



# BACKGROUNDER

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## Options for the CBC

**Alternative Roles for the  
National Public Broadcaster**

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## Executive Summary

**“Is there a continuing role for a national public broadcaster in Canada?”**

The CBC has been in the news recently because of the CRTC’s licence renewal hearings. Earlier in 2012, there were executive level exchanges between the CBC and the head of Quebecor, one of Quebec’s most powerful private sector business and media groups, that highlighted the growing differences between the national public broadcaster and the private sector media. Is there a continuing role for a national public broadcaster in Canada? With technological change, new media, Internet TV and market fragmentation, what form should that role take?

This Backgrounder looks first at the original rationale for a national public broadcaster in Canada and follows this with a brief look at how the overall broadcasting system works and where the CBC fits into that system. Then it looks at the impact of technological change on the existing system and on the CBC in particular.

The backgrounder presents five options for a future role for the CBC and concludes with my preference and a plea for more informed debate.

# Introduction

In November 2012, the CRTC held a CBC licence renewal hearing that inspired a good deal of commentary on the performance of the CBC and its role as Canada's national public broadcaster.

Earlier this year, the CEO of the CBC, Hubert Lacroix, chided Quebecor's Pierre Karl Péladeau and other critics for not providing constructive options for the role of a public broadcaster, part of a long-running public quarrel between the two media empires. Others have argued that technological change has ended the need for a national public broadcaster.

For these reasons, it is timely to consider what options exist and what they might look like.

There are big differences between the English- and the French-speaking markets in Canada. The biggest difference is that Radio-Canada (CBC French) and the private sector French-language TV, including drama and variety programming, have always had a larger market share than their English counterparts, because a large proportion of the French-speaking market cannot or prefers not to watch U.S. programming in English.

Therefore, I will look at the role of an English TV public broadcaster, leaving French-speaking markets and radio in either language for another day. First, this paper looks at how and why Canada got a public broadcaster and, briefly, at how the Canadian broadcasting system works. Then it looks at the impact of new technology and the current criticisms of the CBC. Finally, it suggests five possible models for a public broadcaster.

**“Others have argued that technological change has ended the need for a national public broadcaster.”**

# Why public broadcasting?

**“...with advertising as the sole revenue source, the Canadian market could not support the cost of TV program production.”**

Why do we have the CBC in the first place? Annoying as it may be for both sides of the Canadian political divide, the CBC (radio in those days) was brought to us by the government of Conservative Prime Minister R.B. Bennett, Member of Parliament from Calgary West, and not by an enlightened Liberal from Montreal or Toronto.

There were several reasons to have a public broadcaster in the early days. The public owns the airwaves, and there should be a public voice on the air. The government cannot afford to leave such a powerful instrument of propaganda and cultural development in private hands. In English Canada, spillover U.S. TV would otherwise capture the market, and there would be no room on the air for Canadian voices and stories. In the United States, TV developed out of well-established radio and film industries. In Canada, there was an infant industry argument: The government funding of Canadian production would help to establish a thriving private sector as well as a public broadcaster.

In a broadcasting business model with advertising as the sole revenue source, the Canadian market could not support the cost of TV program production. This held true 50 years ago, and it is still true today. An hour of prime time drama or comedy programming costs approximately \$1-million to make. In the United States, a successful program can attract enough advertising revenue to make many people rich. In Canada, a huge success might sell \$300,000 in ads. Under this system, there would be no Canadian TV.

## The Canadian broadcasting system

The Canadian broadcasting system, including the role of the CBC, was designed to address this fundamental problem. Government support flows to private sector TV as well through a variety of regulations and subsidies. The Canadian broadcasting system consists of licensed segments that are assigned a protected revenue source and required to produce, contribute to and display a defined amount of Canadian content.

CBC and private sector licensed Canadian broadcasters, pay TV and specialty channels compete to buy the Canadian distribution rights for popular U.S. TV shows. The Canadian distribution rights for these programs are sold separately from the U.S. distribution rights. From a U.S. market perspective, Canadian distribution rights are incremental revenue, so the price is well below the cost of producing the programming. Canadian broadcasters can sell enough advertising to cover these costs. This is why private sector broadcasters in Canada are profitable.

