A MACDONALD-LAURIER INSTITUTE PUBLICATION

BREAKING NEWS

FIXING THE MEDIA'S TRUST DEFICIT

Why a long-term national news media policy is vital and urgent

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November 2022

MLI
TRUE NORTH IN CANADIAN PUBLIC POLICY

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Executive summary

Canada is on the cusp of making most of its journalists permanently dependent on the federal government. This is evolving directly through tax relief and subsidy funds and indirectly through offshore tech companies compelled by legislation. While this may permit some of the legacy news organizations to continue to survive financially, this new connection to politicians is eroding public trust in both government and news organizations.

This paper examines major issues that have led to this current state of affairs. In doing so, it illustrates why a long-term national news media policy is now not just necessary, but vital and urgent.

The Internet and the newspaper industry's inability to adapt to it are almost entirely to blame for the conflagration of what, for more than two centuries, was the core of Canada's news industry. Having survived the threats posed by the introduction of competition from radio in the 1920s and television in the 1950s, it was broadly assumed that newspapers would survive the threat posed by the Internet as well. But they haven't.

The Internet has created a world of unlimited choice and been a gift to consumers and innovators. But Canada's news industry providers have suffered losses of audience engagement and advertising revenue.

The Canadian Radio-television and Telecommunications Commission (CRTC) has ensured that certain levels of Canadian content (which is heavily subsidized due to low domestic market demand) are carried by licensed broadcasters. The CRTC enforces foreign ownership restrictions on currently regulated media – radio and television – through its licensing process. In order to obtain a CRTC licence, a broadcaster must be more than 50 percent owned by Canadians and its board must be made up of a majority of Canadians. This has resulted in the vertical integration of companies.

Canada's news industry has been unable to adapt to technological change. In the case of print, the collapse of concentrated ownership led to even greater concentration of ownership, which has resulted in more than $200 million in annual public subsidies and tax credits. Some of these were initially intended as temporary measures to assist companies trying to transition into the digital age. But as companies fail to do so, these subsidies and credits are becoming permanent.

What is apparent is that while technology has profoundly disrupted 20th century news delivery systems, all current measures are reactionary or based on assumptions that are no longer valid. Making matters worse, each appears to be oblivious to the impact that it has on the others. The CRTC, for instance, is creating an artificial oversupply of news products by forcing many broadcasters to employ reporters and dedicate airtime to news, as if their local radio station is the sole possible vehicle through which people may obtain the information they seek.

Further complicating the situation is one issue particular to Canada: language. While most of the issues that dominate discussions on news media have been preoccupied with English-language media, French-language media serves a large, important, and influential part of the population; a one-size-fits-all approach is unlikely to succeed. American news channels, for instance, are not accessible to unilingual francophones, who constitute roughly 50 percent of the French-language market.

The public's trust in its news media, according to the most recent survey by Edelman, is at a record low. Subsidized media continue to insist that independence is not at risk. But conflicts of interest are not matters to be determined by those involved in problematic associations – they are decided by those observing them.

The government should develop and implement a national media strategy – one that focuses on ensuring that citizens have access to accurate information about current events. The strategy should recognize that public trust in both government and news media can only be sustained and flourish if the journalism industry is independent from government funding or approval of legal content. And critically, it should inspire and support the innovation and entrepreneurship required for the industry to move into a new era of digital news delivery.

Sommaire

Le Canada s'apprête à rendre la plupart de ses médias tributaires en permanence des subsides versés par le gouvernement fédéral directement et, indirectement, via les sociétés technologiques étrangères. Bien que la mesure puisse assurer la survie de certains grands organismes médiatiques, les nouveaux liens commerciaux créés avec les politiciens vont éroder la confiance du public tant à l'égard des médias que du gouvernement.

Cette étude est consacrée à l'examen des enjeux majeurs qui sous-tendent l'état des lieux actuel. Ce faisant, elle montre pourquoi une politique nationale à long terme pour les médias est devenue non seulement nécessaire, mais aussi vitale et urgente.

L'Internet et l'incapacité de la presse à s'y adapter sont presque totalement responsables de l'effondrement de ce qui, pendant plus de deux siècles, a été le foyer de l'industrie canadienne de l'information. Puisque les journaux ont survécu aux menaces posées par la nouvelle concurrence de la radio dans les années 1920 puis, de la télévision dans les années 1950, on a largement supposé qu'ils survivraient également à la menace posée par l'Internet. Mais cela n'a pas été le cas.

L'Internet a créé un monde à choix illimités, un cadeau pour les consommateurs et les innovateurs. Toutefois, les fournisseurs de l'industrie canadienne de l'information ont subi des pertes d'audience et de revenus publicitaires.

Le Conseil de la radiodiffusion et des télécommunications canadiennes (CRTC) exige des radiodiffuseurs autorisés un certain niveau de contenu canadien (lequel est fortement subventionné en raison de la faible demande du marché intérieur). Le CRTC impose des limites en matière de propriété étrangère aux médias actuellement réglementés – radio et télévision – par le biais de son processus d'octroi de licences. Pour obtenir une licence du CRTC, un radiodiffuseur doit appartenir à plus de 50 % à des Canadiens et avoir un conseil d'administration composé d'une majorité de Canadiens.

Cette situation a mené à l'intégration verticale des sociétés.

L'industrie canadienne de l'information a été incapable de s'adapter aux changements technologiques. En ce qui a trait à la presse écrite, l'échec a rendu la concentration de la propriété encore plus forte, ce qui a conduit à l'octroi de subsides étatiques et de crédits d'impôt dépassant 200 millions de dollars annuellement. Certaines des mesures mises en œuvre devaient d'abord être temporaires pour aider les sociétés à passer à l'ère numérique. Or, à mesure que ces sociétés ont échoué à ce chapitre, ces subsides et crédits sont devenus permanents.

