

**Choosing the right tools for  
the future of public service broadcasting in Canada**

Remarks by

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To the  
Standing Senate Committee on Transport and Communications

*In the context of the Committee's mandate "to examine and report on the challenges faced by the Canadian Broadcasting Corporation in relation to the changing environment of broadcasting and communications".*

Ottawa

March 10, 2015

*[NOTE: The attached Appendices form part of this presentation. Appendix B has been updated to include 2014 CBC/Radio-Canada data released by the CRTC in the week of March 23, 2015.]*

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Let's start with two main themes:

1. First, a description of how new technologies may continue to impact the media.
2. Second, a discussion of whether the CBC is the best mechanism to deliver a public subsidy to support public service broadcasting.

It is not my intention to question the rationale for public service broadcasting.<sup>1</sup> But I believe that any discussion of the CBC should deal with more than just short or medium term issues. If we ignore the longer-term structural questions, we run the risk of prescribing short-term solutions that might prove to be unsustainable.

So let's jump forward 10 years, to get some idea of how the media environment might look in 2025:

- In 2025, it is likely that there will be few, if any, printed daily newspapers in Canada. And it is also likely that their transition to online digital formats will not match their current scope in print.
- In 2025, there might be no local broadcast television stations in Canada.
- It should be obvious that both of those potential developments pose serious issues for the future of local journalism.
- In 2025, we will still watch a lot of television, but the structure of the TV industry will come to look less and less like broadcasting, and more and more like e-commerce for programs.
- In 2025, it will be even more important to be able to give Canadians the tools to produce and to discover Canadian content.
- In 2025, radio will likely still fit within our concept of "broadcasting".
- And, in 2025, the Internet – and multiple devices for receiving it – will have become even more ubiquitous than today.

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<sup>1</sup> "Public service broadcasting" can be found on both publicly-owned and privately-owned broadcasting services.

That future environment should be part of the context for your inquiry into the CBC.

And that leads us to an important question: What is the CBC? A crown corporation? Yes. A broadcaster? Yes. But it is also something else – the CBC is an intervention, created by Parliament because it was felt that the resources available in the private market could not fully supply one or more desired outcomes.<sup>2</sup>

But once Parliament’s decision to intervene has been made, the debate should not stop there. In fact, a two-stage process is required – first, deciding to intervene, and second, crafting the form of the intervention. However, the CBC appears to have avoided an analysis of how an alternative structure might use the same funds to achieve better results in pursuit of the same goals.

You have received from the CBC something called the “2014 Media Environment”, dated November 19, 2014. At page 19 of that document, the CBC states:

Like other countries, the Government utilizes **two key tools** to fulfill its objectives: public broadcasting (**CBC/Radio-Canada**) and regulation (**CRTC**).<sup>3</sup> (*Emphasis in the original.*)

But there are not just two main tools of public policy, there are three, and the third tool is “pump-priming” – mechanisms like the Canada Media Fund and other supports for program production. With that in mind, we should consider whether public funding of a facilities-based corporation, for television in particular, will still be the most effective way to use those public funds.

That same CBC document makes reference to a study from Deloitte about the CBC’s value to the Canadian economy, and provides an estimate based on the CBC’s current structure.

But the CBC/Deloitte study then went on to compare the current CBC/Radio-Canada with an alternative that would effectively remove the CBC’s Parliamentary

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<sup>2</sup> The idea of the CBC as an intervention is neither new nor limited to Canada. The Culture, Media and Sport Committee of the United Kingdom House of Commons issued a report on the BBC last month, in which it referred to the BBC as an intervention. [United Kingdom, House of Commons, Culture, Media and Sport Committee, “Future of the BBC”, published on 26 February 2015.] The BBC has also referred to itself as an intervention. [BBC, “The Economic Value of the BBC”, January 2013.]

<sup>3</sup> CBC, “2014 Media Environment”, November 19, 2014, p. 19.

appropriation from broadcasting. Implicit in this appears to be a CBC assumption that, if Parliament decided to spend that \$1 billion in support of public service broadcasting, the only delivery mechanism worth considering was the facilities-based CBC.

