

# Analysis of Government Support for Public Broadcasting

**Nordicity**

Prepared for

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## About Nordicity

Nordicity ([www.nordicity.com](http://www.nordicity.com)) is a powerful analytical engine with expertise in strategy and business, evaluation and economics, policy and regulation for the arts, cultural and creative industries. Because of Nordicity's international presence, it has become widely recognized for its ability to translate developments and best practices between markets for the private, public and third sectors.

Nordicity would like to Dr. Manfred Kops of the Institute for Broadcasting Economics at the University of Cologne for his contribution to the research and analysis of public broadcasting funding in Germany.

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## Executive Summary

### Introduction

In the following report, Nordicity provides an update to the study entitled, *Analysis of Government Support for Public Broadcasting and other Culture in Canada*, first prepared for CBC/Radio-Canada in June 2006 and updated in January 2009, February 2011 and October 2013.<sup>1</sup> Each edition of the study includes a comparison of the levels of per capita public funding for public broadcasting in 18 Western countries.<sup>2</sup> They also include statistics and analysis of public broadcasters' commercial and advertising revenues. The 2016 edition of the study also includes a more in-depth review of the funding models for public broadcasting in the 18 comparison countries.

### Market failure in broadcasting and the role of public broadcasters

In contrast to most goods produced in the economy, broadcasting services display characteristics of what economists call public goods, because they are both non-rival and non-excludable.<sup>3</sup> Public goods are often under-supplied by the market because producers may be unable to privately capture the economic value that society places on such goods. When private markets fail to supply the optimal amount of a particular good, a market failure exists.

The public good nature of broadcasting services means that private markets will under-supply many genres of programming that appeal to a minority of viewers (i.e. "minority-audience programming"),<sup>4</sup> such as documentaries, indigenous programming, high-quality drama, amateur sports or children's programming.<sup>5</sup> These public services genres of programming can also display characteristics of merit goods and even generate positive externalities. A merit good is any good for which the value to society is greater than the value placed on it by an individual.<sup>6</sup> Because of its informational and educational value, certain broadcast programming can also have a positive influence on citizen's behaviour – a positive externality.<sup>7</sup> The merit good nature and positive externalities associated with certain genres also increase the risk of under-supply.<sup>8</sup>

Governments around the world recognize that certain types of television programming are under-supplied viz-a-viz society's demand. Because of this, they use a variety of methods to promote the supply of this minority-audience programming (i.e. public service programming). Most Western countries have established public broadcasters as the main – or even only – tool for promoting this extra supply. Public broadcasters can create or commission programming and then distribute it to audiences. In Canada and some other countries, however, public broadcasters also operate alongside production subsidies, tax credits or exhibition quotas also designed to promote the supply of under-supplied types of television programming.

### The potential benefits of public broadcasting

The degree of market failure and potential benefits from public broadcasting can vary from country to country. To assess the potential benefits of public broadcasting in each of the 18 comparison countries, Nordicity developed

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<sup>1</sup> Due to changes in data sources, methodology and exchange rates, the public funding statistics for certain countries in this report are not comparable to statistics in previous editions of this report.

<sup>2</sup> Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, New Zealand, Norway, Spain, Sweden, Switzerland, United Kingdom and United States.

<sup>3</sup> Department for Culture Media and Sport (1999), "Market Failure in the Broadcasting Industry," annex 8 to *The Future Funding of the BBC*, July 1999, [http://news.bbc.co.uk/1/hi/english/static/bbc\\_funding\\_review/annex8.pdf](http://news.bbc.co.uk/1/hi/english/static/bbc_funding_review/annex8.pdf), p. 202.

<sup>4</sup> Note that in this context "minority" does not only refer to ethnic minority groups within the overall population, but also genres of broadcasting programming that are only demanded by a minority of viewers or listeners, regardless of their ethnicity.

<sup>5</sup> Ibid.

<sup>6</sup> Department for Culture Media and Sport (1999), p. 203.

<sup>7</sup> Ibid., pp. 203-204.

<sup>8</sup> Ibid., p. 203.

an index composed of variables such as population density, language diversity, proximity to a large media market and other sociocultural indicators.

According to this potential benefits index, Canada's geographic and sociocultural environment suggests that it would benefit more than any of the other 17 comparison countries from public broadcasting (Figure 1). The potential benefits index also indicates that New Zealand, Switzerland, Ireland and Belgium would derive high potential benefits from public broadcasting; the United States (US), Italy, Germany and Japan would derive the least amount of benefit from public broadcasting, among the 18 comparison countries.

### **International comparison of public funding for public broadcasting**

Despite the fact that Canada's geographic and sociocultural environment mean that it was likely to derive relatively high potential benefits from public broadcasting, it continued to display one of the lowest levels of public funding for public broadcasting in 2014. At \$29 per capita (all amounts in Canadian dollars, unless indicated otherwise), Canada's level of public funding was third lowest among the 18 comparison countries; only New Zealand (\$17 per capita) and the US (\$3 per capita) posted lower levels of public funding (Figure 2). Canada's level of public funding was 64% less than the average of \$86 across the 18 comparison countries.

The highest levels of per capita public funding in 2014 were found in the Scandinavian countries – Norway, Denmark, Sweden and Finland – which occupied four of the top six countries. In some respects, the high levels of per capita funding in Scandinavia reflect the strong political and public support for public broadcasting in countries such as Denmark.<sup>9</sup>

With 37% of its total revenue coming from commercial sources, Canada ranked fourth among the 18 comparison countries in terms of share of public broadcasting revenue derived from commercial sources (Figure 4). In terms of share of revenue from the sale of advertising and sponsorships, Canada ranked seventh out of 18 countries, with a 20% share in 2014 (Figure 7).

In general, countries with high levels of public funding also tend to have lower levels of commercial revenue. Among the top six countries (ranked by public funding per capita), only Switzerland and Germany had significant levels of commercial revenue (Figure 5). As well, commercial revenues rarely compensate for low levels of public funding. Among the 10 countries with public funding under \$100 per capita, only New Zealand, Ireland and Belgium had commercial revenue levels that would move them significantly higher in the ranking of countries (Figure 5).

There was a positive correlation between funding-contract tenures and per capita public funding. The average per capita funding across the nine countries with annual funding settlements was \$68 (Figure 10). For the other nine countries that maintained multi-year funding settlements for their public broadcasters, the average was \$104.

### **The Canadian government's economic support for culture**

Public broadcasting is just one of the tools through which the Canadian government supports Canadian culture – both within and outside the audiovisual sector. The Canadian government also provides direct financial support for Canadian culture through other policies and programs administered by the Department of Canadian Heritage. The Canadian government also provides indirect support to Canada's private television broadcasters through the implementation of section 19.1 of the *Income Tax Act* as well as simultaneous substitution regulations. Both provisions prevent competition from US border stations for Canadian advertising spend, thereby, keeping that spend within Canada.

The vast majority of the federal government's financial support for CBC|Radio-Canada is in the form of its annual parliamentary appropriation. In 1991, CBC|Radio-Canada received a parliamentary appropriation of \$1,078 million; in 2014, it received \$1,036 million. In other words, over 24 years, the parliamentary appropriation actually decreased by \$42 million (in nominal terms); in real dollar terms, it actually fell by 36%.

Despite the fact that the federal government's support for CBC|Radio-Canada has stagnated since 1991, its

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<sup>9</sup> European Audiovisual Observatory (2015), pp. 53-54.

indirect financial support for private television broadcasters has increased. We estimate that the value of this indirect benefit increased by between 10% (low-impact scenario) and 18% (high-impact scenario) between 1991 and 2014 (Figure 11 and Figure 12).

Not only has the federal government's financial support for private broadcasters outpaced its support for CBC|Radio-Canada, but so has its direct financial support for other culture (excluding CBC|Radio-Canada). The value of these financial contributions increased by 95% between 1991 and 2014. Meanwhile, overall federal government spending increased, on a nominal basis, up by 77% between 1991 and 2014. This growth was slower than the total spending on culture but still well ahead of the relatively static trend in funding for CBC|Radio-Canada.

### **Funding models**

Across Western countries, the funding models for public broadcasting vary widely. Our research points to at least five key methods for raising public broadcaster revenue: including (i) parliamentary grants, (ii) equipment/receiving licence fees, (iii) universal household licence fees, (iv) income tax charges, and (v) hypothecated industry levies. Some countries use only one of these methods; some use a combination of two or more of these methods. The variability in funding models shows that they are flexible to accommodate numerous political, social and economic circumstances.

Among Western countries, the most common method of public funding – particularly in Europe – is the equipment licence fee (Table 2). Equipment licence fees initially provided a close link between users of television services (i.e. owners of televisions) and funding. The equipment licence fee model was later seen as a tool for creating some independence from direct government influence.

Among the 18 comparison countries outside of Europe, parliamentary grants are more common. Australia, Canada, New Zealand and the US all utilize parliamentary grants.

Over the past decade, developments in communications technology have made equipment licence fees (i.e. ownership of a television) an increasingly poor proxy for consumption of public broadcasting or television programming. Consumers can now use a variety of different devices and online services to find and enjoy television programming. To mitigate the effects of technology, several countries (e.g. Denmark, Austria and UK) have migrated from equipment licence fees to *receiving* licence fees. Under a receiving licence fee model, households pay the licence fee regardless of the type of equipment they use: television, computer, smartphone or tablet.

A receiving licence fee may still be prone to fee evasion. To counter fee evasion, certain countries (i.e. Finland and Germany) have made more substantial reforms to the methods by which they apply and collect public funding for public broadcasting. In response to a very severe fee evasion problem, Finland implemented an income tax charge on January 1, 2013. Germany, meanwhile, ruled out a similar income tax charge because it would have implied a more direct relationship between government and public broadcasters. Instead, it implemented a universal household licence fee on January 1, 2013. Thus far, this household licence fee has been very effective in stabilizing the funding stream for public broadcasting in Germany.

The UK may be the next European country to experience a significant change in its funding model. Even though the BBC earns most of its revenue from a television licence fee, by the time its new Charter comes into effect in 2017, it will have experienced a 15% decrease in revenue on account of reductions in direct government grants – for BBC World Service, S4C and the subsidization of over-75s licence fees. The BBC's new funding model will most certainly close the current "iPlayer loophole" and thereby convert what is currently a receiving licence fee to a fully-fledged time-invariant receiving licence fee. However, the government is also considering a universal household licence fee (referred to as the universal household levy) and even a hybrid model that includes optional household subscription fees.

## 1. Introduction

For nearly a century, public broadcasting has been a key element of the media markets in virtually every country of the world. In most countries, public broadcasters were often the first organization to provide national radio service, and later, television services. And in some Western countries, the public broadcaster was the only source of national television programming well into the 1970s and 1980s.

As Canada and many other Western countries liberalized their audiovisual markets, from the 1960s onwards, commercial broadcasters joined public broadcasters within media markets, thus providing audiences with increased choice and diversity. With the introduction of digital cable and satellite services, the number of television outlets multiplied exponentially; audiences' desire for choice, however, seemed to never be sated.

Today, public broadcasters in many countries not only have to compete for viewers with domestic commercial broadcasters, but also foreign programming services available over cable, satellite or Internet platforms. In the face of increasing competition, public broadcasters remain a vital democratic institution. In today's media markets, public broadcasters are best placed to offer the general public with news, information, entertainment culture and education that is independent of the economic- and political-power structures that operate within modern economies.<sup>10</sup>

In order to continue to fulfil their vital role within modern democracies, public broadcasters – like any other organization – require sufficient and stable sources of income. The following report provides a review and analysis of the funding models for public broadcasting in 18 Western countries. In part, this report is an update to the study entitled, *Analysis of Government Support for Public Broadcasting and other Culture in Canada*, which was first prepared by Nordicity for CBC|Radio-Canada in June 2006 and subsequently updated in January 2009, February 2011 and October 2013.<sup>11</sup>

In addition to this update, the following report also includes a closer examination of the different funding models in the 18 comparison countries and the changes that certain countries have made to their funding models over the past decade.

**Section 2** of the report provides a comparison of the levels of per capita public funding for public broadcasting in the 18 comparison countries. It also investigates how these levels of public funding vary across different funding models – in particular how they vary with respect to the composition of public broadcasting revenue derived from commercial sources such as advertising and sponsorship income.

**Section 3** examines the relationship between the per capita levels of public funding and the potential benefits that each of the comparison countries could derive from public broadcasting. The potential benefits of public broadcasting in each of the 18 comparison countries is gauged using an index composed of variables such as population density, language diversity and proximity to a large media market.

**Section 4** provides an overview of the various funding models used in the 18 comparison countries, particularly with respect to the methods used to provide public funding to public broadcasters. This section also offers a more detailed review of the changes that have been made over the past decade to the public broadcasting funding models in Spain, France, Germany, Finland and the United Kingdom (UK).

**Section 5** focuses on the Canadian federal government's funding of culture. It compares the levels of public funding for the CBC|Radio-Canada since 1991 to levels of funding for other cultural programs and overall federal government spending. This comparison also includes a quantification of the federal government's indirect financial support of commercial broadcasters through certain income tax and broadcast-industry regulation.

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<sup>10</sup> European Audiovisual Observatory (2015), *Online activities of public service media*, p. 12.

<sup>11</sup> Due to changes in data sources, methodology and exchanges rates, the public funding statistics for certain countries in this report are not comparable to statistics in previous editions of this report.



## 2. The Potential Benefits of Public Broadcasting

### 2.1 Market failure in broadcasting

Even within liberalized Western economies, governments will intervene where market failure exists. A market failure occurs when private economic agents (i.e. businesses and consumers) either under-supply or over-supply certain goods in relation to the optimal level from a societal perspective – i.e. the level at which no one can be made better off without making someone worse off. The production of pollution is the classic example of market failure. Without government regulation, businesses would over-supply pollution in relation to a level that best balances society's economic and environmental interests.

Most goods are supplied through competitive markets with little risk of market failure. However, certain goods and services or certain market conditions are more prone to market failure, thereby, necessitating some type of government intervention. Broadcasting services and public broadcasting services, in particular, represent one such good.

In general, broadcasting services display characteristics of what economists call **public** goods. Unlike most goods, public goods are **non-rival** and **non-excludable**.<sup>12</sup> Their non-rival nature means that one person's consumption does not exclude others' consumption (e.g. clean air). Their non-excludability means that they can easily be shared amongst consumers or citizens (e.g. national defence). Public goods are often under-supplied by the market because producers may be unable to privately capture the economic value that society places on such goods.

Historically, the broadcasting industry has responded to the public good nature of its product by "giving it away for free" to consumers (i.e. free-to-air broadcasting) and, instead, selling advertising airtime to businesses. These advertising businesses, however, have sought to maximize the exposure of their ads. This created incentives for broadcasters to create or commission general audience programming that appealed to the majority of viewers.<sup>13</sup> As a result, many genres of programming that appealed to a minority of viewers (i.e. "minority-audience programming"), such as documentaries, indigenous programming, high-quality drama, amateur sports or children's programming, were under-supplied.<sup>14</sup>

The advent of subscription and pay television should, in theory, address the under-supply of minority-audience<sup>15</sup> programming in the over-the-air broadcasting segment. However, these alternative models are not perfect solutions. If subscription television services have to set their fees too high, they will invariably exclude a segment of society that wishes to consume minority programming. If they set their fees too low, they may not capture enough of the audiences' monetary valuation of niche programming. As a result, expensive high-quality programming may not be made – thus persisting the under-supply.<sup>16</sup>

### 2.2 Role of public broadcasting

At the advent of broadcasting services during the 20<sup>th</sup> century, the scarcity of usable radio-spectrum and the high fixed costs of transmission and programming meant that the broadcasting industry displayed characteristics of a natural monopoly.<sup>17</sup> Rather than place these broadcasting monopolies in the hands of private businesses, many Western governments established public broadcasters.

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<sup>12</sup> Department for Culture Media and Sport (1999), "Market Failure in the Broadcasting Industry," annex 8 to *The Future Funding of the BBC*, July 1999, [http://news.bbc.co.uk/1/hi/english/static/bbc\\_funding\\_review/annex8.pdf](http://news.bbc.co.uk/1/hi/english/static/bbc_funding_review/annex8.pdf), p. 202.

<sup>13</sup> *Ibid.*, p. 206.

<sup>14</sup> *Ibid.*

<sup>15</sup> Note that in this context "minority" does not only refer to ethnic minority groups within the overall population, but also genres of broadcasting programming that are only demanded by a minority of viewers or listeners, regardless of their ethnicity.

<sup>16</sup> *Ibid.*

<sup>17</sup> *Ibid.*

As competition was introduced to broadcasting markets, the public good nature of broadcasting services (discussed above) provided the rationale for continued operation of public broadcasters. Public broadcasters represented one tool for addressing the under-supply of minority-audience programming. The merit good nature and positive externalities associated with certain genres also increased the risk of under-supply.<sup>18</sup> A merit good is any good for which the value to society is greater than the value placed on it by an individual.<sup>19</sup> Related to this merit-good quality of certain broadcasting programming is that fact that the certain broadcasting programming, because of its informational and educational value, can have a positive influence on citizen's behaviour.<sup>20</sup>

Governments around the world continue to recognize that certain types of television programming are public or merit goods, and offer positive externalities. Because of this, they use variety of methods to promote the supply of this public service programming. Most Western countries have established public broadcasters as the main tool for promoting this supply. Public broadcasters can create or commission programming and then distribute it to audiences. In some countries, public broadcasters operate alongside production subsidies or exhibition quotas also designed to promote the supply of under-supplied television programming. In Canada, for example, CBC/Radio-Canada operates alongside the Canada Media Fund and the exhibition quotas enforced by the Canadian Radio-television and Telecommunications Commission (CRTC). In most Western countries, however, a vertically integrated public broadcaster is the main, or only, tool for addressing the market failure in the supply of minority-audience programming.

### 2.3 Potential benefits index

The public or merit good nature of television programming can vary from country to country. For example, a country with a low population – and therefore low audience base – may experience a greater under-supply of certain types of indigenous television programming because it lacks the audience base upon which to amortize the relatively high sunk costs associated with high quality drama or other types of television programming.

In order to better assess the risk of under-supply and thereby the potential benefits of public broadcasting, Nordicity developed a potential-benefits index that incorporates a variety of indicators. This benefits index attempts to take into account the geographic, social, political and cultural environment within countries in so far as they affect potential benefits of public broadcasting. In particular, the benefits index incorporated four criteria:

1. Promotion of culture and common values
2. Relative size of domestic language market
3. Proximity to a large larger country with the same language
4. Audience appeal of indigenous programming

Within each criteria, we identified one to three indicators that could be *measured* in some respect. These indicators are listed in Table 1.

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<sup>18</sup> Ibid., p. 203.

<sup>19</sup> Department for Culture Media and Sport (1999), p. 203.

<sup>20</sup> Ibid., pp. 203-204.

**Table 1 Potential benefits index – criteria and indicators**

Criteria	Indicators
1. Promotion of culture and common values	<ul style="list-style-type: none"> <li>Population density</li> <li>Number of broadcasting languages – number of official languages broadcast by the public broadcasting services (note: must be rough equivalency in broadcast, not just occasional minority programming broadcast)</li> <li>Ethnic-diversity challenges (third-party risk ratings)</li> </ul>
2. Relative size of domestic language market	<ul style="list-style-type: none"> <li>Population of country or population of various official language groups within a single country</li> </ul>
3. Proximity to a large larger country with the same language	<ul style="list-style-type: none"> <li>Countries bordering countries of similar language with a much larger economy</li> <li>Countries whose mother tongue is English (which are subject to greater pressure from American programming, even if not bordering on the U.S.)</li> </ul>
4. Audience appeal of indigenous programming	<ul style="list-style-type: none"> <li>The number of indigenous programs among the top ten programs</li> </ul>

Based on these four criteria, we rated each country against six different indicators on a five-point scale. The details of the scoring methodology and the data used to derive the scores can be found in Appendix B. In summary:

- A rating of **high** and a numerical score of **five** was assigned when the indicators pointed to an environment where a public broadcaster could potentially generate relatively high benefits to its country's residents.
- A rating of **medium** and a numerical score of **three** was assigned when the indicators pointed to an environment where a public broadcaster could potentially generate a relatively moderate level of benefits.
- A rating of **low** and a numerical score of **one** was assigned when the indicators pointed to an environment where a public broadcaster could generate relatively modest benefits.

Countries could also obtain scores of two or four.

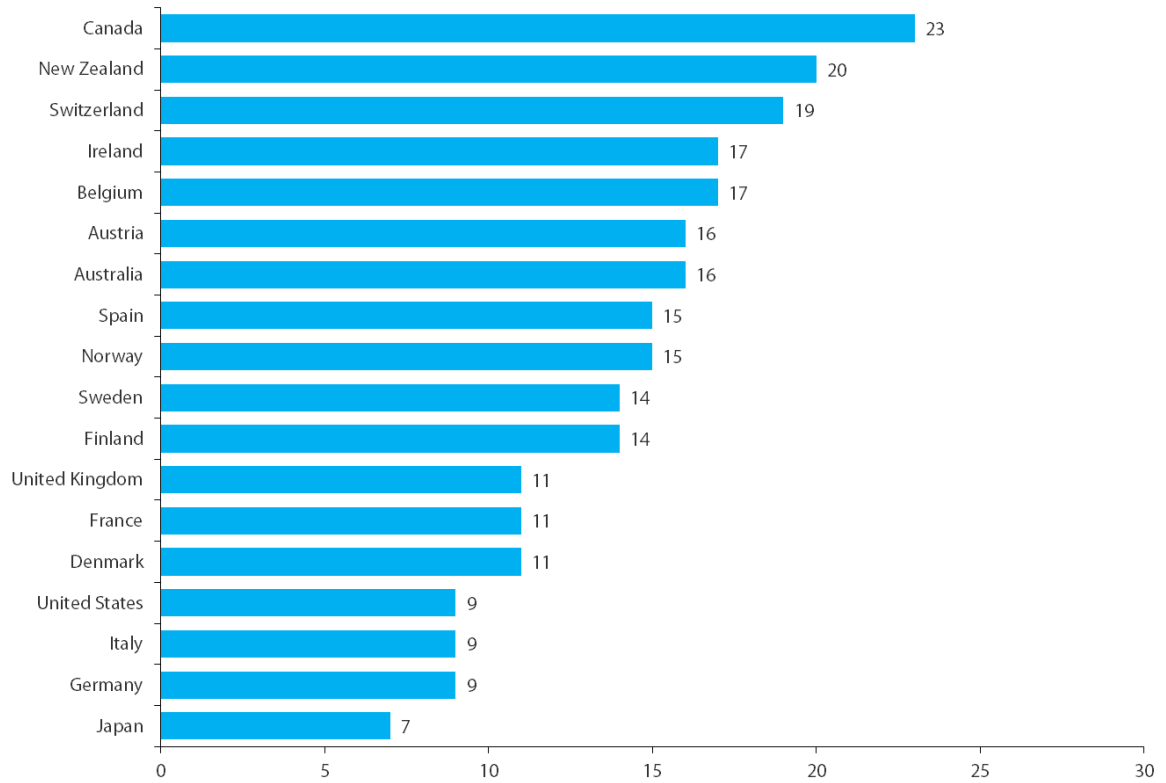
We did not weight the indicators or the criteria in terms of level of importance, and recognize that not doing so is somewhat arbitrary. Nevertheless, this approach provides a systematic basis for gauging and comparing each country's environment, and thereby the relative benefit that a public broadcaster could bring to a country.

