REVIEWED BY MARC EDGE

Starving Canadian media giants — a case of real fake news

THE TANGLED GARDEN: A CANADIAN CULTURAL MANIFESTO FOR THE DIGITAL AGE

RICHARD STURSBERG (WITH STEPHEN ARMSTRONG)

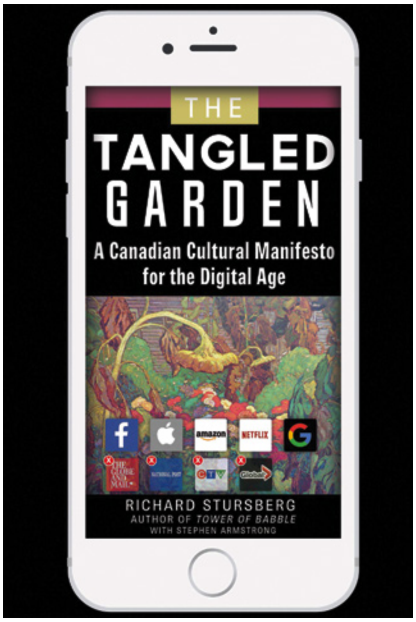
James Lorimer & Co., April 2019, $24.95

WHEN U.S. TELEVISION stations set up transmitters just across the border in the 1970s to beam their signals into Canadian homes, and then began selling ads here, it started a trade war that lasted a dozen years. To keep the ad dollars at home, Ottawa passed a law that disallowed as an income tax deduction the expense of advertising on a foreign station. The U.S. retaliated by declaring non-deductible the expense of attending conventions in Canada, which put a serious crimp in our hospitality industry. The dispute was only settled with the 1988 Canada–U.S. Free Trade Agreement.

History is now repeating itself, as many in Canada want to extend our treatment of broadcast advertising to digital media, to stem the flow of ad dollars to foreign giants like Google and Facebook, which have been siphoning off revenue from newspapers and television networks worldwide. These same voices also advocate taxing foreign streaming services like Facebook, Amazon, Apple, Netflix, and Google (the FAANGs) and forcing them to both transmit and fund Canadian content. The billions of dollars available to be clawed back from the foreign digital giants, they argue, would help finance government subsidies to Canadian media, such as the $595 million promised in the 2019 budget to boost journalism.

Richard Stursberg is one of those voices, and he sets out this argument simply enough for the average Canadian to understand in his new book, *The Tangled Garden*. In doing so, however, he plays fast and loose with the facts and inflates the threat to Canadian media of the foreign digital giants. Stursberg notes that these U.S. companies have so far avoided paying tax in Canada on their services to Canadians due to Ottawa's reluctance to regulate the internet as it has broadcasting. (The FAANGs presumably pay income tax in their own countries, however, which in the case of Facebook is very low in Ireland.) That will soon change if Stursberg has anything to say about it.

As a consultant, Stursberg seems to specialize in coming up with ways for Big Media in Canada to wheedle money out of Ottawa. For this he was no doubt prepared by his 25 years in Canadian broadcasting, including six years as head of the CBC's English services. His book tells how he was hired by Rogers, our second-largest media company after Bell, to write a "paper" a few years ago that floated the idea of using tax credits to aid our country's supposedly ailing media companies — a direct subsidy without the need for any application process. "If the costs qualified," notes Stursberg, "the payment was automatic."



That got the attention of Paul Godfrey, at the time CEO of Postmedia Network, Canada's largest newspaper chain. (Postmedia publishes 15 of our 22 largest dailies but is somehow 98% owned by U.S. hedge funds.) Godfrey liked Stursberg's idea about tax credits so much that he invited him to dinner with Postmedia's board. Together with the likes of David Pecker, then publisher of the *National Inquirer*, who represented the American vulture capitalists, they decided to pitch the idea to other newspaper publishers and "finance a study on how tax credits might work for them." In this effort Stursberg enlisted the aid of "media economics expert" Stephen Armstrong, a long-time Ontario civil servant who is also now a consultant.

Stursberg tells a fascinating tale about how our news media ended up with the $595 million they are currently deciding how to divvy up. At the height of their disagreement over how the money should be paid out, he recalls that one publisher told him: "At the end of the day, if the money has to be delivered in a brown paper bag late on Sunday nights in the alley, we'll take it." But a few hundred million is chump change in Canada's cultural economy, which Stursberg estimates is worth $54 billion and employs 650,000. The big bailout bucks will of course go to television because it's the backbone of Canadian culture.

