUBLISHERS, HOWEVER, RECEIVE SUBSTANTIALLY LESS SUPPORT**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Subsidy	Canada Council	Canada Council	Grants to artistic literary and children's periodicals . 85 grants totalling \$1.5M in 1982-83	Periodicals and Newspapers "Profile" DOC
Subsidy	Social Science and Humanities Research Council (SSHRC)	SSHRC	Aid to learned journals . \$1.34M budget in 1984-85	SSHRC
Subsidy	Natural Sciences and Engineering Research Council	NSERC Crown Corporation	Grants to Canadian scientific and engineering research publications to help cover publishing costs . 37 grants totalling \$494,800 in 1983-84	Periodicals and Newspapers "Profile" DOC
Subsidy	Postal Subsidies	Federal government	Postal subsidies for Canadian publications . \$90M for periodicals in 81-82 . \$30M for newspapers in 81-82	Audley
Tax Penalty	Deductions of advertising expenses (Bill C-58)	Revenue Canada	Disallows deductions for advertising expenses relating to ads placed in non-Canadian newspapers or periodicals aimed at Canadian readers	Bill C-58



**PROVINCIALY, SUPPORT IN THE PRINTING AND PUBLISHING INDUSTRY IS IN THE FORM OF GOVERNMENT PROCUREMENT AND TAX INCENTIVES**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Tax Incentive	Small Business Development Corporations Act (SBDCA)	Ontario Ministry of Revenue	Grants or tax credits equal to 30% of equity investment in a small Business Development Corporation . includes Canadian book publishing	IAP, p.303-305
Procurement Policy	"Circular 14" of Education Act	Government of Ontario	Textbooks used in Ontario schools must be originally written by Canadians, and printed, bound or manufactured in Canada	Ontario Education Act
Procurement Policy	Bill-51	Government of Quebec	All public institutions and institutions receiving government funding must buy their books in Canadian-owned bookstores residing in Quebec	Quebec Bill-51

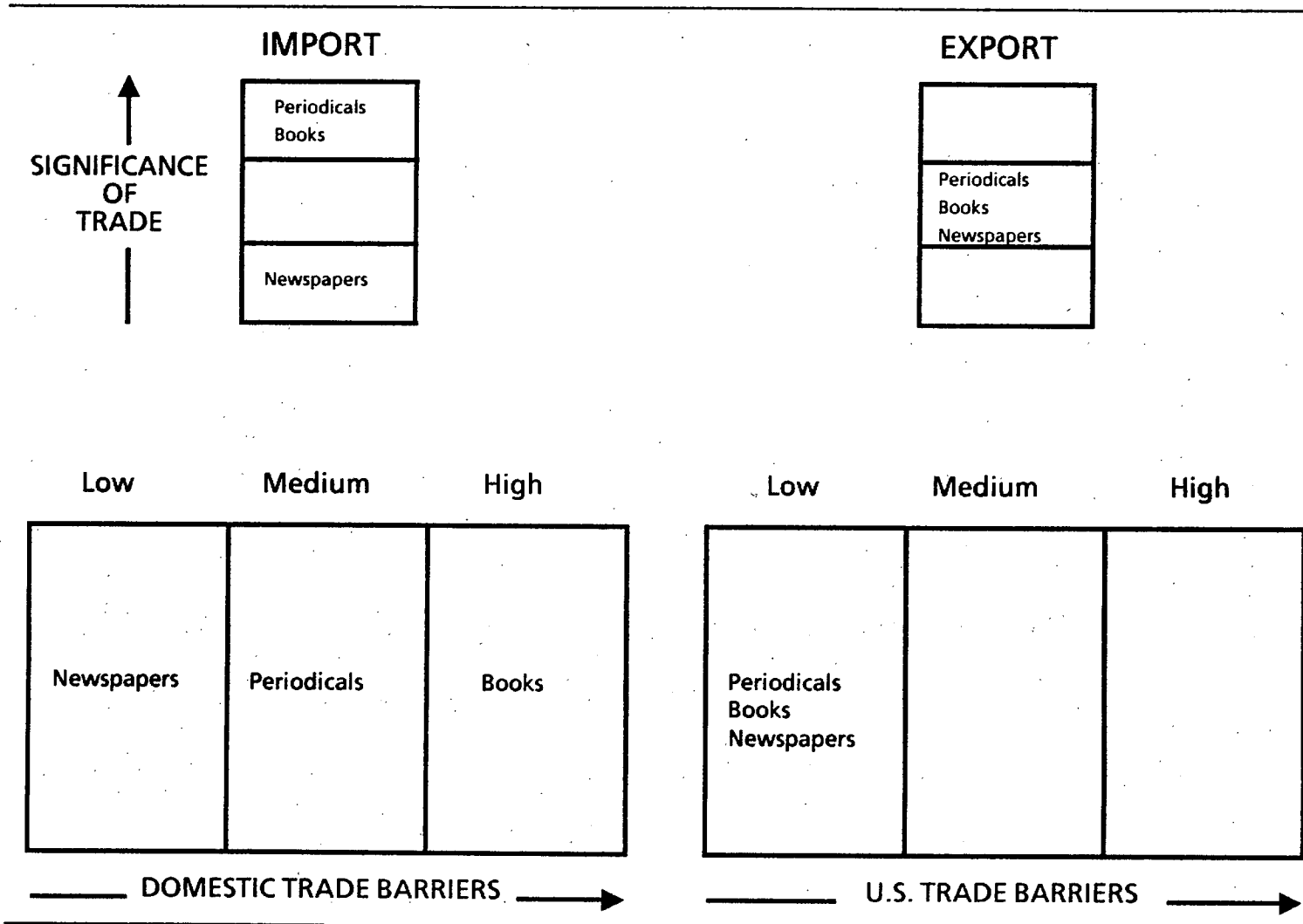




**THE U.S. PRINTING AND PUBLISHING INDUSTRY RECEIVES LITTLE FINANCIAL ASSISTANCE, LIMITED TO POSTAL SUBSIDIES FOR BOOKS**

