

Feature: Canada-U.S. Exchange of Magazines a Very One-Sided Affair

Magazines are imported and exported in large numbers across the Canada - U.S. border, but so far it has been a very unequal exchange.

Figures released by Statistics Canada show Canadian imports of U.S. magazines valued at \$789 million in 1995. Exports to the United States were about \$200 million, a very respectable figure and a significant part of overall Canadian exports, but still only about a quarter of the value of imports.

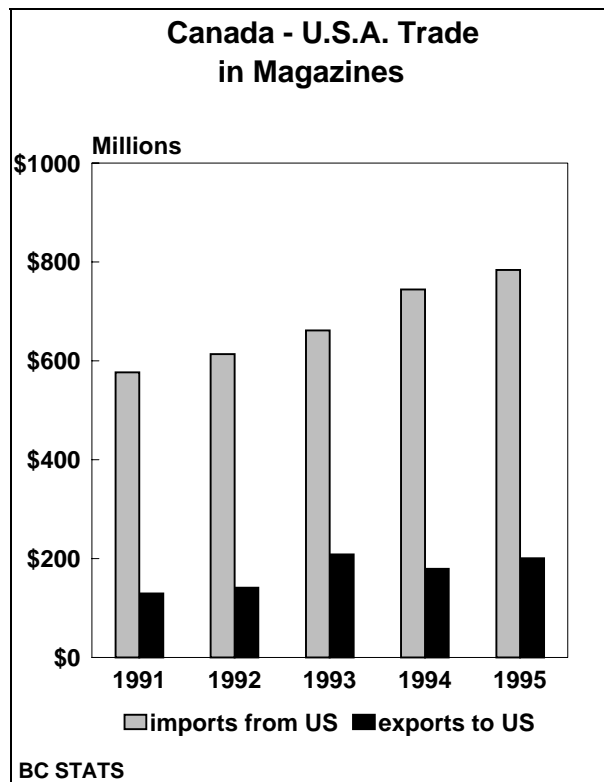
Magazine trade with markets outside North America was very small, by comparison. Off-shore imports originated mainly from the United Kingdom (\$19 million) and from France (\$17 million). Exports to the United Kingdom and France amounted to only \$730 thousand, and \$90 thousand, respectively.

Canadian magazines have long had to contend with a constant flood of U.S. magazines distributed in Canada.

The smaller size of domestic market has been an obvious handicap for the Canadian industry. With their much larger domestic base, U.S. publishers have been able to field a very wide variety of magazine titles, giving them a prominent presence in the Canadian market. A September release from the Canadian Magazine Publishers Association noted that, 'American magazines account for more than half of the magazines in circulation in Canada.' It goes on to add that, 'more than 80 percent of the magazines available on English Canadian newsstands originate from outside Canada.'

Canadians have clearly had reason to be concerned that many of their own magazines may not survive if not granted some assistance. Over the years the federal government has been prompted to provide this through tax provisions and postal rates.

The case for supporting a domestic Canadian magazine industry is based at



least as much on cultural issues as on economics. Industry spokesmen have

warned that Canadian cultural life would be much weakened if Canadians could, '...no longer see themselves reflected on the pages of truly Canadian magazines.'

Imports from the United States have been a source of considerable financial strain on the Canadian industry. An important new threat emerged in 1993 when a U.S. magazine was beamed from New York to an Ontario printing plant. Because it did not physically cross the border, it circumvented regulations regarding the sale of advertising services to Canadian customers by foreign magazines.

The Canadian government responded by moving to update its regulations to plug the loop hole. The result was a trade dispute between Canada and the United States that is still playing out in presentations by both sides to the World Trade Organization (WTO). This process should lead to an interim report from a WTO panel by mid-January, and a final report by late February. The outcome is important for Canadian cultural life, and

could be critical for the future of the Canadian magazine industry.

Canadian Publishers Lead in Circulation But Not On the Newsstands

Although Canadian magazines are fewer in number than American magazines distributed in Canada, they claim a larger overall circulation, according to statistics assembled by the Canadian Magazine Publishers Association (CMPA) from industry sources. A CMPA release indicated that Canadian magazines hold 68% of the national market, measured in terms of circulated copies. The Association also indicated that the combined per issue circulation of the top 20 Canadian magazines was greater than circulation for the top 20 U.S. magazines in Canada by 5 to 1 in 1993. This had grown from a 3 to 1 ratio ten years earlier. Circulation was reported at just over 3 million for the top 20 U.S. magazines in 1993, compared to 15 million for Canadian magazines.