TABLE 1

**CBC Revenue Sources**

System Component	Revenue Sources
CBC	Gov't and ad revenue
Private Broadcasters	Ads – local, regional, national
Cable, Satellite, Internet Protocol television (IPTV)	Subscriber fees
Pay TV	Mostly subscriber fees, national ads
Specialty channels	Mostly subscriber fees, national ads
Pay-per-view and video on demand	Subscriber fees, some ads
Independent producers	Tax credits, production funds, licence fees

**“Now we have hundreds of channels; the viewing audience is fragmented and so is the revenue model.”**

There are more incentives for Canadian production. There are tax credits and direct subsidies through a variety of sources. Advertising on U.S. TV stations is not tax deductible in Canada.

## New Developments

What is different now? New technology brings more choice for consumers and challenges existing revenue models. We can pick among cable, two satellite distributors and IPTV from the phone company. There are many more specialty channels. The system grew from what was available over the air to early cable with twelve channels, giving us CBC, CTV, Radio-Canada and U.S. networks. Now we have hundreds of channels; the viewing audience is fragmented and so is the revenue model.

More recently, we have access to Over-The-Top (OTT) video service via an Internet connection. If you can find what you like on the Net, you can drop your cable (or other video distribution service). Of course, this will be a concern for your ISP, which is probably also your video distributor. Therefore, your pricing plan may be changed and watching lots of video on the Net will cost more.

The infant industry argument holds that new industries need support until they become established and are able to compete in larger markets. The Canadian production industry, however, is no longer an infant industry. CBC production capability has existed for generations. Film production has prospered in the past 30 years, albeit with important tax incentives and, at times, large exchange rate advantages.

There is a new successful business model where Canadian production has access to the North American and global markets by participating in programming aimed at that market. In film production, movies for the North American market are produced in Toronto, Montreal and Vancouver with occasional efforts in other locations. In television, specialty channels have cross-ownership provisions, and Canadian programming airs on the U.S. equivalent as well as in Canada, which provides the audience size needed for profitability. These ventures have been successful in the areas of revenue and market share.

The threat of OTT to the existing system is not just to traditional cable and satellite packages. The broadcasters assemble programming for distribution on a “channel.” If people are making these choices for themselves on OTT, then what is the role of the general interest broadcaster? Specialty channels assemble programs by theme or genre. People watch the History channel or Teletoon because they are interested in these topics.

Why does someone watch Global, CTV or, for that matter, the CBC? Perhaps a better question is why would someone watch it in five years? In this respect, the CBC faces challenges that private sector broadcasters also face. The role of the traditional broadcasters and cable companies is not disappearing overnight as some analysts have been predicting over the past year. These roles will, however, be changing substantially over the next five years as rights holders, producers and consumers adjust to the new opportunities available.

## Praise and Criticism

The CBC has done some things well over the years, and most Canadians remember some favourites. It did hockey well for a long time. There has been excellent children’s programming such as The Friendly Giant, Chez Hélène and Mr. Dressup. Wayne and Schuster were the most frequent guest hosts on Ed Sullivan. It put Glenn Gould on TV and people actually watched him. Jump a generation and the comedy is good, much of it originating from independent producers in Atlantic Canada. CBC drama has also improved, and it generates surprisingly large viewing audiences in an increasingly fragmented market.

If the CBC is there to provide Canadian viewers with access to Canadian voices, how many people should be watching it to make it worthwhile? This is an important question in a fragmented market. Granted, the CBC has created some gems. It has also created some embarrassingly bad programs that almost nobody watched, and those who did watch would rather forget them. At what level of market share do we say this is not worth it any more?

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Why is CBC airing Jeopardy! and other U.S. shows (ok, Alex Trebek was born in Canada, but still)? In the days of 12 channels and no remote control, the programs before and after a hit show benefitted from people turning the television to a channel early and leaving it on after the hit show. The same program would get significantly more viewers if placed after a hit program than otherwise. In today's fragmented market, this factor is minimal if it still works at all.

