Broadcasting Notice of Public Hearing CRTC 2006-5

A New Framework for Canadian Television

Comments of the

Canadian Broadcasting Corporation/Société Radio-Canada

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Executive Summary

Conventional television broadcasters – both public and private – are the key drivers of the Canadian television sector, both in terms of audience reach and support for Canadian programming. Their impact has been undeniable in terms of their capacity to bring a mass audience to television programs and their ability to act as a catalyst for the creation of a wide range of Canadian programming.

The CRTC has developed a broad range of regulatory measures for Canadian television: measures to promote Canadian content; to promote specific types of programming; and, in concert with government, to provide support for industry financing models. By all accounts, these measures, which have been employed to meet the challenges of the day and to support the cultural vitality and economic health of Canada's television industry, have been a success.

As a result, all broadcasters – conventional, specialty, public and private – benefit from access to a variety of direct and indirect subsidies put in place by government and the CRTC to support a strong Canadian presence in the broadcasting system. However, in the case of many conventional broadcasters, the value of these measures, such as simultaneous substitution, section 19.1 of the *Income Tax Act* and the CRTC's most recent drama incentives, are in large part dependent on the value of the advertising business model.

As noted by the CRTC in the current Notice of Public Hearing, the environment for television licensees, in particular over-the-air licensees, is undergoing fundamental changes. In the past decade, changes such as increasing audience fragmentation, the growth of the specialty television sector, the weakening of the traditional advertising market for conventional television and the declining

importance of over-the-air reception represent seismic shifts within the Canadian broadcasting system.

The current review of certain aspects of the 1999 Television Policy Framework is a recognition that the Canadian television system has evolved. New or modified regulatory measures must be introduced to ensure that Canada's conventional broadcasters – private and public – are equipped to continue to provide their significant contribution to the Canadian broadcasting system.

The evolving television environment raises two fundamental challenges for the Commission in respect of conventional television.

First and foremost is the need to develop a regulatory framework that will provide a sustainable financial model for conventional television. Canada's conventional broadcasters are the only television programming undertakings uniquely dependent on advertising revenues to sustain their operations. The current reliance on advertising will soon be under threat on numerous fronts and will in the near future not provide a viable basis for financing the cultural, technological and business goals of conventional broadcasters.

At a time when major investments must be made in new technologies and when there is a strong regulatory demand for increased Canadian content, especially more expensive drama programming, the financial realities facing conventional broadcasters are becoming extremely challenging. Content will continue to be king, and conventional broadcasters, like all content providers, will need to have a robust financial return for the content they provide to others.

If this core element of the television sector is to maintain its significant contributions to the television industry, eligibility for a broader revenue model for its content must be established.

Second, the major technological shift from analogue to HD digital television raises serious issues regarding both the funding of this transition and the economic efficiency of retaining over-the-air transmission in many regions of the country.

There are two over-riding factors that emerge in a review of over-the-air television and the transition to digital/HD television. First, the transition to digital/HD television will continue to be extremely costly and lack a supporting business case. Second, distribution of television signals via over-the-air technology has increasingly become a less effective means to reach large audiences.

The combination of the rapid decline in over-the-air reception levels in smaller, more rural markets, and the less rapid decline in reception levels in many major Canadian centres, has inspired CBC/Radio-Canada to develop a flexible approach to its on-going and future investments in over-the-air infrastructure. In particular, CBC/Radio-Canada is investigating a hybrid proposal – using both over-the-air infrastructure and cable/satellite delivery – that it believes provides the most appropriate and efficient means to make its services available throughout Canada as required under the *Broadcasting Act*.

In order to address these challenges, particularly the financing of conventional television, the CRTC's current Television Policy requires modification. CBC/Radio-Canada makes the following specific recommendations:

i) In order to address the weakening advertising business model for Canada's conventional broadcasters and provide them with a broader financing model that remunerates them for the content they supply, the CRTC should in this proceeding establish the principle that conventional broadcasters are eligible to receive subscription revenues from Broadcasting Distribution Undertakings (BDUs) that distribute

their service. The specific levels of wholesale fees applicable to conventional broadcasters – both public and private – should be established in the context of their licence renewal proceedings at which time the specific and unique circumstances and proposed public policy targets of each conventional broadcaster would be examined.

ii) To help meet the challenge of declining over-the-air reception, CBC/Radio-Canada is developing a hybrid strategy for both its remaining analogue systems and its growing digital/HD systems – using over-the-air distribution in markets where reception levels are declining more slowly, and BDU distribution in all other markets. Under the hybrid approach, all Canadians would continue to have access to their national public broadcaster – even in the absence of an over-the-air transmitter.

iii) In the interests of making the most efficient use of scarce spectrum, a mandated shut-off date for analogue service should be implemented in Canada. By establishing a fixed date for the transition, the CRTC can ensure that the transition is completed in the most effective and low-cost manner possible. In this regard, CBC/Radio-Canada proposes that the Commission work with Industry Canada to establish August 31, 2011 as the mandated shut-off date for analogue television service in Canada. This date would be just over two years past the mandated shutdown date of analogue television in the U.S. The CRTC should also monitor developments in the U.S. and elsewhere in preparation for a mandatory shut-off so as to assess and minimise the transitional impact of this initiative on Canadians.

Part 1: Introduction

1 CBC/Radio-Canada appreciates this opportunity to contribute to the CRTC's review of certain aspects of the regulatory framework for over-the-air television.

2 CBC/Radio-Canada intends to participate actively and constructively in this process, as it is both a timely and essential precursor to the renewal of licenses for all conventional over-the-air broadcasters, including the national public broadcaster. While the review is focused on several specific questions of particular urgency, it also affords an opportunity to take stock of the television landscape more broadly and ensure that the evolving regulatory framework takes heed of the lessons of the past in charting a course towards the future for conventional television.

3 As the Commission has noted in Broadcasting Notice of Public Hearing CRTC 2006-5 (BNPH 2006-5), the existing regulatory framework reflects a balance between ensuring appropriate contributions to the social and cultural objectives of the *Broadcasting Act* (the *Act*) and the creation of conditions that will promote a healthy broadcasting sector.

4 In the introduction to BNPH 2006-5, the Commission reviewed the assumptions of its 1999 Television Policy and identified a number of areas where the expectations of that policy have been met and others where they have not.

5 While the Commission notes that the "Canadian conventional television industry is healthy," it also recognises that a number of significant challenges have arisen or are emerging that could threaten the ability of conventional

broadcasters – the cornerstone of the television industry – to provide on-going support for some of the social and cultural objectives of the system.

6 Of particular note in this regard are the challenges created by:

- the significant decrease in foreign market financing potential for Canadian programming;
- the effect of fragmentation and the development of new media platforms on the traditional television advertising funding model;
- the slow pick up of HD digital technology by the Canadian industry; and
- the lack of progress in making Canadian drama a central component of prime-time viewing.

7 Challenges of this magnitude affect both sides of the balancing act that the Commission seeks to maintain between the social and cultural objectives of the *Act* and the health of the broadcasting sector.

8 In its articulation of the objectives of this review, the CRTC has rightly highlighted the paramount importance of the need to "contribute in the most effective manner possible, to the production, acquisition and broadcast of high quality Canadian programming that attracts increasing numbers of viewers." Canadians are well served by a broadcasting system that offers an ample supply of high-quality, distinctive Canadian content that reflects the Canadian experience and connects them to their communities, their regions, their country and the world. However, content is not free, and Canadian content, like all other content, must be financed and paid for.

9 As a result, all participants in the television industry – including pay and specialty, and public and private conventional broadcasters – receive public

preferences to supplement their business models and ensure that they are able to supply Canadian programming to the system.

10 Conventional television typically comprises only a small fraction of the television channels available to any single television viewer. Indeed, following 25 years of specialty and pay television licensing by the CRTC and expanded access to non-Canadian services, Canada's broadcasting system has grown to include hundreds of domestic and international channels that permit Canadians to access the best television programming from within Canada and around the world.

11 Conventional television's relatively small storefront share may give the false impression that it now plays a correspondingly small role in the Canadian broadcasting system. The truth is, however, that conventional television continues to play the key role in the broadcasting system. For all the competition brought on by specialty television over the last 25 years, Canadian conventional television is still a nightly destination for more than 90 per cent of Canadians.

12 It is also important to recognise that conventional television remains the key source of original Canadian programming. While specialty services have provided important second windows for Canadian programming they are simply not a key vehicle for the production and delivery of original Canadian programming. A recent sample of English-language specialty services revealed that on average, over 85 per cent of all Canadian drama and comedy programming broadcast and viewed on these channels was repeat programming; less than 15 per cent was original Canadian drama and comedy programming. Conversely, the share of original Canadian drama and comedy programming

viewed on English-language conventional broadcasters is over 80 percent; on French-language conventional broadcasters it is over 90 percent.[1]

13 Overall, conventional broadcasters – both public and private – remain the key drivers of the Canadian television sector. This is an important fact that should not be lost sight of amidst the whirl and excitement of the changing world of television.