De toute évidence, comme la technologie a profondément bouleversé les systèmes de diffusion de l'information au XXe siècle, toutes les mesures actuelles sont soit rétrogrades soit fondées sur des hypothèses qui ne sont plus valides. Pire encore, aucune ne tient compte des effets croisés entre elles. Le CRTC, par exemple, suscite une surabondance artificielle de produits d'information en obligeant de nombreux diffuseurs à employer des journalistes et à consacrer du temps d'antenne aux nouvelles, comme si leur station de radio locale était le seul véhicule accessible au public en quête d'informations.

Un problème particulier au Canada complique encore la situation : la langue. Tandis que la plupart des questions au centre des discussions touchent les médias de langue anglaise, les médias de langue française desservent une partie étendue, importante et influente de la population; une approche unique risque donc d'échouer. Les francophones unilingues, par exemple, qui constituent environ 50 % du marché francophone, ne syntonisent pas les nouvelles chaînes américaines.

Selon la plus récente enquête réalisée par Edelman, la confiance du public dans ses médias est à son plus bas. Les médias subventionnés continuent d'insister sur le fait que leur indépendance n'est pas menacée. Toutefois, il ne revient pas aux participants des associations problématiques de juger de l'existence de conflits d'intérêts en leur sein –, mais plutôt à ceux qui les observent d'en décider.

Le gouvernement doit élaborer et mettre en œuvre une stratégie nationale des médias – une stratégie visant à garantir que les citoyens aient accès à des renseignements justes sur l'actualité. Cette stratégie doit reconnaître que la confiance du public envers le gouvernement et les médias n'existera durablement que si l'industrie journalistique est indépendante du financement ou de l'approbation de la teneur juridique par le gouvernement. Et surtout, elle doit inspirer et soutenir l'innovation et l'esprit d'entreprise nécessaires pour que le secteur entre dans une nouvelle ère de diffusion numérique des informations.

"The money the government is giving us is not going to solve our problems. It is only going to ensure we put off confronting them. Before long we will be back for more."

– Andrew Coyne, *National Post*, 2018

Introduction

Following a series of patchwork actions, Canada is on the cusp of making the overwhelming majority of its journalists permanently dependent on subsidies provided directly by the federal government and indirectly by offshore tech companies directed to do so by the federal government through Bill C-18 – the *Online News Act*. While this may permit some of the legacy news organizations to continue to survive financially, this new connection to politicians is eroding public trust in both government and news organizations.

Key issues that must be addressed involve the restoration of the sanctity of the relationship between publishers and readers, independence, development of the intellectual skills required to manage the massive technological shift imposed by the Internet and the need to prioritize innovation.

The connections to and dependence upon offshore tech companies imposed by Bill C-18, unless based on realistic business arrangements, also risk distancing journalism in Canada from its core purpose – serving the market-based needs of citizens for trusted information that assists them in the organization of their lives and helps them expand their understanding of the world. How can a news media industry that depends upon the good graces of politicians and quasi-monopoly tech companies possibly be viewed by the public as capable of holding these powerful entities to task? And

what motivation would such an industry have to prioritize the needs of the public? In other words, are we comfortable entering a new era in which major media companies are increasingly capable of operating absent their traditional primary relationship with their viewers and readers? Will media, similar to the entertainment industry in Canada, come to view government as a primary stakeholder.

Trust is the social capital component that many consider vital for journalism to flourish within a liberal democracy. Yet as many studies have shown (Brin and Charlton 2022; Bricker 2021; Edmonds 2021), trust is already in decline. It is likely that these policies will only make matters worse. Given the perilous financial state of most traditional news organizations, further declines in trust can only lead to the need for more subsidy and, with that, less trust, and so on. This paper will examine major issues that have led to the decline of trust in Canadian journalism. In doing so, it will illustrate why a long-term national news media policy that encourages innovation and the growth of the more than 200 news media platforms launched in recent years is now not just necessary, but vital and urgent.

History

Poignantly, Canada's first news platforms were government-funded "gazettes" produced by independently-owned "King's Printers" in Halifax and Quebec City. Their primary role was to publish information such as proclamations, laws, and other regulations.

The American Revolution and the resulting population growth in Canada produced a burst of publishing activity, more printing presses, and a broadening of the information content. Most famously, the *Montreal Gazette* was founded by Fleury Mesplet, a Philadelphia printer who set up a French-language printing press in May 1776 in what at the time was American-occupied Montreal. Before that, there had been no newspapers in New France. After the American forces withdrew, Mesplet was arrested and jailed for attempting to convince Quebec to join the revolution in the colonies to the south. He was released on June 3, 1778, and launched the nation's first French newspaper, *La Gazette du commerce et literature pour la ville et district de Montreal*. Jailed again in 1779, he was released three years later due to a shortage of printers and in 1785 published the first edition of the bilingual *Montreal Gazette/La Gazette de Montréal.* Today, the *Gazette* is one of the oldest surviving papers in the country.

As literacy rates grew, so did the newspaper industry throughout the 19th century. Often papers were funded or controlled by political parties. As the nation grew and the west became settled following the construction of the railway, the circulation of newspapers swelled. Hundreds of weekly newspapers soon thrived in smaller communities as carriers of advertising and news information.