Yet surely that does the taxpayers of Canada a disservice. Would it not have been possible to test more realistic alternatives to the status quo? For example, here is one possible alternative:

*Leave CBC/Radio Canada's English and French radio services unchanged. Leave CBC/Radio-Canada's specialty TV services unchanged. Reallocate most of the Parliamentary appropriation that was allocated to CBC/Radio-Canada's conventional television to a "super-fund" that would help to fund the production of Canadian programming, particularly Canadian drama and comedy.<sup>4</sup>*

That is one of many ideas whose economic impact might have been assessed. And that would have been far more useful than the CBC decision only to examine an alternative in which the \$1 billion in public subsidy was removed altogether.

If we don't examine those alternatives, then we simply come back to arguments about what the CBC should be doing, and how much money we should give it. I think we all know that, no matter what the level of funding, the CBC will always say that more funding is a good idea.

Let me read you part of a statement from a CBC Chairman to a Parliamentary committee:

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<sup>4</sup> In this scenario, one would have to quantify the linked nature of the relationship between CBC/Radio-Canada's conventional television news services and its specialty television news services, in order to ensure that the appropriate resources are maintained for that purpose. This would change the conventional television component of CBC/Radio-Canada from a subsidized facilities-based conventional broadcaster into a "public service programmer" that would vastly increase the amounts available for the production of Canadian content. The resulting Canadian programs could be exhibited and distributed through a wide array of platforms.

Unless further funds come in, it will be impossible to keep the present level of service; it will be impossible to produce as much broadcasting by Canadian artists as it is doing at present. And this is apart from the question of needed improvements.<sup>5</sup>

Those words were spoken on Monday, May 19, 1947.

In 1974, CBC/Radio-Canada appeared before the CRTC to seek renewal of its radio and television licences. And the President of CBC/Radio-Canada, Laurent Picard, had this message for the CRTC:

... the times are changing, and so must the network – but the CBC is efficient, up to date, and needs only more money to be great.<sup>6</sup>

And this is what this committee was told, on February 17, 2015, by the current President of the CBC:

To achieve this transformation, significant investments will be needed and, given that our parliamentary appropriations continue to decline ... we are forced to eliminate some of our services and to give up our talented artisans ...<sup>7</sup>

The real debate going forward is not whether there should be funding for public service broadcasting – there should. The real debate is whether that funding should be concentrated in a facilities-based public corporation, or used in a variety of mechanisms that might be more effective in our future media environment.

Is there an alternative way to use the same funds to achieve better results in pursuit of the same goals?

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<sup>5</sup> Canada, House of Commons, Special Committee on Radio Broadcasting, Minutes of Proceedings and Evidence, Monday, May 19, 1947, p. 25 [testimony of A. Davidson Dunton, Chairman of the Board of Governors, Canadian Broadcasting Corporation].

<sup>6</sup> Blaik Kirby, “Critics are losers, CBC chief says in 3-hour defence”, *The Globe and Mail*, February 19, 1974, p. 1.

<sup>7</sup> Canada, Senate, Standing Senate Committee on Transport and Communications, Evidence, February 17, 2015.

## Appendices

- A. CBC/Radio-Canada's six main operating units
- B. CBC/SRC – by source of revenue
- C. Financial support programs in broadcasting
- D. Broadcast programming services' contribution to the Canadian economy
- E. The CBC and sports

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## CBC/Radio-Canada's six main operating units

Service types	Operating units	Key economic characteristics
RADIO <sup>8</sup>	<b>1. French radio</b>	<i>CBC/Radio-Canada's radio services are public broadcasters that are financed almost entirely from public funds<sup>9</sup></i>
	<b>2. English radio</b>	
SPECIALTY TELEVISION	<b>3. French specialty services</b>	<i>CBC/Radio-Canada's specialty TV services are generally viewed as operating on a commercial basis and receiving no public funds</i>
	<b>4. English specialty services</b>	
CONVENTIONAL TELEVISION	<b>5. French conventional TV</b>	<i>CBC/Radio-Canada has described its conventional television service as "a publicly-subsidized commercial network", so it represents a hybrid that has never been fully defined<sup>10</sup></i>
	<b>6. English conventional TV</b>	

<sup>8</sup> The CBC operates two distinct services within each of English and French radio.