CBC has been cutting regional programming for a long time although there has been a reversal of this trend in the past few years.

The CBC gets \$1.1-billion of taxpayers' money plus another \$500-million or so in ad revenue, competing with the private sector and bidding up the cost of U.S. program distribution rights in Canada. In real terms, the CBC has become smaller over the years, making substantial efficiency gains. Nevertheless, it is criticized as being management-heavy and expensive at the production level compared with the private sector broadcasters and production companies.

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TABLE 2

### CBC Revenue Sources

	2010/2011	2011/2012
Government Funding	\$ 1,162.3 M	\$ 1,167.3 M
Advertising	\$ 375.7 M	\$ 367.7 M
Specialty Service	\$ 167.8 M	\$ 158.1 M
Other	\$ 145.5 M	\$ 136.5 M
Total	\$ 1,851.3 M	\$ 1,829.6 M

Source: CBC Annual Reports

TABLE 3

### CBC Viewing (English Market)

	2010/2011	2011/2012
Television Prime-time audience share	9.3%	8.6%
<i>Newsworld</i> All-day audience share	1.4%	1.4%

Source: CBC Annual Reports

**“...there is also a substantial part of the Canadian public that thinks the CBC reflects Canadian values and identity that would not be seen on private sector TV.**

What about the ideology? Wherever you happen to stand on this, it is problematic if the definitive source of Canadian voices is perceived by much of the country as Toronto-centered and politically biased. Quebecor has not minced any words on this topic. But, there is also a substantial part of the Canadian public that thinks the CBC reflects Canadian values and identity that would not be seen on private sector TV.

It is unpalatable for a government to step in and tell the CBC to alter its political stripes. Any changes, however, will face vocal attacks that accuse the government of politically motivated bias against the CBC. The debate, when it gets to specifics, will be held in the middle of this ideological struggle. It will be difficult to remain focused on the real issues and options.

Here are five options, which range from the status quo with minor changes, to complete dissolution of the CBC:

## **1. Status quo with minor changes**

This is what the CBC proposed during its licence renewal proceeding before the CRTC. The most significant change is the proposal to sell advertising on CBC Radio 2, making the overall system more commercial than it is now. As expected, this proposal was severely criticized by the private broadcasters for competing in their territory and further threatening the viability of private sector radio.

The CBC has done some very creative work on its Web site over the past several years, creating a significant Web presence to capture some of the OTT market.

To be fair, it is not within the CBC's existing mandate to propose major structural changes. This will probably require legislation. In the medium term, however, the status quo will result in the erosion of market share as technological change continues to fragment the market, present new viewing options and upset existing revenue models. The key question of how many viewers are required to make it worth spending a billion plus dollars every year will be asked more and more urgently. This issue is not going away.

## **2. No public broadcaster**

The role of the public broadcaster is disappearing, because the role of the broadcaster is disappearing under new technology. The infant industry argument is long past. The present CBC viewing audience does not justify spending over one billion dollars of public funds and the soaking up of another half-billion of advertising revenue.



There cannot be a single broadcaster as the Canadian voice, because there is not one voice, but many. One institution cannot represent us all at once, only many can. We embraced this essential reality when we adopted the federal system of government.

There are successful business models that will provide for continued Canadian production and video distribution services. If Canadians think that the industry still requires some support, then we can transfer a reduced level of funding to private broadcasters, specialty channels and independent production companies.

### 3. Change the CBC mandate to air Canadian programming only

In this model, CBC no longer airs Jeopardy! or any other U.S. programming. It concentrates on its mandate to reflect Canadian voices. The CBC would no longer compete with private sector broadcasters for the distribution rights to U.S. programming, thus reducing costs for private broadcasters and extending the life of their current revenue model. In some versions of this model, the CBC eliminates all ad revenue, leaving that source of funds for the private sector. The CBC becomes a Canadian network with a large public affairs component that is supplemented by Canadian drama, comedy and variety programming.

