

# BACKGROUND

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## The Role of the CBC

TECHNOLOGY IS DRIVING CHANGE

Roland Renner

# The Role of the CBC

**“...technology is driving change, not government budget cuts or political interference.”**

Technological change is challenging traditional broadcasters, including the CBC. The status quo just will not fly. It is always difficult to start talking about changes to the CBC because of the political dynamic around the institution. In this case, technology is driving change, not government budget cuts or political interference.

The growth of Over-the-Top (OTT) or online video has been hitting broadcasters' revenue and smothering the growth of cable and satellite packages.

Some have called traditional TV “appointment TV.” One has to watch the program when the broadcaster or cable company decides it is on. Although VHS, then DVDs, PVRs (personal video recorders), VOD (video on demand) and multiple channels of the same network from different time zones have been eroding this characteristic for a long time, the whole point of OTT is that one watches what one wants, when one wants. What, then, is the point of having a broadcaster in the way, selecting a program schedule for viewers?

As the Olympics were starting, CBC president Hubert Lacroix announced to employees that tough times lie ahead for the CBC.<sup>1</sup> The loss of Hockey Night in Canada to Rogers accelerated changes across the board. Rogers will show hockey on its specialty channels, and the CBC will lose an important revenue-generating program category as well as the audience share.

The Senate Standing Committee on Transportation and Communications has been holding hearings on options for the CBC, and this has provided a platform for some of the commentators who are joining the discussion of what role the CBC should play in the future.

Michael Hennessey, president of the Canadian Media Production Association (CMPA), sees the need for change. “I think there is an opportunity, in all of this, to rethink the CBC.”<sup>2</sup> Hennessey wants

1. Greg O'Brien, “CBC CEO Lacroix warns “dark clouds” approaching, post-Sochi”, CARRT, February 4, 2014.

2. Perry Hoffman, “Now’s the time for CBC to take chances on risky drama”, says CMPA”, CARRT, February 4, 2014.

a review of the CBC mandate to concentrate on what the private broadcasters do not deliver. This implies a reduction in the CBC's broad mandate. Hennessey proposes that the CBC take the risk of concentrating on Canadian dramatic productions, some of which would be done by CMPA members.

Konrad von Finkenstein, past CRTC chairman, is also well aware of industry trends. "People are no longer interested in scheduled programs but want to have access to content they like, when they like it, in the form they prefer it."<sup>3</sup> He also suggests a narrowing of the CBC mandate, leaving children's programming to the private broadcasters. CBC should concentrate on local programming and Canadian niche programming. In addition, he proposed getting rid of the digital over-the-air (OTA) broadcasting network except in rural and remote regions.

Interesting suggestions have been proposed outside of the Senate Committee Hearings as well. Former CRTC commissioner Timothy Denton calls the Canadian broadcasting system "broccoli" TV: Watch what we tell you because it is good for you. See <http://tmdenton.com/index.php/easyblog/entry/canada-s-eat-your-broccoli-regime-may-be-coming-to-an-end>.

Here is Denton's assessment of the industry trend.

- a)unification of all prior telephone and cable-broadcasting networks into something riding on Internet Protocol, using the domain name system and IP addressing;
- b)and gradual (maybe very gradual) elimination of special use networks, such as broadcasting.

This result will not be caused by governments, or ideologies, but because the Internet is cheaper, more flexible, and more pervasive. But the specialized broadcasting distribution system will not go without a large struggle.

Meanwhile, Denton points out that forcing pick and pay on to the existing system of "constrained choice" with its elaborate details supporting Canadian industry sectors threatens the arts community that cost the federal Conservatives a majority in 2006.

3. Perry Hoffman, "CBC should shutter OTA net, leave kids programming to private broadcasters and refocus its Canadian content goals, says former CRTC chief", CARRT, February 12, 2014.

