

**Licence Renewals for Private
Conventional Television Stations**

CTVGLOBEMEDIA

[Check against delivery]

April 27, 2009

Good Morning Mr. Chair, Vice Chairs and members of the Commission. My name is Ivan Fecan and I am President and CEO of CTVglobemedia and CEO of CTV Inc, and I would like to take this opportunity to introduce our panel. To my left, your right is Paul Sparkes, Executive Vice President, Corporate Affairs, CTVglobemedia. To Paul's left is David Goldstein, Senior Vice President, Regulatory Affairs, CTVglobemedia. To my right is John Gossling, Chief Financial Officer, CTVglobemedia, to his right is Dawn Fell, Executive Vice President Human Resources and Operations, CTVglobemedia and to Dawn's right is Rick Brace, President Revenue, Business Planning and Sports for CTV Inc.

Joining us on the back panel, starting to your right, is Kevin Goldstein, Vice President, Regulatory Affairs CTVglobemedia. Seated next to Kevin is Clare Brown, Senior Vice President, Finance for CTV Inc. To Clare's right is Richard Gray, Vice President and General Manager for A Ottawa and our Ottawa Radio Group. Richard is also our National Head of A News. To Richard's right is Peggy Hebden, General Manager of A Barrie, Ontario.

We would now like to begin our formal presentation.

I believe everyone here is united in one common cause. And that is to find a way to build a sustainable future for conventional television, a vital part of the social fabric of our country.

I don't propose going over the hundreds of pages of evidence that's been filed in the last four years demonstrating that the structural issues impacting conventional television are causing the downward trend toward the tipping point that we are at today. One that began well before the recession. And we in Canada are not alone. All advertiser supported over the air broadcasters around the world are facing these same issues. Even two of Canada's biggest BDUs, who profit from airing our programs free, cannot produce a shred of evidence to counter this worldwide reality.

Now, while this recession has not created the problem, it has certainly 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 it an "L"--- a fast drop followed by minimal growth. What I do know is this. When this recession ends, TV will never return to the way it was 30 years ago, or even when the recession began not so long ago. The structural damage is ongoing and progressive.

We need solutions. So, before we address the questions raised in your public notice, we would like to begin with the two defining principles, that create the prism, through which we see these issues.

The first is this: We are private broadcasters and we exist to make a profit, from the services we provide. If we can't make money, we have no reason to exist. If using our best business judgment, we determine that some of our services can never make money, we must exit those services.

That's because the competition for capital is intense and no one can afford to be permanently inefficient.

The second is that: Private broadcasters are but one part of the system and are not solely responsible for fulfilling all of the objectives of the Broadcasting Act. In fact the Act is quite clear about the specific role envisaged for us when stating and I quote “private networks and programming undertakings should, to an extent consistent with the financial and other resources available to them, contribute significantly to the creation and presentation of Canadian programming, and be responsive to the evolving demands of the audience”.

Let me repeat: “should, to an extent consistent with the financial and other resources available to them, contribute”....and then later “be responsive to the evolving demands of the audience”.

Both of these tenets in our sub-section of the Act are informative. No one else in the broadcast system is instructed to be responsive to the audience.

We are supposed to run popular programs. And it is clear that our contributions are governed by our ability to pay for them.

My purpose in opening this way is not to be provocative, but to be real. We must make money and the degree to which we do, governs what we can contribute and whether or not we can stay in business.

This does not take away from the fact that we, at CTV, are passionate about television, that we are true believers in the importance of local news and national news or that we believe in the enhancement of our national identity through high quality Canadian programming. In fact, our belief is demonstrated not merely by words at a hearing, but by a consistent body of work comprised of top rated Canadian programming that is unmatched by any other broadcaster in English Canada.

Let me continue by saying that in addition to the structural issues facing all conventional broadcasters in the world, we have some unique challenges in Canada.

Over the years, when times were much better, numerous obligations were placed on conventional broadcasters for the privilege of owning a licence. However, as our conventional business has deteriorated, the obligations have stayed. This simply makes no sense.