The debate over the role of advertising on the CBC can get rather heated.<sup>1</sup>

This model would reduce ad revenue substantially, or in some versions eliminate it. CBC has argued that it will not be able to produce quality programming that Canadians will want to watch without a large increase in government funding to make up for the lost revenue. The CBC would also have to create programming to fill the time slots that previously aired U.S. shows. Given the cost of producing television programming, this model gives rise to even larger funding requirements.

Two radical solutions have been offered to address this issue. The first is for the CBC to withdraw from local news and sports programming, leaving these markets to the private broadcasters. Both of these withdrawals would be a major change, and both of these programming categories have traditionally been the source of significant ad revenue.

**“There cannot be a single broadcaster as the Canadian voice, because there is not one voice, but many.”**

1. For a recent exchange of opinions see the following:

Canadian Media Research, “CBC TV: Domino Effect Snowballing into a Chain Reaction,” September 5, 2012. Available at <http://mediatrends-research.blogspot.ca/2012/09/cbc-tv-domino-effect-snowballing-into.html>. Accessed January 10, 2013.

Nordicity, “Nordicity Corrects Factual Errors in Critique of Advertising Study for CBC/Radio-Canada,” October 2012. Available at [http://nordicity.ca/press\\_releases/html/2012-10/2a.html](http://nordicity.ca/press_releases/html/2012-10/2a.html). Accessed January 10, 2013.

Canadian Media Research, “CMRI Responds to Nordicity,” November 19, 2012. Available at <http://mediatrends-research.blogspot.ca/2012/11/cmri-responds-to-nordicity.html>. Accessed January 10, 2013.

There have been long debates over the profitability of sports programming at the CBC.

The second solution is to move to viewer contributions using the techniques of the U.S. Public Broadcasting Service and TV Ontario. This revenue source could also contribute in the other public broadcaster models described here. The CBC has claimed that this solution would not work; however, others claim that it will. As it stands, Canadians contribute to the U.S. PBS border stations in substantial numbers. (Am I the only person who finds it odd that Canadians, many of whom are descendants of Loyalists, voluntarily pay money to the U.S. Public Broadcasting Service so they can watch programming from the British Broadcasting Corporation, while their own national broadcaster has long abandoned this source of programming as being too demeaning a reminder of our former colonial status?)

#### 4. Decentralize the CBC into regional blocks

Quebec already has its own regional broadcaster, even though Radio-Canada also has a mandate to serve francophones in the rest of the country. We could create two English CBC services instead, one for the West and one for the centre and the East. We could possibly even create four services consisting of British Columbia, the Prairies, Ontario and Atlantic Canada.

The rationale used to argue against having a single national public broadcaster at all also applies to this model. No single national voice reflects all of Canada. Instead of abolishing the CBC, however, the argument supports breaking it into regional blocks so that it reflects regional differences. The West would be happier with a CBC West that reflects Western Canada's more conservative political and social views without taking away the existing CBC that seems to suit more people in central Canada. That way the ideological divide is satisfied.

Again, we can imagine many variations with this model. News and public affairs programming are most affected by the ideological divide. We could decentralize news and public affairs programming while leaving drama, variety and comedy programming to a central CBC.

Funding is the biggest challenge for these models. Programming with high production values is expensive, and this fundamental issue will not go away. Voluntary viewer contributions on the PBS model could contribute to the funding challenge. Provincial government funding could contribute, or provincial television services could be combined with the regional CBC entity. Resources now dedicated to CBC local news programming could be reallocated to the regional blocks.

**“Instead of abolishing the CBC, however, the argument supports breaking it into regional blocks so that it reflects regional differences.”**

It is difficult to imagine how this model could work without a significant increase in funding. However, this may be more palatable than the status quo if, as a result, more Canadians think that their voices and values are being reflected.