<sup>9</sup> After decades of CBC/SRC radio being commercial-free, the CBC/SRC received permission from the CRTC in 2013 to sell limited advertising on two of its radio services (one English, one French). This permission expires on 31 August 2016, and, if the CBC/SRC wants to continue selling radio advertising, it will have to return to the CRTC for renewed permission to do so. [See Broadcasting Decision CRTC 2013-263, 28 May 2013.]

<sup>10</sup> The description of CBC Television as "a publicly-subsidized commercial network" is contained in a letter from CBC Media Relations that appeared in the *Moncton Times & Transcript*, January 22, 2009.

Appendix B.

CBC/SRC – by source of revenue

In Table B-1, we have summarized revenue sources for CBC/SRC, from 2010 to 2014. The data come from the CRTC, and are for broadcast fiscal years ending August 31<sup>st</sup>. (Please note that the broadcast fiscal year ending August 31, 2013 began on September 1, 2012, and so included the impact of the NHL labour dispute that affected the first part of that NHL season. The broadcast fiscal year 2013-2014 included a full season of NHL hockey and the Sochi Winter Olympics.)

Based on Table B-1, we have summarized the data into the two charts that appear below. Chart B-1 indicates the percentage shares of revenue sources for CBC/SRC. Chart B-2 indicates the allocation of the CBC/SRC Parliamentary appropriation between radio and conventional television. As can be seen from Chart B-2, the Parliamentary appropriation increased from 2010 to 2012, but the allocation to radio was reduced.

Chart B-1.

Distribution of CBC/SRC revenue sources – all broadcast services

	2010	2011	2012	2013	2014
Parl. appropriation	64.5 %	63.4 %	63.1 %	62.8 %	56.1 %
Advertising	20.8 %	21.6 %	21.7 %	21.3 %	28.6 %
Subscriptions	7.7 %	7.3 %	7.4 %	7.6 %	7.5 %
LPIF	1.9 %	2.2 %	2.5 %	2.0 %	1.0 %
Other	5.0 %	5.4 %	5.3 %	6.3 %	6.9 %
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

Chart B-2.

Allocation of Parliamentary appropriation to radio and to conventional TV

(In \$ million)	2010	2011	2012	2013	2014
<b>Total Parl. appropriation</b>	<b>1,140.3</b>	<b>1,166.4</b>	<b>1,177.9</b>	<b>1,078.7</b>	<b>1,003.3</b>
Allocated to radio	346.5	327.3	316.5	295.5	277.3
Allocated to conventional TV	793.7	839.2	861.4	783.2	726.0



Table B-1.

CBC/SRC revenue sources, 2010-2014

(In \$ million)	2010	2011	2012	2013	2014
<b>Radio</b>					
Parl. appropriation	346.5	327.3	316.5	295.5	277.3
Advertising	--	--	--	--	1.1
Subscriptions	--	--	--	--	--
LPIF	--	--	--	--	--
Other	11.7	9.7	9.4	9.2	9.3
<b>Total</b>	<b>358.3</b>	<b>336.9</b>	<b>325.9</b>	<b>304.8</b>	<b>287.6</b>
<b>Conventional television</b>					
Parl. appropriation	793.7	839.2	861.4	783.2	726.0
Advertising	338.8	369.6	372.7	331.1	474.6
Subscriptions	--	--	--	--	--
LPIF	34.1	40.7	47.2	34.8	17.6
Other	76.7	89.4	87.9	97.8	109.9
<b>Total</b>	<b>1,243.3</b>	<b>1,338.8</b>	<b>1,369.2</b>	<b>1,246.9</b>	<b>1,328.1</b>
<b>Total conventional services</b>					
Parl. appropriation	1,140.3	1,166.4	1,177.9	1,078.7	1,003.3
Advertising	338.8	369.6	372.7	331.1	475.7
Subscriptions	--	--	--	--	--
LPIF	34.1	40.7	47.2	34.8	17.6
Other	88.4	99.0	97.3	107.0	119.1
<b>Total</b>	<b>1,601.6</b>	<b>1,675.8</b>	<b>1,695.1</b>	<b>1,551.7</b>	<b>1,615.7</b>
<b>CBC/SRC specialty services</b>					
Parl. appropriation	--	--	--	--	--
Advertising	28.6	28.1	32.7	35.1	35.8
Subscriptions	137.0	134.1	137.6	131.3	133.5
LPIF	--	--	--	--	--
Other	0.5	0.8	0.7	0.6	3.6
<b>Total</b>	<b>166.2</b>	<b>163.1</b>	<b>171.0</b>	<b>167.0</b>	<b>172.9</b>
<b>Total</b>					
Parl. appropriation	1,140.3	1,166.4	1,177.9	1,078.7	1,003.3
Advertising	367.4	397.8	405.4	366.3	511.5
Subscriptions	137.0	134.1	137.6	131.3	133.5
LPIF	34.1	40.7	47.2	34.8	17.6
Other	88.9	99.8	98.0	107.6	122.8
<b>Total</b>	<b>1,767.8</b>	<b>1,838.8</b>	<b>1,866.0</b>	<b>1,718.7</b>	<b>1,788.7</b>

