

Redesigning Federal Programs for the Periodical Industry

**A discussion paper to guide
consultations**

Department of Canadian Heritage

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1 Introduction

Traditional printed media such as newspapers and magazines are still a significant part of the daily lives of many Canadians. Yet, it is also clear that the environment in which publishers operate in this country is undergoing rapid change. The Canadian publishing industry, like many other sectors of the Canadian economy, is faced with various challenges linked to increasing digitization, globalization and demographic shifts. As the environment that publishers operate within changes, so too must government programs that support these publishers.

Canadian Heritage is undertaking a redesign of its programs that support magazines and non-daily newspapers: the Publications Assistance Program (PAP) and the Canada Magazine Fund (CMF). The five main objectives of this review are to:

- Design a funding system with increased predictability and less budget instability;
- Streamline program delivery to simplify applying and reporting;

- Allow greater flexibility for publishers to make strategic business decisions;
- Position programs to support transitions to digital technology;
- Maximize returns for Canadians.

A note on your participation

This review could lead to major changes to federal funding of the periodical industry in Canada. **All publications and associations currently receiving funding from either the Canada Magazine Fund or the Publications Assistance Program can expect to be affected.** Given the complexity of the issues at stake, feedback from publishers, associations, creators, and individual Canadians will be critical to the development of an effective long-term strategy for support to this industry. This discussion document is designed to stimulate comments and focus the discussion.

We invite and encourage your participation in this process. For more information on how you can send your feedback, please consult the consultation Web site at www.pch.gc.ca/pc-ch/consultations/fcm-cmf/index_e.cfm or contact Periodical Publishing Policy at 819-994-3118.

2 What Canadian Heritage does now

Support to Canadian periodicals comes in many forms—from legislation like the *Foreign Publishers' Advertising Services Act* to direct financial assistance through programs such as the Publications Assistance Program and the Canada Magazine Fund. The federal government both supports the creation of Canadian content in Canadian periodicals and works to ensure that this content is available to all Canadians.

2.1 The Publications Assistance Program (PAP)

Canada's vast geography and small population make distribution challenging for domestic publishers, leading to federal government support for the mailing of newspapers and magazines for over 150 years. The PAP supports equitable access to publications across the country by subsidizing a portion of the mailing costs for Canadian magazines and non-daily newspapers. The PAP currently funds a wide range of publications including: consumer magazines, request-circulation business magazines, farm publications, ethnocultural magazines, non-daily newspapers, scholarly journals and religious publications. More information on the eligibility criteria for the program can be found on the program Web site listed in Annex B.

The PAP helps to ensure that Canadians have access to Canadian-content publications at reasonable costs, wherever they live in Canada.

The PAP currently operates as a partnership between Canada Post Corporation and Canadian Heritage. Canadian Heritage has responsibility for determining the eligibility and subsidy level for each publication. If an application is successful, Canada Post is notified to set up a PAP account for the publication. Funds are then transferred from

Canadian Heritage to Canada Post, where they are deposited into the individual accounts to be drawn upon when eligible publications are mailed. Publishers do not receive funds directly; instead, they see a reduction in their mailing costs. Canada Post also makes a significant financial contribution to the program, which it has announced will end after the 2008-2009 fiscal year.

PAP at a glance, 2006-2007

- In 2006-2007, the program's budget was \$60.4 million and 1161 periodicals were subsidized.
- 40% were non-daily newspapers (463) and 60% were magazines (698).
- Grants ranged from under \$100 for small-circulation scholarly journals to well over \$2 million for large consumer magazines.
- The average cost of mailing an eligible publication with the PAP subsidy was 21 cents, compared to an average cost of 51 cents without the subsidy.
- The largest 20 publishing companies, as a group, received close to 75% of the budget for all of their eligible titles.

2.2 The Canada Magazine Fund (CMF)

The CMF was established in 1999 following the Canada-US Agreement on Magazines, which gave foreign magazines limited and conditional access to the Canadian advertising market. The agreement also ended measures that had barred the entry or sale of certain types of foreign magazines in Canada for over three decades. Since magazines receive most of their revenues from advertising, it was expected that this access would negatively impact the Canadian industry. The threat of split-run magazines has not materialized; however, the other challenges identified in the creation of the CMF remain:

- Foreign competitors set the price structure for magazines in Canada and Canadian publishers must match lower foreign prices to compete;
- Costs of producing editorial content are high relative to the limited size of the market served;
- The distribution system in Canada favours newsstand placement of high-selling US titles;
- Investment in skills development helps to ensure industry growth.

