



1. OPERATING ENVIRONMENT →→

CBC | Radio-Canada faces a complex operating environment which is influenced by statutory policy objectives, regulatory obligations, ongoing technological changes, shifting consumer trends, and industry restructuring, as well as significant financial constraints.

1.1 POLICY OBJECTIVES AND REGULATORY REQUIREMENTS

Section 3(1) of the 1991 *Broadcasting Act* sets out the broadcasting policy for Canada and comprises an extensive list of general policy objectives for the Canadian broadcasting system, as well as specific policy objectives for CBC | Radio-Canada. The Corporation must keep all of these policy objectives in mind when assessing its current activities and planning for the future. In addition, CBC | Radio-Canada must take into account the ways in which the Canadian Radio-television and Telecommunications Commission (CRTC) has interpreted and sought to implement these policy objectives in its licensing decisions and regulations.

The CRTC is specifically required by section 5(1) of the *Act* to exercise its duties under the *Act* with a view to implementing the section 3 policy objectives, subject to any directions from the Governor in Council while, at the same time, having regard for the regulatory policy set out in section 5(2). Among other things, the

section 5(2) regulatory objectives include: being adaptable to the different characteristics of English- and French-language broadcasting; taking into account regional needs; and, being readily adaptable to scientific and technological change.

This statutory and regulatory context has a significant influence on the planning process as CBC | Radio-Canada attempts to determine the best way to implement its Corporate mandate. In particular, the Corporation must take into account the fact that implementation of its plans may involve licensing or other regulatory approvals by the CRTC under the *Act* or, in the case of the use of radiocommunication spectrum, authorisation or licensing by Industry Canada under the *Radiocommunication Act*.

The licenses of CBC | Radio-Canada's main broadcasting services are set to expire on August 31, 2007. The CRTC has granted an administrative renewal of these licenses, however, and will re-initiate the license renewal process when it has completed its review of its conventional television policy, specialty services and the distribution sector. This will likely occur in 2008.

1.2 THE EXPANDING WORLD OF BROADCASTING

Technological innovation and the emergence of new broadcasting platforms are radically changing the way in which Canadian consumers can enjoy video or audio content, whether it be news, sports or entertainment. As a result of developments in digital, wireless and Internet Protocol (IP) technologies, Canadian consumers face an expanding world of broadcasting, which offers greater diversity in every dimension: content, technical quality, method of delivery, mode of reception, and time and place of viewing or listening. These changes affect Canadian consumers in two fundamental ways.

First are the technological innovations that enhance the viewing and listening experience of Canadian consumers. These technological innovations constitute improvements to older technologies and while they may replace those technologies, in general, they will not disrupt the associated broadcasting activity. For example, the transition from analogue to digital cable provides Canadian consumers with not only more choice, but an enhanced viewing environment, as well. Similarly, the move to high definition (HD)

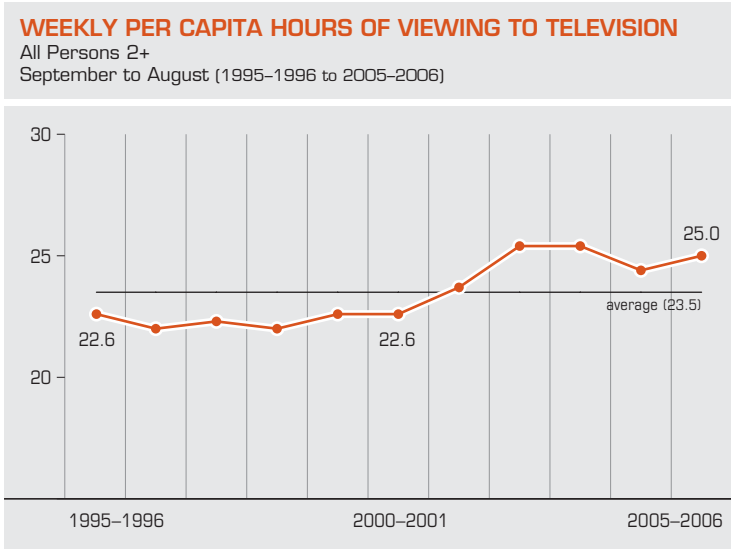
television from NTSC provides Canadian consumers with a measurable improvement in the quality of video they are watching, but it does not replace video with some other form of communication.

