

21 June 2004

Ms. Diane Rhéaume
Secretary-General
Canadian Radio-Television &
Telecommunications Commission
Ottawa, Ontario
K1A 0N2

Re: **CBC Response to PN 2004-32: Proposed Incentives for English-language Canadian Television Drama**

Dear Ms. Rhéaume:

1. In PN 2004-32, the Commission has tackled the central problem of Canadian drama – financing. The CBC/Radio-Canada commends the CRTC for this initiative. By linking contributions to original Canadian drama with the profitability of top programs, the Commission has developed what may be a positive incentive, primarily for the major private broadcasters, to do more original Canadian drama.

I. The Proposed Incentives

2. Recognizing that the central problem for Canadian drama is “financing”, the Commission is proposing an incentive program that would permit broadcasters to air additional advertising minutes anywhere in their schedule in exchange for airing original Canadian drama.

3. The Commission is proposing to tie additional advertising revenue opportunities to: (1) the broadcasting of any original Canadian drama, irrespective of whether such broadcast levels represent an increase or decrease over previous year’s levels; and (2) the increasing of year-over-year levels of expenditure on, and/or viewing to, Canadian drama.

4. The Commission proposes to provide additional advertising minutes for the exhibition of the following types of original Canadian drama:

- a) **CTF funded drama** – The CRTC would grant an additional 2 ½ minutes of advertising for every hour of original CTF funded drama broadcast in prime time (7-11pm);
- b) **Big budget drama, without CTF funding** – The CRTC would grant 6 ½ minutes of advertising for every hour of original 10 point Canadian drama broadcast in

- prime time (7-11pm) with a minimum budget of \$800k/hr and broadcast licence fee minimum set by the CTF (approximately \$250k/hr); and
- c) **Low budget drama, with or without CTF funding** – The CRTC would grant ½ a minute of advertising for original Canadian drama with a budget of less than \$800k/hr that is 8-10 points broadcast anytime or 10 points broadcast in prime time (7-11pm). We understand that this incentive is designed to include children's programming.
5. If broadcasters also increase expenditures and/or viewing to Canadian drama, they can earn up to an additional 50% of the advertising minutes accumulated through the exhibition of original Canadian drama.

II. The Impact of the Proposed Incentives

6. The CBC/Radio-Canada would like to bring several implications of this proposal to the Commission's attention. As currently designed, the proposed incentives will:

- a. Not necessarily increase the level of original Canadian drama.

As the Commission's proposal currently stands, no broadcaster is required to increase the amount of Canadian drama in its current schedule in order to draw immediate benefits from the incentive program. Therefore, in order to advance the existing level of Canadian drama, the Commission may wish to require broadcasters to introduce new drama into their program schedule in order to qualify for the incentives offered by the Commission;

- b. Potentially put additional pressure on the CTF as broadcasters increase their demand for CTF-funded programs, in order to gain the benefit of the commercial minutes available.

In order to create an alternative or complementary source of funding in the marketplace that does not exacerbate the existing level of demand on the CTF, the Commission may wish to consider excluding CTF-funded productions from the proposed incentives. Since the existing level of drama provided in the system is principally CTF-funded, this suggestion equates closely to (a) above;

- c. Potentially benefit only the largest private conventional broadcasters.

Specifically, those benefiting most from the proposed policy are broadcasters with highly popular top 10 or 20 foreign simulcasts in their prime time schedules. Those broadcasters not offering many of the top 10 to 20 programs, such as the CBC, specialty TV services, and smaller private conventional broadcasters, could be negatively impacted, to the extent that there will be a shift in advertising dollars to the top 10 or 20 programs;

- d. Potentially not provide significant benefit to the CBC in terms of programming opportunities.

The CBC will not be able to utilize, in a significant manner, the proposed incentive given its mandate, the Transformation process of CBC Television that has included the partial de-commercialisation of program in our schedule, and the uniquely Canadian nature of its current program line-up.

- 7. These issues are discussed further below.

III. Increasing the level of Canadian Drama

- 8. In PN 2004-32, the Commission re-iterated its objective of increasing the amount of drama in the system, and the amount of viewing to this drama, in the context of the usefulness of regulatory incentives:

The Commission considers that existing regulatory requirements, coupled with new regulatory incentives, should fulfil the Commission's objective of increasing the number of original hours of English-language Canadian drama and the number of viewers to those hours. (para 52)

- 9. However, an important element of the Commission's proposed incentives is the ability of broadcasters to benefit from the system without significantly augmenting the level of drama currently in their schedules. Indeed, as currently designed, broadcasters will be authorized to add advertising minutes just for providing their current level of drama. Thus, the incentive may not actually address the Commission's objective of increasing the level of Canadian drama in the system.

- 10. CBC/Radio-Canada agrees with the position of others in this proceeding, including Alliance Atlantis, that the CRTC drama incentive should apply only to new incremental contributions to original Canadian drama.

IV. CTF Implications

- 11. The Commission has proposed different levels of incentives for CTF-funded drama versus non-CTF funded drama.

- 12. For every original hour of CTF funded drama the Commission would grant 2 ½ minutes of additional advertising minutes. The CAB stated to the CRTC that a "private conventional broadcaster can expect to lose at least \$100,000 per hour on Canadian drama."¹ Assuming a production is CTF-funded and using the average of \$40,000, cited by Nordicity, the additional 2 ½ minutes of advertising would turn a \$100k loss into a \$20k profit for each hour of Canadian CTF-funded drama, and therefore increase the attractiveness of CTF funding.