SOURCE: CRTC. (Note: Data for 2014 were released by the CRTC on March 23, 2015.)

## Financial support programs in broadcasting

In recent years, a number of observers (including the CBC) have suggested that there was some kind of equivalency between the CBC/SRC Parliamentary appropriation and a number of industry financial support programs related to television broadcasters.<sup>11</sup>

It is certainly useful to note the presence of such programs, many of which were created to stimulate and support independent television production companies.

However, two key points should be noted in this regard:

1. In addition to the CBC/SRC Parliamentary appropriation, only one support program – the Local Programming Improvement Fund (LPIF) – actually involved payments to broadcasters, over and above their normal sources of operating revenue (and the LPIF program was discontinued after August 31, 2014). In fact, most of the “benefits” under these programs are realized by production companies, not broadcasters.<sup>12</sup>
2. The CBC/SRC has also benefited in the past, and continues to benefit now, from most of the same support programs – and those benefits are over and above the CBC/SRC’s Parliamentary appropriation.

In Chart C-1, we have summarized the support programs that have been referred to in recent years, and we have indicated how those programs relate to private broadcasters (conventional and specialty/pay) and to the CBC/SRC (conventional and specialty). We have updated all data to 2013.

In the interest of completeness, we have also included the portion of the Parliamentary appropriation allocated to CBC/SRC radio.<sup>13</sup>

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<sup>11</sup> See, for example, CBC/Radio-Canada, *2014 Media Environment*, November 19, 2014, which claims (at pp. 12-13) that “public funding” for private broadcasters is in the range of \$1.0-\$1.1 billion.

<sup>12</sup> In the case of estimates of the value of simultaneous substitution and income tax advertising-deductibility provisions, the CBC implies that those measures have given something to broadcasters over and above the status quo that would have been in place if the measures had not been necessary. In fact, those two measures were put in place in the 1970s to try to maintain the status quo, which was then being threatened by devaluation of copyright and competition from border stations. Indeed, in the CRTC policy statement dated July 16, 1971, the Commission titled one section: “Restoring the logic of the local licence”. The Commission’s intent could not have been clearer – the (then) new provisions were not seen as adding new revenues, but were clearly seen as necessary to restore what would otherwise have been lost. (See: CRTC, *Canadian Broadcasting “A Single System”, Policy Statement on Cable Television*, July 16, 1971, pp. 26-29.)

<sup>13</sup> Please note that, in addition to the Parliamentary appropriation received by CBC/SRC radio, the CRTC indicates that, in 2013, private radio broadcasters received \$141,912 in unspecified “government grants” (out of a total of more than \$1.6 billion in private radio revenues in 2013).

