

88th Annual General Meeting of the Canadian Business Press – June 4th 2007

**Guest Speaker: Scott Shortliffe, Director
Periodical Publishing Policy and Programs, Department of Canadian Heritage**

I'd like to take a few minutes to talk about the overall concerns in Ottawa regarding grants and contributions programs in general and then address items of specific interest to publishers. The Government has key priorities affecting how we approach grants and contribution programs that provide support to Canadians.

The first is "accountability." Each department now has a controller general and there is greater authority for the financial officers within our departments to question the recommendations of program and senior officers.

The second concerns "managed risk." A blue ribbon panel reported directly to the Prime Minister that applicants should have quicker access to funding with less paperwork, particularly for smaller dollar amounts, while adhering to a strict set of standards. Right now, an applicant for a \$20,000 grant is completing the same paperwork as one who is requesting \$300,000. I am hopeful that this initiative will result in less paperwork for many applications from publishers.

The third theme revolves around the concept of "value for money." The Treasury Board is not a rubber stamp agency and all departments' recommendations are now reviewed to ensure that there is a benefit for Canadians and a solid reason for the Government to spend taxpayer dollars on each and every program.

This is the climate in which government departments operate today.

Last year at this meeting, our great concern was that Canada Post had announced its intention to drop its funding of the Publications Assistance Program (PAP). When I met with the CBP Board in Edmonton last September, I told members that my Department was looking at many options to address the probability that PAP would lose \$15 million in funding in 2007.

We worked very hard on those options last summer and fall. It was not fun as there was simply no way to take a quarter of the money out of a program like PAP and not have to make brutally difficult choices. You have to eliminate publications from the program or spread the pain over all participating periodicals. Last September, I also said that the Government of Canada could decide to order Canada Post to continue its funding of PAP; though at the time I thought it was a remote possibility.

However, the Government did direct Canada Post to continue funding PAP for 2007 and 2008. It was the first time the Government of Canada had issued an order of this nature to Canada Post. In fact, the Government has had the authority to issue such orders to crown corporations for 40 years, but before this occasion had only invoked that power four times. It was an exceptional move by the Government and focused a great deal of attention on PAP. I must say that the lobbying and information sessions conducted by groups such as Canadian Business Press, Magazines Canada and other associations is what really made the difference in bringing Government around to see that this was something that had to be done.

The order was issued to Canada Post and spanned two years. Canadian Heritage was given breathing room and instructed to “fix the problem” before 2009. The government’s main focus in allowing the two-year window was to say, “Look, there was a PAP crisis in 2001, 2003 and 2005 and this is the end of 2006. Could we please have a program where there isn’t a crisis every 18 months or two years. You guys think about it, then come back to us with a long-term solution.”

So that’s what we are engaged in doing right now. I had hoped that I would come to this meeting with a proposal and say: “Looking at the various issues we’ve had in terms of budgets and long-term sustainability for programs, this is what we propose to do,” and then have you react to it. It would be saying: “Here’s a mousetrap, but if you guys can build a better one, fine.”

For a variety of reasons having to do with reporting departments and approval processes within the Government, we weren’t able to do that and we are now looking to roll out a plan in the fall. Although we cannot present anything to you formally for you to react to, this doesn’t mean you cannot talk to us and present your ideas as we are more than willing to listen.

We can talk about the future of PAP and the Canada Magazine Fund (CMF), who we fund and our public policy. All of that can be put on the table. Should we keep on funding using essentially the same systems? Should we merge the programs? Should we look at something radically different like a tax credit? Should we re-examine who is funded or not, and why? Should we move aggressively to support new media? All of these things we can put on the table and discuss.

While we have ideas, we have nothing locked down yet. One reason is that we are realizing that the periodical publishing industry is enormously complicated. The business model of request circulation magazines, as Phil [*Boyd, President of CBP,*] has convincingly demonstrated over the past six years, is not identical to the business model of a paid circulation or controlled circulation magazine, or a low frequency low circulation newspaper or a high frequency newspaper . . . it’s a complex business. As a result, anything we propose may have adverse unintended consequences for a particular sector of the industry.

We could propose something that looks workable to us on paper, but as we start discussing it with people in the periodical industry we realize, "Oh my, this will seriously hurt magazines we have no intention of hurting. This will force other magazines to take their business model in ways we do not want to force them to go. Therefore, we need to consult this fall. I hope you will have an ongoing dialogue over the summer and leading into the fall. My colleagues and I will be more than happy to discuss ideas and concepts with Canadian Business Press or individually.

Once we start moving forward we want to make an announcement quickly. We are very cognizant of the fact that we can't announce something on March 31st 2008 and say this is the new system and ask you to adapt your business model in 24 hours. We want to make an announcement as early as possible in 2008. Precisely when will depend on how things go over the summer and fall, as we also need time for each level of management within Canadian Heritage to review the proposal before it is submitted to Treasury Board.

I would like to take a few minutes to update you on the NAFTA ruling on a long-standing complaint by United Parcel Service concerning Canada Post. The major part of the complaint had to do with the treatment of packages crossing the border, but also focused on Canada Post's right to exclusive delivery of PAP-funded periodicals which UPS claims breaks the favoured nations clause of the NAFTA agreement. This case has been going on for years. Roughly two weeks ago, we heard there would be a ruling in a few weeks, but it appears this isn't going to happen.