The CMF supports the development of Canadian content and the sustainability of the industry by funding individual magazines for the creation of editorial content and business development and by supporting collective projects for industry-wide development. Only magazines are eligible to the CMF.

Two components allocate contributions through a formula that divides the available budget among all eligible applicants:

- **Support for Editorial Content** (\$10 million) – Helps ensure the continued availability of Canadian editorial content by assisting eligible publishers to invest in content production.
- **Support for Arts and Literary Magazines** (\$1 million) – Provides support to maintain high levels of Canadian editorial content in high-quality Canadian cultural magazines.

Two components are based on approval of specific projects:

- **Business Development for Magazine Publishers** (\$2.5 million) – Supports the growth and sustainability of small- and medium-sized titles by investing in projects that increase circulation, advertising revenue, operational efficiencies, and capacity development.
- **Industry Development** (\$2.5 million) – Provides support for association-based initiatives benefiting the sustainability of the industry as a whole, such as marketing, promotion, distribution, and professional development.

CMF at a glance, 2006-2007

- In 2006-2007, the program's budget was \$16 million and 367 applicants received funding.
- Individual grants ranged from just over \$3,000 for small-circulation literary magazines to over \$300,000 for projects by large national associations.
- In the Support for Editorial Content component, the largest 20 publishing companies, as a group, received close to 65% of the budget for all of their eligible titles.

2.3 Legislation and other funding programs

Underlying these two programs are legislative measures designed to set favourable market conditions for the Canadian-owned publishing industry. These legislative measures include:

- *Foreign Publishers Advertising Services Act (FPASA)* – This Act limits Canadian advertising in foreign magazines.
- *Income Tax Act* – Section 19.01 of this Act allows advertisers a full tax deduction for magazine advertising only in magazines containing at least 80% Canadian-content. Section 19 allows tax deductions only for advertising in Canadian-owned newspapers

- *Investment Canada Act* – This Act requires, under certain circumstances, foreign investors in Canadian publications to meet a “net benefit to Canada” test.

With these measures in place to ensure Canadian magazines and newspapers have a more equitable opportunity to compete effectively, the federal government is then able to further target support for content development, distribution and capacity development through the CMF and the PAP.

Other federal government departments and agencies also provide funding to magazines that aligns with their mandate and objectives. For example, the Canada Council for the Arts directs approximately \$2.6 million in funding to arts and literary magazines.

While none of the legislative measures or other government programs will be examined in this consultation process, it is important to note that both the PAP and the CMF are only part of a public policy approach that combines legislation, regulation, and targeted funding.

A note on “Periodicals”

The term Periodicals can have different meanings, even within the publishing industry. As it relates to the programs that are part of this review, periodicals refer to both magazines and newspapers.

Canadian Heritage does not directly support daily newspapers. Its programs support non-daily newspapers, often serving smaller communities or geographic areas. A range of Canadian magazines is also supported, from large titles like *l’Actualité* and *Canadian Living* to small-circulation publications like *Ciel Variable* and *Saltscapes*.

For more information on the Canadian magazine or newspaper industries, please refer to Annex A for industry overviews. For more definitions, eligibility criteria and lists of funding recipients please refer to the program Web sites listed in Annex B.

3 What has led Canadian Heritage to propose changes

3.1 Evaluation findings

Evaluations of the PAP in 2005 and the CMF in 2006 found that federal support continues to play a critical role in ensuring that Canadians have affordable access to Canadian magazines and community newspapers in both rural communities and urban areas. Despite confirming the continued public need for the PAP and the CMF, the evaluations did identify opportunities to re-examine some aspects of program delivery.

We encourage anyone interested in more details of either of these evaluations to see the Web addresses listed in Annex B.

