

STANDING COMMITTEE ON CANADIAN HERITAGE

**STUDY ON EVOLUTION OF THE TELEVISION INDUSTRY
IN CANADA AND ITS IMPACT ON LOCAL COMMUNITIES**

CTVGLOBEMEDIA ORAL PRESENTATION

[Check against delivery]

April 22, 2009

Good afternoon, Mr Chairman, members of the committee, and committee staff, my name is Ivan Fecan and I am President and Chief Executive Officer of CTVglobemedia and CEO of CTV.

Thank you for the invitation to discuss a matter that is vital to the social fabric of Canada, the future of local television.

Joining me today from the corporate side is Paul Sparkes, Executive Vice President, Corporate Affairs, CTVglobemedia. We noticed that you also invited several of our station managers. This was a great initiative on your part because these people are on the front lines of small market local television. Peggy Hebden is General Manager of CKVR in Barrie and Don Mumford is the General Manager of our stations in London, Wingham and Windsor. They have been with their stations for many years and can give first hand testimony on the subjects you are exploring. We also brought Elaine Ali, who is our Senior Vice President in charge of all of our local stations, both CTV and A. She can share her direct knowledge about how the issues that are endangering small markets are also now putting the large market stations at risk.

I have some brief opening remarks but right off the top; I just want to state that we are not asking for bail-outs or short term fixes however well intentioned they may be. What interests us is a plan to build a sustainable future for conventional television in Canada.

So how did we get here?

Several decades ago, local television thrived in an environment where there were only a few channels available in every home. Over those decades, the competition for attention in every home has mushroomed to hundreds of channels. Competition for share of mind has also come from personal video recorders and from the internet. Consequently, the ratings for local stations have declined. But that's only part of the story. The advertising pool available to support local television has shrunk as well. In the beginning, advertisers could only reach a local audience in Sudbury through the two local Sudbury TV stations. Over time, an advertiser could reach viewers in Sudbury through regional channels, then through specialty channels and now over the internet. This erosion of both the audience and the ad pool has been ongoing for years and has finally reached the tipping point. That, in a nutshell, is the structural issue. All advertiser supported over the air broadcasters around the world are facing this same issue.

The recession we are now experiencing hasn't created this problem, but it has accelerated the damage. I don't have a crystal ball and can't predict when the recession will end or how it will end---is it a "V" recovery, a "U", or is this just the new normal. What I am sure of is that when this recession ends, it will not go back to the way television was 40 years ago or even when the recession started. The damage is ongoing and progressive.

The solution to the structural issue that is gaining traction in the US is fee for carriage, otherwise known as retransmission consent. The distributors there seem to understand that they have had a free ride for several decades, that their customers value their local TV stations and that it's time to pay up.

What makes this work in the US is that cable systems need the consent of a local TV station to put that station on their system. However, for instance, if the cable system in Philadelphia can't reach a deal to carry the ABC station in Philadelphia, they can't just import a signal from another ABC station from outside of Philadelphia. In other words, no ABC Philly --- no Desperate Housewives in Philly. Period.

In the industry, that's known as program rights protection and it is an integral part of retransmission consent.

Here's another example. Rochester is just 118 km from Buffalo. The citizens of Rochester are not allowed to see Buffalo television stations on Rochester cable because this would infringe on the program rights owned by the Rochester stations. In contrast, Toronto is 160 km from Buffalo and we happily import all of the Buffalo over the air signals to our cable systems. Our colleagues in America shake their heads because they can't understand why, as a country; we would undermine our local stations by doing this.

Why was this done? The answer is: to build cable's business.

The Broadcasting Act clearly states that local stations have to be given priority carriage in their home territory by the distributors. Yet when satellite was launched, they were allowed to ignore this. This disenfranchised dozens of local stations, like ours in Timmins, for instance. The stated reason was that they didn't have the capacity. Since then they have launched many satellites and found room for hundreds of new channels. Today, satellite penetration is 44% in the Timmins area but there is still no room for Timmins' only station.

Why was this done? To help build the satellite business.

These are but two examples of how systematically, over time, the underpinnings of local television were compromised by the regulator in order to help distributors.

In addition, when conventional television made a lot of money, the regulator imposed many obligations for the privilege of owning conventional stations. These varied from the amount of local news a station had to produce all the way up to the number of Canadian dramas a station needed to commission from independent producers. As the conventional business deteriorated, the obligations have largely stayed put. This makes no sense.

So what we are saying now to the regulator is please give us new revenue sources or reduce the obligations or some mix of both. Otherwise, we don't believe there is a business there in the future. Our preference, to be clear, is to solve this through new revenue streams, like fee for carriage, rather than reducing service.

As a private broadcaster, we exist to make a profit based on the services we provide. If we don't see a way to make money, we cease to exist or exit that service.

