

4 July 2016

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Danielle May-Cuconato
Secretary General
Canadian Radio-television and
Telecommunications Commission
Ottawa, Ontario
K1A 0N2

Subject: Broadcasting Notice of Consultation CRTC 2016-191 – Application by the Canadian Broadcasting Corporation (CBC) for amendments to broadcasting licence to allow ICI Musique and CBC Radio 2 to continue to broadcast paid national advertising

Dear Ms. May-Cuconato,

- 1 In accordance with the procedures set out in BNC 2016-191, CBC/Radio-Canada submits the following Reply to the 14 interventions served on it by interested parties on or before 22 June 2016. A list of the parties serving interventions on the Corporation is attached as Appendix A to this Reply.
- 2 Of the 14 interventions received by the Corporation, eight support CBC/Radio-Canada's application, five oppose it and one intervener provides a comment without taking a position on the application.
- 3 CBC/Radio-Canada gratefully acknowledges the eight supporting interventions which recognize the Corporation's ongoing need to generate additional revenues via advertising on ICI Musique and CBC Radio 2. These interveners recognize that at this stage of the evolution of the broadcasting system the Corporation needs to have the full set of tools available to meet the challenges of the changing environment. The Corporation notes that these supporting interventions are in harmony with the fact that the audience shares of ICI Musique and Radio 2 are stable or higher now than before advertising was introduced in 2013.¹ This demonstrates unequivocally that Canadian radio listeners, as a whole, do not find advertising to be a significant problem on these two services.
- 4 Based on a review of the five opposing interventions, CBC/Radio-Canada has identified the following issues for reply:
 - a) the ongoing need for CBC/Radio-Canada to have advertising on ICI Musique and Radio 2;

¹ CBC/Radio-Canada's 3 March 2016 Application at paragraph 24.

- b) whether CBC/Radio-Canada's participation in the radio advertising market has had an undue negative effect on other radio stations;
- c) the level of advertising revenues generated on ICI Musique and Radio 2; and
- d) the alleged possibility of advertising on Radio One and La Première Chaîne.

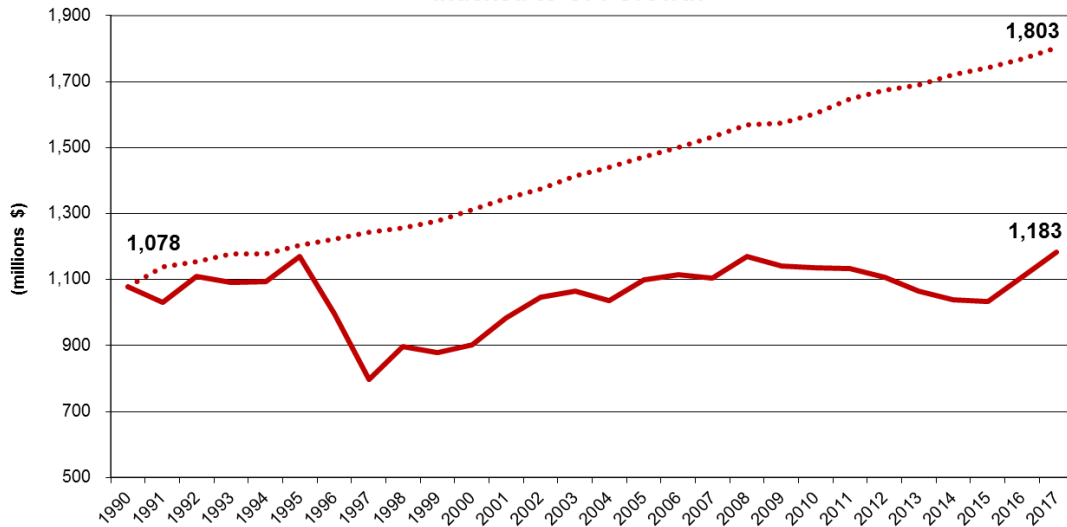
5 The Corporation responds to each of these issues, in turn, below.