The number of daily newspapers reached its zenith in 1911 when 143 of them were in business. Virtually all of them derived 80 percent of their revenue from advertising, with the remaining 20 percent coming from subscriber and casual or "single copy" sales. This line of revenue in turn influenced a moderation in partisan content, although many titles maintained traditional ideological leanings. Decades of fierce competition followed. That, and restrictions on foreign ownership, led to consolidation within the industry and – despite continued population growth – a decline in the number of daily newspapers to 110 by 1986.

Concern about that consolidation led to the most significant public policy event of the 20th century for the industry – the Kent Commission, or Royal Commission on Newspapers (Canada, Privy Council Office 1981), under the guidance of Tom Kent, a public servant and former newspaper editor. The inquiry was inspired by the same-day closings of the *Ottawa Journal*, owned by Thomson, and the *Winnipeg Tribune*, which was part of the Southam chain. Those two companies accounted for the ownership of about 77 percent of the nation's dailies – up from 58 percent 10 years earlier when Senator Keith Davey had conducted a prior inquiry.

Kent did not like what he found, particularly regarding the Thomson organization and, rightly, predicted conglomerate ownership would increase in the decades ahead. He also made a number of recommendations that the industry denounced as radical and the government abandoned as unsellable.

Those recommendations included:

- A tax incentive for any newspaper spending more than the industry average on news and other editorial content.
- A surtax on papers spending less than the industry average on news and other editorial content.
- Measures to halt further concentration of ownership, including the banning of dual ownership of national and regionally-based newspapers.
- No cross-media ownership (i.e., television, radio, and newspapers).
- No monopoly ownerships within a province.
- The opening up of newspapers to public scrutiny.

Typical of the responses was that by Fred Hagel, editor of the two Irving dailies in Saint John: "It reads like a psychedelic dream" (Keshen and MacAskill 2000).

What few anticipated at the time was that within a generation, the industry would all fall apart. Among those few who may have foreseen the collapse were David Radler and Conrad Black, who purchased the Southam chain through Hollinger to add to their assets. They decentralized it, invested in its newsrooms, and then sold every major daily they owned plus more than 100 weeklies and shoppers (free advertising publications) to CanWest – Global Television's founding company – for $3.2 billion in 2000 (CBC News 2000).

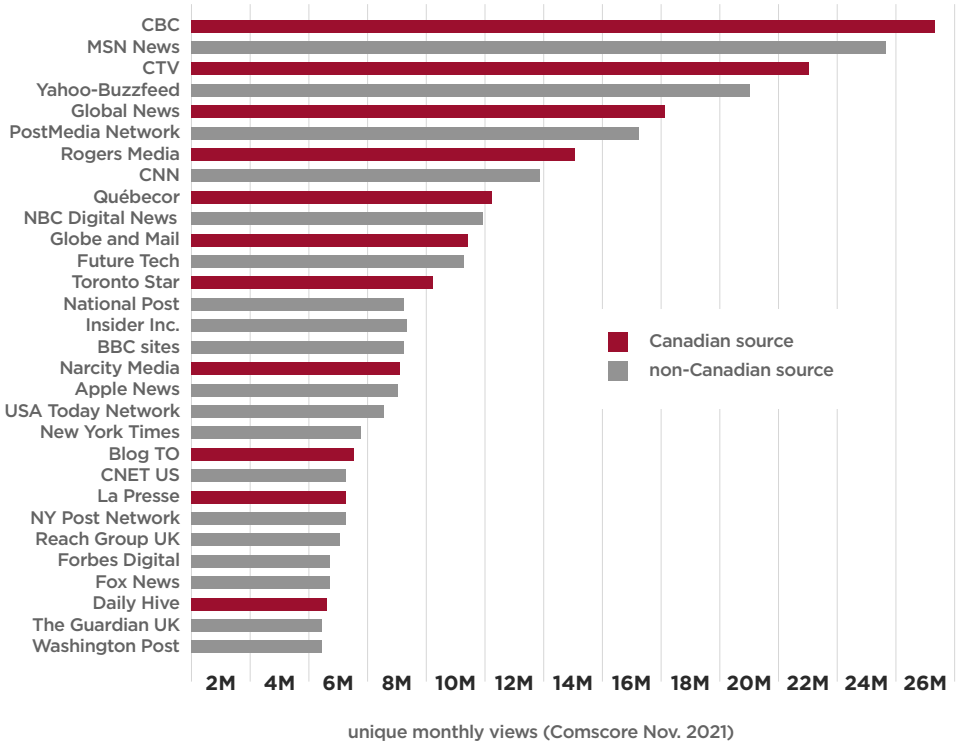
Less than 10 years later, with the Internet having created more engaging options for readers and advertisers, CanWest went into bankruptcy. Its broadcast assets were sold to Shaw and a new company, Postmedia, took over the newspapers. Postmedia then acquired Quebecor's Sun media assets in a deal approved by the Competition Bureau only because of the dire state of the industry. Torstar, which boasted Canada's largest circulation newspaper – the *Toronto Star* – as its jewel, was sold for a mere $60 million, money recouped easily by its buyers through the sale of non-newspaper assets (CBC News 2001). Most recently, Irving also sold its newspapers to Postmedia, which now owns about 90 percent of the nation's dailies (Financial Post 2022).

The Internet and the newspaper industry's inability to adapt to it are almost entirely to blame for this conflagration of what, for more than two centuries, was the core of Canada's news industry. Paid circulation collapsed because news was available not only via broadcast, but on demand on the Internet. No longer did a reader, for instance, have to check the paper or watch the evening news for such simple but necessary tasks as discovering the latest weather forecast.