On the other hand, a second type of technological innovation permits the consumer to gain access to audio or video on totally new broadcasting platforms such as satellite radio, mobile wireless video, as well as Internet downloading and streaming. These types of innovations expand the consumers' broadcasting universe by providing them with the opportunity to have access to audio or video content in ways or at times that were previously not possible. These innovations have the potential to be extremely disruptive in their long-term effects on pre-existing platforms and technologies.

1.2.1 TRENDS IN THE VIDEO WORLD

The key word for the video world is "more". There is more video programming available over more distribution platforms, providing more types of content to more people than ever before.

This huge expansion in video represents a significant opportunity and an important challenge to Canadian broadcasters. In order to get a better understanding of the nature of this opportunity – and not be carried away by the hype generated by the proponents of one technology or another – it is necessary to look closely at what is actually happening in the video world.



SOURCE: Nielsen Media Research

The Continuing Demand for TV

There can be no doubt that television is both an important and a resilient medium. Despite numerous social and technological changes, television viewing has remained remarkably stable for decades. In fact, over the last 10 years, television viewing has actually increased from about 22 hours per week in the mid-1990s, to around 24 to 25 hours per week.

The Evolution of the Way in Which TV is Distributed

There are three primary distribution technologies for

television: conventional over-the-air transmission, cable distribution, and DTH satellite distribution. Of these three, cable has long been the dominant technology, whereas over-the-air reception has become increasingly marginalised, especially in English Canada.

As indicated in the table below, DTH is more common in rural areas and smaller centres than in cities, while the penetration of cable tends to increase in larger towns and cities. Reliance on over-the-air reception¹ tends to be relatively uniform in rural and

SATELLITE, CABLE AND OFF-AIR PENETRATION RATE %

	Canada Excluding Québec			Francophone Québec		
	Satellite	Cable	Off-air	Satellite	Cable	Off-air
Area Population						
1,000,000+	14%	77%	8%	18%	59%	23%
100,000–1,000,000	22%	67%	10%	19%	69%	12%
50,000–100,000	39%	52%	9%	31%	60%	9%
< 50,000	50%	37%	13%	40%	50%	10%

Source: BBM Fall 2005/Spring 2006, NMR 2005–2006

1 In the above table and elsewhere throughout this Corporate Plan Summary, off-air reception means the reliance on over-the-air only to receive television services; i.e., the viewer has not subscribed to either satellite or cable services. Note that over-the-air reception may still be used by those who have subscribed to a cable or satellite service.

urban areas, although certain cities where there are numerous over-the-air signals available (e.g., Montréal) stand out as exceptions to this general rule.

The Unique Challenge Facing English-language Broadcasters

The remarkable contrast between French-language television and English-language television in the digital environment highlights very clearly the unique situation facing English-language broadcasters in Canada.

Given the size of the television market in English Canada, the cost of producing high-quality television programming and the intense competition from US programming, it is clear that ongoing and enhanced Government support – both regulatory and direct – is critical...

In every other country in the world, viewing of domestic programming far exceeds viewing of foreign programming.² In this regard, French-language television in Canada is aligned with the overall global pattern of domestic television consumption.

In English Canada, however, the proximity of the United States –

by far the world's largest producer of English-language television programming – and the overwhelming availability of US programming over-the-air and on the services of Canadian Broadcasting Distribution Undertakings (BDUs) means that English-language broadcasters face a challenge that is unique in the broadcasting world.

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ongoing and enhanced Government support – both regulatory and direct – is critical if there is to be a robust Canadian presence in the evolving digital environment.

New Ways of Accessing Video Content

Technological advancements over the past 10 years have given rise to a variety of new platforms for consumers to receive and view video programming, including mobile wireless, video-on-demand (VOD), personal video recorders

ILLUSTRATION OF MULTI-PLATFORM GROWTH – VIDEO

1995

TV Distribution

Over-the-air TV
Analogue cable

Personalisation

VCR
Specialty TV
Pay TV

2005

TV Distribution

Over-the-air TV
Analogue cable
Digital cable
DTH satellite
Wireless cable (MDS)
IPTV
Internet

Personalisation

VCR
Specialty TV
Pay TV
DVD player
PPV
PVR
VOD
Video downloads
Video streaming

Portable

DVD player
Digital video player
Mobile phone
Laptop computer

² See “One Television Year in the World: 2005 Issue” (Eurodata Worldwide). In this analysis of 73 territories covering five continents, the English-language Canadian market was the only one in which indigenous programs did not comprise a majority of the ten most popular programs aired in 2004.