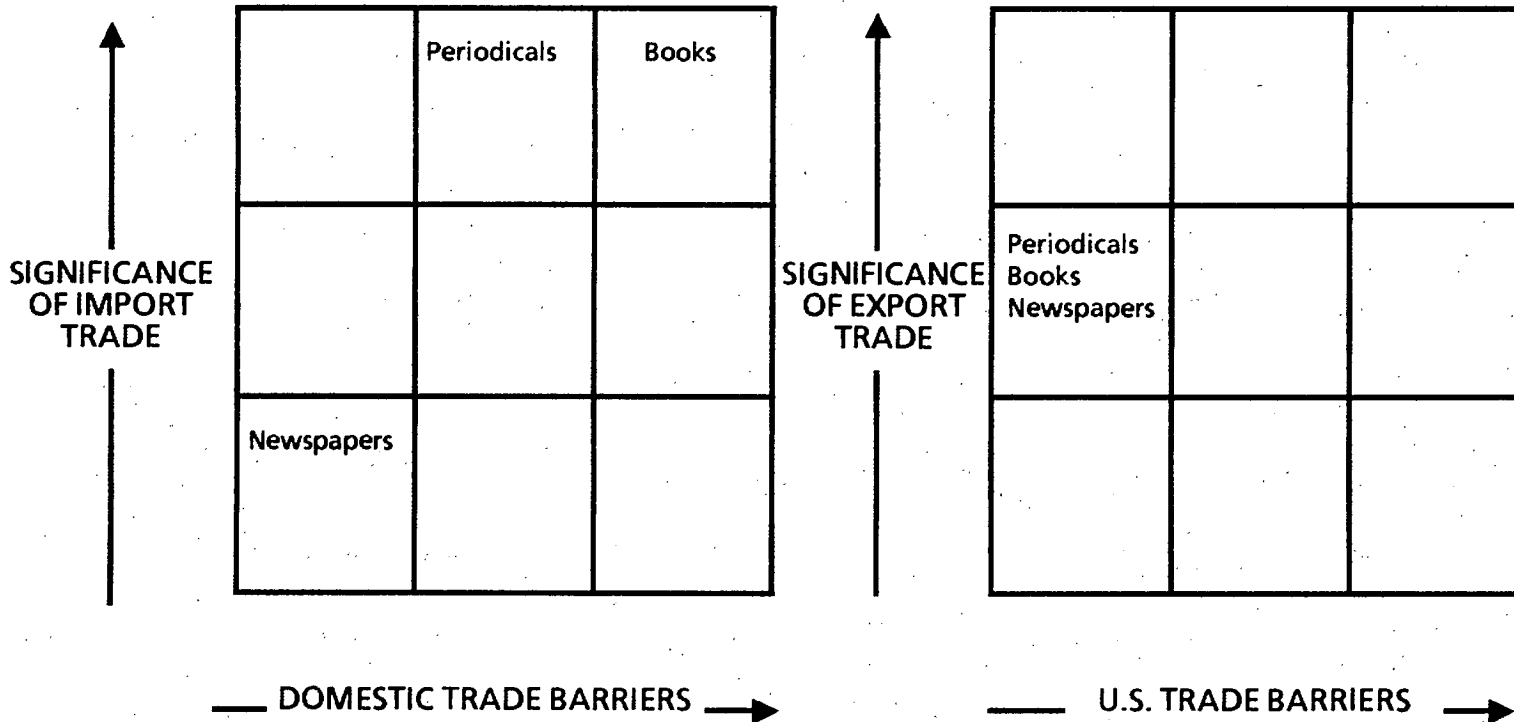
<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Subsidy	Postal rate subsidies	U.S. Postal Service	Postal subsidies to U.S. book publishers for books mailed within the U.S. (phased out during next three years)	U.S. Department of Commerce
Subsidy	National Endowment for the Humanities	U.S. Federal government	Literary publishing grants	Canada Consulting Research
Special Legislation	Censorship	State and local governments	States and cities have the constitutional power to prevent exposure of certain books and films to children	U.S. <b>National Study on Trade in Services</b> P. 28
Distribution Constraint	Market structure	n/a	Difficult for Canadian works to penetrate U.S. distribution system	Canada Consulting Research
Advisory Support Subsidy	U.S. Information Agencies	U.S. Information Agencies	Promote American textbooks abroad	Canada Consulting Research

4. CANADIAN PUBLIC POLICY IN PRINTING AND PUBLISHING IS MORE CONCERNED WITH PROTECTING DOMESTIC CONTROL THAN IS, OR NEED BE, THE CASE IN THE U.S.



5. HIGHER DOMESTIC TRADE BARRIERS FOR PERIODICALS AND BOOKS REFLECT THE HEIGHTENED IMPORTANCE TO CANADA OF IMPORTS IN THESE INDUSTRIES

DOC TRADE POSITION STUDY  
CULTURE: PRINTING AND PUBLISHING



**D. THE CANADA-UNITED STATES SOUND RECORDING INDUSTRY IS CHARACTERIZED BY HIGH BARRIERS, MINIMAL TRADE, AND AMERICAN CULTURAL DOMINANCE**

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1. The Canadian sound recording industry is dominated by foreign, and primarily American, material

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2. Canadian sound recording tariffs provided incentives for foreign record companies to locate in Canada, and these companies in turn have encouraged and supported Canadian artists

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3. High foreign content exists in spite of significant Canadian non-tariff barriers relating to end product sales and trade in master tapes

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4. Stringent copyright law plus a strong American recording industry keep U.S. non-tariff barriers high in trade of sound recording end products

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5. Canadian content regulations regarding radio broadcasts keep Canadian barriers in master tape trade somewhat higher than those in the U.S.

---

6. On the export side, Canadian penetration of U.S. markets in sound recording is understandably minimal, given high U.S. trade barriers

---

1. THE CANADIAN SOUND RECORDING INDUSTRY IS DOMINATED BY FOREIGN, AND  
PRIMARILY AMERICAN, MATERIAL

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Our phase 1 research showed that domestic producers of records and tapes use primarily foreign produced master tapes, and that sound recording trade volumes are low