## Financial support programs in broadcasting

Summary of support programs and amounts in 2013

<i>Category</i>	<i>Type of support</i>	<i>Value to private broadcasters</i>	<i>Value to CBC/SRC</i>	<i>Notes/sources</i>
<b>RADIO</b>	<b>Parliamentary appropriation</b>		\$295.5 MILLION	As reported by the CRTC.
<b>TELEVISION</b>	<b>Parliamentary appropriation</b>		\$783.2 MILLION	As reported by the CRTC
<b>TOTAL</b>	<b>Parliamentary appropriation</b>		1,078.7 MILLION	
<b>Other payments to TV broadcasters</b>	<b>Local Program Improvement Fund</b>	\$39.9 MILLION	\$34.8 MILLION	As reported by the CRTC; this fund was discontinued after August 31, 2014
<b>Total payments to broadcasters</b>		<b>\$39.9 MILLION</b>	<b>\$1,113.5 MILLION</b>	
<b>OTHER TELEVISION INDUSTRY SUPPORT MECHANISMS:</b>				
<b>Market entry restrictions</b>	<b>Foreign ownership restrictions</b>	Value diminished by fragmentation from inside and outside the system	Value diminished by fragmentation from inside and outside the system	In the past, both the CBC and private broadcasters have intervened against the licensing of new conventional TV stations
	<b>CRTC licensing policies</b>			
<b>Imputed value of compensatory measures to respond to competition from U.S. border stations and to protect copyright in programs purchased by Canadian stations</b>	<b>Advertising rules (Section 19.1 of the Income Tax Act)</b>	\$110.0 MILLION	\$8.0 MILLION	Estimated, based on proportions of advertising revenue; does not represent extra revenue, but protects the value of program rights purchased by Canadian stations
	<b>Simultaneous substitution</b>	\$242.0-\$266.0 MILLION		Estimate by Armstrong Consulting; does not represent extra revenue, but protects the value of program rights purchased by Canadian stations
<b>Assistance programs for producers:</b>		<b>Value for programs sold to private broadcasters</b>	<b>Value for programs sold to CBC/SRC</b>	
<b>Assistance programs for Canadian TV program producers</b>	<b>Production tax credits</b>	\$401.4 MILLION	\$216.1 MILLION	Estimated, based on proportions for CMF and for "Canadian programs telecast"
	<b>Canada Media Fund (CMF)</b>	\$156.3 MILLION	\$98.4 MILLION	Data from Canada Media Fund
<b>Total assistance to producers</b>		<b>\$557.7 MILLION</b>	<b>\$314.5 MILLION</b>	

## Broadcast programming services' contribution to the Canadian economy

In a study done for the CBC/SRC in 2014, Deloitte LLP applied Statistics Canada “multipliers” to the CBC/SRC data for 2013.<sup>14</sup> That study found that the CBC/SRC contributed a gross value of about \$3.56 billion to the Canadian economy.<sup>15</sup>

The CBC subsequently linked those findings to the value of its Parliamentary appropriation of approximately \$1.1 billion, to claim that “For every dollar we receive from Canadians, we generate almost \$4.00 for the Canadian economy”.<sup>16</sup>

In Appendix C, we discussed the CBC’s claim that private broadcasters receive public assistance equivalent to the CBC/SRC Parliamentary appropriation, and we demonstrated that there is not, in fact, any real equivalency.

However, the CBC continues to argue that there is such an equivalency, so we might question why the CBC has not extended its comparison with private broadcasting to include the gross value to the economy of private broadcasting, and how that relates to what the CBC claims is an “equivalent” public support.<sup>17</sup>

In order to make the comparisons complete, we have applied the “multipliers” from Statistics Canada to the 2013 CRTC data for private radio, private conventional television, and pay and specialty services (excluding the CBC/SRC specialty services).

As can be seen in Chart D-1, privately-owned radio and television services accounted for a contribution of \$16.0 billion to the Canadian economy in 2013, while the CBC/SRC’s services added another \$3.56 billion.

As indicated in Chart D-2, using the CBC’s methodology, in 2013, for every dollar received, the CBC/SRC generated \$3.30 for the Canadian economy, and private broadcasting generated \$14.56 for the Canadian economy. (While we do not agree with the CBC’s methodology, Chart D-2 indicates what the results would have been if the CBC would have applied its own methodology on a consistent basis.)

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<sup>14</sup> Deloitte LLP, “Economic Impact of CBC/Radio-Canada in 2013, A report for CBC/Radio-Canada”, 16 June 2014.

<sup>15</sup> An organization’s economic activity will add value to the Canadian economy through direct impacts, indirect impacts, and induced impacts. Statistics Canada produces annual data on the “multipliers” that can be used to calculate the value added by a particular industry.

<sup>16</sup> CBC/Radio-Canada, *2014 Media Environment*, November 19, 2014, p. 23.