a) The Ongoing Need for Advertising Revenues

- 6 Several interveners² argue that CBC/Radio-Canada no longer needs to have advertising on ICI Musique and Radio 2 given that the new Liberal Government has increased the Corporation's Parliamentary appropriation by \$75M for fiscal 2016-2017 and has promised to increase it by \$150M for the following four years. According to these interveners, this increase in funding provides more than enough money to support ICI Musique and Radio 2.
- 7 After more than two decades of cuts and freezes, an increase in the Corporation's Parliamentary appropriation is both long overdue and extremely welcome. That being said, those interveners who claim that this increased funding will solve CBC/Radio-Canada's financial challenges have seriously misunderstood the nature of the Corporation's financial circumstances as well as its overall funding mechanisms.
- 8 The reality is that CBC/Radio-Canada has an ongoing need to maximize its advertising revenues, including paid national advertising on CBC Radio 2 and ICI Musique. This can be clearly seen by considering four points.
- 9 First, CBC/Radio-Canada's Parliamentary operating appropriation covers only part of the Corporation's total budget. CBC/Radio-Canada is expected by the Government to generate the remainder of its budget monies from advertising, subscriptions, licensing and other sources. This has been the case for decades. In 2015-16 the Parliamentary appropriation covered approximately 60% of the Corporation's annual budget and it is expected to cover 64% in 2016-17 and approximately 66% in 2017-18. The opposing interveners appear to be unaware of these basic facts.
- 10 It is worth noting that in 1990 the Parliamentary appropriation was \$1,078M and covered 71% of the Corporation's annual budget. The following chart shows the Corporation's operating Parliamentary appropriation since 1990 in nominal dollars as compared to what it would have been if it had been allowed to grow at the CPI-adjusted rate of inflation.

² Jesse Betterage, CAB Radio Council, Durham Radio Inc. and Quebecor Media.

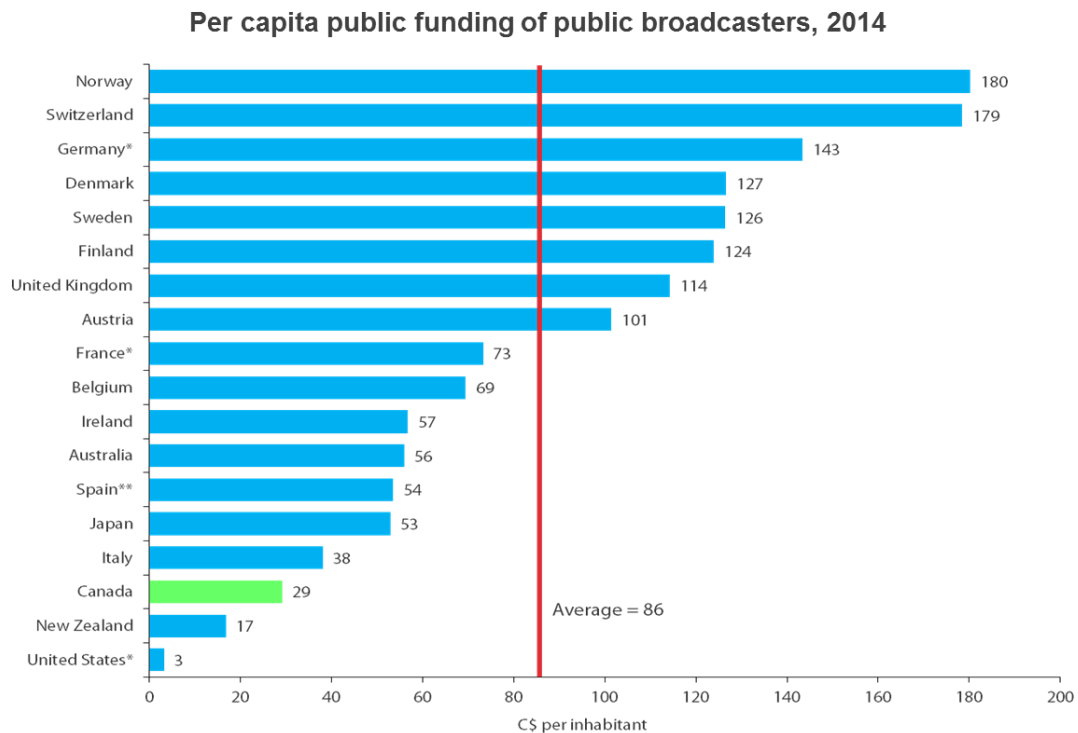
CBC/Radio-Canada Parliamentary Appropriation Indexed to CPI Growth