Classified advertising evaporated because sites such as Kijiji and Craigslist offered more efficient and lower cost – even free – alternatives. Display advertising disappeared because retailers could sell directly through their own websites and consumers turned to social media for correspondence and amusement. Whereas it once cost $50 million for a printing press to get into the information distribution business, the development of the iPhone and similar technology essentially turned everyone into a publisher with their own press in their pocket.

Having survived the threats posed by the introduction of competition from radio in the 1920s and television in the 1950s, it was broadly assumed at the turn of the century that newspapers would survive the threat posed by the Internet as well. But they haven't. Thousands of jobs have disappeared from traditional newsrooms and legacy print media companies now rely upon government assistance to survive and, as Andrew Coyne predicted, they are begging for more (Coyne 2019).

FIGURE 1: WHERE CANADIANS CONSUME NEWS AND INFORMATION



Source: IQSS (2022).

Meanwhile, however, the Internet has given Canadians access to global sources of news (Figure 1), including prominent titles such as the *New York Times*, *Washington Post*, *Times of London*, *Guardian*, *Daily Telegraph*, *Le Monde,* and many more. And, within Canada, more than 100 new online-specific news platforms such as Village Media, Canadaland, Western Standard and Overstory have launched. These range from Rebel News, *Epoch Times,* and a newly resurgent Western Standard – popular with those on the right of the spectrum – to Rabble.ca, *Narwhal,* and *National Observer*, each of which leans heavily towards an activist left audience. Others, such as Blacklock's Reporter, have built relatively small but promising business models based on straight news without bylines accessible only via subscription. This suggests that diverse views, rather than being at risk from technological change, are proliferating on the Internet.

So, while the focus of government policy has been on supporting struggling traditional news organizations such as Postmedia and Torstar – and many would regret their collapse – it remains an open question whether their failure would equal the collapse of the news industry, let alone, as has been hyperbolically forecast by some, democracy itself. News would, after all, continue to be provided by broadcast-based organizations such as the

CBC/SRC, CTV, Global, and literally hundreds of local radio stations, almost all of which make their news freely available online through their websites. And there are those who would argue that the sooner the unworkable legacy business models cease functioning, the sooner there will be room in the market for entrepreneurial replacements.

In fact, according to the Local News Research Project's latest report (Lindgren and Corbett 2022), 468 outlets carrying news – newspapers, television, radio and websites – have closed since 2008, including 78 since the dawn of the pandemic in March 2020. But on the other hand, 207 local news outlets have opened over the same period. That includes 56 that opened since the beginning of the pandemic. As pointed out recently by Michael Geist (2022c), in the past 18 months there have been as many new startups as there have been closures (i.e., no net loss in news media).

Canadian context

Canada has a long tradition of building policy walls to prevent it from being overwhelmed by the cultural influence of its neighbour to the south. That has resulted in regulations restricting foreign ownership and activist regulation by the Canadian Radio-television and Telecommunications Commission (CRTC) to ensure that certain levels of Canadian content (which is heavily subsidized due to low domestic market demand) are carried by licensed broadcasters.

Canada is currently in the process – through Bill C-11 (*Online Streaming Act*) of defining the Internet as broadcasting and putting it within the jurisdiction of the CRTC, which will allow it to control citizens' viewing and listening choices as it does with cable, satellite, and over-the-air broadcasting. Bill C-18, as previously noted, intends to divert advertising revenue from Facebook and Google to legacy media and more legislation involving control of speech on the Internet has been promised through an *Online Harms Act* to patrol citizens' speech.

In the case of currently regulated media – radio and television – the CRTC enforces foreign ownership restrictions through its licensing process. In order to obtain a CRTC licence, a broadcaster must be more than 50 percent owned by Canadians and its board must be made up of a majority of Canadians. This has resulted in the vertical integration of companies. For instance, Bell is a provider of fixed and mobile telephone, wired and wireless Internet, terrestrial and satellite "cable," and is the nation's leading private broadcaster, including a network of radio stations. Indeed, according to statistics compiled

by the Canadian Media Concentration Research project (2020), the top five Canadian companies – Bell, Telus, Rogers, Shaw, and Quebecor – accounted for 72.5 percent of network media economy revenue.

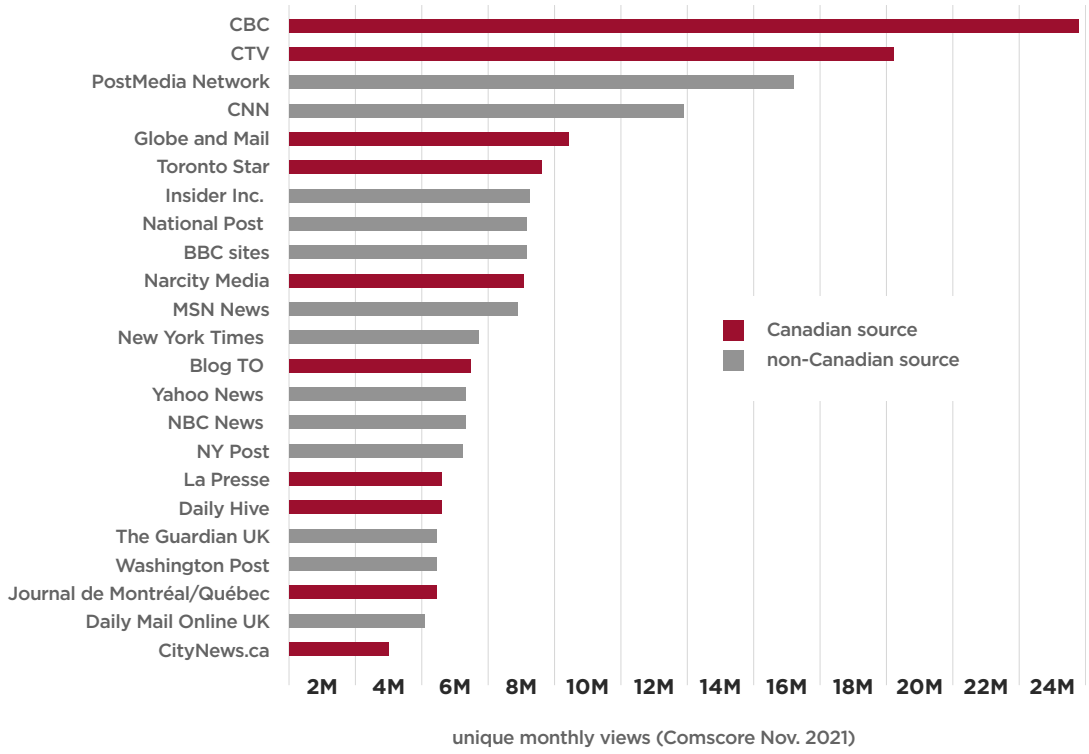
However, once Bill C-11 is passed (Canada 2021), the CRTC will consider companies such as Netflix and Disney+ part of the Canadian broadcasting system. As the main aim of the Act is to impose levies on these companies to make sure they fund programming approved by the Canada Media Fund, Canadian ownership requirements will obviously be evolving.