14 The remainder of this submission is divided into four parts. First is an overview of the Commission's regulatory model as it applies to the television industry, with particular emphasis on the contribution of conventional broadcasters and the effectiveness of these broadcasters in delivering on the Commission's regulatory objectives.

15 This descriptive section is followed by two analytical sections, the first of which identifies and discusses two major challenges facing conventional television broadcasters: the changing advertising market; and, the implications for over-the-air television of the shift to digital technologies and the increasing penetration of cable and satellite services. The second analytical section looks at potential regulatory changes that may be necessary to address these two major challenges.

16 Finally, in the attached appendices, other issues and questions identified by the Commission in its public notice are examined.

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1 This information is presented in more detail in Part 2.

Part 2: Canada's Television Industry

Introduction

17 Over the course of the past several decades, and in pursuit of specific policy objectives contained within the *Broadcasting Act*, the Commission has identified and developed a broad range of regulatory measures to meet the challenges of the day and to support the cultural vitality and economic health of Canada's television industry.

18 Through the creation and application of these various regulatory measures, the Commission has been able to ensure that all players in this industry have a reasonable opportunity to pursue their specific business goals while also making a significant and appropriate contribution to the Canadian broadcasting system.

19 By all accounts, the Commission's work in employing this range of regulatory measures has been a success. While the economics of Canadian programming remain a challenge, Canadian consumers today benefit from the widest choice of television programming of any country in the world. Canadians can choose from among hundreds of public, private, community, French-language, English-language, multilingual, native, Canadian and foreign, conventional, specialty, pay, pay-per-view and video-on-demand services.

20 This industry-wide success would not have been possible in a purely market-driven television environment: the regulatory measures developed and applied by the Commission to meet the challenges of the broadcasting system have been effective and necessary.

21 Moreover, this industry-wide success would not have been possible without the contribution of public and private conventional broadcasters. Conventional television is the cornerstone of the Canadian television industry in terms of audience reach and support for Canadian programming. Its impact has been undeniable in terms of its capacity to bring a mass audience to television programs and its ability to act as a catalyst for the creation of a wide range of Canadian programming.

22 From the arrival of over-the-air broadcasts from the United States in the 1940s and 1950s, cable television in the 1960s and 1970s, satellite transmission in the 1980s and 1990s, pay and specialty services in the 1980s, pay-per-view and VOD services in the 1990s and the commencement of the migration to digital distribution in the current decade, public and private conventional broadcasters have maintained their position as the most significant contributors to a vibrant Canadian television industry.

23 The current review of certain aspects of the 1999 Framework is a recognition that the Canadian television system is continuing to evolve. The increasing audience fragmentation in the industry, the growth of the specialty sector, the weakening of the traditional advertising market for conventional television, and the declining importance of over-the-air reception, for example, represent several fundamental developments within the system in the last 10 years.

24 It is therefore entirely appropriate to review certain aspects of the 1999 Framework to determine the need for new or modified regulatory measures that will ensure Canada's conventional broadcasters – private and public – are equipped to continue to provide their significant contribution to the Canadian television industry.

Key Regulatory Measures

25 The Commission has developed three key types of regulatory measures for Canadian television: measures to promote Canadian content; measures to promote specific types of Canadian programming; and, in concert with government, measures to provide support for industry financing models. These measures are at the core of the 1999 Framework and understanding their application to the television industry is extremely important for the current review.

26 In the case of the first two of these measures – promoting Canadian content, and promoting specific types of Canadian programming – conventional broadcasters are the Commission's most important vehicle for delivering favourable results.

27 In the case of the last regulatory measure – providing support for industry financing models – the Commission's approach for conventional broadcasters has heavily leveraged the advertising business model on which these broadcasters are uniquely dependent.

28 The Commission's experience in applying these three regulatory measures is reviewed below.

Promoting Canadian Content

29 Providing Canadians with Canadian television programming is ultimately what the Canadian television industry is all about.

30 While a key objective of the industry is to have high-quality and diverse television programming available to Canadians across the country, there must always exist a special emphasis on ensuring that Canadian programming has a predominant and prominent place in the television line-up.

31 Canadian content rules have existed in some form or another since 1961, when private television stations not affiliated to CBC/Radio-Canada were first licensed across Canada. The Canadian content rule is a natural but also a relatively "blunt" regulatory instrument since it addresses only the quantity of Canadian programming and, even then, only on a broadly averaged basis. In particular, a content rule of this sort says nothing about the quality, the diversity or the sourcing of programs.

32 Nonetheless, the importance of this regulatory measure is difficult to dispute and the results have been highly successful in large part due to the ability of conventional broadcasters to draw large audiences. Despite the numerous television-programming options available to Canadians today, Canadian conventional television stations still attract half of all prime-time television viewing in Canada.[2]

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2 Nielsen Media Research, September 2005 to March 2006. See Table 1, Appendix 2.

33 The drawing power of conventional broadcasters and their effectiveness in promoting Canadian content is further demonstrated by their performance vis-à-vis the most popular Canadian programs, whether regular series or specials.

34 As shown below, among last season's most popular English-language Canadian series, 17 out of 20 were broadcast by conventional television broadcasters.

Most Popular Canadian English-language Regular Programs based on Average Audience (AMA)

RANK	NETWORK	PROGRAM	AMA (000)
1	Conventional	Canadian Idol 3 – Results	2,298
2	Conventional	Canadian Idol 3 – Performances	2,233
3	Conventional	Corner Gas	1,401
4	Conventional	Hockey Night in Canada – Game 1	1,357
5	Conventional	The Rick Mercer Report	727
6	Conventional	Degrassi: The Next Generation	710
7	Conventional	W-Five	679
8	Conventional	Royal Canadian Air Farce	654
9	Conventional	Jeff Ltd.	653
10	Conventional	National News	630
11	Conventional	This Hour Has 22 Minutes	601
12	Specialty	NHL Hockey	582
13	Conventional	Sunday Night News	562
14	Conventional	Just for Laughs	540
15	Specialty	Hockey – Leafs Ontario	528
16	Conventional	Etalk	468
17	Conventional	Winnipeg Comedy Fest	467
18	Conventional	Fifth Estate	458
19	Conventional	The National – Current Affairs	449
20	Specialty	Blue Jay's Baseball	437

Source: Nielsen Media Research (September 2005 to March 2006, 7pm to 11pm)

Notes: Programs reported according to the average audience captured by regularly scheduled episodes.
Excludes regularly scheduled re-runs of Canadian series.

35 Among last season's most popular English-language Canadian specials, 19 out of 20 were broadcast by conventional television broadcasters.[3]

36 Similarly, Canada's French-language conventional broadcasters provide the most effective vehicle for delivering Canadian content to Francophones in Quebec.[4] For these Canadians, French-language conventional television's share of viewing was over 65 per cent of all viewing in prime time during the latest television season.[5]

37 In addition, 20 out of 20 of last season's most popular French-language Canadian series and most popular French-language Canadian specials were aired on Canada's French-language conventional broadcasters.[6] Interestingly, the combined share of Canada's French-language public and private conventional broadcasters is more than twice the combined share of the French-language specialty services available in Canada.

38 Canada's English-language and French-language conventional broadcasters, both public and private, have the ability to draw the greatest number of Canadians together to experience Canadian programming, whether they are following Canada's political future on election night or the performance of their favourite team at the Grey Cup. As a result, these broadcasters are the most important vehicle for delivering on the Commission's efforts to promote Canadian content.

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3 See Table 2, Appendix 2.

4 The currency for the French-language market (BBM's PPM system) is limited to Francophone viewing in Quebec.

5 BBM-PPM Quebec Francophones (Sept. 2005 to March 2006, 7 pm to 11 pm)

6 See tables 3 and 4, Appendix 2.

39 Conventional television broadcasters have also been the key catalysts for the financial development and production of Canadian programming in support of Canadian content and in respect of the Commission's content rules.

40 Conventional television broadcasters now account for the largest share of the total spending on Canadian television programming. In 2004-2005, conventional television broadcasters spent approximately $1 billion on Canadian programming.[7] This represents 57 per cent of the $1.7 billion spent on Canadian programming by all Canadian television licensees in 2004-2005. Similarly, conventional broadcasters accounted for 54 per cent ($191 million) of the $354 million that all Canadian television licensees spent on Canadian drama programming in 2004-2005. More importantly, these statistics only tell part of the story in terms of the financing of original Canadian programming. This is because many of the programs aired by specialty broadcasters are largely financed by, and aired first on, conventional television. For example, conventional broadcasters contributed 86 per cent of all broadcaster financing of original CTF-funded drama/comedy programming in 2004-2005.[8]

41 Finally, the unique daily connection to broad Canadian social and cultural realities that conventional broadcaster programming provides to Canadians has long been recognised by the Commission as a key and necessary element in the overall promotion of Canadian content. As a result, as cable and satellite distribution systems emerged in Canada, the Commission sought to ensure that the programming provided by conventional broadcasters would be given good visibility.