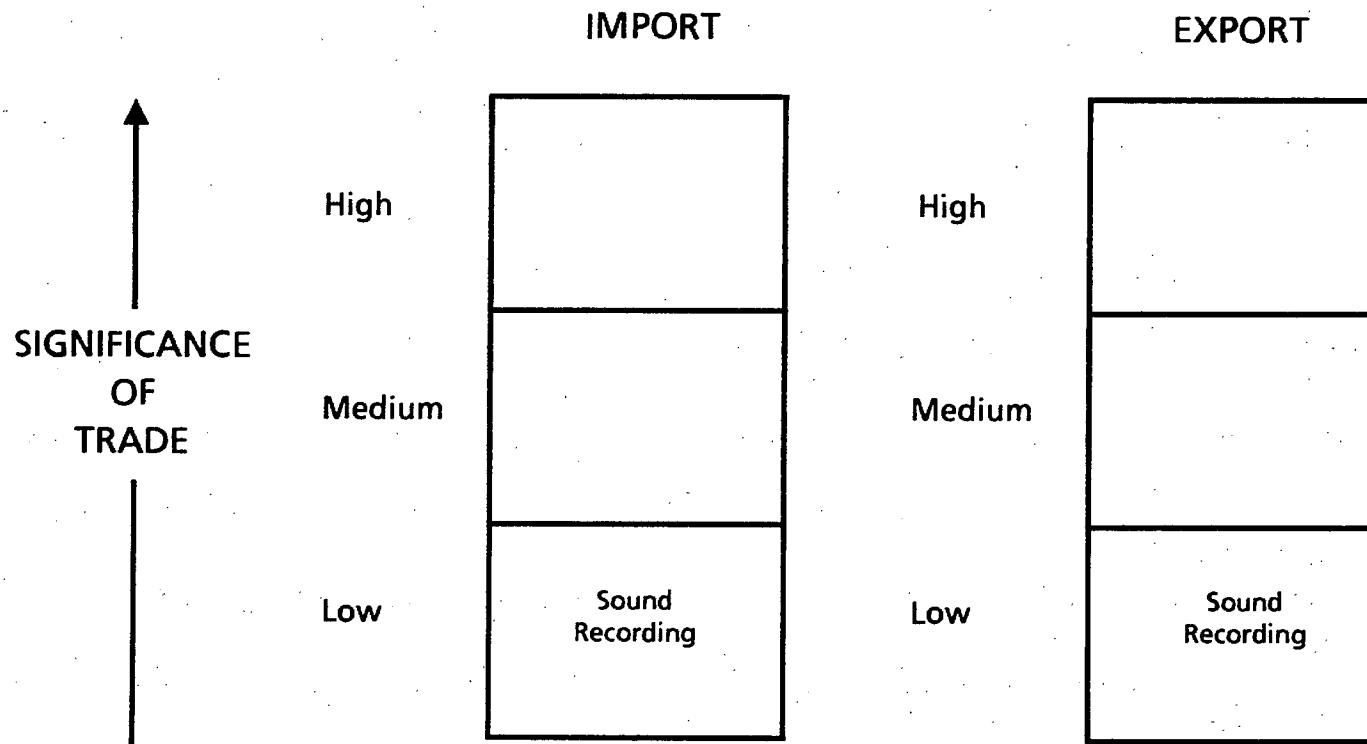
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Foreign content of sound recordings sold in Canada is indeed very high

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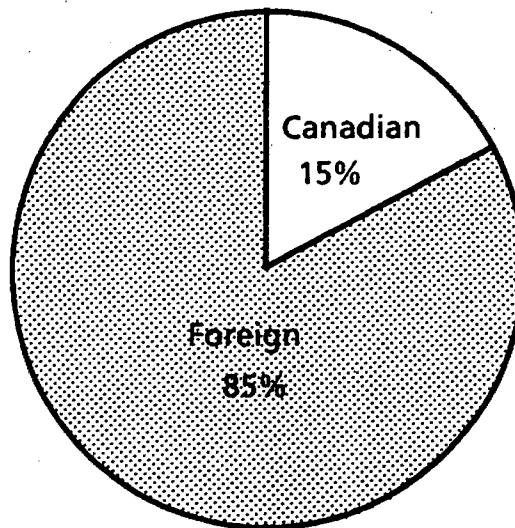
OUR PHASE 1 RESEARCH SHOWED THAT DOMESTIC PRODUCERS OF RECORDS AND TAPES USE PRIMARILY FOREIGN PRODUCED MASTER TAPES, AND THAT SOUND RECORDING TRADE VOLUMES ARE LOW

---



FOREIGN CONTENT OF SOUND RECORDINGS SOLD IN CANADA IS INDEED VERY HIGH

FOREIGN CONTENT OF SOUND RECORDING SALES IN CANADA



CANADIAN SALES OF DISCS AND TAPES BY ORIGIN OF MASTER TAPE

Total 1983 Retail Sales: \$530.3 Million

Source: Canada Consulting based on Statistics Canada

2. CANADIAN SOUND RECORDING TARIFFS PROVIDED INCENTIVES FOR FOREIGN RECORD COMPANIES TO LOCATE IN CANADA, AND THESE COMPANIES IN TURN HAVE ENCOURAGED AND SUPPORTED CANADIAN ARTISTS

Tariff Item	Canadian Tariffs		U.S. Tariffs	
	1982	1987	1985	1987
Magnetic recording tape, unrecorded	8%	6.9%	4.7%	4.2%
Sound recordings exceptions:	free	free	free - under the Nairobi Protocol (UNESCO) until Aug. 11/85 .09¢/sq. ft. thereafter	
i) sound recordings of a musical nature	14.6%	11.3%	temporarily free	
ii) phonograph records	14.6%	13.7%	temporarily free - normal tariff is 44%	
iii) recordings of an advertising character	14.6%	11.3%	temporarily free	
iv) audio-visual recordings	14.6%	11.3%	.25¢/linear foot	

Touring Canadian artists are subject to tariffs and custom duties on all transportation and sound/lighting equipment when returning to play concert dates in Canada. Foreign artists are exempt from these duties

Source: Statistics Canada, Canadian and U.S. Customs Offices



**3. HIGH FOREIGN CONTENT EXISTS IN SPITE OF SIGNIFICANT CANADIAN NON-TARIFF BARRIERS RELATING TO END PRODUCT SALES AND TRADE IN MASTER TAPES**

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The most significant Canadian assistance to the sound recording industry includes copyright protection and Canadian content rules for radio broadcasts

---

Other Canadian barriers include a variety of relatively minor subsidy and loan programs

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**THE MOST SIGNIFICANT CANADIAN ASSISTANCE TO THE SOUND RECORDING INDUSTRY  
INCLUDES COPYRIGHT PROTECTION AND CANADIAN CONTENT RULES FOR RADIO  
BROADCASTS**

<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Distribution Constraint	Copyright Act	Consumer and Corporate Affairs	Compulsory licence provisions of Canadian law are being abolished	Copyright Act
Distribution Constraint	Copyright Act	Consumer and Corporate Affairs	Copyright law inhibits U.S. companies from exporting finished end products (e.g. records) to Canada when Canadian-owned companies hold original licences	
Distribution Constraint			Canadian content restrictions for radio confer a marketing advantage on Canadian sound recordings	