Sources: Treasury Board Main Estimates. Based on Government of Canada fiscal year ending March 31. Figures include annual supplementary funds of \$60M received between 2001-02 and 2012-13. Figures also include annual salary inflation funding which was frozen between 2009-10 and 2012-13. Historical CPI from Statistics Canada and CPI estimates from RBC (covering to 2017).

- 11 This chart makes it clear that the \$75M increase for 2016-17 and the \$150M increase for the subsequent four years will not reverse the effects of two decades of cuts and freezes, especially given the dramatic changes in the broadcasting environment that have required CBC/Radio-Canada to greatly expand the scope and scale of its operations. The need for the Corporation to maximize other revenue sources remains strong.

- 12 Second, the per capita funding for CBC/Radio-Canada in 2016-17 will be \$31 and in the following four years, it will be \$33. As indicated by the chart below, this level of funding places Canada near the bottom of Western industrialized countries in terms of public funding for the national public broadcaster. This highlights the need for the Corporation to maximize its other revenue sources if it is to provide a level of service comparable to that provided by other public broadcasters.



Source: Analysis of Government Support for Public Broadcasting (Nordicity, March 2016)

- 13 Third, the advertising market in television continues to decline as advertisers shift their money to the Internet and other media.³ Consequently, the Corporation cannot count on maintaining its current television advertising revenues. In contrast, the radio advertising market has been and is predicted to continue to be relatively stable. While the Corporation is being conservative in its projections for its own advertising revenues from radio, this is one area where the Corporation may be able to maintain or possibly even improve its advertising revenues. In addition, the ability to offer a package of platforms including radio remains important to maximize our revenues.
- 14 Fourth, the regulatory changes coming out of the Let's Talk TV proceeding are certain to have a negative effect on the advertising revenues and the subscription revenues of the Corporation's services which are distributed by BDUs. This fact reinforces the need for CBC/Radio-Canada to maintain and improve other revenue sources, including radio advertising revenues.
- 15 Overall, while CBC/Radio-Canada is grateful for the additional funding from Parliament, it is clear that the new funding will in no way eliminate the need for the Corporation to pursue all sources of revenue, including national advertising on CBC Radio 2 and ICI Musique, if CBC/Radio-Canada is to achieve financial sustainability and fulfill its broadcasting objectives. There is, therefore, no merit to the opposing interveners argument on this point.

³ The problems of conventional television are well known. On 23 June 2016 the Commission released data showing that advertising revenues for Canadian specialty services fell by \$19 M in 2015.

- 16 As far as the new funding is concerned, given the past cuts and the ongoing need to enhance existing services and develop new services, there are multiple demands for these funds. The Corporation's plans were set out in CBC/Radio-Canada's 2 May 2016 letter to the Commission. They include enhancements to Radio 2 and ICI Musique programming.
- 17 It is important to recognize that the Government's commitment to reinvest in CBC/Radio-Canada was subject to rigorous scrutiny and approval by the Treasury Board. Specifically, Treasury Board approval recognizes that these funds will be used in part, to counter existing financial pressures as well as strengthen the Corporation's transformation into the digital public space by reinvesting in new content and programming and allowing for enhanced services.
- 18 Given the many demands on and the current plans for the new funding from Parliament it is clear that this funding is not the panacea the opposing interveners claim it to be. This further illustrates the lack of merit to their argument.