When it comes to newspapers, advertising placed in them could traditionally only be tax-deductible if that newspaper (or magazine) was more than 50 percent owned by Canadians. This has created perverse outcomes. As was pointed out by the *Globe and Mail*'s Eric Reguly (2021) more than 20 years ago, Canada's fear that foreign owners would fill the pages of Canadian newspapers with non-Canadian content restricted the pool of potential buyers of news operations. This, in turn, lowered their purchase price and led to unprecedented levels of consolidation. The example Reguly used is how, following its purchase of the Hollinger newspapers, Canwest wound up owning two television stations and both daily newspapers in Vancouver. This stands in contrast to other jurisdictions such as the United Kingdom where the focus is on pluralism in ownership and there are no restrictions on foreign ownership of traditional "print" news products (All Answers ltd 2022).

All that changed with the creation of Postmedia in the wake of CanWest's financial failure. Faced with the possible closure of the nation's largest newspaper chain, the Conservative government under Prime Minister Stephen Harper approved an ownership structure involving the backing of Golden Tree Asset Management, a US hedge fund. Postmedia, which currently controls close to 130 titles, is now 66 percent owned by the US company, Chatham Asset Management. Postmedia's nine-member board is composed of six Canadians and three Americans.

Postmedia is not short of critics, but the lack of Canadian content due to foreign ownership has not been raised as a concern. While it's clear that non-Canadians are no more inclined to fill the pages of the *Globe and Mail* or *La Presse* with foreign rather than domestic news, there is considerable evidence in the form of television ratings that Canadians prefer American news broadcast by American owners over Canadian news networks owned by Canadians. CNN and CNN Headline News regularly rate higher or equivalent to CBC News Network and CTV Newsnet when it comes to viewership of news specialty channels in Canada. While Canadian news content is more competitive with American products than Canadian entertainment content, it is unclear whether the difference in news viewership is due to content or quality in terms of presentation and production values.

FIGURE 2: WHERE CANADIANS CONSUME THE MOST DIGITAL NEWS



Source: IQSS (2022).

Canadians also enjoy foreign websites (Figure 2), although it is difficult to discern whether this is due to a decline in Canadian resources applied to foreign reporting or a preference for non-domestic media. It also remains possible that, at least in terms of the anglophone market, Canada is – as Prime Minister Justin Trudeau once described it – "a post-national state" and the CRTC and others are working to protect a culture that is no longer distinct, at least outside of Quebec. And it's also possible that the CRTC's rules are in reality designed to protect Canadian companies and jobs and that culture is a secondary but more politically sellable concern.

An issue particular to Canada is language. While most of the consolidation and other issues that dominate discussions on news media have been preoccupied with English-language media, French-language media still serves a large, important, and influential part of the population. When it comes to the development of public policies, this means that a one-size-fits-all approach is unlikely to succeed. American news channels, for instance, are not accessible to unilingual francophones, who constitute roughly 50 percent of the French-language market.

Wisely, the *Broadcasting Act* states quite clearly in Section 3(c) that "English and French language broadcasting, while sharing common aspects, operate under different conditions and may have different requirements" (Canada 1991). This gives the CRTC the flexibility required to be able to address what may be an issue for media in one language, without creating unintended or inappropriate consequences for media in the other language.

For instance, should for some reason CBC/Société Radio Canada discontinue broadcast television service – something that appears to be on the table should the Conservatives under Pierre Poilievre form government – the consequences are different in French than in English. For many years, Quebec has struggled to support a third francophone network and the assumption has been that without SRC, it would be left with only one television news channel (TVA), which is owned by Quebecor's Pierre-Karl Peladeau, a committed separatist. This, clearly, has been an issue unique to French-language broadcasting – albeit one that has been eased by the sale of V media to Bellmedia and the launch of Noovo (Noovo Undated).

> *French-language media still serves a large, important, and influential part of the population.*

In English Canada, the discontinuation of CBC television would be disruptive, but no one argues it would leave separatists in charge of the alternatives – Global News, CTV News, CP24, and others such as TVO and CPAC. Another good example is the existence within Bill C-11 of clauses permitting the CRTC to regulate user-generated content. This appears to exist solely at the request of the Quebec francophone music industry. Other stakeholders are either agnostic on the need for such a dangerous provision or strongly opposed to it.