<sup>17</sup> The 2014 Deloitte report for CBC/SRC did contain some data for net advertising revenues of private broadcasters, but did not appear to include their full revenues.

## Broadcast programming services' contribution to the Canadian economy

<b>'Gross Output', 2013</b>	
<b>Private broadcasting:<sup>18</sup></b>	
Conventional television	\$4,239 million
Specialty and pay services	\$8,240 million
Television	\$12,479 million
Radio	\$3,537 million
<b>Total private broadcasting</b>	<b>\$16,016 million</b>
<b>CBC/SRC:<sup>19</sup></b>	
Conventional television	\$2,679 million
Specialty services	\$283 million
Television	\$2,962 million
Radio	\$596 million
<b>Total CBC/SRC</b>	<b>\$3,558 million</b>
<b>Total television</b>	<b>\$15,441 million</b>
<b>Total radio</b>	<b>\$4,133 million</b>
<b>Total</b>	<b>\$19,574 million</b>

## Dollars generated / dollars received, 2013 (CBC methodology)<sup>20</sup>

### **CBC/SRC 'Gross Output' vs. Parliamentary appropriation:**

Gross Output (\$3,558 million) ÷ Parliamentary appropriation (\$1,079 million) =  
**\$3.30** of Gross Output per "dollar from Canadians"

### **Private broadcasting 'Gross Output' vs. CBC's claim<sup>21</sup> of public support for private broadcasting:**

Gross Output (\$16,016 million) ÷ CBC claim of public support (\$1,100 million) =  
**\$14.56** of Gross Output per "dollar from Canadians"

<sup>18</sup> Compiled by Communications Management Inc.

<sup>19</sup> As compiled in 2014 by Deloitte for CBC/SRC.

<sup>20</sup> While we do not agree with the CBC's methodology, Chart D-2 indicates what the results would have been if the CBC would have applied its own methodology on a consistent basis.

<sup>21</sup> The CBC claim of public support for private broadcasting is discussed in detail in Appendix C.

## The CBC and sports

### **EXCERPT FROM A LETTER DATED 1 NOVEMBER 2012, FROM THE CBC TO THE CRTC:**

12 As for CAB's concerns about CBC Television's involvement in sports, the Corporation reiterates that sports are an important and profitable investment for CBC Television. The profits generated by sports help fund other non-sports programming that could not otherwise be developed. Furthermore, the NHL and the Olympics are sporting events of interest to an extremely wide range of Canadians across the entire country. The broadcast of these programs by CBC Television helps build a shared national consciousness and identity. The Corporation is delighted to be able to provide this programming to Canadians and makes no apologies for doing so.

*(Emphasis supplied)*

### **COMMENTS BY THE PRESIDENT OF THE CBC, TO THE STANDING SENATE COMMITTEE ON TRANSPORT AND COMMUNICATIONS, FEBRUARY 17, 2015:**

#### **Mr. Lacroix:**

Can I take this opportunity to talk about hockey for one second? I'd like to correct one of the misconceptions about hockey and our contract. Over the life of the "Hockey Night in Canada" contract, the one that just ended, we didn't make money off this contract. We lost a few dollars. When the NHL decided that it was going to take this on and give it to a single gatekeeper, obviously CBC/Radio-Canada couldn't play in that game. We show about 50 to 70 games a year. We wanted to protect "Hockey Night in Canada" on Saturdays, which we have done through an arrangement with Rogers. If you want to talk about that, we'll go there. But the concept was that there was no way in the world that we could actually sign a cheque for \$5.2 billion and get a thousand hockey games. We don't have the shelf space and the channels to show that.

The most important thing I would like this committee to remember, because you've talked a lot about the hockey contract, is that we have not lost hundreds of millions of dollars on the hockey contract. We lost a few dollars. When you look at the broadcasting rights and the cost to produce hockey and the revenues on the other side, and when you look at it over six years, we didn't make money on this contract. It did many more things for us. It was a locomotive to sell our schedule. We could bundle some of the shows with "Hockey Night in Canada." I'm not saying that it didn't have an indirect impact on the ad revenues, but the hockey contract itself didn't make money for CBC/Radio-Canada. That was one of the first things I told our employees when I met with them to announce that the NHL had decided to go to Rogers.

*(Emphasis supplied)*