The Tangled Garden is an unabashed exhortation for the "sleepy" Liberal government (a word Stursberg actually uses in a chapter title) to fire up the tax collection machine to pump more money into Cancon. He counts up all the dollars that would flow back to Ottawa and Canadian media companies by taxing the FAANGs and it comes to billions annually. Making them pay (and charge) HST on their sales to Canadians would bring in $100 million a year just for starters.

But making digital ads on foreign digital media not tax-deductible should repatriate about $1.3 billion in revenues to domestic media annually. Taxes on ads that don't migrate back north (to Canadian firms) would run an estimated $590 million a year. Making Netflix and other foreign streaming services contribute 30% of their Canadian revenues to fund Cancon, as the national networks are required to do, would bring in an estimated $438 million next year alone. Stursberg does a very good job of shaking money from trees. No wonder Godfrey likes him.

Aside from the wisdom of trying to repatriate tax and ad revenues from the U.S., with a trade hawk like Donald Trump in the White House, the only problem with Stursberg's argument is its premise. "If the federal government does not wake from its torpor, the major Canadian media companies are likely to collapse," he warns. "If this happens, English Canada will be effectively annexed by the United States."

Stursberg claims that big media companies in Canada have suffered "losses as far as the eye can see" due to declining ad sales. Their financial failure would bring about "the utter collapse of Canadian culture," he colourfully predicts, leaving us with the "arid and lifeless landscape of an abandoned culture." The closure of Postmedia, which he claims has lost money every year since 2011, "would mean that there would no longer be any local papers in many of Canada's largest cities." It and Torstar, Canada's second-largest newspaper chain, are losing at least $35 million a year, he claims.

This is so much nonsense, to use a polite word. It is the Big Lie of Canadian media.

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The big media companies in Canada are corpulent cash cows that grow fatter by the year, as a glance at the financial statements posted by law on their websites will confirm. Bell made $9.5 billion in profit last year (earnings before interest, taxes, depreciation and amortization) on revenues of $23.5 billion, for a profit margin of 40%. Its media division, which includes the CTV network, made $693 million on revenues of $2.68 billion, which were up slightly from 2017. That's a profit margin of 26%. (Bell made 42.5% profit margin on its $12.4 billion in landline revenues last year and 42.6% on its $8.4 billion in cell phone revenues.)

Rogers made $6 billion in profit last year, up 9% from 2017, on revenues of $15.1 billion, for a profit margin of almost 40%. Its media division, which includes the Citytv network, made a profit of $196 million last year, up by more than half from 2017, on revenues of $2.2 billion, for a profit margin of 9%. (Rogers made almost 48% on its $3.9 billion in cable revenues last year and almost 45% on its $7.1 billion in cell phone revenues.) Making money at that rate, Rogers can afford to hire a lot more media consultants like Stursberg to sing the blues for them. Come to think of it, a small share of its lush cable revenues, which come largely from monopoly internet service provision, would go a long way toward funding Cancon, but that's the last thing Rogers wants to hear.

Even the newspaper companies are hardly losing money, as my research has shown. While their revenues have gone down precipitously in recent years, they have been able to keep their heads well above water through painful cost cutting, which is admittedly not good for Canadian journalism. Postmedia made $65.4 million in profit last year, up 18% from 2017, on revenues of $676 million, for a profit margin of 9.7%. Of that amount, however, more than $25 million went to paying down its massive debt, which is held mostly by its hedge fund owners. They kept it on the company's books strategically as an income source after acquiring the former Southam newspaper chain for pennies on the dollar out of the 2010 bankruptcy of Canwest Global Communications.

Even if Postmedia went bankrupt due to debt, however, its profitable dailies would continue to publish under new ownership. You don't just close down a business that makes $65 million a year. Torstar made $60.7 million in profit last year on revenues of $615 million, for a profit margin of 9.8%. Its profits went down $13.5 million from 2017, however, perhaps due to the estimated $20 million Torstar spent in developing its failed tablet app.

The chains regularly report enormous net losses, but these are only achieved after deducting huge "paper" losses that estimate the reduced value of their businesses. Postmedia is often cited as losing $352 million in its 2015-16 fiscal year, but that was only after deducting $367 million in asset impairment and the extraordinary $42 million expense of severing staff. On an operating basis, it actually earned $82 million that year, of which $72 million went to paying down its debt.

One thing you won't find referenced in *The Tangled Garden* is critical research done by real media economists, such as Dwayne Winseck of Carleton University, whose Canadian Media Concentration Research Project tracks the ever-increasing consolidation of our media and the enormous profits they make. When you examine the facts and ignore the corporate propaganda, Stursberg's garden turns out to be not just tangled, but overgrown with weeds.