

22 February 2008

Mr. Robert Morin  
Secretary-General  
Canadian Radio-Television &  
Telecommunications Commission  
Ottawa, Ontario  
K1A 0N2

**Re: Broadcasting Notice of Public Hearing CRTC 2007- 10, CRTC 2007-10-3, and CRTC 2007-10-4 – Review of the regulatory frameworks for broadcasting distribution undertakings and discretionary programming services, final written comments of CBC/Radio-Canada**

Dear Mr. Morin:

Attached please find CBC/Radio-Canada's Reply Comments in regard to Broadcasting Notice of Public Hearing CRTC 2007-10, CRTC 2007-10-3, and CRTC 2007-10-4 - Review of the regulatory frameworks for broadcasting distribution undertakings and discretionary programming services.

All of which is respectfully submitted,



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## Review of the Regulatory Frameworks for Broadcasting Distribution Undertakings and Discretionary Programming Services

Broadcasting Notice of Public Hearing CRTC 2007-10,  
CRTC 2007-10-3, and CRTC 2007-10-4

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Reply Comments of CBC/Radio-Canada  
22 February 2008

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## TABLE OF CONTENTS

I.	EXECUTIVE SUMMARY .....	I
II.	INTRODUCTION .....	1
III.	THE ADVANTAGES OF A STREAMLINED BASIC SERVICE.....	3
IV.	THE DECLINE OF THE ADVERTISING MODEL FOR CONVENTIONAL BROADCASTERS .....	6
V.	CALCULATING SUBSCRIPTION FEES FOR CONVENTIONAL BROADCASTERS.....	14
VI.	CBC/RADIO-CANADA’S ELIGIBILITY FOR SUBSCRIBER FEES ....	17
VII.	NEW REVENUE OPPORTUNITIES FOR BDUS .....	25
VIII.	THE IMPLICATIONS FOR BDU SUBSCRIBERS.....	28

**APPENDIX A: Example of the Calculation of Subscription Revenues for  
Conventional Television Broadcasters**

**APPENDIX B: Analysis of the Blackwell/Globerman Report**

**APPENDIX C: TNS Survey - Value of Canadian Conventional TV Stations**

**APPENDIX D: TNS Survey - Canadians’ Support for a Smaller Basic  
Television Service**

## I. Executive Summary

Like numerous parties, CBC/Radio-Canada recognises the need to revamp the regulatory regime for BDUs so as to make it more flexible and consumer friendly while, at the same time, still promoting the objectives of the *Broadcasting Act*.

In its submissions so far, CBC/Radio-Canada has focused on six key points:

- 1) The obligation of BDUs to carry all CBC/Radio-Canada licensed services. In its 19 October 2007 filing, CBC/Radio-Canada included a legal opinion from McCarthy Tétrault spelling out the basis for this obligation under the *Broadcasting Act*.
- 2) The benefits of a streamlined, all Canadian basic package which would minimise the number of services subscribers must purchase and thereby significantly enhance consumer choice. Reducing the size of basic should also reduce the price for the basic package, thereby freeing up consumer dollars for services which consumers specifically want to purchase; once again, enabling consumer choice.
- 3) The importance of simplified rules for discretionary services which would give BDUs greater packaging flexibility and enhance consumer choice.
- 4) The need in a simplified regulatory regime for an enhanced dispute resolution mechanism to resolve any disputes between BDUs and programming services in respect of access, terms of carriage or related matters.
- 5) The decline of the advertising-based financing model for conventional broadcasters as a result of the increase in the number of platforms and the shift in advertising spending toward platforms which enable measurable and targeted ads. This change in the advertising environment makes it critical that conventional broadcasters be given access to subscription revenues, just like BDUs and specialty services.
- 6) A proposal for a practical mechanism for giving conventional broadcasters access to subscription revenues. CBC/Radio-Canada's proposed mechanism would ensure that any per subscriber fees payable by a BDU to a conventional broadcaster would be dedicated to specific Canadian programming and would be relatively modest in amount.

In these reply comments, the Corporation focuses on evidence and arguments of other parties which run directly contrary to CBC/Radio-Canada's proposals.

- 1) Several BDUs argue that they should be permitted to include whatever services they choose in basic. The Corporation strongly disagrees with this position since it runs directly contrary to the principle of consumer choice. Basic service should be a minimum mandatory buy-through package. BDUs should not be permitted to arbitrarily increase the size and price of this one mandatory element of the system and thereby undermine consumer choice.
- 2) Several BDUs question whether conventional broadcasters actually face financial challenges as a result of the environmental changes in advertising spending. These BDUs do not provide any relevant evidence in support of their claims. Instead they attempt to divert attention away from the real issue by pointing to unrelated elements of the broadcasting system which are benefiting from the changes to the environment. The whole point is that those other areas are benefiting at the expense of conventional television. That is why conventional broadcasters require access to subscription revenues.
- 3) Several BDUs argue that it would be too difficult or too uncertain to grant conventional broadcasters access to subscription revenues. Some BDUs also claim that they would have to raise subscriber rates and thereby drive consumers away from the broadcasting system. There is no merit to any of these objections. The Corporation's proposal is simple, easy to implement and would impose specific obligations on conventional broadcasters which would produce direct benefits to the Canadian broadcasting system. The disaster scenarios portrayed by some BDUs are fear mongering tactics based on unrealistic analysis and irrelevant assumptions.
- 4) Some BDUs, as well as CTV and Canwest argue that CBC/Radio-Canada's conventional television services should not be granted access to subscription revenues. These arguments attempt to make a distinction that does not exist. Government has required CBC/Radio-Canada to operate on a mixed financial model of public funding and advertising revenues for decades. The Commission has recognized and approved of this approach. About 50% of CBC's television budget and 40% of Radio-Canada's budget are made up of advertising revenues. The shift in advertising spending affects CBC/Radio-Canada in exactly the same way as it affects private conventional broadcasters.
- 5) Several BDUs ask the Commission to enable BDUs to take advantage of new revenues opportunities. CBC/Radio-Canada does not object to BDUs being given such opportunities provided that CBC/Radio-Canada and other conventional broadcasters are given access to subscription

revenues. The Corporation also notes that these new BDU revenues should eliminate the need for BDUs to pass through to subscribers any per subscriber fees paid to conventional broadcasters. Otherwise, these new revenues would amount to a windfall for businesses which are already hugely profitable.

- 6) Several BDUs have suggested the broadcasting system will be seriously endangered if the BDUs don't get their way. Revising the regulatory regime as proposed by CBC/Radio-Canada should empower consumers by giving them access to a smaller, cheaper all Canadian basic package and by providing them with significantly enhanced choice in respect of discretionary services. Market forces would be relied on to the maximum extent possible. And, by granting conventional broadcasters access to subscription revenues, this cornerstone element of the broadcasting system would be able to continue to make significant contributions to Canadian programming. This is the opposite of the disaster scenario painted by the BDUs.

## II. Introduction

1 In its 19 October 2007 and 25 January 2008 submissions, CBC/Radio-Canada presented a comprehensive proposal for a revised regulatory framework for broadcasting distribution undertakings (BDUs). In those submissions the Corporation discussed:

- The obligation of BDUs to carry all CBC/Radio-Canada licensed services;
- The benefits of a streamlined basic package;
- The importance of simplified rules for discretionary services;
- The need for an enhanced dispute resolution mechanism;
- The decline of the advertising-based financing model for conventional broadcasters; and
- A practical mechanism for giving conventional broadcasters access to subscription revenues.

2 The comments filed by other parties on 19 October 2007 and 25 January 2008 provide a wide range of views many of which agree with the Corporation's position. The strong support expressed by numerous parties for a significantly enhanced dispute resolution mechanism is a key example. An emphasis on the importance of consumer choice is another.

3 In these reply comments CBC/Radio-Canada does not attempt to respond to each and every instance where another party's position differs from that of the Corporation. Instead, CBC/Radio-Canada's Reply addresses six areas of essential importance, where the Corporation believes the Commission must focus its attention:

- The advantages of a streamlined basic service;
- The decline of the advertising-based financial model for conventional broadcasters;
- Access to subscription revenues by conventional broadcasters;

- The status of CBC/Radio-Canada's conventional television services;
- New revenues opportunities for BDUs; and
- The implications for subscribers of a revised regulatory regime for BDUs.

4 While the Corporation's reply comments focus on these six areas, there is an underlying matter which impacts many key issues in this proceeding and which the Corporation believes must be kept in mind by the Commission when making determinations on specific regulatory rules: namely, the extent of competition in the BDU marketplace.

5 As the Commission knows from CBC/Radio-Canada's earlier filings, the extent of effective BDU competition has an impact on a number of key matters such as the Commission's ability to remove access rules and rely exclusively on dispute resolution processes and undue preference rules in carriage determinations.

6 The extent of effective competition also determines whether Canadian cable and DTH subscribers experience the full benefits of lower prices for a significantly smaller basic service. While the Commission may not be required to make an express determination on the level of competition in the BDU market at this time, it should be cognizant of the potential need for future consideration of certain regulatory tools – such as basic rate reviews – should a lack of competition in the BDU marketplace prevent the new regulatory frameworks from achieving their intended objectives.



### III. The Advantages of a Streamlined Basic Service

7 Like nearly all parties to this proceeding, CBC/Radio-Canada believes the Canadian broadcasting system must become more flexible, more market driven and more consumer friendly if it is to continue to thrive. In the Corporation's view, the starting point for this revitalisation of the system should be the BDUs' basic service package.

8 As CBC/Radio-Canada has noted in its earlier submissions, the basic service package is the only mandatory element of a BDU's service. It is therefore critical that basic service be structured to promote the policy objectives in the *Broadcasting Act* with the greatest efficiency, while at the same time providing consumers with maximum freedom of choice.

9 In the Corporation's view, the Commission can address both of these goals by establishing a streamlined basic package that includes only Canadian local over-the-air television services and services deemed of significant importance by the Commission.<sup>1</sup> All the other types of services like US television networks, time-shifted channels, specialty television channels and audio channels that are often included in large, expensive basic packages would be moved to discretionary packages.

10 By reducing the size of the basic package, the Commission would increase consumer choice while still ensuring that a core set of Canadian programming services receive priority distribution. This would constitute an optimal balance among the diverse regulatory objectives facing the Commission.

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<sup>1</sup> As noted in CBC/Radio-Canada's January 25, 2008 submission, the Corporation believes that Newsworld in the English-language marketplace, and RDI and TV5 in the French-language marketplace, represent examples of such services.

11 As CBC/Radio-Canada noted in its 25 January 2008 submission, many parties agree with the idea of minimizing the number of services that must be included in the basic service package. However, several BDUs also want to retain the right to include in the basic package any other services they might choose.

**Shaw:** Shaw proposes maintaining a requirement to distribute a core group of specified services as part of the basic service. For cable BDUs, this would consist of local and regional stations and one CBC in each official language. However, beyond this, customer demands should determine which services, both Canadian and non-Canadian, BDUs distribute as part of the basic service or as discretionary services.<sup>2</sup>

**Telus:** Enabling distributors to differentiate across all elements of the offer, including the basic package, creates a more dynamic and consumer responsive system. It builds loyalty to, rather than annoyance with, the regulated system without undermining the requirement to carry priority services under subsection 17(1). As noted in Part I above, consumers are in charge in the new environment and will simply shift distributors or platforms if dissatisfied.<sup>3</sup>

12 CBC/Radio-Canada strongly disagrees with the idea that BDUs should be permitted to add services indiscriminately to the basic package beyond the core services discussed above. The purpose of a basic service is to promote a core set of Canadian programming services; it is not to create superfluous packaging options for BDUs. Arbitrary increases in the number of services which subscribers would be forced to purchase via basic service would directly contradict the principle of consumer choice which is supported by the Commission and virtually all parties, including the BDUs.

13 By definition, consumer choice is maximised when the services being offered are broken down into the smallest possible pieces. In this regard, as

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<sup>2</sup> Shaw, October 19, 2007, para 26.

<sup>3</sup> Telus, October 19, 2007, para 54.

the first and most critical step in establishing choice, the Commission must ensure Canadian consumers have access to a small core basic service. This core Canadian package can then serve as the jumping off point for access to a wider, market-driven choice of discretionary services, either in packages or on a stand-alone basis.

<sup>14</sup> The Corporation notes that keeping basic small and prohibiting BDUs from adding to it would not prevent BDUs from differentiating their services in the marketplace. On the contrary, establishing a small basic would give BDUs greater freedom with respect to the carriage and packaging of discretionary services.

<sup>15</sup> CBC/Radio-Canada also notes that under its proposed approach it would be open to a BDU to create a package that included both the basic service package and some discretionary services. The BDU could price and market such a package in whatever way it may choose. However, the BDU could not force a subscriber to purchase such a bundle; the small core basic service would and must remain the only mandatory element of a BDU's offering.

<sup>16</sup> In this regard, virtually all parties agree that the basic service package should remain a mandatory buy-through for BDU subscribers.<sup>4</sup> In the Corporation's view, the concept of a non-mandatory basic service package is a contradiction in terms. Again, the purpose of basic is to promote a core set of Canadian programming services. A non-mandatory basic service approach would run contrary to the policy objectives of the *Broadcasting Act* and would introduce unnecessary regulation. Such an approach should be rejected outright by the Commission.

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<sup>4</sup> Of all the interested parties and BDUs participating in this proceeding, only Bell Canada and Bell Aliant (collectively, "Bell") take the position that subscribers should be able to purchase discretionary services without first purchasing basic. See Bell's October 19, 2007 filing, para 184.

#### **IV. The Decline of the Advertising Model for Conventional Broadcasters**

17 Conventional television broadcasters – both public and private – are the cornerstone of the Canadian television sector, both in terms of audience reach and support for Canadian programming. Yet, unlike other elements of the television sector, conventional television broadcasters do not have access to subscription revenues to fund their operations. Instead, they are heavily dependent on advertising revenues to meet their financial requirements.

18 This reliance on advertising revenues is true for both private broadcasters and for CBC/Radio-Canada. As discussed later in this Reply, as early as the 1980s the Government made it clear that the Corporation's financial needs would only be partially met by its annual Parliamentary appropriation. The Government expected and encouraged CBC/Radio-Canada to raise additional revenues through other mechanisms, especially advertising. At present, advertising revenues represent about 50% of CBC's television budget and nearly 40% of Radio-Canada's television budget.

