Canada Media Fund
Fonds des médias du Canada

Dear Madam or Sir:

<u>RE: Pre-Budget Consultation Submission - Allocation of Spectrum Auction Proceeds</u>

1. You will find below the Canada Media Fund's ("**CMF**") submission in connection with the Federal Government's pre-budget consultation ("**Submission**").

A. Executive Summary

2. The CMF has proven to be a vital resource in the financing of compelling Canadian programming since its establishment in 2009. However, changes in content consumption habits, in particular the advent of Canadians consuming programming online instead of through television, will result in significantly reduced investment in Canadian programming.

3. Thus, as technology changes where and how consumers access content and Canadians continue to follow the worldwide trend of accessing content online, a legitimate argument can be made that the relationship between the rise in internet traffic/revenue and a decrease in cable and satellite television subscriptions/revenue is not just correlation, but causation.

4. Because the revenue that funds such programming (via the CMF) is largely derived from cable and satellite television revenue, the more "cord cutters" opt for larger broadband services at the expense of their previously held cable and satellite bundles – to watch television content *online* – the quicker the current system will erode.

5. Currently, online video is not considered broadcasting under the *Broadcasting Act,* and such content and content providers are not currently regulated or obligated to contribute to Canadian programming.

6. Therefore, to account for the market shift and exponential growth in consumer viewing of television and newer forms of online video on broadband (instead of cable and satellite), and on mobile devices – along with the related demand for more spectrum in order to access this content online – the CMF proposes that a portion of the proceeds the federal government receives in connection with spectrum auctions

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be allocated to the CMF to enable its continued success in funding innovative and compelling Canadian programming and to help ensure Canada's audiovisual screen-based industries remain productive and competitive both at home and abroad.

B. The CMF's Future

The Collapse of the Existing Model

7. The CMF's funding comes from two primary sources: (a) regulated contributions made by cable, satellite and internet protocol television (**"IPTV"**) distributors ("**Broadcast Distribution Undertakings**" or "**BDUs**") as a function of their revenues from broadcasting activities and (b) the Government of Canada via the Department of Canadian Heritage ("**DCH"**).

8. While funding from DCH has been stable since the CMF's creation in 2010, changing consumer habits, regulatory changes and the impact of unregulated services have begun to impact BDU revenue.

9. With regards to abandoning the traditional broadcast model, BDU-subscribing households decreased from 11.5 million in 2012 to 11.12 million in 2016[1]. While that number may not seem significant on its face, the number of Canadian households increased by approximately 750K from 2011[2] to 2016[3]. Therefore, in roughly 4 years, the number of households without a conventional TV subscription increased by approximately 1 million[4].

10. With regards to regulatory changes, as of December 2016, all licenced BDUs are required to offer all discretionary services on both a "pick-and-pay" basis and in small, reasonably priced packages. While this flexibility allows consumers to only pay for the specific channels they want, the anticipated result of such flexibility will be consumers paying less money to BDUs on a monthly basis.

11. For context, the CMF has already started to experience a decrease as contributions from BDUs declined 5.5% from 2015-2016 ($229.3M) to 2016-2017 $216.6M).

12. In short, as more and more Canadians either (a) opt out of the traditional system and choose to consume content through unregulated services, or (b) are able to reduce their monthly BDU payment, BDU revenues are likely to continue to decline and the

[1] CRTC, http://crtc.gc.ca/eng/publications/reports/BrAnalysis/dist2016/bdu2016.htm
[2] Statistics Canada, http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/famil5 3a-eng.htm
[3] Statistics Canada, http://www.statcan.gc.ca/daily-quotidien/170802/dq170802a-eng.htm?HPA=1
[4] Kaan Yigit, https://cartt.ca/article/letter-editor-how-cord-cutters-are-just-visible-tip-iceberg

contribution made by BDUs to support Canadian content will also continue to decline, presenting hard choices in terms of volume, diversity and the quality of Canadian programs.

The Growth of the New Model

13. Canadians are now spending more time online while their average weekly viewing hours on television have started to diminish[5].

14. According to statistics from comScore (the industry leader in digital media measurement), Canadians watched approximately 14 billion online videos in December 2014, an increase of 36% from January of that year[6]. Further, internet video traffic is expected to grow 3-fold from 2016 to 2021[7].

15. This expected increase in video traffic echoes forecasts that TV subscription and license fee revenue in Canada will have a compound annual growth rate (**"CAGR"**) of 0.2%, whereas Internet access revenue will have a CAGR of 11.8%[8].

16. As digital content becomes increasingly compelling to Canadian consumers and traditional TV subscribers continue to decline, the "growth in Internet subscriptions and Internet-only households will offset the decline in video" and "broadband services are in the process of becoming the primary offering for U.S. and Canadian multi-system operators"[9].

17. Therefore, a legitimate argument can be made that the relationship between the rise in internet traffic/revenue and a decrease in BDU subscriptions/revenue is not just *correlation*, but *causation.*

18. Further complicating this shift is the fact that despite the rapid growth of online video, "traditional TV still pays the bills for most new shows"[10]. According to Convergence Consulting, in 2014, the traditional television system contributed $3.3 billion into Canadian programming, compared with $300 million from its digital rival[11].