While this assessment was qualitative in many respects, it was systematic in terms of comparative analysis. We selected indicators that could be considered indicative of the relevant socio-political conditions for each country. For each indicator we used a simple five-grade scale (high to low) for rating each country. While this approach did not eliminate subjectivity, it did force a discipline to the ranking of the countries.

The results of the rating process are presented in Figure 1. Under this approach, Canada received the highest score (23 out of 30), thus indicating that it could potentially benefit most from a public broadcaster, compared to 17 other Western countries. New Zealand, Switzerland, Ireland and Belgium also posted relatively high potential-benefits scores, ranging from 17 to 20.

Japan displayed the lowest score among 18 Western countries (18 out of 30). Germany, Italy and the United States (US) also posted relatively low scores (9 out of 30).

Figure 1 Index of potential benefits of public broadcasting, 2014



Source: Nordicity analysis, PRS Group Inc. and EurodataTV.

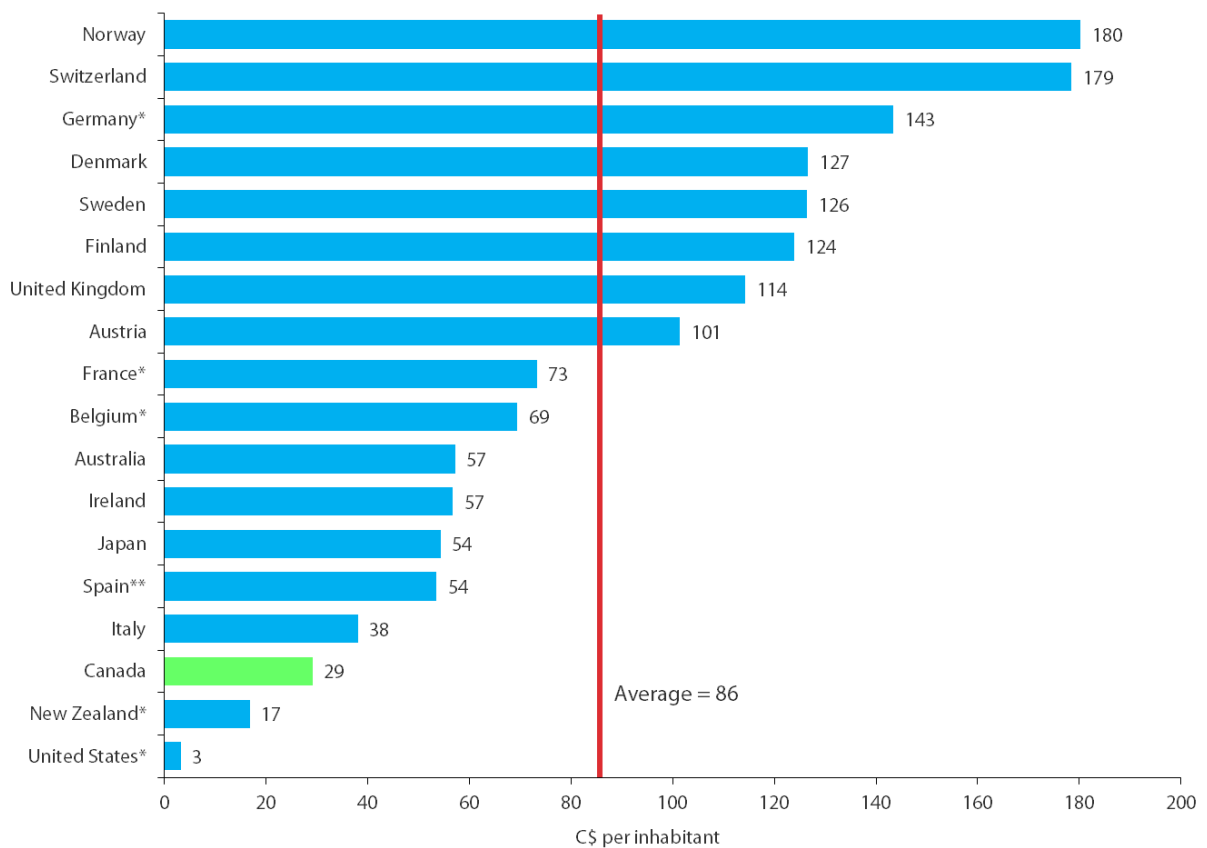
## 3. International Comparison of Public Broadcasting

### 3.1 Public funding for public broadcasting

Canada continued to display one of the lowest levels of public funding for public broadcasting in 2014 (Figure 2). Among 18 major Western countries, Canada was third lowest in terms of the level of per capita public funding for public broadcasting in 2014.

Canada's national public broadcaster, CBC/Radio-Canada, receives public funding by way of an annual parliamentary appropriation. In 2014, this parliamentary appropriation was just over \$1 billion, or equivalent to \$29 per capita (all amounts in Canadian dollars, unless indicated otherwise).<sup>21</sup>

**Figure 2 Per capita public funding for public broadcasters, 2014<sup>†</sup>**



Source: Nordicity analysis of annual reports of public broadcasters; see References and Data Sources and Appendix A for additional detail.

<sup>†</sup> Excludes any commercial revenue earned by public broadcasters.

\* Includes certain data for 2013 fiscal year due to unavailability of data for 2014.

\*\* Statistics for Spain are for 2013 fiscal year and include autonomous region public broadcasters.

As in previous editions of this study, only New Zealand and the US posted lower levels of public funding. Canada's level of public funding was 64% less than the \$86 average across the 18 comparison countries. This average, however, belies the fact that there was a wide variation in the per capita levels of public funding across Western countries. Later in this study, we delve into some of the possible explanations for this wide variation. In summary,

<sup>21</sup> This figure excludes the public funding of provincial educational broadcasters: TéléQuébec, TVOntario, TFO and Knowledge Network BC. The public funding for these broadcasters was equal to approximately \$3 per inhabitant during the 2014 fiscal year.

however, we note that levels of public funding are clearly higher in northern European countries, and lower on the southern and western edges of Europe as well as outside of Europe.

Scandinavian countries – Norway, Denmark, Sweden and Finland – occupied four of the top six countries in terms of per capita public funding. In some respects, the high levels of per capita funding in Scandinavia reflect the strong political and public support for public broadcasting in countries such as Denmark.<sup>22</sup> And while these Scandinavian countries have relatively smaller populations (i.e. under 10 million) than many other European countries, country-size alone, was not a reliable determinant of per capita public funding. The largest country in Europe, Germany (population: 80.9 million) actually displayed the third highest level of public funding, \$143 per capita.

Germany's relatively high rate of per capita public funding may, in part, reflect the fact that its public broadcasting system consists of two national public television networks, ZDF and ARD-Das Erste, as well as a consortium of regional public broadcasters (also operating under the ARD network). These overlapping networks and regionalization of the public broadcasting system means that the cost structure for public broadcasting tends to be higher in Germany.

Another, high-funding country, Switzerland, also maintains four public broadcasters for each of its four official languages, French, German, Italian and Romansh. What is more, the operations of these four language-based broadcasters has to be amortized over a relatively small population of 8.2 million.

#### Public funding in Spain

On January 1, 2010, the Spanish government abolished the sale of television advertising by the by the national public broadcasting corporation, RTVE. To compensate for the loss of an estimated €478 million in advertising revenue and help RTVE meet its annual budget of over €900 million, the government implemented:

- a €550 million government grant;
- a 3% levy on commercial broadcasters' revenue;
- a 0.9% levy on telecommunications providers (e.g. Telefonica, Vodafone, Orange) as recompense for use of radio-spectrum; and,
- 80% of the revenues earned by the government from spectrum licence fees paid by all radio and television operators.

In the 2013 edition of this study, only the government grant portion of this new funding model was included in the tabulation of total per capita public funding in Spain public broadcasting system. In this edition of the study, however, all four sources of funding have been classified as public funding. This new approach reflects the fact that the industry levies and taxes used to raise monies are hypothecated taxes or analogous to licence fees imposed on households and businesses in other countries.

For most of the 18 countries, the public funding for public broadcasting was raised through some type of licence fee levied on households, and in some cases, businesses.

A small national population base or even a fragmented population base (due to a regional broadcasting system) do not, however, on their own, explain high levels of public funding. The United Kingdom (UK) displayed per capita public funding of \$114 in 2014, despite the fact that it has a relatively large population base (64.5 million) – and with the exception of a small amount of programming broadcast in Welsh by S4C – broadcasts in a single

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<sup>22</sup> European Audiovisual Observatory (2015), pp. 53-54.

language: English.<sup>23</sup>

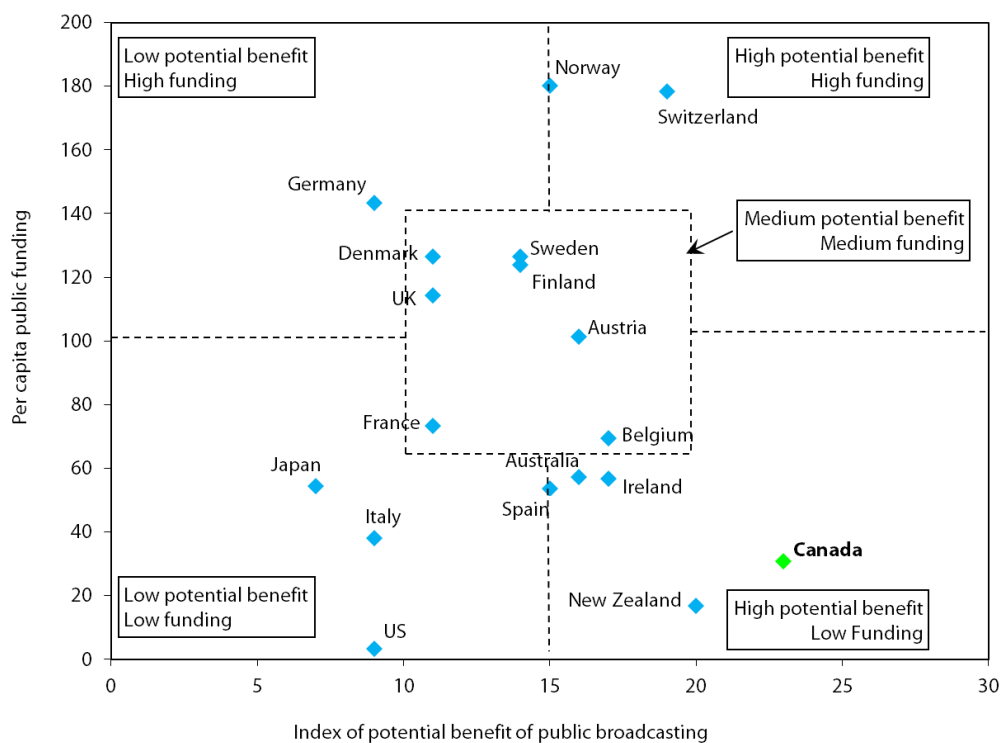
Later in the study, we examine the relationship between per capita public funding and commercial revenues. At this point, however, we note that it was very common for countries with below-average per capita public funding to utilize other sources of funding, namely advertising and sponsorship income, to fund their public broadcasting systems. In fact, all but one of the countries with below-average funding, i.e. Japan, also earned advertising and sponsorship revenue. However, once again, the use of mixed revenue models was not perfect predictor of per capita public funding levels because some countries with high per capita public funding also follow mixed revenue models (e.g. Germany, Switzerland and the UK).

### 3.2 Public funding vs. potential benefits

To help explain the wide differences in public funding for public broadcasting, we compared the per capita levels of public funding in each country to its potential-benefits score. Our hypothesis was that there should a strong positive correlation between these two variables.

The results of this comparison can be found in Figure 3. Rather than confirming the existence of a strong positive relationship, the scatter plot indicates that Western countries can be grouped in three categories: (i) countries that under-fund; countries that over-fund, and countries where funding is commensurate with potential benefits.

**Figure 3 Comparison of potential benefit and funding of public broadcasting, 2014**



Source: Nordicity analysis, PRS Group Inc. and EurodataTV.

**Under-funding:** The countries in the bottom right quadrant of Figure 3 display low levels of per-capita funding even though there is a high potential benefits from public broadcasting. Canada is among this group. This group also includes New Zealand, Australia, Ireland and Spain.

<sup>23</sup> The public funding of S4C accounted for only \$2.24 out of total per capita public funding of \$114.23 in 2014.

**Over-funding:** Countries in the upper-left quadrant of Figure 3 have high levels of public funding even though the relative potential benefits from public broadcasting could be low. Germany is the only country that clearly falls within this group.

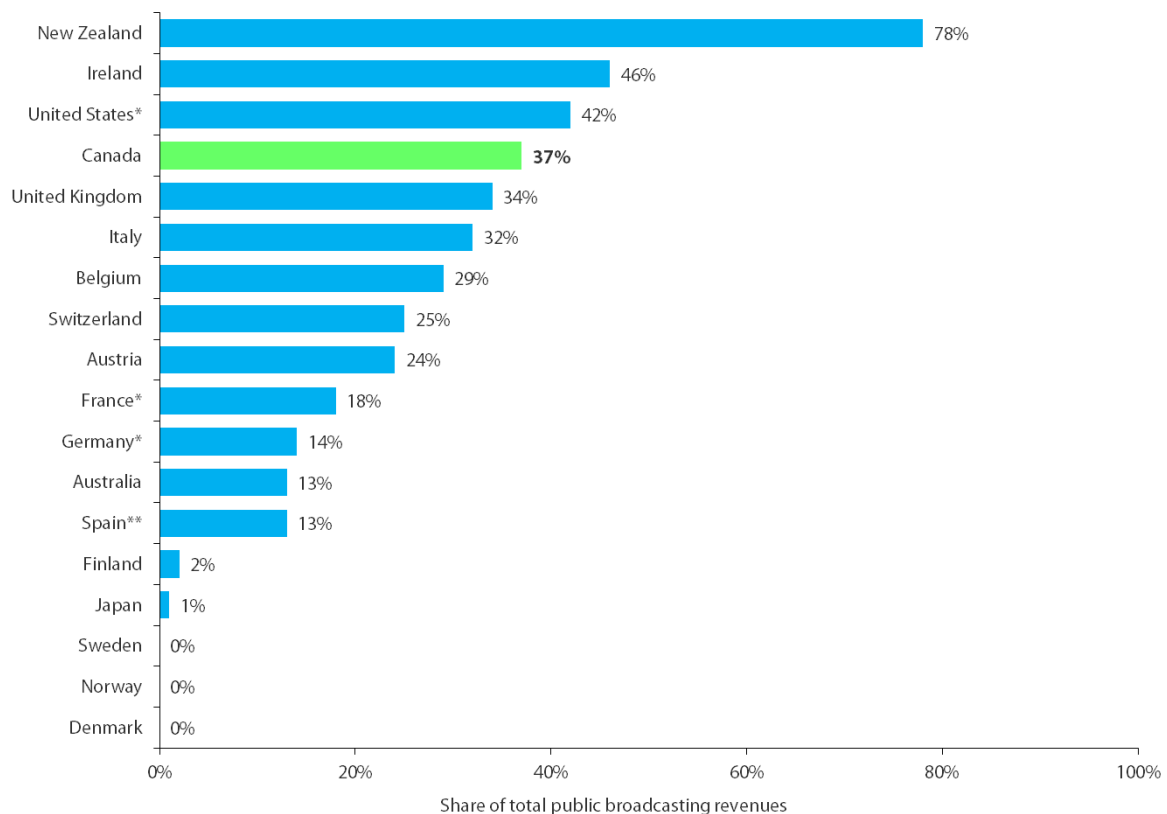
**Commensurate funding:** The remaining 11 countries in the bottom-left and top-right quadrants as well as middle box display levels of per capita public funding that are commensurate with the potential benefits of public broadcasting.

### 3.3 Commercial revenues

In this sub-section, we examine the extent to which public broadcasters in the 18 comparison countries earned revenues from commercial sources such as the sale of television and radio advertising airtime, the sponsorship of television and radio programming, the licensing of programming to other broadcasters, publishing rights and merchandise sales.

Among the 18 comparison countries, there were three countries where public broadcasters did not earn any commercial revenues (Figure 4). Public broadcasters in Sweden, Norway and Denmark reported that they did not earn any revenues from commercial activities in 2014: all of their income was derived from public-funding sources, namely television and radio licence fees levied on households and businesses.

**Figure 4 Commercial revenues as a share of total public broadcaster revenues, 2014**



Source: Nordicity analysis of annual reports of public broadcasters; see References and Data Sources and Appendix A for additional detail.

\* Includes certain data for 2013 fiscal year due to unavailability of data for 2014.

\*\* Statistics for Spain are for 2013 fiscal year and include autonomous region public broadcasters.

At the other end of the spectrum was New Zealand, where public broadcasters earned 78% of their total revenue from commercial sources in 2014. New Zealand’s largest public broadcaster, Television New Zealand (TVNZ), is a

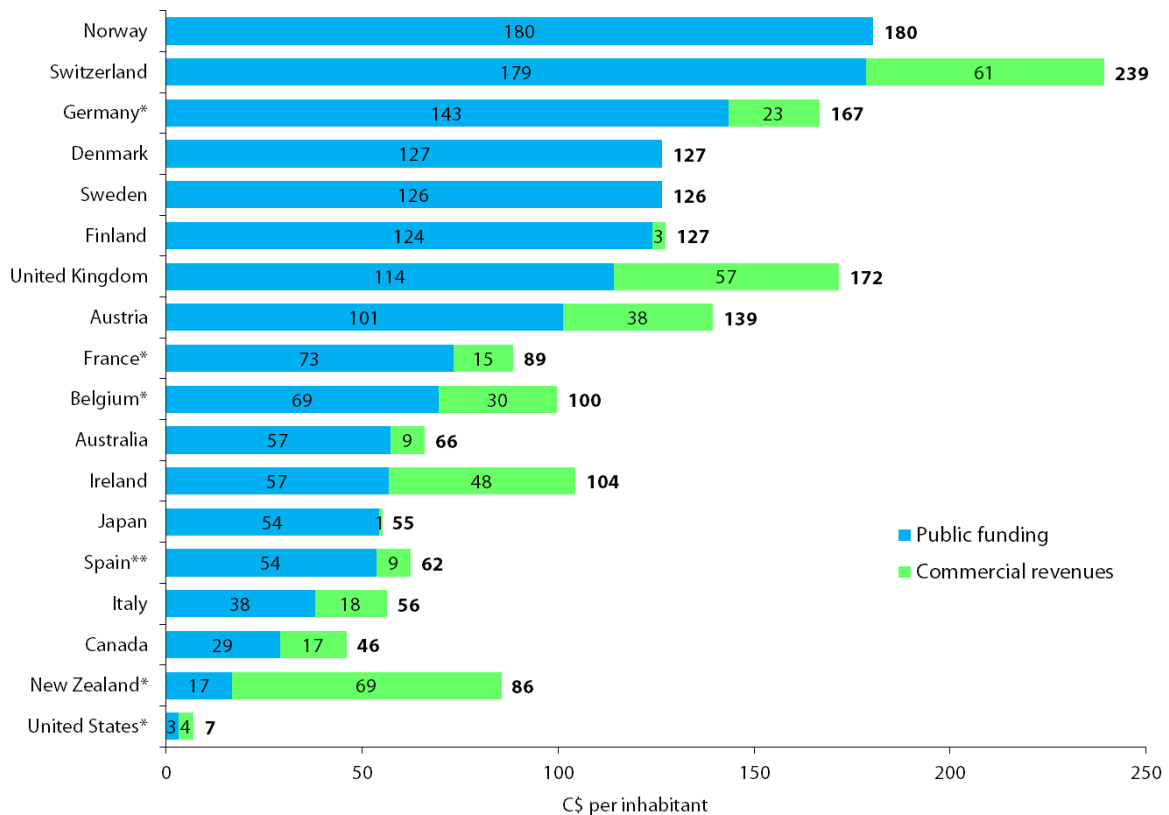


Crown Owned Entity, much like public broadcasters in other countries.<sup>24</sup> It also receives a small amount of operations funding from the government. However, with the enactment of the *Television New Zealand Act 2003*, TVNZ was tasked with “maintaining its commercial performance” and thereby operates in a financially viable manner.<sup>25</sup> This operating model has meant that it has sought to raise the majority of its revenue from commercial sources.

In between these extreme cases, the public broadcasting systems in 12 (of 18) countries earned between 10% and 50% of their total revenue from commercial sources in 2014. With a commercial-revenue share of 37% in 2014, Canada was near the top of this range. The other high-share countries included Ireland and the US.

Figure 5 ranks the 18 comparison countries on the basis of their public funding per capita (as in Figure 2), but also indicates the amount of commercial revenue per capita earned by public broadcasters in each country. The data in Figure 5 show that countries with high levels of public funding also tend to have lower levels of commercial revenue. Among the top six countries, only Switzerland and Germany had significant levels of commercial revenue. The data also show that commercial revenues rarely compensate for low levels of public funding. Among the 10 countries with public funding under \$100 per capita, only New Zealand, Ireland and Belgium had commercial revenue levels that would move them significantly higher in the ranking of countries.

**Figure 5 Commercial revenues and public funding per capita, 2014**



Source: Nordicity analysis of annual reports of public broadcasters; see References and Data Sources and Appendix A for additional detail.

\* Includes certain data for 2013 fiscal year due to unavailability of data for 2014.

\*\* Statistics for Spain are for 2013 fiscal year and include autonomous region public broadcasters.