**OTHER CANADIAN BARRIERS INCLUDE A VARIETY OF RELATIVELY MINOR SUBSIDY AND LOAN PROGRAMS**

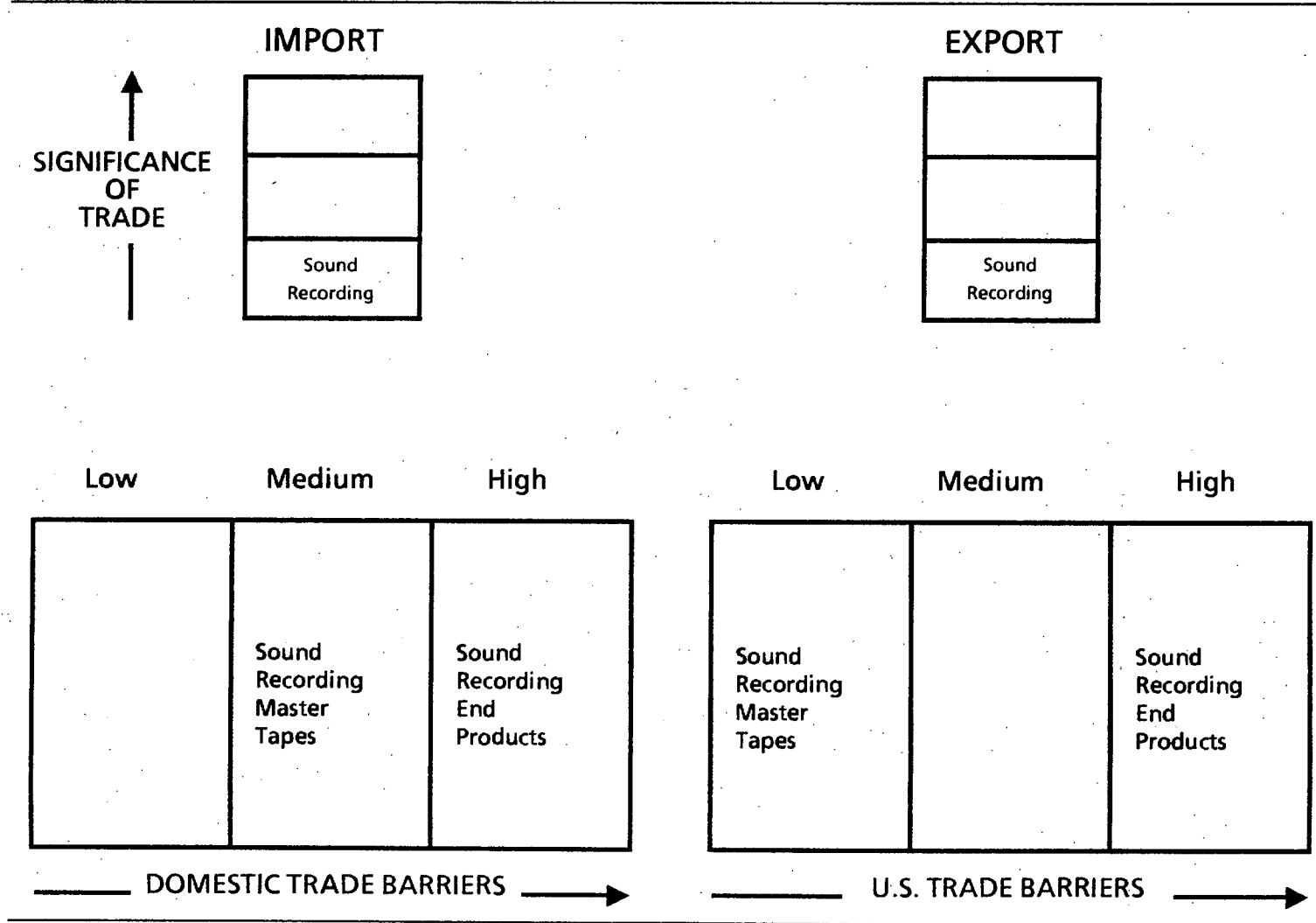
<b>Class of Barrier</b>	<b>Barrier</b>	<b>Administering Body</b>	<b>Characteristics of Barrier</b>	<b>Reference</b>
Subsidy	PEMD	External Affairs/ DRIE	50-50 sharing of costs of soliciting export orders of Canadian goods and services • sound recording industry received \$90,000 in 1984-85	IAP p.68
Subsidy	Promotional Funding	External Affairs	Assist sound recording artists with promotional activities (touring) • \$100,000 in 1984-85	Sound recording sector profile, DOC
Subsidy	Special Program of Cultural Incentives (SPCI)	DOC	Grants and contributions to registered non-profit cultural organizations • \$210,000 in 1984-85	Sound recording sector profile, DOC
Subsidy/ Loan	Canada Council	DOC	Assistance to recording industry • suspended in 1985	Sound recording sector profile, DOC



4. STRINGENT COPYRIGHT LAW PLUS A STRONG AMERICAN RECORDING INDUSTRY  
KEEP U.S. NON-TARIFF BARRIERS HIGH IN TRADE OF SOUND RECORDING END  
PRODUCTS