b) The effect on other radio stations

- 19 Some interveners⁴ have suggested that CBC/Radio-Canada has changed or will change the character of ICI Musique and CBC Radio 2 to make these services more commercial and, hence, more competitive with the private radio sector. This is not correct. In Decision 2013-263 the Commission imposed conditions of licence on ICI Musique and CBC Radio 2 to preserve the character of these services. As noted in its Application⁵, the Corporation has fully complied with these conditions. There is no merit whatsoever to the allegations of these interveners.
- 20 In a related vein, Durham Radio Inc. (DRI) argues in its intervention that the "state of the private Canadian Radio industry is being 'glossed over' ... by the Crown Corporation and the Regulator".⁶ While commercial radio profits may be increasing, according to DRI an "increase in Profits Before Interest and Taxes (PBIT) by less than half a percent does not indicate a vibrant industry".⁷
- 21 With all due respect to DRI, commercial radio is doing comparatively well in a very dynamic and challenging broadcasting environment, especially when compared to television services which are seeing their PBIT falling, not increasing.⁸ An increase of PBIT of any amount is a sign of health, not decline.

⁴ Cory Verbauwheide, Quebecor Media Inc.

⁵ CBC/Radio-Canada's 3 March 2016 Application at paragraphs 33 to 35.

⁶ Durham Radio Inc. Intervention at page 2.

⁷ Ibid. at page 2.

⁸ Conventional TV PBIT dropped from -\$138.7M in 2014 to -\$140.9M in 2015 while Specialty Services PBIT dropped from \$1B 2014 to \$884.9 in 2015.

- 22 After painting a bleak present and worse future for commercial radio, DRI goes on to blame this alleged decline on CBC/Radio-Canada:

*The CBC's application will have a further negative impact on the decline in revenue of Private Canadian Radio. If the COL for advertising is approved, CBC projects it will have earned \$3.2m from commercial activity on the CBC Radio 2 and ICI Musique networks over five years. This amount represents 30% of the revenue lost by Private Canadian Radio in the previous five years.*⁹

- 23 This is a peculiar argument since it compares revenues over different time periods. In any event, the notion that CBC Radio 2 and ICI Musique earning \$3.2 M in advertising revenues over five years would somehow cripple the commercial radio industry which will receive approximately \$8 Billion in advertising revenue over this same period is nothing short of ludicrous.

- 24 It is also worth noting that DRI's suggestion that CBC/Radio-Canada is causing the downfall of the commercial radio sector is in stark contrast to the statement of the CAB Radio Council in its 22 June 2016 intervention¹⁰:

The fact that CBC's radio advertising revenues are not considerable and have not caused for the most part an undue impact on the private radio sector does not of itself justify the extension of this exceptional authorization.

- 25 It is clear that the CAB Radio Council does not think that advertising on ICI Musique and CBC Radio 2 is crippling the commercial radio industry. The reality is that the advertising revenues generated by these services have had no material effect on the commercial radio sector, nor can they be expected to have such an impact in the future. There is no merit whatsoever to DRI's argument on this point.

c) The level of advertising revenues generated

- 26 CAB Radio Council suggests in its intervention that the advertising revenues generated by ICI Musique and Radio 2 are so small that they aren't worth the bother.¹¹ DRI makes a similar suggestion.¹²

- 27 This is an odd argument since if the amounts are so small, then why are the CAB Radio Council and DRI so concerned about them? In any event, the Corporation admits that the amount of advertising revenue generated by ICI Musique and Radio 2 has been disappointingly small. However, CBC/Radio-Canada is not now and never expects to be in the position where it can ignore millions of dollars which could otherwise be used to support Canadian programming. The arguments of CAB Radio Council and DRI have no merit.

⁹ Durham Radio Inc. Intervention at page 3.

¹⁰ CAB Radio Council Intervention at paragraph 3.

¹¹ Ibid. at paragraph 3: "Indeed, it is precisely because the quantum of advertising CBC expects to receive is relatively immaterial, that this is absolutely the right time to end the practice now, before it becomes entrenched."