<sup>24</sup> Television New Zealand Limited (2018), *Statement of Intent: For the years ending 30 June 2018*, [http://images.tvnz.co.nz/tvnz\\_images/about\\_tvnz/FY2015%20Statement%20of%20Intent%20FINAL.PDF](http://images.tvnz.co.nz/tvnz_images/about_tvnz/FY2015%20Statement%20of%20Intent%20FINAL.PDF)

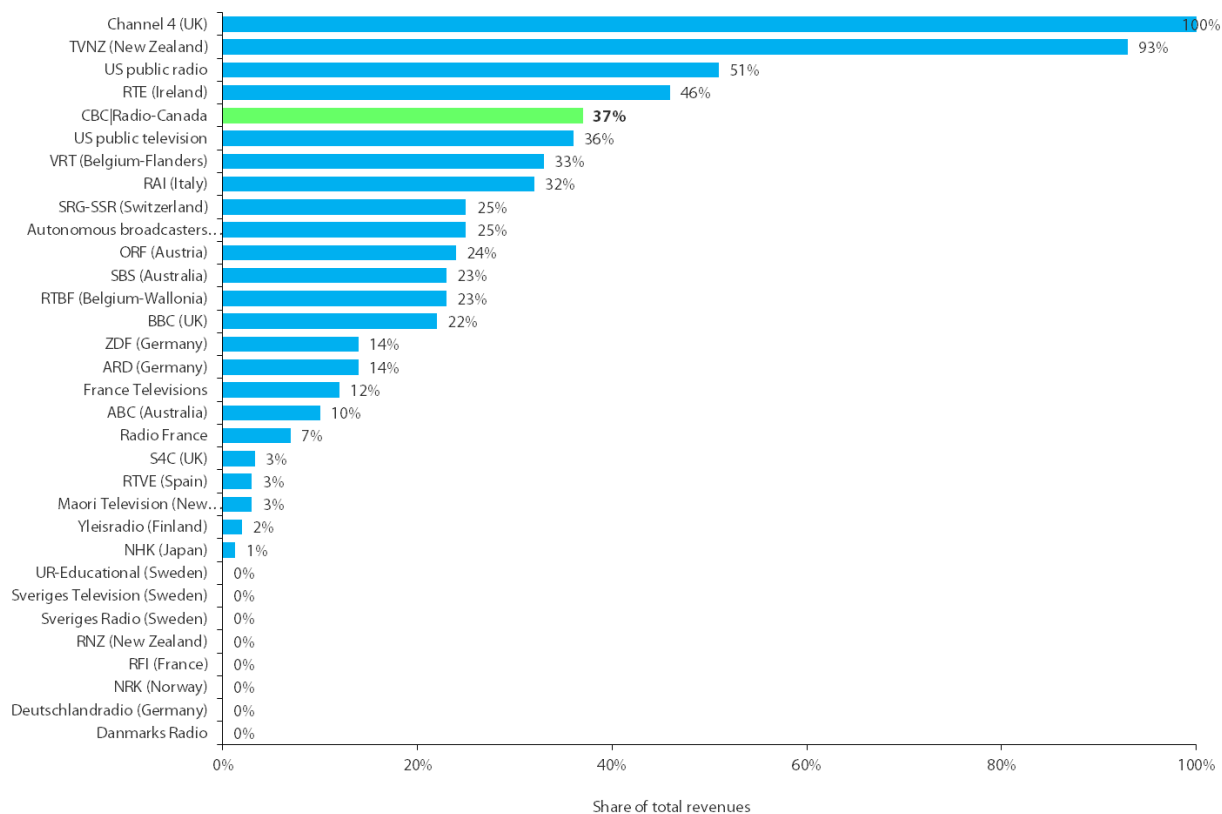
<sup>25</sup> New Zealand Government (2011), *Television New Zealand Act 2003*, reprint as at 23 July 2011, <http://www.legislation.govt.nz/act/public/2003/0001/latest/DLM183337.html>

In most Western countries, public broadcasting is delivered by more than one public broadcaster. In many countries, domestic television and radio services are delivered by separate entities. In some countries, television services may be delivered by two or more distinct public broadcasters. For example, in Germany, ZDF and ARD deliver public television services. In the UK, BBC and Channel 4 – both of which are government-owned – deliver public television services.

In those cases where public broadcasting services are delivered by two or more entities, the hybrid revenue models may be a function of different broadcasters operating different funding models. Figure 6 provides a more detailed breakout of commercial-revenue shares of 32 individual public broadcasters or public broadcasting organizations across the 18 comparison countries.<sup>26</sup>

The broadcaster-by-broadcaster data in Figure 6 largely correspond to the country-basis data presented in Figure 4. The data in Figure 6 also reveals that there can be significantly variability in the revenue models of public broadcasters within a given country. In the UK, the government-owned Channel 4 receives no public funding and earns 100% of its revenue from the commercial sources. Meanwhile, BBC, which does receive public funding, still earns 22% of its total revenue from commercial sources.

**Figure 6 Commercial revenues by individual public broadcaster or organization, 2014**



Source: Nordicity analysis of annual reports of public broadcasters; see References and Data Sources and Appendix A for additional detail.

In New Zealand, the largest public broadcaster, TVNZ earns 93% of its revenue from commercial sources, while smaller public broadcasters, such as Maori Television and Radio New Zealand earn only 3% and 0%, respectively.

In Spain, the national public broadcaster, RTVE, earned 3% of its revenue from commercial sources, while the

<sup>26</sup> Examples of organizations of public broadcasters include the group of autonomous region public broadcasters in Spain and the public broadcasting system in the U.S. comprised of local PBS affiliates (public television) and National Public Radio (NPR) affiliates (public radio).

autonomous-region broadcasters earned 25% of their revenue from commercial sources. In Australia, the domestic public broadcaster, ABC, earned 10% of its revenue from commercial sources, while the international public broadcaster, SBS, relied on commercial sources for 25% of its revenue.

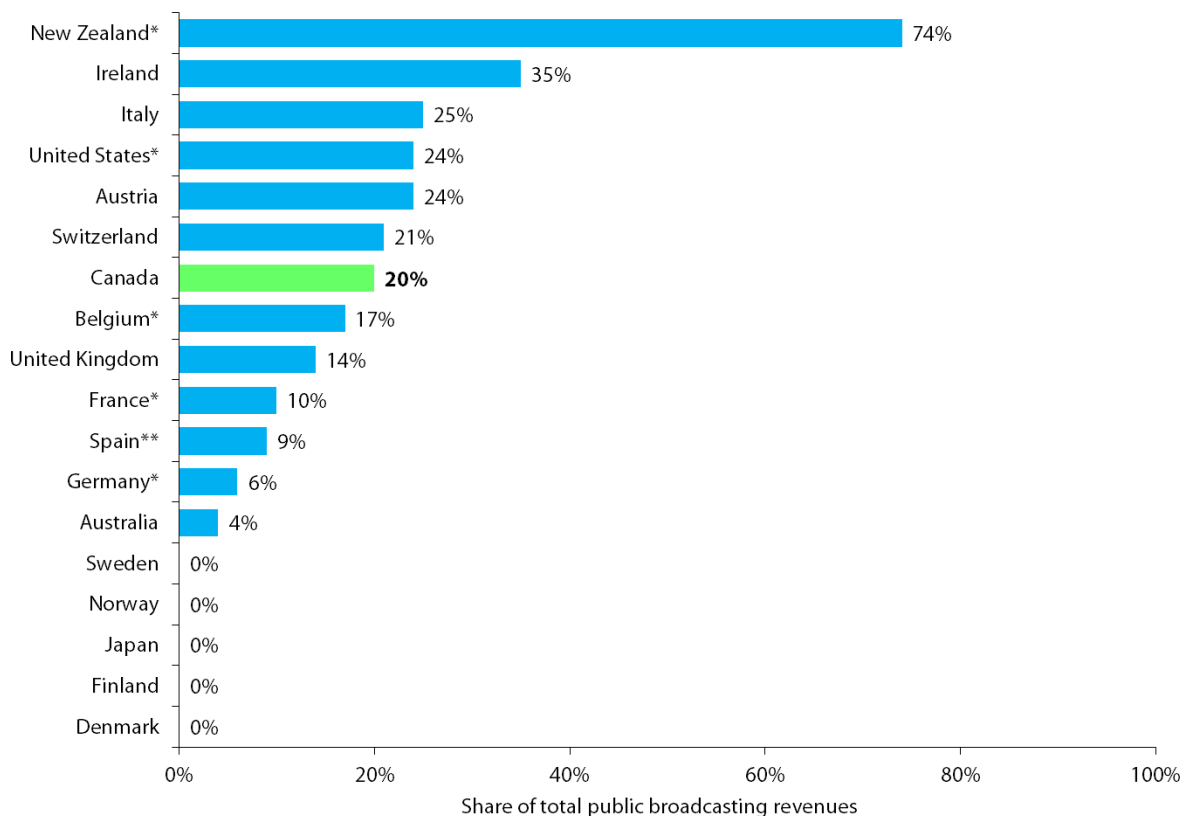
France and Belgium also displayed variances in the commercial-revenue shares across their various public broadcasters. In Germany, however, the two public television networks, ZDF and ARD, both earned 14% of their revenue from commercial sources in 2014.

### 3.4 Advertising revenues

In this sub-section, we confine our analysis of public broadcasters' commercial revenues to **advertising and program-sponsorship revenues**. We exclude the revenues earned from other commercial activities, such as program licensing and merchandise sales. While public broadcasters in 15 of the 18 comparison countries earned some amount of commercial revenues in 2014 (see Figure 4), a slightly smaller subset of 13 countries were home to public broadcasters that earned commercial revenues from the sale of advertising airtime or program sponsorships (Figure 7).

Since advertising and sponsorship revenue typically comprise the lion's share of commercial revenues in the broadcasting system, the profile of countries is very similar to that for commercial revenues. The Scandinavian countries – Sweden, Norway, Finland and Denmark – along with Japan were the only countries where public broadcasters did not earn any advertising and sponsorship revenues in 2014. Similarly, in New Zealand, where TVNZ operates with a commercial focus, advertising and sponsorship sales accounted for 74% of total revenue.

**Figure 7 Advertising and sponsorship revenues as a share of total public broadcaster revenues, 2014**



Source: Nordicity analysis of annual reports of public broadcasters; see References and Data Sources and Appendix A for additional detail.

\* Includes certain data for 2013 fiscal year due to unavailability of data for 2014.

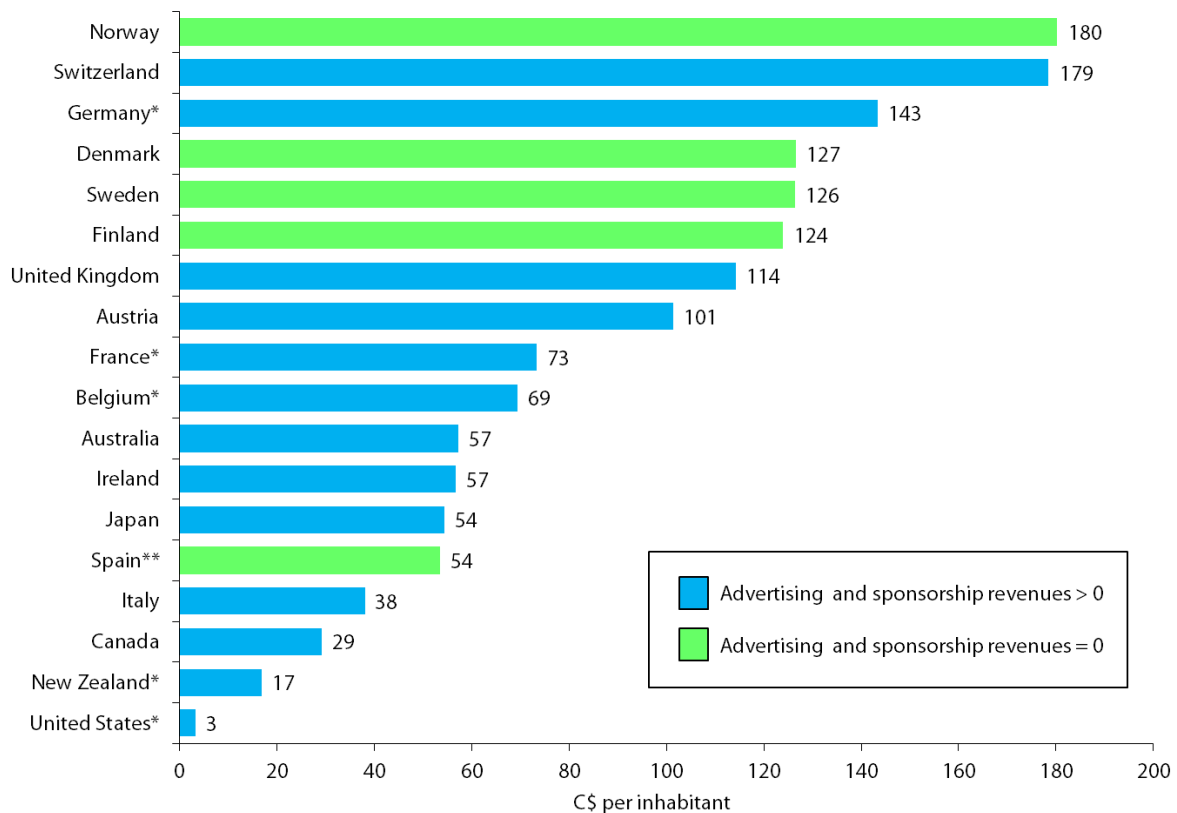
\*\* Statistics for Spain are for 2013 fiscal year and include autonomous region public broadcasters.

Advertising and sponsorship revenue accounted for between 5% and 35% of total revenue in 12 of the 18 comparison countries. Canada was in the middle of this range, with 20% of total revenue derived from advertising and sponsorship. That being said, several countries with very high levels of per capita public funding also displayed similar revenue shares for advertising and sponsorship sales as Canada.

Other than New Zealand, Ireland was the only other country with a higher advertising and sponsorship share than Canada. In 2014, 35% of its total revenue came from advertising and sponsorship, even though it also collected \$57 per capita in public funding. Austria and Switzerland also earned more than 20% of their total revenue from advertising and sponsorship even though they displayed per capita public funding rates of \$101 and \$179, respectively.

While the countries where public broadcasters did not earn advertising and sponsorship revenues also tended to have higher rates of per capita public funding for their public broadcasters, the correlation was not perfect (Figure 8). Of the five countries without advertising and sponsorship, the four Scandinavian countries were also among the top half in terms of public funding. Only Japan disallowed its public broadcaster, NHK, from selling advertising and sponsorships while also restricting its public funding to \$54 per capita – well below the \$85 average across the 18 comparison countries.

**Figure 8 Advertising and sponsorship revenues and public funding per capita, 2014**



Source: Nordicity analysis of annual reports of public broadcasters; see References and Data Sources and Appendix A for additional detail.

\* Includes certain data for 2013 fiscal year due to unavailability of data for 2014.

\*\* Statistics for Spain are for 2013 fiscal year and include autonomous region public broadcasters.

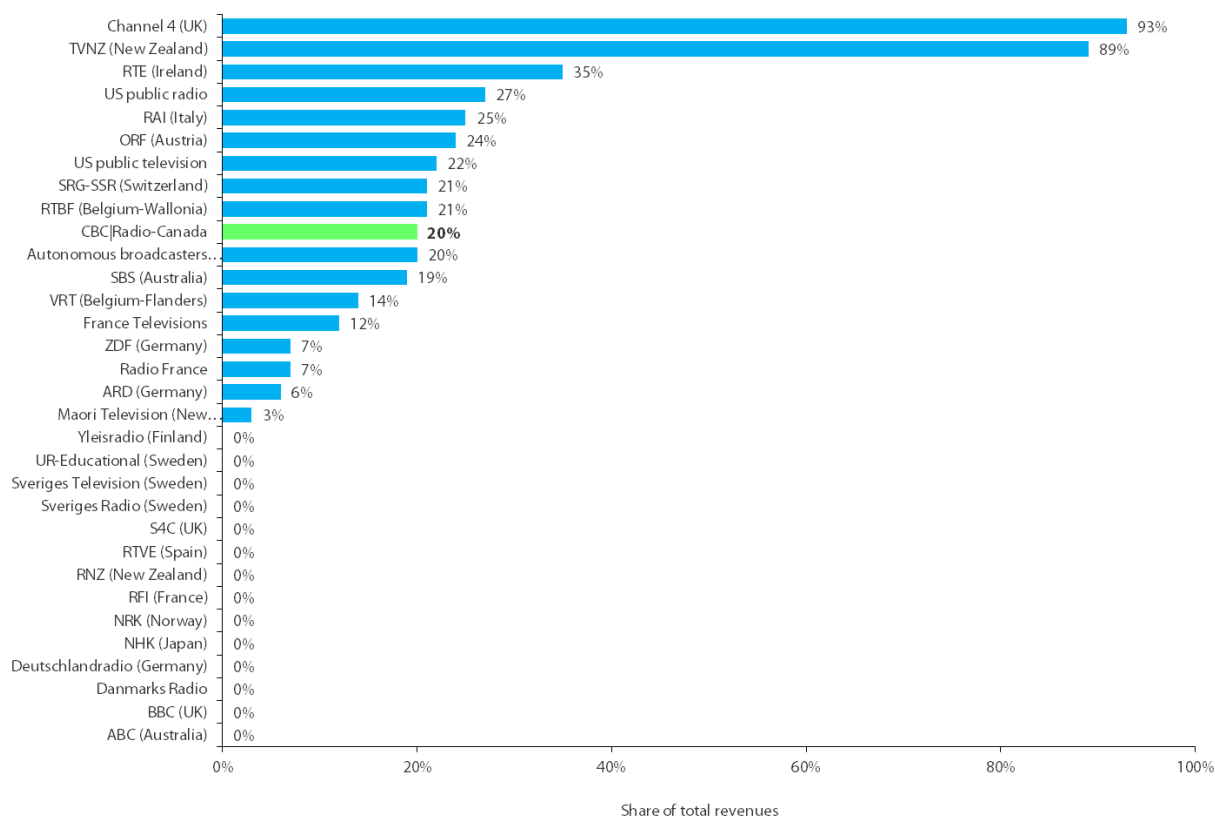
By the same token, high levels of public funding did not always rule out the prevalence of advertising and sponsorship sales within public broadcasters' funding models. As noted above, Austria and Switzerland both maintained higher-than-average levels of public funding and revenue shares from advertising and sponsorship in 2014. Mixed revenue models also existed in Germany and the UK, even though public funding was well above the \$86 average.

As with the commercial-revenue shares, a more detailed broadcaster-by-broadcaster data can shed light on the hybrid revenue models that exist within many countries (Figure 9).

- In the UK, for example, Channel 4 earned 93% of its revenue from advertising and sponsorships, while the BBC and S4C earned zero percent of their revenues from this source.
- In New Zealand, the largest public broadcaster, TVNZ earned 89% of its revenue from advertising and sponsorships, while the smaller public broadcasters, Maori Television and RNZ earned 3% or less from advertising and sponsorships.
- In Spain, the national public broadcaster, RTVE, was prohibited from selling advertising on its services. The autonomous region broadcasters, however, were not subject to the same ban. In 2013, 20% of their total revenue came from advertising and sponsorship sales.
- In Australia, the domestic public broadcaster, ABC, was ad-free in 2014, while the international public broadcaster, SBS, earned just under 20% of its revenue from advertising and sponsorships.

Germany and France also displayed variation among their public broadcasters in terms of the revenue share from advertising and sponsorships. In both countries, international broadcasters or public radio broadcasters were typically less reliant on advertising and sponsorship revenue than domestic television broadcasters.

**Figure 9 Advertising and sponsorship revenues by individual public broadcaster, 2014**



Source: Nordicity analysis of annual reports of public broadcasters; see References and Data Sources and Appendix A for additional detail.

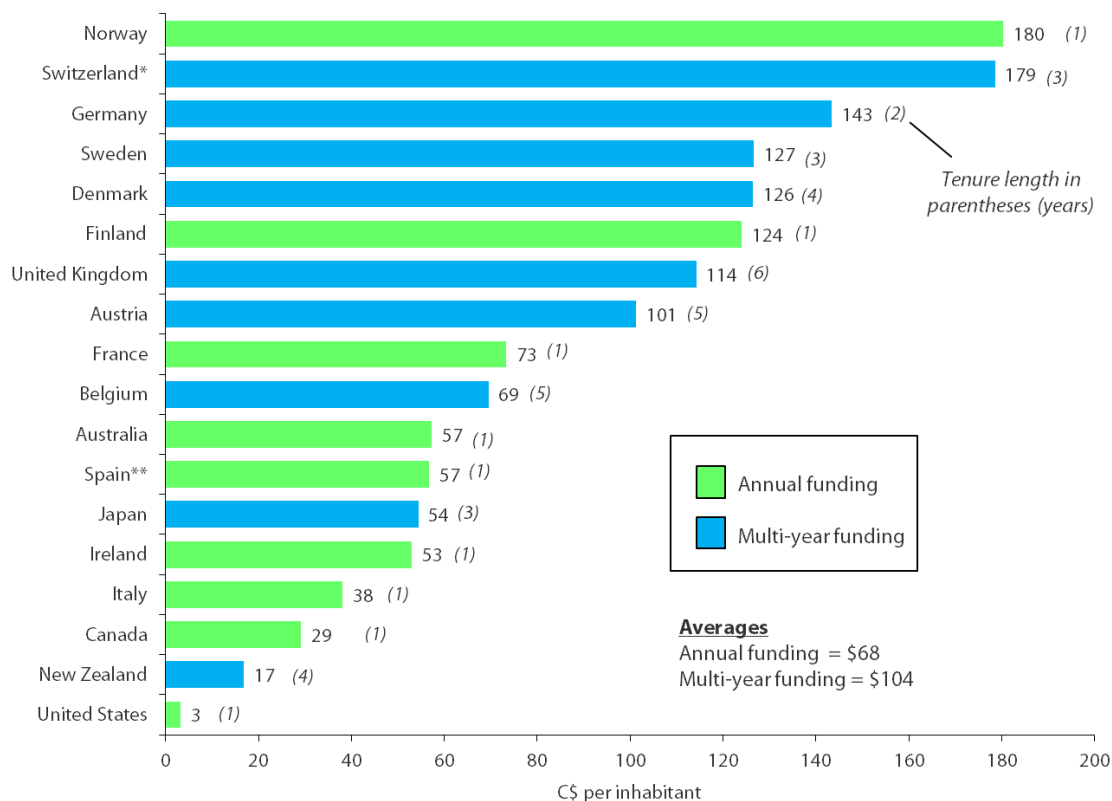
### 3.5 Public funding by type of funding tenure

In this sub-section, we compare the per capita public funding for public broadcasters in terms of the type of the funding-settlement tenure they operated under in 2014. We classify each public broadcaster into one of two funding-settlement categories: annual or multi-year.

We find that six of the top nine countries in terms of per capita public funding operated with multi-year funding settlements for their public broadcasters in 2014 (Figure 10). We also find that six of the bottom nine countries in terms of per capita public funding operated with annual funding settlements in 2014; only New Zealand operated with a multi-year funding settlement.

Overall, 9 of the 18 countries maintained annual funding settlements for their public broadcasters in 2014. The average per capita funding across these nine countries was \$68. The other nine countries maintained multi-year funding settlements for their public broadcasters. Across these countries, the average rate of per capita public funding was \$104.

**Figure 10 Per capita public funding, by tenure of funding-settlement, 2014**



Source: Nordicity analysis of annual reports of public broadcasters and interviews with representatives from public broadcasters; see References and Data Sources and Appendix A for additional detail; Rodney, Benson and Matthew Power, *Public Media and Political Independence: Lessons for the Future of Journalism from Around the World*, February 2011, accessed November 26, 2013, <http://www.freepress.net/sites/default/files/stn-legacy/public-media-and-political-independence.pdf>.

\* Data for Switzerland on the length of current tenure unavailable; the estimate of tenure length is based on the settlement tenure, 2008-2010.

\*\* Per capita funding statistics for Spain include an estimate for the autonomous region public broadcasters. Tenure information applies to RTVE only.

## 4. The Canadian Government's Economic Support for Culture

Section 3 of this study provided an international comparison of public funding and funding models for public broadcasting in 18 Western countries. Among other things, these international comparisons show that Canada's public broadcasting system receives one of the lowest levels of per capita public funding, even though its geography, demography and sociocultural environment could warrant high levels of public funding. The Canadian public broadcaster has attempted to make up this shortfall by relying on commercial sources for over 40% of its revenue in recent years.

In this section, we assess the public funding for public broadcasting in Canada on a purely domestic basis, by comparing it to overall trends in federal government finances and the federal government's support for culture and the broadcasting sector in particular.<sup>27</sup>

Figure 11 tracks the growth since 1991 in the federal government's financial support for CBC|Radio-Canada, private broadcasters, other culture and the general economy. These trends are expressed in current dollars – i.e. not adjusted for the effects of inflation. Some of this financial support is direct and takes the form of financial contributions made by federal government departments. Some of this financial support is indirect and take the form of the financial benefits captured by private companies on account of regulations enforced by parliament or the Canadian Radio-television and Telecommunications Commission (CRTC).