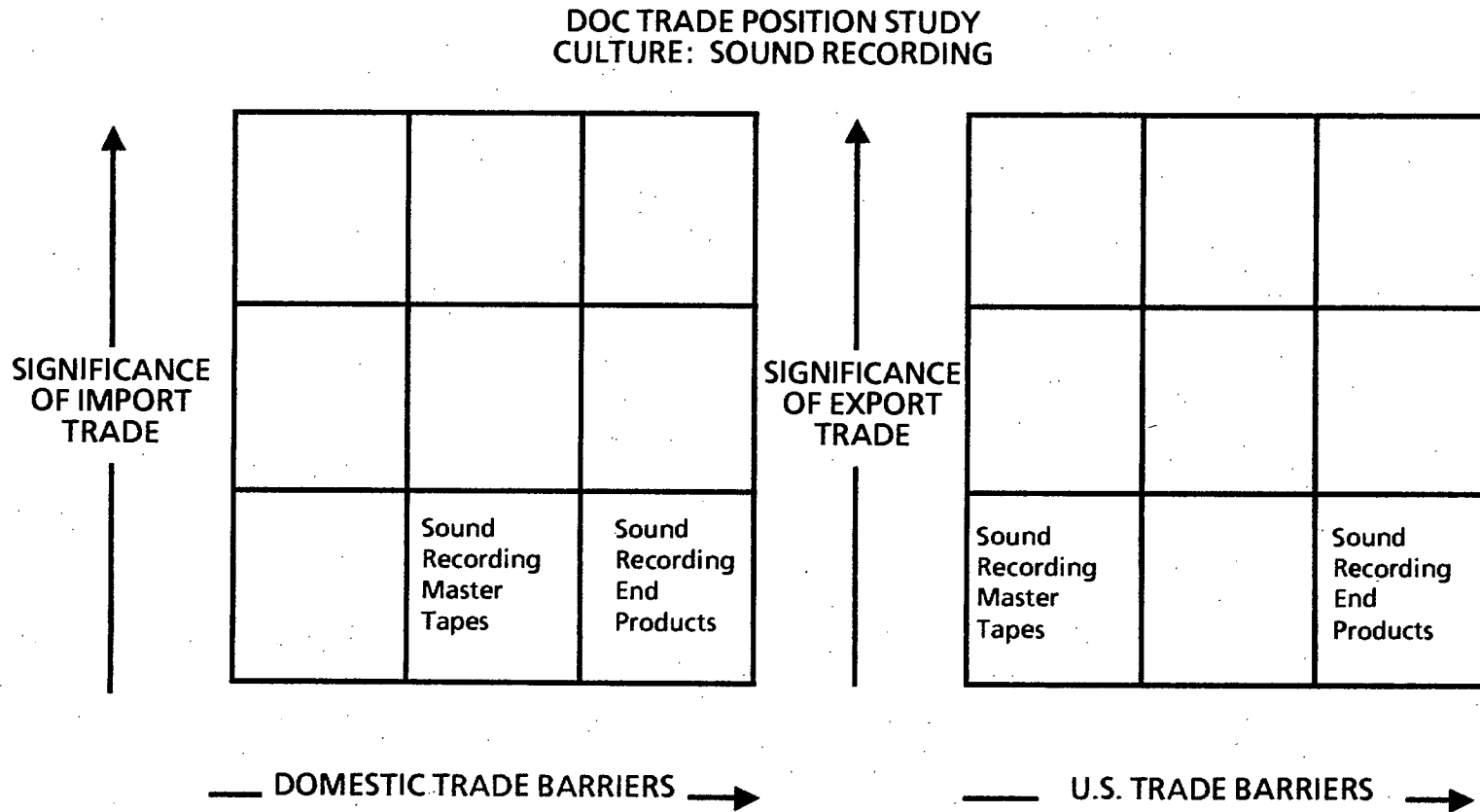
Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Distribution Constraint	Copyright Law		Copyright law inhibits Canadian companies from exporting finished end products (e.g. records) to the U.S. when American-owned companies hold original licence	Canada Consulting Research

5. CANADIAN CONTENT REGULATIONS REGARDING RADIO BROADCASTS KEEP CANADIAN BARRIERS IN MASTER TAPE TRADE SOMEWHAT HIGHER THAN THOSE IN THE U.S.



6. ON THE EXPORT SIDE, CANADIAN PENETRATION OF U.S. MARKETS IN SOUND RECORDING IS UNDERSTANDABLY MINIMAL, GIVEN HIGH U.S. TRADE BARRIERS

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**E. ALTHOUGH ADVERTISING IS A MAJOR CANADIAN INDUSTRY, TRADE ISSUES PLAY A RELATIVELY MINOR ROLE**

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1. Our research into trade significance showed that the funds traded in advertising are small when compared to the total domestic market

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2. Non-tariff trade barriers are dominated by tax penalties

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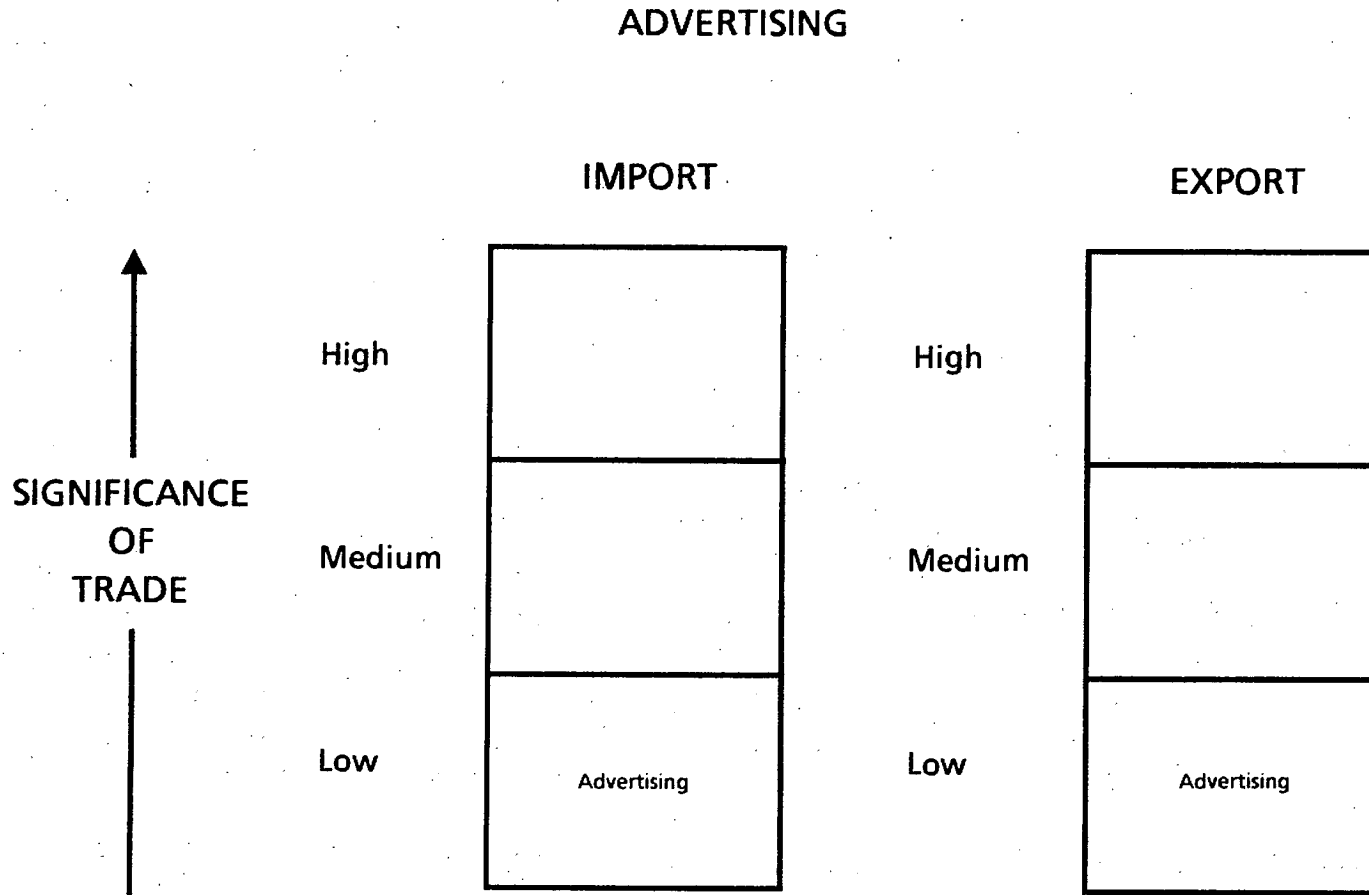
3. Trade barriers in the advertising industry are higher in Canada than the U.S.