By far the largest news producer in the country, CBC/SRC manages broadcast television in both English and French, specialty news channels in both languages, four terrestrial radio networks (CBC Radio One, CBC Music, Ici Radio-Canada, and ICI Musique), specialty channels Ici Explora, Documentary Channel, and Ici ARTV. It also serves Canada's North through CBC North and Radio Canada Nord and offers digital services through CBC.ca, Radio-Canada.ca, CBC Radio 3, CBC Musi, Ici.TOU.TV, and it owns 20.2 percent of satellite radio broadcaster Sirius XM Canada. Through all that, according to Harvard University's The Future of Media Project (IQSS 2022), CBC/SRC attracts

25,273,000 unique digital visits each month – more than the *Globe and Mail*, *National Post*, and *Toronto Star* combined, and 10 million more than the entire Postmedia network.

Not only is CBC/SRC the largest news media in the country, it is also the only one that receives $1.3 billion in annual federal funding due to its status as a national public broadcaster. In doing so, it not only has greater journalism resources than private sector news organizations, it also sells advertising on its television and online platforms (worth $253 million in 2021). This creates a significantly unique media industry dynamic in Canada. The largest player in the system is subsidized by the government while once independent private sector news media are struggling to survive and, in doing so, losing their independence by sliding into a subsidy regime.

Defining the problem

Large parts of Canada's news industry –primarily legacy newspapers – have been unable to adapt to technological change. In the case of print, the collapse of concentrated ownership led to even greater concentration of ownership, which has resulted in more than $200 million in annual public subsidies and tax credits. Some of these were initially intended as temporary measures to assist companies trying to transition into the digital age. But as companies fail to do so, these subsidies and credits are becoming permanent.

Despite the different nature of broadcast media, not even its regulator has been able to halt the consolidation of ownership. Just as with the demise of the role of newspaper publishers, local general managers have disappeared from broadcast television's corporate frameworks and vertical integration is widespread. Four of the five largest companies – Shaw, Rogers, Videotron, and Bell – have telephone, Internet, mobile, cable, online news, television, and radio assets. (Shaw has spun off Corus as a separate body and is attempting to divest itself of its mobile asset, Freedom, as a condition of its proposed takeover by Rogers.) With rare exceptions, local ownership of media has disappeared. Radio has the most diversity, with strong regional players, and many point to the CRTC's Common Ownership Policy as a factor, although that continues to be under pressure.

While the CRTC's ability to limit competition has protected its over-the-air, cable, and satellite licensees, it has not been able to hold back the impact of the Internet on broadcasters, for whom news has generally been supplementary

to their primary purpose, particularly since the advent of all-news networks While all-news broadcasters see journalism and commentary as a core product, many others see a news element existing only as a regulatory obligation. For both groups, the policy walls that once protected them from all outside forces (exceptions noted along the US border) have been breached. As such, while the Internet has created a world of unlimited choice and been a gift to consumers and hundreds of innovators, Canada's traditional news industry providers have suffered losses of audience engagement and advertising revenue.

In terms of public policy, the response from broadcasters has been supportive of legislation such as Bill C-11, which treats the Internet as if it were broadcasting and something the CRTC can manipulate and control. Most of the public debate on this contentious piece of legislation has focused on forcing subsidies from offshore streaming companies and manipulation of algorithms to make Canadian film and television content more "discoverable." But there's little doubt that some legacy Canadians news organizations would also eventually seek to have regulation force online entities to give their news content enhanced online visibility. Just as with entertainment content, the door is now open for them to get a regulator to give them visibility they are unable to attain through quality of content and market forces. Such treatment would likely come with some content strings attached (the CRTC has already shown in its Russia TV decision that it is willing to decommission entities of which it disapproves and that it has ways to get the outcomes it seeks through indirect means (Geist 2022b)).

Similarly, while it generally controls content through the Canadian Broadcast Standards Council, the CRTC showed in the recent "N-word" decision (Canada 2022) that it is comfortable taking an activist stance on control of speech. It is therefore to be expected that under Bill C-11, the CRTC would look to grant online preference to only those Canadian news platforms that are willing to abide by certain codes of conduct, which at the end of the day will be very similar to conditions of license.

Bill C-18, the *Online News Act*, is designed to force "web giants" such as Facebook and Google to subsidize designated Canadian news providers by putting a price on linkage. While there are numerous issues with this plan, it is worth noting that it was initially developed and proposed to government by the newspaper industry. Only as the structure of the legislation became obvious did broadcasters seek to be included as well. Their addition as beneficiaries ensures that legacy "print" news providers will continue to compete for engagement and financial reward on an industrial playing field deeply tilted by government subsidy in favour of the CBC which stands to benefit the most financially from Bill C-18 (Geist 2022).

Summary

The advent of the Internet has made it the primary vehicle for the delivery of news. To all intents and purposes, there soon will no longer be such entities as the magazine industry, the newspaper industry, the television industry, or the radio industry when it comes to the delivery of news outside the scope of the Internet. Yet most public policy efforts regarding news remain structured as if this were not the case. For instance:

- The CRTC mandates the collection and presentation of news for virtually all radio and over-the-air television licensees based on an assumption it is managing use of a scarce resource – spectrum. The Internet is an infinite resource.
- The government subsidizes the CBC/SRC as if it were a public broadcaster when it is a *de facto* commercial operator. Even its radio broadcasts, which are not licensed to carry advertising, do so when accessed or repurposed online. The outcome is that the largest player in the system is heavily subsidized to the detriment of other players in the market.
- The government's response so far has been to, essentially, subsidize the failing legacy components of the industry – and CBC – through tax credits, direct subsidies such as the Local Journalism Initiative, and by forced redistribution of wealth earned by successful online entities. In order to qualify for these subsidies, news organizations must be approved by government appointed panels. In doing so, it is removing incentives for innovation, independence, and adaptation.
- The entire news industry in Canada is poised to become dependent on government subsidies and there is no plan to return it to independence.
- While the desire for accurate news remains, trust in news providers is at an all-time low. Creating a dependency upon government will further erode this.