¹ PN CRTC 2004-32

13. For non-CTF-funded, big budget 10-point original Canadian drama, the Commission proposes to grant 6 ½ minutes of additional advertising. At an average of \$40K per 30-second spot, this could generate \$520,000 per original hour plus the advertising in the broadcast of the program. The additional revenue, as a result of the incentive, is roughly equivalent to CTF funding and the minimum broadcast licence fees set by the CTF. Compounding this value is the fact that broadcasters would not have to adhere to the rigours of CTF deadlines or the distinctly Canadian criterion. Therefore, this could be a viable alternative to create original Canadian drama, although it offers considerably greater financial risk than the CTF approach.

14. While the CBC/Radio-Canada supports the Commission's approach of providing incentives rather than establishing minimum requirements, there is a risk that the proposed incentives will increase pressure on the finite resources of the CTF rather than creating additional financial resources for Canadian drama.

15. The Commission's incentive gives broadcasters who air CTF funded drama an additional 2 ½ minutes of advertising minutes. Therefore, as one response to the proposed incentives, broadcasters may decide to avoid the risk of producing big budget drama without CTF funding, and focus their efforts on competing harder for CTF funding for eligible prime time and children's dramas.

16. The CTF has finite resource levels. Therefore, rather than creating an alternative or complementary source of funding in the marketplace that does not exacerbate the existing level of excess demand on the CTF, the Commission's proposed incentives may further increase this demand.

17. In order to minimise this possibility, the Commission could exclude CTF-funded productions from the proposed incentives.

V. Benefiting the Largest Private Conventional Broadcasters

18. Clearly, the incentives proposed by the CRTC will increase the supply of advertising space. More significantly, the incentives will increase supply in the programs in highest demand – the top 10 or 20 programs.

19. The prime time schedules of the largest conventional broadcasters, such as CTV and Global, are consistently sold out. Furthermore, the CPMs (or cost per thousand viewers) of these broadcasters are still several times higher than those for most specialty services. Therefore, despite the availability of dozens of specialty service venues, most advertisers prefer the prime time schedule of the largest private conventional TV broadcasters and buy them first, then fill in with other services as needed.

20. In fact, the success of the Commission's proposed policy counts on the fact that there is strong demand for advertising space on the prime time schedules of the largest private conventional broadcasters.

21. If advertising revenue in the system does not increase, an increased supply in advertising space in the programs in highest demand can only come from lower demand properties. Therefore, without a corresponding decrease in supply in advertising

minutes, the proposed incentive will result in advertisers' shifting ad spending to the largest private conventional TV broadcasters, to the detriment of smaller private conventional broadcasters, specialty services and the CBC.

22. Adoption of the CBC/Radio-Canada's suggestions a) or b) above, would minimise the impact of this effect, while focusing the Commission's incentive proposal, and the associated new advertising revenues, on the creation of new Canadian drama.

VI. Benefits to the CBC

23. The Commission noted in PN 2004-32 that the CBC has a unique and distinctively Canadian programming schedule in keeping with its mandate as the national broadcasting service. Nonetheless, it suggested that English Television could leverage the financial benefits of the proposed initiative through the placement of additional advertisements in its sports properties and US movies.

24. It is true that sports properties and foreign movies on the CBC schedule are valuable to advertisers. However, these opportunities are limited.

25. With the Commission's encouragement, the CBC has moved in the last few years to balance more amateur sports coverage with professional league coverage. We no longer carry professional baseball and have created a major amateur sports showcase in "CBC Sports Saturday." With the exception of a few CFL play-off games the only potential source for additional ad placement in commercially attractive, high audience programming is hockey.

26. Practically speaking however, programming considerations and contractual obligations with the NHL provide little if any room for additional advertising minutes in our "Hockey Night in Canada" regular Saturday night or playoff broadcasts. The "quick whistle" approach adopted by the league in recent years has made it difficult to continue the current level of ad placement within games, let alone consider additional commercial time. The NHL is now considering further reducing interruptions to the flow of games.

27. In terms of feature films, the CBC's programming philosophy is to offer viewers the "best of the world" foreign films rather than relying on commercially oriented U.S.-made blockbusters. In keeping with this philosophy, over the course of a year CBC airs only a handful of US blockbuster films, with most of them airing in the summer – a time when demand for advertising is lower.

28. Our schedule contains a large amount of non-commercial consumer information, cultural programs, documentaries and our 10 p.m. nightly newscast -- all with restricted advertising possibilities. This significantly limits how much advertising we can successfully sell or place within our programs. This is a programming strategy at the heart of CBC Television's transformation into a more public broadcaster. However, taken together, these factors would work against our being able to capture significant new revenues under the Commission's proposal.

29. For all of the reasons noted above, and especially given CBC Television's unique programming schedule and direction, we expect there would be a limited opportunity for CBC to benefit from the incentives proposed by the Commission, while at the same time we expect CBC would be affected by the movement of advertising within the industry to the top 10 or 20 programs.

30. All of which is respectfully submitted.

Lanny Morry
Director, Regulatory Affairs