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7 CRTC Broadcasting Policy Monitoring Report 2006. This data is an under representation of conventional expenditures as it does not include Canadian sports expenditures for CBC English Television.

8 CTF Annual Report 2004-2005.

42 The requirement that distributors provide conventional television stations with priority status is therefore another of the Commission's key regulatory measures designed to promote Canadian content.[9]

43 These and other regulatory measures, leveraging conventional broadcasters' unique programming and their effectiveness in reaching large numbers of Canadians, have historically provided the Commission with the most effective means of promoting Canadian content and addressing the policy objectives of the *Act*.

Promoting Specific Types of Canadian Programming

44 A later but natural complement to the Commission's broad promotion of Canadian content was the introduction by the Commission of regulatory measures designed to encourage licensees to concentrate on specific program types in an effort to advance more specific objectives of the *Act* and meet the discrete challenges of the changing broadcasting environment.

45 In particular, the Commission implemented regulatory measures aimed at ensuring a diversity of genres of programming, especially with respect to drama and certain other programming genres that were traditionally underrepresented on the screen. These measures, in concert with other CRTC measures and government initiatives, have helped to fund the establishment of a strong independent production sector that can produce attractive and popular Canadian programming of specific types.

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9 The priority status of conventional television stations is set out in sections 17 and 34 of the *Broadcasting Distribution Regulations*.

46 In recent years and through specific regulatory measures the CRTC has refocused its efforts to address what it sees as a critical and continuing deficiency in the Canadian television industry: the shortage of Canadian drama.

47 In this regard, conventional broadcasters have again provided the Commission with the most effective vehicle for applying this measure and addressing this issue. For example, in response to these and other regulatory measures, conventional broadcasters now provide the primary source of original Canadian-produced drama and comedy programming viewed during prime time.

48 In order to understand more precisely the important contribution made by public and private conventional broadcasters to the Commission's objective in regard to Canadian drama programming, CBC/Radio-Canada recently conducted an analysis of the supply and viewing of Canadian drama and comedy programs aired during prime time on English and French TV in Canada.[10]

49 This analysis focused on Canadian drama/comedy programming aired in prime time by conventional broadcasters[11] and selected specialty services[12] in three markets (Montreal, Toronto and Vancouver) during two separate broadcast months (November 2005 and March 2006).

50 As shown below, the Canadian drama/comedy programs broadcast by Canadian conventional stations attracted the vast majority of the viewing time,

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10 Analysis excludes Children and Youth programming as well as theatrical films aired on television.

11 English-language conventional broadcasters included in the study included CBC TV, CTV, Global, CH, CHUM, Sun TV and A-channel. French-language conventional broadcasters included Télévision de Radio-Canada, TVA and TQS.

12 In the case of English-language specialty services, the analysis included the following specialty services: Showcase, Bravo!, Comedy Network, W, Space and the TMN (The Movie Network). For French-language specialty services, the analysis included the following specialty sources: Series+, ARTV, Canal Z, Super Écran, Historia, and Canal Vie.

again reflecting the ability of conventional broadcasters to reach mass audiences.

Source: Special analysis November 2005 and March 2006, based on prime-time viewing hours reported by NMR (Toronto and Vancouver) and by PPM (Montreal)

51 More importantly however, CBC/Radio-Canada's analysis also provided a basis for understanding conventional broadcasters' contribution to the creation of original Canadian drama programming.

52 As shown in the charts below, most of the viewing to Canadian drama/comedy broadcast by conventional broadcasters in the study was viewing to original drama/comedy programming that had not previously been shown on another service – either conventional or specialty.

The Contribution (%) of Original and Repeat Programming to the Viewing of Canadian Drama/Comedy on Conventional and Specialty Stations

Source: Special analysis – November 2005 and March 2006, based on prime-time viewing hours reported by NMR (Toronto and Vancouver) and by PPM (Montreal)

53 Conversely, CBC/Radio-Canada's research revealed that at least 85% of the Canadian drama/comedy aired – and almost 90% of the Canadian drama/comedy viewed – on specialty services consisted of repeat programming.

54 Clearly, without the direct funding, developmental commitment, and shelf-space provided by Canada's conventional public and private broadcasters for original Canadian drama and comedy programming, prime-time television in Canada would effectively be devoid of all such programming.

55 As a result of their broad programming make-up, mass audiences, and investment in original programming, conventional broadcasters represent the cornerstone element of the television industry's ability to respond to the Commission's goals with regard to specific programming types.

Support for Industry Financing Models

56 The basic economics of English- and French-language television production in Canada and the availability of relatively inexpensive U.S. programming mean that market forces alone cannot be relied upon to produce a predominance of Canadian programming or to ensure that Canadian programming is given a prominent place in the broadcast schedule.

57 All parties in the broadcasting sector – specialty, conventional, public, and private – have public preferences at their disposal. These types of support are necessary if Canadians are to have access to Canadian programming.

58 Government provides direct economic support for Canadian television programming by way of programming grants and contributions, and other direct expenditures related to Canada's culture including funding and tax-based support provided to CBC/Radio-Canada, Telefilm Canada, the Canadian Television Fund and other programs and agencies with mandates to preserve, promote, and develop Canadian culture.

59 In the case of Canada's private conventional broadcasters, for example, these public preferences operate through government and CRTC regulations, and include program substitution, and protections under the *Income Tax Act* which discourage Canadian advertisers from placing advertisements in foreign

programming. For the broadcast year 2003-2004, the value of these two preferences alone has been estimated at between $270 million and $330 million for Canada's English-language private conventional broadcasters.[13] Recently, the Commission has also created additional public preferences for Canada's private conventional broadcasters and certain specialty services in the form of supplemental revenues for drama programming. These public preferences are worth $34 million and $2 million annually for English-language and French-language private conventional broadcasters respectively.[14]

60 Canadian specialty services are also provided with more fundamental public preferences in the form of entry protections from foreign and domestic competitors. Without these market protections, a vast number of American services would enter the Canadian marketplace and destroy most specialty services' businesses. For Canadian English-language specialty services alone, the value of these protections has been estimated at approximately $735 million annually.[15]

61 As a point of comparison, CBC English Television has access to public preferences valued at $261 million annually through its operating appropriations from government.[16]

62 As can be seen, the value of public preferences available to Canadian specialty services far exceeds the combined value of public preferences to Canada's public and private conventional broadcasters, yet it is the conventional

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13 Nordicity Group Ltd., *Analysis of Government Support for Public Broadcasting and Other Culture in Canada*, 2006.

14 CBC/Radio-Canada Research and Strategic Analysis estimate.

15 Nordicity Group Ltd., *Analysis of Government Support for Public Broadcasting and Other Culture in Canada*, 2006. Nordicity estimates the value of total Canadian specialty service benefits from these entry protections at $900 million of which $735 million accrues to English-language specialty services.

16 CBC English Televisions Government funded Operating Expenditures for 2003-2004; excludes capital and corporate overhead allocations.

broadcasters that generate the lion's share of viewing to original Canadian programs. As noted earlier, in the case of drama and comedy programming, for example, only 15 per cent of Canadian specialty's total broadcast hours are devoted to original programming: 85 per cent is repeat programming previously shown by another broadcaster, in most cases a conventional broadcaster.

63 However, in the case of many conventional broadcasters, the value of the applicable regulatory measures is in large part dependent on the value of the advertising business model on which these broadcasters, both public and private, are uniquely dependent.[17] For example, simultaneous substitution, section 19.1 of the *Income Tax Act*, and the CRTC's most recent drama incentives, all operate via the advertising market.

64 Overall, Canadian conventional broadcasters have simply too narrow an economic base. Despite the significant contributions of the Canadian conventional television industry to the system, conventional broadcasters remain the only class of undertaking not eligible for direct remuneration for the content they provide, as a means to support the social and cultural objectives of the system.

65 Content is king, but it is not free. In an increasingly fragmented media world, direct payment for the supply of content becomes increasingly important. This is the reality for all content providers in Canada, and around the globe.

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17 In the case of CBC Television, over 50 per cent of total revenues are drawn from advertising.

Part 3: Policy Challenges to the System

66 The dramatic changes in the television environment over the past several years have raised two fundamental policy challenges for the Commission in respect of conventional television.

67 First and foremost is the need to develop a regulatory framework that will provide a sustainable financial model for conventional television. The current reliance on advertising will soon be under threat on numerous fronts and will in the near future not provide a viable basis for financing the cultural, technological and business goals of conventional broadcasters.