### **CBC|Radio-Canada:**

- The vast majority of the federal government's financial support for CBC|Radio-Canada is in the form of its annual parliamentary appropriation. In 1991, CBC|Radio-Canada received a parliamentary appropriation of \$1,078 million; during the 2014/15 fiscal years (i.e. "2015"), it received \$1,036 million. In other words, over 24 years, the parliamentary appropriation actually decreased by only \$42 million (in nominal terms). CBC|Radio-Canada also receives an indirect financial benefit from the federal government through section 19.1 of the *Income Tax Act*, which limits the tax deductibility of ads placed on non-Canadian media. This benefit was worth an estimated \$24 million in 2015 (see Appendix D). Overall, the financial support received CBC|Radio-Canada in 2015 was three percent lower than it was 1991.
- When the effects of inflation are taken into account, the trend in federal government financial support is even starker. As indicated in Figure 12, the real value of the federal government's financial support for CBC|Radio-Canada fell by 36% between 1991 and 2015.

### **Private television broadcasters (indirect support):**

- Despite the fact that the federal government's support for CBC|Radio-Canada has stagnated since 1991, its indirect financial support for private television broadcasters has increased. Private television broadcasters benefit from both section 19.1 of the *Income Tax Act* as well as simultaneous substitution regulations. Both provisions prevent competition from US border stations for Canadian advertising spend, thereby, keeping that spend within Canada.
- We estimate that the value of this indirect benefit increased by between 10% (low-impact scenario) and 18% (high-impact scenario) between 1991 and 2015. As noted in Figure 11, the value of this indirect benefit rose steadily during the 1990s and early 2000s, but has been in decline since the 2008-09 recession. This decline is linked to the fact that most of the value of these indirect benefits arise from simultaneous substitution, which is only available to conventional television broadcasters. These conventional television broadcasters have, themselves, experienced significant declines in advertising revenue in recent years, as viewers migrate to specialty television and the Internet – and advertisers follow them. Nevertheless, the financial benefit experienced by Canada's private television broadcasters has significantly outpaced that experienced by CBC|Radio-Canada since 1991.

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<sup>27</sup> In this section we have reverted to single-year denominations, e.g., 1996, to account for different year-ends for federal government financial statistics and broadcasting sector statistics. The former have a March 31 year-end; the latter have an August 31 year-end. The term 1996, therefore, refers to statistics from the government fiscal and broadcasting years ending in 1996.

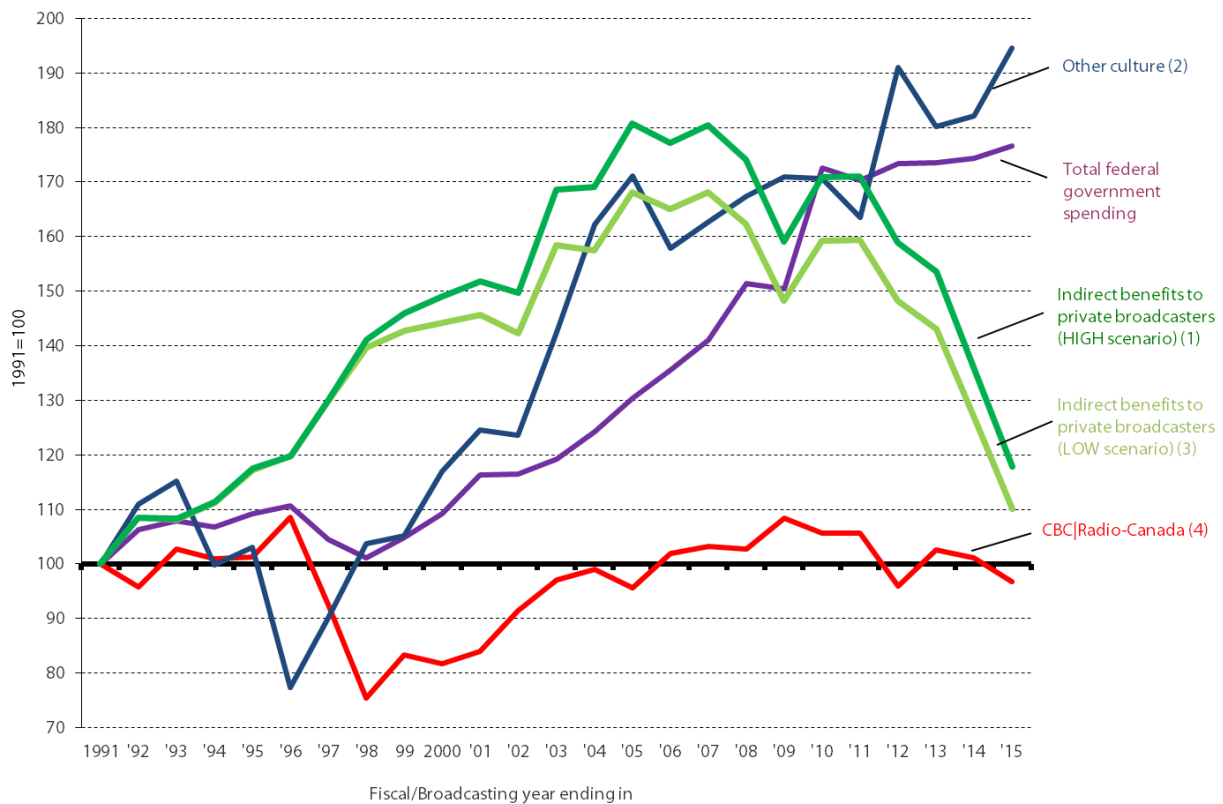
## Federal government spending on other culture (excluding the CBC|Radio-Canada):

- Not only has the federal government's financial support for private broadcasters outpaced its support for CBC|Radio-Canada, but so has its direct financial support for other cultural (excluding CBC|Radio-Canada). Through the Department of Canadian Heritage, the federal government makes contributions to museums and galleries, Library and Archives Canada, various arts and culture programs, and independent film and television production (i.e. contributions to the Canada Feature Film Fund and Canada Media Fund). The value of these financial contributions increased by 95% between 1991 and 2015. On a real-dollar basis, they increased by 29%.

## Total federal government spending:

- As with federal government spending on other culture, overall federal government spending also increased in both nominal and real terms between 1991 and 2015. On a nominal basis, it was up by 77%; on a real-dollar basis, it was up by 17%. Thus, it would appear that the federal government's financial support for CBC|Radio-Canada has failed to keep up with the overall rate of spending across the entire Canadian economy.

Figure 11 Federal government expenditures and economic support of culture, current dollars, 1991 = 100

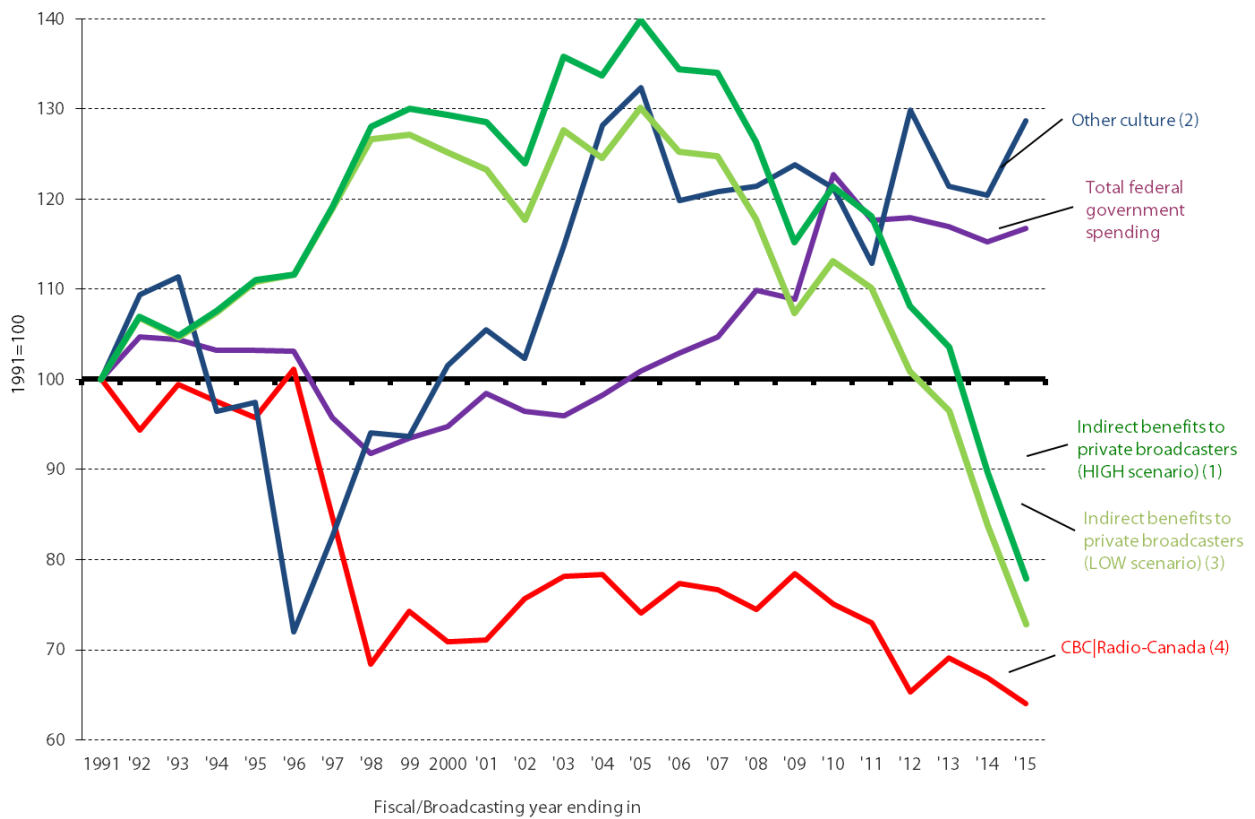


Source: Nordicity calculations based on data from Statistics Canada, CANSIM, matrix 325-0002; Public Accounts for Canada; CRTC; Donner and Lazar; and CBC|Radio-Canada.

- Indirect benefits to private broadcasters (HIGH scenario) are the sums of estimates for simultaneous substitution and section 19.1.
- Other culture includes all federal government expenditures on culture and broadcasting, excluding payments to CBC|Radio-Canada.
- Indirect benefits to private broadcasters (LOW scenario) are the sums of estimates for simultaneous substitution and section 19.1.
- CBC|Radio-Canada includes annual parliamentary appropriation and estimate of indirect benefit of section 19.1.



Figure 12 Federal government expenditures and economic support of culture, real dollars, 1991 = 100



Source: Nordicity calculations based on data from Statistics Canada, *CANSIM*, matrix 325-0002; *Public Accounts for Canada*; CRTC; Donner and Lazar; and CBC|Radio-Canada.

- (1) Indirect benefits to private broadcasters (HIGH scenario) are the sums of estimates for simultaneous substitution and section 19.1.
- (2) Other culture includes all federal government expenditures on culture and broadcasting, excluding payments to CBC|Radio-Canada.
- (3) Indirect benefits to private broadcasters (LOW scenario) are the sums of estimates for simultaneous substitution and section 19.1.
- (4) CBC|Radio-Canada includes annual parliamentary appropriation and estimate of indirect benefit of section 19.1.

## 5. Funding Models for Public Broadcasting

The statistics in Section 2 demonstrate that there is a wide variation in the per capita levels of public funding for public broadcasting in Western countries. The statistics for the share of public broadcasting revenue from commercial sources or advertising and sponsorship further demonstrate that the *funding models* for public broadcasting also vary significantly across Western countries.

Even with respect to the public-funding component of those funding models, there are differences in the methods in which monies are raised and distributed to public broadcasters. In this section, we examine the various funding models for public broadcasting in the 18 comparison countries and review the experience of certain countries that have made significant changes to their public broadcasting funding models in recent years.

### 5.1 Overview of funding models

Western countries use a variety of models to fund public broadcasting. The statistics in Sections 2.2 and 2.3 show that some countries rely exclusively on public funding, while others use a mixed model that incorporates public funding as well as commercial sources, most notably sales of advertising airtime and program sponsorships.

There is also a wide variation in the forms of public funding that public broadcasters receive in Western countries. In the 18 comparison countries included in this study, there are at least five distinct methods by which public broadcasters receive public funding. These methods include: (i) parliamentary grants, (ii) equipment/receiving licence fees, (iii) universal household licence fees, (iv) income tax charges, and (v) hypothecated industry levies.

In some cases, public funding sources may not clearly resemble government funding. For example, in Spain and France, commercial broadcasters and telecom companies are subject to hypothecated industry levies that are directed to state-owned public broadcasters.<sup>28</sup> So while these levies represent payments from commercial entities to public broadcasters – much like advertisers would pay a public broadcaster for airtime – the funding should be considered *public* because the payments are involuntary and there is no product or service exchanged between the parties. In our taxonomy of funding models, this type of funding has been classified as public funding.

In Table 2 (below), we summarize the funding methods, and thereby, the funding models for public broadcasting in the 18 comparison countries included in this study.

As noted in Section 2.2, 13 of the 18 comparison countries use a combination of commercial and public sources to fund their public broadcasting systems. Only the Scandinavian countries and Japan rely entirely on public sources.

The highest level of public funding on a per capita basis in 2014 was in **Norway**. In 2014, Norway's broadcasting licence fee, which is set annually by the Norwegian Parliament, was Nkr 2,729.16 (including VAT at 8%) per television-receiving household per year.<sup>29</sup> At 2014 exchange rates, Norway's licence fee was equivalent to \$480 per television-receiving household per year.

**Switzerland** also has very high levels of per capita public funding for its public broadcasting. Its licence fee is effectively a *receiving* fee because residents have to pay it regardless of the technology they use to watch television programming or listen to the radio. So even if a household does not own a television, but watches television programming on their smartphone or tablet, they are still liable to pay the licence fee. For that reason, Switzerland's receiving licence fee is virtually analogous to a universal household fee, even though a household

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<sup>28</sup> Note that in France the revenue from hypothecated industry levies (applied to commercial TV broadcasters, telecom companies and ISPs) do not flow directly to public broadcasters, but are used by the French government to offset its annual parliamentary grant to France Télévisions. See La commission des finances, de l'économie générale et du contrôle budgétaire (2015), *Rapport d'information: sur le financement public de l'audiovisuel en France*, No. 3098, September 30, 2015, [http://www.assemblee-nationale.fr/14/rap-info/i3098.asp#P1302\\_249477](http://www.assemblee-nationale.fr/14/rap-info/i3098.asp#P1302_249477).

<sup>29</sup> NRK (2016), "The broadcasting licence fee," <http://www.nrk.no/lisens/the-broadcasting-licence-fee-1.8037439>.

could legally avoid it, if it did not consume any television or radio programming.<sup>30</sup>

**Denmark's** media licence fee is also a nearly-universal household licence fee. In Denmark, the media licence fee is paid by anyone who has a television, or computer, smartphone or tablet with Internet access.<sup>31</sup> This broad-based receiving fee was introduced on January 1, 2007 (with majority approval in parliament) in order to better reflect the platform-neutral remit of Denmark's public broadcasting system and mitigate the effects that new technology was having on the revenue base for public broadcasting.<sup>32</sup>

Overall, 11 of the 18 comparison countries have some type of equipment/receiving licence fee, even if that licence fee applies to a broad range of traditional and online equipment. Of these 11 countries, only one, Japan is outside of Europe. In fact, among the 18 comparison countries outside of Europe, parliamentary grants are more common. Australia, Canada, New Zealand and the US all utilize parliamentary grants.

**Table 2 Sources of funding for public broadcasting in selected Western countries**

Country	Public funding					Commercial
	Parliamentary grant	Equipment/Receiving licence fee	Universal household licence fee	Income tax charge	Hypothecated industry levies	
Norway		✓				
Switzerland		✓				✓
Germany			✓			✓
Denmark		✓				
Sweden		✓				
Finland				✓		
United Kingdom (BBC only)	✓	✓				✓
Austria		✓				✓
France	✓	✓			✓	✓
Belgium	✓	✓				✓
Ireland		✓				✓
Australia	✓					✓
Spain (RTVE only)	✓				✓	
Japan		✓				
Italy		✓				✓
Canada	✓					✓
New Zealand	✓					✓
United States	✓					✓

Source: Nordicity research

There is a clear bias towards the use of licence fees in Europe and parliamentary grants outside of Europe. Four European countries (UK, France, Belgium and Spain) do utilize parliamentary grants as part of their public funding models. In the UK and France, these grants are a fraction of the funding raised by licence fees. In Spain, the parliamentary grant is secondary to hypothecated industry levies used to raise the majority of the funding for RTVE. And in Belgium, the parliamentary grants are used to fund VRT (the Flemish-language public broadcaster) whereas licence fees are used to fund the operations of RTBF (the French-language public broadcaster).<sup>33</sup>

This tradition of equipment licence fees in Europe appears to be very much an historical legacy. In the case of

<sup>30</sup> SRG-SSR (undated), "Radio and TV licence fees," <http://www.srgssr.ch/en/licence-fees/radio-and-tv-licence-fees/>.

<sup>31</sup> DR (2016), "Media licence," <http://www.dr.dk/om-dr/licens/licens-english>

<sup>32</sup> European Audiovisual Observatory (2015), p. 41.

<sup>33</sup> European Audiovisual Observatory (2015), pp. 35-39.

Denmark, for example, the government introduced equipment licence fees to fund public broadcasting, so that the funding burden would fall on the minority of citizens using the service (i.e. owning televisions) rather than all taxpayers.<sup>34</sup> It was only later that the equipment licence fee model was seen as a more effective tool for creating independence between government and the public broadcaster.<sup>35</sup>

As discussed in more detail in Section 4.2 (below), several countries have modified their public broadcasting funding models over the past decade. Several countries, such as Denmark, have closed loopholes that may have arisen because of the increasing use of computers, smartphones or tablets.

Two countries, Germany and Finland, have made more radical reforms. These reforms were implemented in response to actual or projected shortfalls in public broadcasting revenue. In 2013, **Germany** replaced its equipment-based licence fee with a universal household licence fee (see Section 4.2.3). As of 2015, Austria was the only other European country to have considered a move to a universal household licence fee.<sup>36</sup>

Also at the beginning of 2013, **Finland** replaced its equipment-based licence fee with an income tax charge (see Section 4.2.4). However, the income tax charge approach appears to be the least common method of assessing a public broadcasting levy on residents and businesses.

Among the 18 comparison countries, **France** and **Spain** are the only ones that use hypothecated industry levies to raise part of the revenue for their public broadcasters. As discussed in more detail in Sections 4.2.1 and 4.2.2, the levies were introduced or expanded following the removal of some or all of the advertising from the national public television broadcaster. In effect, these hypothecated industry levies may have been part of a *quid pro quo*, whereby commercial broadcasters were granted more oligopolistic power in terms of selling airtime to advertisers in exchange for making a contribution to public broadcasting.

## 5.2 Funding model changes in selected countries

Over the past decade, several European governments have made significant changes to their public broadcasting funding models. In this sub-section, we review the changes that occurred in five countries: France, Spain, Germany, Finland and the UK.

### 5.2.1 France

In 2009, the Sarkozy government introduced provisions to eliminate the sale of advertising on France Télévision during prime time (the “ad-ban”). To replace the lost advertising revenue, the Sarkozy government introduced higher hypothecated levies on commercial broadcasters’ revenues (3% of advertising revenue), and new hypothecated levies on the revenues of Internet service providers (ISPs) and mobile telecom operators (0.9% of revenue).

Sarkozy’s announcement of his intention to ban advertising on public television channels in France caught the entire media industry and public by surprise. He had not even consulted with leadership at France Télévisions prior to announcing his intention to ban advertising.<sup>37</sup>

The official rationale for Sarkozy’s advertising ban was to re-emphasize the *public service* role of France Télévisions and to promote higher quality programming (i.e. programming that is not driven by ratings).<sup>38</sup> Sarkozy’s initial intention was to ban *all* advertising on France Télévisions by 2011. The ban on prime-time advertising was the first stage of his plan. In 2010/11, Sarkozy’s government postponed the extended ban on advertising, citing a negative impact on France Télévisions’s budget.<sup>39</sup> In 2013, France’s national assembly

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<sup>34</sup> European Audiovisual Observatory (2015), p. 42.

<sup>35</sup> Ibid.

<sup>36</sup> European Audiovisual Observatory (2015), p. 36.