3.2 Challenges with the Publications Assistance Program

Postal rate increases and fluctuating levels of program use can create the need to change funding levels in the PAP to avoid funding gaps in the program budget before the end of any given fiscal year. This situation can make planning difficult for both publishers and Canadian Heritage. For example, in September 2005, the program implemented new funding levels half way through the program cycle to avoid exhausting PAP funds appropriated by Parliament. These sudden changes frustrated program clients, made business planning difficult, and disrupted the smooth operation of the program.

3.3 Digital technologies

Canadian publishers are facing an online world where traditional media are converging, national borders are less relevant, and business models are in turmoil. The PAP is currently focusing exclusively on printed publications and the CMF has only a limited recognition of digital publishing. There may be an opportunity for changes to the programs to accommodate digital technologies in some way, but the Department needs input from these consultations on the proper role, if any, for government in this area.

3.4 Funding by Canada Post

While a general program re-examination was planned to address the findings of the two program evaluations, a key accelerator of this review came when Canada Post announced in late 2006 that it intended to withdraw \$15 million in funding to the PAP. This \$15 million represents 25% of the total PAP budget and it is currently set to end on March 31, 2009.

The Department recognizes that the budget for periodical programs will be of interest to those participating in these consultations, but these consultations will focus exclusively on program design. The funding decision will be made following the consultations.

3.5 Other considerations

In developing a long-term plan for federal support to magazines and non-daily newspapers, the Department is also considering a number of other policy objectives, including:

- Whether the relatively large share of program spending received by a relatively small number of large circulation publishing companies is an appropriate and effective use of public funds;
- Whether the current programs are having—or should be expected to have—an appreciable benefit for writers, illustrators, photographers, and other creators;
- Ensuring that any changes complement the *Advantage Canada* economic strategy by focusing federal government support on where it is most needed and by reducing administrative overhead to allow Canadian publishing businesses to grow and succeed;

- Adopting principles identified by the recent federal Independent Blue Ribbon Panel on Grant and Contribution Programs, such as streamlined applications and reporting, while ensuring proper accountability;
- Whether it is appropriate for the programs to include measures dealing with environmental protection.

4 What Canadian Heritage proposes

This review is not considering *whether* the Government should fund magazines and non-daily newspapers, but *how* they should be funded. Having considered the current environment and the history of the programs, Canadian Heritage has developed a proposal for discussion during these consultations: the development of a new, combined program tentatively called the **Canada Periodical Fund**.

This concept is being put forward to generate discussion around how the government can restructure the way it delivers periodical funding for greater public benefit and improved client service. It is hoped that this proposal represents the foundation of a long-term strategy for support to magazines and non-daily newspapers. Your input will be important in identifying critical issues in any further development of this program and creating workable solutions for implementation. Other proposals can also be discussed.

4.1 *The Canada Periodical Fund*

Under the proposed approach, the CMF and the PAP would be combined into one program, tentatively called the **Canada Periodical Fund**, with two components:

- **Aid to Periodical Publishers** component – 95% of total program funding
- **Collective Initiatives** component – 5% of total program funding

Both components would be administered by Canadian Heritage with annual maximum funding limits and service standards for each component built into program design. Magazines and non-daily newspapers would both still be eligible for support.

4.2 *Program objectives*

The underlying policy rationale for the PAP and the CMF remain valid. As a result, the Canada Periodical Fund would continue to seek to ensure the creation of Canadian content in magazines and the availability of Canadian magazines and non-daily newspapers across the country.

Whether the Canada Periodical Fund has been successful in meeting these objectives could be determined in ways, such as:

- **Increased Canadian content** in periodicals, which could be measured by the number of pages of Canadian magazine content produced annually, the incomes

of Canadian creators, and the diversity and number of Canadian magazines and non-daily newspapers;

- **Greater access** by Canadians to Canadian periodicals, which could be measured by the market share of Canadian magazines, the circulation of Canadian magazines and non-daily newspapers, and access by Canadians in smaller communities;
- **Greater stability and predictability** in program delivery from Canadian Heritage, which could be measured by establishing and adhering to service standards.

4.3 Details on the proposed Aid to Periodical Publishers component

This component would distribute funding to individual magazine and non-daily newspaper publishers.