68 Second, the major technological shift from analogue to HD digital television raises serious issues regarding both the funding of this transition and the economic efficiency of retaining over-the-air transmission in many regions of the country.

69 These two fundamental policy challenges are discussed in detail below.

Policy Challenge: Financing Conventional Television

70 As discussed above, unlike other elements of the television sector, conventional television broadcasters do not have access to direct remuneration, such as subscription revenues, to fund their operations. Instead, they must depend principally on advertising revenues to meet their financial requirements.[18]

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18 See footnote 17.

As a result, changes in the advertising market are of the utmost importance to the ongoing health of conventional television.

71 At just over $3 billion in advertising revenue, television is the largest advertising medium in Canada. However, it is also an advertising medium that has experienced slow growth over the last decade. Between 1996 and 2005, television advertising grew at an average annual rate of 4.8%, the slowest rate of growth of any advertising medium except for newspapers.

72 Segmenting TV advertising between conventional and specialty TV reveals a striking and important fact – the annual rate of growth in specialty TV advertising far outstrips that of conventional TV, despite the fact that specialty TV services also have access to subscription revenues as a source of funding.

73 While television advertising overall grew at an average annual rate of 4.8 per cent between 1996 and 2005, conventional TV advertising grew by only 2.4 per cent. With an average annual growth rate of 19.5 per cent, specialty TV advertising revenue is growing roughly eight times faster than conventional TV advertising revenues.

74 Looking at each year of growth over the last 10 years shows that the situation for conventional TV has been getting worse. Since 1998, conventional TV advertising growth has been hovering between negative one per cent and plus two per cent growth.

75 Advertising revenues across different media are provided in the following table.

Advertising Revenue by Medium, 1996-2005
(in millions)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	CAGR
Total Television	1,988	2,120	2,329	2,385	2,456	2,559	2,611	2,839	2,976	3,029	4.8%
Conventional TV	*1,833*	*1,936*	*2,088*	*2,081*	*2,075*	*2,121*	*2,102*	*2,232*	*2,268*	*2,261*	*2.4%*
Specialty TV	*155*	*184*	*241*	*304*	*381*	*438*	*509*	*607*	*708*	*768*	*19.5%*
Newspapers	2,033	2,180	2,360	2,416	2,551	2,514	2,533	2,558	2,626	2,667	*3.1%*
Radio	798	849	920	953	1,001	1,048	1,080	1,171	1,209	1,310	5.7%
Magazine	611	647	707	721	805	845	900	950	994	1,028	6.0%
Billboard	200	220	246	269	293	310	321	338	356	404	8.1%
Internet	2	10	25	56	110	97	117	237	365	519	91.5%
Total Ad Revenue	**5,632**	**6,026**	**6,587**	**6,800**	**7,216**	**7,373**	**7,562**	**8,093**	**8,526**	**8,957**	**5.3%**

Source: Statistics Canada, CARAT

76 It is important to recognise that this is not just a Canadian phenomenon. In the US, the upfront ad selling market for conventional TV has been weak and declining for several years. Indeed, Kagan predicts that American conventional broadcaster prime-time upfront ad sales revenue will decline by one per cent in 2006.[19]

77 This data makes clear that something new and significant is happening. Advertisers have traditionally seen conventional television prime-time spots as commanding a premium because these spots were considered to have unique characteristics: they attracted lighter viewers, the hard-to-reach people who are often upscale; they provided greater brand-weight via the prime-time environment; and they delivered mass audiences.

78 As a result of this advertising premium and despite their shrinking market share, conventional broadcasters have been able to maintain the historical growth in advertising rates and thereby maintain a small level of growth in advertising revenues. However, most analysts now agree it is becoming

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19 Kagan, *TV Program Investor*, July 31, 2006.

extremely doubtful whether this phenomenon can be sustained given the effects of a number of factors, especially audience fragmentation.

79 Audience fragmentation can be traced to both the increased number of television services, as well as the fragmentation resulting from the introduction of new technologies that provide both consumers and advertisers with alternatives to television. Given these environmental changes, it seems likely that the premium commanded by conventional television will eventually dwindle as advertisers continue to spread resources over a greater variety of media.

80 As shown in the following table from PricewaterhouseCoopers' most recent forecasts, the differential in advertising growth rates between conventional broadcasters and specialty services will be significant over the next five years.

Advertising Revenue Growth by Medium in Canada: CAGR 2006-2010

Source: PwC Global Entertainment and Media Outlook, 2006-2010

81 In addition to the weak outlook for conventional TV advertising, as compared to other media, there are a number of additional factors that will challenge conventional TV's reliance on advertising, especially the increasing use of personal video recorders (PVRs), the rise of on-demand services and the siphoning of advertising revenues to the Internet.

82 TV broadcasters have feared the ad skipping capabilities of PVRs since the introduction of TiVo almost a decade ago. While PVRs have been slow to take off in Canada, they are now beginning to develop a significant presence in the market. Among Anglophones, PVR penetration was 4% in 2005 and is forecast to grow by half again to 6% in 2006.

83 If growth rates of this order continue, PVRs will soon become a matter of greater concern to both advertisers and broadcasters.[20] Anglophone PVR owners in Canada report that nearly half of their TV viewing is now playback of recorded material and that they skip 80% of the commercials.[21]

84 While product placement and more entertaining advertisements may help reduce ad skipping, the growing adoption of the PVR is a potentially significant risk to the future of conventional television broadcasters' current business model.

85 The second major area of concern with respect to the sustainability of advertising revenues is the increasing appeal to consumers of on-demand viewing. In order to satisfy consumers' desire for more control over when they watch content, programmers and distributors around the world have begun experimenting with on-demand delivery methods, especially video-on-demand and broadband Internet.

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20 Forrester Research forecasts a 45% penetration rate of PVRs in the U.S. by 2009.

21 CBC/Radio-Canada Media Technology Monitor (MTM) Reports, 2005.

86 These on-demand platforms have the potential to further fragment television audiences and yet, at the same time, lack a clear business model. Advertising, pay-per-use and subscriptions are all being tried; however, it is not yet clear which – if any – of these approaches will be economically viable. Overall, on-demand services could end up eroding traditional advertising revenues through fragmentation, without providing compensatory revenues.

87 Finally, conventional TV advertising revenues will be further reduced by expanding platforms and the increasing tendency of advertisers to focus on the more direct targeting of their intended customer base. No medium is better positioned to capitalise on this trend than the Internet, since it can combine sponsored keyword search ads, on-line commerce and full-motion video advertisements.

88 Internet advertising has grown almost five fold in five years, from $110 million in 2000 to $519 million in 2005. This strong rate of growth is forecast to continue, averaging an annual rate of growth of 18.8% between 2006 and 2010 (see PwC forecast). At this rate, Internet advertising will be the fastest growing advertising medium in Canada and will grow twice as fast as the second fastest medium, specialty TV.

89 Overall, the growth and acceptance of the Internet and other distribution platforms as outlets for advertising, combined with the usage of new technologies to access television and the increasing significance of the specialty sector will accelerate the weakening advertising base for conventional broadcasters.

90 The future for conventional television's business driver – advertising revenues – looks uncertain at best.

91 At a time when major investments must be made in new technologies and when there is a strong regulatory demand for increased Canadian content, especially expensive drama programming, the financial realities facing conventional broadcasters are becoming extremely challenging. If this core element of the television sector is to maintain its significant contributions to the television industry, eligibility for a broader business case must be established.

Policy Challenge: Over-the-Air Television and the Transition to Digital/HD

92 There are two over riding factors that emerge in a review of over-the-air television and the transition to digital/HD television.

93 First, the transition to digital/HD television will continue to be extremely costly and lacks a supporting business case.

94 Second, distribution of television signals via over-the-air technology has increasingly become a less effective means to reach large audiences: only 12 per cent of Canadians now receive television service over-the-air, and viewing via over-the-air delivery now represents only about seven per cent of total television viewing in Canada.[22]

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22 Nielsen Media Research 2005-2006.

a) The Poor Economics of the Transition to Digital/HD

95 There is no business case for broadcasters in the transition to digital high-definition television. Quite bluntly, broadcasters must bear the increased financial expense of the HD transition with no offsetting revenue.

Increased Expenses

96 In order to offer an HDTV service, broadcasters must bear new incremental expenses related to production, presentation, distribution and transmission.

97 In terms of production, HD programming is simply more expensive. HDTV signals are roughly five times larger than standard digital TV signals. This increases processing power and memory requirements for capital equipment. It also increases the bandwidth required to move HDTV signals within a broadcasters' plant and externally (e.g., by satellite) to transmission facilities.

98 In addition, broadcasters typically must replace existing equipment before the end of its useful life. Thus, in order for a broadcaster to make the transition to HD, a broadcaster must buy more expensive equipment to replace existing equipment that is fully functioning and has not been fully amortised.