<sup>37</sup> Jennifer Whitehead (2010), “France Halts Plans to Ban Remaining Ads on Public TV,” *Advertising Age*, October 6, 2010, <http://adage.com/article/global-news/advertising-france-halts-plans-ban-public-tv-ads/146328/>

<sup>38</sup> The Economist (2008), “A fuzzy picture,” *The Economist*, February 21, 2008, <http://www.economist.com/node/10727792>

<sup>39</sup> Whitehead (2010)

officially voted in favour of maintaining advertising on France Télévisions during daytime hours (i.e. outside of prime time).<sup>40</sup>

As noted above, the 2009 bill that instituted the ban on prime time advertising on France Télévisions also included the implementation of two new hypothecated industry levies, one of which was a levy of 0.9% of revenues of ISPs and mobile telecom operators. The ISP tax was initially deemed illegal by the European Commission (EC) under European Union (EU) telecommunications law in 2010; although the French government continued to levy it. In 2011, the EC referred France to the EU Court of Justice for failing to comply with European law. In 2013, the EU Court of Justice ruled in favour of French government and declared that the ISP/telecoms tax was not illegal under current laws.<sup>41</sup>

The second hypothecated industry levy introduced in conjunction with the ad ban was a 3% levy on the ad revenues earned by private television channels.<sup>42</sup>

France (mainland only*): Equipment-based Licence Fee	
Households	Businesses
€137 per household per year (mainland France) - regardless of the number of TVs - not applicable to computers with a TV card - Payable as part of <i>taxe d'habitation</i> .	Bars: - 1-2 TVs: €548 per business premise per year - 3-30 TVs: €931.60 - 31+ TVs: €1,287.80  Other businesses: - 1-2 TVs: €137 per business premise per year - 3-30 TVs: €232.90 - 31+ TVs: €289.45

Sources: <https://www.service-public.fr/particuliers/vosdroits/F88>;

[http://www.impots.gouv.fr/portal/deploiement/p1/fichedescriptive\\_5119/fichedescriptive\\_5119.pdf](http://www.impots.gouv.fr/portal/deploiement/p1/fichedescriptive_5119/fichedescriptive_5119.pdf)

\* Households and business premises in overseas territories are subject to lower rates. For example, the household rate is €87 per year

### Affirmation by the Hollande Government

<sup>40</sup> L'Express (2013), "France Télévisions: maintien de la publicité en journée voté à l'Assemblée," *L'Express*, July 17, 2013, [http://www.lexpress.fr/actualite/medias/france-televisions-maintien-de-la-publicite-en-journee-vote-a-l-assemblee\\_1267158.html](http://www.lexpress.fr/actualite/medias/france-televisions-maintien-de-la-publicite-en-journee-vote-a-l-assemblee_1267158.html)

<sup>41</sup> European Commission (2010), "Telecommunications: Commission takes action against France over 'telecoms tax'," press release, January 28, 2010, [http://europa.eu/rapid/press-release\\_IP-10-67\\_en.htm](http://europa.eu/rapid/press-release_IP-10-67_en.htm);

European Commission (2011), "Digital Agenda: Commission refers France and Spain to Court over 'telecoms taxes'," press release, March 14, 2011, [http://europa.eu/rapid/press-release\\_IP-11-309\\_en.htm](http://europa.eu/rapid/press-release_IP-11-309_en.htm);

Telegeography (2013), "EU's Court of Justice rules against EC in French telecoms tax dispute," June 28, 2013, <https://www.telegeography.com/products/commsupdate/articles/2013/06/28/eus-court-of-justice-rules-against-ec-in-french-telecoms-tax-dispute/>;

Rhonda Richford (2013), "European Public Broadcasters' Crisis: Tax and Ad Ban Hit French Channels," *Hollywood Reporter*, July 12, 2013, <http://www.hollywoodreporter.com/news/european-public-broadcasters-crisis-tax-584058>;

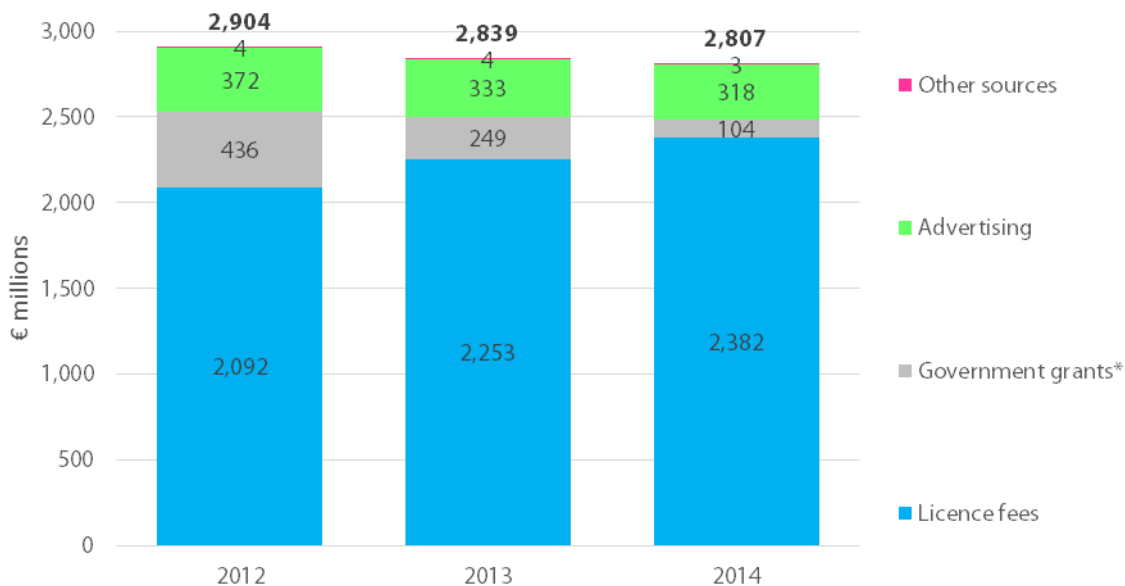
Reuters (2012), "France could scrap public TV advert ban, says budget minister," <http://www.reuters.com/article/us-france-tv-adverts-idUSBRE87MoCX20120823>

<sup>42</sup> Samuel Potier (2008), "France Télévisions supprime la publicité sur ses chaînes," *Le Figaro*, December 16, 2008, <http://www.lefigaro.fr/medias/2008/12/16/04002-20081216ARTFIG00415-france-televisions-supprime-la-publicite-sur-ses-chaines-.php>;

IHS Technology (2008), "Government confirms cut in public TV advertising from next year," June 30, 2008, <https://technology.ihs.com/401916/government-confirms-cut-in-public-tv-advertising-from-next-year>

Despite continued financial struggles for public broadcasters in France, the ad ban was upheld by Francois Hollande in 2015. The Hollande Government did consider reinstating advertising during prime time as a potential solution to the increasing budget deficits; however, in the end, it opted to increase the television licence fee by €1.00 (to €137 per year [\$201]) and increase the hypothecated levy on ISPs and mobile telecom operators from 0.9% of revenues to 1.2%.<sup>43</sup> The rationale behind upholding the ad ban during prime time on France Télévisions was officially cited by the Ministry of Culture and Communication as being driven by a desire to not disrupt or destabilize the private broadcasting sector.<sup>44</sup>

**Figure 13 Sources of France Télévision revenue (€ millions)**



Source: France Télévision Rapport Annuel 2014

\* Government grants are partially funded by hypothecated levies on private television broadcasters, ISPs and telecom operators.

The Hollande Government was forced to revisit the issue of the prime time ad ban in 2012 when the two new hypothecated levies put in place by the Sarkozy Government proved problematic. The 3% levy on private television channels' ad revenues was less lucrative than anticipated as the television industry, overall, began to experience a decline in advertising revenues.<sup>45</sup> At the time, the EC Court of Justice was still reviewing the legality of the ISP levy, so there was also risk that it could have to be removed. The legality of the ISP levy was subsequently upheld, however.<sup>46</sup>

As such, the Hollande Government was faced with increased financial struggles combined with a serious threat of decline or loss of key sources of funding. In response, the Hollande Government considered the option of reversing the ban on prime time advertising on the public broadcaster's channels.<sup>47</sup> The reversal of the ad ban, however, was strongly opposed by key stakeholder groups such as private broadcasters who were already experiencing a decline in advertising revenue. In the end, the Hollande Government maintained the ad ban and

<sup>43</sup> Robert Briel (2015), "French government to increase public broadcasting funding," *Broadband TV News*, September 14, 2015, <http://www.broadbandtvnews.com/2015/09/14/french-government-to-increase-public-broadcasting-funding/>

<sup>44</sup> Les Echos (2015), "France TV: pas de retour de la pub après 20h," September 13, 2015, [http://www.lesechos.fr/13/09/2015/lesechos.fr/021323237413\\_france-tv---pas-de-retour-de-la-pub-apres-20h.htm](http://www.lesechos.fr/13/09/2015/lesechos.fr/021323237413_france-tv---pas-de-retour-de-la-pub-apres-20h.htm)

<sup>45</sup> Faultline (2012), "France U-turns on public TV advertising," *The Register*, September 2, 2012, [http://www.theregister.co.uk/2012/09/02/france\\_public\\_tv\\_advertising\\_faultline/](http://www.theregister.co.uk/2012/09/02/france_public_tv_advertising_faultline/)

<sup>46</sup> European Commission (2010);

<sup>47</sup> Reuters (2012); Faultline (2012)

increased both the licence fee paid by the consumers and businesses, and the hypothecated taxes on ISPs and telecom operators (see above).<sup>48</sup>

### Stakeholder reactions

Anecdotal evidence suggests that the initial ad ban introduced by the Sarkozy Government was, and remains, popular among the French public, who are known to complain about advertising.<sup>49</sup> Organized labour was less supportive of the ad ban. After Sarkozy's initial announcement, certain unions held a one-day strike, fearing that the ban would impact jobs.<sup>50</sup>

When the Hollande Government was considering the return of advertising to France Télévisions during prime time to address the broadcaster's financial struggles, two key stakeholder groups wrote to the government arguing in opposition to an end to the ban. A group of private broadcasters submitted a letter to the government arguing that returning advertising to prime time on France Télévisions would provide an unfair advantage to the public broadcaster and further disadvantage private broadcasters who were already finding themselves in an increasingly fragile situation.<sup>51</sup>

**Table 3 Revenue from hypothecated industry levies for public broadcasting in France (€ millions)**

	2009	2010	2011	2012	2013	2014	Cumulative total
Levy on TV advertising income	27.7	17.8	13.2	13	14	15.3	101
Levy on telecom/ISP income	185.9	255	251	179.7	253.9	212.7	1,338.2
<b>Total revenue from hypothecated industry levies</b>	<b>213.6</b>	<b>272.8</b>	<b>264.2</b>	<b>192.7</b>	<b>267.9</b>	<b>228</b>	<b>1,439.2</b>
Government budget allocation to France Télévisions	415	423.3	361.9	435.9	248.8	103.6	1,988.5
<b>Government gain/(deficit) from hypothecated industry levies</b>	<b>(201.4)</b>	<b>(150.5)</b>	<b>(97.7)</b>	<b>(243.2)</b>	<b>19.1</b>	<b>124.4</b>	<b>(549.3)</b>

Source: [http://www.assemblee-nationale.fr/14/rap-info/i3098.asp#P1302\\_249477](http://www.assemblee-nationale.fr/14/rap-info/i3098.asp#P1302_249477)

Content creators also voiced opposition to any reinstatement of advertising on France Télévisions. A group of French producers and directors banded together and submitted a letter to the government that argued that the reinstatement of advertising for France Télévision would destabilize the broadcasting and production ecosystem, and have a significant negative impact on the financing of original content.<sup>52</sup>

### Impact of funding model changes

According to a study by Tilburg University, there was no notable audience increase for France Télévisions's channels following the ad ban, based on a comparison of data from the 2007/08 and 2008/09 television seasons.<sup>53</sup> Anecdotally, sources seem to indicate that there was no notable improvement in the quality of France Télévisions's programming. Some even claim the quality has declined since the ad ban.<sup>54</sup>

<sup>48</sup> Briel (2015)

<sup>49</sup> Campaign (2008), "The World: Where will French ads go after public TV ad ban?," January 25, 2008,

<http://www.campaignlive.co.uk/article/world-will-french-ads-go-public-tv-ad-ban/779642>;

Whitehead (2010)

<sup>50</sup> The Economists (2008)

<sup>51</sup> L'Express (2015), "La pub après 20 heures: "Pas sur France TV" réclament les médias privés," L'Express, September 10, 2015, [http://www.lexpress.fr/actualite/medias/la-pub-apres-20-heures-pas-sur-france-tv-reclament-les-medias-privés\\_1714484.html](http://www.lexpress.fr/actualite/medias/la-pub-apres-20-heures-pas-sur-france-tv-reclament-les-medias-privés_1714484.html)

<sup>52</sup> Le Point (2015), "Pub sur France Télé : les cinéastes écrivent à Hollande pour dire leur opposition," Le Point, September 11, 2015, [http://www.lepoint.fr/medias/pub-sur-france-tele-les-cineastes-ecrivent-a-hollande-pour-dire-leur-opposition-11-09-2015-1964061\\_260.php](http://www.lepoint.fr/medias/pub-sur-france-tele-les-cineastes-ecrivent-a-hollande-pour-dire-leur-opposition-11-09-2015-1964061_260.php)

<sup>53</sup> Lapo Filistrucchi, Luigi Luini and Andrea Mangani (2013), "Banning Ads from Prime-Time State Television Lessons from France" May 15, 2013, [https://www.tilburguniversity.edu/upload/cf2c52bf-b77c-4987-b66a-017ce7482df8\\_filistrucchi.pdf](https://www.tilburguniversity.edu/upload/cf2c52bf-b77c-4987-b66a-017ce7482df8_filistrucchi.pdf)

<sup>54</sup> Faultline (2012)

## 5.2.2 Spain

### Background and rationale

Not long after the Sarkozy Government announced its reforms to the public broadcasting funding model in France, Spain also introduced its own, very similar, changes to RTVE's funding model.

With effect on January 1, 2010, the Spanish government abolished the sale of television advertising by RTVE. To compensate for the loss of an estimated €478 million in advertising revenue, the Spanish government implemented a set of hypothecated industry levies on other broadcasters and telecom operators. These new hypothecated levies were supplemented by an existing parliamentary grant to form the following funding model, which was designed to cover RTVE's annual operating budget of €1.2 billion (\$1.7 billion):

- a levy on the revenue of free-to-air commercial broadcasters (3%) and pay-TV broadcasters (1.5%);
- a 0.9% levy on telecom providers (e.g. Telefonica, Vodafone, Orange) as recompense for use of radio-spectrum;
- an 80% share of the revenue generated by the existing levy on radio spectrum use, paid by all radio and television operators; and,
- a €550 million (\$809 million) government grant.

Figure 14 indicates how these various sources of public funding contributed to RTVE's revenue in 2010. It also indicates how these four sources of public funding changed between 2010 and 2013.

The Spanish government's decision to remove all advertising from public television was part of a wider reform of public broadcasting, with the objective of creating a higher-quality service that was also politically independent. At the time, RTVE was plagued by an accumulated debt of €7.5 billion (\$11 billion) and overriding politicization. In fact, reform of the national public broadcaster was one José Zapatero's campaign promises before he unexpectedly won Spain's 2004 election.

After taking office, Zapatero created a committee of six experts to determine the most suitable governance and funding models for RTVE. For nine months, the committee studied other models in Europe. It considered the possibility of a licence fee but ultimately ruled it out because of the tremendous unpopularity of such a fee in Spain.

In 2005 the expert committee delivered its recommendations to the government. Among other things, it concluded that in order to create an independent public broadcaster, there would have to be significant changes to RTVE's corporate governance and balance sheet. The committee recommended that the broadcaster's president be elected by public announcement and be untied to the government. It also recommended that the government assume RTVE's accumulated debt of €7.5 billion (\$11 billion) and ban the broadcaster from accumulating any new debt.

With respect to RTVE's funding model, the expert committee proposed a mixed funding model with approximately 50% covered by the government and the balance covered largely by advertising. It also recommended that advertising airtime on RTVE be limited to nine minutes per hour. At that time, RTVE had 17 minutes per hour; this was over the limit of 12 minutes per hour established by the EC.

Instead of proceeding with this recommended funding model, Zapatero followed – and even surpassed – Sarkozy's lead and abolished the sale of all television advertising by RTVE from January 1, 2010. As noted above, this outright ban on advertising left RTVE with a revenue shortfall of an estimated €478 million (\$793 million); this revenue shortfall was closed with a combination of hypothecated levies. Along with the ban on advertising, the government limited RTVE's resources for the purchase of television sports rights (excluding the Olympic and Paralympic Games) to 10% of its total expenditures. The 8,200 hours of advertising airtime released by the ad ban would be filled with in-house series and an increased obligation to invest in Spanish cinema.

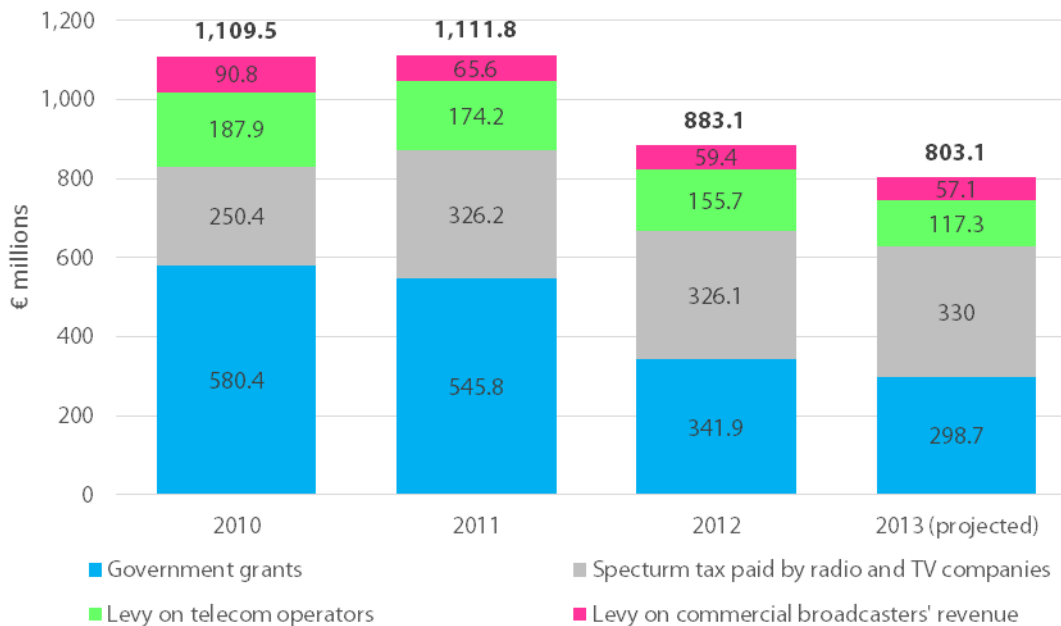
### Stakeholder reactions



Initially, consumers agreed with the ad ban because there was a widely held perception, at the time, that there were too many commercials on television. But gradually the public realized that the quality of programming was dropping.

Private broadcasters were in favour of the ad ban. UTECA, which is the umbrella association of all the commercial broadcasters in Spain, had been denouncing the unfair advertising competition from RTVE's main television services and pushed Zapatero to stop the sale of ads. In exchange for a much more favourable (or oligopolistic) television ad market and a guarantee that TVE, RTVE's television division, would no longer broadcast major sports events, commercial broadcasters agreed to pay a 3% levy. At that time, TVE was broadcasting some Barcelona FC and Real Madrid Champions League soccer games – both of which were major audience draws.

**Figure 14 Sources of public funding for RTVE (€ millions)\***



Source: [http://www.sirtve.com/docs/Informe\\_Situacion\\_economica\\_2014.pdf](http://www.sirtve.com/docs/Informe_Situacion_economica_2014.pdf)

\* Excludes small amounts of commercial revenue (<€25 million) earned by RTVE on an annual basis

Izquierda Unida (IU), the other left wing party in Spain, criticized the measure. The right wing Popular Party did not oppose the measure because it meant that influence that the Socialist Party had on the public broadcaster would be weakened. Unions opposed the decision.

The main opposition to the funding model, however, came from telecom operators (e.g. Vodafone, Orange and Movistar+), which were forced to pay 0.9% of their gross earnings. They considered this levy an illegal tax and took the case to the Court of Luxembourg, which ultimately sided with RTVE in June 2014. However, thanks to a series of lawsuits in Spanish tribunals, telecom operators were allowed to only apply the levy to the part of their gross earnings related to audiovisual businesses.

### Governance changes

As noted above, several changes occurred in the structure of the RTVE, coincident with the funding model changes. The first change was related with the election of RTVE's board of directors, which was previously chosen by the prime minister. As part of the public broadcasting reforms, the board's term would be changed to six years, so as to dissociate its election cycle from the four year political cycle.

Going forward, the 12 board members would be chosen on merit and experience, and with the support of two-thirds of the Spanish parliament. This super-majority approach implied that a consensus would have to be struck

between the two main political parties in parliament.

As part of the reforms, RTVE was also converted from a public entity to a public corporation. This change to its legal structure allowed the government to clear its debt of €7.5 billion (\$11 billion) and lay off 4,150 employees (out of 12,000) in 2008. All the employees over 52 were forced to take early retirement, with their pension costs assumed by the government).

#### Recent changes to funding model

RTVE's funding model has changed considerably since it was reformed in 2010. First, parliament's contribution has been reduced from over €500 million (\$735 million) to under €300 million (\$441 million) (Figure 14). The government has also reduced the contribution from telecom operators, from €188 million (\$276 million) in 2010 to €117 million (\$172 million) in 2013. The value of the levy paid by commercial broadcasters has also fallen from €91 million (\$134 million) in 2010 to €57 million (\$84 million) in 2013. Only the revenue from the spectrum levy has increased, from €250 million (\$455 million) in 2010 to €330 million (\$485 million) in 2013. With these reduced revenue streams and an annual budget of €948 million (\$1.4 billion), RTVE has, once again, started to accumulate debt. Since 2010, its annual deficit has been averaging €100 million (\$147 million); by 2014 the new accumulated deficit had reached €716 million (\$1.1 billion).

In addition, after the 2012 election of the Popular Party, the system to elect the RTVE's president was changed once again. It would no longer require a two-thirds majority in parliament; instead a simple majority requirement was reinstated. The implication being that the ruling party could once again exercise power over the governance of RTVE.

#### Impacts

The ratings of RTVE (focusing on the main channel, TVE1) did not vary in the first year of the ad ban (2010) but did drop to a record low in subsequent years: from an audience share of 16% in 2010 to 9.8% in 2015. This drop may not have been due entirely or largely due to the changing funding model, however, since the audiovisual sector was experiencing other major changes at the time. In fact, all television networks saw their ratings decrease due to the proliferation of channels on account of the implementation of digital terrestrial television in Spain. In the summer of 2015, TVE1's share dropped to 7%, below smaller channels like La Sexta and Cuatro. Several programmes were cancelled.

#### Public perception and future directions

It is unclear as to whether the ad-free model will continue in the future. Spaniards' general perception of public broadcasting is that it is inefficient, offers poor value for money (i.e. RTVE spends more than it should) and that it is merely a mouthpiece for the ruling government. Those who defend the existence of public broadcasting are a minority at the moment. The measures taken to reform the public broadcasting in Spain have neither failed to improve the quality of the content, nor served to depoliticize RTVE.

### **5.2.3 Germany**

#### Background and rationale

On January 1, 2013, Germany introduced a universal household licence fee of €17.98 (\$26.43) per month to replace its previous equipment licence fee. The main reason for the move to a universal household licence fee was that the revenues from the equipment licence fee had been stagnating since 2006/07 and had even started to decline in 2008/09. Indeed, after taking into account inflation the real value of revenues raised by the equipment licence fee had been in decline for several years.<sup>55</sup> Long-term forecasts made by the Institute for Broadcasting Economics

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<sup>55</sup> Manfred Kops and Winkelmann (2006), "Benno: Eine Prognose des Rundfunkgebühren aufkommens bis 2020, vervielfältigter interner Bericht für die GEZ, Köln, January 2006;

Manfred Kops (2007), Eine Prognose des Rundfunkgebührenaufkommens bis 2020, vervielfältigter interner Bericht für die GEZ, Köln, July 2007;

Manfred Kops and Olexiy Khabyuk,(2008): Eine Prognose des Rundfunkgebührenaufkommens bis 2020, vervielfältigter

(IBE) revealed that this was a trend that would continue and even accelerate unless changes were made to the licence fee model. According to IBE, under the equipment licence, revenues would decrease by 6% by 2015 and by 16% by 2020.<sup>56</sup>

One reason for the decreasing licence fees revenues was a shrinking population. Unlike most Western countries, Germany had been experiencing a declining population.<sup>57</sup> The forecast of declining licence fee revenue was also driven by the increasing number of licence fee evaders, which itself was attributed to:

- the increasing resistance among young people to pay the licence fee;
- a fading belief that GEZ (the licence fee collection agency) had the technical ability to detect television or radio reception inside homes,
- the increasing number of hybrid receiving sets (e.g. smartphones, tablets) that were not perceived as fee-liable receiving sets; and,
- the increasing difficulties for public broadcasters to control and enforce licence fee payment without potentially overstepping Germany's privacy laws and moral principles with respect to citizens' right to privacy.

### Options analysis

As no measures could be taken against the underlying demographic factors (i.e. population decline), public broadcasters focused on other options for stopping – or at least stemming – the erosion of the licence fee base. As a first measure, a stricter control of non-payers was discussed. However, this option was not advanced, as the GEZ's policies (and also of the internal staff of public broadcasters) already encroached on fee payers' right to privacy, to some extent. The adoption of an even more intrusive system of monitoring would have further heightened the public's objections to GEZ and, potentially, public broadcasting, in general.

Public broadcasters also considered the adoption of a simplified licence fee ("vereinfachte Rundfunkgebühr").<sup>58</sup> In contrast to the existing equipment licence fee, this simplified fee would have made no differentiation between televisions, radios and other online equipment, but would have charged a uniform amount for any device that could be used to receive television signals. In other words, it would be a receiving licence fee. This simplified fee would, however, have still been linked to the possession of receiving equipment and thus would have also been plagued by the issues related to monitoring and enforcement.