At the same time, over the years, there has been a series of decisions that have had the effect of compromising the underpinnings of conventional television while favouring the distributors. To elaborate, the integrity of our local program rights was given away, distant signals were allowed, transfer benefits for distributors were abolished, cable rates were deregulated and finally distributors were allowed to vertically integrate and own first conventional and then specialty channels. Each of these decisions may have made sense in isolation. But the cumulative impact has been a massive shift of power to the BDUs along with an enormous transfer of wealth. Today, the distributors are strong with record profits and 10 billion dollars of revenue from multiple streams, while conventional broadcasters are losing money with only one revenue stream, advertising.

Look, I'm not saying we're against profit. What I am saying is that things are seriously out of balance when, for five years running, the system produces continuous growth for one sector and continuous decline for another, with an ever widening delta.

So, this is a good time to step back and rethink the system. Over the course of the one year process that you outlined in your Public Notice, which we support, you have a landmark opportunity to create a sustainable framework. You can consider whether the services provided by our sector have value to the citizens of our country. If so, how to prioritize those services? Are they all equally important or are some more important than others? In addition, of course, how best to pay for the basket of services that you decide are still meaningful.

Let me turn to what we believe to be true.

We believe that the foundation of the broadcasting system is in local broadcasting. I think we cut those roots at our peril.

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

Local broadcasting is not just the news. It's community messages throughout the broadcast day. It's interaction between on-air personalities and local events. This is even more important in Canada, 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 Canadians.

Local is the best chance our citizens get to see themselves on the screen and contribute to the national debate. Local television also provides 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 #1 priority for conventional television.

We believe 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 sporting events and the upcoming Vancouver Olympics. But it is very difficult to have this kind of successful national programming without local roots. Some of these programs qualify for the existing CRTC category called “priority programs”, but many would not. We believe programming that maintains and enhances local and national identity is the true definition of priority programming.

We believe that, as a rule, quality Canadian programming is infinitely more important than quantity. Often quantity has been the preferred regulatory approach because it is easy to measure, but the system should not be managed for ease. Furthermore, high volume Canadian programming has notoriously been of low quality. This has done enormous damage to the system by helping foster a stigma surrounding Canadian programming which has taken years to erase and still exists in certain quarters.

Obviously, when it comes to local, it is clear why conventional broadcasting is the only real vehicle. But why in terms of national interest programming, do we need conventional? Why can't it originate from specialty channels?

Here's the answer: Conventional, despite fragmentation, despite the internet, can still attract the largest number of viewers. It is unlikely that *Corner Gas* would have been the hit it became if it just aired on the Comedy Network.

It is the combination of your home town favorite channel (the one on which you watch your local news), with high audience entertainment shows, big promotion and strong lead ins that helps create Canadian hits. In fact, conventional is still the best mass audience vehicle ever invented. The MuchMusic Video Awards is every bit as interesting a show as the JUNOs but the JUNOs get many times the audience. The difference is the platform and the promotion. There is even a “JUNO effect”---CD sales and downloads increase significantly after exposure on the JUNOs. The same is true of the Gillers. The short listed authors are often sold out within days of the show.

While it is difficult to pinpoint exactly why conventional television still works this well in attracting audiences, serving local communities and nation building, the fact of the matter is, it does and therefore, is worth fighting for.

So if it's this important, why don't we use the profits from our specialty to underwrite conventional? Two reasons. One: our most popular specialty channels, TSN, RDS and Discovery have some shareholders that are not owners of CTV conventional 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 and, as a result, when compared, be permanently inefficient. Faced with that prospect, we would have no choice but to get out of conventional completely to remain competitive on specialty.

Let me now go to your four questions. We look forward to expanding on them in questioning.

1. Appropriate contributions to the system.

Our preference is to find new revenue sources rather than weaken obligations as a whole, as long as those obligations are still relevant in today's world. But it's a little bit of a chicken and egg situation. First we need to identify new revenue sources...to determine what we can afford. Then we should layer in contributions according to priority. And we have given you our views on what the priorities should be.

Our conventional broadcasting viability framework includes fee for carriage, DTH carriage of all local signals in each local market and unfettered ability to own content. It is aimed at creating a sustainable environment for conventional television.

In fact, broadcasters in the United States are now actually receiving a cash fee for carriage. The US distributors have acknowledged that they should pay for what they use and what their customers overwhelmingly value. I understand that because of procedural complaints made by certain Canadian distributors, we cannot have a real discussion about this today. Nevertheless, it is a big part of the solution and it needs to be thoroughly examined as soon as possible. That's because it is the most obvious solution, one that already is working in the US and, by the way, working without a consumer backlash.