A call to action

What is apparent is that while technology has profoundly disrupted 20th century news delivery systems, all current measures are reactionary or based on assumptions that are no longer valid. Making matters worse, each appears to be oblivious to the impact that it has on the others. The CRTC, for instance, is creating an artificial oversupply of news products by forcing many broadcasters to employ reporters and dedicate airtime to news, as if their local radio station is the sole possible vehicle through which people may obtain the information they seek. Despite clearly not being the case for close to 20 years in all urban markets, or even rural markets with Internet access, this practice continues. While perhaps serving the CRTC's interpretation of its own public policy obligations, it is unclear that an oversupply of news – provided at no out-of-pocket cost to the consumer – is helpful to those trying to build the audiences required to successfully operate an independent, subscription/advertising-based news operation.

The increasingly problematic structure of the CBC continues to have a perverse impact on the news industry ecosystem. The CBC operates what is by far the most accessed online news organization in the country. And it does so with a $1.3 billion annual subsidy from the federal government. This allows it to aggregate content from its licensed broadcasting operations and supplement it with web-based reporting, which in turn can be accessed to support its broadcasting operations. Through that, the CBC has to all intents and purposes extended its broadcasting mandate to become an online "newspaper" – one that is available at no cost to consumers.

This is clearly to the detriment of the hundreds of online "newspapers" – both those that have launched in recent years and those longstanding companies trying to transition from print to digital. Broadcasters have for decades complained of the inherent unfairness of having their own tax dollars used, albeit indirectly, to subsidize what for them is a competitor for viewers and advertisers. Yet that perversion of the market now extends to the online world to which legacy organizations such as newspapers say they are seeking to adapt. Further, the subsidy allows the CBC to establish advertising rates many argue are below market value and give news away free – an act only made possible via subsidy. Meanwhile, the *Globe and Mail*, *Toronto Star*, Postmedia, and others strive to establish subscriber bases to support their work.

And yet the federal government continues to promise to increase the CBC subsidy, which will further distort the market at the expense of private enterprise. It appears oblivious to the impact that its own actions are having on the overall health of the news industry and the "newspaper" industry in particular. Indeed,

the government's response to the distress and disruption caused by technological change and its own ongoing actions has been to introduce a subsidy in the form of a labour tax credit for approved news organizations. To do this, it put in place a panel that decides what news media qualify – a move that no matter how delicately managed puts the government in charge of determining the social value of one media organization over another.

> *The concession by news organizations to be subject to government approval helped pave the way for Bill C-18.*

Reflective of the general unease felt by all parties involved in this, the credits were initially intended to be provided for a five-year period that would allow legacy media to transition to digital realities. Not surprisingly, the program is now poised to become permanent. An additional $10 million annual subsidy was provided through the Local Journalism Initiative, which pays the wages of reporters assigned to beats approved by another panel. That, too, is likely to become permanent, as in October it was announced that an additional $10 million would be added in 2022-23 and that $40 million would be added to the Canada Periodicals fund over the next three years (Canadian Heritage 2022). Among those approved for 2022 is a reporter for *National Observer*, whose job it is to report on the activities undertaken in British Columbia by the federal government that is, in turn, paying that reporter's wages. Not so long ago this would have been considered a significant conflict of interest and there are many people who still see it that way.

All of this is conducted in a manner that is apparently oblivious to the impact on the public's trust in its news media which, according to the most recent survey by Edelman (2022), is at a record low. Subsidized media continue to insist that independence is not at risk. But conflicts of interest are not matters to be determined by those involved in problematic associations – they are decided by those observing them. About this, too, many media appear determined to remain heedless.

The concession by news organizations to be subject to government approval helped pave the way for Bill C-18 (the *Online News Act*), which seeks to redirect revenue earned from offshore online companies that have been successful at attracting eyeballs and revenue to those news organizations in Canada that have struggled to do the same. While the economic merits of this are unproven, the legislation itself continues to perpetuate an already dysfunctional market.

The concept behind Bill C-18 – to recover revenue from companies such as Facebook and Google – was first developed by the "newspaper" industry as a financial lifeline, which is essentially a bailout. Yet since news media are fundamentally online businesses, large and profitable companies such as Bellmedia are now also designated beneficiaries. Most notably, the largest beneficiary of this legislation will be the CBC, which will give the CRTC oversight over how news organizations use the money earned (a remarkable concession by news organizations).

As such, legislation initially designed to salvage one segment of the industry will perpetuate a market already distorted by government funding. Indeed, while the Parliamentary Budget Officer has predicted that the legislation could produce a pool of as much as $329 million to be divided between Canadian news organizations, once broadcasters take their share, the amount available for "newspapers" will fall far short of meeting what Postmedia's Jamie Irving described as a $500 million revenue shortfall for his industry (Blacklock's Reporter 2022).