19 In their 25 January 2008 submissions both CBC/Radio-Canada and CTV/Canwest have provided the Commission with compelling evidence that the advertising-based business model of conventional broadcasters is not sustainable.

20 The BDUs have uniformly opposed the suggestion that conventional broadcasters' traditional business models are failing and that broadcasters should get access to subscription revenues. Instead, BDUs suggest that conventional broadcasters either do not need the money or can generate the funds by means other than subscription revenues.

**Bell:** In conclusion, the Companies maintain that the OTA broadcasting sector is healthy and in no need of the financial support of a fee-for-carriage regime.<sup>5</sup>

**Cogeco:** There is no evidence of a “permanent decline” in OTA profitability.<sup>6</sup>

**Rogers:** ...[T]he conventional television sector should see stronger growth in advertising revenues than has been the case in recent years.<sup>7</sup>

21 These statements are either naive or disingenuous and grossly misleading. There has been an impressive array of evidence presented in this proceeding that has demonstrated the declining state of conventional television advertising.<sup>8</sup> There can be no serious doubt that the traditional financial model for conventional television is not sustainable.

22 The BDUs have presented no evidence whatsoever to contradict the evidence filed by CBC/Radio-Canada and by CTV/Canwest. Instead, they attempt to muddy the waters by diverting attention to other facts - facts that are not relevant to the issue.

23 For example, many BDUs confuse the performance of broadcast and media groups with the performance of the conventional broadcast industry. Only Telus identifies the true drivers in these corporate groups: the pay and specialty services.

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<sup>5</sup> Bell, January 25, 2008, para 39.

<sup>6</sup> Cogeco, January 25, 2008, page 7.

<sup>7</sup> Rogers, January 25, 2008, para 24.

<sup>8</sup> CBC/Radio-Canada, 25 January 2008, Section III. 1. Are Subscriber Fees Necessary for Conventional TV Broadcasters; CTV/Canwest, 25 January 2008, Appendix A (CRI, “The Economic Outlook for Private Conventional Television in Canada”); CAB, 19 October 2007, Appendix 4 (Armstrong Consulting, “The Profitability of Private Conventional Televisions: Projections to 2011”).

**Telus:** Broadcasting groups have consistently generated strong financial performance, especially groups with strong pay and specialty television franchises.<sup>9</sup>

24 The current business model for conventional broadcasters is not sustainable because of a dilution of advertising spending on conventional broadcasters' schedules. The fact that specialty services and other platforms, as the cause of this dilution, are as a result gaining in strength is irrelevant. As CTV/Canwest rightly states, "business units stand or fall on their own merits."<sup>10</sup>

25 If conventional broadcasters cannot generate enough funds to operate their businesses, something will have to give. At a minimum, their contribution to the broadcasting system will have to decline.

26 The case of TQS seeking protection from its creditors provides a good example of the worst-case scenario. If Cogeco does not consider the TQS situation to be an example of a "permanent decline" in profitability, it is not clear what could possibly meet that criterion.

27 It is extremely important to note that the BDUs have failed to provide any evidence that would demonstrate that the advertising model for conventional broadcasters is not in decline. They have not provided such evidence because it does not exist. The shift in advertising spending is incontrovertible.

28 For example, Rogers attempts to use recent work by the Canadian Marketing Association as evidence that Canadian conventional broadcasters are healthy:

According to recent research from the Canadian Marketing Association (CMA), spending in Canadian media will increase

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<sup>9</sup> Telus, January 25, 2008, para E3.

<sup>10</sup> CTV/Canwest, January 25, 2008, para. 23.

from \$19 billion in 2007 to more than \$23.3 billion in 2011. The CMA further confirms that a large percentage of the ad spend in Canada will continue to be allocated to traditional media, with television among the categories experiencing the most rapid growth.<sup>11</sup>

29 As the Commission can readily confirm, the CMA data does not isolate advertising on conventional television broadcasting. The data used by CMA is aggregate data for all television advertising – including both conventional and specialty. There is no question that the specialty industry is showing good growth in advertising revenue; this is in large part the problem for conventional broadcasters. Aggregating both segments together simply masks the conventional television results. As noted in CBC/Radio-Canada's January 25, 2007 submission, it is very clear from historical data that conventional television advertising is in trouble:

In seven of the last ten years, conventional television advertising has experienced growth of only 2% or less, and in five of those years, growth has been negative.<sup>12</sup>

30 These poor results are also confirmed by expert submissions in other proceedings. In a recent filing before the Commission where it provided valuations of certain business run by Bell ExpressVu, KPMG documented Canadian television industry trends, particularly the recent trend in advertising on conventional broadcasters:

Advertising on conventional network television has been diminishing as a proportion of total advertising within the Canadian broadcasting industry.<sup>13</sup>

31 Looking to the future, conventional television is expected to experience marginal growth in advertising revenues, at best, and certainly insufficient

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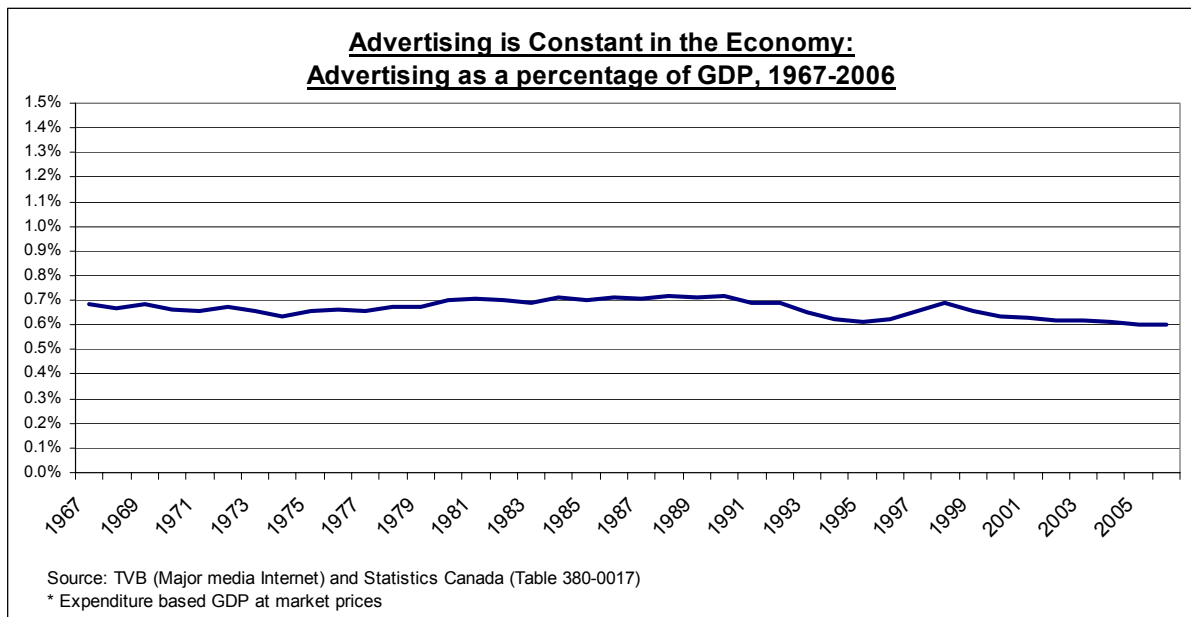
<sup>11</sup> Rogers, January 25, 2008, para 24.

<sup>12</sup> CBC/Radio-Canada, January 25, 2008, para 82, from Statistics Canada.

<sup>13</sup> BCE Purchase by OTPP et al, KPMG, Valuation of Bell ExpressVu's Pay-per-View Business, July 31, 2007.

growth to cover increasing costs – and regulatory obligations - in a time of significant technological change.<sup>14</sup>

32 In order to appreciate the limits to growth for conventional television advertising is also important to understand the role that advertising plays in the economy. Advertising has a unique role in the economy in that it serves to promote the products and services of other industries. As a result of advertising's unique role, advertising spends display a particular relationship to the economy. This particular relationship is demonstrated by looking at advertising spends in relation to economic output over the course of the last 40 years. As can be seen in the chart below, advertising spends as a percentage of GDP is virtually constant.<sup>15</sup>



<sup>14</sup> PricewaterhouseCoopers (PwC), “Global Entertainment and Media Outlook, 2007-2011” (July 2007); TD Newcrest, “Canadian Advertising Forecast” (November 23, 2007); and Armstrong Consulting, “The Profitability of Private Conventional Televisions: Projections to 2011” (19 October 2007).

<sup>15</sup> Advertising expenditure data from TVB includes all major media and the Internet, but excludes direct mail, catalogues, yellow pages, and telemarketing.

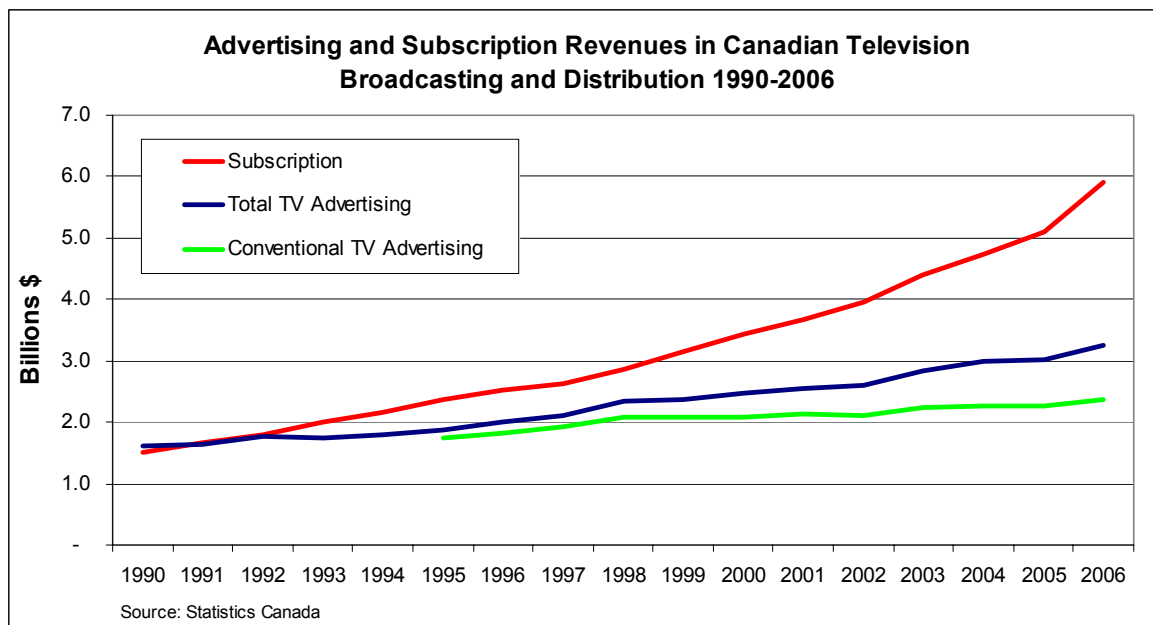


33 There is simply no “growing the pie” phenomenon in evidence in the history of the advertising industry. For example, the licensing of hundreds of new specialty channels over the last 25 years has not at all expanded the pie of advertising or resulted in proportionally more advertising dollars to be applied across these new platforms; the introduction of these services has simply diluted the available advertising revenues.

34 The notion put forward by BDUs in this proceeding that there are new advertising dollars waiting to be picked by conventional broadcasters from some advertising money tree is nonsense. There are finite funds available and, as every party to this proceeding has acknowledged, advertisers are shifting their spending to new platforms that enhance their ability to target consumers (e.g., specialty services and the Internet). Consequently, because there is no new advertising dollars available to “grow the pie”, the share of funds directed to conventional broadcasters is in decline.

35 It is important to note that CBC/Radio-Canada, like other conventional broadcasters, is and will continue to pursue revenue opportunities on new platforms. However, those ventures are distinct operations with their own costs and risks. Any revenues generated by such platforms cannot change the state of conventional television’s finances.

36 The simple fact is that the world has changed and conventional broadcasters have been prevented from properly adapting to those changes. Decades ago, advertising was the dominant source of revenues in the television industry. That is no longer the case. Television subscription revenues eclipsed total television advertising revenues more than 15 years ago and are now clearly the largest and steadily growing source of revenue for television.



37 The reality today is that paying for television is the norm for consumers. And yet, conventional broadcasters are denied access to subscription revenues. This is despite the fact that, according to survey results provided to the Commission by CBC/Radio-Canada in the 2006 OTA Framework proceeding, nearly 90% of Canadians believe that they are paying for conventional broadcasting services when they pay their cable or satellite bills.<sup>16</sup>

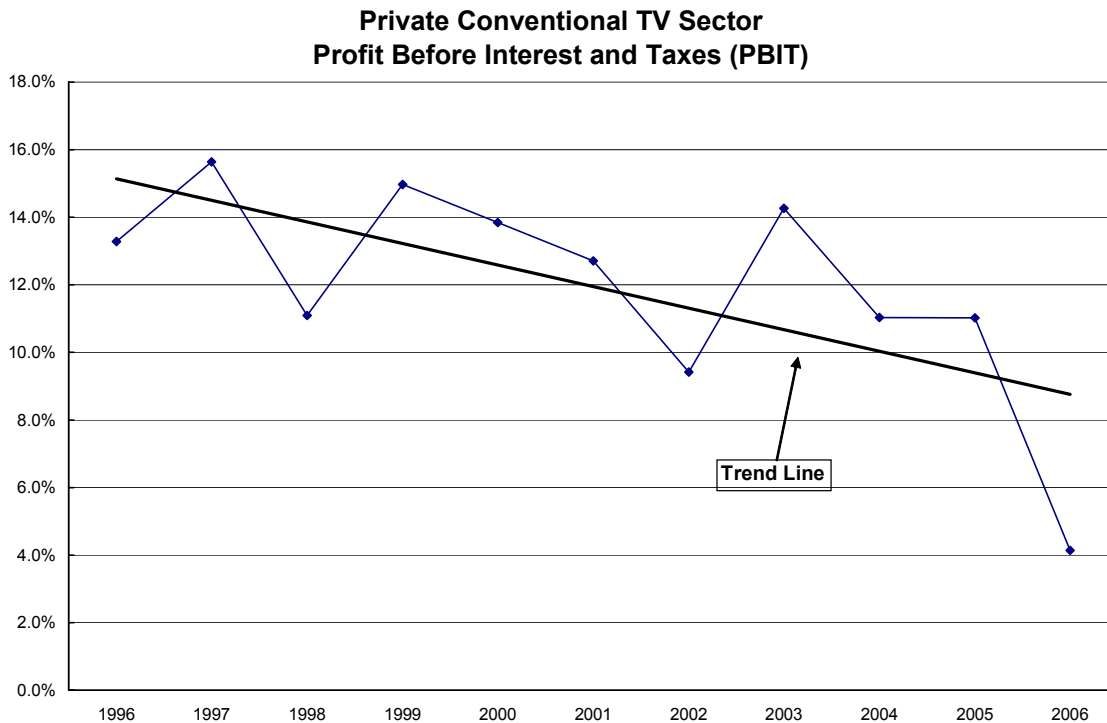
38 Finally, on the question of profitability, CTVglobemedia and CanWest Media have submitted a report by Margaret Sanderson of CRI International, "The Economic Outlook for Private Conventional Television in Canada" that conclusively demonstrates that the financial health of Canadian private conventional OTA broadcasters is declining as advertising revenues diminish and costs rise, resulting in the lowest profitability of recent record.<sup>17</sup> This study confirms the analysis provided by CBC/Radio-Canada in its January 25, 2008 submission, and in its earlier filings in the OTA Framework proceeding.<sup>18</sup>

<sup>16</sup> TNS Canadian Facts, "Value of Canadian Conventional TV Stations", November 24 2006, reproduced in Appendix C of this Reply.