(PVRs), Internet streaming, and Internet downloading.

These new platforms and technologies affect the video opportunities available to Canadians in three key ways.

First, they significantly expand where consumers can receive and watch video programming. For example, mobile wireless services let viewers watch video clips wherever there is cell phone coverage.

Similarly, wireless Internet service permits users to stream or download videos wherever there is Wi-Fi or a similar service. Canadians are no longer limited to their living rooms when it comes to watching video.

Second, all of these new platforms, with the exception of some forms of Internet streaming, can be characterised as on-demand services which free viewers from the rigidity of program schedules. These services permit consumers to select the programming that interests them and to decide when to view it. In many cases, the viewing opportunities include video programming that is simply not available via traditional television.

Third, some new platforms, such as mobile wireless, provide video in a significantly different format from traditional television. These new platforms are emerging to meet the demand of the dynamic segment of the Canadian audience. Video content can now be viewed on dramatically different screen sizes, ranging from 2.5 cm cell phones and 5 cm video iPods to 127+ cm displays for HD. This represents a new type of viewing experience which offers unexplored opportunities for creativity and content.

Given the diversity of these new platforms, their relationships to traditional television vary significantly and, in some cases, can be quite complex. Consequently, it is simplistic to suggest that they are replacing traditional, scheduled television. Nonetheless, it is clear that they will have an impact on television viewing and, hence, on the broadcasters and BDUs who provide television programming to the public.

1.2.2 TRENDS IN THE AUDIO WORLD

The key word in the audio world is “choice”. Listeners expect to be able to choose what they hear, how they hear it and when they hear it. They want specialised programming that suits their tastes. And, they want to be able to listen to that programming when and where it suits them. These listener expectations have been shaped and reinforced by both technological developments and by the willingness of some broadcasters, including CBC | Radio-Canada, to embrace new opportunities in the audio world.

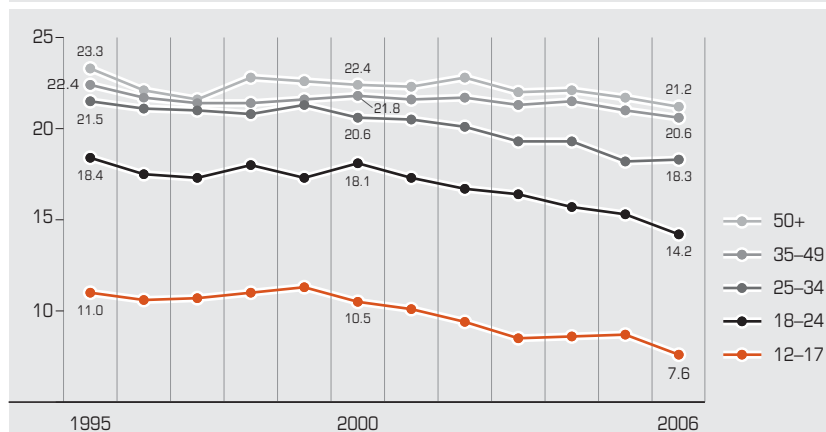
Overall, new audio platforms represent a significant challenge to traditional over-the-air radio. The wide array of new platforms has increased audience fragmentation and decreased the visibility of any single audio service. As a result, audio broadcasters are being forced to be both more thoughtful and more innovative when developing audio content and when deciding the best means to deliver it to Canadian listeners. It is no longer a case of one size fits all. Rather, audio programs must be carefully designed and targeted if they are to be successful with increasingly sophisticated audiences.

Conventional Radio

Radio was the first technology used by broadcasters in Canada to reach a mass audience, and it has remained an important medium since its inception. **Over the past 10 years, however, listening to conventional over-the-air radio has decreased across all age groups, with the decline being greatest among younger Canadians.**

WEEKLY PER CAPITA HOURS OF LISTENING TO CONVENTIONAL RADIO FOR SELECTED DEMOGRAPHIC GROUPS

Fall Sweeps
(1995 to 2006)



SOURCE: BBM (Fall Sweeps)

These downward trends in radio listening are significant – it is clear that both teens and adults under the age of 25 are consuming relatively less “traditional” radio as they embrace many of the new technologies to gain access to audio content, particularly music. Yet, it is still too early to predict the future state of over-the-air radio, given its central role as a provider of local news and information to listeners in cities and towns across the country.