99 Finally, and particularly in Canada where no hard shut-off date has been established for analogue signals, broadcasters must duplicate their existing analogue services and new digital/HD signals for the foreseeable future. Each station must be duplicated in HD, requiring duplicative presentation, distribution and transmission services and facilities. This will be a requirement for some time until universal digital reception capabilities permit the shut down of analogue transmissions.

Absence of Revenues

100 Unfortunately, in the current environment of predominantly analogue signals, and with emerging digital/HD signals, advertisers are as yet unwilling to pay a premium for advertising in high-definition programs, and it is unclear if they will ever do so. This is despite the fact that the improved picture resolution and sound quality increases the quality of the viewing experience and improves the advertiser's brand recognition.

101 Indeed, when looking at the entire process of making and delivering digital/HD signals, as shown below, it is clear that conventional broadcasters are unique in terms of not being able to derive additional revenues from this programming.

102 Overall, these expense and revenue combinations create daunting financial challenges for all over-the-air broadcasters during the transition to digital/HD television.

b) The Declining Importance of Over-the-Air Television

103 CBC/Radio-Canada operates one of the largest over-the-air television infrastructures in the world: CBC Television has 480 television transmitters across Canada of which 39 serve 14 core markets that air local programming; Télévision de Radio-Canada Television has 182 television transmitters across Canada of which 13 serve eight core markets with local content.

104 Taken together, CBC/Radio-Canada's over-the-air television infrastructure and the over-the-air infrastructure of Canada's private broadcasters provide Canada with the largest over-the-air television broadcasting system anywhere.

105 Despite this extensive infrastructure and availability of signals, off-air penetration in Canada has been in decline for years and is now among the lowest in the world: only 12 per cent of Canadians are receiving their television via over-the-air delivery. The speed at which this decline in over-the-air usage has occurred is quite surprising.

106 Approximately five years ago, more than one in five Anglophone households received their television services via over-the-air reception. In 2005-2006, fewer than one in eight Anglophone households received their television signals via over-the-air. Similarly, fewer than one in five Francophone households received their television service via over-the-air and their reception levels have declined by over 30 per cent in the past five years.

107 Historically, smaller communities and rural areas lacking cable access depended heavily on OTA signals, far more so than larger urban areas. Today, however, smaller and rural communities rely heavily on DTH reception and have very little OTA reception. Since OTA reception in larger urban areas has been less affected by DTH, the result has been that OTA reception in major population

centres – once considered quite low relative to rural areas – now reflects the most significant over-the-air reception in Canada.

108 In addition, the availability of a large number of free off-air TV channels is a key factor in the penetration of off-air households. This is evident from the off-air penetration in Montreal among Francophones and in Windsor where penetration levels are much higher than the average, at 23 per cent and 34 per cent respectively.

109 As noted above, viewing via over-the-air delivery now represents only about seven per cent of total television viewing in Canada. Off-air tuning, however, continues to be important to CBC/Radio-Canada – representing approximately 16.5 per cent of the Corporation's total audience. In certain major markets, CBC/Radio-Canada stations get as much as a fifth of their viewing from over-the-air households.

110 With the high over-the-air viewing levels in these markets, the continued provision of over-the-air service through CBC/Radio-Canada's originating TV stations will be a key element of its delivery strategy for the foreseeable future. However, CBC/Radio-Canada's over-the-air viewing levels in smaller markets are quite different.

111 For example, in the case of CBC Television, 29.1 per cent of its audience comes from outside of major markets. Of that portion, 6.5 per cent is off-air viewing. Therefore, less than two per cent of CBC Television's total audience comes from off-air tuning outside of the major markets where CBC Television originates programming.[23]

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23 Nielsen Media Research, 2005-2006.

112 For Télévision de Radio-Canada, 17.6 per cent of its audience comes from outside of the major Canadian markets. Of that portion, 3.8 per cent is off-air viewing. Less than one per cent of Radio-Canada's total television audience, therefore, comes from off-air tuning outside of the markets where the Corporation originates programming.[24]

113 The combination of this rapid decline in over-the-air reception levels in smaller, more rural markets, and the less rapid decline in reception levels in many major Canadian centres, has inspired CBC/Radio-Canada to develop a more flexible approach to its on-going and future investments in over-the-air infrastructure. In particular, CBC/Radio-Canada is currently investigating a hybrid proposal – using both over-the-air infrastructure and cable/satellite infrastructure – that it believes provides the most appropriate and efficient means to make its analogue and digital/HD television services available throughout Canada, as required by the *Broadcasting Act*.

114 This strategy and a strategy for addressing the emerging threats to the financing of conventional television are presented in the following section.

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24 BBM Fall 2005.

Part 4: Requirements for a New Television Framework

115 As the Commission noted in BNPH 2006-5, the environment for television licensees, in particular over-the-air licensees, is undergoing significant change.

116 This change is particularly evident and profound in terms of the policy challenges discussed in the previous section: the financing of conventional television and over-the-air television including the transition to digital/HD.

117 In order to address these challenges, particularly the financing of conventional television, the Commission's current Television Policy requires modification.

Policy Response: Establishing Eligibility for Subscriber Revenues

118 As documented in this submission, conventional broadcasters are one of the cornerstones of Canadian broadcasting: the most significant contributors to original Canadian programming and the key instruments for advancing public policy in the broadcasting industry. This has been recognised by the CRTC in its call for comments.

119 In addition, and as discussed above, Canada's conventional broadcasters are the only television programming undertakings uniquely dependent on advertising revenues to sustain their operations. Historically, the advertising revenue model has been of sufficient strength and reliability so as not to require subscriber revenues for conventional broadcasters. Unlike specialty services, conventional broadcasters have therefore historically provided their services free of charge to cable and satellite distributors, even though, like specialty services,

these conventional broadcaster services have provided significant value to these BDUs and their customers, and even though BDUs have charged their customers for access to these services via their basic rates.

120 As documented earlier, the traditional advertising revenue model is now beginning to show signs of slowing, and in the near future will lose its strength and reliability.

121 Providing conventional broadcasters with eligibility for subscriber revenues when their services are distributed by BDUs would serve to offset the increasing economic uncertainty of the traditional advertising model and would place conventional broadcasters on the same solid economic base as Canadian specialty services, recognising the value both types of services offer to BDU subscribers.

122 At the same time, establishing eligibility for subscription revenues for conventional broadcasters would provide the Commission with confidence that these broadcasters would be able to continue to deliver on the public policy goals and program obligations that have been set for them. Indeed, the Commission may choose to establish subscriber revenue eligibility for conventional broadcasters in relation to the attainment of specific and discrete public policy or programming goals.

123 Whatever the precise terms, it is now clear that conventional broadcaster eligibility for subscriber revenues is an important principle that should be established by the Commission. Not doing so would create a severe economic disparity between specialty and conventional services as the conventional television advertising base weakens, and would risk undermining the economic foundation of the key engines of the Canadian broadcasting system: conventional broadcasters and the broad and original programming they provide.

124 The *Broadcasting Act* allows the Commission to set the terms and conditions under which cable and satellite companies, and other BDUs, distribute programming services. Indeed, through the powers given to it under the *Act*, the Commission has established the regulatory and economic frameworks for many services and service types, including eligibility for subscription revenues and carriage conditions.

125 In order to address the weakening financing model for Canada's conventional broadcasters, the Commission should therefore alter the economic framework for conventional television by establishing conventional broadcaster eligibility for subscriber revenues.

126 The basic regulatory framework for this approach could be established by the Commission in its revised television policy decision by means of an unambiguous statement to the effect that conventional broadcasters, like specialty services, will now be eligible to receive subscription revenues from BDUs that distribute their services, and that the Commission will entertain applications to set wholesale rates for conventional television stations in the context of the licence renewal proceedings for those stations.

127 Wholesale fees would simply be established by the CRTC in relationship to the terms and conditions of the broadcaster's licence, including the associated

public policy obligations, and their important value to BDUs and BDU subscribers. A regulated wholesale fee would therefore be specific to the unique circumstances and obligations of the broadcaster.

128 In the case of the specialty services, wholesale rates have been set at levels that reflect the initial cost and revenue balance of the services' overall proposed operations, including the costs and revenues associated with any Canadian programming obligations established by the Commission.

129 A more appropriate approach for establishing the level of wholesale rates for conventional broadcasters, whose operations are already underway, may be in relation to the net costs of attaining specific and discrete public policy objectives. For example, the Commission may choose to set the levels of conventional broadcaster subscriber fees in relation to the costs of achieving minimum levels of certain Canadian programming objectives, such as: original Canadian HD programming, original local programming, or original Canadian programming in specific genres.