Public broadcasters also considered substituting the equipment licence fee with a hypothecated levy (or ring-fenced share of general tax revenues). However, this option was not advanced because of legal issues. The traditional opinion of the jurisprudence in Germany (which is also expressed in several decisions of the German Constitutional Court) was that any tax-based funding of public broadcasting in Germany would not be compatible with the necessary requirement for public broadcasting to be at *arm's length* from the government.

In the end, there was really only one feasible solution: the substitution of the device dependent licence fee with a device-independent household licence fee. Although it was clear that this new model could not stop any gradual decline in revenues due to a shrinking population, it was assumed that it would at least stop any revenue declines caused by rising levels of fee evasion.

### Implementation

Although objections against the household licence fee were expected – especially by certain consumer groups

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interner Bericht für die GEZ, Köln December 2008..

<sup>56</sup> Ibid

Olexiy Khabyuk and Manfred Kops (2009), Langfristige Prognose der Gebührenerträge nach gel-tendem Recht im Vergleich zu den Erträgen einer vereinfachten Rundfunk-ge-bühr und einer geräteunabhängigen Medienabgabe, vervielfältigter interner Bericht für die GEZ, Köln, Dezember 2009.

<sup>57</sup> The recent influx of refugees from other countries has stemmed this long-term trend in population decline.

<sup>58</sup> Olexiy Khabyuk and Manfred Kops (2009), pp. 10ff.

that would end up paying more (e.g. households that only possessed a radio but not a television) – and although considerable administrative measures had to be undertaken by GEZ to make this new model work efficiently (e.g. the transposition of the existing database of households with receiving devices into a database for households in general, and the creation of a database for fee paying companies with different “size classes”), GEZ and all the stations of the ARD, ZDF and Deutschlandradio agreed that this option was most feasible.

To implement this model, public broadcasters and GEZ avoided an early and broad discussion with the public (and with other media, especially with the press) but directly addressed the politicians of the Länder who were responsible for decisions regarding public broadcasting. Two main arguments were communicated and emphasized: first, the results of the above mentioned forecasts that illustrated the severe decline in fee revenues that would occur under the existing licence fee; second, the legality of the household licence fee, including the principle that public broadcasting was a public good that benefitted all citizens regardless of whether they owned receiving equipment.<sup>59</sup>

These arguments convinced most of the responsible legislators to agree to the recommended household licence fee, since they also wanted to promote public broadcasting as an important institution of public communication. In particular, they saw public broadcasting as a platform for integrating different ethnic, cultural, social and political groups, and stabilizing and strengthening the democracy in Germany. Hence, the new fee model was adopted in December 2010 and came into effect on January 1, 2013.

<b>Germany: Household-based Licence Fee</b>	
<b>Households</b>	<b>Businesses</b>
€17.50 per household per month (€210 per year) - fee paid by dwelling owners - one payment regardless of the number of persons or families residing in a single dwelling - exemptions exist for welfare recipients, recipients of education grants, persons with disabilities, economic hardship	There are ten rate bands, including a special rate band for small and micro enterprises - 0-8 employees: €5.99 (1/3 of standard rate) per business premise per month (€71.88 per year) - 9-19 employees: €17.98 p.m. (€210 p.a.) - 20-49 employees: €35.96 p.m. - 50-249 employees: €89.90 p.m. (€1078 p.a.) - 250-499 employees: €179.80 p.m. (€2,158 p.a.) - 500-999 employees: €359.60 p.m. (€4315 p.a.) - 1,000-4,999 employees: €719.20 p.m. (€8630 p.a.) - 5,000-9,999 employees: €1,438.40 p.m. (€17261 p.a.) - 10,000-19,999 employees: €2,157.60 p.m. (€25,891 p.a.) - 20,000+ employees: €3,236.40 p.m. (€38,837 p.a.)

Sources: [http://www.rundfunkbeitrag.de/index\\_ger.html](http://www.rundfunkbeitrag.de/index_ger.html)

### Stakeholder reactions

It was only after the political decision was made that a broader public debate about the new model was launched.<sup>60</sup> Nevertheless, only a few interest groups opposed the new household licence fee, because of the

<sup>59</sup> Paul Kirchhof (2010). Die Finanzierung des öffentlich-rechtlichen Rundfunks, Baden-Baden 2010, <http://www.ard.de/home/intern/fakten/standpunkte/Standpunkte/347386/index.html>. Other prominent scholars of law agreed and emphasized these arguments. For example, see Dieter Grimm (2013), Öffentlich-rechtlicher Rundfunk liegt im Interesse aller. In: FAZ vol. 10. 1. 2013.

<sup>60</sup> Eva-Maria Michel and Karin Neukamm (2016) Der Rundfunkbeitrag – eine sachgerechte und zukunftsfähige Finanzierungsform zur Sicherung individueller und öffentlicher Meinungs- und Bildung, in: Kops, Manfred (ed.): Der Rundfunk als privates und öffentliches Gut. 25 Jahre Institut für Rundfunkökonomie, Berlin 2016; Hermann Eicher (2012), Von der Rundfunkgebühr zum Rundfunkbeitrag. Neue Rechtsgrundlage für die Rundfunkfinanzierung ab 2013, in: Media Perspektiven, Heft 12/2012, S. 614 – 622;

increased financial burden they would face.

- a) private persons who did not possess a television set but only a radio or an NEG (which according to the licence fee only had to pay the "Grundgebühr" of €5.76 (\$8.47) per month, but according to the household licence fee would have to pay the standard full-rate fee of €17.98 (\$26.43) month;
- b) certain types of companies (like car rental companies and chain stores) that would have to pay considerably higher fees; and,
- c) certain types of public organizations (like local authorities), that would also have to pay considerably higher fees.<sup>61</sup>

Outside of these exceptions, the move to a household licence fee was not seen to alter the burden for most licence fee payers. And since the majority of households was not affected by the change, there was little vocal opposition to it.

The public broadcasters' communications strategy also contributed to this result. Although for them the main reason for the model shift was their interest in avoiding further revenue erosion under the equipment licence fee, they also emphasized the other favourable attributes of the household licence fee model,<sup>62</sup> (which had already been communicated to the politicians of the Länder) including:<sup>63</sup>

- establishment of a modern revenue model that was compatible with the media convergence;
- stabilization of the funding burden faced by households;
- maintenance of the ratio of funding burdens between the private sector (i.e. private households liable to pay the fee) and the commercial sector (i.e. organisations liable to pay the fee);
- reduction in enforcement activities and improvement in the protection of citizens' right to privacy; and,
- further expansion of barrier-free offers of public broadcasters.<sup>64</sup>

From a political perspective, the shift from the equipment licence fee to the household licence fee was designed to be revenue neutral.<sup>65</sup> However, since there were no exact figures for the number of households in Germany that would be liable to pay the new fee, it was assumed that it would be equal to the number of households that were eligible for the former equipment licence fee. Consequently, the new household fee was initially set equal to the former equipment fee (€17.98 per month). However, because the rate of fee evasion turned out to be higher than previously estimated, the number of paying households turned out to be considerably higher than expected.<sup>66</sup> This led to a revenue surplus of €643 million (\$945 million) in 2014.<sup>67</sup>

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Thomas Gehringer (2015), Der Beitragsservice in Erklärungsnoten, in: Der Tagesspiegel v. 19. 6. 2015, <http://www.tagesspiegel.de/medien/rundfunkbeitrag-der-beitragsservice-in-erklarungsnoeten/11938612.html>.

<sup>61</sup> *ibid.*

<sup>62</sup> Michel et al. (2016).

<sup>63</sup> See the substantiation of the 15. RÄndStV, LT NRW Drs. 15/1303, S. 33ff., <https://www.landtag.nrw.de/portal/WWW/dokumentenarchiv/Dokument/MMD15-1303.pdf>; siehe auch Eckpunkte zur Evaluierung des Rundfunkbeitrags, Stand: 17.07.2015, [https://www.rlp.de/fileadmin/rlp-stk/pdf-Dateien/Medienpolitik/Eckpunkte\\_Evaluierung\\_des\\_Rundfunkbeitrags\\_17\\_juni.pdf](https://www.rlp.de/fileadmin/rlp-stk/pdf-Dateien/Medienpolitik/Eckpunkte_Evaluierung_des_Rundfunkbeitrags_17_juni.pdf).

<sup>64</sup> See *ibid.*, 15. RÄndStV, LT NRW Drs. 15/1303, S. 33ff., <https://www.landtag.nrw.de/portal/www/dokumentenarchiv/Dokument/MMD15-1303.pdf>; siehe auch Eckpunkte zur Evaluierung des Rundfunkbeitrags, Stand: 17.07.2015, [https://www.rlp.de/fileadmin/rlp-stk/pdf-Dateien/Medienpolitik/Eckpunkte\\_Evaluierung\\_des\\_Rundfunkbeitrags\\_17\\_juni.pdf](https://www.rlp.de/fileadmin/rlp-stk/pdf-Dateien/Medienpolitik/Eckpunkte_Evaluierung_des_Rundfunkbeitrags_17_juni.pdf).

<sup>65</sup> From a strict legal point of view this political decision violated the rules of the broadcasting funding treaty ("Rundfunkfinanzierungsstaatsvertrag"), according to which the appropriate height of the licence fee regularly has to be controlled and possibly adjusted by means of a specified process, but may not be determined politically. However, public broadcasters wanted to avoid a broad public debate about this issue and agreed to freeze the licence fee for pragmatic/strategic reasons.

<sup>66</sup> Between the end of 2013 and the end of 2014 the number of households that were determined as legally obligated to pay

After a longer political debate, the government decided to freeze the revenue surplus; public broadcasters were not permitted to access the revenue surplus, until further decisions regarding its utilization could be made.<sup>68</sup> In conjunction with this freeze of the revenue surplus, the new household licence fee was reduced from €17.98 (\$26.43) per month to €17.50 (\$25.73) per month, as of April 1, 2015.

After the end of the current fee period (December 31, 2016) the financial requirements of Germany's public broadcasters and the amount of the new licence fee that is appropriate to cover those requirements will be reviewed and occasionally adjusted by means of the legally determined process (based on the broadcasting councils decisions and the control and evaluation process of the KEF (a commission of state independent experts).

## 5.2.4 Finland

### Background and rationale

On January 1, 2013, Finland's government replaced its television licence fee with a public service broadcasting tax called the YLE tax. The YLE tax, which was unanimously approved by Finland's parliament, was initially set at 0.68% of an individual's earned income with a cap of €140 (\$206). In effect, the tax only applied to income over €7,353 (\$10,809). Persons under 18 are exempt and pensioners pay between €58 (\$85) and €106 (\$156) (see box below for updated rates).

<b>Finland: Income Tax Charge</b>	
<b>Households (2015)</b>	<b>Businesses (2015)</b>
<ul style="list-style-type: none"> <li>0.68% of personal income between €7,500 and €21,029.</li> <li>- yields an annual payment per taxpayer of €51 to €143</li> <li>- Pensioners pay €58 to €106</li> <li>- Persons under 18 exempt</li> </ul>	<ul style="list-style-type: none"> <li>Business organizations pay YLE tax on their taxable income based on the following schedule and exemptions:</li> <li>- under €50,000 taxable income: &lt;€0</li> <li>- €50,000 taxable income: €140</li> <li>- €50,001 - €867,143 taxable income: €140 + 0.35% of taxable income</li> <li>- €867,143+ taxable income: €3,175</li> <li>- tax only collected from organizations engaged in business</li> <li>- YLE tax is a deductible expense for limited liability expenses</li> <li>- the State and its agencies, municipalities, joint municipal authorities, parishes, other religious communities and limited liability housing companies are exempt</li> <li>- non-profit organizations are exempt</li> </ul>

Sources: Yleisradio Oy, Balance sheet book 2014, pp3-4.

For Finland, the biggest factor in its decision to implement the YLE tax was the accelerating rates of fee evasion. By 2012, an estimated 250,000 people were allegedly not paying the television licence fee; indeed, 20,000 people were caught evading the fee each year. With the introduction of digital and online television, the number of Finns

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the new fee increased from 36.4 billion to 39.3 billion (see Beitragsservice (2014), Beitragsservice (von ARD, ZDF, Deutschlandradio, früher „GEZ“): Geschäftsbericht 2014, [https://www.rundfunkbeitrag.de/e175/e1691/Geschaeftsbericht\\_2014.pdf](https://www.rundfunkbeitrag.de/e175/e1691/Geschaeftsbericht_2014.pdf), p. 39).

<sup>67</sup> Gehringer (2015).

<sup>68</sup> This is the reason why the statistics for the revenues from the licence fee vary considerably, depending on the sources' decision to include or exclude this "frozen" part of the revenues.

paying the television licence fee (€252.25 [\$370] per household per year) plummeted, leading to severe shortfalls in YLE's budget.<sup>69</sup> A hypothecated tax was seen as the best way to ensure that YLE had a reliable source of revenue, particularly in an environment where consumers were increasingly using devices other than television sets to access television programming.<sup>70</sup>

Leading up to the introduction of the YLE tax, there was some consideration of moving to some form of direct government grant; however, it was dismissed on the grounds that such an option would risk eroding YLE's editorial independence and neutrality.<sup>71</sup>

The YLE tax also applies to businesses. Organizations engaged in business operations, vocational practice or agriculture in Finland are required to pay the YLE tax. The amount of the YLE tax collected from organizations is based on their taxable income.<sup>72</sup> However, the tax is only collected from organizations engaged in business operations. The government and its agencies, municipalities, joint municipal authorities, parishes, other religious communities and limited liability housing companies are exempt from the YLE tax for organisations. The YLE tax is not collected from non-profit associations. However, if an association is engaged in business operations, it is subject to the YLE tax.<sup>73</sup>

#### Stakeholder reactions

Although Finland had a very high rate of licence fee evasion leading up to the introduction of the YLE tax, a 2012 poll found that the majority of Finns supported the YLE tax (prior to its introduction), with the highest support coming from pensioner and single-person households, who would experience a reduction in their annual contribution to YLE.<sup>74</sup>

Subsequent to the introduction of the YLE tax, Finnish legislators have publicly called for limits on the tax and on YLE scope of services. In May 2013, Kimmo Sasi, a National Coalition government MP, called for the redistribution of part of the YLE tax revenue to third party media companies.<sup>75</sup> Sasi's position was that YLE was far too dominant within Finland's media sector – and the long-term stability of the YLE tax further entrenched this dominance, and therefore, public financial support other news outlets was required to preserve diversity and plurality.<sup>76</sup>

In 2014, Juha Sipilä, chairperson of the opposition Centre Party, called for a review of YLE's public broadcasting mandate in light of its dominance and stable funding through the tax system.<sup>77</sup> Sipilä also recommended that YLE provide some of its content for free to private media firms or, conversely, purchase some of its content from newspapers and Finland's news agency, STT.<sup>78</sup> In light of YLE's dominance and the economic downturn in Finland in 2014, the government suspended the annual inflation indexing of the YLE tax in 2015.

## 5.2.5 United Kingdom

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<sup>69</sup> Nick Barlow (2012), "Television, smokescreens and lies," *Helsinki Times*, February 9, 2012, <http://www.helsinkitimes.fi/columns/columns/164-remote-control/1307-television-smokescreens-and-lies.html>

<sup>70</sup> Ibid.

<sup>71</sup> Allan Bain (2011), "impartiality guaranteed," *Helsinki Times*, December 27, 2011,

<http://www.helsinkitimes.fi/columns/columns/169-news-commentary/823-impartiality-guaranteed.html>

<sup>72</sup> Ibid.

<sup>73</sup> Ibid.

<sup>74</sup> Barlow (2012)

<sup>75</sup> Nina Tornudd and Nina Woolley (2013), Sasi: Yle tax revenue should be distributed amongst news media, *Helsinki Times*, May 16, 2013, (<http://www.helsinkitimes.fi/finland/finland-news/politics/6322-sasi-yle-tax-revenue-should-be-distributed-amongst-news-media-2.html>)

<sup>76</sup> Tornudd et al. (2013)

<sup>77</sup> Teemu Luukka and Aleksi Teivainen (2014), "Sipilä calls for discussion on role of YLE," *Helsinki Times*, <http://www.helsinkitimes.fi/finland/finland-news/domestic/12726-sipilae-calls-for-discussion-on-role-of-yle.html>

<sup>78</sup> Helsinki Times (2013), "Sipilä would waive Yle tax hikes," *Helsinki Times*, November 6, 2013, <http://www.helsinkitimes.fi/finland/finland-news/politics/8264-sipilae-would-waive-yle-tax-hikes.html>

Although the BBC's television licence fee has been fixed at an annual rate of £145.50 (\$265) per licence-liable household since the last licence fee settlement in 2010, the UK provides an example of how governments can effect significant changes to a public broadcasting funding model, even in absence of changes to a contracted licence fee rate.

On October 21, 2010, the Coalition Government announced that it was freezing BBC's licence fee at £145.50 (\$265) until March 31, 2017.<sup>79</sup> At the time of this six-year licence fee settlement, licence fee revenue accounted for £3.5 billion (\$6.4 billion) of BBC's total revenue of £4.8 billion (\$8.7 billion) during the 2009/10 fiscal year, or 72%.<sup>80</sup> The other 28% of BBC's total revenue included commercial sales revenue earned through its BBC World Wide subsidiary (£888 million [\$1.6 billion]) and the main public broadcaster (£312 million [\$568 million]), and parliamentary grants for the operation of BBC World Service (£272 million [\$495 million]) BBC Monitoring (£21 million [\$38 million]) and organizational purposes (£5 million [\$9 million]).<sup>81</sup>

As part of the 2010 licence fee settlement, the Coalition Government increased the portion of the licence fee proceeds ring-fenced for broadband rollout, from £133 million (\$242 million) to £150 million (\$273 million).<sup>82</sup> This effectively diverted £17 million (\$31 million) away from BBC. More importantly, as part of the licence fee settlement the BBC agreed to assume the costs of BBC World Service beginning in the 2014/15 fiscal year.<sup>83</sup> It also agreed to assume the costs of BBC monitoring (by 2013/14) and S4C (by 2014/15).<sup>84</sup> Altogether, these transfers of financial responsibility to BBC meant that it would have to find 16% in efficiency savings elsewhere in its operations by 2014/15.<sup>85</sup>

So even though the vast majority of BBC's revenue comes from the licence fee and is directly independent of parliamentary approval, the government was able to implement a significant change to the public broadcaster's funding model during the course of a six-year licence fee contract.

#### BBC Charter Review

Alongside the six-year licence fee settlement, the BBC is also subject to a broader Royal Charter Review every 10 years. The BBC's current Royal Charter expires at the end of 2016. In July 2015, the Department for Culture, Media and Sport (DCMS) launched a public consultation for the BBC's Charter Review. The Charter Review will explore the BBC's (i) mission, purpose and values, (ii) scale and scope, (iii) governance and (iv) funding.<sup>86</sup>

With respect to funding, the Charter Review is considering three models:<sup>87</sup>

- **Modernization of the existing licence fee (i.e. "closing the iPlayer loophole"):** This option would close the iPlayer loophole that permits households to watch catch-up programming on a computer, tablet or smartphone without having to pay the licence fee. Unlike a household-based licence fee, households that either do not own a television or do not watch any television programming on an Internet-connected device would not have to pay the licence fee. This option is expected to raise an additional £150 million in licence fees.
- **Universal household levy (i.e. the "German Model"):** Subject to certain concessions and exemptions, all

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<sup>79</sup> Department for Culture Media and Sport (2010), "BBC Funding Settlement," letter from Jeremy Hunt to BBC Trust, October 21, 2010, [http://downloads.bbc.co.uk/bbctrust/assets/files/pdf/news/2010/sos\\_letter.pdf](http://downloads.bbc.co.uk/bbctrust/assets/files/pdf/news/2010/sos_letter.pdf)

<sup>80</sup> BBC, *BBC Full Financial Statements 2010/11*, p. F33.

<sup>81</sup> Ibid. Torin Douglas (2010), "Licence fee freeze and higher costs for BBC in future," BBC News, October 20, 2010, <http://www.bbc.co.uk/news/entertainment-arts-11580968>

<sup>82</sup> Department for Culture Media and Sport (2010)

<sup>83</sup> Ibid.

<sup>84</sup> Ibid.

<sup>85</sup> Ibid.

<sup>86</sup> Department for Culture, Media and Sport (2015), *BBC Charter Review: Public Consultation*, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/445704/BBC\\_Charter\\_Review\\_Consultation\\_WEB.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/445704/BBC_Charter_Review_Consultation_WEB.pdf), p. 3.

<sup>87</sup> Ibid, p. 51-52.

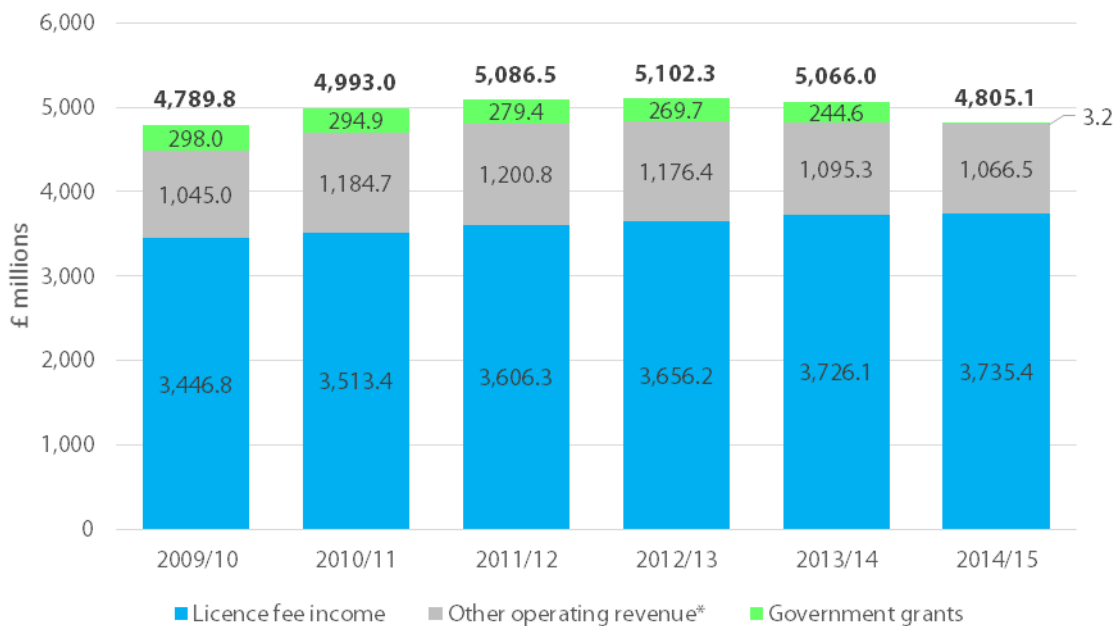


households would pay this levy, including the 3% of households that report that they do not consume BBC services. While this option would close the iPlayer loophole and further broaden the payer base, DCMS noted that it may be costly to implement.

- Mixed public funding and subscription:** Under this option, a reduced licence fee would be used to fund core public broadcasting services, while other elements of the BBC portfolio would be funded through viewer subscription payments. While this option would give audiences more choice, DCMS noted that there were significant implementation issues related to the definition of core vs. premium services and the installation of necessary conditional access technologies.

