Written Submission for the Pre-Budget Consultations in Advance of the 2021 Budget

Comments of Corus Entertainment Inc.

August 7, 2020

Recommendation 1 – That the Government of Canada adopt the recommendations of the Canadian Association of Broadcasters to help Canadian broadcasters recover from COVID-19.

Recommendation 2 – That the Government of Canada take measures to strengthen Canadian companies' competitive positon in the global media industry after COVID-19, including:

a) **Significantly adjusting broadcasters' annual 'Canadian Programming Expenditure' requirements;**

b) **Replacing regulated programming genre quotas with incentives; and,**

c) **Removing regulatory barriers to scale designed for a closed broadcasting system.**

About Corus Entertainment Inc.

Corus Entertainment Inc. (“**Corus**”) is proud to be Canada’s leading pure-play media and content company.

- We operate 15 conventional television channels (under the Global TV banner), 34 specialty television channels, and 39 radio stations across Canada.
- Our subsidiaries, Nelvana and Kids Can Press, are Canada’s premier animation studio and largest independent children’s book publisher, respectively.
- Our Montreal-based subsidiary, Toon Boom, is a leading international supplier of animation and story-board software.

We employ 3,500 Canadians in eight provinces. Through our various platforms, we are able to reach 95% of Canadians every week. We work with producers and members of Canada’s creative sector to create thousands of hours of original Canadian programming every year. Our content is exported to 160 countries. We have helped build internationally recognized Canadian brands like *Franklin the Turtle* and the *Property Brothers*.

Corus is especially proud to be one of Canada’s largest news organizations. Under Corus ownership, Global News has added more hours of local programming across the majority of our stations, launched the Global News Radio brand from coast to coast, become the largest Canadian provider of news on YouTube, and grown Globalnews.ca into the largest private-sector news site in Canada.

This year, we have been able to provide ‘essential’ news and information to Canadians during the COVID-19 pandemic, above normal levels, notwithstanding significant disruptions to our operations and revenues. Global added special COVID-19 news broadcasts, provided round-the-clock updates on all our radio stations, interrupted regular programming to air news conferences and health briefings, and launched a 24-7 online news streaming service.

News is the core of Corus’ public service mandate, and we want to continue providing it for many years to come. To do so, we require additional relief to assist in our recovery from the COVID-19 economic crisis, and urgent changes to federal policies that will improve our competitive position in the trillion-dollar global media industry. We elaborate below.

COVID-19 Recovery Measures

Many have characterized COVID-19 as ‘unprecedented.’ This is certainly true for the Canadian broadcast sector. We can recall no time in our industry’s history when revenues vanished and productions stalled simultaneously, without warning, for

nearly half a year. In the third quarter of 2020 (March 1 to May 31), Corus saw advertising revenues fall 34 percent, television segment profits fall 30 percent and radio segment profits fall 36 percent. Like many other businesses: our supply lines have been disrupted; our customer demand has fluctuated; and our employees have had to adjust to working from home.

Corus is grateful for Government of Canada support through the Canada Emergency Wage Subsidy ("**CEWS**") program. The CEWS has generally helped us maintain employment levels at pre-crisis levels. However, to recover from COVID-19, Canadian broadcasters require additional relief. We have closely reviewed the pre-budget submission of the Canadian Association of Broadcasters ("**CAB**"), and the recovery measures it recommends. Corus urges the Government of Canada to adopt the CAB's proposed measures in full.

<u>Recommendation 1</u>: Adopt the recommendations of the CAB in its pre-budget submission to help Canadian broadcasters recover from COVID-19

Positioning Canadian Media for Post-Pandemic Success

COVID-19 has brought acute financial and operational difficulties to Canadian businesses from which we are all struggling to recover. Perhaps even more concerning for Canadian media: this pandemic has exacerbated our already challenging position in the trillion-dollar global audiovisual content industry. Television and radio advertising revenues and subscriptions have been declining steadily over the past five years. New foreign direct-to-consumer digital services continue to enter the Canadian market and take audience share, subscription and advertising revenues from domestic services, while simultaneously driving up the cost of foreign and Canadian programming.

These structural challenges will remain, and the pandemic has placed us even further behind. To surmount them, Canadian media companies require urgent changes to federal broadcasting policies to strengthen our competitive position. Only with those changes will we be able to build growing, sustainable businesses, which can continue contributing to Canadian culture and the Canadian economy.

This policy reform effort must begin by requiring all media market participants – foreign and Canadian, digital and traditional – to share responsibilities for supporting Canadian content – responsibilities, which currently rest entirely on the shoulders of Canadian broadcasters. In that vein, Corus welcomes the Government of Canada's clear commitment to ensure:

> … all content providers, including internet giants, offer meaningful levels of Canadian content in their catalogues, contribute to the creation of Canadian

> content in both Official languages, promote this content and make it easily accessible on their platforms.

Our recommendations below are consistent with this mandate, but strongly urge the Government of Canada to go a step further. To realize its broader economic and cultural policy objectives, and truly 'level the playing field', the Government of Canada must do more than apply a set of antiquated policies to a broader group of actors. It must look at both sides of the equation, and recalibrate the regulatory regime for existing broadcast licence-holders.