We will not have advance notice, but when the NAFTA tribunal announces its ruling we are very hopeful that it will be favourable to Canada and we will not owe anything. We present a very strong case. However, in the event that the tribunal rules against PAP, unlike the World Trade Organization, the NAFTA tribunal cannot order the Government of Canada to change any of its processes. They can impose a financial penalty. If we lose, the penalty would take a minimum of a year or two to determine. We are anticipating a decision very soon and we will immediately communicate the result to CBP.

I would like to emphasize that if Canada does lose the case it does not mean any Canadian Heritage program will be shut down or changed, and it doesn't even mean that there will be any financial impact. *(Note: since this presentation, the NAFTA tribunal ruled in favour of Canada).*

The last point I would like to make is to say that over the past six years you couldn't have asked for a better representative than Phil Boyd. He has met with me, my superiors and many of my colleagues. We have not always been in agreement, but we have always had honest and forthright exchanges of our points of view and, speaking for myself and my colleagues, it has always been a real pleasure to do business with Canadian Business Press and Phil Boyd. We will miss him. Thank you very much.

Chair Creighton thanked Shortliffe and opened the floor to questions.

Boyd: In your presentation, Scott, you mention tax credits. Is this discussion going on within the department, is it external, is it related to PAP and CMF?

Shortliffe: Right now within the department and externally we are literally putting everything on the table. We have not advanced with any idea or gone to the Department of Finance to ask if they would support a tax credit. But, nothing has been taken off the table. I mention a tax credit not because it's under active consideration, but as an example of something completely different. If a tax credit were to be adopted to replace PAP and the CMF, it would raise serious issues. For one thing, DCH funds a lot of not for profit magazines; *Canadian Geographic*, *Beaver*, most religious presses, *Walrus*; and that poses a public policy challenge. However, we wouldn't remove tax credits from the table for that reason. We could end up with a tax credit for some publications and a grants and contributions program for others. We really are open to everything at this point. Internally we are very much at the stage of debating different ideas, pros and cons and possibilities.

Creighton: On that same vein. You've said that everything is on the table; that we can come and talk with you about a variety of different ideas, but you prefaced your comments by saying that it is based on the universe of money available to PAP and CMF. In terms of the thoughts and ideas that people may have and the potential redistribution of that money, is it limited to that which will be available in 2009?

Shortliffe: That is absolutely correct and thank you, this is very important. We are predicating this on the Government of Canada currently spending a certain amount of money on magazine programs. When Canada Post withdraws its funding in 2009, if we wish to seek the same amount of funding we have to go back to the budget process. Having said that, there has been no decision by the government to spend less, so we're currently proceeding on the premise that right now the government of Canada spends 74.4 million on magazines and that is what we should see as the maximum possible future spending. Frankly, I think the idea of spending more is extraordinarily lofty. This government has been very consistent in saying that it has new spending priorities and it is unlikely that more money will be allocated to the cultural industries. Even if someone came forward with a brilliant program that would cost \$300 million, it's not going to happen.

Creighton: If there is a review of our programs and the funding that is involved, is there a corresponding review of funding for cultural programs of a similar nature; for example broadcast industries, television, radio, movie production? Are they in the same situation or is it just the periodical publishing industry?

Shortliffe: There is more of a focus on periodicals because of the CMF funding crisis, but I can say that several of the other cultural industries are undergoing review processes of a similar nature and have similar questions posed to them. Ours is a little more on the clock for April 2009 as we have to have something in place by then. However, as I said earlier, with the value for money focus, the Government is asking questions of all these industries, broadcast, film, new media, etc.; are all facing similar questions. Ours is getting a little more structured because of the clock we are on, but we are being looked at as a suite of cultural industries.

Creighton: Is it fair to say that because you report in to the Director General who oversees broadcast and periodical publishing, we are in the same bucket for review versus other Directors General who have other cultural responsibilities?

Shortliffe: My Director General doesn't cover broadcasting; he is responsible for the video, sound and the music industry; but frankly, there are discussions between various Directors General in terms of what is being reviewed and what monies are being reviewed in a more general approach across cultural industries.

Atkins: Is there a review of the Canadian ownership and control provisions and is there a difference in how you apply them?

Shortliffe: We haven't started a specific review of ownership and control rules, but it is one of the issues that we wish to tackle in the coming months; just one on our long list of issues. There is also the cultural sector investment review office, a department of Industry Canada, which is responsible for the Investment Canada Act. DCH is responsible for a small part of the act and any decisions by Industry Canada would affect our department's cultural investment policies as well. But very honestly I don't know the detail of where that process is at, just that there are discussions going on at Industry Canada.

McClung: Would you say by the first quarter of 2008 is when you would need our opinions and thoughts from CBP? Is that the timeline?

Shortliffe: I don't want to commit to a specific timeline because part of this is going to depend on when we can come to you with a document for you to respond to. Having said that, between now and whenever we get that document out, any conversations we have in the meantime may influence what that document looks like. I guess the short version is don't necessarily wait for us. If you have ideas and they're not fully sculpted or thought out, I still encourage you to share them with us because if we wait for perfection in this process we will run out of time.

Thank you.