DTH is no longer in its infancy and we would like you to now instruct DTH to carry each local station in its home market. If there is room for dozens of porn channels, there should be room for Timmins. Part of why Timmins can't make money is this: a large part of the population in Timmins, 44% to be exact, get their television from satellite and their local station isn't carried on satellite.

We further believe that the ability to own content and access international revenues from Canadian programming that we develop is important. Since the 80's, broadcasters have had impediments placed on them to discourage them from owning content or participating in those revenue streams. In virtually every other country in the world, these impediments were removed and broadcasters can own content.

2. Local Programming Improvement Fund (LPIF)

A reworked LPIF could also be part of the solution for small market stations but it must be focused on sustainability, not incrementally. These stations are on the verge of closing and if incrementality is the test, none of our stations would benefit from this fund. To be effective, the quantum needs to be increased to at least 3% and distributed between small market stations that originate local programming.

3. 1:1 Spending Ratio.

The hard truth is that, generally, we make money on American programming; we lose money on Canadian programming. American pays for Canadian. This is not a criticism of Canadian programming; it's about the reality of our market size and the cost of production.

Using American to make money is not just specific to conventional. Specialty does it, Pay TV does it and the BDUs do it. Thus we fail to see how imposing a spending ratio on conventional will bring one extra penny to Canadian programming. What we do see is enormous risk to our system. There is no conventional television business here without American content. On the other hand, we in Canada are a small part of the studios' worldwide revenues. If they don't sell to us for one short year, our business evaporates. Alternatively they could just sell us a reduced amount of programming at the same per unit rate. Which begs the question: what happens to the ratings and revenues that are then lost?

All of the American programs would still get into Canada through their US affiliates. And Canadian advertisers will happily buy out all the ads on those border stations creating a windfall for them. And you can be sure that the studios will sell the Canadian BDUs extra VOD runs of their primetime programming. You can also expect the Americans to stop geogating their hit shows and allow viewers in Canada to see them on the internet. Then they can sell ads aimed directly to Canadians. What will have been accomplished? Nothing good because the money previously used to pay for Canadian conventional programming will disappear.

The other issue, of course, is the potential for abuse. The vertically integrated BDUs do an enormous amount of business with the Hollywood studios. For instance, Rogers buys programming from them for Citytv. They license shows for their specialty channels. They get VOD product from the studios. They purchase DVDs for sale and rent in their video stores.

The potential for a vertically integrated BDU to allocate costs between their various regulated and unregulated businesses is enormous. How does the CRTC propose to protect unaffiliated broadcasters? And further, what authority can the CRTC have to audit the unregulated divisions of the BDUs to ensure compliance?

4. Digital Transition

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

Over 90% of Canadians choose 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 endorse the hybrid solution that has been proposed.

Finally, a few months ago, in advance of our application becoming public, we announced that we were not going to reapply for licences in several originating locations because we determined that we couldn't make money there, ever.

This was a sad day for us. As a Company, we pride ourselves in building businesses, we can't conceive of closing them. And yet, here we are. We also offered to sell those stations for a nominal fee, \$1. Many have come to kick the tires. So far, not one person or company has made a real offer to buy and continue operating them as local stations under the existing conditions. That speaks volumes.

In conclusion, you will hear from many at this proceeding. Some don't want anything to change. And that's understandable. The conventional television regulatory regime has worked well for the BDUs, the independent producers, the craft and guild associations and the unions. But it no longer works for us. And if it doesn't work for us, it ultimately will no longer work very well for those very same independent producers, the craft and guild associations and the unions. The crisis in conventional is not just about the recession, it's about the ongoing structural issues. Our smallest stations are the most vulnerable, but the larger ones are not far behind. That's why we applied for a one year extension only. Because this will give us the time to see if the new framework, arising from your one year process, will allow us to continue, and if so, on what basis. We sincerely hope that it will. And we pledge to work with you and other stakeholders to arrive at a sustainable solution.

Chairman, Vice Chairs, Commissioners and staff, with the launch of this extremely important hearing, the fate and the future of conventional television in Canada rests in your hands.