***"People are no longer interested in scheduled programs but want to have access to content they like, when they like it, in the form they prefer it."***

*Konrad von Finkenstein,  
Past CRTC  
Chairman*

An immediate radical move to pick and pay will jeopardize everything from local news to the CBC, to the less popular Canadian specialty channels.

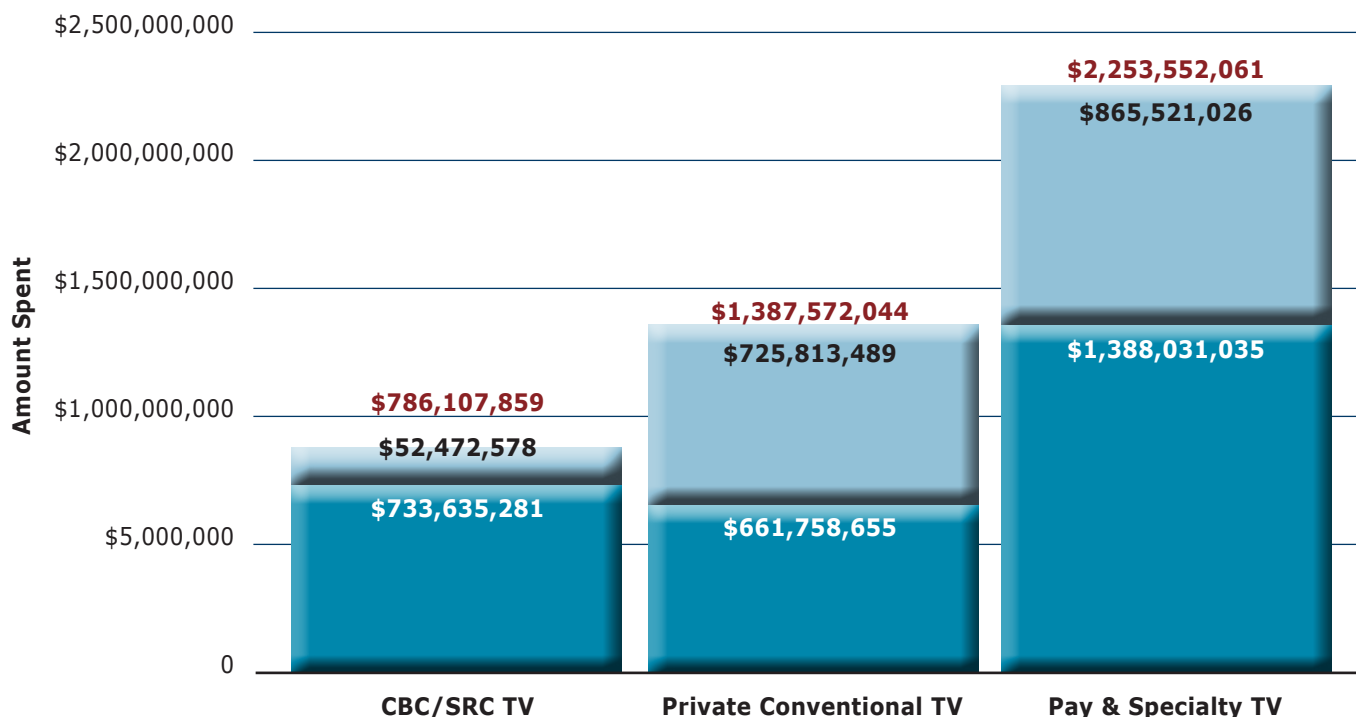
The Frontier Centre for Public Policy's Les Routledge suggested that the CBC become an archive of Canadian programming that is accessible online, making Canadian programming of all kinds available via new technologies.