At the outset of the Charter Review, the Conservative Government proposed that the Department for Work and Pensions cease its subsidization of television licence fees for persons over the age of 75. This subsidy, which is worth approximately £650 million (\$1.2 billion) annually, allows persons over 75 to avoid payment of the licence fee. As a result of the government’s proposal, the BBC would either have to eliminate the licence fee exemption for over-75s, or find 13.5% in cost savings elsewhere in its operations.

**Figure 15 Sources of BBC revenue (£ millions)**



Source: BBC annual reports  
 \* Includes commercial revenues

This significant reduction in government financial support was partially offset by the Conservative Government’s decision in November 2015 to restore £85 million (\$155 million) of £253 million (\$460 million) it had cut from its funding of the BBC World Services.<sup>88</sup> The Conservative Government also agreed to index the current licence fee of £145.50 (\$265) in accordance with consumer price inflation, until 2020.<sup>89</sup>

Overall, therefore, by the time the new BBC Charter will come into place in 2017, the government will have withdrawn financial support equivalent to approximately 15% of BBC’s total pre-cut budget, without touching the television licence fee. This 15% includes the £650 million (\$1.2 billion) in subsidy for over-75s and the net reduction

<sup>88</sup> BBC (2015), “BBC World Service gets funding boost from government,” November 23, 2015, <http://www.bbc.co.uk/news/entertainment-arts-34902244>

<sup>89</sup> Jane Martinson and John Plunkett (2015), “BBC to take on £750m cost of subsidy for over-75s in licence fee deal,” *The Guardian*, July 6, 2015, <http://www.theguardian.com/media/2015/jul/06/bbc-pay-cost-free-tv-licences-over-75s-fee-deal>

of £168 million (\$306 million) in grants to BBC World Service. On a combined basis, this £818 million (\$1.5 billion) represents 15% of the 2013/14 revenue of over £5 billion (\$9 billion).

### 5.3 Key findings

Across Western countries, the funding models for public broadcasting vary widely. Our research points to at least five key methods for raising public broadcaster revenue: including (i) parliamentary grants, (ii) equipment/receiving licence fees, (iii) universal household licence fees, (iv) income tax charges, and (v) hypothecated industry levies. Some countries use only one of these methods; some use a combination of two or more of these methods. The variability in funding models shows that they are flexible to accommodate numerous political, social and economic circumstances.

Among Western countries, the most common method of public funding is the equipment licence fee. The prominence of this approach, however, is really a function of the historical legacy of it within Europe. Equipment licence fees initially provided a close link between users of television services (i.e. owners of televisions) and funding. The equipment licence fee model was later seen as a tool for creating some independent from direct government influence.

Over the past decade, developments in communications technology have made equipment licence fees (i.e. ownership of a television) an increasingly poor proxy for consumption of public broadcasting or television programming, in general. Consumers can use a variety of different devices and online services to find and enjoy television programming. To mitigate the effects of technology, several countries have migrated from equipment licence fees to receiving licence fees. Under a receiving licence fee model, households pay the licence fee regardless of the type of equipment they use: television, computer, smartphone or tablet.

A receiving licence fee may still be prone to fee evasion. To counter fee evasion, and the associated erosion of public broadcaster, revenue, certain countries have made more substantial reforms to the methods by which they apply and collect public funding for public broadcasting. Finland had a very severe fee evasion problem and decided to go straight to an income tax charge, the YLE tax. The introduction of the YLE tax avoided any ongoing issues of enforcement that may have accompanied a modernized receiving licence fee.

In Germany, a similar income tax charge was ruled out because it would have implied a more direct relationship between government and public broadcasters. A receiving fee was also ruled out because the required monitoring and enforcement would have only further encroached on citizens' right to privacy. Instead, a universal household licence fee was implemented. This model has also been very effective in mitigating previous losses from technological loopholes and general fee evasion in Germany.

The UK may be the next European country to experience a significant change in its funding model. Even though the BBC earns most of its revenue from a television licence fee, by the time, its new Charter comes into effect in 2017, it will have experienced a 15% decrease in revenue on account of reductions in direct government grants – for BBC World Service, S4C and the subsidization of over-75s licence fees. The BBC's new funding model will most certainly close the current "iPlayer loophole" and thereby convert what is currently a receiving licence fee to a fully-fledged time-invariant receiving licence fee. However, the government is also considering a universal household licence fee (referred to as the universal household levy) and even a hybrid model that includes optional household subscription fees.

Alongside these ongoing reforms to licence fee models, two large European countries, France and Spain, introduced hypothecated industry levies as a public funding method. In the midst of a severe advertising downturn in 2008 and 2009, France and Spain sought to potentially stabilize their television advertising markets, by removing their public broadcasters' supply of airtime from the market. For the public broadcasters, these lost advertising revenues were made up by applying hypothecated levies to not only commercial broadcasters, but also to more stable and faster growing revenue streams in the telecom sector.

In both countries, however, the hypothecated industry levies have not raised as much revenue as first anticipated by governments. Commercial broadcasters have experienced their own economic pressures and telecom operators have, in some cases, been able to narrow the revenue bases upon which the levies apply. As a result, the

revenue raised by such levies has been either stagnant or declining, thereby, making these sources less reliable than perhaps first envisioned.

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**Table 4 Data sources for international comparison**

Country	Data Sources
Australia	Australian Broadcasting Corporation, <i>Annual Report 2015</i> Special Broadcasting Service, <i>Annual Report 2015</i>
Austria	ORF, <i>Geschäftsbericht 2014</i>
Belgium	VRT, <i>Jaarverslag 2014</i> RTBF, <i>Rapport Annuel 2014</i>
Canadian	CBC Radio-Canada
Denmark	DR, <i>DRs årsrapport 2014</i>
Finland	YLE, <i>Financial Statement 2014</i>
France	France Télévisions, <i>Rapport annuel 2014</i> Radio France, <i>Rapport d'activité 2014</i> Radio France Media Mondes, <i>Rapport d'activité 2014</i>
Germany	ZDF, "Finanzen" 2013 ARD, <i>Finanzstatistik 2014</i> Deutschlandradio, "Ertrags- und Aufwandsrechnung für das Geschäftsjahr 2014"
Ireland	RTE, <i>Annual Report and Group Financial Statements 2014</i>
Italy	RAI Group, <i>Reports and Financial Statements 2014</i>
Japan	NHK <i>Annual Report 2014</i> (in Japanese only)
New Zealand	NZ On Air, <i>Annual Report 2015</i> TVNZ, <i>Annual Report Financial Year 2015</i> Radio New Zealand, <i>Annual Report 2014-2015</i> Maori Television, <i>Annual Report 2014</i>
Norway	NRK, <i>Årsberetning 2014</i>
Spain	Various sources
Sweden	Sveriges Television, <i>Arsredovisning for rakenskapsaret 2014</i> Sveriges Radio, <i>Arsredovisning 2014</i>
Switzerland	SRG SSR, <i>Rapport de Gestion 2014</i> SRG SSR, <i>Comptes annuels 2014</i>
United Kingdom	BBC, <i>Full Financial Statements 2014/15</i> Channel 4, <i>Financial report and statements 2014</i> S4C, <i>Annual Report and Statement of Accounts for the 12 month period to 31 March 2015</i>
United States	Corporation for Public Broadcasting, <i>Public Broadcasting Revenue Fiscal Year 2013</i>

## Appendix A: Statistics for Public Broadcasters

To construct the comparison of per capita funding for public broadcasters, we collected and totalled the amounts of public funding in 2014 for each country's public broadcasters. We included all types of funding that were determined by some branch of the government, including equipment-based licence fees, universal household licence fees, hypothecated levies and any forms of direct government aid or grants. We converted the public-funding amounts to Canadian dollars using the average exchange rate for 2014. We then divided this Canadian dollar amount by the population of each country. This process yielded a per capita comparison of the level of public funding for public broadcasters in the 18 countries.

**Table 5 Calculation of per capita public funding levels, 2014**

	Total public funding in home currency	Exchange rate (C\$ per foreign currency)	Total public funding in C\$	Population	Public funding per capita 2014 (\$)
Australia	A\$ 1,349,074,000	0.9963	1,344,082,426	23,490,736	57.22
Austria	€ 589,500,000	1.4671	864,855,450	8,534,492	101.34
Belgium	€ 531,578,000	1.4671	779,878,084	11,225,207	69.48
Canada (CBC)	\$ 1,036,096,000	1.0000	1,036,096,000	35,540,419	29.15
Denmark	Dkr. 3,863,200,000	0.1968	760,277,760	5,639,565	127.00
Finland	€ 461,770,909	1.4671	677,464,101	5,463,596	124.00
France	€ 3,309,900,000	1.4671	4,855,954,290	66,206,930	73.35
Germany	€ 7,906,823,000	1.4671	11,600,100,023	80,889,505	143.41
Ireland	€ 178,562,000	1.4671	261,968,310	4,612,719	56.79
Italy	€ 1,590,600,000	1.4671	2,333,569,260	61,336,387	38.05
Japan	¥ 660,954,821,000	0.01046	6,913,587,428	127,131,800	54.38
New Zealand	NZ\$ 82,891,000	0.9170	76,011,047	4,509,700	16.86
Norway	Nkr. 5,270,862,000	0.1757	926,090,453	5,136,475	180.30
Spain	€ 1,694,492,000	1.4671	2,485,989,213	46,404,602	53.57
Sweden	Skr 7,589,854,000	0.1614	1,225,002,436	9,689,555	126.43
Switzerland	Sfr. 1,210,397,000	1.2078	1,461,917,497	8,190,229	178.50
U.K.	£ 4,051,187,200	1.8190	7,369,109,517	64,510,376	114.23
U.S.	US\$ 997,468,000	1.0299	1,027,292,293	318,857,056	3.22
			<b>Average</b>		<b>\$85.94</b>

Source: See References and Data Sources for list of data sources; exchange rates from Bank of Canada; population data from CIA World Factbook (2015).

**Notes:**

Australia includes funding for ABC and SBS.

Belgium includes funding for Flemish-language public broadcaster (VRT) and French-language public broadcaster (RTBF).

Germany includes public funding for ZDF, ARD, Deutschlandradio and other public broadcasters in the lander.

Spain includes public funding for RTE and estimates for public funding of public broadcasters for the autonomous regions.

U.K. includes public funding for BBC and S4C.



**Table 6 Public broadcasters' revenues, 2014**

Country	Broadcaster	Home currency	Revenues (home currency)			Share of total revenues	
			Total	Commercial revenues	Advertising and sponsorship revenues	Commercial revenues	Advertising and sponsorship revenues
Australia	ABC	A\$	1,218,570,000	118,794,000	0	10%	0%
	SBS	A\$	379,787,000	88,309,000	71,442,000	23%	19%
	Total	A\$	1,598,357,000	207,103,000	71,442,000	13%	4%
Austria	ORF	€	912,220,000	221,700,000	221,700,000	24%	24%
Belgium	VRT	€	457,580,000	151,255,000	65,578,000	33%	14%
	RTBF	€	338,300,000	79,300,000	69,800,000	23%	21%
	Total	€	795,880,000	230,555,000	135,378,000	29%	17%
Canada	CBC Radio-Canada	\$	1,636,231,000	600,135,000	333,420,000	37%	20%
Denmark	Danmarks Radio	Dkr.	4,316,300,000	0	0	0%	0%
Finland	Yleisradio	€	600,831,256	12,951,348	0	2%	0%
France	France Televisions	€	3,018,100,000	358,100,000	358,100,000	12%	12%
	Radio France	€	645,500,000	318,600,000	42,500,000	7%	7%
	RFI	€	248,100,000	10,200,000	0	0%	0%
	Total	€	3,911,700,000	686,300,000	400,600,000	18%	10%
Germany	ZDF	€	2,066,000,000	282,400,000	135,900,000	14%	7%
	ARD	€	6,910,216,000	998,085,000	387,600,000	14%	6%
	Deutschlandradio	€	225,445,000	0	0	0%	0%
	Total	€	9,201,661,000	1,280,485,000	523,500,000	14%	6%
Ireland	RTE	€	328,167,000	149,605,000	114,714,000	46%	35%
Italy	RAI	€	2,369,200,000	764,800,000	597,700,000	32%	25%
Japan	NHK	¥ 000s	674,823,935,000	9,705,340,000	0	1%	0%
New Zealand	TVNZ	NZ\$	360,585,000	336,887,000	319,732,000	93%	89%
	RNZ	NZ\$	38,959,000	0	0	0%	0%
	Maori Television	NZ\$	34,873,000	1,002,000	1,002,000	3%	3%
	Total	NZ\$	434,417,000	337,889,000	320,734,000	78%	74%
Norway	NRK	Nkr.	5,510,300,000	0	0	0%	0%
Spain	RTVE	€	1,200,000,000	38,917,000	0	3%	0%
	Regional broadcasters	€	943,500,000	239,770,000	192,500,000	25%	20%
	Total	€	2,143,500,000	278,687,000	192,500,000	13%	9%
Sweden	Sveriges Television	Skr.	4,595,404,000	0	0	0%	0%
	Sveriges Radio	Skr.	2,582,842,000	0	0	0%	0%
	UR-Educational	Skr.	7,902,079,000	0	0	0%	0%
	Total	Skr.	1,682,205,000	412,788,000	359,508,000	25%	21%
Switzerland	SRG-SSR	Sfr.	5,006,000,000	1,095,200,000	0	22%	0%
U.K.	BBC	£	938,000,000	938,000,000	869,000,000	100%	93%
	Channel 4	£	83,348,800	2,712,800	2,115,200	3%	3%
	S4C	£	6,027,348,800	2,035,912,800	871,115,200	34%	14%
	Total	£	1,701,778,000	613,079,000	366,260,000	36%	22%
U.S.	US public television	US\$	1,132,604,000	574,204,000	300,600,000	51%	27%
	US public radio	US\$	2,834,382,000	1,187,283,000	666,860,000	42%	24%
	Total	US\$	1,218,570,000	118,794,000	0	10%	0%

Source: See References and Data Sources for a list of data sources.

**Table 7 Public broadcasters' operating expenditures, 2014**

Country	Broadcaster	Home currency	Operating expenditures (home currency)			Share of total operating expenditures
			Total	Television operations	Radio operations	Television operations
Australia	ABC	A\$	1,264,641,000	417,331,530	240,281,790	33%
	SBS	A\$	384,031,000	--	--	--
	Total	A\$	1,648,672,000	417,331,530	240,281,790	33%
Austria	ORF	€	964,385,444	--	--	--
Belgium	VRT	€	468,361,000	277,200,000	90,600,000	59%
	RTBF	€	333,300,000	152,700,000	49,800,000	--
	Total	€	801,661,000	429,900,000	140,400,000	59%
Canada	CBC Radio-Canada	\$	1,722,292,000	1,107,236,000	276,542,000	64%
Denmark	Danmarks Radio	Dkr.	3,906,400,000	--	--	--
Finland	Yleisradio	€	433,904,000	164,000,000	65,000,000	37%
France	France Televisions	€	3,208,000,000	3,208,000,000	--	--
	Radio France	€	691,600,000	--	--	--
	RFI	€	248,100,000	--	--	--
	Total	€	--	--	--	--
Germany	ZDF	€	1,984,900,000	--	--	--
	ARD	€	--	--	--	--
	Deutschlandradio	€	--	--	--	--
	Total	€	--	--	--	--
Ireland	RTE	€	319,020,000	179,453,000	52,720,000	56%
Italy	RAI	€	2,354,000,000	--	--	--
Japan	NHK	¥ 0005	--	--	--	--
New Zealand	TVNZ	NZ\$	346,085,000	346,085,000	0	100%
	RNZ	NZ\$	13,254,000	0	13,254,000	0%
	Maori Television	NZ\$	36,210,000	36,210,000	0	100%
	Total	NZ\$	55,731,000	40,970,000	12,265,000	74%
Norway	NRK	Nkr.	395,549,000	382,295,000	13,254,000	97%
Spain	RTVE	€	5,529,775,000	2,826,000,000	1,558,000,000	56%
	Regional broadcasters	€	--	--	--	--
	Total	€	--	--	--	--
Sweden	Sveriges Television	Skr.	--	--	--	--
	Sveriges Radio	Skr.	--	4,632,790,000	--	--
	UR-Educational	Skr.	--	--	2,598,365,000	--
	Total	Skr.	7,956,945,000	--	--	--
Switzerland	SRG-SSR	Sfr.	1,669,423,000	--	--	--
U.K.	BBC	£	4,042,200,000	2,275,700,000	649,600,000	56%
	Channel 4	£	903,000,000	848,000,000	--	94%
	S4C	£	80,324,800	--	--	0%
	Total	£	5,025,524,800	--	--	0%
U.S.	US public television	US\$	--	--	--	--
	US public radio	US\$	--	--	--	--
	Total	US\$	--	--	--	--

Sources: See References and Data Sources for a list of data sources.

## Appendix B: Potential Benefits Analysis

Table 8 Rating scale for population density

Potential benefit	Rating	Population density Number of inhabitant per square kilometre
High	5	<25
	4	25 to 50
	3	50 to 75
	2	75 to 100
Low	1	>100

Table 9 Rating scale for the number of broadcasting languages

Potential benefit	Rating	Number of broadcasting languages
High	5	3 or more
	3	2
Low	1	1

Table 10 Rating scale for the level of ethnic-diversity challenges

Potential benefit	Rating	PRS Group Inc. rating of ethnic tensions
High	5	1.0 to 1.9
	4	2.0 to 2.9
	3	3.0 to 3.9
	2	4.0 to 4.9
Low	1	5.0 to 6.0

Note: PRS Group Inc. assigned each country a rating on a six-point scale, based on the level of ethnic tensions within the country. Please see <http://www.prsgroup.com> for more information

**Table 11 Rating scale for the size of the domestic language market**

Potential benefit	Rating	Size of domestic language market
High	5	< 10 million
	4	11 million to 50 million
	3	51 million to 100 million
	2	101 million to 200 million
Low	1	>201 million

**Table 12 Rating scale for proximity to a larger country with the same language and/or broadcast programming in English**

Potential benefit	Rating	Proximity situations
High	5	The country is adjacent to a larger country with which it shares the same language.
	4	The country is adjacent to a larger country with which it shares one official language.
	3	The country is not adjacent to a larger country with which it shares a language, but it does broadcast programming in English and thus faces competition from imported American programming.
	2	--
Low	1	The country is not adjacent to a larger country with which it shares a language.

**Table 13 Rating scale for audience appeal of indigenous programming**

Potential benefit	Rating	Number of indigenous programs within the top ten programs
High	5	0 to 1.9
	4	2.0 to 3.9
	3	4.0 to 5.9
	2	6.0 to 7.9
Low	1	8.0 to 10

**Table 14 Potential-benefits analysis data and ratings**

	Population Density (inhabitants per square kilometre)		Multiple number of broadcasting languages		Ethnic diversity challenges (2014)	
	Data	Score	Data	Score	Data	Score
Australia	3.1	5	<b>1 language:</b> English	1	PRS Group rating = 4.0	2
Austria	102	2	<b>1 language:</b> German	1	PRS Group rating = 4.0	2
Belgium	370	1	<b>2 languages:</b> French and Dutch	3	PRS Group rating = 3.0	3
Canada	3.6	5	<b>2 languages:</b> English and French	3	PRS Group rating = 3.5	3
Denmark	131	1	<b>1 language:</b> Danish	1	PRS Group rating = 4.0	2
Finland	16.2	5	<b>1 language:</b> Finnish. Swedish speaking minority (8%)	1	PRS Group rating = 6.0	1
France	118	1	<b>1 language:</b> French	1	PRS Group rating = 2.5	4
Germany	228	1	<b>1 language:</b> German	1	PRS Group rating = 4.0	2
Ireland	65	3	<b>2 languages:</b> English Irish	3	PRS Group rating = 5.5	1
Italy	202	1	<b>1 language:</b> Italian	1	PRS Group rating = 4.5	2
Japan	336	1	<b>1 language:</b> Japanese	1	PRS Group rating = 5.5	1
New Zealand	17.3	5	<b>1 language:</b> English	1	PRS Group rating = 3.5	3
Norway	15.6	5	<b>1 language:</b> Norwegian (small Sami minority)	1	PRS Group rating = 4.5	2
Spain	92	2	<b>3 languages:</b> Spanish, Catalan (17%), Galician (7%), and Basque (2%).	5	PRS Group rating = 4.0	2
Sweden	21.7	5	<b>1 language:</b> Swedish. (Some broadcasting in Sámi)	1	PRS Group rating = 5.0	1
Switzerland	201	1	<b>4 languages:</b> German, French Italian and Romansh.	5	PRS Group rating = 4.0	2
U.K.	262	1	<b>1 language:</b> English	1	PRS Group rating = 4.0	2
U.S.	32.9	4	<b>1 language:</b> English	1	PRS Group rating = 5.0	1

Source: Wikipedia (population density), Nordicity research (number of broadcasting languages) and PRS Group Inc. (ethnic diversity challenges)

**Table 15 Potential-benefits analysis data and ratings (continued)**

	Relative size of domestic language market (population)		Proximity to a larger country with the same language, and/or broadcast programming in English		Audience appeal of indigenous programming	
	Data	Score	Data	Score	Data	Score
Australia	23,490,736	4	No, but faces competition from imported English-language programming	3	9 out of 10	1
Austria	8,534,492	5	Yes. Germany	5	10 out of 10	1
Belgium	11,225,207	5	Yes. France (for French); Netherlands (for Dutch/Flemish)	4	10 out of 10	1
Canada	35,540,419	4	Yes. United States	5	English-speaking Canada: 0/8 (excludes Olympics); French-speaking Canada: 10/10; Average (3/4 and 1/4): 2.3	4
Denmark	5,639,565	5	No.	1	10 out of 10	1
Finland	5,463,596	5	No.	1	10 out of 10	1
France	66,206,930	3	No.	1	8 out of 10	1
Germany	80,889,505	3	No.	1	9 out of 9 (Excludes Eurovision)	1
Ireland	4,612,719	5	Yes. England	4	7.5 out of 9 (1 UK coproduction; excludes Eurovision)	1
Italy	61,336,387	3	No.	1	9.5 out of 10 (1 Germany coproduction;	1
Japan	127,131,800	2	No.	1	10 out of 10	1
New Zealand	4,509,700	5	Yes. Australia.	5	8 out of 10	1
Norway	5,136,475	5	No.	1	9 out of 10	1
Spain	46,404,602	4	No.	1	7 out of 8 (Excludes Olympics and Eurovision)	1
Sweden	9,689,555	5	No.	1	7.5 out of 9 (1 Norway coproduction; excludes Eurovision)	1
Switzerland	8,190,229	5	Yes. Germany, Italy, France.	5	10 out of 10	1
U.K.	64,510,376	3	No.	3	7 out of 8 (Excludes Olympics)	1
U.S.	318,857,056	1	No.	1	8 out of 8 (Excludes Olympics)	1

Source: CIA World Factbook (population), Nordicity research (proximity to a larger country with the same language, and/or broadcast programming in English) and EurodataTV (audience appeal of indigenous programming).