Newsstand exposure has been a special problem for Canadian magazines, whose relatively small print runs have made this form of marketing unaffordable to most.

'Magazines stocked on newsstands do not generally pay for themselves,' says Ms. Catherine Keachie of the Canadian Magazine Publishers Association. 'Newsstand losses are absorbed by publishers in return for the visibility they provide for advertisers, and for the subscriptions they sell.'

Magazines with very large print runs have lower unit costs and can afford to accept the 60% wastage estimated by the CMPA for copies placed on newsstands.'

She adds that 'most Canadian magazines have much smaller print runs than their American competitors and cannot afford the cost of a regular presence on Canadian (let alone American) newsstands.'

With relatively little presence on their own newsstands, Canadian magazine publishers have become, '...world leaders

in selling magazines by subscription', says Ms. Keachie.

She notes that 'almost 50% of all Canadian magazine copies in circulation reach their readers through the mail as paid subscriptions, and a further 35% are delivered as free, controlled circulation copies. By contrast, in the U.K., only 3% to 5% of magazines are sold by subscription.'

Trade Dispute

Much of the struggle to keep Canadian magazines commercially viable in the face of what the Canadian industry calls the 'spill' of U.S. magazines distributed in Canada has centered on the issue of access to the Canadian advertising market. Advertising income is reported in Statistics Canada figures to account for 62% of magazine revenues.

American publications distributed in the Canadian market have generally already covered the costs of their editorial content from profits on their U.S. sales. Additional sales in the Canadian market need cover little more than just the printing and distribution costs in Canada. Canadian magazines must rely on the Canadian market to meet virtually all their costs of production and distribution. They are thus more constrained in the advertising rates they can afford to offer.

Disincentives in the Income Tax Act have so far prevented most American (and other foreign) publishers from using their cost advantage to undercut Canadian magazines in the competition for Canadian advertising dollars. The particular threat is from 'split-run' editions of American magazines. These are magazines produced in a second edition for the Canadian market with some editorial and advertising changes.

At time of writing, the issue of protective measures has been taken up by the United States government with the World Trade Organization. U.S. officials have challenged what they describe as 'discriminatory practices by the government of Canada to unfairly protect Canada's domestic magazine industry.'

The Americans have focussed on an 80% excise tax on advertising in 'split-run' magazines; preferential postal rates for Canadian magazines; and a tariff prohibiting the import of split-run magazines.

The Canadian response has emphasized cultural concerns. Early this year Trade Minister Authur Eggleton stated, 'We are trying to protect our identity through magazines. For us, it's a cultural issue. For us, it's a matter of Canadians being able to tell other Canadians what they are doing and to tell the world. We want to preserve some Canadian market. So that's why we'll stand firm on this one.'

If the American challenge to the World Trade Organization is successful, it could deal a heavy blow to the Canadian industry already struggling to survive in its own domestic market.

The *Report of the Task Force on the Canadian Magazine Industry*, entitled *A Question of Balance*, warns that, '...the viability of the Canadian periodical publishing industry would clearly be at risk should the impact of foreign split-runs indicated by the model used in the Task's Forces research be borne out.'

The *Report* links advertising revenues to other factors in the economics of the industry. 'There is an essential connection between circulation, advertising revenue and editorial content. The larger the circulation, the more advertising a magazine can attract; the greater the advertising revenue, the more it can afford to spend on editorial content; and the more it spends, the more likely it will be attractive to readers, with the result that the circulation will grow.'

It goes on to warn that, 'This spiral can work the other way. Decreasing any element will decrease the other elements also.'

Exports An Unlikely Solution

Like so many Canadian industries, magazine publishing has had to accept the large and permanent presence of imports in its home market. Unlike other

industries, magazine publishing is not likely to find a realistic response by looking to export growth in the U. S. or overseas. The most immediate concern of Canadian magazines, and their best long-term chance for survival, is simply to maintain and improve commercial viability in their own domestic market.

Magazine exports to the United States have been rising, but they remain very small in relation to the value of magazines imported from the United States. According to Statistics Canada figures, exports to the United States climbed 55% between 1991 and 1995, from \$129 million to \$200 million. This rate of growth was considerably better than the 32% reported for imports from the United States. As yet, however, it has scarcely made a dent on the huge deficit in magazine trade with the United States, which in 1995 amounted to \$589 million, up from \$468 million in 1991.

