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# Public Broadcasting in Canada: Seeing Our Way Through Tough Times

## Introduction

As we have seen, the economic events of the past year are having a detrimental effect on all businesses in Canada. The broadcasting business is no different.

But, as Members of this Committee know, broadcasting is more than a business. It's part of our culture. It's one of the ways in which Canadians express themselves, their ideas, their stories.

Today broadcasting, particularly conventional broadcasting, is struggling, and Canadians risk losing some of the things they have come to expect from their broadcasters, particularly when it comes to local programming. Private broadcasters are talking openly about selling or closing local stations. The public broadcaster is reducing some of the programs and services it provides to Canadians across the country. Broadcasting jobs are being cut. It is important, therefore, that this Committee has initiated this study into the economic crisis, the effect it is having on local broadcasting, and the changes that are transforming this cultural industry. But while the economic crisis is relatively new, many of the challenges facing this industry are not.

In the past five years this Committee has completed two important studies on broadcasting in Canada; The 2003 study, "Our Cultural Sovereignty" – the so-called "Lincoln Study", and more recently, the February 2008 study into the "Role of CBC/Radio-Canada in the 21<sup>st</sup> Century". Those reports identified an industry undergoing a major transformation in technology, and consumer habits. The observations and recommendations of both these studies are relevant to the Committee's work today.

Both studies recognised that the Canadian broadcasting system is a dual system, built around twin pillars of public and private conventional broadcasters – each with their role to play in ensuring the health and diversity of the system. Both studies reaffirmed that the public broadcaster, CBC/Radio-Canada, remains an essential public institution that plays a crucial role in enhancing Canadian identity and sustaining Canadian culture. That fact has not changed in the past year.



What has changed is the speed at which the traditional model for Canadian television – one built on advertising revenue – is collapsing. The current economic situation is only aggravating a structural problem that has been getting worse for several years.

Broadcasters are adapting as best as they can, but some of the problems facing this industry require new solutions. They require changes in regulation; in the way conventional broadcasters are able to find resources to finance the services, particularly local services, that they provide; and, in the case of the public broadcaster, a change in the relationship between the broadcaster and Canadians.

Two years ago, former CBC/Radio-Canada President Robert Rabinovitch proposed to this Committee a new approach: a contract between the national public broadcaster and the citizens it serves – a new contract which would provide clear expectations of what Canadians could expect from their public broadcaster in return for sufficient funding to ensure that those expectations could be met.

This Committee took that idea and made it one of the key recommendations of its report – a seven-year, renewing Memorandum of Understanding.

We believe that such a contract, similar to what exists in other countries with their public broadcasters; remains an important way to ensure that the broadcasting services Canadians receive keep pace with their changing needs.

### **A Broken Broadcasting Model**

Since its creation, conventional television in Canada – both private and public – has depended on paid advertising revenue. This model is no longer sustainable.

The explosion of television channels has provided unprecedented choice to viewers but it has also fragmented television audiences to such a degree that individual broadcasters can no longer depend on large audiences to drive advertising revenue.

At the same time, the growth of multiple platforms for viewing what was once exclusively television content has diluted the value of conventional television advertising even further.

In addition, the cost of creating high-quality Canadian programming continues to increase. Broadcasters are facing huge investments required for new technologies, like High Definition Television and the upcoming switch to the digital transmission of television signals. Those are investments that



conventional broadcasters are having a difficult time making. Difficult choices will have to be made, and they will affect the programs and services Canadians use.

The decline in advertising for conventional television has been going on for some time. According to CRTC figures, in 2004, conventional broadcasters had a combined profit of \$233.4 million dollars. By 2007 – before the economic crisis – industry profit had dropped to half – \$113 million dollars. In 2008, profits were just eight million dollars – a drop of more than 90 per cent.

CBC/Radio-Canada has relied on television advertising revenue since the services were created in 1952. Commercial revenue, which now accounts for a third of its budget, has also been affected by the decline. As of March 2009, the Corporation was facing a budget shortfall of \$171 million for this current year.

So while the current economic crisis is hurting television advertising, advertising revenue has been in trouble for more than four years. That is important to remember because it means that a simple bailout won't fix the problem. It also means that when the economic crisis is over, the conventional television model is not going to recover.

That has important implications for broadcasting, because conventional broadcasters remain the cornerstone of the broadcasting system. They are the main source for original, high-value Canadian programming, including original drama, comedy, documentaries, current affairs, and local news. They also remain, by far, the largest source of viewing to Canadian programming in prime time. And they remain the most important vehicle for fulfilling public policy objectives for culture and broadcasting.

### **The Success of Public Broadcasting**

For CBC/Radio-Canada, the current economic difficulties are particularly frustrating as they come at a time when our services are enjoying tremendous growth and popularity with Canadians.