<sup>17</sup> CTVglobemedia and Canwest Media submission, Appendix A, January 25, 2008, page 60.

<sup>18</sup> See CBC/Radio-Canada, January 25, 2008 submission, page 32, and CBC/Radio-Canada Reference Material to the Oral Remarks, November 2006, OTA Framework proceeding.

39 Further evidence of the on-going decline in sector profitability is illustrated in the following chart based on data released by the Commission.



Source: CRTC

40 As the trend line in the chart illustrates, over the 1996 to 2006 period, the private conventional television sector profitability has steadily declined.

41 In CBC/Radio-Canada's submission, there can be no doubt that the advertising-based model for conventional broadcasters – both public and private – is not sustainable.

## V. Calculating Subscription Fees for Conventional Broadcasters

42 Recognising the non-sustainability of the advertising-based business model for conventional broadcasters, CBC/Radio-Canada proposed a specific model for calculating subscriber fees for these broadcasters in its 25 January 2008 submission. This model contained a number of key elements:

- Subscriber fees should not be viewed as a make-whole solution for conventional broadcasters since this would unduly diminish the incentives for efficiency and innovation;
- In order to ensure that the move to a smaller core Canadian basic package provides consumers with visible financial benefit in the form of significantly reduced rates, subscriber fees for conventional broadcasters must not be excessive;
- Subscriber fees for conventional broadcasters should be used to address specific programming objectives set out by the Commission; and
- The per subscriber amount payable by a BDU to a conventional broadcaster should be determined by the Commission at the time of the broadcaster's licence renewal.

43 BDUs have opposed the idea that conventional broadcasters should be granted access to subscription revenues. They raise a number of objections, including: there would be no net benefit to the system and likely an overall detrimental effect; the money would be spent on U.S. programming; the money would be used to enhance the profitability of private broadcasters; any arrangement would be difficult to administer; and, granting access to subscription fees would undermine broadcasters' incentives to be efficient and innovate. For example:

**Bell Canada:** It is an open question as to what would happen to the new revenue that would be received by Canadian OTA broadcasters under a fee-for-carriage regime. It should be

recognized that the fees would be used to increase the profitability of OTA ownership groups. However, there are considerations that suggest much of this revenue might end up elsewhere.<sup>19</sup>

**Telus:** Fee for carriage is not likely to boost the ratio of Canadian vs. foreign programming expenditures. While fee for carriage will result in more money in the hands of over-the-air broadcasters (although not more money in the overall system), they will choose to spend it where it most benefits their profitability and competitiveness for viewership, and that means foreign programming.<sup>20</sup>

**Rogers:** Whether mandated or negotiated, a fee for the carriage of OTA signals would be difficult to administer and would inevitably tax the Commission's dispute resolution resources.<sup>21</sup>

44 None of these objections has any merit when considered in the context of CBC/Radio-Canada's proposal.

45 First, the approach proposed by CBC/Radio-Canada would involve a conventional broadcaster being subject to an enforceable condition of licence requiring spending on identified areas of Canadian programming. There would, therefore, be no possibility of the funds being spent on U.S. programming or simply dropping to the broadcaster's bottom line. Rather, the money would be targeted for specific programming areas and the Commission would employ historical expenditure data and forecasts of advertising shortfalls as guiding parameters in the establishment of the magnitude of the subscriber fee required. The conventional broadcaster would be fully accountable and there would be a clear net benefit in the form of strengthened Canadian programming.

46 As for the ease of administration, CBC/Radio-Canada's approach would rely on familiar, well understood and straightforward procedures. In order to

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<sup>19</sup> Bell Canada, January 25, 2008, para E16.

<sup>20</sup> Telus, January 25, 2008, para E6.

<sup>21</sup> Rogers, January 25, 2008, Para 11 (d).

demonstrate the simplicity of the proposed approach, the Corporation has set out an example of how the Commission would calculate subscriber fees for conventional broadcasters, based on financial and market information currently and historically in its possession. This example is provided in Appendix A of this Reply. As is evident from this analysis, CBC/Radio-Canada's proposal enables the Commission to calculate the subscriber fee in a simple and accurate manner, ensuring that the associated revenues are applied to specific Canadian programming goals.

47 Finally, the Corporation's approach is deliberately structured to retain incentives for efficiency and innovation. As emphasized in its 25 January 2008 submission, CBC/Radio-Canada's proposal is not a make-whole approach. Conventional broadcasters who are inefficient or fail to innovate will not succeed via subscriber fees.

48 The purpose of the Corporation's proposal is to ensure that conventional broadcasters can operate on a level playing field with BDUs and discretionary services, both of whom already have access to subscription revenues. The proposal would guarantee nothing to conventional broadcasters. What it would do is permit conventional broadcasters to adapt, on the same basis as other players, to technological developments and consumer trends that are, in the words of Rogers, "both profound and irreversible".<sup>22</sup>

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<sup>22</sup> Rogers, January 25, 2008, para 29.

## VI. CBC/Radio-Canada's Eligibility for Subscriber Fees

49 Several parties have suggested that CBC/Radio-Canada should not be eligible for access to subscription revenues. They have taken this position on the grounds that CBC/Radio-Canada obtains some of its funding from Parliament. In addition, some parties allege that granting the Corporation access to subscription revenues would somehow qualify as “double taxation”.

**CTVgm/Canwest:** CTVgm and Canwest note that compensation for carriage of local stations under this proposal applies only to private conventional OTA broadcasters. The CBC/SRC and other conventional stations which, by virtue of directly receiving public funding, already have another source of revenue (e.g. provincially operated educational stations), would not be eligible.<sup>23</sup>

**Cogeco:** CBC/SRC, unlike private OTA broadcasters, is funded in large part through substantial public appropriations. In 2006, Canadian taxpayers contributed approximately \$683 million to the national public broadcaster. Further subsidizing CBC/SRC through a fee-for-carriage would effectively amount to double taxation and cannot be said to be in the public interest.<sup>24</sup>

50 There is no merit to either of these arguments.

51 First, requiring BDUs to pay either public or private conventional broadcasters a per subscriber fee does not “tax” subscribers. BDUs are already charging subscribers for access to conventional television signals, and approximately 90% of Canadians understand that they are currently already paying BDUs to receive conventional broadcaster signals.<sup>25</sup>

52 There is simply no “tax” involved in this process.

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<sup>23</sup> CTV/Canwest, January 25, 2008, para 35.

<sup>24</sup> Cogeco Executive Summary, January 25, 2008, Page 2.

<sup>25</sup> See Appendix C which supplies the survey information provided to the Commission in the 2006 OTA Framework proceeding.

53 Second, every dollar of revenue received today by CBC/Radio-Canada's television services is made up of approximately 50¢ from government appropriations and 50¢ from advertising space sold in its television schedules. CBC/Radio-Canada's heavy reliance on advertising revenues is a long-standing phenomenon that has been recognised by Parliament, Government and the CRTC. The 50¢ on the dollar of advertising revenue collected by the Corporation is not free money: Canadian companies contribute to this 50¢ when they advertise their products and services on CBC/Radio-Canada television. The 50¢ is a cost to Canadian companies that advertise.

54 However, this funding model is now disappearing. To replace this traditional model, a subscriber fee model is being proposed. As a result, instead of appearing as a cost to Canadian companies that wish to advertise on CBC/Radio-Canada's television services, the 50¢ would become a cost to the cable and DTH television distributors distributing CBC/Radio-Canada's television services. There is no inconsistency or double-counting in this approach.

55 It is important to re-iterate that granting conventional broadcasters – either public or private – access to subscription revenues would impose a cost on BDUs, not subscribers. It is BDUs who would decide whether or not to pass along that cost to subscribers by increasing subscription rates. Whether BDUs pass along this cost depends on a number of factors including, the degree of effective competition in the marketplace and the availability of new revenue opportunities for BDUs. These considerations have been described in detail in the Corporation's October 19, 2007 and January 25, 2008 submissions, and are further discussed later in this Reply. The key point is that the decision as to how to obtain revenues for a subscriber fee for conventional broadcasters, is a decision that lies with BDUs.

56 Finally, in regard to the specific circumstances of the Corporation, it has



already been noted that Government deliberately decided decades ago that the Corporation must operate on the basis of a mixed financial model involving limited public funding supplemented by other revenues. For more than two decades, Government has recognised that public funding has been set at a level that cannot possibly fund all of the Corporation's operations. Instead, Government expected and continues to expect the Corporation to raise additional revenues by way of other mechanisms, especially advertising.

57 However, as discussed above and in CBC/Radio-Canada's earlier submissions, advertising spending is shifting away from conventional television. It is the replacement of those advertising dollars that is at stake in the present proceeding, not the duplication of existing public funding. There can be no "double taxation" when the revenues at issue (i.e., falling advertising dollars) are not attributable to taxpayers in the first place.

58 The rationale for providing conventional broadcasters with access to a subscriber fee relates to the erosion of their advertising revenue. As noted above, CBC/Radio-Canada is heavily reliant on advertising revenues to fund its operations: nearly 50% of CBC Television's budget is funded by advertising and advertising represents nearly 40% of the budget for Radio-Canada Television. Given this level of dependence, the shift in advertising spending away from conventional television is having and will continue to have a major impact on CBC/Radio-Canada, just as it is having an impact on private broadcasters.

59 The Corporation's Parliamentary appropriation has declined significantly in real terms over the last several decades<sup>26</sup>, and it would be completely unrealistic to expect government to change its approach toward the Corporation and to fill the gap being created by the shift in advertising spending. On the contrary, as already noted, Government policy has been and

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<sup>26</sup> 33% decline in constant dollars since 1990. CBC/Radio-Canada 2006/07 Annual Report.

remains that the Corporation must operate on the basis of a mixed financial model with limited public funding. This is not going to change.

60 At the same time, the *Broadcasting Act* establishes expectations for the Corporation and requires the Commission to design a regulatory framework that will enable CBC/Radio-Canada to meet those expectations. In light of the Government's funding policy for the Corporation, it is the Commission's responsibility to ensure that the regulatory regime provides CBC/Radio-Canada with an opportunity to generate the revenues necessary to fund its activities.

61 As discussed further below, the Commission has fully recognised these legal, political and fiscal realities in the past. The Commission's decisions have accepted and, at times encouraged, the Corporation's significant reliance on advertising. Given the major changes in the broadcasting and advertising environment currently underway, the Commission must now recognise the need to grant CBC/Radio-Canada the same right of access to subscription revenues as may be given to private conventional broadcasters.

### The Requirements of the *Broadcasting Act*

62 Section 3(1) of the *Broadcasting Act* sets out the policy objectives that the Commission is required to implement when exercising its powers under the Act. These objectives encompass both the private and public elements of the Canadian broadcasting system. Of particular relevance to the issue of subscriber fees are the objectives set out in sections 3(1) (e), (k), (m) and (s). These sections focus on the need for each element of the broadcasting system to make an appropriate contribution to Canadian programming and the associated requirement that each element have the resources to do so:

3. (1) It is hereby declared as the broadcasting policy for Canada that:

(e) each element of the Canadian broadcasting system shall contribute in an appropriate manner to the creation and presentation of Canadian programming;

(k) a range of broadcasting services in English and in French shall be extended to all Canadians **as resources become available**;

...

(m) the programming provided by the Corporation should

(vii) be made available throughout Canada by the most appropriate and efficient means and **as resources become available** for the purpose,

...

(s) private networks and programming undertakings should, to an extent **consistent with the financial and other resources available** to them,

(i) contribute significantly to the creation and presentation of Canadian programming, and

(ii) be responsive to the evolving demands of the public;

<sup>63</sup> In CBC/Radio-Canada's submission, these provisions make it abundantly clear that the contribution that the Corporation and private broadcasters can make to the system is dependent on the resources available to them.

<sup>64</sup> It is also clear from these provisions that if the Commission expects the Corporation and private broadcasters to achieve certain goals, it must establish a regulatory framework that enables them to meet those goals. In particular, it must enable them to raise sufficient revenues to fund their activities and meet their regulatory obligations. There is no basis for distinguishing between CBC/Radio-Canada and private broadcasters on this point.

## The Corporation's Reliance on Advertising: Sanctioned and Long Standing

65 The financial realities facing the Corporation have long been recognised by Parliament, Government, and the Commission. These bodies have accepted the need for CBC/Radio-Canada to raise revenues via advertising and in particular, the Commission has encouraged the Corporation to maximise such revenues whenever possible.

66 For example, more than 20 years ago, in the Corporation's 1987 licence renewal<sup>27</sup>, the Commission expressly and repeatedly acknowledged the importance of advertising and encouraged CBC/Radio-Canada to pursue advertising revenues "with all reasonable vigour":

**The Commission recognises that, given the existing financial circumstances, and in face of the Corporation's past and anticipated budget shortfall as described at the hearing, advertising revenue plays a significant and necessary role in the Corporation's ability to meet its various mandated responsibilities.**

...