130 CBC/Radio-Canada proposes that the specific levels of subscriber revenues applicable to each conventional broadcaster, whether it be CHUM, CTV, Global, TVA, TQS, or CBC/Radio-Canada itself, be established in the context of licence renewal hearings. At such time each licensee would be required to demonstrate, over the term of their next licence period, how they propose to achieve the specific and unique Canadian programming commitments identified by the Commission for funding via subscriber revenues. Licensees would also be required to identify and justify the amount of the associated subscriber revenue necessary to support these commitments.

131 In the context of licence renewal processes, all interested parties would be provided an opportunity to comment on the specific policy or programming

objective identified for funding via subscriber revenues, the associated level of the wholesale fee, and indeed whether such a fee would in fact be warranted or necessary to meet the programming commitments put forward by the conventional broadcaster under renewal.

132 Given their key place in the broadcasting system, no change in the other carriage conditions for conventional television stations need be made. Conventional television would continue to be on the highest possible carriage priority: mandatory on basic.

Policy Response: A Framework for the Transition to Digital/HD

133 In the current proceeding, the Commission needs to address two major issues to support the transition of conventional television services from analogue to HD digital television – what the transition will look like and when it will happen.

134 As discussed above, to help meet the challenge of declining over-the-air reception, CBC/Radio-Canada is developing a hybrid strategy for both its remaining analogue systems and its growing digital/HD systems – using over-the-air distribution in markets where reception levels are still relatively high, and BDU distribution in all other markets.

135 CBC/Radio-Canada's proposed hybrid approach for digital/HD television would comprise the following over-the-air and cable/satellite delivery mix: 44 over-the-air DTV transmitters would cover 80% of the Canadian population (28 markets in English and 16 in French where over-the-air tuning is still relatively significant); outside of these markets, CBC/Radio-Canada would reach Canadians through cable/satellite BDU delivery.

136 CBC/Radio-Canada notes that under the existing carriage requirements for BDUs, this hybrid approach would continue to ensure that all Canadians have access to their national public broadcaster. The Corporation has not examined whether any changes might be required to the regulatory framework for private conventional broadcasters should one or more of them wish to pursue a similar hybrid approach.

137 CBC/Radio-Canada also notes that the resources saved by pursuing more efficient distribution systems, such as the hybrid approach, would not completely solve the daunting financial challenge of the transition to digital/HD television. As discussed above, other financing models will need to be explored and adopted.

138 Finally, CBC/Radio-Canada also believes that, in addition to examining the distribution mechanisms for conventional television, the CRTC, working with Industry Canada, should establish a mandatory shut-off date for analogue television service in order to ensure the most efficient use of scarce spectrum. While it is true that market forces will drive the transition to digital/HD television and will determine the exact nature of the new environment, a fixed shut-off date should help ensure that the transition is completed in the most effective and low-cost manner possible. Otherwise, the high costs of maintaining parallel delivery systems in analogue and digital could continue for many years, and could complicate or even discourage efficient planning and investment. The CRTC should also monitor developments in the U.S. and elsewhere in preparation for a mandated shut-off so as to ensure that Canadians will not be unduly affected by this initiative.

139 In this regard, CBC/Radio-Canada proposes that the Commission establish August 31, 2011, as the mandated shut-off date for analogue over-the-air television service in Canada. This would be just over two years past the mandated shut down date of analogue television in the U.S.

Appendix 1

Responses to CRTC Information Requests

CRTC Information Requests

1. Over-the-Air – Audience Statistics

a) With respect to your OTA television stations, provide current data regarding the number of Canadian households dependent on OTA transmitters as their primary source of these signals.

As described in greater detail in CBC/Radio-Canada's current submission, as well as its September 1, 2006, Section 15 submission, distribution of television signals via over-the-air technology has increasingly become a less effective means to reach large audiences. Based on the most recent data, this trend is continuing and off-air penetration rates continue to decline.

As the number of BDU subscribers has grown, the percentage of Canadians who rely on over-the-air reception has decreased accordingly. As the chart below indicates, **fewer than one in eight Anglophone households received their television signals using only over-the-air in 2005-2006**, down from more than one in five just five years ago. While over-the-air reception is higher among Francophone households, fewer than 20 per cent, it has declined by more than one-third in the past five years.

Source: Nielsen Media Research

Viewing via over-the-air delivery now represents only seven per cent of total television viewing in Canada, and over 16% of all viewing to CBC/Radio-Canada's English and French television services. However, outside the major centres less than one per cent of Radio-Canada's TV audience and only about two per cent of CBC TV audiences are obtained from Canadians via over-the-air reception. The vast majority of Canadians in every market access CBC/Radio-Canada's conventional television services via subscription television.

Canadians' reasons for not subscribing to television have shifted dramatically since the 1990s.

A 1991 TNS Canadian Facts survey found that lack of availability (50%) of cable TV was the number one reason off-air consumers did not subscribe to cable TV. In 2004, lack of interest (36%) was the top reason cited.

In 1991, DTH satellite was not available and cable TV was only available in areas where population density made it economical.[25] Now that satellite-delivered television has been adopted by those who had previously wanted to subscribe to TV but could not, the remaining off-air TV households represent those Canadians who do not want subscription TV due to lack of interest or cost.

Reasons Currently Do Not Have Cable TV/DTH
Anglophone off-air television viewers who have never had a TV service
%

Question: What would you say is the most important reason for you not having cable TV or Satellite TV or some other type of television service at the present time?

Source: TNS Canadian Facts

25 In fact, it was the lack of cable TV availability that resulted in higher off-air TV penetration in rural areas, which is no longer the case since the launch of DTH satellite.

More recently, CBC/Radio-Canada's annual MTM survey[26] among 12,000 Canadian adults also asked respondents who receive TV off-air why they choose not to receive their service via subscription television. The overwhelming reason for not subscribing to TV is lack of interest.

Among Anglophone Canadians, nearly two-thirds of off-air TV viewers cite a general lack of interest (26%) or a lack of interest in receiving more TV channels (34%) or programming (3%) as a reason for not subscribing to TV. Only 29% cited cost as a reason for not subscribing to TV.

The results among Francophone Canadians yielded similar responses. Three quarters of off-air TV viewers cite a general lack of interest (54%) or a lack of interest in receiving more TV channels (19%) or programming (4%) as a reason for not subscribing to TV. Only 28% cited cost as a reason for not subscribing to TV.

Reasons for Not Subscribing to a TV Service
Anglophone Off-air TV Viewers 18+
%

	2006 Q1*
Channels (no need for more, too much choice etc.)	34%
Cost (costs too much, not worth the cost etc.)	29%
Lack of Interest (Never/rarely watch TV, not interested, better things to do)	26%
Availability (cannot receive cable, not offered/available)	10%
Don't like programming (dislike content, dislike violence, too many repeats)	3%
All other mentions	4%
Refused/Don't know	4%

Reasons for Not Subscribing to a TV Service
Francophone Off-air TV viewers 18+
%

	2005*
Lack of Interest (Never, rarely watch TV, not interested, better things to do)	54%
Cost (costs too much, not worth the cost etc.)	28%
Channels (no need for more, too much choice etc.)	19%
Don't like programming (dislike content, dislike violence, too many repeats)	4%
Availability (cannot receive cable, not offered/available)	3%
All other mentions	6%
Refused/Don't know	2%

Source: MTM

* Adds to greater than 100% as more than one response was accepted

26 Media Technology Monitor

CBC/Radio-Canada also undertook an analysis of Nielsen/BBM data to determine the size of the over-the-air audience to its television services outside of the 26 markets where the Corporation owns and operates TV stations. This analysis, provided in the following charts, demonstrates that this over-the-air audience contributes less than two per cent of all viewing to CBC/Radio-Canada's television services (1.9% for CBC TV; 0.7% for Télévision de Radio-Canada).

VIEWING TO CBC OWNED AND OPERATED (O&O)
NIELSEN MEDIA RESEARCH 2005-2006 (SEPT-MAR)

	O&O VIEWING (2+) VIA OFF-AIR	CONTRIBUTION TO TOTAL O&O VIEWING
O&O stations in their respective markets *	20.1%	70.9%
O&O stations outside their respective markets	6.5%	29.1%
TOTAL Canada	16.2%	100.0%

Approximately 2% of all viewing to CBC O&O stations is potentially at risk if there is no off-air coverage outside of these stations' markets.

Explanation :

29.1% of all viewing to CBC O&Os comes from outside the originating stations' respective markets.
6.5% of all viewing to CBC O&Os outside their respective markets is via off-air

Therefore the proportion of total viewing that is at risk is :
--- > 6.5% of 29.1% --- > .065 * 29.1 = 1.9%

Source: CBC Corporate Research & Strategic Analysis (NMR)
* Nielsen Designated Markets Areas (DMAs)

VIEWING TO RADIO-CANADA OWNED AND OPERATED (O&O) STATIONS
BBM FALL 2005

	O&O VIEWING (2+) VIA OFF-AIR	CONTRIBUTION TO TOTAL O&O VIEWING
O&O stations in their respective markets *	**19.8%**	**82.4%**
O&O stations outside their respective markets	**3.8%**	**17.6%**
TOTAL Canada	**17.0%**	**100.0%**

Less than 1% of all viewing to Radio-Canada O&O stations is potentially at risk if there is no off-air coverage outside of these stations' markets.