¹² DRI Intervention at page 5: "... it could cost the CBC considerably more to offer commercial availabilities on Radio 2 and ICI Musique than it makes on the sale of commercials."

d) The alleged possibility of advertising on Radio One and La Première Chaîne

- 28 CAB Radio Council¹³ and DRI¹⁴ both suggest that CBC/Radio-Canada's current application is just a ploy to prepare the ground so that the Corporation can commence advertising on CBC Radio One and ICI Première in the future. This is nonsense.
- 29 The Corporation has no plans to introduce advertising to these two other radio services. More importantly, should CBC/Radio-Canada ever file such an application the Commission will be able to undertake a full examination of that application at that time. It would be grossly inappropriate and, arguably, an error of law for the Commission to deny the present application on the basis of concerns about a hypothetical future application. There is no merit to this argument.

Conclusion

- 30 In Decision 2013-263 the Commission stated that if CBC/Radio-Canada wishes to continue to carry advertising on ICI Musique and Radio 2 after 31 August 2016 then it must apply to have the enabling conditions of licence extended prior to their expiry. In particular, at paragraph 242 of Decision 2013-263 the Commission identified four criteria which must be satisfied if the conditions of licence are to continue in effect:

If the CBC wishes to continue to broadcast advertising after that period, it will have to apply to the Commission. At that time, the Commission will expect the CBC to provide evidence that advertising has not had an undue negative effect on the advertising markets, that advertising has not been unduly disruptive to listeners, that the CBC's level of investment in radio has been maintained and that the variety and diversity of the service that Espace Musique and Radio 2 provide has not been diminished. This will provide the Commission, the CBC and Canadians with an opportunity to evaluate the impact of advertising on the programming of Espace Musique and Radio 2 and on the Canadian broadcasting system.

- 31 As demonstrated in its application, CBC/Radio-Canada has satisfied the four conditions established by the Commission in Decision 2013-263. None of the interveners opposing the Corporation's application has proven otherwise. Neither have these interveners come up with any other compelling reasons why CBC/Radio-Canada's application should not be granted.
- 32 CBC/Radio-Canada operates on a mixed funding model: public funding from Parliament together with commercial revenues from advertising, subscriptions, licensing, merchandising and other sources. This has been the case for decades and it will be the case for the foreseeable future. In these circumstances, the Corporation has an ongoing need to maximize revenues from all reasonable sources.

¹³ CAB Radio Council Intervention at paragraph 26.

¹⁴ DRI Intervention at page 4.

33 The recent experience with introducing advertising to ICI Musique and CBC Radio 2 has been neither traumatic to listeners nor catastrophic for commercial radio. On the contrary, listenership is up for both of the Corporation's services and the commercial radio sector continues to be healthy in a challenging broadcasting environment. In light of all of these considerations, CBC/Radio-Canada respectfully requests the Commission to approve the current application so that the monies generated from advertising on ICI Musique and CBC Radio 2 can continue to contribute the Corporation's broadcasting activities.

Yours truly,



Bev Kirshenblatt
Executive Director
Corporate & Regulatory Affairs

cc Intervenors identified in Appendix A

Appendix A

Interventions Served on CBC/Radio-Canada on or before 22 June 2016

Dentsu Aegis Network	sandra.marin@dentsuaegis.com
Cossette Media	francine.marcotte@cossette.com
twenty6two international	msherman@twenty6two.com
Cairns O'Neil Strategic Media Inc.	sherry@cairnsoneil.com
Veritone Media Agency	becky@veritone.com
Veritone Media Agency	stephanie@veritone.com
Bay Bloor Radio	mark@baybloorradio.com
Le Festival de Lanaudiere	fbedard@lanaudiere.org
Durham Radio Inc.	Steve@kx96.fm
CAB Radio Council	sbissonnette@cab-acr.ca
Quebecor Media Inc.	anne.julien@quebecor.com
Cory Verbauwhede	verbauwhede.cory@courrier.uqam.ca
Jesse Betteridge	jesse.betteridge@gmail.com
NCRA-ANREC	luke@ncra.ca

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