The CBC President further explained, however, that in order to soften the impact of budget reductions, in 1985/86 the Government permitted the Corporation to retain and spend excess advertising revenue it had earned in the previous year. **He also stated that there was "a definite disposition on the part of the Treasury Board" to continue this practice as a means of providing the CBC with an incentive for increasing its advertising revenue. The Commission fully endorses the continuation of this practice as a means of assisting the Corporation to fulfil its legislated objectives**, particularly at a time when government appropriations have been reduced.

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<sup>27</sup> *CBC/Radio-Canada Applications for the Renewal of the English and French Television Network Licences*, Decision CRTC 87-140, 23 February 1987.

**The Commission has taken note of the CBC's general expression of budgetary concern, and as a consequence, considers that, given the current circumstances, the Corporation should pursue available sources of commercial revenue with all reasonable vigour. The Commission agrees with the Corporation's conclusion that its budgetary problems make such initiatives essential.**

67 Similarly, in its 2000 licence renewal decision<sup>28</sup>, the Commission again acknowledged the importance of CBC/Radio-Canada's use of advertising revenues to fulfil its programming goals:

In examining the issue of commercialisation, ..., **the Commission acknowledges that the Corporation must continue to rely on advertising revenues for its television services. There is no doubt that these revenues provide general support for the CBC's programming endeavours. ...**

68 Clearly, the Commission has repeatedly endorsed the Corporation's reliance on advertising as a financial necessity in respect of its programming objectives and in respect of its licence obligations. The well documented shift in advertising spending away from conventional television is now making the Corporation's reliance on advertising unsustainable.

#### A Single Solution for All Conventional Broadcasters

69 The solution to the looming financial problem for the Corporation and other conventional broadcasters is, in the words of CTV and Canwest, "simple and straightforward". Conventional broadcasters, including CBC/Radio-Canada, should be granted access to subscriber revenues.

70 The evidence provided by the Corporation in its 25 January 2008 submission and by CTV/Canwest in their joint submission demonstrates clearly

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<sup>28</sup> *A distinctive voice for all Canadians: Renewal of the Canadian Broadcasting Corporation's licences*, Public Notice CRTC 2000-1, 6 January 2000.

that the advertising model is unsustainable. This conclusion is true for all conventional broadcasters, including CBC/Radio-Canada.

71 At the same time, the *Broadcasting Act* is clear that all broadcasters - both public and private - require appropriate financial resources in order to achieve the objectives of the *Act*.

72 Finally, the Corporation's reliance on advertising revenues is something that the Commission has both approved and, at times, vigorously encouraged in its past licence renewal decisions.<sup>29</sup> The Commission has understood that in order for CBC/Radio-Canada to fulfil its mandate under the *Act* it must raise revenues well beyond those provided by Government. For many decades, the primary source of such revenues, advertising, has been sanctioned by the Commission. Now that advertising spending is shifting and the advertising model is no longer sustainable for conventional broadcasters, there is no justification for treating CBC/Radio-Canada differently from private conventional broadcasters.

73 Thus, while CTV and Canwest are correct in their conclusion that conventional broadcasters need access to subscription revenues, they are wrong when they suggest CBC/Radio-Canada should be excluded. The evidence, the *Act* and the Commission's past decisions all support a uniform solution to the problem created by the shift in advertising spending. All conventional broadcasters, including CBC/Radio-Canada, are suffering from this change in the marketplace. And, all conventional broadcasters, including CBC/Radio-Canada, are in need of an alternative source of revenues - namely, access to subscription revenues.

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<sup>29</sup> The Commission's recognition of the Corporation's reliance on advertising is also evidenced by the fact that CBC/Radio-Canada sought and obtained approval from the Commission for increased advertising minutes under the scheme established by *Incentives for English-language Canadian television drama*, Broadcasting Public Notice CRTC 2004-93, 29 November 2004.

## VII. New Revenue Opportunities for BDUs

<sup>74</sup> While BDUs are united in their opposition to granting conventional broadcasters access to subscription revenues, they are also united in their request for additional sources of revenue for themselves:

**Bell Canada:** Bell proposes that the Pay Regulations be revised to permit commercial advertising in PPV and VOD. ... Electronic program guides that are provided by digital BDUs offer another potential opportunity for commercial advertising that the BDUs should be free to explore. The potential use of the avails currently available within U.S. specialty channel programming services presents another revenue opportunity.<sup>30</sup>

**Bragg:** If the Canadian broadcasting system is to compete, it will need to shift strategy to offer the same functionality available to advertisers on the Internet. VOD undertakings currently offer the greatest potential for this functionality within the Canadian broadcasting system. ... Dynamically updated ads that are targeted on a geographic and demographic basis are more valuable to advertisers. Granting VOD undertakings the flexibility to deliver such a product will go a long way towards halting the migration of advertisers to alternative platforms and will, thereby, contribute to revenue growth within the Canadian broadcasting system by capturing ad revenue that would otherwise be lost to those alternative platforms and which would be incremental to advertising revenues generated from traditional, linear television.<sup>31</sup>

**Cogeco:** Cogeco is strongly of the view that it would be appropriate and consistent with broadcasting policy objectives to eliminate the advertising restrictions on VOD undertakings. We submit that the real potential of the VOD platform lies in its ability to be more effectively monetised to the benefit of the Canadian broadcasting system. This can be done through the ability of VOD undertakings to target ads to customers and to dynamically insert new ads into VOD streams to keep content fresh.<sup>32</sup>

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<sup>30</sup> Bell Canada, October 2007, para 154, 156, 157.

<sup>31</sup> Bragg, October 2007, para 77(b).

<sup>32</sup> Cogeco, October 2007, para 193.

**Rogers:** From the perspective of Canadian BDUs and programming services, there are really only two sources of new revenues: advertising and subscription. ... A key development that has made Internet advertising so attractive in recent years is the establishment of accepted business models based on targeted advertising with measurable results. ... The trends toward targeted and measurable advertising and compressed time to market underpin all three of Rogers' following proposals for new revenue opportunities: 1) advertising on the VOD platform; 2) advertising on the local avails of U.S. satellite services; and 3) monetization of the unused advertising time of Canadian specialty services.<sup>33</sup>

75 These statements are important from two perspectives.

76 First, they confirm CBC/Radio-Canada's position that advertising spending is shifting away from conventional television to other platforms and mechanisms. Consequently, they implicitly confirm that conventional broadcasters need access to another source of revenue if they are to have a sustainable business model. As noted by Rogers, there are only two sources of new revenues: advertising and subscription. Since advertising revenues are in decline for conventional broadcasters, this leaves only subscription revenues.

77 Second, these statements indicate that BDUs are well positioned to capitalise on the shift in advertising spending (e.g., they can generate new revenues via advertising on their VOD services), as well as generate further revenues through other advertising windows (e.g., electronic program guides, local avails, PPV).

78 CBC/Radio-Canada considers this to be a critically important point. It is the BDUs who control all subscription revenues and it is the BDUs who are positioned to generate additional revenues through new means such as

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<sup>33</sup> Rogers, October 2007, para 189, 191, 192.



targeted advertising on VOD. The BDUs are already making extraordinary profits. If they are granted access to additional revenue sources, those profits are certain to soar.

<sup>79</sup> In these circumstances, and as described in detail in CBC/Radio-Canada's January 25, 2008 submission, with a variety of new revenue opportunities available to them, there can be no doubt that BDUs can afford to pay a per subscriber fee to conventional broadcasters. More importantly, if BDUs were granted the new revenue opportunities they ask for, they could pay conventional broadcasters a per subscriber fee without having to increase the rates they charge BDU subscribers.

### **VIII. The Implications for BDU Subscribers**

80 BDU predict dire consequences if the Commission were to grant conventional broadcasters access to subscription revenues. They suggest that the rates they charge subscribers would rise significantly and that, as a consequence, subscribers would drop BDU services with severe consequences for the Canadian broadcasting system.

**Bell Canada:** The Companies categorically oppose the introduction of any form of a fee-for-carriage regime for OTA television signals in Canada. A fee-for-carriage regime could have serious and dramatic negative financial impacts on every segment of the Canadian broadcasting system, except on the OTA broadcasters.<sup>34</sup>

**Rogers:** Fee-for carriage would result in an increase in the price of the basic service of between 6.6% and 11.1%. This could create an affordability issue for some viewers. The costs associated with fee-for-carriage would be in the hundreds of millions of dollars annually, which would ultimately be passed on to basic BDU subscribers.<sup>35</sup>

**Telus:** A fee increase for no additional value may provide the impetus for many viewers to change their viewing habits, precipitating a sharper increase in adoption of replacement technologies for traditional television than recent trends would have predicted.<sup>36</sup>

81 These comments are nothing but fear mongering. As noted in the Harris/Decima report commissioned by Bell, Rogers and Telus, “most (subscribers) are not prepared to make a transition from cable or satellite service to the internet as their preferred medium.” More than 8 in 10 television subscribers (84%) would not even consider the option of using the Internet as a

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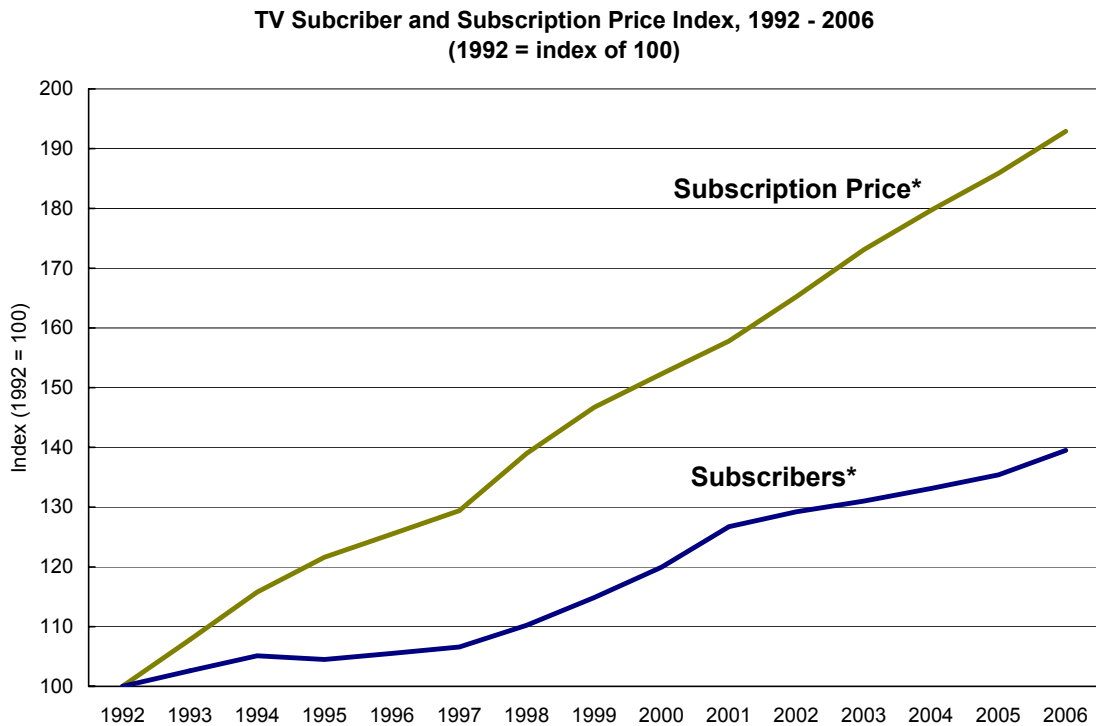
<sup>34</sup> Bell Canada, January 25, 2008, para E9.

<sup>35</sup> Rogers, January 25, 2008, para 46.

<sup>36</sup> Telus, January 25, 2008, para E8.

replacement to their current television services. More fundamentally, as noted in the previous section, it is by no means certain that BDUs would need to raise their subscription rates at all as a result of the imposition of subscriber fees for conventional broadcasters, and this is certainly the case if they are given access to the new revenue opportunities they seek.

82 Moreover, even if a particular BDU were to conclude that a modest increase in its basic rate is necessary, recent history has demonstrated that rate increases have not resulted in a drop in subscriber levels. Appendix D of CBC/Radio-Canada’s 19 October 2007 submission details the on-going and substantial price increases that cable and satellite have introduced to consumers each year for the last five years. Those price increases have not resulted in an exodus of subscribers. Indeed, as illustrated in the following chart, reproduced from the Corporation’s October 19, 2007 submission, subscription rates have been rising steadily for a decade and a half while subscriber levels have also continued to rise.



\* Category includes Cable, DTH and other TV subscription services  
Source: Statistics Canada Table 326-0002 and Table 353-0003

<sup>83</sup> The fact is that BDUs have repeatedly raised their rates over the last 5 years without causing a flight of subscribers from the system.<sup>37</sup> The BDU position is therefore simply hypocritical and self-serving. It is not credible for these companies to argue dire straits for their subscribers from potential rate increases while continuing to impose significant rate increases on these same subscribers.

<sup>84</sup> It is in fact startling to hear companies such as Rogers spreading fear about potential rate increases while at the very same time raising basic rates in a number of major cities by \$2.50 effective 1 March 2008. It is obvious that Rogers has no concerns about the impact of rate increases on its subscribers when all of the money will remain in its pocket.

<sup>85</sup> CBC/Radio-Canada also notes that Star Choice recently began charging subscribers \$1.99 per month as of February 1, 2008 for a new HD Sport bundle consisting of TSN HD and Sportsnet HD.<sup>38</sup> Previously these services were available at no charge as part of Star Choice's "No Additional Cost" HD package. Clearly Star Choice does not anticipate that charging customers an additional fee of \$1.99 per month for services that they previously received at no additional charge will lead to massive customer disconnections or downgrades leading to reductions in its revenues.

<sup>86</sup> The BDUs' fear mongering is not supported by either the facts or their own actions. In order to bolster their argument, Bell, Rogers and Telus have commissioned and filed a report prepared by Suzanne Blackwell and Steven Globerman entitled "Economic Impact of a Fee for Carriage in the Canadian Television Broadcasting Industry" (the Blackwell/Globerman Report). CBC/Radio-Canada has provided an analysis of this report in Appendix B.

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<sup>37</sup> See Appendix D in CBC/Radio-Canada's October 19, 2007 submission.