Explanation :

17.6% of all Radio-Canada O&O viewing comes from outside the originating stations' respective markets.
3.8% of Radio-Canada O&O outside their respective markets is via off-air

Therefore the proportion of total viewing that is at risk is :
3.8% of 17.6% --- > .038 * 17.6 = 0.7%

Source: CBC Corporate Research & Strategic Analysis (BBM)

b) Where possible, break down the above data according to market size (i.e., small, medium and large markets). Please provide your definition of market size.

The following table provides a breakdown of over-the-air television penetration by community size in Canada.

SATELLITE, CABLE AND OFF-AIR PENETRATION ESTIMATES BASED ON AREA POPULATION SIZE 2005-06 (BBM Fall 2005/Spring 2006)

AREA POPULATION	TOTAL Canada		
	SATELLITE	CABLE	OFF-AIR
1,000,000 +	16%	72%	12%
100,000 - 999,999	22%	67%	11%
< 100,000	45%	44%	11%

It is estimated that the per capita average cost of providing an over-the-air signal to a community of 5,000 when over-the-air penetration is 10 per cent, given an average $500,000 cost to build a transmitter would be $1,000 per person. When this fact is considered in conjunction with the major expenditures necessary to move from analogue to digital over-the-air transmission, it is clear that over-the-air transmission is becoming a comparatively less efficient technology.

Per Capita Cost of Providing an Over-the-air Signal by Community Size and Different Levels of Off-air Penetration

Population	Off-Air Penetration		
	15%	**10%**	**5%**
1,000,000	$ 10	$ 15	$ 30
500,000	$ 20	$ 30	$ 60
100,000	$ 67	$ 100	$ 200
50,000	$ 107	$ 160	$ 320
10,000	$ 333	$ 500	$ 1,000
5,000	$ 667	$ 1,000	$ 2,000

Source: CBC Technology/Technologies de Radio-Canada

Given these factors, it can be expected that with the move to digital, over-the-air transmission will only remain a viable distribution technology for the distribution of television programming in major urban centres.

2. Over-the-Air - Technology

a) Provide specific information with respect to the cost of upgrading existing analogue transmission facilities with digital transmission facilities.

Although this question specifically addresses transmission facilities, it should be noted that transmission is only one aspect of the overall transition to digital/HD. In fact, increased production costs, including studio and equipment costs are also major cost elements that arise in this transition.

CBC/Radio-Canada's analogue TV transmission networks are comprised of 26 unique program streams (15 English, 11 French) distributed primarily by satellite to 662 television transmitters (480 English, 182 French).[27]

CBC/Radio-Canada has done extensive work over the years developing and costing digital transition scenarios. Outlined below is a range of three scenarios:

a. Overbuild;

b. Hard shut down; and,

c. Hybrid distribution.

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27 This excludes affiliates and community-owned rebroadcast transmitters (CORBS) not licensed to CBC/Radio-Canada.

(a) "Overbuild Scenario": is premised on fully duplicating the existing analogue transmission network to digital. It assumes that two transmission networks, one in analogue and one in digital, would continue until the analogue service is discontinued.

Under this scenario, 662 new antennas and transmission lines for a digital transmission network would be installed. Many transmission sites would require tower reinforcing to accommodate the increased weight load and additional building space to ensure adequate power and transmitter cooling capability. This scenario would require the duplication in digital of the existing 26 program streams and the associated distribution capital and operating costs. The cost of the overbuild scenario would be $378 million in capital and $65 million in annual operating costs.

Scenario (A) "Overbuild"
(in millions)

	Total Capital Costs	Annual Operating Costs Over-build Completed (Parallel Analogue & Digital Operation)
Transmission	**350**	**42**
Distribution	**28**	**23**
BDUs Feeds	**0**	**0**
Total:	**378**	**65**

Source: CBC Technology/Technologies de Radio-Canada

(b) "Hard Shut down Scenario": is premised on switching all 662 analogue TV transmitters to digital at a specified date. There would not be duplicate analogue and digital transmission sites under this scenario. The anticipated capital costs are lower than an overbuild scenario because many of the existing antenna and transmission lines used for analogue transmission could be used for digital transmission. In addition, no tower reinforcing or building renovations would be required. Finally, the duplicate analogue and digital operating costs would not arise. The total cost of this scenario would be $278 million in capital and $41 million in annual operating costs.

Scenario (B) " Hard Shut down"
(in millions)

	Total Capital Costs	Annual Operating Cost "End State" - Conversion Completed
Transmission	**250**	**22**
Distribution	**28**	**19**
BDUs Feeds	**0**	**0**
Total:	**278**	**41**

Source: CBC Technology/Technologies de Radio-Canada

(c) "Hybrid Distribution Scenario": is premised on building digital transmission facilities in 44 major markets[28] (28 English and 16 French) covering over 80% of the Canadian population. The remaining 618 analogue transmission sites, covering less than 20% of the population, would not be duplicated and viewers would obtain CBC/Radio-Canada HD services from a BDU. All analogue transmitters would gradually be closed down as they fail. The total cost of this scenario is $98 million in capital and $21 million in annual operating costs.

Scenario (C) "Hybrid Distribution"
(in millions)

	Total Capital Costs	Annual Operating Cost "End State" - Conversion Completed
Transmission	**50**	**2**
Distribution	**8**	**19**
Cable Feeds (IRDs)	**39**	**0**
DTH Feeds (IRDs)	**0.5**	**0**
Total:	**98**	**21**

Source: CBC Technology/Technologies de Radio-Canada

28 Including all markets where CBC/Radio-Canada currently provides local programming.

b) Provide cost comparisons between operating a digital transmitter network and providing a digital signal by direct feed to the head ends of all BDUs obliged to carry the signal.

Distribution of a digital signal by direct feed or digital transmitter network would require the same capital and operating costs to deliver 26 CBC/Radio-Canada unique program streams (15 English, 11 French). However, in the case of direct feeds, HD-Integrated Receiver Decoder (IRD) receiving devices would be deployed instead of transmitters. According to MediaStats, there are 1,963 cable TV head-ends. Assuming two HD-IRDs per BDU head-end (1 English, 1 French) at a cost of $10,000 each, this would cost $39 million. In addition, the two licensed DTH satellite operators would each require 26 HD-IRDs at a cost of $520,000.

The total cost of delivering CBC/Radio-Canada digital signals by direct feed to the head ends of all BDUs would be $48 million in capital and $19 million in annual operating costs.

"Direct Feed to BDU Head-ends"
(in millions)

	Total Capital Costs	Annual Operating Cost "End State" - Conversion Completed
Transmission	**0**	**0**
Distribution	**8**	**19**
BDUs Feeds (IRDs)	**39**	**0**
DTH Feeds IRDs	**0.5**	**0**
Total :	**48**	**19**

Source: CBC Technology/Technologies de Radio-Canada

Outlined below is a summary comparison of the costs (capital and annual operating) associated with scenarios (a) through (c), which include transmitters, as well as BDU distribution only. It should be noted that these scenarios do not provide the same level of TV household coverage.

Scenario Summary
(in millions)

Scenarios	Capital Costs	Annual Operating Costs	Total
(A) Overbuild	378	65	443
(B) Hard Shut down	278	41	319
(C) Hybrid Distribution	98	21	119
(D) Direct Feeds to BDU Head-ends	48	19	67

3. Closed Captioning

a) Please comment on the appropriateness of the Commission adopting a requirement for the captioning of 100% of all television programming by OTA television broadcasters, including whether exceptions should be granted and on what basis.

CBC/Radio-Canada's closed captioning track record is significant. CBC Television captions 100% of its overall programming and Télévision de Radio-Canada captions 100% of its programs in prime time, 100% its news programs, and over 95% of all its total programming.

English-language broadcasters have been required to caption 90% of all their programming and 100% of their news programs since 1995. As part of the licence renewal for French-language broadcasters, the Commission established similar requirements for some French-language broadcasters.

The 90% captioning requirement was introduced by the CRTC in recognition that:

> … requiring 100% captioning at all times may not be reasonable or appropriate. Thus, the obligation is designed to provide some flexibility to cover unforeseen circumstances (such as late delivery of captions, technical malfunctions, or the lack of availability of captions for programs acquired outside North America), or programming where captioning may not be feasible, such as third language programming. (Decision CRTC 2001-457)

CBC Television and Télévision de Radio-Canada recognise the vital importance of captioning their programs. They have made, and continue to make investments in new technologies and training to improve captioning to ensure that captions are of the highest quality. It must be acknowledged, however, that some circumstances still make it impossible to attain the ideal. Therefore, despite this achievement there remains a need for flexibility in regard to the CRTC's approach to closed captioning.