Indeed, data posted by the PBO indicates that the overwhelming amount of funds likely to be generated by the *Online News Act* – $247,646,948 of the total $329,227742 – will go to broadcasters such as Bell, Rogers, CBC and Corus (PBO 2022). None of these companies are in financial difficulty. But the hundreds of ones that are under financial pressure and that provide the local news the authors of Bill C-18 say they are trying to save will be left with a mere $81,550,794 to divide among themselves and large companies such as Postmedia and Torstar. Bill C-18, in other words, isn't going to come close to closing the $500 million gap Irving said the industry needs and will only serve to cement an already distorted news market.

The willingness, to say nothing of the eagerness, with which these dependencies have been embraced constitutes a swift reversal in principles. It was only on February 6, 2016, that Terence Corcoran of the *National Post* wrote:

> The first battles against government control were fought centuries ago in England over Licencing of the Press laws and other variations on measures that limited press freedom. The fight was waged by the likes of John Milton, John Locke and John Stuart Mill. The result became known as the libertarian theory of the press. In Four Theories of the Press, a classic 1950s book once on reading lists in journalism schools, Fredrick Siebert summarized the theory. "Let all with something to say be free to express themselves. The true and sound will survive. The false and unsound will be vanquished. Government should keep out of the battle and not weigh the odds in favour of one side or the other." (Corcoran 2016)

Nothing about current policies speaks to fostering an atmosphere within which the "true and sound" can thrive. Indeed, government initiatives that promote innovation are notably absent. What is required to manage change is invention and entrepreneurship, but the government and the CRTC appear focused on preserving what is left of failed structures designed for the 20th century. This is at the expense of the more than 200 new platforms that have launched and seek to commit to journalism online.

As Meta noted in its response to a review of the Australian legislation, upon which Bill C-18 is modelled:

> The law does not solve the longstanding digital transformation challenges facing the news industry. It actually undermines – not supports – its purported public policy goals of supporting the long-term viability of journalism in Australia. (Meta 2022, 3)

Noting a bias favouring legacy media, Meta is of the view this "comes at the expense of smaller and potentially more innovative news publishers, including publishers that may become competitors to these larger players" (Meta 2022, 3).

Or, as the Internet Society Canada Chapter noted in its submission on Bill C-18:

> The basic concept of C-18 is flawed. It uses the power of statute to run an extortion scheme that seeks to preserve a legacy business model whose economic rationale has been overtaken by new and more effective means of disseminating information to the public…
>
> C-18 betrays a complete lack of understanding of the Internet and the functions of news intermediary platforms. (Internet Society Canada Chapter 2022, 17, 18)

Meta has also notified American publishers (Fischer 2022) that it will be bringing some of its commercial arrangements there to an end and made it very clear that without significant amendments to Bill C-18 it may no longer permit linkage to news content in Canada (Karadeglija 2022).

Should that become reality, there will be no Golden Goose to deliver golden eggs to those aspiring to benefit from Bill C-18.

Conclusion

So long as government appears prepared to sustain legacy news operations through subsidy and dependence on offshore tech company revenue, there will be less room in the market for the revitalization it needs. So, while Postmedia newspapers in Calgary, Edmonton, Saskatoon, and Regina are subsidized, none of them have their own reporters in the Parliamentary Press Gallery. Yet Western Standard, which refuses to be dependent on government, does have a reporter in the Parliamentary Press Gallery. Similarly, Blacklock's Reporter, which has built an independent subscription-based reporting service in Ottawa, must compete against subsidized competition. The same can be said of *The Line*, which focuses on commentary and prefers to be independent. Those are just three examples.

This is not good public policy. As Coyne, now at the *Globe and Mail* and one of the very few commentators willing (and permitted) to tackle these matters, wrote in the *National Post* in 2018: "Perhaps some news organizations will refuse the government lolly. They will find themselves at a substantial competitive disadvantage to those who don't" (Coyne 2018). With the exceptions noted, the entire industry is poised to become – oxymoronically – structured in the same way as the CBC, as publicly funded commercial operations dependent for their survival on maintaining the good graces of politicians and the profits of offshore tech companies.

Instead, the government – and those who aspire to govern – must develop and implement a national media strategy focused on the following:

- That citizens have access to information vital to being accurately informed on current events and that assist them with the organization of their lives.
- Emphasizes the need for pluralism of ownership.
- Sustains journalism that provides information to the public in a manner that halts and reverses declines in public trust.
- Recognizes that public trust in both government and news media can only be sustained and flourish if the journalism industry is independent from government funding or approval of legal content.
- Accepts that some organizations incapable of transitioning to the digital age will fail.
- Fosters a market-based news industry based on meeting the needs and expectations of citizens.
- Inspires and supports the innovation and entrepreneurship required for the industry to move into a new era of digital news delivery.

About the author

Peter Menzies is a Senior Fellow with the Macdonald-Laurier Institute and spent close to 10 years as a member of the Canadian Radio-television and Telecommunications Commission including terms as a part-time Commissioner, regional Commissioner for Alberta and the Northwest Territories and as vice-chair of Telecommunications. Prior to that he had a long career in the newspaper industry, most significantly at the *Calgary Herald* where he served as editorial page editor, editor-in-chief, and publisher. He is a National Newspaper Award winner and Association of Opinion Page Editors award winner. He is a frequent writer of commentary and is published regularly in the *Globe and Mail*, *Toronto Star*, *National Post*, *The Line*, *Epoch Times*, *The Hub*, *Troy Media*, *The Hill Times*, Cartt.ca and numerous other publications.

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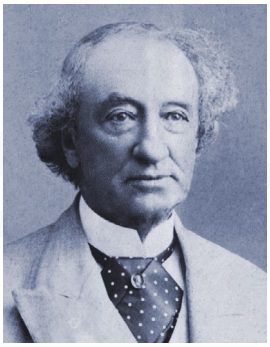

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