Barry Kiefl of Canadian Media Research Inc. is an expert on audience research and a former director of research for CBC. He points out that while Canadians have poured millions into the coffers of cable and satellite distribution companies for decades, Canadian programming, as opposed to Canadian distribution networks, is actually underfunded. By underfunded, Kiefl means that there is not enough money in the system to consistently create quality programming. The following chart shows the amounts that the CBC, private broadcasters, pay TV and specialty channels spend on programming. The British Broadcasting Corporation spent almost as

**CHART 1**

### Canadian vs. Foreign Programming

Spending on foreign programs by CBC TV, Private Conventional TV, and Pay & Specialty TV (2012)



■ Canadian ■ Foreign

Source: CRTC.

Private Conventional TV spends more on foreign content than on Canadian content; in total \$1.7-billion was spent on foreign programs in 2012, twice what we spend on CBC TV.

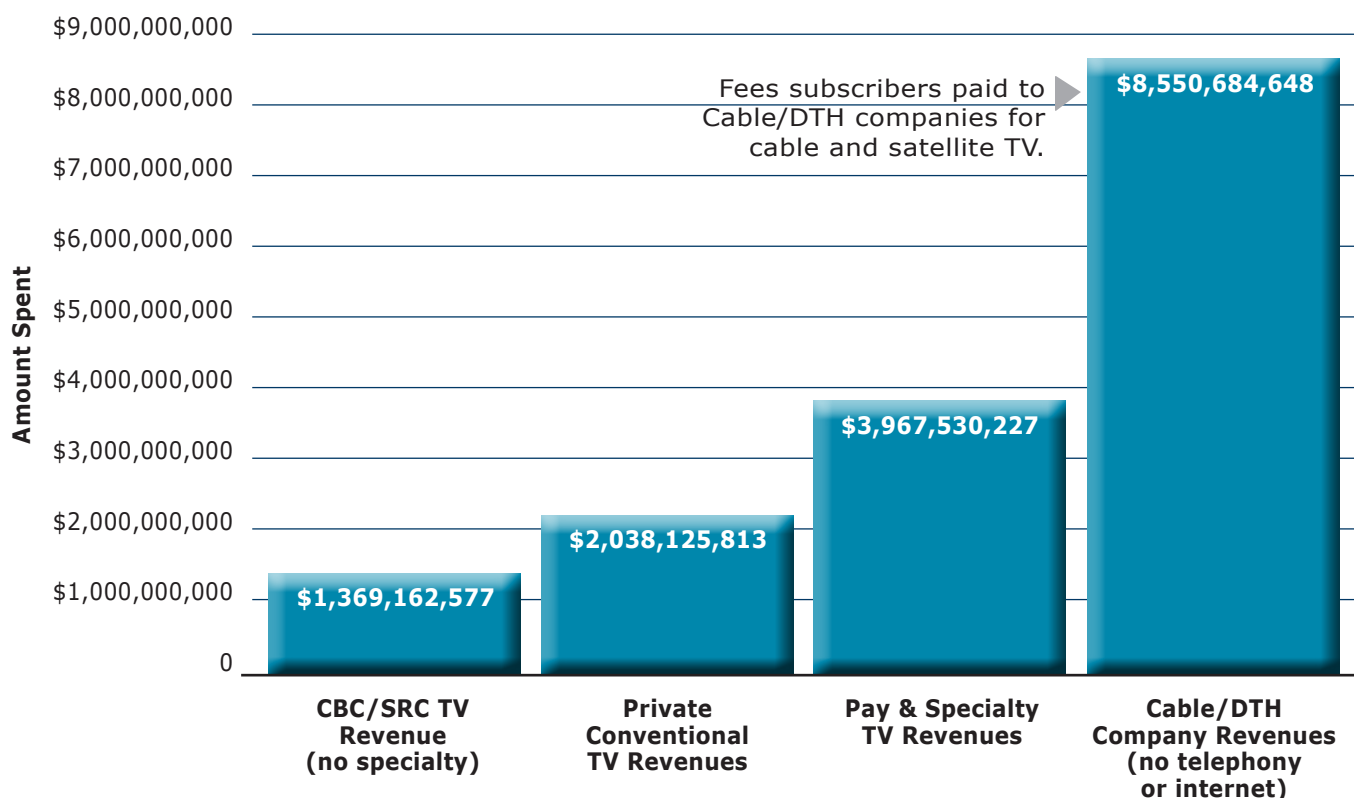
much as the total spent by all of them. See [http://mediatrends-research.blogspot.ca/2013\\_11\\_01\\_archive.html](http://mediatrends-research.blogspot.ca/2013_11_01_archive.html) for a thorough presentation of charts illustrating the statistics that Kiefl uses to support his conclusions and recommendations, of which only three are reproduced in this paper.