## 5. Turn the CBC into a Canadian production entity

Instead of dissolving the CBC, turn it into a Canadian production entity and abandon the traditional broadcaster role that is under threat from technological change. The production entity would create programming for specialty channels, private broadcasters and its own Web properties that cater directly to new media and thus capitalize on some good work that it has already started. As the type of video that people watch changes, this model would provide a Canadian Internet video voice that will be at the forefront of new media.

As with the other models, we could include many variations here. We could leave *Newsworld* as it is—its own news specialty channel. We could also have a CBC specialty channel that would be all-Canadian and would have access to subscriber fees on cable, satellite and IPTV distribution systems. Viewer contribution is a possible source of additional funding. News and public affairs would go to *Newsworld*, leaving the CBC specialty channel focused on entertainment instead of public affairs. Again, local news would be left to the private broadcasters.

As a specialty channel, CBC programming would be subject to consumer choice, allowing the anti-CBC types a chance to opt out and the pro-CBC types a chance to opt in for a reasonable fee. With access to subscriber fees, a significant amount of revenue becomes available to reduce the government funding required. It could even emulate the successful Canada/U.S. specialty channel model of the Discovery Channel and others by collaborating heavily with the U.S. PBS network to provide access to a larger market.

**“It could even emulate the successful Canada/U.S. specialty channel model of the Discovery Channel...”**

## Conclusions

**“...the  
CBC will  
continue  
a relative  
decline in  
terms of  
market  
share while  
needing  
more and  
more money  
to try to  
maintain its  
position.”**

The CBC licence renewal hearing in November put both sides of political opinion regarding its future on display. On the one hand, we heard from the lobby group Friends of Canadian Broadcasting, the CBC itself and its allies in the Canadian production industry portraying the CBC as an essential part of what Canada is all about. On the other hand, private sector broadcasters expressed frustration at having to compete against a government-supported rival for viewers and ad revenue. A glance at comment sites and blogs showed other Canadians venting their frustration that their government continues to spend more than \$1-billion on a service that they do not want and that is being left in the dust by changing technology.

As with many important issues, it will be difficult to focus on constructive options and positive change through the partisan political smoke that will be generated by those who think that the CBC can do no wrong and those who would be happy to see it disappear tomorrow. The former will see any change as part of the Conservative government's secret agenda. The latter will be unwilling to look at any option other than abolition. Neither side will be putting in much work toward explaining the underlying economics of the industry, the impact of changing technology and creating workable solutions that build on these important fundamentals to fashion a system that reflects Canadian diversity and is consistent with market developments.

The CRTC is constrained by existing legislation that prevents it from being the source of fundamental strategic change. This kind of change will have to come from the federal government through the highly visible and divisive process that was briefly described in the previous paragraph. If we do not adopt major changes, however, the CBC will continue a relative decline in terms of market share while needing more and more money to try to maintain its position. At some point, a majority of Canadians will find this unacceptable. Therefore, the status quo is a slow road to the abolition that CBC opponents want to see now.

My preference is something along the lines of Option 5, the CBC as a production entity that looks toward new media distribution and a specialty channel, with the regionalization of news. This option provides for more consumer choice, additional revenue sources to reduce government funding and is consistent with market developments and technological change. I am willing to pay to have a platform for Canadian voices, but I am not willing to pay forever to maintain an entity that is tied to outdated technology and revenue models. I look forward, perhaps with naïve hope, to an informed debate about reasonable options among people who are willing to do their homework.

## About the author



**Roland Renner**, is a consultant who has worked in telecommunications, broadcasting and Intelligent Transportation Systems (ITS). He has participated in the transition of telecommunications and broadcasting from monopoly to competitive policy and regulatory environments, and has been involved in numerous regulatory proceedings.

He held management positions at Bell Canada and Telesat Canada. As a consultant he worked with PwC Consulting and Nordicity Group, he advised clients on new market opportunities in a changing regulatory climate.

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## Further Reading

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## Rebuilding the Last Mile

By Roland Renner

[http://www.fcpp.org/files/1/PS132\\_LastMile\\_AP09F3.pdf](http://www.fcpp.org/files/1/PS132_LastMile_AP09F3.pdf)