---

4. Overall, import and export trade is of little significance in the Canadian and U.S. advertising industries

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1. OUR RESEARCH INTO TRADE SIGNIFICANCE SHOWED THAT THE FUNDS TRADED IN ADVERTISING ARE SMALL WHEN COMPARED TO THE TOTAL DOMESTIC MARKET
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2. NON-TARIFF TRADE BARRIERS ARE DOMINATED BY TAX PENALTIES

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Canada legislates discriminatory tax policies with respect to advertising deductions...

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... Similar to those in the United States

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## CANADA LEGISLATES DISCRIMINATORY TAX POLICIES WITH RESPECT TO ADVERTISING DEDUCTIONS

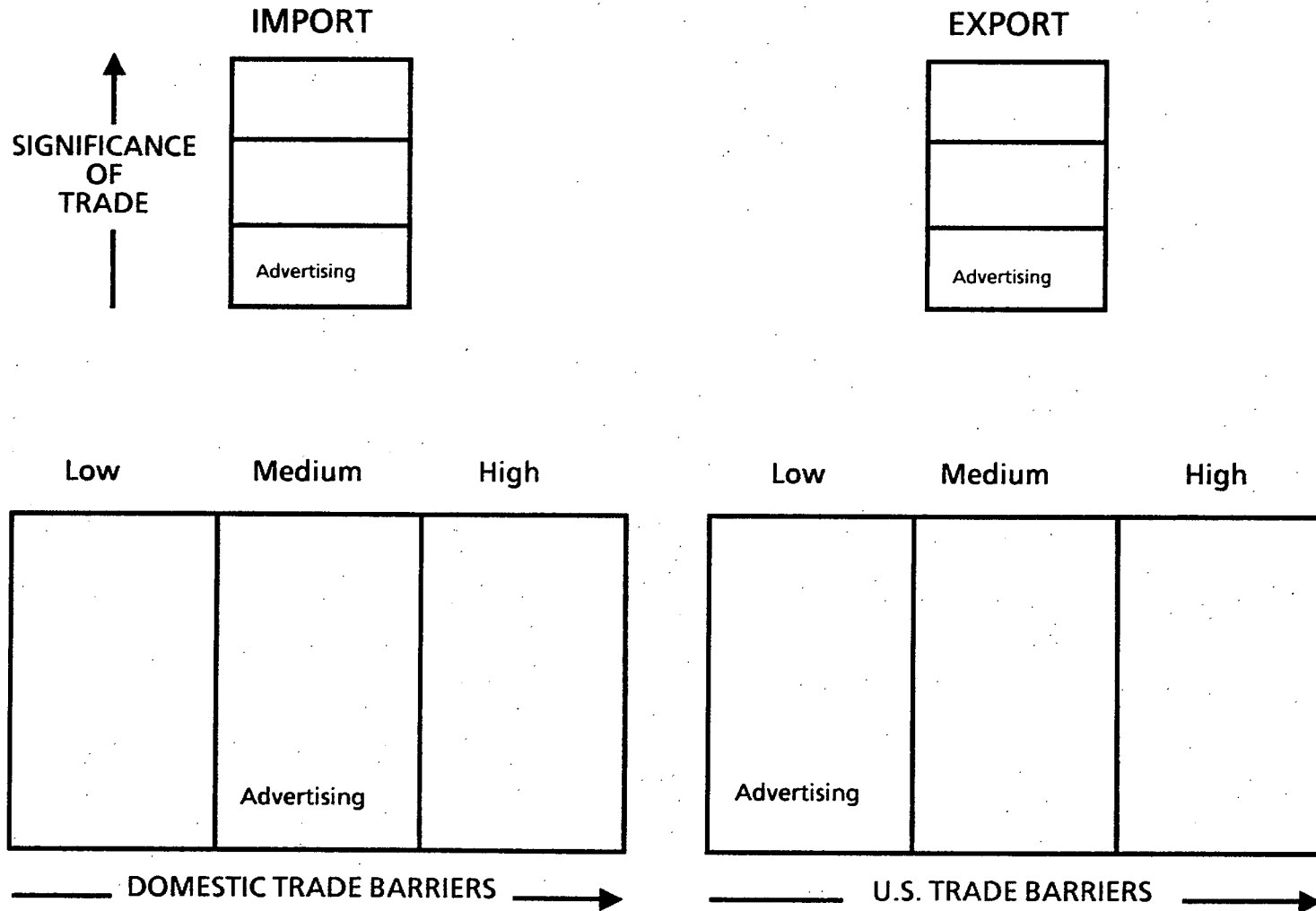
Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Tax Penalty	Deductions of advertising expenses (Bill C-58)	Revenue Canada	Disallows deductions for advertising expenses relating to ads placed in non-Canadian newspapers or periodicals aimed at Canadian readers	Bill C-58
Tax Penalty	Tax treatment of advertising expenses	Revenue Canada	Ad revenues flowing to U.S. stations are not deductible as business expenses	ITAs 19(1) Bill C-58
Distribution Constraint	Quebec Consumer Protection Act	Government of Quebec	Prohibits advertising to children under age 13	Quebec Consumer Protection Act
Legislation	Cable TV Regulations	CRTC	Canadian cable companies may apply to broadcasters for simultaneous distribution of their signal on U.S. stations . protects Canadian advertisers	Broadcasting Act Ch. 374, s. 19



... SIMILAR TO THOSE IN THE UNITED STATES

Class of Barrier	Barrier	Administering Body	Characteristics of Barrier	Reference
Regulation	Advertising Code Administration (ACA)	ACA	All advertising for rated films must be submitted to the ACA for approval prior to public viewing	U.S. National Study on Trade in Services P. 28
Tax Penalty	U.S. Trade Act	Internal Revenue Service	U.S. advertiser can not deduct expenses relating to advertisements placed in Canadian media	U.S. Department of Commerce

