Netflix Is So Popular in Canada, Local Media Players Want a 'Netflix Tax' to Level the Playing Field

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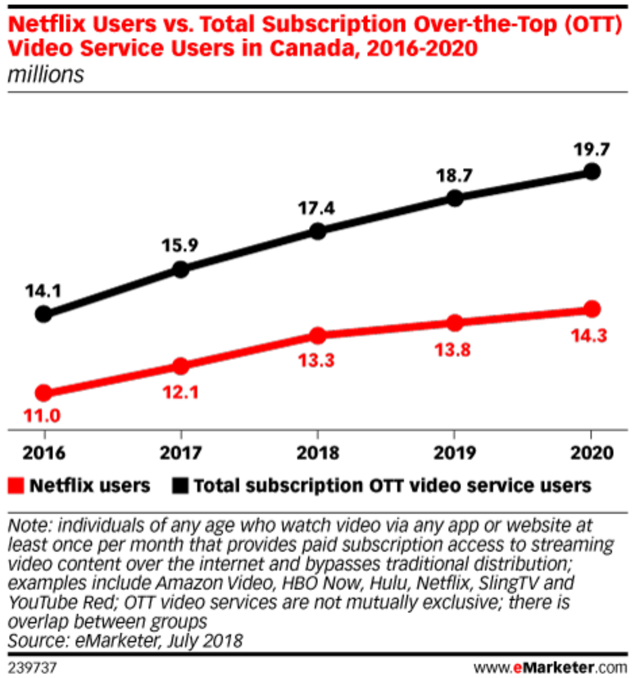
If Netflix was measured like traditional broadcasters in Canada—using weekly time spent figures and reach metrics across age, gender and regions—there is little doubt it would be a challenger for the No. 1 network in the country.

Since Netflix's launch in Canada in 2010, the first non-US market the company entered, it has become a viewership juggernaut, climbing to north of 50% of the English-speaking population in most forecasts. eMarketer expects there will be 13.3 million Netflix viewers in Canada this year, with viewers defined as individuals who watch Netflix via app or website at least once per month. That figure is up 9.6% year over year.



eMarketer's latest report, "Canada Streaming Video 2018: As Consumers Adopt OTT, 'Netflix Tax' Proposed to Ease Pressure on Local Players," examines consumer usage of over-the-top (OTT) services in Canada, the ramifications that usage is having on local media players and what they are doing in response.

Video streaming in Canada has emerged rapidly as an alternative to linear TV for consumers. The medium is now a fixed part of the entertainment menu, judging by data quantifying consumer time spent with video and growing OTT service revenues. To grab a growing share of the market, domestic players are introducing new OTT services to compete with Netflix, Amazon, Hulu and Sling TV.

As US-based streaming services gain popularity in Canadian homes, there is an ongoing public debate about how video streaming content should be regulated. Services like Netflix are not subject to taxation by the government of Canada—a point of contention for the domestic media oligopoly, which includes Rogers, Bell, Shaw and Videotron. The local players say they pay an unfair share to prop up the entertainment industry with "Made in Canada" productions, putting them at a competitive disadvantage against foreign entrants.

On June 1, The Canadian Radio-television and Telecommunications Commission (CRTC) released a policy report titled, "Harnessing Change: The Future of Programming Distribution in Canada," which highlighted the current challenging landscape. Video streaming is a focal point of the report, since it occupies a hefty part of consumer media time and relates to Canadian content (aka "CanCon," the federal cultural policy that requires funding and content quotas). In fact, it's a central issue: "Online video services do not have any regulatory obligations, making it difficult to determine what they contribute to Canadian content creation."

The so-called "Netflix Tax" has become a catch-all term for the gripe that US-based digital services don't contribute to local production via taxation. Some estimates show Netflix alone could avoid more than CA$500 million in Canadian sales taxes over the five-year period ending in 2020.

In September 2017, the government of Canada struck a deal with Netflix that committed the company to invest CA$500 million in Canadian productions over five years. The deal was the centerpiece of a new cultural policy revealed by Heritage Minister Melanie Joly, one that stopped short of taxing foreign digital services operating in Canada. (In July, Joly was moved to a Tourism Cabinet position and Pablo Rodriguez was named Heritage Minister.)

That policy direction is reflective of prevailing consumer opinion. Just over half of respondents to a May 2018 Research Co. poll disagreed with a new tax on digital streaming services, compared to 36% who agreed. It's up for debate how much a 5% to 15% sales tax (based on Canada's 5% Goods and Services Tax and variable provincial levies) would impact subscription levels of a service that is inexpensive to begin with, especially relative to traditional cable pricing.

A review of Canada's Broadcasting and Telecommunications Acts legislation is underway, and recommendations for changes will be made in January 2020. There is growing tension between one side, which wants to fix the old model of broadcast regulation to accommodate new digital services, and the other, which suggests the old model should be scrapped in favor of a completely new regulatory regime. The new one would potentially be built to manage the vagaries of internet-based services across borders.

"It's important that the Broadcasting Act allow for fluidity, enabling the broadcast industry to become more agile and remain competitive when new players come into the game," said Kathy Gardner, vice president of policy for ThinkTV, which represents the industry. "From a broadcaster's perspective, there is a lot of investment required in terms of Canadian content. The OTT players that come into the market are not subject to those same guidelines and those same commitments."