[5] CRTC, *Monitoring Report 2016,* Figure 4.2.15
[6] comScore, *2015 Canada Digital Future in Focus,* page 12.
[7] Cisco Visual Networking Index, Canada, 2016-2021, http://www.cisco.com/c/m/en_us/solutions/service-provider/vni-forecast-highlights.html#
[8] PwC, *Global Entertainment and Media Outlook – 2015-2019, Entertainment and media spend in Canada*, p.24.
[9] Scotiabank, *Converging Networks*, Week of December 22, 2014, p.4.
[10] Bradshaw, J., "Streaming Wars: How disruptors are shaking up the TV business", *The Globe and Mail*, April 17, 2015.
[11] *Ibid.*

19. Putting all of the above in context, as Canadian digital video consumption continues to rise, the amount of BDU subscriptions continue to fall.
20. While that could be coincidence, economic forecasts predict that the increased revenues from broadband used by Canadians to consume digital video are expected to mitigate anticipated BDU revenue loses, highlighting that one method of accessing content appears to be at the expense of another.

21. <u>Finally, despite such clear shifts in the marketplace, the traditional television system continues to fund the vast majority of programming, effectively subsidizing the very model that threatens its existence.</u>

22. In essence, Canadians are choosing to watch the same programs online that are *offered* on television and *funded* through the television industry.

23. The CMF respectfully submits that this situation is unsustainable.

24. As Canadians increasingly consume content from services delivered over the internet that are not obligated to participate in the financing, presentation and promotion of Canadian programming and on platforms which are exempt from regulation under the *Broadcasting Act*, the traditional broadcast system will continue to weaken.

25. For context, this is not the first time the Canadian broadcast industry has experienced such dissonance. In July 1971, the CRTC issued *Canadian Broadcasting: A Single System – Policy Statement on Cable Television* where it noted that while cable television operators generate revenue from the distribution and sale of such programming to Canadians, they did not, at the time, contribute to the costs incurred by the stations to produce and acquire programming[12].

26. In attempting to craft an appropriate policy framework to integrate cable television networks into the broadcasting system, <u>the CRTC stressed the need to ensure that cable television would not weaken the ability of the system to produce programming choice and diversity, both domestically and internationally</u>[13].

27. Therefore, barring a change to the *Broadcasting Act* that requires online video services and or distributors to contribute – like cable distributors were obligated to do back in the 1970's – the current funding system will continue to be threatened.

[12] Dunbar & Leblanc, *Review of the regulatory framework for broadcasting services in Canada*, CRTC, Final Report, http://www.crtc.gc.ca/eng/publications/reports/dunbarleblanc.htm
[13] *Ibid.*

28. As a result, creative alternative strategies must be pursued by every player in the system.

29. As such, the CMF respectfully submits the following proposal for an allocation of proceeds from the Federal Government's spectrum auctions.

C. <u>**The CMF's Proposal**</u>

The Demand on Spectrum by Digital Media Broadcasters

30. While the auctioning of spectrum has allowed for increased connectivity in rural parts of the country and increased competition in the wireless telecommunications sector, it is data, not voice, which is driving wireless growth.

31. As Gregory Taylor, the former Director of Canadian Spectrum Policy Research project at Ryerson University, notes,

> *"Why do we need all of the spectrum now? What's driving this? In most cases, this is so we can watch mobile video. This spectrum is not required for our e-mails. This is required so that we can stream high-definition video".*[14]

32. Therefore, a key factor in the online video growth noted above has been mobile consumption. From December 2013 to December 2014[15], Canadian mobile subscribers' mobile video viewing frequency grew in a variety of ways:

- Consuming online videos ever in a month: <u>up 22%</u> (7,029,000 to 8,582,000);
- Consuming online videos 1-3 times/month: <u>up 8%</u> (3,595,000 to 3,880,000);
- Consuming online videos at least 1 time/week: <u>up 19%</u> (2,363,000 to 2,813,000); and
- Consuming online videos almost every day: <u>up 76%</u> (1,071,000 to 1,888,000).

33. Further, Canadian mobile data consumption is projected to increase 5-fold from 2016 to 2021, a compound annual growth rate of 38%[16].

The CMF's Plan to Leverage Such Demand

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[14] Christine Dobby., "The battle for spectrum: Canada's coming wireless wave", *The Globe and Mail*, May 1, 2015.
[15] comScore, "2015 Canada Digital Future in Focus", page 15.
[16] *Supra* note 9.

34. In light of all of the above, the CMF holds that it is clear that media consumption is destined to decline in the existing/regulated system and grow significantly in the emerging/unregulated system.

35. The CMF submits that this market reality is an opportunity to devise alternative strategies - with new partners - to define digital media broadcasts in the 21st century.

36. As such, the CMF has identified as a potential source of revenue, the valuable resource these digital media broadcasts all utilize: spectrum.

37. In recognition of Canada's "mobile migration", the CMF proposes that a portion of the proceeds the Federal Government receives in connection with spectrum auctions be allocated to the CMF to enable its continued success in funding innovative and compelling Canadian content and to help ensure Canada's audiovisual screen-based industries remain productive and competitive both at home and abroad.

38. In closing, the CMF respectfully submits that due to the speed at which technology is evolving, Canada can no longer afford to differentiate between the existing broadcast model and the emerging/digital media model. Canadians are beginning to demonstrate that they no longer make a distinction between what "pipes" they choose to consume media and that the time is now for Canada's content funding mechanisms to adjust and be responsive.

39. By allocating a portion of spectrum auction proceeds to the CMF, the Federal Government would recognize that the lines between the existing and emerging media models are breaking down at an exponential rate, ensure that Canada remains at the forefront of the digital revolution and reaffirm that Canadian content continues to contribute to the world's image of Canada, reflected through its ideas, stories and compelling entertainment.

Sincerely,

Valerie Creighton
President and CEO