- Canadian Heritage would use a formula that allocates a fixed program budget to eligible publishers to reimburse content expenses (magazines) and distribution expenses (magazines and non-daily newspapers). Such a formula could have a number of weighted factors. See the following section for some questions that we are considering.
- Publishers could apply and receive payment once a year for all their titles to reduce the administrative burden for both publishers and Canadian Heritage.
- The entire program budget would be allocated at one time to create a more stable funding structure and less need for mid-cycle changes.
- Distribution expenses for either Canada Post or other delivery methods would be eligible.
- Emulating best practices from formula support programs for other cultural industries such as the Canada Music Fund, the Book Publishing Industry Development Program and the Canadian Feature Film Fund.
- The formula could be adjusted annually following consultations with publishers to respond to changes in the industry and to refine the program to ensure maximum effectiveness.

4.4 Formula design considerations

Some questions would need to be considered in developing the formula for the Aid to Periodical Publishers component:

- Should profitability be considered as a factor? In other words, to what extent should “need” be a factor?

- Should publishers with higher levels of Canadian content receive a proportionally larger amount of funding?
- Should the formula provide increased support to specialized publications that serve official-language minority, ethnocultural, Aboriginal, and rural communities?
- Should magazines and non-daily newspapers that have high levels of content and low corresponding advertising revenues receive more public support? (i.e. using an ad-to-editorial ratio)
- How should Canadian content be defined?

4.5 Details on the proposed Collective Initiatives component

This component would provide project-based funding for initiatives undertaken by more than one publisher or an association. Funding would be targeted to the following priority areas:

- Business and professional development, marketing, and promotion;
- Digital transformation projects that help the industry develop business, creation and distribution online.

4.6 What would this proposal accomplish?

The proposed Canada Periodical Fund would meet the five objectives of the review proposed in the introduction in the following ways.

Predictability and budget instability: Funding allocated annually through a formula would be better insulated from changes in the publishing environment and annual delivery provides more flexibility to implement. A plan to introduce service standards will also make the funding process more predictable.

Streamlined program delivery: Combining two programs with overlapping clients into one delivery mechanism and processing applications by publisher, rather than by title, is intended to reduce the administrative burden on the Department and on clients.

Business flexibility for publishers: Canada Post's decision to withdraw from the PAP offers the opportunity to open funding to other methods of distribution, thereby putting more strategic control in the hands of publishers.

Transitions to digital technology: The proposed approach offers opportunities to address changes in the way Canadians are consuming news and entertainment: through joint initiatives on industry-wide projects and by exploring the possibility of opening funding to new forms of publications or to online content produced by print publications.

Maximized return for Canadians: The design of the Canada Periodical Fund will incorporate recommendations of recent program evaluations for both the PAP and the

CMF. This review intends to examine how this proposal can be further tailored to deliver optimum value for Canadian readers.

5 Ten questions for you

We want to hear from you. We invite you to write to us to offer your ideas, to build on the current proposal, and to provide general commentary. We have included below a list of questions that may help you prepare your written response. For more information on how to send us your feedback, please visit the consultation Web site at www.pch.gc.ca/pc-ch/consultations/fcm-cmf/index_e.cfm

1. What do you see as the benefits of the Canada Periodical Fund proposal? What do you see as the challenges of the proposal? How could those challenges be corrected?
2. Are there successful elements of the current programs that are not included in the Canada Periodical Fund proposal?
3. Where should the federal government target its investment in periodicals to create the greatest public benefit? Are there areas or activities that no longer require support? Is the greatest need for support for distribution, support for creation of content, or support for another activity?
4. What types of publication should receive funding under the proposed new program? What types should be excluded? Why?
5. Do you have any input on the design of the proposed Aid to Publishers component? Please see section 4.4.
6. Will the proposal meet the cash-flow needs of publishers? Should payments be more frequent than once a year?
7. Should the proposed program be expanded to support Web-only publications? Or should we continue with the current practice in the CMF of supporting digital ventures only for print-based publishers?
8. What do you think the impacts would be of incorporating financial incentives for effective environmental practices into the proposed program?
9. Should the proposed program put a greater emphasis on appropriate compensation for writers and other creators? If yes, how could this be done?
10. Do you have an alternative proposal we should consider?