In addition, there are major differences between captioning in the English and French markets.

Particular aspects of closed captioning in French

The Standing Committee on Cultural Heritage report, *Our Cultural Sovereignty*, published in June 2003 ("Lincoln Report") identified these differences:

- Captioning in English benefits from the presence of the United States in terms of technology development and the quantity of captioned English-language programs.

- Difficulty with French captioning lies in the technology used, which is based on an English-language model. In the case of real-time captioning, the hardware must be remapped with French phonology to accommodate accents and other characteristics of the French language not present in the English language. Gender and number agreement also present problems.

- Given that French generally contains more words per sentence than English, it is sometimes difficult for captioners to keep pace with the action onscreen in the case of real-time captioning.

- There is a shortage of trained captioners in Canada, particularly for real-time captioning in French.

Since the tabling of the Lincoln Report, real-time captioning has undergone significant technological advances. Two methods are currently used in the French-language market for real-time captioning: computer-assisted captioning or "stenotypy" (an expert stenographer enters codes in a software application) and voice recognition (a specially trained "re-speaker" pronounces the words so that a software program can generate the captions).

Voice recognition has the advantage of being user-friendly and requiring only limited training, while stenotypy demands three years of instruction and specialized skills, which partly accounts for the current shortage of qualified personnel.

The long-awaited technology that would allow real-time voice-recognition of multiple voices, with multiple accents and at high word rates, has failed to materialize. In fact, during our last trial of the voice-recognition method, we found that the system omitted large sections of content when the re-speaker could not keep up with rapid dialogue. Therefore, Télévision de Radio-Canada has decided for the time being to continue using computer-assisted stenotypy, because it still remains the most effective system for delivering high quality captioning.

Regardless of the method used, captioning in French involves different challenges than in English due almost entirely to the difficulty of addressing real-time captioning in French.

b) The Commission is also seeking concrete and specific proposals to address the ongoing concerns about captioning quality, including the appropriateness of an industry standard "error rate" and the possibility of adopting a self-regulatory approach with a third-party body like the Canadian Broadcast Standards Council to adjudicate complaints about captioning and captioning quality.

It is impossible to have error-free captioning, especially during live programs. Consider, for example, the last leaders' debate during the federal election campaign: it was humanly impossible not to make mistakes given the number of participants, rapid exchanges, interruptions, and the fact that debaters often spoke at the same time. Captioning technology has its limitations, as the Commission is aware.

CBC/Radio-Canada has made a considerable effort to improve the quality of its captioning and reduce the number of errors. It works with representatives of hearing-impaired groups to find solutions to issues they have raised. [29]

However, there is no consensus between broadcasters and the hearing-impaired community as to a universally acceptable error rate or even what constitutes an error. In order to establish an "industry standard" it would be necessary to:

- Develop a consensus on how errors should be calculated. For example, should it be the ratio of errors made in relation to total words spoken during a program, or in relation to the total number of closed-captioned words?

- Assess the level of captioning performance by broadcasters across the system using those definitions.

- Recognise that error rates cannot be the same for all types of programs, e.g., acceptable error rates would need to be higher for programs captioned in real-time, especially for those captioned in real-time French.

These steps would represent a considerable undertaking for both the Commission and the broadcasting industry.

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29 Télévision de Radio-Canada has partnered with the Regroupement québécois du sous-titrage codé (RQST) to form a closed-captioning user committee, which met three times in 2005. This committee is mandated to examine the quality of captioning on Télévision de Radio-Canada based on specific factual situations, and to recommend solutions that could be implemented to the satisfaction of all stakeholders. The committee's next meeting is scheduled for late October 2006. CBC Television is in touch with representatives from the Canadian Association for the Deaf (CAD) and the Canadian Hard of Hearing Association (CHHA) to gather their opinions and discuss the quality of CBC captioning.

In BNPH 2006-05, the Commission noted that: “the industry has rapidly moved towards the 1995 objective of 90% closed-captioning.” The industry has also made progress in improving the quality of captioning, and there is every indication that the situation will continue to improve with new technology in the years ahead.

For this reason, we do not believe it is necessary at this time to establish performance standards with respect to error rates.

While the CRTC has established minimum captioning requirements, the implementation of those requirements by broadcasters has been self-regulatory in nature. CBC/Radio-Canada handles complaints related to the quality and quantity of captioning internally and considers this to be the most effective way to manage this issue. We respond in a timely manner to complaints and use that process to help reduce or eliminate captioning problems.

Mandating a third party to essentially “regulate” the industry with respect to captioning is unnecessary and premature given that there are no effective measures of captioning quality and no consensus view on an appropriate standard error rate.

Appendix 2

Supporting Data

Appendix 2

Table 1

Share of Viewing to All TV Stations

Source: Nielsen Media Research (September 2005 to March 2006, 7pm to 11pm)

Table 2

Most Popular Canadian English-language Special Programs based on Average Audience (AMA)

RANK	NETWORK	PROGRAM	AMA (000)
1	Conventional	Grey Cup Game	2,764
2	Conventional	CFL: West Final	1,586
3	Conventional	CTV News Special	1,351
4	Conventional	Movie: The Man Who Lost Himself	1,319
5	Conventional	CFL: West Semi-Final	1,264
6	Conventional	Movie: Terry	1,252
7	Conventional	Olympic Prime Time	1,222
8	Conventional	JUNO Awards	1,221
9	Conventional	Movie: Shania - A Life in Eight Albums	1,187
10	Specialty	Hockey: World Junior Champ	1,114
11	Conventional	Pre-Election Coverage	1,103
12	Conventional	News Special: Leaders Debate	1,102
13	Conventional	News Special: Debate 2006	1,044
14	Conventional	Movie: One Dead Indian	1,042
15	Conventional	Brier Curling Finals	1,011
16	Conventional	Royal Canadian Air Farce - New Year	932
17	Conventional	Movie: Murder in the Hamptons	919
18	Conventional	Bank of Montreal Figure Skating	893
19	Conventional	Movie: Stolen Miracle	884
20	Conventional	Rita MacNeil's Christmas	858

Source: Nielsen Media Research (September 2005 to March 2006, 7pm to 11pm)

Table 3

Most Popular Canadian French-language Regular Programs based on Average Audience (AMA)

RANK	NETWORK	PROGRAM	AMA (000)
1	Conventional	Star académie 2005 (Dimanche)	2,377
2	Conventional	Les Bougon, c'est aussi ça la vie	1,817
3	Conventional	Star académie 2005 (lun-jeu)	1,597
4	Conventional	Surprise sur prise	1,570
5	Conventional	Tout le monde en parle	1,509
6	Conventional	Un homme mort	1,397
7	Conventional	L'école des fans	1,283
8	Conventional	Le cœur a ses raisons	1,281
9	Conventional	Le petit monde de Laura Cadieux	1,263
10	Conventional	Loft Story Talk Show	1,262
11	Conventional	La poule aux oeufs d'or	1,200
12	Conventional	Km/h	1,197
13	Conventional	Annie et ses hommes	1,189
14	Conventional	Les poupées russes	1,146
15	Conventional	Histoires de filles	1,103
16	Conventional	Top Bloopers TVA/Sp Bloopers TVA	1,102
17	Conventional	Le match des étoiles	1,022
18	Conventional	Casino	1,006
19	Conventional	Ici Louis-José Houde	1,006
20	Conventional	Star système extra	1,000

Source: BBM (September 2005 to March 2006, 7pm to 11pm)

Table 4

Most Popular Canadian French-language Special Programs based on Average Audience (AMA)

RANK	NETWORK	PROGRAM	AMA (000)
1	Conventional	Célébration 2006	1,548
2	Conventional	Libérée – Le choix de Nathalie Simard	1,537
3	Conventional	L'académie de René Angélil	1,508
4	Conventional	Dans l'œil du star système	1,448
5	Conventional	La poule aux œufs d'or : Spécial gala	1,389
6	Conventional	35 ans, ça change le monde	1,251
7	Conventional	Toute une vie! Céline Dion	1,236
8	Conventional	Grands films lundi – Un homme et son péché	1,186
9	Conventional	Les Olivier	1,135
10	Conventional	Les retrouvailles	1,076
11	Conventional	Voleurs d'enfance	1,039
12	Conventional	Spécial Infoman 2005	1,030
13	Conventional	L'aventure Star Académie 2005	1,014
14	Conventional	Gala de l'ADISQ 2005	978
15	Conventional	Soirée des Jutra	915
16	Conventional	2005: L'année des ouragans	902
17	Conventional	Trafic humain	859
18	Conventional	La légende des Boys	856
19	Conventional	Deux filles chez la famille Dion	834
20	Conventional	Mannequins d'un jour	833

Source: BBM (September 2005 to March 2006, 7pm to 11pm)