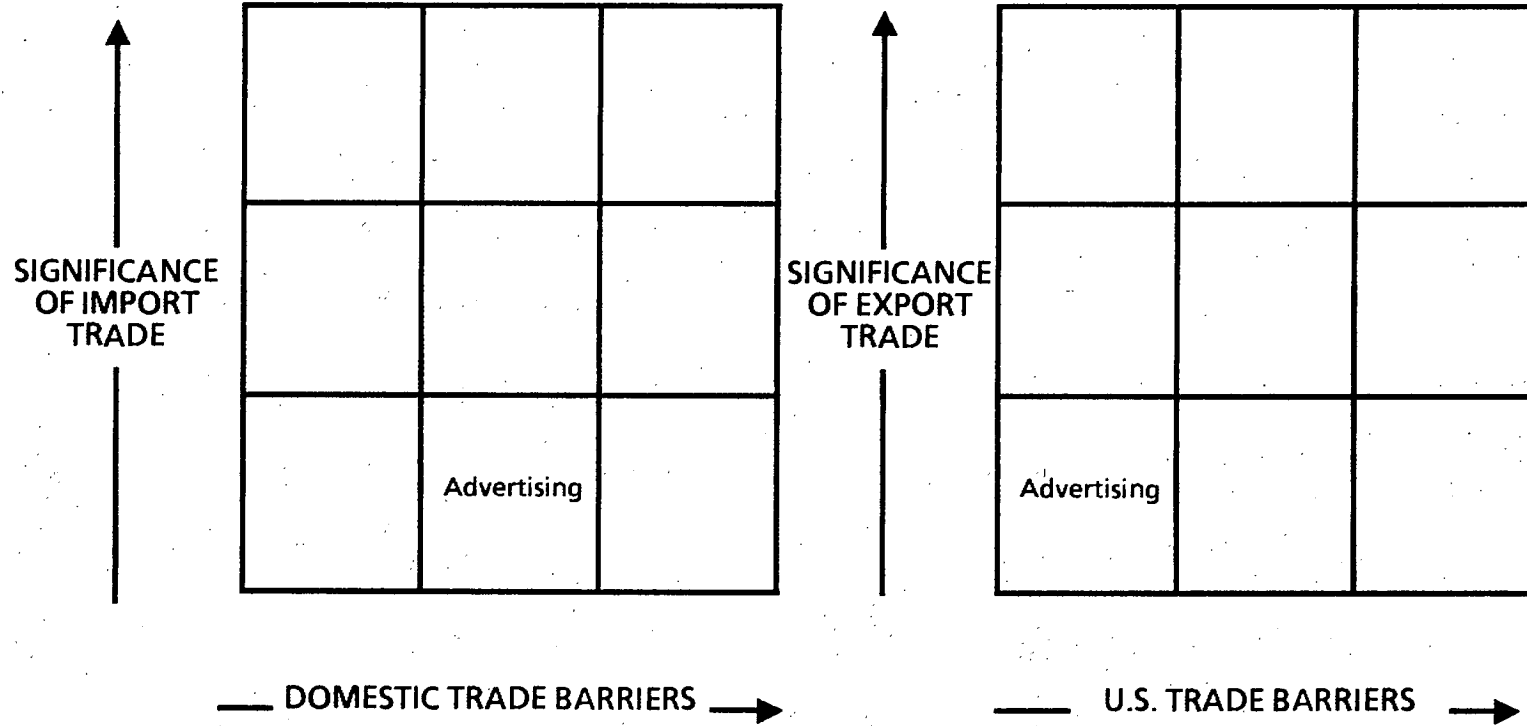
3. TRADE BARRIERS IN THE ADVERTISING INDUSTRY ARE HIGHER IN CANADA THAN THE U.S.



4. OVERALL, IMPORT AND EXPORT TRADE IS OF LITTLE SIGNIFICANCE IN THE CANADIAN AND U.S. ADVERTISING INDUSTRIES

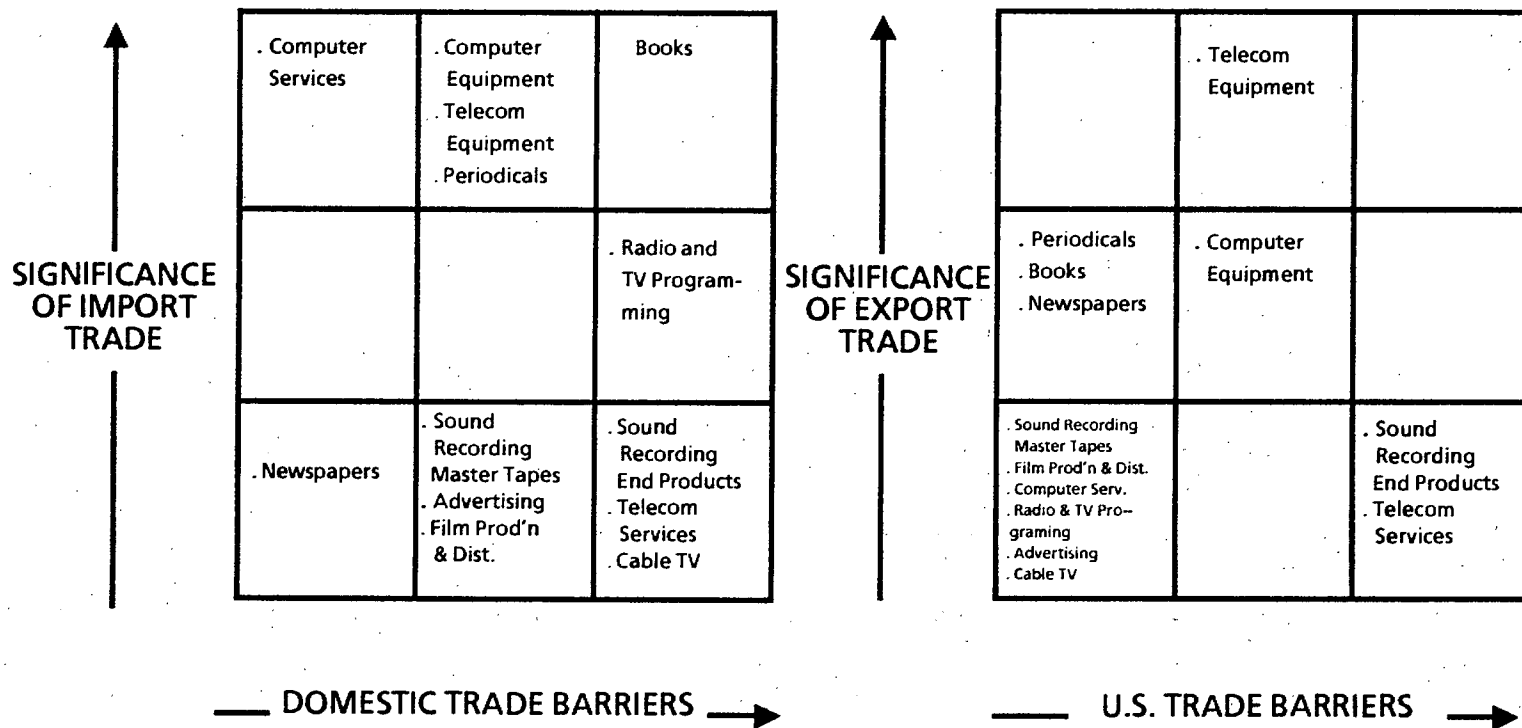
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DOC TRADE POSITION STUDY  
CULTURE: ADVERTISING