<sup>38</sup> Star Choice Notice to Customers, January 15, 2008.

<sup>87</sup> As discussed in Appendix B, while the Blackwell/Globerman Report claims to be an empirical study, it fails to take into account basic facts such as those noted in the preceding paragraphs. Indeed, the report is remarkable in its slender reliance on hard, relevant data.

<sup>88</sup> While the Blackwell/Globerman report was commissioned by Rogers and Bell, two of the larger BDUs in the country with the necessary historical data to determine the price elasticity for their service, the authors are left to make use of price elasticity estimates from dated Canadian studies (for example, Peat Marwick, 1990) or to proxy Canadian BDU price elasticities using study estimates from the U.S. BDU market.

<sup>89</sup> CBC/Radio-Canada further notes that while the authors use assumed price elasticity measures of -0.8 and -1.5 for the hypothetical model in the current proceeding, a 2006 study also sponsored by Canadian BDUs<sup>39</sup> used a much lower price elasticity measure of -0.3.

<sup>90</sup> The failure to use relevant price elasticities is a fatal flaw since the entire thrust of the report is that subscribers will leave if prices are raised. That prediction is worthless if the price elasticities used are inappropriate - which they are, and clearly they must be if BDUs continue to raise prices and subscriber consumption patterns remain unchanged.

<sup>91</sup> Indeed, the empirical evidence suggests exactly the opposite of the conclusions of the Blackwell/Globerman Report. Subscribers have demonstrated a remarkable willingness to absorb repeated increases in their BDU rates.

<sup>92</sup> The central point, however, is that rates do not need to, and may not

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<sup>39</sup> Study prepared by Nordicity Group Ltd., "The impact of Retransmission Consent in Canada".

rise with the imposition of subscriber fees for conventional broadcasters. The proposed smaller basic package offered at a lower price combined with additional revenues generated by new opportunities for BDUs will together insure that subscription fees paid by BDUs to conventional broadcasters will not have an impact on cable subscribers.

### The Effect of a Streamlined Basic

93 It is also important to note the potential impact of CBC/Radio-Canada's proposal for a streamlined basic service. That approach would ensure that subscribers pay less for a smaller basic service and obtain increased choice in discretionary services. Both of these effects would significantly enhance consumer satisfaction.

94 In January 2008 the Corporation commissioned a survey by TNS Canadian Facts with respect to the issue of a smaller basic package: see Appendix D. The survey results indicate that television subscribers support the introduction of a smaller basic service option:

- 9 in 10 BDU subscribers (87%) think BDUs should offer a smaller basic service consisting of about 20-25 Canadian channels; half (52%) are "strongly" in favour of this option being available;

95 In addition, the introduction of a smaller basic service would likely bring new customers to BDUs:

- 6 in 10 OTA viewers (60%) would be interested in subscribing to a BDU service if it offered a smaller basic option; a quarter (25%) are "very" interested in subscribing.

96 CBC/Radio-Canada's proposal would reduce the size and costs of the basic package thereby lowering the entry-level price of BDU services for Canadians. It would also increase consumer choice in respect of discretionary

services. These are both extremely consumer friendly changes.

<sup>97</sup> If these regulatory innovations were introduced along with granting conventional broadcasters access to subscription revenues, the Commission could enhance both the flexibility and attractiveness of BDU services while, at the same time, ensuring conventional television's ongoing contribution to the broadcasting system. The Canadian broadcasting system would be both stronger and more consumer friendly.

## **Appendix A**

### **Example of the Calculation of Subscription Revenues for Conventional Television Broadcasters**



## Example of Subscriber Fee Calculation

In its January 25 2008 submission, CBC/Radio-Canada explained its proposal for the Commission's approach to determining subscriber fees for conventional broadcasters (paras. 121 – 130).

CBC has constructed an illustrative example of how the subscriber fee may be calculated using data that is readily available to the CRTC, based on the information filed by OTA broadcast licensees as part of the Annual Return filing.

While the information should be based on each licensee's specific information, for the purposes of the following illustrative examples, CBC has relied upon publicly available information, unless noted otherwise. In all instances, the information is available to the CRTC though it may be filed in confidence by the licensee and summarized at the aggregated industry level for public reporting purposes.

There are two possible components to the proposed subscriber fee:

1. Part of the subscriber fee may be used to fund existing levels of expenditures on specific programming activities that the Commission considers most important to fulfil the objectives of the Broadcasting Act, where existing levels of advertising revenues are not sufficient or not expected to be sufficient to fund these levels of expenditure;
2. Part of the subscriber fee may also be used to fund incremental levels of levels of expenditures on specific programming activities that the Commission considers most important to fulfil the objectives of the Broadcasting Act; these incremental levels of expenditure would not be undertaken by the licensee without access to subscriber fees as the source of funds for these expenditures.

### A. Funding existing levels of expenditures

For the purpose of this example, CBC/Radio-Canada has assumed that the Commission has identified Canadian drama as the specific programming activity to be addressed.

#### a) CBC/Radio-Canada Example

*Step 1 – How much of the drama expenditure is historically funded through advertising revenues?*

In the case of CBC/Radio-Canada television, its average annual expenditure on Canadian drama programming (excluding indirect costs) for the three year period from 2004 – 2006 was \$107.4 million.<sup>40</sup>

In addition, approximately 46% of CBC Television's and Radio-Canada Television's expenditures are funded through advertising revenues.

Thus, it can be estimated that on average approximately \$49.4 million of CBC/Radio-Canada Television's annual Canadian drama expenditures are funded through advertising revenues.

*Step 2 – How much of this advertising funded portion is at risk?*

The next step is to assess how much of this advertising funding is at risk going forward from the changes in the advertising marketplace. Each licensee would need to present and support its case, with the CRTC reviewing and assessing this information.

*Step 3 – Calculation of the subscriber fee*

For illustrative purposes, we have constructed a table that demonstrates the level of monthly subscriber fee required, based on subscriber base of 10.4 million subscribers, to fund various levels of "at risk" advertising revenues for CBC/Radio-Canada Television:

<b>Amount of Ad Revenues Funded by Sub Fee</b>	<b>100%</b>	<b>75%</b>	<b>50%</b>	<b>25%</b>
Subscriber fee/month	\$ 0.40	\$ 0.30	\$ 0.20	\$ 0.10

b) Private conventional OTA broadcaster Example

CBC/Radio-Canada has also constructed a hypothetical example of the level of funding required by a private conventional OTA broadcaster such as CTVglobemedia.

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<sup>40</sup> Source: CRTC Broadcast Policy Monitoring Report, Table 3.10.

*Step 1 – How much of the drama expenditure is funded through advertising revenues?*

Since the CRTC does not disclose the level of expenditures for each private broadcaster, we have assumed that CTVglobemedia had average annual expenditures of \$36.4 million for the three year period from 2004 – 2006.<sup>41</sup>

Approximately 92% of private conventional OTA broadcasters total television expenditures are funded through advertising revenues.<sup>42</sup>

Thus, it can be estimated that on average approximately \$33.5 million of CTVglobemedia's annual Canadian drama expenditures are funded through advertising revenues.

*Step 2 – How much of this advertising funded portion is at risk?*

The next step is to assess how much of this advertising funding is at risk going forward from the changes in the advertising marketplace. Each licensee would need to present and support its case, with the CRTC reviewing and assessing this information.

*Step 3 – Calculation of the subscriber fee*

For illustrative purposes, we have constructed a table that demonstrates the level of monthly subscriber fee required, based on subscriber base of 10.4 million subscribers, to fund various levels of "at risk" advertising revenues for the illustrative hypothetical example for CTVglobemedia:

Amount of Ad Revenues Funded by Sub Fee	100%	75%	50%	25%
Subscriber fee/month	\$ 0.27	\$ 0.20	\$ 0.13	\$ 0.07

**B. Funding Incremental Levels of Expenditures**

A second component of the subscriber fee may be for funding to support incremental levels of expenditures on programming initiatives that the CRTC considers important.

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<sup>41</sup> This amount is only hypothetical for the purposes of illustrating the calculation of the subscriber fee. At its licence renewal, CTVglobemedia's actual average level of expenditures on Canadian drama programming, based on the information filed in its Annual Return filings to the Commission would be used.

<sup>42</sup> CRTC Television Statistical and Financial Summary, 2006. In practice, the actual level of advertising revenue for the specific broadcaster would be used, based on the information filed in its Annual Return filings.



The following table combines the total incremental expenditures with the forecast number of subscribers to arrive at a subscriber fee per month necessary to fund the incremental level of expenditures by CBC/Radio-Canada on Canadian drama programming:

**Subscriber Fee to Fund Incremental Expenditures**

<b>Expenditure % Increase</b>	<b>7 Year Total</b>	<b>BDU Subs Total</b>	<b>Sub Fee/ Month</b>
<b>25%</b>	\$ 147.7	78.7	\$ 0.16
<b>50%</b>	\$ 295.4	78.7	\$ 0.31
<b>75%</b>	\$ 443.1	78.7	\$ 0.47
<b>100%</b>	\$ 590.8	78.7	\$ 0.63

b) Private Conventional OTA Example

As an illustrative example, building on the CTVglobemedia example from above, the following table assumes that the incremental level of spending over the benchmark level for CTVglobemedia also ranges from 25% - 100%.

The following table illustrates the level of incremental expenditures for the private OTA broadcaster over the seven year license period, as well as in total:

<b>% Increase</b>	<b>Amount</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>	<b>Year 7</b>	<b>7 Year Total</b>
		<b>25%</b>	<b>50%</b>	<b>75%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	
<b>25%</b>	\$ 9.1	\$ 2.3	\$ 4.5	\$ 6.8	\$ 9.1	\$ 9.1	\$ 9.1	\$ 9.1	\$ 50.0
<b>50%</b>	\$ 18.2	\$ 4.5	\$ 9.1	\$ 13.6	\$ 18.2	\$ 18.2	\$ 18.2	\$ 18.2	\$ 100.0
<b>75%</b>	\$ 27.3	\$ 6.8	\$ 13.6	\$ 20.5	\$ 27.3	\$ 27.3	\$ 27.3	\$ 27.3	\$ 150.0
<b>100%</b>	\$ 36.4	\$ 9.1	\$ 18.2	\$ 27.3	\$ 36.4	\$ 36.4	\$ 36.4	\$ 36.4	\$ 200.0

The level of forecast subscribers would be the same as the in the CBC/Radio-Canada example above.

The following table combines the total incremental expenditures with the forecast number of subscribers to arrive at a subscriber fee per month necessary to fund the incremental level of expenditures by the private OTA broadcaster on Canadian drama programming:

**Subscriber Fee to Fund Incremental Expenditures**

<b>Expenditure % Increase</b>	<b>7 Year Total</b>	<b>BDU Subs Total</b>	<b>Sub Fee/ Month</b>
<b>25%</b>	\$ 50.0	78.7	\$ 0.05
<b>50%</b>	\$ 100.0	78.7	\$ 0.11
<b>75%</b>	\$ 150.0	78.7	\$ 0.16
<b>100%</b>	\$ 200.0	78.7	\$ 0.21

C. Combination of the Funding of Existing and Incremental Expenditures

The combination of the subscriber fee from A. and B. above would represent the total level of subscriber fee to be payable to the licensee by each BDU.

## **Appendix B**

### **Analysis of the Blackwell/Globerman Report**

## Blackwell/Globerman Report

1 Rogers, Bell and Telus have filed a report prepared by Suzanne Blackwell and Steven Globerman, “Economic Impact of a Fee for Carriage in the Canadian Television Broadcasting Industry” (the Report).

2 This Appendix provides a critical analysis of key conclusions in the Report.

3 It is important to remind the Commission at the outset that the Corporation believes that the Report raises issues that are irrelevant to the proceeding in the context of the smaller streamlined basic package that is being proposed by CBC/Radio-Canada. The smaller core basic package approach would likely result in lower basic rates for BDU subscribers even with the addition of subscriber fees for conventional broadcasters. Moreover, the opening up of new revenue opportunities for BDUs that are also being proposed in this proceeding remove any additional pressures on prices and confirm the irrelevance of the Report.

4 While the authors claim that the purpose of the report is to provide empirical evidence of the impact of fee for carriage, CBC/Radio-Canada submits that the report does not provide any empirical evidence, but instead merely provides calculations of potential economic impact based on a hypothetical model using a variety of assumptions and predictions.

5 Empirical evidence relies upon observations of actual occurrences, not hypothetical assumptions and predictions of what may occur. Indeed, the validity of any hypothetical economic model is judged based on how its results reflect what actually occurs.

6 CBC/Radio-Canada submits that empirical evidence regarding what has occurred previously when BDUs have raised subscriber prices is a more reliable indicator than constructing a hypothetical model. As CBC/Radio-Canada documented in Addendum 1 to Appendix D of its October 19 2007 submission, all of the major BDUs have routinely raised prices over the years with resulting revenue gains – not decreases as hypothesized by the authors’ model. For example, in its 2006 Annual Report, Rogers indicates:

“The price increases on service offerings effective March 2006 contributed to the year-over-year cable revenue growth by approximately \$53 million.”

7 There is no discussion of subscriber disconnections or downgrades or revenue losses as a result of raising prices. CBC/Radio-Canada notes, as documented in Appendix E of CTVglobemedia/CanWest’s January 25, 2008 submission, Rogers has again announced price increases across many of its packages, including basic, effective March 1, 2008. CBC/Radio-Canada has



updated Addendum 1 to incorporate the recent release of 2007 Annual Reports by Shaw Communications and Cogeco Cable, which confirm that price increases with corresponding revenue gains continue unabated.

8 CBC/Radio-Canada also notes that Star Choice recently announced that it would start charging subscribers \$1.99 per month as of February 1, 2008 for a new HD Sport bundle consisting of TSN HD and Sportsnet HD.<sup>43</sup> Previously these services were available at no charge as part of Star Choice's "No Additional Cost" HD package. Clearly Star Choice does not anticipate that charging customers an additional fee of \$1.99 per month for services that they previously received at no additional charge will lead to massive customer disconnections or downgrades leading to reductions in its revenues.