New Ways of Accessing Audio Content

Over the past decade, numerous new ways of accessing audio content have become available in Canada, including digital radio, pay audio, satellite radio, mobile wireless, Internet streaming, podcasting, and Internet downloading of music.

As with new video platforms, these new audio platforms provide consumers with increased choice in terms of where and how audio services can be received; increased diversity in the type of content that

is available; and greater flexibility and control over when audiences access and listen to that content.

The new audio platforms have met with varying degrees of acceptance by the public and the final verdict is still out on most of them. Among other things, the public’s willingness to accept the business models underlying some of the new platforms – such as subscription fees – has yet to be fully tested. Consequently, it is likely to be several years before any conclusions can be drawn regarding the viability and the role of the new platforms, as well as the full extent of their impact on conventional radio.

1.2.3 FINANCING CANADIAN TELEVISION

The basic economics of English- and French-language television production in Canada, and the availability of relatively inexpensive US 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 broadcasters’ schedules. All parties in the broadcasting sector – specialty, conventional, public, and private – have economic and public supports at their disposal. These types of support are necessary if Canadians are to have access to Canadian programming.

The public’s willingness to accept the business models underlying some of the new platforms – such as subscription fees – has yet to be fully tested.

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.

In the case of Canada’s private conventional broadcasters, these benefits 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 benefits alone has been estimated at between \$270 million and \$330 million**

ILLUSTRATION OF MULTI-PLATFORM GROWTH – AUDIO

1995

Distribution

Radio

On-demand

Tapes

CDs

Portable

Walkman

2005

Distribution

Radio

Internet

Satellite radio

On-demand

CDs

Music downloads

Streaming audio

Podcasting

Portable

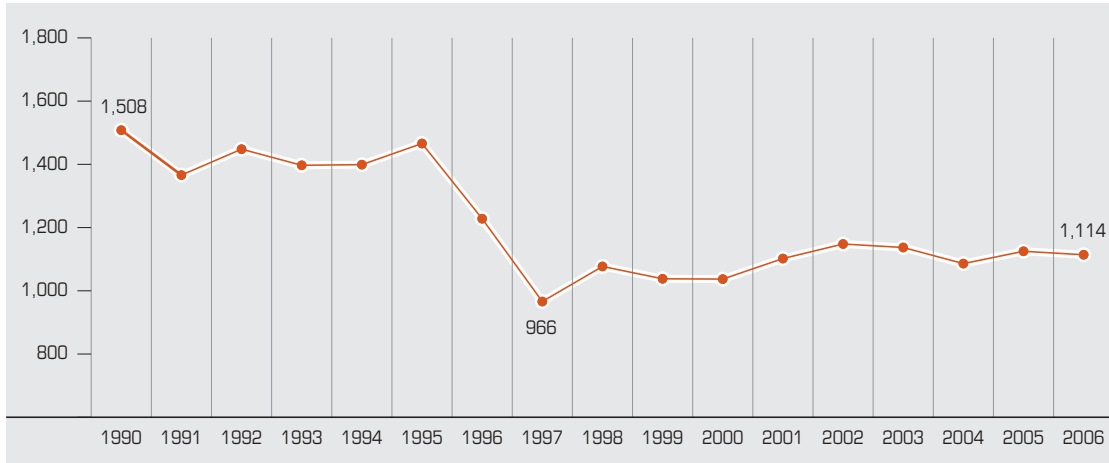
Walkman

Digital audio player

Mobile phone

CBC | RADIO-CANADA'S PARLIAMENTARY APPROPRIATIONS (1990-2006)

(Dollars in millions in 2006 constant dollars)



for Canada’s English-language private conventional broadcasters.³ Recently, the CRTC has also created an additional public support mechanism for Canada’s private conventional broadcasters and certain specialty services in the form of supplemental revenues for drama programming. **These public benefits are worth \$34 million and two million dollars annually for Canada’s English-language and French-language private conventional broadcasters, respectively.**⁴

Canadian specialty services are also provided with more fundamental public support 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.**⁵

As a point of comparison, CBC Television has access to economic and public supports valued at \$261 million annually through its operating appropriations from Government.⁶

1.3 SOURCES OF FUNDING

There are four basic sources of funding for the Corporation:

- the annual appropriation of funds by Parliament;
- advertising revenues;
- subscription revenues; and,

→ revenues from ancillary activities.