The Corporation provides distinct Canadian programming through 29 services and platforms; in English, French, seven Aboriginal languages, across six time zones, and in seven languages through Radio Canada International. All for \$34 per Canadian per year. Among 18 Western nations, Canada has the fourth-lowest level of funding to public broadcasting. Yet the Corporation continues to find innovative ways to create programming that Canadians respond to.

Our French radio services, the Première Chaîne and Espace musique, enjoy a combined market share of 19.4 per cent. Télévision de Radio-Canada continues to attract a prime-time market share of 19.8 per cent with distinctive programs like *Les Invincibles*, *Tout sur moi*, *Une heure sur terre*, and *Découverte* going up



against reality television and a host of new channels. And more than 9.3 million visitors go to Radio-Canada.ca's website every month.

CBC Radio One continues its loyal relationship with Canadians. Its record market share of 11.1 per cent means that 3.5 million Canadians are tuning in each week to a national discussion about issues faced by communities across the country. Sixteen of our local morning shows are either number one or two in their markets across the country.

CBC Television is now the second most-watched English television network in Canada with an audience share of 8.9 per cent, up from 6.7 per cent three years ago. New shows like *The Border*, *Heartland* and *Being Erica* have viewers talking about Canadian programs again. For the first time in this country, a Canadian prime-time schedule is drawing more Canadian viewers than one that offers predominantly American programming. After years in which the conventional wisdom was that Canadians would never watch Canadian programs, despite the public policy efforts, this is an accomplishment we should all be proud of.

As a Corporation, we continue to evolve – from a television and radio broadcaster with websites into an integrated content provider delivering Canadian content on any platform Canadians use, whenever and wherever they want it.

But these successes are increasingly at risk because of a funding model that is no longer enough if we are to continue to provide the services Canadians want – local coverage, service to official language minority communities, amateur sports, Canadian drama, and national and international news.

### **Difficult Choices**

Unlike other Canadian broadcasters, CBC/Radio-Canada has no access to capital markets or to commercial borrowing. In an economic downturn, it means that the Corporation cannot use a line of credit to lessen the impact of a decline in revenue. That means that for every dollar of revenue lost, the Corporation must cut a dollar in order to balance its budget.

In March 2009, CBC/Radio-Canada had to address an expected shortfall of \$171 million in 2009-2010.

The plan will see CBC/Radio-Canada make major cuts to its services, programs and people but it is designed to minimise the impact on the Corporation's public broadcasting mandate, and its long-term strategy.



Difficult choices have been guided by three key principles designed to ensure that CBC/Radio-Canada can remain a relevant and effective 21<sup>st</sup> century public broadcaster:

- a. The Corporation will become a **content company** rather than just a broadcaster. It must offer audio, video, and text content on multiple platforms.
- b. CBC/Radio-Canada will remain the most important creator and distributor of Canadian content **across all platforms** that Canadians use.
- c. CBC/Radio-Canada will remain **deeply rooted** in Canada's regions. That means remaining engaged with Canadian communities by using the most effective platform and striking the right balance between national and regional services.

CBC/Radio-Canada has announced a reduction of 800 positions across the Corporation. In addition, it is proceeding with plans to generate \$125 million in additional resources through the monetization of some of its assets. This additional financial flexibility will prevent further cuts to the organization this year. Details of the Corporation's 2009-2010 recovery plan can be found in the Appendix.

Some programs have been eliminated, staff in many stations have been reduced, but key priorities have been protected as much as possible: including keeping radio advertising-free, enhancing new media, and protecting public broadcasting's regional footprint, particularly its local news capacity.

To support those priorities, the Corporation made the conscious choice to keep all of its regional stations operating despite the financial constraints on the corporation as a whole.

CBC/Radio-Canada would certainly welcome any additional resources that would allow it to reinvest in areas like local broadcasting that are important to its mandate and to Canadians.

## Challenges and Solutions

In the absence of a new funding arrangement with Government, or the development of a long-term memorandum of understanding, CBC/Radio-Canada will face increasing challenges to its continued ability to fulfill its mandate.

It is not just local broadcasting that is at risk, but given the higher cost of creating distinctive programming in many communities rather than providing



national programming to all, local broadcasting is increasingly vulnerable to the financial pressures all broadcasters are facing.

The challenge is to strengthen the business model for all conventional broadcasters – public and private – to ensure that they can continue to provide the services necessary and continue to play a key role in the broadcasting system.

There are three important sources of funds which can help support all conventional broadcasting;

- i. Fee-for-carriage (Subscription Revenue)
- ii. The Local Programming Improvement Fund (LPIF)
- iii. The Canada Media Fund

### **Fee-for-carriage**

Specialty broadcasters receive income from both advertising and subscriber fees. Conventional broadcasters do not. As a result, since 2003, the profitability of specialty broadcasters has continued to grow, while that of conventional broadcasters has declined.