SUMMARY

DOC TRADE POSITION STUDY



## APPENDIX

Abbreviation	Canadian References Full Reference
"Access"	Keyes, F., "Access to Markets/Free Trade", DOC The Arts 'Profile', DOC
Audley	Audley, Paul, <u>Canada's Cultural Industries</u> , Canadian Institute for Economic Policy, 1983
B.C. Dept. of Culture & Youth	British Columbia Department of Culture and Youth
B.C. Economic Bulletin	"B.C. Economic Bulletin", Ministry of Industry and Small Business Development, Spring 1985
Bill C-58	Bill C-58, Income Tax Act S.19
Broadcasting Act	Canadian Broadcasting Act, various sections Book Publishing Sector Profile, DOC
CA Magazine, Feb./84 June/84	"CA Magazine", February 1984, pp. 52-59 June 1984, pp. 73-76
CBPDF: Memorandum	Canadian Broadcast Program Development Fund: Memorandum of Understanding, March 15, 1985
Cdn. Telecom	<u>Canadian Telecommunications: An overview of the Canadian Telecom Carriage Industry</u> , National Telecommunications Branch, DOC
1983 Conference Report	<u>1983 Conference Report - Report of Proceedings of the 35th Tax Conference</u> , Canadian Tax Foundation, 1983
Copyright Act	Canadian Copyright Act

## APPENDIX

Abbreviation	Canadian References Full Reference
CPTE	Bellam, L.M. and B. Eischan, "Cultural Policy and Tax Expenditures", December 8, 1982.
CRTC 1984-18	CRTC Telecom Decision, 1984-24
CRTC 1924-24	CRTC Telecom Public Notice 1984-24
CRC	Communications Research Centre
DGIE Submission	"Non-tariff Barriers - Canada/USA", submission to DGSP from DGIE, DOC, July 15, 1985
ETA	<u>Excise Tax Act</u> , R.S.C. 1970, c.E-13
"The Export Success Fund"	"The Export Success Fund", Ontario Ministry of Industry and Trade, February 22, 1985
Globerman	Globerman S. and A. Vining, "Bilateral Cultural Free Trade: The U.S. - Canadian Case", Simon Fraser University
IAP	Doherty, P.H., R.J. Fantham and T.P. Muir, <u>Industrial Assistance Programs in Canada</u> , CCH Canadian Limited, 1985
Info Tech	"Information Technology" magazine, March 1985.



## APPENDIX

Abbreviation	Canadian References Full Reference
ITA	<u>Canadian Income Tax Act</u> , s.c. 1970-71-72, c. 63
Int. Bull. IT-441	Interpretation Bulletin, IT-441 Investment Canada Act
NFVP	"The National Film and Video Policy", DOC, May 1984 Ontario Arts Council Ontario Education Act. Ontario Ministry of Industry and Trade
ORSTA	<u>Ontario Retail Sales Tax Act</u> , R.S.O. 1980, c. 454 Periodical and Newspaper "Profile", DOC
QTA	<u>Quebec Taxation Act</u> , R.S.Q., c.1-3 Quebec Bill 51 Quebec Consumer Protection Act
"Review"	"Review of Non-Tariff Barriers in the Telecommunications Sector", Electronics and Aerospace Branch, ITC/DRIE Revenue Canada, Customs and Excise

## APPENDIX

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Abbreviation	Canadian References Full Reference
SBDCA	<u>Small Business Development Corporations Act, s.o. 1979, c. 22</u>
Sound Recording Sector Profile, DOC	Consultation Paper on Small Business: Sound Recording Industry, DOC, March 1985
SPCI, DOC	Special Program for Cultural Initiatives, DOC
SSHRC	Social Sciences and Humanities Research Council of Canada
	Structure of the Canadian Film/Videotape Industry, DOC
TEA	<u>Tax Expenditure Account</u> , Department of Finance, Canada, December 1979.
Telefilm Canada Brochure	"Developing a Canadian Film and Television Industry", Telefilm Canada

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## APPENDIX

Abbreviation	U.S. References Full Reference
Barriers to Foreign Investment	"Barriers to Foreign Investment in the United States", Policy, Research and Communications Branch, Foreign Investment Review Agency
Communications Act	U.S. Federal Communications Act of 1934  "Doing Business in the U.S.", Price Waterhouse  Exim Bank publication
FCC	Federal Communications Commission
Foreign Investment	"Foreign Investment in the United States", Department of the Treasury, Sept. 1979
Globerman	Globerman S. and A. Vining, "Bilateral Cultural Free Trade: The U.S. - Canadian Case", Simon Fraser University
NAB Code	National Association of Broadcasters Code of Good Practices Pay TV Regulations
SBA publication	Small Business Administration publication  U.S. Cable T.V. Regulations
U.S. Dept. of Commerce	Telephone interviews with individuals at the U.S. Department of Commerce  U.S. Department of State Foreign Service Institute seminar publication

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Abbreviation	U.S. References Full Reference
U.S. ITC publication	U.S. Investment Tax Credit publication
U.S. National Study on Trade in Services	U.S. National Study on Trade in Services, a submission to the General Agreement on Tariffs and Trade by the U.S. Government.
"U.S. Software Industry"	"A Competitive Assessment of the U.S. Software Industry", U.S. Department of Commerce, December 1984.
	U.S. Tax Code
	U.S. Trade Law
	Various U.S. federal and state government publications

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