9 Indeed, there is recent empirical evidence that rate increases by Star Choice have resulted in higher – not lower revenues for the company. In its 2007 Annual Report, Shaw states the following regarding Star Choice:

"Rate increases were implemented on most of DTH's programming packages. The rate increases, which were effective September 2006 for some package types and February 2007 for others, generated additional monthly revenue of approximately \$1.5 million and \$0.7 million, respectively, once fully implemented."<sup>44</sup>

10 Furthermore, a review of the financial performance of the specialty and pay television sector over the past years confirms that there has not been any negative impact suffered by the sector as a result of the BDUs routinely raising prices, as predicted by the hypothetical model. Indeed, the opposite has occurred over this time period – subscriber revenues and advertising revenues have increased, along with spending on programming.

11 In addition to the hypothetical model failing to reflect the available empirical information on the impact on the broadcast sector from BDU price increases, the model has a number of shortcomings that reduce its usefulness and relevance.

12 The economic impacts predicted by the hypothetical model are predicated on subscribers disconnecting and downgrading service in reaction to an assumed \$3 or \$5 per month price increase.

13 The predicted magnitude of the level of disconnections is based upon the authors' assumptions regarding the price elasticity for BDU services. Curiously, notwithstanding that the appropriate estimate of price elasticity is critical to the

---

<sup>43</sup> Star Choice Notice to Customers, January 15, 2008.

<sup>44</sup> Shaw Communications 2007 Annual Report, page 38.

model the authors do not calculate a price elasticity measure, acknowledging that “it is beyond the scope of this report to conduct original econometric analysis of the demand for Canadian BDU services.”<sup>45</sup> Again, this failure to use real empirical information in the hypothetical model represents a serious flaw.

<sup>14</sup> While the Blackwell/Globerman report was commissioned by Rogers and Bell, two of the larger BDUs in the country with the necessary historical data to determine the price elasticity for their service, the authors are left to make use of price elasticity estimates from dated Canadian studies (for example, Peat Marwick, 1990) or proxy Canadian BDU price elasticities using study estimates from the U.S. BDU market.

<sup>15</sup> CBC/Radio-Canada further notes that while the authors’ use assumed price elasticity measures of -0.8 and -1.5 for the hypothetical model in the current proceeding, a 2006 study also sponsored by Canadian BDUs<sup>46</sup> used a much lower price elasticity measure of -0.3.

<sup>16</sup> In addition to using questionable estimates of the price elasticity for BDU services to estimate the impact of an assumed price increase, the authors’ model compounds the shortcoming by also applying an additional assumption that 30% of remaining subscribers downgrade service.<sup>47</sup> The application of this assumption results in a double counting of the impact of assumed price increase and represents another serious flaw in the model.

<sup>17</sup> By definition, the price elasticity for BDU service is intended to capture the impact on a firm’s (or in this instance, market’s) revenues from a change in price.<sup>48</sup> This reflects the change in quantities purchased resulting from a change in price. For BDU service, when applying the assumed price elasticity, the impact on revenues of the price change reflects the change in quantities associated with both disconnections and downgrades.

<sup>18</sup> While the authors convert the change in revenues to a measure based on disconnections in Table 3 of the paper, in reality the change in revenues is made up of a continuum of subscriber downgrades and disconnections that cumulatively sums to the revenue impact captured by the application of the assumed price elasticity measure.

<sup>19</sup> Applying an additional factor in the hypothetical model to capture downgrades results in double counting the impact on revenues since the impact of downgrades are already reflected in the impact on revenues from the application of the assumed price elasticity estimate. Inappropriately including the

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<sup>45</sup> Blackwell/Globerman Report, para. 50.

<sup>46</sup> Study prepared by Nordicity Group Ltd., “The impact of Retransmission Consent in Canada”. See Blackwell/Globerman, footnote 17.

<sup>47</sup> *Ibid.*, para. 105.

<sup>48</sup> *Ibid.*, para. 45.

factor for downgrades overstates the impact on BDUs, specialty and pay services, as well as Canadian producers.

<sup>20</sup> These flaws in the study combined with evidence of BDUs' pricing behaviour clearly demonstrate the limited relevance of such a hypothetical approach. Consequently, the Blackwell/Globerman hypothetical study should be disregarded in the context of the current proceeding.

## **Appendix C**

### **TNS Survey: Value of Canadian Conventional TV Stations**

**Value of Canadian Conventional TV  
Stations**

A1642 MA  
NOVEMBER 24, 2006

*Presented to:*  
CBC/Radio-Canada



[infocanada@tns-global.com](mailto:infocanada@tns-global.com)  
[www.tns-global.com](http://www.tns-global.com)

## **FOREWORD**

### **A. BACKGROUND AND OBJECTIVES**

The Canadian Broadcasting Corporation has commissioned TNS Canadian Facts to conduct research on its behalf to assess Canadian cable and satellite TV subscribers' reactions to the removal of Canadian conventional TV stations from the basic package offered by BDUs.

### **B. GENERAL DESIGN AND EXECUTION**

In order to meet the above-stated objective, 1,014 telephone interviews were completed among Canadians 18 years of age and older across Canada. Interviewing was conducted with a representative sample of adults, 18 years of age or older, in all provinces and in all community sizes down to, and including, rural locations. In the province of Quebec, interviews were conducted in English and French based on the language preference of individual respondents.

At the screening stage of the interview, respondents were questioned regarding whether or not their household subscribes to a cable or satellite TV service. Subscribers who do not pay subscriber fees directly to a Canadian cable or satellite TV company were not included in this survey. Those who currently do not have cable or satellite service in-home also were not included in this survey. Outlined below is a breakdown of completed interviews:

Canadians 18 years of age or older = 1,014

Anglophones = 794

Francophones = 220

Canadians with in-home cable or satellite TV service = 818

Anglophones = 651

Francophones = 166

Standard Plus-Digit sampling procedures were employed to ensure that unlisted and newly listed numbers were included in the sample frame.

Telephone interviewing for the study was conducted from October 30<sup>th</sup> to November 2<sup>nd</sup>, 2006. A total of three callbacks were made at different times of day in an attempt to secure a completed interview.

Interviewing was conducted from Central Location telephone interviewing facilities in Montreal, Thunder Bay and Vancouver, with interviewers continuously monitored by full time supervisory staff.

At the final data processing stage, the data was weighted to ensure that it accurately reflects Canadian adults 18 years of age and older based on age within gender within community size within region.

Copies of the questionnaires appear in the Appendix to this report.

## **C. RESULTS**

The results of this research are presented under the following main headings:

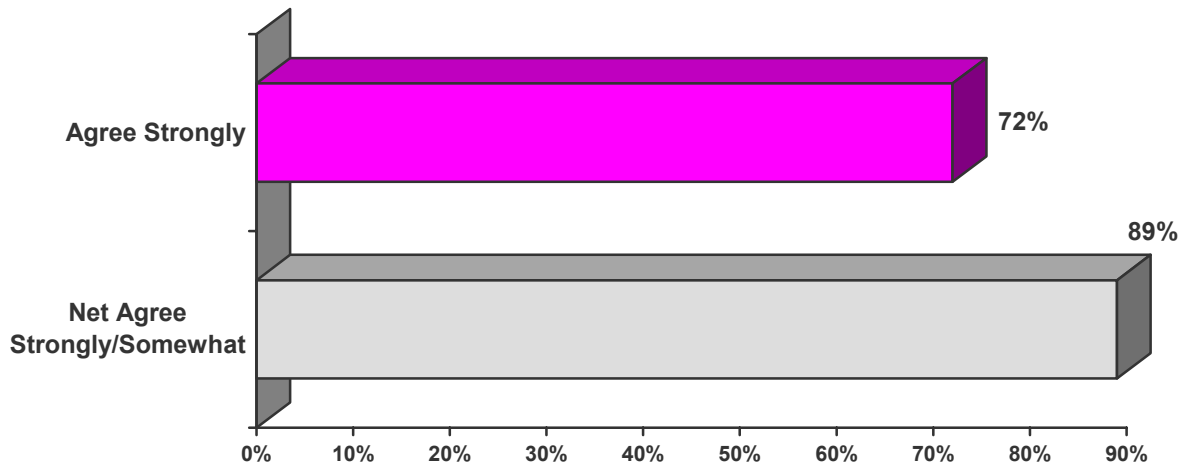
1. Executive Summary
2. General Summary
3. Appendix (Questionnaire)

## EXECUTIVE SUMMARY

Despite the expansion of television viewing options, Canadian cable and satellite TV subscribers value access to Canadian conventional television stations, including CTV, Global, CBC and City TV in the Anglophone market, and TVA, TQS and Radio-Canada in the Francophone market.

The value cable and satellite TV subscribers place on the Canadian conventional TV stations is reflected in their overwhelming belief that cable and satellite TV rates should be reduced if the Canadian conventional stations are removed from basic cable and satellite TV service. Moreover, three-in-four subscribers feel very strongly that removal of Canadian conventional TV stations should be accompanied by a rate reduction. This finding, coupled with the high viewership to these stations, suggests that most subscribers consider these stations to be a key part of their television service.

### Level of Agreement That Cable/Satellite Rates Should Be Reduced if Canadian Conventional TV Stations Are Not Carried on Cable and Satellite TV Basic Service



Percent of Canadian Cable/Satellite TV Subscribers (n=818)



## GENERAL SUMMARY

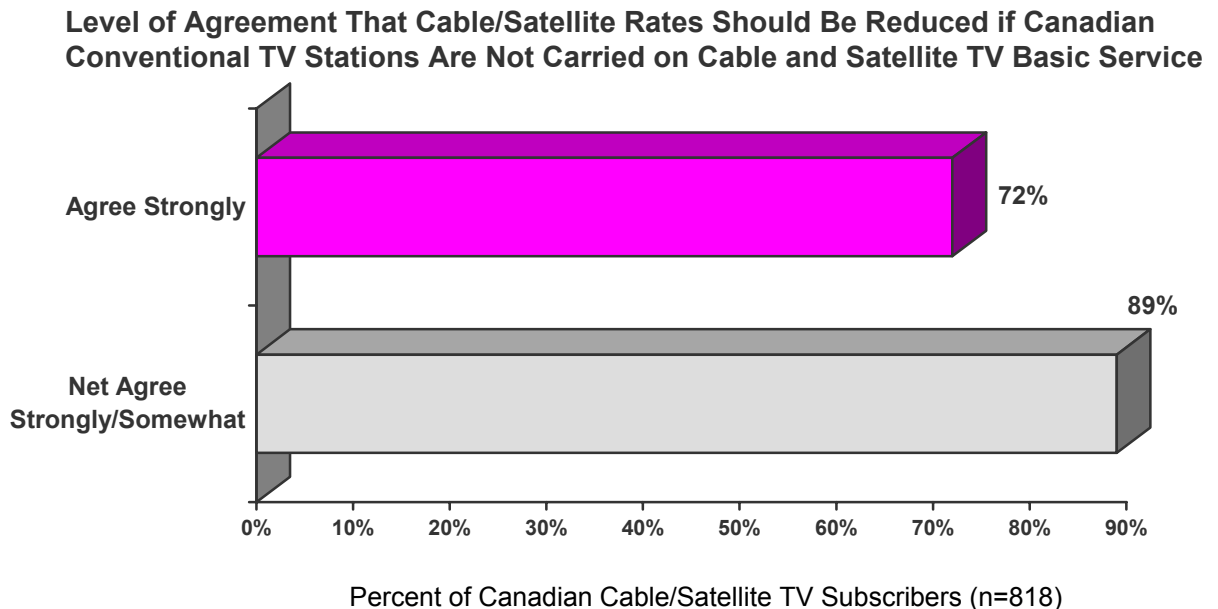
### 1-a) Cable and Satellite TV Subscribers Overwhelmingly Agree That Cable/Satellite TV Rates Should be Reduced if Canadian Conventional TV Stations are Removed From Basic Service

Canadian cable and satellite TV subscribers were asked about what they thought would be the impact on their bill if Canadian conventional TV stations such as CTV, Global, CBC and City TV in the Anglophone market, and TVA, TQS and Radio-Canada in the Francophone market, were removed from their basic service. The question asked was as follows:

*We'd like you to consider your reaction to possible changes in your (CABLE/SATELLITE) TV service.*

*Do you agree, or disagree, that if your (CABLE/SATELLITE TV) company NO LONGER CARRIED Canadian conventional TV stations like (Global, CTV, CBC and City TV/TVA, TQS or Radio-Canada), your (CABLE/SATELLITE TV) service should COST LESS than it does now. Would you say you strongly agree, somewhat agree, somewhat disagree or strongly disagree?*

Nine-in-ten (89%) cable and satellite television subscribers believe (i.e. agree strongly or somewhat) that removal of Canadian conventional TV stations from their basic service should be accompanied by a reduction in cable/satellite TV rates. Moreover, of this group, most strongly hold this view. This finding, coupled with the high viewership to these stations, suggests that cable and satellite TV subscribers consider the Canadian conventional TV stations to be a key part of their basic service.

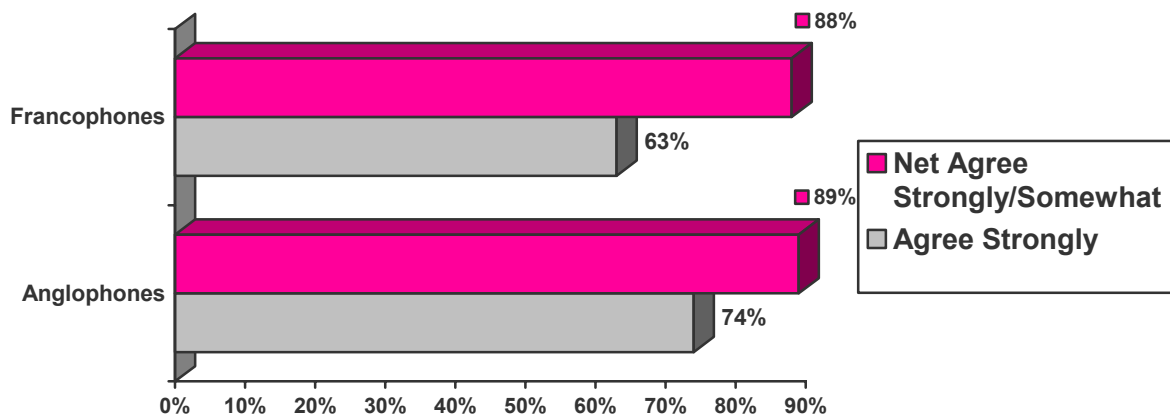


### 1-b) This View is Held Equally By Anglophones and Francophones

Both Anglophone and Francophone cable and satellite TV subscribers express widespread agreement that their cable/satellite TV rates should be reduced if Canadian conventional television stations are removed from their basic service package.

