Driving Marketing Success

4 August 2017

Standing Committee on Finance
House of Commons
Ottawa
K1A 0A6

Re: 2018 Pre-Budget Submission

The Association of Canadian Advertisers (ACA) appreciates this opportunity to provide its comments to the Commons Standing Committee on Finance relative to potential federal measures to help Canadians and Canadian businesses be more productive.

ACA, a national not-for-profit organization, is the only professional trade association solely dedicated to representing the interests of client companies that market and advertise their products and services in Canada. Our members, over 200 companies and divisions, represent a wide range of industry sectors, including manufacturing, food and beverage, retailing, packaged goods, financial services and communications. They are the top advertisers in Canada, with collective annual sales of more than $300 billion.

I. Advertising, critical to fuelling Canada's economic engine

Consumer spending greatly determines the future of a nation's economy and advertising informs and motivates people to spend more. By encouraging more buying, advertising promotes both job growth and productivity growth to help meet increased demand and enable each consumer to have more to spend.

Advertising is critical to a healthy and robust Canadian media establishment and is one of the primary resources sustaining the Canadian broadcasting system. Advertising is a consistent source of funding for the programs and journalism that inform, entertain, employ and educate Canadians. Net advertising media spend in Canada was estimated at $14.08 billion in 2015.[1] Additionally, Canadian sponsorship industry spend was estimated to be $1.98 billion in 2017.[2] However, this only represents a small portion of advertising's overall impact on the economy. A Deloitte study recently pegged the GDP multiplier effect of advertising in Canada at 6.37, registering the impact of advertising, excluding sponsorship spending, at almost $90 billion.[3]

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[1] CMDC Media Digest 2016/17
[2] 11th Annual Canadian Sponsorship Landscape Study, Interim Report, 2017
[3] The Economic Contribution of Advertising in Europe: A Report for the World Federation of Advertiser, January, 2017

II. Advertising Under Attack

Canada's advertising industry, and by extension the performance and productivity of the Canadian economy and all Canadians, is under assault by the federal government's own policy agenda on at least three fronts, specifically by way of: proposed restrictions on food and beverage advertising and sponsorship; new taxes on digital media; and, threats to the simultaneous substitution regime.

1. Proposed Restrictions on Food and Beverage Advertising and Sponsorship

Senate Bill S-228 and regulatory amendments to the Food and Drugs Act being pursued by Health Canada threaten to severely limit Canadian companies' right to legally and responsibly market their products, including advertising. Measures prescribed by both Bill S-228 and Health Canada threaten to expand the definition of what age constitutes a child from the current 12 to all individuals under 17; give the government the unilateral power to categorize foods such as cheese and maple syrup as "unhealthy"; and undermine a parent's right and responsibility to raise their children as they see fit.

These measures will mean a certain end to corporate sponsorship of such things as kids' sports leagues, including Timbits Minor Sports Programs, benevolent community support for long-standing institutions such as Ronald McDonald Houses across the country and Kraft Hockeyville community competitions, and partnerships with icons of our Canadian identity, such as the Canadian Football League and national amateur sports organizations.

These measures will also affect other economic sectors such as tourism – for instance the Butter Tart Trail and wine and cheese tourism in Prince Edward County in Ontario.

The industry recognizes that obesity is a serious challenge that needs to be addressed. Industry has taken responsibility and steps to tackle the issue and wants to work with the government to develop further solutions - solutions that do not cripple Canadian industry in the process.

Unfortunately, the measures being proposed will be economically debilitating for Canadian advertisers and their suppliers, impacting not only the manufacturers and service providers they market on behalf of, but also their suppliers. Total Canadian television and digital food and beverage advertising in 2016 was estimated at just over $1.5 billion. The measures proposed by Bill S-228 and Health Canada, intended to restrict advertising to individuals under 17, will reduce direct food and beverage ad spending by a minimum of more than $950 million as early as 2020, with permanent multibillion-dollar implications for the Canadian economy and thousands of Canadian workers from the manufacturing plants of the affected products, restaurants serving their foods, as well as dairy farmers, grain farmers, packaging companies, transportation, bottlers, etc.

The impact of this reduced spending will be severe. In addition to a major reduction in cash flow to a struggling Canadian media, these measures will put Canadian actors, technicians and creative talent out of work and likely see the marketing departments of major food and beverage manufacturers and marketers permanently closed as advertising will move to foreign digital platforms beyond the reach of Canadian regulation.

Children's programming, a Canadian export success, will be severely curtailed. Even capital for the Canadian Media Fund will be affected.

Notwithstanding the exorbitant costs inherent to the measures being advocated by Bill S-228 and Health Canada, these draconian measures are being pursued while latest Statistics Canada data, released August 1 found that national obesity rates among children and youth (ages 5-17) declined between 2004 and 2015, from 13% to 12%.[4]

2. New Taxes on Digital Media

Over the last 10 years, digital advertising spend in Canada has grown from $1.2 billion to over $5.4 billion, eclipsing television as the largest share of advertising spend.[5] An estimated 89% of digital spend goes to international suppliers, mostly Google and Facebook. This spend previously mostly went to domestic publishers of traditional print media.