Chart 2 illustrates the scale of cable and Direct-to-Home revenue compared with the CBC, the private broadcasters and pay and specialty channels. Note the amount of the pay and specialty channel revenue compared with the CBC and the private broadcasters.

**CHART 2**

### Total TV Revenues in Canada vs. Cable/TV Companies

Total funding of CBC TV, Private Conventional TV, Pay & Specialty TV, Cable/DTH (2012)

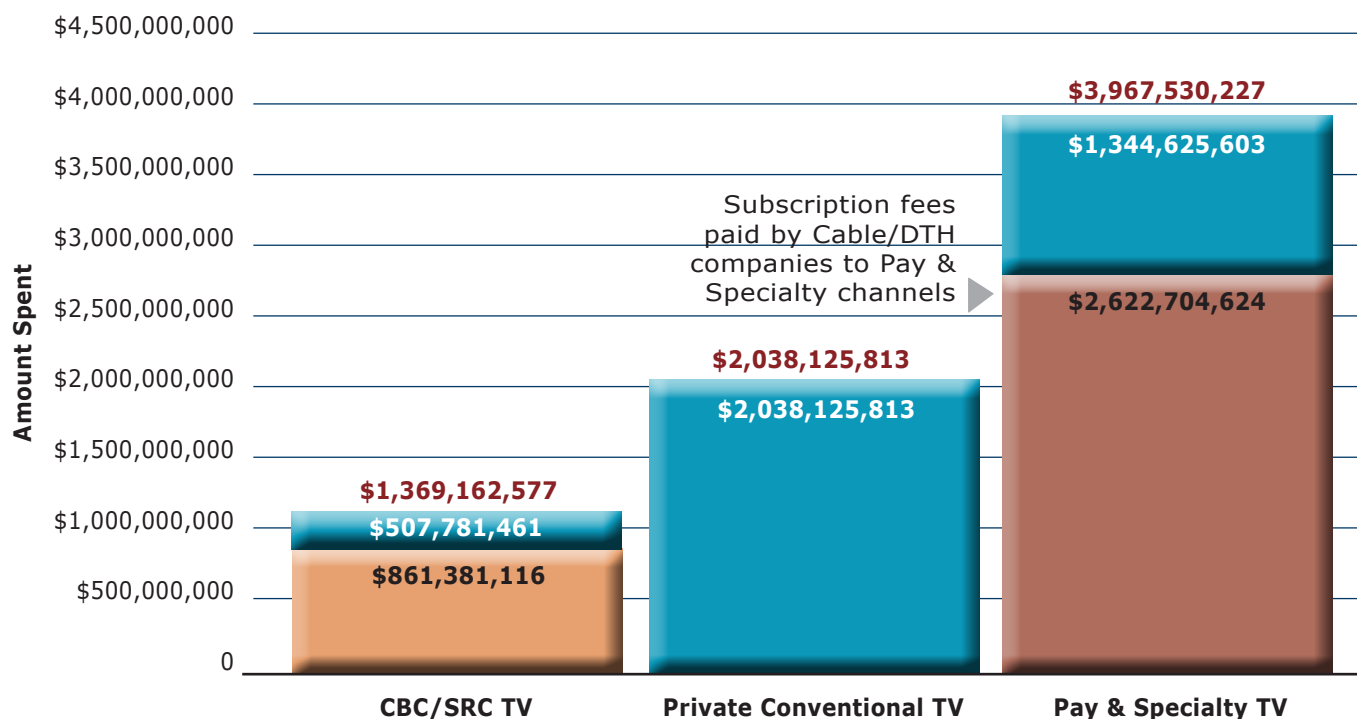


Source: CRTC.