**Table 16 Potential-benefits analysis aggregate ratings**

	Population Density	Multiple number of broadcasting languages	Ethnic diversity challenges	Relative size of domestic language market	Proximity to a larger country with the same language, and/or broadcast programming in English	Audience appeal of indigenous programming	Aggregate rating
Australia	5	1	2	4	3	1	16
Austria	2	1	2	5	5	1	16
Belgium	1	3	3	5	4	1	17
Canada	5	3	3	4	4	4	23
Denmark	1	1	2	5	1	1	11
Finland	5	1	1	5	1	1	14
France	1	1	4	3	1	1	11
Germany	1	1	2	3	1	1	9
Ireland	3	3	1	5	4	1	17
Italy	1	1	2	3	1	1	9
Japan	1	1	1	2	1	1	7
New Zealand	5	1	3	5	5	1	20
Norway	5	1	2	5	1	1	15
Spain	2	5	2	4	1	1	15
Sweden	5	1	1	5	1	1	14
Switzerland	1	5	2	5	5	1	19
U.K.	1	1	2	3	3	1	11
U.S.	4	1	1	1	1	1	9

Source: Nordicity analysis.

## Appendix C: Estimation of Annual Revenue Impact of Simultaneous Substitution

The revenue impact of simultaneous substitution has been the subject of several previous analyses by Arthur Donner and various co-authors.

- In 1983, Donner and Mel Kilman published the first estimate of the revenue impact of simultaneous substitution. In that report, Donner and Kilman estimated that simultaneous substitution generated \$21.1 million in net advertising revenues for Canadian television stations in 1982.<sup>90</sup> This amount represented 3.1% of total advertising revenues of private television broadcasters in that year.
- In 1986, Donner prepared an update to his estimate of simultaneous substitution's revenue impact. He found that the revenue impact of simultaneous substitution had grown to \$52.7 million in 1984.<sup>91</sup>
- In 1990, the Department of Communications commissioned Donner to prepare another update on the revenue impact of simultaneous substitution. Donner concluded that simultaneous substitution generated an estimated \$67.3 million in incremental advertising revenues for Canadian broadcasters in 1988.<sup>92</sup>
- In 1994, the Canadian Cable Television Association commissioned Donner and Fred Lazar to again estimate the revenue impact of simultaneous substitution. Donner and Lazar found that simultaneous substitution generated incremental advertising revenues of between \$114 million and \$159 million during the 1992/93 broadcasting year.<sup>93</sup>
- Donner's most recent work on this topic was in 1997. In that year he and Fred Lazar derived a single estimate of \$147.6 million for the dollar value of airtime sales during the 1996/97 broadcasting year, which were transferred to Canadian **English-language television broadcasters** because of simultaneous substitution.<sup>94</sup>

**Table 17 Estimated values of simultaneous substitution**

	1982	1984	1988	1992/93	1996/97
Incremental revenue impact of simultaneous substitution (\$ millions)	21	52.7	67.3	114 to 159	147.6

Source: 1982 data from Donner and Kilman, 1983; 1984 data from Donner, 1986; 1998 data from Donner, 1990; 1992/93 data from Donner and Lazar, 1994; 1997 data from Donner and Lazar, 1997.

For this report, we sought to generate an update to Donner and Lazar's 1996/97 estimate of the revenue impact of simultaneous substitution by extrapolating it to the 1990/91-to-2014/15 period.<sup>95</sup> Donner and Lazar used a bottom-up approach that calculated the tuning transferred to Canadian broadcasters due to simulcast programs, and married this with advertising rates to arrive at a dollar estimate of airtime sales for simultaneous substitution.

<sup>90</sup> Arthur Donner and Mel Kilman (1983), *Television Advertising and the Income Tax Act: An Economic Analysis of Bill C-58*, prepared for the Department of Communications, November 1983.

<sup>91</sup> Arthur Donner (1986), *An Analysis of the Importance of U.S. Television Spillover, Bill C-58 and Simulcasting Policies for the Revenues of Canadian TV Broadcasters*, Taskforce on Broadcasting, February 1986 (mimeograph).

<sup>92</sup> Arthur Donner (1990), *The Financial Impacts of Section 19.1 of the Income Tax Act (Bill C-58) and Simultaneous Substitution*, (Her Majesty the Queen in Right of Canada as represented by the Minister of Communications, 1990).

<sup>93</sup> Arthur Donner and Fred Lazar (1994), *Cable, Canadian Program Production and the Information Highway*, discussion paper prepared for the CCTA, August 1994.

<sup>94</sup> Arthur Donner and Fred Lazar (1997), *The Financial Effects of Simulcasting on Canadian TV Broadcasters*, June 1997.

<sup>95</sup> This extrapolation included a back-cast for the years, 1990/91 to 1995/96.



For our extrapolation, we used what could be considered a top-down approach. In other words, we examined the share of overall conventional television advertising revenues in 1996/97 that could be attributed back to simultaneous substitution, and then applied this share to the television broadcasting markets during the 1997/98-to-2014/15 period. Along the same lines, we also prepared a back-cast for 1990/91 to 1995/96.

In doing this, however, we developed two scenarios. In one scenario, the *status-quo* scenario, we assumed that the extent of simulcasting on Canadian television screens did not change between 1996/97 and 2010/11. We also developed a second *simulcasting-growth* scenario in which we incorporated an assumption that simulcasting activity increased between 1996/97 and 2003/04. For the back-cast we only applied the status quo scenario; we assumed no changes in simulcasting.

In 1996/97, total advertising revenues among English-language private conventional television licensees were \$1,333 million. Simultaneous substitution revenues of \$147.6 million represented 11.1% of the total advertising sales in the English-language private conventional television market. Donner and Lazar's 1996/97 estimate included the incremental revenues earned by CBC|Radio-Canada affiliates and CBC|Radio-Canada; but the amounts were small, \$1.5 million and \$630,000, respectively. Removing the small amount attributed to CBC|Radio-Canada, reduces the 1996/97 amount to \$147.0 million, or approximately 11.0% of total English-language private conventional advertising sales.

We used an analogous approach for the back-cast of the status quo scenario. We estimated the annual value of simultaneous substitution by calculating 11.0% of annual levels of the advertising revenues of English-language private conventional broadcasters.

Between 1996/97 and 2014/15, advertising revenues in the English-language private conventional television market actually fell by 11% to an estimated \$1,186 million.<sup>96</sup> To derive the status-quo estimate, we assumed that simultaneous substitution revenues continued to represent 11.0% of the relevant advertising market between 1997/98 and 2010/11. With this assumption, the revenue impact of simultaneous substitution decreased from \$159 million in 1997/98 to \$131 million in 2014/15. In effect, under this scenario, the annual revenue impact of simultaneous substitution grew – and then fell – in step with overall television advertising sales in the English-language private conventional television market.

While the status-quo estimate is straight forward and very plausible, there are indications that there was more simulcasting on Canadian television in recent years compared to 1996/97. To gauge and quantify the increase in simultaneous substitution, we enlisted CBC|Radio-Canada Research to prepare sample schedules from November 1997 and November 2003. Based on these schedules, CBC|Radio-Canada Research tabulated the total number of hours of simulcast American programming in Canada's two major English-language television markets – Toronto and Vancouver – during a four-week period in November 1997 and November 2003 (Table 18).

The comparison of simulcasting in these two markets showed the number of hours of simulcasting in the Toronto market increased by 16%; in the Vancouver market it increased by 19%. In both markets, a large part of the increase in simulcasting can be traced back to the entry of new broadcasters into the respective markets. In Toronto, SunTV entered the market; while in Vancouver, City-TV, A-Channel, and Channel M have come on air since 1997.

A 17% increase in simulcast hours of programming does not necessarily translate into a 17% increase in advertising revenues from simultaneous substitution. This increased programming should increase supply somewhat and put some downward pressure on average airtime rates. With this in mind, we have used an assumption of 12% (approximately 70% of the total rate of growth) to represent the incremental advertising revenues brought in by more simultaneous substitution activity in 2003/04. To estimate the incremental impact for the interim years – 1997/98 to 2002/03 – we assumed a scenario of linear growth.

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<sup>96</sup> Television advertising revenue published by CRTC were not available for the 2014/15 broadcasting year at the time of writing. As a result preliminary television advertising market information was used to estimate the television advertising levels for 2014/15.

Under this *simulcasting-growth* scenario, then, the annual revenue impact of simultaneous substitution was \$162 million in 1997/98, and decreased to \$199 million in 2003/04. By 2003/04, it was 12% higher than the status-quo estimate of \$178 million. From 2003/04 to 2009/10, we assumed that there was no further growth in broadcasters' simulcasting activity. With this assumption, the annual revenue impact of simultaneous substitution grew to a peak of \$212 million in 2006/07, before decreasing to \$144 million in 2014/15 – or 12.0% higher than the status quo estimate for 2010/11.

**Table 18 Comparison of simulcast activity in the Toronto and Vancouver markets, 1997 and 2003**

	Hours of simulcast American television programs during a four-week sample period		Percentage change
	November 1996	November 2003	
Toronto			
Global Television	70.0	62.5	(11%)
CTV	65.5	62.0	(5%)
CBLT-CBC	2.0	0.0	(100%)
City-TV	15.5	20.5	32%
New VR / A-Channel	20.5	38.0	85%
CHCH	57.0	60.5	(6%)
CFMT / Omniz	8.0	10.0	25%
Sun TV	--	23.0	n.a.
<b>Total</b>	<b>238.5</b>	<b>276.5</b>	<b>16%</b>
Vancouver			
Global	81.0	65.5	(19%)
CIVT (VTV / CTV)	46.5	61.5	32%
CBUT-CBC	2.0	0.0	(100%)
CHEK / CH Vancouver Island	35.0	77.5	121%
City-TV	--	18.0	n.a.
CIVI / A Channel	--	21.0	n.a.
Channel M	--	19.5	n.a.
BCTV	56.5	--	n.a.
<b>Total</b>	<b>221.0</b>	<b>263</b>	<b>19%</b>
<b>Grand total</b>	<b>459.5</b>	<b>539.5</b>	<b>17%</b>

Source: CBC|Radio-Canada Research.  
n.a. – not applicable

**Table 19 Back-cast of revenue impact of simultaneous substitution (\$ millions unless indicated otherwise)**

	Back-cast						Base year
	1990/ 91	1991/ 92	1992/ 93	1993/ 94	1994/ 95	1995/ 96	1996/ 97
Total advertising revenues in English-language private conventional television market	1,042	1,129	1,115	1,143	1,203	1,244	1,333
Simultaneous substitution revenues - Status quo scenario (11% of total advertising revenues in English-language private conventional market)	115	125	123	126	133	137	147
Simultaneous substitution revenues - Simulcast-growth scenario	115	125	123	126	133	137	147
Incremental revenues in simulcast-growth scenario in relation to status quo scenario	0%	0%	0%	0%	0%	0%	0%

Source: Nordicity calculations based on Donner and Lazar methodology, and Donner and Lazar results for 1996/97.

Table 20 Extrapolation of revenue impact of simultaneous substitution (\$ millions unless indicated otherwise)

	Base year	Extrapolation																	
	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Total advertising revenues in English-language private conventional television market	1,333	1,445	1,459	1,468	1,493	1,458	1,611	1,614	1,683	1,693	1,717	1,679	1,520	1,650	1,650	1,659	1,540	1,468	1,357
Simultaneous substitution revenues - Status quo scenario (11% of total advertising revenues in English-language private conventional market)	147	159	161	162	165	161	178	178	186	187	189	185	168	182	182	183	170	162	150
Simultaneous substitution revenues - Simulcast-growth scenario	147	162	166	170	176	175	196	199	208	209	212	207	188	204	204	205	190	181	168
Incremental revenues in simulcast-growth scenario in relation to status quo scenario	0%	1.7%	3.4%	5.1%	6.9%	8.6%	10.3%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%

Source: Nordicity calculations based on Donner and Lazar methodology, and Donner and Lazar results for 1996/97.

## Appendix D: Estimation of Value of Section 19.1

Like simultaneous substitution, the economic impact of section 19.1 of the *Income Tax Act* has been the subject of several previous analyses by Arthur Donner and various co-authors.

- In 1979, Donner and Fred Lazar prepared the first estimate of the monetary value of section 19.1. In that report, Donner and Lazar found that section 19.1 increased Canadian broadcasters' advertising sales by \$16.2 million in 1977 and \$23.2 million in 1978.<sup>97</sup>
- In 1983, Donner and Mel Kilman published an updated estimate for the economic value of section 19.1. They estimated that section 19.1 led to between \$28.2 million and \$32.7 million in additional advertising revenues for Canadian broadcasters in 1982.<sup>98</sup>
- In 1986, Donner prepared another update. He estimated that section 19.1 had generated \$35.8 million to \$41.8 million in additional revenues in 1984.<sup>99</sup>
- Donner's most recent work on this topic was in 1990. In that year, the Department of Communications commissioned Donner to prepare a report on the economic value of simultaneous substitution and section 19.1. Donner concluded that section 19.1 generated an estimated \$67.3 million in incremental advertising revenues for Canadian broadcasters in 1988.<sup>100</sup>

With the most recent estimate for the value of section 19.1 being from 1988, we set out to develop estimates for the broadcast years 1990/91 through 2014/15, by applying Donner's methodology to the broadcasting markets in each of these years.

To derive the 1988 estimate, Donner essentially simulated the U.S. broadcaster revenues in 1988 based on four different scenarios for U.S. television station revenue from Canadian advertisers.

1. U.S. stations maintain their 1975 market share (before Bill C-58) of 7.1% of total conventional television advertising expenditures ("1975 Market Share").
2. U.S. stations' share of conventional television advertising expenditures in Canada grows by the same rate as private conventional television advertising revenues in Canada ("Revenue Growth Assumption").
3. U.S. stations increase their market share in Canada to 10% ("10% Market Share").
4. U.S. stations increase their market share in Canada to 15% ("15% Market Share").

Donner selected scenarios two and three from among these four scenarios, to construct the low- and high-end ranges for his 1988 estimate.

In 1975, immediately prior to the implementation of section 19.1, American border stations accounted for \$16.5 million, or 7.1%, of Canada's total expenditures on private conventional television advertising.

The estimates under each scenario represent the potential or projected loss experienced by American border stations because of section 19.1. However, as Donner points out, part of this loss was due to simultaneous substitution and not section 19.1, per se. Donner suggests that about 20% of the value of simultaneous substitution can be traced back to lost advertising sales by the border stations. The remaining 80% of the simultaneous-substitution impact can be attributed back to American network advertising. As such, he reduces his section 19.1 estimates by 20% of the simultaneous substitution estimate in order to arrive at a residual

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<sup>97</sup> Donner and Lazar (1979).

<sup>98</sup> Arthur Donner and Mel Kilman (1983). *Television Advertising and the Income Tax Act: An Economic Analysis of Bill C-58*. Prepared for the Department of Communications, November 1983.

<sup>99</sup> Donner (1986).

<sup>100</sup> Arthur Donner (1990).

estimate of impact of section 19.1.

Using Donner's methodology, we estimated that section 19.1 generated advertising revenues of between \$88 million and \$122 million for Canadian private conventional television broadcasters in the English-language market in 1995/96. To arrive at this range estimate, we derived scenarios two and three for the 1995/96 broadcasting year, and then removed the effect of simultaneous substitution. We applied this approach to each year during the 1990/91-to-2014/15 period and found that the revenue impact of section 19.1 was between \$110 million (Scenario 2: revenue growth scenario) and \$143 million (Scenario 3: ten percent market share scenario) in 2010/11.

Donner's Scenario 2 suggests that American border stations' Canadian revenues would grow in step with the growth of private conventional television advertising revenues in Canada. Between 1975 and 1995/96, the advertising revenues of Canada's private conventional television broadcasters increased by approximately seven-fold from \$214 million to \$1,497 million. In 1975, American border stations garnered \$16.5 million in Canadian advertising revenues. By multiplying the 1975 amount by seven, one obtains an estimate of \$115 million for 1995/96. The Scenario 3 estimate is simply \$1,497 million multiplied by 10%, or \$150 million.

We repeated the above process for each broadcasting year during the 1990/91-to-2014/15 period, and found that under Scenario 2, the revenue impact grew from \$97 million in 1990/91 to \$110 million in 2014/15. Under Scenario 3, the revenue impact grew from \$126 million in 1990/91 to \$143 million in 2014/15.

The next step in the calculation required us to remove the estimate for the American border stations' lost revenue due to simultaneous substitution. As described in Appendix B, we calculated two estimates for the value of simultaneous substitution. To simplify our analysis we multiplied these amounts by 20% and used the midpoint of the resulting range, to represent the portion of American border stations' lost revenue that would have been lost due to simultaneous substitution. Based on this approach, the portion of the revenue impact attributed to simultaneous substitution was \$23 million in 1990/91, growing to \$28 million in 2014/15.

Donner's 1990 estimate of the revenue impact of section 19.1 did not distinguish between private conventional broadcasters and the CBC|Radio-Canada. As such, one final adjustment needed to be made to the estimate in order to account for CBC|Radio-Canada's share of the English-language conventional television advertising market. In 2014/15, CBC|Radio-Canada earned an estimated \$322 million in advertising revenues in the English-language market; this represented 21% of total conventional television advertising revenues in the conventional television market. To account for the CBC|Radio-Canada's share of the advertising, we have reduced each estimate by 21% of the **total potential loss** of U.S. border stations (i.e., \$110 million in Scenario 2 in 2014/15 and \$143 million in Scenario 3 in 2014/15).

Therefore, by applying Donner's methodology to the 2014/15 television advertising market, and removing CBC|Radio-Canada from the amount, we derived the following estimates for the incremental revenue impact of section 19.1.

- Under the revenue-growth scenario (Scenario 2), the advertising-revenue impact increased from \$58 million in 1990/91 to \$59 million in 2014/15.
- Under the 10%-market-share scenario (Scenario 3), the advertising-revenue impact increased from \$81 million in 1990/91 to \$85 million in 2014/15.

**Table 21 Back-cast of revenue impact of section 19.1 (\$ millions)**

	Back-cast						Base year
	1990/ 91	1991/ 92	1992/ 93	1993/ 94	1994/ 95	1995/ 96	1996/ 97
<b>Revenue growth assumption scenario</b>							
Total potential losses of U.S. border stations	97	104	104	106	112	115	123
U.S. border station losses due to simultaneous substitution [Note 1]	23	25	25	25	27	27	29
Estimated losses of U.S. border stations due to section 19.1	74	80	80	81	85	88	94
CBC's share of advertising market	17	17	16	15	16	19	17
Revenue gains for private conventional television broadcasters due to section 19.1	58	63	64	66	70	69	77
<b>Ten percent market share scenario</b>							
Total potential losses of U.S. border stations	126	136	135	138	145	150	160
U.S. border station losses due to simultaneous substitution [Note 1]	23	25	25	25	27	27	29
Estimated losses of U.S. border stations due to section 19.1	103	111	111	113	119	122	131
CBC's share of advertising market	21	22	21	20	21	24	22
Revenue gains for private conventional television broadcasters due to section 19.1	81	89	90	93	98	98	109

Source: Nordicity estimates based on methodology from Donner (1990) and statistics from CRTC and CBC.

Notes:

(1) Equal to 20% of total value of simultaneous substitution (see Appendix C).

**Table 22 Extrapolation of revenue impact of section 19.1 (\$ millions)**

	Base year	Extrapolation																	
	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
<b>Revenue growth assumption scenario</b>																			
Total potential losses of U.S. border stations	123	133	135	136	138	135	149	150	155	156	157	154	139	148	149	141	136	125	110
U.S. border station losses due to simultaneous substitution [Note 1]	29	32	33	33	34	34	37	38	39	40	40	39	36	39	39	36	34	32	28
Estimated losses of U.S. border stations due to section 19.1	94	101	102	103	104	102	111	112	116	116	117	115	104	110	110	105	101	93	83
CBC's share of advertising market	17	20	17	16	17	17	16	18	11	18	17	20	16	18	19	19	16	25	24
Revenue gains for private conventional television broadcasters due to section 19.1	77	81	85	87	87	84	96	94	104	98	101	95	88	92	91	86	85	69	59
<b>Ten percent market share scenario</b>																			
Total potential losses of U.S. border stations	160	173	175	176	179	176	193	194	201	202	204	200	181	192	193	183	176	162	143
U.S. border station losses due to simultaneous substitution [Note 1]	29	32	33	33	34	34	37	38	39	40	40	39	36	39	39	36	34	32	28
Estimated losses of U.S. border stations due to section 19.1	131	141	142	143	145	142	156	156	162	162	164	161	145	154	155	147	141	131	116
CBC's share of advertising market	22	25	22	20	22	23	20	24	15	24	22	26	20	23	25	25	21	32	31
Revenue gains for private conventional television broadcasters due to section 19.1	109	115	120	123	122	119	135	133	147	139	142	135	125	131	130	122	120	99	85

Source: Nordicity estimates based on methodology from Donner (1990) and statistics from CRTC and CBC.

**Notes:**

(1) Equal to 20% of total value of simultaneous substitution (see Appendix C).



## Appendix E: Statistics for Federal Government Expenditures

Table 23 Federal government expenditures on culture (\$ 000s)

Fiscal year	Total federal government expenditures on operations and programs	Total federal government expenditures on culture and broadcasting	CBC parliamentary appropriation	Federal government expenditures on culture and broadcasting less CBC parliamentary appropriation
	--	A	B	=A-B
1990/91	158,810,000	2,203,000	1,078,430	1,124,570
1991/92	168,718,000	2,279,000	1,031,037	1,247,963
1992/93	171,474,000	2,405,000	1,109,746	1,295,254
1993/94	169,709,000	2,212,000	1,089,746	1,122,254
1994/95	173,383,000	2,253,000	1,093,852	1,159,148
1995/96	175,765,000	2,040,000	1,170,689	869,311
1996/97	166,041,000	2,011,000	997,133	1,013,867
1997/98	160,672,000	1,973,000	806,485	1,166,515
1998/99	166,593,000	2,079,000	896,435	1,182,565
1999/00	173,337,000	2,195,000	879,187	1,315,813
2000/01	184,612,000	2,303,000	902,074	1,400,926
2001/02	184,941,000	2,373,000	982,885	1,390,115
2002/03	189,249,000	2,650,000	1,046,522	1,603,478
2003/04	197,272,000	2,890,000	1,066,311	1,823,689
2004/05	207,128,000	2,961,000	1,036,528	1,924,472
2005/06	215,293,000	2,874,000	1,098,000	1,776,000
2006/07	223,989,000	2,944,000	1,114,000	1,830,000
2007/08	240,461,000	2,986,000	1,104,000	1,882,000
2008/09*	238,846,000	3,067,221	1,170,814	1,923,186
2009/10*	274,198,000	3,057,816	1,139,516	1,918,300
2010/11*	270,463,000	2,975,684	1,137,145	1,838,539
2011/12*	275,386,000	3,179,341	1,032,047	2,147,294
2012/13*	275,564,000	3,131,911	1,105,519	2,025,392
2013/14*	276,827,000	3,131,131	1,083,474	2,047,657
2013/14*	280,434,000	3,224,129	1,036,096	2,188,033

Source: Statistics Canada, CANSIM, matrix 325-0002; *Public Accounts of Canada*; and CBC|Radio-Canada.

\* The data for total federal government expenditures on culture and broadcasting for 2008/09 to 2014/15 have been sourced from the *Public Accounts of Canada*, since Statistics Canada terminated CANSIM matrix 325-0002 at the 2009 fiscal year.

Note: Some totals may not sum due to rounding.