With the continuing decline in advertising revenue, subscription revenue becomes more important. In order to help finance Canadian programming, including local programming, all conventional broadcasters should be able to receive compensation from cable and satellite providers in exchange for the providers carrying their signals.

Last year, as part of the CRTC's review of the regulatory framework for cable and satellite companies, CBC/Radio-Canada proposed that conventional broadcasters be able to receive subscriber fees to fund key initiatives, including: existing or increased levels of spending on specific programming activities that the Commission considers important to fulfilling the objectives of the *Broadcasting Act*, where existing levels of advertising revenues are not sufficient or not expected to be sufficient.

Maintaining or increasing local broadcasting could be one of these priorities.

In the case of CBC/Radio-Canada, it is important to note that this would not represent a levy in addition to the parliamentary appropriation already provided by taxpayers. It would be a source of revenue to allow the Corporation to provide additional, priority services that the current level of parliamentary appropriation does not provide for.



In its October 2008 decision, the CRTC denied subscription fees for conventional broadcasters, but many in the industry believe that these matters need to be considered in its upcoming summer 2009 proceeding.

### **The Local Programming Improvement Fund (LPIF)**

Local service is one of the defining features of conventional broadcasters, ensuring that their programming remains connected to, and relevant for, the communities they serve. However, local communities are disproportionately affected by the decline in advertising revenue, partly because smaller communities – with smaller potential audiences – are the most expensive to operate compared to the revenue they can generate.

Additional resources will need to be dedicated to local television programming to ensure that local communities continue to have access to local service.

The CRTC recognised this fact in establishing the Local Programming Improvement Fund (LPIF) as a way to support conventional broadcasters in providing local service and improving the quality of local service.

In its October 30, 2008 decision, the Commission clearly underlined the importance of the national public broadcaster to local communities by establishing that CBC/Radio-Canada would have full eligibility to access the Fund in support of its local programming initiatives.

The CRTC has currently estimated that the fund, created through a one per cent contribution on the gross revenues of cable and satellite companies, will distribute \$60 million a year to local conventional television stations.

One third of the fund (\$20 million) is earmarked for French-language stations and two-thirds (\$40 million) is earmarked for English-language stations.

The CRTC has targeted the Fund for smaller market stations only by excluding stations in markets where the number of people with “knowledge of the official language of the station” is more than one million people. This means that English-language stations serving Vancouver, Calgary, Edmonton, Toronto, Ottawa-Gatineau, and Montréal are excluded, as well as French-language stations serving Montréal.

The allocation formula established by the CRTC is based on determining a base level of local station program spending and then allocating funds proportionally among stations, based on each station’s relative share of the total spend.





The base level of spending is calculated by averaging the last three years of annual local station program spending among eligible stations. This data is drawn from the annual financial returns submitted to the CRTC.

The Corporation has estimated that it would receive approximately one-third of the \$60 million that is available from the Fund. This funding would allow the Corporation to improve the services it offers in these communities.

Currently, eligible CBC stations include: Fredericton, Charlottetown, Windsor, Halifax, Regina, St. John's, Winnipeg, and Yellowknife. Eligible Radio-Canada stations include: Moncton, Québec City, Ottawa, Winnipeg, Edmonton, Vancouver, Regina, Halifax, Toronto, Jonquière, Sherbrooke, and Trois-Rivières.

While some broadcasters are calling for the Fund to be made available to all conventional stations in all markets, CBC/Radio-Canada believes that the current LPIF, given its size, can only be effective if it is applied to targeted small markets where services need the most support, based on each broadcaster's track record in providing local services, as proposed by the Commission.

### **The Canada Media Fund**

In March 2009, the Government announced the Canada Media Fund, combining the Canadian Television Fund and Canada New Media Fund to ensure support for Canadian production on multiple platforms, beginning April 2010.

The announcement highlighted two key principles: the importance of producing and broadcasting high-quality original programming; and, the importance of broadcasting all programming in prime time, when most Canadians are watching television.

CBC/Radio-Canada believes these principles will create a more effective Fund and will lead to more successful Canadian programs watched by more Canadians.

Under the current CTF, 37 per cent of the Fund is dedicated to productions earmarked for broadcast on CBC/Radio-Canada. This envelope has enabled the Corporation to address a critical shortage of first-run Canadian programming in prime time. It has allowed the Corporation to commit over \$100 million annually to the production of original drama and comedy – which is approximately 50 per cent more than the commitment of the entire private conventional broadcasting industry combined.

The key now will be to maintain the new Fund's focus on creating new Canadian programs that can be seen by the largest number of Canadians. As the Fund's guidelines are developed this year, it is important that the Fund keep its focus on



original, prime-time programming to ensure Canadian programs are broadcast when most Canadians are watching television.