The growth in overall revenue flowing into the system is in the pay and specialty sectors, and it comes from subscription fees, which are a key component of total revenue.

**CHART 3****Share of Funding**

How much of CBC TV, Private Conventional TV, and Pay & Specialty TV revenue is subscription fees? (2012)



■ Advertising ■ Subscriber Fees ■ Parliamentary Grant Source: CRTC.

CBC TV and Private Conventional TV derive their revenues from advertising or Parliament; they receive no subscription fees; Canadian Pay & Specialty TV received \$2.6-billion in subscription fees in 2012; U.S. channels received an additional \$422-million in subscription fees.

The “broccoli” system has not been delivering enough money at the programming level to create sufficient quality and quantity. Current trends indicate that this is not going to alter with the existing revenue models. A radical change in the underlying technologies requires radical changes to the system.

The idea of being required to pay for broadcast television content more directly has always been a non-starter for Canadians even though we subscribe to specialty channels, use PPV (pay per view), VOD and sometimes still rent movies at a video store. Paying a licence fee for TV as they do in the United Kingdom and other countries has been examined many times, and it has always failed. This is largely because we are beside one of the few countries in the world where the advertising



revenue model alone has supported traditional broadcasters, and we have always had access to spillover U.S. television.

Most recently, the fee idea took the form of a payment that cable operators would have to pay to all broadcasters for the right to carry their signals. The cable companies called it the “cable tax” and launched a vigorous advertising and lobbying campaign to defeat it. Eventually the Supreme Court ruled that the CRTC did not have the jurisdiction to impose it.

However, the growth in subscription fees shows that Canadians are willing to pay for programming that they like. Many Canadians give money to U.S. PBS border stations. Kiefl states that polls consistently show that in spite of complaints about the CBC, Canadians of all political persuasions like it.

In 2012, Kiefl proposed a voluntary levy or contribution system enabled by federal regulations that required cable, satellite, Telco TV and ISPs as well as computer and TV retailers to ask at point of sale or with each billing cycle if their customers want to make a voluntary contribution to CBC and Canadian program production. See [http://mediatrends-research.blogspot.ca/2012\\_11\\_01\\_archive.html](http://mediatrends-research.blogspot.ca/2012_11_01_archive.html).

In a recent blog, Kiefl proposes two options to address the issue. The first is a licence fee of \$240 per year that would have to be legislated, not imposed by CRTC regulation. The second is a distribution tax of 7 per cent. Either measure would bring in about \$3-billion per year, enough to both replace the federal government allocation to the CBC and contribute to Canadian program production by the private broadcasters and pay and specialty channels. This would also concentrate the political debate on the issue of funding Canadian programming production while getting the government out of the business of making “broccoli” TV.

Altogether, these proposals cover a wide range of choices, from narrowing the current CBC mandate to radical changes in the revenue model. This is welcome debate. In the end, technology is driving major changes that allow consumers to bypass the structural support for Canadian content and watch what they want, when they want. We can embrace the changes and develop a new, more consumer-friendly consensus of promoting and supporting Canadian production, or we can maintain the status quo and watch the industry gradually wither away.

**“...technology is driving major changes that allow consumers to bypass the structural support for Canadian content and watch what they want, when they want.”**

## 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.

He has worked for both public and private sector clients in Canada, Germany, Bahamas, Trinidad & Tobago, Israel, Saudi Arabia and Pakistan.



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## Further Reading

March 2010

## 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)

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