1.3.1 PARLIAMENTARY APPROPRIATION

CBC |Radio-Canada’s total Parliamentary appropriation for 2006–2007 is \$1,114 billion – an amount which, in constant dollars, is \$394 million less than the Corporation received in 1990. This basic Parliamentary appropriation has been frozen for many years and is not fully indexed for inflation. Several cost elements within the Corporation’s operations, including all non-salary items, are subject to ongoing inflationary cost increases that are not offset through increases in our annual appropriation.

In 2006–2007, CBC |Radio-Canada received \$60 million in one-time funding in support of programming costs, as it had in each of the five

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

4 CBC |Radio-Canada Research and Strategic Analysis estimate.

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

6 CBC Television’s Government-funded Operating Expenditures for 2003–2004; excludes capital and Corporate overhead allocations.

previous years. And the Government has just confirmed additional funding of \$60 million for Canadian programming for CBC|Radio-Canada for each of the next two fiscal years.

The level of public funding of CBC|Radio-Canada does not compare well with that provided to public broadcasters in other OECD countries. According to a recent Nordicity study, Canada ranks third from the bottom in its support for public broadcasting, above only New Zealand and the United States.

CBC|Radio-Canada requires stable multi-year funding if it is to be able to plan its programming and operations with any reasonable degree of confidence. Many broadcasting projects extend across several years and yet there is no certainty that, once begun, such projects will continue to have the necessary funding to see them through to completion. This is a highly unsatisfactory situation which impairs the ability of CBC|Radio-Canada to properly implement its Corporate mandate. We believe a longer term funding cycle would best ensure support for the development of programs during the several years it takes to move from an initial concept to broadcast.

1.3.2 ADVERTISING

In 2005–2006, an Olympic year, CBC|Radio-Canada generated \$315 million in advertising and program sales.

The conventional television advertising market continues to experience relatively flat growth, while costs are increasing at a much higher rate. These two facts indicate very clearly that the traditional dependence of CBC|Radio-Canada's conventional

television operations on advertising revenues is not sustainable in the long run. This is a significant concern from a planning perspective, and it implies that new sources of revenue must be found.

While the CRTC recently announced the elimination of restrictions on advertising, this will not improve the downward trend in the advertising revenues generated by the conventional broadcasting sector. Indeed, the increased availability of advertising opportunities in American programming may well siphon advertising dollars away from Canadian programming.

1.3.3 SPECIALTY SERVICE REVENUES

CBC|Radio-Canada receives subscription and advertising revenues from its Specialty Services, CBC Newsworld, CBC Country Canada and Réseau de l'information de Radio-Canada (RDI). In 2005–2006, these revenues totalled \$124 million. These are relatively steady revenues as large-scale movements in subscribership, either up or down, are uncommon. The associated expenses are also relatively steady and of approximately the same magnitude as the Specialty Services' revenues, however. Consequently, these revenues have a neutral effect on overall planning and do not represent a significant source of additional funding.

1.3.4 SELF-GENERATED REVENUES

CBC|Radio-Canada's strategic direction calls for it to leverage its assets to generate revenue that can then be re-invested in programming. Self-generated revenue accrues from across the Corporation. For example, the media generate revenue through

program sales, facilities rentals, *CBC News/RDI Express*, and advertising on *CBC.ca* and *Radio-Canada.ca*. Other revenues are generated via merchandising, Galaxie (the Corporation's pay audio service), building and parking revenues, revenues from the leasing of space on our transmitters, and rent charged to external clients who use our mobile facilities. In 2006–2007, CBC|Radio-Canada generated \$110 million in self-generated revenues.

By their very nature, these self-generated revenues can vary significantly from year to year. While it is therefore difficult to rely on these revenues from a long-term planning perspective, any revenue generated in this way is extremely valuable to the Corporation for re-investment in programming or in support of programming.

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