### **Other Challenges**

In addition to financial pressures from the cost of the transition to High Definition Television (HDTV) and Digital Television (DTV), CBC/Radio-Canada is faced with the aging transmission towers and radio transmitters introduced during the Accelerated Coverage Program (ACP).

Between 1974 and 1984, Government provided capital and ongoing operating funding in order to assist the Corporation in extending its over-the-air transmission of French- and English-language radio and television services to all communities in Canada with a population of 500 or more. These assets are reaching the end of their useful life and the Corporation does not have sufficient resources to replace them.

### **Official Language Minority Communities**

In its recent review of English- and French-language broadcasting services in English and French linguistic minority communities, the CRTC highlighted the important role that CBC/Radio-Canada plays in ensuring adequate broadcasting services to these communities.

While concluding that these communities have appropriate access to services in English and French that are generally equitable and of adequate quality, the Commission also recognised that the Corporation needs sufficient resources in order to maintain these services:

*The Commission considers it important that [CBC/Radio-Canada] have the means to continue serving these communities. The Government may wish to take note of the challenges that [the Corporation] will have to contend with over the following years and encourages it to consider solutions that would enable it to provide the best possible service to official-language minority communities (CRTC report, March 30, 2009).*

The Corporation is keenly aware of its special responsibilities to Official Language Minority Communities. While recent cuts have affected service levels to some minority language communities, the Corporation took steps to shelter these services in its business plans, as much as possible.



## Local Signals Carriage by Satellite

Despite the rapid growth of direct-to-home satellite among television consumers, satellite providers are not required to offer the local signal of a broadcaster in a particular market. Current CRTC regulations require only that one broadcaster's signal be offered in each time zone. That means that satellite customers in Ottawa, for example, are not able to receive the local Radio-Canada Ottawa signal, but are offered only the Toronto signal.

In its recent report on minority language broadcasting, the CRTC stated its view that satellite carriage of local signals needed to be improved recognising that in some cases, the "one-signal-per-province" distribution rule may not offer a sufficient service to linguistic minority communities, in Ontario for example:

*The Commission suggests that DTH BDUs and the CBC hold discussions to ensure that the local programming of the two French-language CBC stations in Ontario [CBLFT Toronto and CBOFT Ottawa] is offered to Franco-Ontarians and invites the government to encourage these discussions.*

## Transition to Digital

The Federal Government and the CRTC have mandated that all over-the-air (OTA) conventional television licensees must replace their analogue transmitters with digital transmitters by August 31, 2011. This transition will impose tremendous costs on conventional broadcasters, with little prospect that broadcasters will recover those costs.

Currently approximately 90 per cent of Canadians receive television programming by subscribing to cable and satellite. Only 10 per cent still receive their signal over-the-air.

CBC/Radio-Canada is mandated to reach as many Canadians as possible "by the most appropriate and efficient means and as resources become available for the purpose." (*Broadcasting Act* (Sec. 3(m)vii))

CBC/Radio-Canada operates a network of more than 600 analogue television transmitters, many of which are coming to the end of their working life. Given the prohibitive cost of replacing all over-the-air analogue transmitters with digital ones, and the shrinking number of Canadians watching television over-the-air, the Corporation has proposed to the CRTC a hybrid plan to install digital OTA transmitters in key markets in order to reach most Canadians.

Currently, CBC/Radio-Canada has eight DTV transmitters in place and operational. These reach approximately 47 per cent of Canadians.



CBC/Radio-Canada is participating in an industry working group which has prepared a report on the transition to digital which it has submitted to the CRTC.

Whatever the outcome, it is clear that many Canadians who currently receive television through over-the-air analogue transmitters will require the services of a cable or satellite provider in order to receive television programming after the analogue cut-off date. CBC/Radio-Canada is working with the industry working group to look at low-cost options for Canadians, including basic signal packages.

## **Conclusion**

The changes facing the conventional television industry have led CBC/Radio-Canada to reexamine the role and nature of public broadcasting in Canada.

We believe that our mission – to build identity and social cohesion, to ensure public representation and participation – has not changed.

However, we cannot be all things to all people. We simply don't have the resources. We must focus where we can be most effective.

With regard to local broadcasting in particular, the Corporation is committed to remaining firmly rooted in the Canada's regions.

Increased appropriations, other revenue like fee-for-carriage or the Local Programming Improvement Fund are ways to help ensure that the Corporation can reinvest in local broadcasting services.

Given rising costs of production, increasing demands on CBC/Radio-Canada services, and shrinking resources available for programming, the Corporation believes it is more important than ever that Government act on the Heritage Committee's February 2008 recommendation for a seven-year Memorandum of Understanding between the Government of Canada and CBC/Radio-Canada.

In the meantime, CBC/Radio-Canada will continue to focus on ensuring local programming services to Canadians in the most effective way possible using all available platforms – television, radio, Internet, and mobile devices.