To help a struggling Canadian media establishment, The Commons Standing Committee on Canadian Heritage recommended in its June 2017 Report - *Disruption: Change and Churning in Canada's Media Landscape* – that the Government of Canada amend sections 19 (newspapers), 19.01 (periodicals) and 19.1 (broadcasters) of the Income Tax Act to only allow deduction of digital advertising on Canadian-owned platforms. On face value, this would seem like a positive move. However, up until now, businesses were claiming deduction of both domestic and foreign digital media as the *Act* was silent.

The Committee's recommendations would impact $5.6 billion in media spend, with the potential to net more than $1.04 billion in "new taxes" for the federal government that could theoretically be re-directed to subsidize failing Canadian media ventures.

The stark reality is that adopting these amendments would engender a massive capital reallocation, as multinational advertisers would cease to release funds to spend at the local Canadian level and global Canadian advertisers could easily seek out-of-country solutions. The net result would be an increased liability for the Government of Canada, as it would be providing a subsidy while the expected $1.04 billion tax revenue would simply not materialize.

[4] http://www.statcan.gc.ca/daily-quotidien/170801/dq170801a-eng.htm
[5] https://iabcanada.com/content/uploads/2017/07/IABCanadaRevenueSurveyFinal2017.pdf

Capital reallocation would ripple throughout the Canadian advertising industry, as critical functions regarding digital media spend, data and research would move to international hubs, impacting domestic digital technology innovation, creative productions and the very Canadian publisher jobs that the recommendations aimed to protect.

It is our position that the Government of Canada's fiscal policy should be aimed at attracting international investments that generate Canadian jobs in the marketing sector. The government could accomplish this by aligning its support for Canadian-led initiatives (such as artificial intelligence and blockchain financial management) with industry-led efforts to create a world-leading fair, accountable and transparent media marketplace.

The Canadian media landscape has changed dramatically in the last five years, becoming digitized and internationalized. Proposed simplistic solutions from an analogue era will wreak havoc when applied to a digital economy.

3. Simultaneous Substitution of the NFL Super Bowl

In August 2016, the CRTC issued Broadcasting Order CRTC 2016-335, eliminating simultaneous substitution of advertising (simsub) for the Super Bowl, effective February 2017 onward.

Simultaneous substitution is a long-standing and successful cornerstone of Canadian broadcast policy. The policy benefits the entire broadcasting system, including Canadian viewers. It protects the program rights paid for and acquired by Canadian broadcasters and it gives advertisers across the country the opportunity to reach Canadian consumers with advertising that is relevant to them. Such marketing opportunities are essential for many businesses to grow their sales and build their companies, in turn creating jobs and providing fuel to grow a robust and productive economy.

Advertisers in Canada run ads that are relevant to Canadians and support the efforts of Canadian businesses. For instance, in the February 2016 Super Bowl lineup, Wealthsimple, a Canadian financial start-up contributing to our economy, advertised using simultaneous substitution to reach its Canadian audience. Under the CRTC order prohibiting simultaneous substitution for the 2017 Super Bowl, Wealthsimple was no longer able to reach the same audience.

Moreover, Government and industry have worked hard to assemble unique commercial standards, both mandatory and self-regulatory, that reflect our values. Canadian commercials comply with these Canadian advertising standards. U.S. advertisers have no interest or need to do so. Because of the CTRC decision, Canadians can now be exposed to commercials they are not otherwise able to view on Canadian broadcasts. For instance, an ad in the 2016 Super Bowl for Jublia, a toenail fungus medication, would not have been approved in Canada. In this year's Super Bowl, there were 12 violations to our advertising guidelines.

It is remarkable that the CRTC, an organization with jurisdiction over Canadian telecommunications services, would choose to favour and sanction broadcast commercials that are essentially “illegal” in Canada over Canadian-made commercials that comply with Canadian laws.

The CRTC decision affects all parties in the advertising ecosystem and critically, represents the case for the dismantling of the entire simsub regime. Revenue to media advertising agencies is reduced and Canadian TV commercials simply are not being made, thereby eliminating commercial production activity in Canada and reducing opportunities for Canadian performers to appear in and showcase products and services.

III. Conclusion

As demonstrated, advertising is a critical component to a well-functioning Canadian economy and its productivity. Canadian advertisers provide the life-blood to Canada’s declining media establishment. The Canadian advertising industry is under serious attack by the Canadian government and its officials and threatened legislation and regulation will have serious and long-term repercussions on the Government’s goal of improving productivity and competitiveness for Canadian businesses and ultimately the Canadian economy.

ACA looks forward to the opportunity to discuss in more detail the concerns laid out above with members of the Commons Standing Committee on Finance.

Sincerely,

Ronald S. Lund

Ronald Lund
President & CEO
Association of Canadian Advertisers