The current regulatory framework imposes significant requirements on Canadian broadcasters in exchange for the privilege of a licence. Historically, that licence granted us a dominant share of Canadian viewing and listening audiences, and came along with proportionally heavy obligations. However, as unregulated, foreign-owned, direct-to-consumer subscription services have flooded the market, broadcasters have lost a dominant share of Canadian audiences, thereby diminishing the value of the licence. Indeed, Canadian broadcasters have collectively taken billions of dollars in write-downs on the value of their assets in the past 15 years, and there has not been a new application granted for a conventional television license in Canada in many years. Nevertheless, our obligations have remain unchanged, and are now placing us at an untenable competitive disadvantage.

In the wake of COVID-19, it has become even more critical to redress this imbalance. Below, Corus recommends three specific policy changes that will help ensure Canadian content (especially news) continues to thrive, while placing Canadian media and content companies in a stronger position to succeed. We describe these further below.

a. Adjusting broadcasters' annual expenditure obligations

For decades, Canadian content production has depended on sizeable annual spending requirements by Canadian broadcasters, which are enforced by the Canadian Radio-television and Telecommunications Commission ("**CRTC**"). For example, Corus is currently required by its English television conditions of licence to spend the equivalent of 30 percent of its previous year's gross annual revenues on CRTC-eligible "Canadian Programming Expenditures ("**CPE**")." This represents nearly third of our total cost base.

To succeed going forward, our company requires more freedom to allocate capital as it sees fit. The hard economic reality is that investments in 'Canadian programming' (as strictly defined by the CRTC) do not generate returns on investment at levels that can fuel continued corporate growth. We must be free to invest greater amounts of capital in higher growth business initiatives like advanced advertising and digital

platform development. Accordingly, our CPE requirement must be significantly adjusted.

New revenues obtained through levies on (currently exempt) Internet broadcasters will allow the Government of Canada to ensure aggregate spending on Canadian content remains consistent with historical levels.

Placing Canadian media companies in a stronger competitive position will have positive knock-on effects from an economic and cultural perspective. A growing business will generate more taxable revenues, which can be reinvested in Canada.

In particular, it will enable Corus, in particular, to continue providing news. Canadian news broadcasting has traditionally been cross-subsidized by more profitable divisions of media groups. Reduced requirements elsewhere will allow Corus to continue cross-subsidizing our news division, while maintaining editorial independence and avoiding pleas for direct public subsidies that have marked conversations around print media in recent years.

<u>Recommendation 2(a)</u>: Significantly adjust broadcasters' annual Canadian Programming Expenditure requirements

b. *Moving from programming quotas to incentives*

Along the same lines, Canadian media groups must have the freedom to optimize their Canadian program spending as much as possible. That involves investing in programs with significant export potential, in response to audience demand, on favourable commercial terms. However, federal policies currently deny us that flexibility. They require us to allocate fixed percentages of our Canadian program expenditures to the most expensive genres of programming – dramas, comedies and documentaries – and to purchase those programs from third parties.

As the Broadcasting and Telecommunication Legislative Review Panel recently observed, Canadian television drama, "has never made sense from an economic standpoint." Nevertheless, federal policies require Corus, for example, to spend the equivalent of 8.5 percent of its prior year's gross annual revenues on these programs. That is not a sustainable liability for a company in our position. Moreover, it continues to represent a degree of government intrusion in our day-to-day operations that is unparalleled in Canada. We are unaware of another Canadian business sector to whom the Government of Canada dictates expenditure decisions on specific types of product.

To be clear, it remains legitimate for the Government of Canada to support certain Canadian programming genres. A toolkit that includes direct funding and leveraging the public broadcaster would be appropriate. Additionally, private sector actors can

play a role. We recommend that they receive regulatory *incentives* to invest in certain priority genres, rather than a regulatory mandate to spend fixed *quotas*.

Recommendation 2(b): Replace regulated programming genre quotas with incentives

c. Removing barriers to scale

The financial resources of Canadian media companies are dwarfed by their foreign competitors. We are now competing directly with billon dollar, and in some cases, *trillion* dollar, Internet-based companies for the rights to foreign and domestic content, and for Canadian viewers and subscribers. Getting larger is inevitable as a matter of pure survival for Canadian media companies in this environment.

Two longstanding federal policies prevent us from building that scale.

First, the "Diversity of Voices" policy discourages competitive operating structures through restrictions on:

- Ownership of local television stations – Parties are only allowed to own/control one station per broadcast market (excluding Internet-based viewing)

- Ownership of radio stations in major markets – Parties are only permitted to own/control two FM and two AM stations in major radio markets (excluding Internet-based listening)

- Transfer of ownership of television assets – Transactions that would leave one party in control of more than 45 percent of traditional national audience share (excluding Internet-based audiences) are generally prohibited

Inexplicably, the policy continues to exclude Internet-based viewing, listening and audience shares from its definition of "markets." It must be revised to reflect the actual state of the global communications system.

Second, the "Tangible Benefits" policy generally requires that the acquirer in any television transaction pay an effective tax of 10 percent, and in any radio transaction a tax of 6 percent, of any acquisition cost in "incremental tangible benefits." Benefits do not apply to acquisitions of cable distributors, non-traditional television or production assets, and it is a further source of inequity with our foreign competitors. The policy inhibits growth, relegates Canadian media to sub-scale status and is entirely out of place in an open, international media environment.

These policies were written during the bygone era of a closed broadcasting system, and only serve to weaken the competitive positions of Canadian media companies in today's open, global communication system.

Recommendation 2(c): Remove regulatory barriers to scale designed for a closed broadcasting system

Conclusion

Corus Entertainment appreciates the opportunity to participate in the pre-budget consultation process. We thank the Members of the Standing Committee on Finance for their consideration of our recommendations. We would be pleased to discuss them further with any of the Members, or before the committee.