There seems little likelihood that exports will account for a large part of Canadian magazine revenue anytime in the near future. Ms. Keachie of the Canadian Magazine Publishers Association notes that, with the important exception of American magazines shipped to the Canadian market, magazines are not generally traded in large volumes around the world. It makes no sense, she adds, 'to paint the Canadian industry as an export failure.'

Canada has not been alone in experiencing very large trade imbalances with the United States for cultural products. European countries, and France in particular, have expressed concern over their imbalances in cultural trade with the United States.

French trade officials have complained that although U.S. films are widely viewed throughout most of the world, European films attract relatively small audiences in the United States.

The implication is that American consumers may be less open than others to imports of popular culture. This would be a difficult accusation to lay against Canadians in terms of their magazine reading habits. Judging by the enormous presence of

**Magazine Publishing By Province
(1994-1995 business year)**

	total revenue		profit before taxes		profit as %
	(\$,000)	%	(\$,000)	%	of total revenue (\$,000)
B.C.	64,380	7.4%	4,580	6.9%	7.1%
Alta.	23,082	2.7%	912	1.4%	4.0%
Sask.	3,680	0.4%	-47	-0.1%	-1.3%
Man.	14,173	1.6%	517	0.8%	3.6%
Ont.	498,660	57.5%	30,680	45.9%	6.2%
Que.	253,284	29.2%	29,181	43.7%	11.5%
Atlantic Region	9,599	1.1%	1,006	1.5%	10.5%
Total	866,860	100.0%	66,829	100.0%	7.7%

foreign magazines on Canadian newsstands Canadians appear to be more open than most to cultural imports.

Although Americans may be less prepared to read Canadian magazines than the reverse, Canadian magazines have not been completely without their export successes in the United States. There have been some noteworthy export sales for magazines featuring the outdoors, environmental concerns, hiking and children.

An Industry Under Stress

Pressure from international competition has been reflected in weak economic statistics for the Canadian magazine industry.

The numbers indicate that its workforce has been shrinking and financial returns have been poor during the first half of the 1990's. The *Report of the Task Force on the Canadian Magazine Industry* noted that in 1992 more than half of the magazines had no operating profit. It commented that, 'While editorially rich and diverse, the industry is not on a strong economic footing.'

Statistics Canada numbers indicate that, between the 1990-1991 and 1994-1995 business years, numbers of full time employees in the industry fell from 4,651 to 4,498.

The contraction was evident in all three provinces in which the industry is mainly concentrated - Ontario, Quebec and British Columbia.

Employment by Ontario magazine publishers shrank from 2,544 in the 1990-1991 business year to 2,409 in the 1994-1995 year. The number of magazines being produced fell from 706 to 660. Quebec magazines shrank from 416 to 377, and full-time employees were reduced from 1,067 to 981.

In British Columbia the industry shrank more than most, going from 138 magazines with a total annual circulation of 46.7 million copies in the 1990-1991 business year, to 94 magazines with total annual circulation of 14.7 million copies in 1994-1995. The number of full-time employees working for the industry in British Columbia fell from 496 to 208.

Newspapers

For Canadian newspapers, pressure from foreign competition has been a far less important factor than it has been for magazines. Urban based newspapers, at least, face little serious threat of being displaced by American competition because their content is directed at a very local market.

But any Canadian newspaper entertaining ambitions to sell in significant volume to a U.S. market faces a formidable task.

Gerry Porter of the British Columbia Press Council states that Canadian newspapers, '...do not seriously expect to develop commercially significant readerships outside of Canada. There are some sales in the United States, but those are mainly in border areas.'

Mr. Porter suggests that, '...most sales of a Vancouver daily in Seattle, for example, would be to U.S. business people wanting to keep close track of a nearby Canadian market.' He adds that, 'A Canadian newspaper or news magazine may find a small market in the U.S. among Canadians living and working in the United States.'

Imports of U.S. newspapers entering Canada have been small, but significant, according to numbers available from Statistics Canada. In 1995 they amounted to \$30 million. Exports of Canadian newspapers to the United States, or to any country, have been negligible - about \$1 million for all of 1995.

Newspaper imports from countries other than the United States came to \$12 million, of which \$6 million were from France and \$2 million from the United Kingdom. The remainder came from 20 different countries - suggesting the diverse origins of Canadian immigrants.