Anglophones are the most determined that any such removal of Canadian conventional stations, such as CTV, Global, CBC and City TV, should result in rate reductions, with three-in-four (74%) strongly agreeing that rates should be reduced if these stations are removed from their service.

**Level of Agreement That Cable/Satellite Rates Should Be Reduced if Canadian Conventional TV Stations Are Not Carried on Cable and Satellite TV Basic Service – By Language of Respondent**



Percent of Canadian Cable/Satellite TV Subscribers (n=818)

**1-c) Within the Small Group Of Subscribers Who Disagree That Rates Should Go Down, Many Do So Because They are Skeptical That Cable/Satellite Companies Would Ever Reduce Rates**

Those cable and satellite TV subscribers who felt there should be no reduction in cable or satellite TV rates with removal of Canadian conventional TV stations from basic service were asked the following question:

*Can you tell me why you feel there should be NO DECREASE in the price of your (CABLE/SATELLITE) bill if Canadian conventional TV channels like (Global, CTV, CBC and City TV/TVA, TQS and Radio-Canada) are NOT INCLUDED?*

*PROBE IF NECESSARY: Please be as specific as possible.*

Among the small number of cable and satellite TV subscribers who don't feel there should be a rate reduction associated with removal of Canadian conventional TV stations from basic cable/satellite (8%), the volunteered rationale for this position is fragmented and largely cynical regarding the likely behavior of cable or satellite companies in a situation where services are being removed or altered.

Specifically, there is a group of subscribers who appear to understand the issue around the removal of Canadian conventional TV stations but are cynical regarding the suggestion that cable and satellite companies would actually reduce rates if fewer services were offered.

- "It will not happen, the cost will not change/the cable companies will continue to charge me the same price"
- "Pour l'unique raison que les chaînes de câble auraient une autre raison de charger plus cher pour obtenir les postes manquants/plus facile pour les compagnies de faire de l'argent sans qu'on s'en rende compte"
- "Prices go up but you never see them go down"
- "Canadian companies won't lower their prices because they have been going up steadily for the past seven years"

Moreover, a few subscribers spontaneously mention that if the Canadian conventional TV stations were removed they would disconnect their television service or switch.

- "If they get cancelled, I'll go somewhere else to get these Canadian channels"
- "On écoute seulement les chaînes généralistes. On le débrancherait le câble si on nous les enlevait de notre service de câble. J'irai par satellite"
- "Would not subscribe"

Finally, a group of subscribers voice opinions that suggest disagreement with any removal of Canadian conventional stations from their basic package.

- “Canadian content should be protected/ company should support Canadian content”
- “Denies Canadians access to information on Canadian news”
- “We get real news on Canadian TV and propaganda from the US stations”
- “This should not be allowed/these channels should be available to all Canadians as part of basic cable package”
- “C’est pour ça qu’on a le câble”
- “We depend on the news”

APPENDIX -- QUESTIONNAIRE

Serial: Q,  
QT

RANGE 1 .. 99999 DEF 99999,  
Serial number

**VALUE OF CONVENTIONAL TV STATIONS**

Q1A: S OPEN,  
QT

Hello, my name is (YOUR NAME) from TNS Canadian Facts, one of Canada's leading consumer research companies.

AL

OK - CONTINUE  
ENGAGED  
NO REPLY  
APPOINTMENT  
REFUSAL  
LANGUAGE BARRIER  
NOT IN SERVICE  
NON-RESIDENTIAL  
TERMINATE (OTHER REASON)

DISPLAY

SCREENING FOR CABLE / SATELLITE SUBSCRIBERS

Q1B: S,  
QT

First, do you currently subscribe to cable TV or satellite TV for which you or someone in your household pays a fee directly to a Canadian cable or satellite TV company?

POST: IF MORE THAN ONE TYPE OF TV SERVICE ASK WHICH ONE THEY CONSIDER TO BE THEIR PRIMARY SERVICE.

AL

Yes - Cable TV  
Yes - Satellite TV  
Yes - Cable or satellite but landlord pays - Terminate  
No - Terminate  
Don't Know - Terminate

INSTRUCTION:  
ASK Q2 IF CABLE TV SUBSCRIBER AT Q1. SATELLITE SUBSCRIBERS SKIP TO DISPLAY BEFORE Q3.

Q2: S,  
QT

Do you have regular cable or digital cable?

IF NECESSARY READ: In order to receive digital cable, you need to rent or buy a special digital set-top box from your cable company. Digital cable provides improved picture and sound quality, a greater choice of channels, commercial-free music channels, and an interactive onscreen program guide.

AL

Regular Cable (Analogue Cable)

Digital Cable

Don't Know/Refused

DISPLAY

As you know, a basic package of channels is provided to all customers by their (CABLE/SATELLITE TV) company. This basic package of channels consists of Canadian conventional TV stations such as CTV, Global, CBC and City TV, and a few Canadian specialty TV channels, such as The Weather Network, CBC Newsworld, MuchMusic, YTV, CPAC and Vision. (CABLE/SATELLITE TV) companies also usually provide other services in the basic package, such as the US networks, including ABC, CBS, NBC and FOX.

INSTRUCTIONS:

ROTATE DISPLAY 1 WITH Q3/Q4, AND DISPLAY 2 WITH Q 5/6.

DISPLAY1

Now thinking about the Canadian TV services you receive in your basic (CABLE/SATELLITE TV) package, I would like to ask you a few questions about... Canadian conventional television stations like CTV, Global, CBC, and City TV.

Q3: S,

QT	<p>On a typical weekday, that's Monday to Friday, on average how much time does your HOUSEHOLD spend EACH DAY watching Canadian conventional stations such as CTV, Global, CBC and City TV?</p>
	<p>IF RESPONDENT IS UNCERTAIN, PROBE: On an average weekday, could you estimate the number of hours spent....</p>
AL	<p>Number of hours (enter exact number given) _____  DON'T KNOW  REFUSED</p>
Q4: S, QT	<p>On a typical day on the weekend, that's Saturday and Sunday, on average how much time does your HOUSEHOLD spend EACH DAY watching Canadian conventional stations such as CTV, Global, CBC and City TV?</p>
	<p>IF RESPONDENT IS UNCERTAIN, PROBE: On an average weekend, could you estimate the number of hours spent ....</p>
AL	<p>Number of hours (enter exact number given) _____  DON'T KNOW  REFUSED</p>
DISPLAY2	<p>Now I'd like to ask you a few questions about...Canadian SPECIALTY television services that could be part of your basic (CABLE/SATELLITE TV) package, such as Weather Network, CBC Newsworld, MuchMusic, YTV, CPAC and Vision.</p>
Q5: S,	

QT On a typical weekday, that is Monday to Friday, how much time does your HOUSEHOLD spend EACH DAY watching Canadian SPECIALTY television services that are part of your basic (CABLE/SATELLITE TV) package such as Weather Network, CBC Newsworld, MuchMusic, YTV and Vision.

IF RESPONDENT IS UNCERTAIN, PROBE: On an average weekday, could you estimate the number of hours spent ....

AL Number of hours (enter exact number given) \_\_\_\_\_  
DON'T KNOW  
REFUSED

Q6: S,  
QT On a typical day on the weekend, that's Saturday and Sunday, on average how much time does your HOUSEHOLD spend EACH DAY watching Canadian SPECIALTY television services that are part of your basic (CABLE/SATELLITE TV) package, such as Weather Network, CBC Newsworld, MuchMusic, YTV and Vision.

IF RESPONDENT IS UNCERTAIN, PROBE: On an average weekend, could you estimate the number of hours spent ...

AL Number of hours (enter exact number given) \_\_\_\_\_  
DON'T KNOW  
REFUSED

DISPLAY In this next question, we'd like you to consider your reaction to possible changes in your (CABLE/SATELLITE) TV service.

Q7: S,



QT So, the question is, do you agree, or disagree, that if your (CABLE/SATELLITE TV) company NO LONGER CARRIED Canadian conventional TV stations like Global, CTV, CBC and City TV, your (CABLE/SATELLITE TV) service should COST LESS than it does now.

Do you agree or disagree that your (CABLE/SATELLITE TV) service should cost less if these stations are no longer available? Would you say you ...?

READ LIST

AL Strongly agree  
Somewhat agree  
Somewhat disagree  
Strongly disagree  
DON'T KNOW  
REFUSED

INSTRUCTIONS:  
IF CODES 3 OR 4 AT Q7, ASK Q8, OTHERS CONTINUE TO NEXT SECTION.

Q8: S OPEN,  
QT

Can you tell me why you feel there should be NO DECREASE in the price of your (CABLE/SATELLITE) bill if Canadian conventional TV channels like Global, CTV, CBC and City TV are NOT INCLUDED?

PROBE IF NECESSARY: Please be as specific as possible.

AL OTHER (SPECIFY)

## **Appendix D**

### **TNS Survey: Canadians' Support for a Smaller Basic Television Service**

**Canadians' Support for a Smaller  
Basic Television Service**

January 2008

*Presented to*  
CBC/Radio-Canada

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TNS Study Number C1194

## ORDER OF CONTENTS

FOREWORD.....	2
I. EXECUTIVE SUMMARY.....	3
II. GENERAL SUMMARY.....	5
1-0 Smaller Basic Service.....	5
1-1 Consumers Support a Smaller Basic Service	5
1-2 Canadians are Interested in Subscribing to a Smaller Basic Service	7
1-3 Conclusion	9
III. APPENDICES.....	10
1-0 Methodology.....	10
2-0 Field Materials.....	11
2-1 English Questionnaire	11
2-2 French Questionnaire	12

# FOREWORD

## ***Background and Objectives***

The Canadian Broadcasting Corporation/Société Radio-Canada has commissioned TNS Canadian Facts to conduct research on its behalf to assess Canadians' reactions to the possibility of the CRTC allowing television companies to offer a smaller Basic Television Service consisting of Canadian stations.

## ***Study Design and Method***

In order to meet the above-stated objective, 1,015 telephone interviews were completed among Canadians 18 years of age and older across Canada. Interviewing was conducted with a representative sample of adults, 18 years of age or older, in all provinces and in all community sizes down to, and including, rural locations. In the province of Québec, interviews were conducted in English and French based on the language preference of individual respondents.

Telephone interviewing for the study was conducted from January 14<sup>th</sup> to January 17<sup>th</sup>, 2008. A total of three callbacks were made at different times of day in an attempt to secure a completed interview. Interviewing was conducted from Central Location telephone interviewing facilities in London, Montréal and Bathurst, with interviewers continuously monitored by full-time supervisory staff.

At the final data processing stage, the data was weighted to ensure that it accurately reflects Canadian adults 18 years of age and older based on age within gender within community size within region.

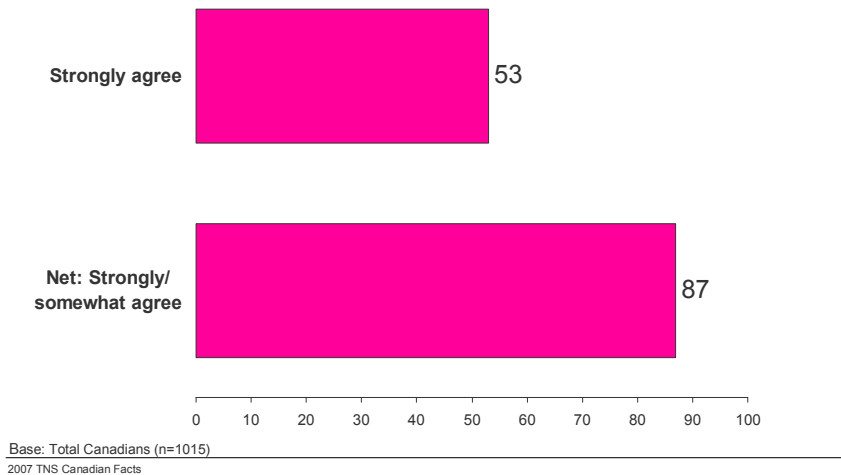
Copies of the questionnaires appear in the Appendix to this report.

# I. EXECUTIVE SUMMARY

Television service providers currently offer basic services with a large channel offering. There is, however, an appetite and considerable interest for a different approach whereby consumers would pay for a small basic service (20-25 Canadian channels) and then pay only for those additional channels they would like to receive. Eighty-seven per cent of Canadians support a smaller basic service, and more than half feel strongly that such a service should be offered.

## Consumers Opinion Regarding Smaller Basic Service

Q: To what extent do you agree or disagree that companies that offer television services should OFFER consumers a smaller Basic Service consisting of Canadian stations?



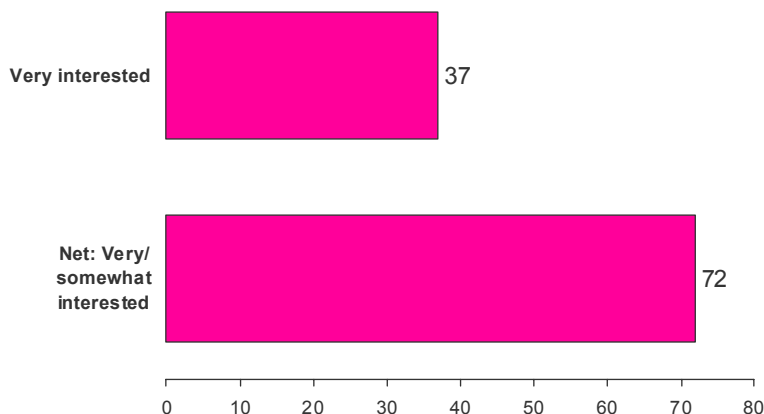
**CONCEPT PRESENTED:** The CRTC, that's the Canadian Radio-television and Telecommunications Commission, is looking at ways to give Canadians the greatest possible choice of TV services at affordable prices. One thing that the Commission is considering is the possibility of a smaller basic service. Today consumers pay a significant amount of money for Basic Service that includes a large number of TV channels, in some cases close to 100, none of which has been chosen by subscribers. One way the Commission could go would be to allow TV companies to offer a smaller Basic Service that would cost substantially less and include about 20 to 25 Canadian TV stations, including the local stations of CTV, Global and CBC. This would allow consumers to choose, and only pay for, the additional channels they would like to receive. This means that consumers would pay substantially less for a smaller Basic Service and would only pay for the additional channels they want and not for the ones they don't.