6 Annex A: Industry overview

6.1 *The magazine industry in Canada*

According to Statistics Canada, in 2003 over 2,000 titles were published by 1,633 publishers, resulting in the circulation of over 778 million copies. These figures represent significant growth from 1960 when there were less than 700 titles. There is a Canadian magazine for virtually every topic, with the broad categories being consumer, business, trade, scholarly, religious, and farm magazines. Ten companies earn over half of total industry revenues, but there are hundreds of small and medium-sized publishers who also access public funds.

Since the 1960s, Canadian magazines have doubled their domestic market share from 20% to 41%. They account for about 70% of the magazines sold by subscription and sent through the mail in Canada. Over 25% of Canadians read magazines at least once a month and over 40% read magazines on a weekly basis.

The industry had revenues of approximately \$1.9 billion in 2005. Advertising growth was strong – in fact, advertising in magazines grew at twice the rate of all major media combined between 1999 and 2004, representing over 60% of publishers' revenues. In contrast, subscriptions represent only 19% of publishers' revenues. Canadian magazine publishers employ a total of 15,000 full and part-time employees. The most recent detailed data (from 2003) show that publishers spent over \$248 million on the production of editorial content.

Issues

- Foreign competition for readers – 90% of newsstand sales are foreign
- Financing and professional development for small- and medium-sized enterprises
- Rights and appropriate remuneration of Canadian creators
- Rising distribution costs – since 1999, Canada Post has raised postal rates by 33%
- Digital technologies challenging traditional business and operational models

6.2 *The newspaper industry in Canada*

Canada has one of the highest levels of newspaper readership in the world, with 40% of Canadians reading a newspaper on a daily basis.

According to Statistics Canada, in 2006, there were 110 general-interest daily newspapers, over 1200 non-daily community newspapers and over 200 other newspapers. The newspaper industry had revenues of approximately \$5 billion in 2005 and employed over 32,500 Canadians. While operating profits were stable at just under 15%, close to 40% of newspapers operated at a loss.

Non-daily community newspapers reach almost 14 million Canadians across the country.

Newspapers are even more dependent on advertising than magazines, with an average of 75% of their revenues coming from advertising. Advertising in non-daily newspapers exceeds \$1 billion annually. According to 2005 Statistics Canada data, daily newspapers earned 35% of their advertising revenues from national advertising in 2005, while only 9% of ad revenues for non-daily papers were from national campaigns. However, local advertising accounted for 73% of ad revenue for non-daily papers in 2005, compared to 38% for daily newspapers.

A recent survey of the Canadian Community Newspapers Association (CCNA) found that half of Canadians read local non-daily community newspapers to keep current with local and world events and one third of those polled read non-daily community newspapers because they include easy-to-understand information about products and services.

Chain ownership is significant in the Canadian non-daily newspaper industry. For example, of the CCNA's more than 700 members, over 400 are owned by just nine publishing companies.

Most non-daily community newspapers are published weekly. A few with the highest frequency publish four times per week. Others publish monthly. Circulations range from under 500 to over 150,000 per week, although most non-daily newspapers circulate less than 5,000 copies per week. Most Canadian non-daily newspapers use controlled, or free, circulation.

7 Annex B: Resources

- The Publications Assistance Program Web site: http://www.pch.gc.ca/progs/ac-ca/progs/pap/index_e.cfm
- The 2005 evaluation of the Publications Assistance Program: http://www.pch.gc.ca/progs/em-cr/eval/2005/2005_06/index_e.cfm
- The Canada Magazine Fund (CMF) Web site: http://www.pch.gc.ca/progs/ac-ca/progs/fcm-cmf/index_e.cfm
- The 2006 evaluation of the Canada Magazine Fund: http://www.pch.gc.ca/progs/em-cr/eval/2006/2006_01/index_e.cfm
- The *Foreign Publishers Advertising Services Act*: <http://laws.justice.gc.ca/en/F-29.6/index.html>
- The *Income Tax Act*: <http://laws.justice.gc.ca/en/I-3.3/index.html>
- The *Investment Canada Act*: <http://laws.justice.gc.ca/en/I-21.8/index.html>
- The Canada Council for the Arts: <http://www.canadacouncil.ca>
- The Government of Canada's Advantage Canada economic plan: <http://www.fin.gc.ca/ec2006/plan/pltoce.html>
- The Independent Blue Ribbon Panel on Grants and Contributions Programs of the Government of Canada: <http://www.brp-gde.ca/>