Some say that we should subsidize the losses of conventional from our profits on specialty television. There are two things wrong with that premise. First of all, our most successful specialty channels, TSN, RDS and Discovery, have shareholders that are not shareholders of our local stations. How do we tell one shareholder that his or her money is being used to pay for something in which they have no ownership interest? Secondly, our competitors in specialty, Astral and Corus, don't have conventional TV holdings of any size. They don't need to cross subsidize. It would be unfair to ask us to do something that our competitors are not required to do.

Others say that we have a financial problem because of what we paid for CHUM a few years ago. Frankly, I scratch my head at this. We bought CHUM for their specialty services and radio. The only conventional television we acquired with CHUM were the A stations, which collectively were worth less than 2% of the value of the deal. The purchase of CHUM and in 2000 of Netstar, which owned TSN, RDS and Discovery, signaled the move of our Company away from conventional to specialty. The purchase of specialty has been our lifeline.

Still others say that the problem is we pay too much for American programs. The hard truth is that, generally, the money we make on American programming pays for the losses on Canadian programming. This is not a criticism of Canadian programming; it's about the reality of our market size and the cost of production. But because of the structural issues I outlined earlier, we make less on American than we did before. And now the obligations of these local licenses cost more than the money we make.

A few months ago, we announced that we were not going to reapply for licenses in several locations because we determined that we couldn't make money there, ever. We also offered to sell these stations for a nominal fee, \$1. Many have come to kick the tires. No one has made a real offer to buy and continue operating those local stations. That speaks volumes.

And yet, local is worth fighting for. In fact, we believe that the foundation of our broadcasting system is local broadcasting. And if we cut those roots, we will lose something invaluable as a nation.

Local is the comfort zone for our audiences. Local is the glue that binds. Local is where people live. There can be many forms of community but the strongest is local.

Local broadcasting is not just the news. It's the community messages throughout the broadcast day. It's the interaction between on-air personalities and local events.

Canada is one of the most diverse countries in the world. Our country is so broad that a collection of voices from one central place cannot speak for all Canada.

Local is the best chance our citizens get to see themselves on the screen and to contribute to the national debate. Local television also gives a place for local debate on issues that can't hold national attention

Local television gives local businesses a chance to speak to local customers and compete with national and multi-national businesses.

Local is also what Canadian television audiences have overwhelmingly told us that they value very highly.

We believe local should be the top priority for conventional television.

The second priority should be programs of national interest, particularly those that enhance our national identity. This includes the National News and current affairs shows like W5. It also includes shows like, *Corner Gas*, *the JUNOs*, *the Giller Awards*, *Degrassi*, *Flashpoint*, national talent competitions like *So You Think You Can Dance Canada* as well as some professional sports events and the upcoming Vancouver Olympics. But it is very difficult to have this kind of successful national programming without local roots.

Both local and national identity is very important in a democracy and both deserve structural support.

I repeat again. We are not asking for bail-outs or short term fixes however well intentioned they may be. What interests us is a plan to build a sustainable future for conventional television in Canada.

As time is of the essence, the government needs to act swiftly on a series of structural reforms that will provide a viable framework for local television. That viability proposition includes:

1. Fee for Carriage

To set the record straight, **fee-for-carriage does not need to impact the consumer nor will it invoke undue harm to the cable and satellite industry.**

There is no reason why Canadians should pay more for a service they are already paying for. This is an industry-to-industry matter and we need a fair regime to negotiate for the value of our signals.

In fact, there is no empirical data supporting harm to the consumer based on the experience in the US, which changed its policy in 1992 to allow local broadcasters to negotiate carriage fees.

Cable and satellite is one of the most profitable sectors in the Canadian economy and the players in that sector should pay for what they use in their business. From 2003 to 2007, basic cable rates have gone up 36% - almost four times the rate of inflation. We estimate their margins for the basic cable service are in excess of 75%.

2. Satellite Carriage for Local TV Stations

We simply would like the CRTC to uphold Parliament's clear statement in the Broadcasting Act that calls for priority carriage of local television stations.

Satellite is no longer a fledgling industry. They seem to have ample capacity for a host of US services, adult entertainment services and music channels, but can't make room for local stations like Windsor.

3. Digital Transition

The mandated transition in 2011 was not driven by consumers or the industry. It is a result of a bilateral agreement between the US and Canada, where both governments want to auction conventional TV spectrum for billions.

This is not about HD programming; we are already investing in HD to respond to consumer demand. What is at issue is how the signal is to be distributed to Canadians.

Over 90% of Canadians chose to receive their local television signals through their cable or satellite provider.

We cannot justify an investment of several hundred million dollars to reach 9% of the marketplace, particularly when this investment produces no additional revenue in a business that is already teetering on the edge.

We will be proposing a hybrid solution to the CRTC that will have an over-the-air component in larger markets and a cable or satellite solution for smaller markets.

Conclusion

We are passionate about television. Our belief is demonstrated not merely by rhetoric, but by a consistent body of work comprised of top rated Canadian programming, that is unmatched by any other broadcaster in English Canada.

In order to continue that audience success, we need your help.

We have made three immediate suggestions, all of which can be implemented without amendments to the Broadcasting Act.

Thank you for this opportunity to appear and we look forward to answering your questions.