Nearly three-quarters (72 per cent) of Canadians would be interested in subscribing to a smaller basic service consisting of Canadian stations and that interest is consistent across both official language groups and all regions of Canada. Interest is also high among those who do not currently pay for television service (those with antennas). These findings suggest that the introduction of a smaller basic television service would be well received by Canadians, and in fact, might well encourage current off-air television households to subscribe to a television service provider.

### Interest in Subscribing to Smaller Basic Service

---

Q: How interested would your household be in **SUBSCRIBING** to this smaller Basic Service that would give you about 20 to 25 Canadian stations?



Base: Total Canadians (n=1015)  
2007 TNS Canadian Facts



## II. GENERAL SUMMARY

### 1-0 Smaller Basic Service

#### 1-1 Consumers Support a Smaller Basic Service

Canadians were asked what they thought about the possibility of the CRTC allowing television companies to offer a smaller Basic Television Service, which would cost less than current basic packages and include about 20 to 25 Canadian television stations. The question asked was as follows:

*The CRTC, that's the Canadian Radio-television and Telecommunications Commission, is looking at ways to give Canadians the greatest possible choice of TV services at affordable prices. One thing that the Commission is considering is the possibility of a smaller basic service.*

*Today consumers pay a significant amount of money for Basic Service that includes a large number of TV channels, in some cases close to 100, none of which has been chosen by subscribers.*

*One way the Commission could go would be to allow TV companies to offer a smaller Basic Service that would cost substantially less and include about 20 to 25 Canadian TV stations, including the local stations of CTV, Global and CBC. This would allow consumers to choose, and only pay for, the additional channels they would like to receive.*

*This means that consumers would pay substantially less for a smaller Basic Service and would only pay for the additional channels they want and not for the ones they don't.*

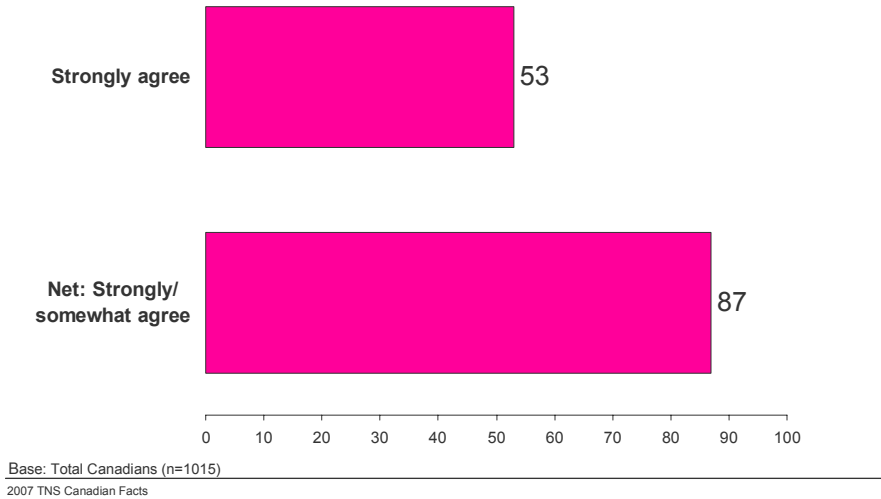
*To what extent do you agree or disagree that companies that offer television services should OFFER consumers a smaller Basic Service consisting of Canadian stations?*

The idea of having a smaller basic television service consisting of Canadian stations and having more flexibility in the choice of additional channels is very well received among Canadians. Nearly nine-in-ten (87 per cent) agree that television companies should offer such a service. Moreover, more than half (53 per cent) strongly agree that this option should be available.

Figure 1

## Consumers Opinion Regarding Smaller Basic Service

Q: To what extent do you agree or disagree that companies that offer television services should OFFER consumers a smaller Basic Service consisting of Canadian stations?



Support for the proposed smaller basic television service is high among Canadians who currently do not pay for television (have antenna). While 87 per cent of those who pay for a television service support a smaller basic option, fully 84 per cent of those who do not pay for television support it as well. This could be an indication that a reduced basic television service may bring new subscribers to television service providers.

Table 1: Support for Smaller Basic Service – By Type of Television Service

	Total Canadians		
	Total	Pays for Television*	Does not Pay for TV (has Antenna)
Base = actual	(1015) %	(861) %	(135) %
<b>Opinion of new basic service</b>			
Net agree (somewhat/ strongly)	87	87	84
Strongly agree	53	52	54

\* Subscribes to Cable TV, satellite TV or other type of TV service in which the household pays a fee directly to a Canadian TV company

## 1-2 Canadians are Interested in Subscribing to a Smaller Basic Service

Canadians were asked how interested their household would be in subscribing to a smaller basic television service:

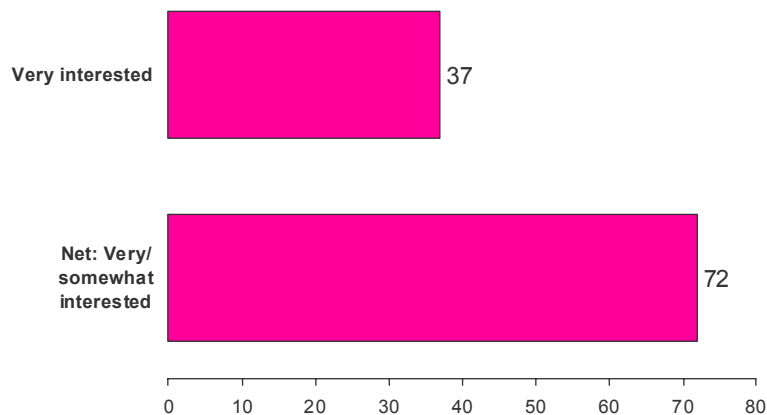
*How interested would your household be in SUBSCRIBING to this smaller Basic Service that would give you about 20 to 25 Canadian stations. You would pay substantially less for this Basic Service and then only pay for the additional channels you want and not for the ones that you don't?*

Consistent with Canadian consumers' opinion of the proposed new smaller basic service, the vast majority (72 per cent) are either very (37 per cent) or somewhat (35 per cent) interested in subscribing to the smaller basic television service consisting of Canadian stations that would offer more flexibility and affordability. Interest in subscribing is equally high among English- and French-speaking Canadians.

Figure 2

### Interest in Subscribing to Smaller Basic Service

Q: How interested would your household be in SUBSCRIBING to this smaller Basic Service that would give you about 20 to 25 Canadian stations?



Base: Total Canadians (n=1015)  
2007 TNS Canadian Facts

Those who pay for television are interested in a smaller basic service (74 per cent) and there is not a significant difference in interest between cable and satellite television subscribers. Those who currently do not pay for television show a clear interest in this new smaller basic service consisting of Canadian services, with six-in-ten indicating that

their household would be interested in subscribing to such a service, and a quarter (25 per cent) being very interested. The introduction of a smaller basic service could bring new subscribers to television service providers.

**Table 2: Interest in Subscribing to Smaller Basic Service – By Type of Television Service**

	Total Canadians		
	Total	Pays for Television *	Does not Pay for TV (has Antenna)
Base = actual	(1015) %	(861) %	(135) %
<b>Opinion of new basic service</b>			
Net interested (very/ somewhat)	72	74	60
Very interested	37	39	25

\* Subscribes to Cable TV, satellite TV or other type of TV service in which the household pays a fee directly to a Canadian TV company

### 1-3 Conclusion

This research demonstrates Canadian consumers' support for a smaller basic television service consisting of Canadian stations.

- Nearly nine in 10 Canadians believe that television service providers should offer consumers a smaller basic service consisting of Canadian stations such as CTV, Global and CBC.<sup>1</sup>
- Moreover, the vast majority of Canadian consumers (72 per cent) are interested in subscribing to such a smaller basic service that is more affordable and offers more choice.
- Support for the proposed smaller basic service is high among Canadians who currently do not pay for television. More than eight in 10 of those who receive television signals via an antenna are supportive of the proposed smaller basic service and many (six in 10) would be interested in subscribing to such a service.
- These findings suggest that the introduction of a smaller basic television service would be well received by Canadians, and in fact might even bring new customers to television service providers.

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<sup>1</sup> TVA, TQS and Radio-Canada in French-language questionnaire.

## III. APPENDICES

### 1-0 Methodology

One thousand fifteen (1,015) telephone interviews were completed among Canadians 18 years of age and older across Canada. Interviewing was conducted with a representative sample of adults, 18 years of age or older, in all provinces and in all community sizes down to, and including, rural locations. In the province of Québec, interviews were conducted in English and French based on the language preference of individual respondents.

Telephone interviewing for the study was conducted from January 14<sup>th</sup> to January 17<sup>th</sup>, 2008. A total of three callbacks were made at different times of day in an attempt to secure a completed interview. Interviewing was conducted from Central Location telephone interviewing facilities in London, Montréal and Bathurst, with interviewers continuously monitored by full-time supervisory staff.

At the final data processing stage, the data was weighted to ensure that it accurately reflects Canadian adults 18 years of age and older based on age within gender within community size within region.

## 2-0 Field Materials

### 2-1 English Questionnaire

#### Canadians' Support for a Smaller Basic Television Service

Q1: S,  
QT

First, do you currently subscribe to cable TV or satellite TV or some other type of TV service for which you or someone in your household pays a fee directly to a Canadian TV company?

INTERVIEWER: IF MORE THAN ONE TYPE OF TV SERVICE ASK WHICH ONE THEY CONSIDER TO BE THEIR PRIMARY SERVICE.

AL

YES - CABLE TV

YES - SATELLITE TV

YES - SOME OTHER TYPE (WIRELESS CABLE, TV OVER THE TELEPHONE LINE, OTHER)

YES - CABLE, SATELLITE, OR OTHER TYPE, BUT LANDLORD PAYS

NO - HAVE AN ANTENNA

DON'T KNOW

Q2: S,  
QT

The CRTC, that's the Canadian Radio-television and Telecommunications Commission, is looking at ways to give Canadians the greatest possible choice of TV services at affordable prices. One thing that the Commission is considering is the possibility of a smaller basic service.

Today consumers pay a significant amount of money for Basic Service that includes a large number of TV channels, in some cases close to 100, none of which has been chosen by subscribers.

One way the Commission could go would be to allow TV companies to offer a smaller Basic Service that would cost substantially less and include about 20 to 25 Canadian TV stations, including the local stations of CTV, Global and CBC. This would allow consumers to choose, and only pay for, the additional channels they would like to receive.

This means that consumers would pay substantially less for a smaller Basic Service and would only pay for the additional channels they want and not for the ones they don't.

To what extent do you agree or disagree that companies that offer television services should OFFER consumers a smaller Basic Service consisting of Canadian stations?

AL

Strongly agree

Somewhat agree  
Somewhat disagree  
Strongly disagree  
DON'T KNOW  
REFUSED

Q3: S,  
QT

How interested would your household be in SUBSCRIBING to this smaller Basic Service that would give you about 20 to 25 Canadian stations. You would pay substantially less for this Basic Service and then only pay for the additional channels you want and not for the ones that you don't?

AL

Very interested  
Somewhat interested  
Not very interested  
Not at all interested  
DON'T KNOW  
REFUSED

## 2-2 French Questionnaire

Q1: S,  
QT

Tout d'abord, êtes-vous présentement abonné(e) à un service de télévision par câble ou par satellite ou à un autre type de service de télévision dont vous-même ou un membre de votre foyer payez les frais directement à une compagnie canadienne de télévision?

INTERVIEWEUR : SI PLUS D'UN TYPE DE SERVICE DE TÉLÉ,  
DEMANDEZ LEQUEL EST CONSIDÉRÉ COMME ÉTANT LE SERVICE  
PRINCIPAL.

AL

OUI - TÉLÉVISION PAR CÂBLE  
OUI - TÉLÉVISION PAR SATELLITE  
OUI - UN AUTRE TYPE (CÂBLE SANS FIL, TÉLÉ PAR LIGNE DE  
TÉLÉPHONE, AUTRE)  
OUI - CÂBLE, SATELLITE, OU AUTRE TYPE, MAIS C'EST LE  
PROPRIÉTAIRE QUI PAYE  
NON - A UNE ANTENNE  
NE SAIT PAS

Q2: S,



QT Le CRTC, c'est-à-dire le Conseil de la radiodiffusion et des télécommunications canadiennes, cherche des moyens de donner aux Canadiens le plus grand choix possible de services de télévision à des prix abordables. L'un des moyens auxquels le CRTC songe est la possibilité d'un plus petit service de base.

De nos jours, les consommateurs paient un montant important pour le service de base, qui inclut un grand nombre de chaînes de télé, dans certains cas près de 100, dont aucune a été choisie par l'abonné.

L'une des façons dont le CRTC pourrait procéder serait de permettre aux compagnies de télévision d'offrir un plus petit service de base qui coûterait considérablement moins cher et comprendrait environ 20 à 25 stations de télévision canadiennes, y compris les stations locales de TVA, TQS et Radio-Canada. Cela permettrait aux consommateurs de choisir, et de payer seulement, les chaînes additionnelles qu'ils aimeraient capter.

Cela signifie que les consommateurs paieraient considérablement moins cher pour un plus petit service de base et ne paieraient que pour les chaînes additionnelles qu'ils veulent et non pour celles qu'ils ne veulent pas.

Dans quelle mesure êtes-vous d'accord ou en désaccord que les compagnies qui offrent des services de télévision devraient OFFRIR un plus petit service de base aux consommateurs, comprenant des stations canadiennes?

AL Fortement d'accord  
Assez d'accord  
Assez en désaccord  
Fortement en désaccord  
NE SAIT PAS  
REFUSE

Q3: S,  
QT Dans quelle mesure votre ménage serait-il intéressé à S'ABONNER à ce plus petit service de base, qui vous permettrait de capter de 20 à 25 stations canadiennes environ? Vous paieriez considérablement moins cher pour ce service de base et ne paieriez ensuite que pour les chaînes additionnelles que vous voulez et non pour celles que vous ne voulez pas.

AL Très intéressé  
Assez intéressé  
Pas très intéressé  
Pas du tout intéressé  
NE SAIT PAS  
REFUSE

