NORDICITY GROUP LTD.

350 Sparks Street
Suite 409
Ottawa, Ontario
K1R 7S8
(613) 236-5867

980 Yonge Street
Suite 404
Toronto, Ontario
M4W 2J9
(416) 964-6922

DISCUSSION PAPER

ECONOMICS OF PROGRAM PRODUCTION INDUSTRY

Prepared by

NORDICITY GROUP LTD.

FOR: ECONOMICS BRANCH,
DEPARTMENT OF COMMUNICATIONS

5412-4-8(DOC)
32.31(DEA)
DGCE Doc. No. 168

March, 1981

NORDICITY GROUP LTD.

350 Sparks Street
Suite 409
Ottawa, Ontario
K1R 7S8
(613) 236-5867

980 Yonge Street
Suite 404
Toronto, Ontario
M4W 2J9
(416) 964-6922

DISCUSSION PAPER

ECONOMICS OF PROGRAM PRODUCTION INDUSTRY

Prepared by

NORDICITY GROUP LTD.

FOR: ECONOMICS BRANCH,
DEPARTMENT OF COMMUNICATIONS

5412-4-8(DOC)
32.31(DEA)
DGCE Doc. No. 168

March, 1981

TABLE OF CONTENTS

LIST OF EXHIBITS

LIST OF EXHIBITS (continued)

PREFACE

This discussion paper is based on off-the-shelf documentation, and a limited number of interviews in Montreal, Toronto and Ottawa that were possible within the time frame stipulated by the Department of Communications. Although material about French language program production is available, substantially more was obtained about English language program production. Similarly, there was comparatively more information available about the public as opposed to the private broadcaster. To some degree, then, the discussion paper reflects this information bias.

I INTRODUCTION

In December 1980, Nordicity Group Ltd. was commissioned to help the Economics Branch of the Department of Communications prepare a two year research program on the economics of program production.* To assist this process NGL was requested to prepare a preliminary discussion paper with the following purposes:

- to characterise the economics of the Canadian program production industry;
- to identify what the federal government can do to make it more economically viable.

Critical to the approach adopted in the preparation of this discussion paper is the 'economic viability' orientation in policy development under consideration by the Department of Communications. This section attempts to set out the rationale for policies directed at increasing the competitiveness of Canadian programming, explores the logic of the current focus of the Department of Communications on the independent production sector, and provides an overall strategy to achieve economic viability in the program production industry.

---

*"Program Production" in this context means primarily programming for conventional and new television markets (eg. pay-TV). However, it recognizes that, broadly speaking, the program production industry produces feature films for theatrical release and in the future will also be supplying the content for a total home video market.

I-1 ESTIMATES OF PROGRAM PRODUCTION TRADE BALANCE

($000,000)

Production Area	Imports	Exports
Television programming [1]	55.5 (1979)	8.5 (1979)
Feature Films	75.0 [2] (1977)	15.0 [3] (1977)
Recordings [4]	103.0 (1977)	5.0 (1977)

Sources:

1. From Bélanger, Chabot et Associés, "Données Financières Sur La Programmation Canadienne", A Report for the Department of Communications Dec. 1980, pp.30-37. (The "Imports" figure is probably underestimated. Indeed, DOC has used $70-$80 million in public speeches on the subject.)
2. "Imports" derived from preliminary Arts and Culture Branch (DOC) estimates for 1977.
3. "Exports" is the sum of figures from (a) "An Evaluation of the Impact of the Canadian Feature Film Industry of the Increase to 100% of the Capital Cost Allowance", A Report of the Research and Statistics Directorate, Arts and Culture Branch, Dec. 1979, Table xx (1977 figures) and (b) one third of the figure for feature film revenues from the total CFDC financed sales for 1977 to 1979 (Bélanger et al, p.36)
4. Recordings figures from preliminary Arts and Culture Branch estimates for 1977.

RATIONALE FOR COMPETITIVE PROGRAMMING

Although overall Canada has a fairly large program production industry - about $600 million at current investment levels - the program production trade balance indicates that Canada has not been very competitive internationally. Exhibit I-I shows that imports exceed exports by a factor of five to one for feature films and six to one in television programming (compared to twenty to one in sound recordings, an industry which has not received the same financial investment incentive or public funding as its video counterparts).

While the trade imbalance provides one argument in favour of striving for programming competitiveness, the principal argument stems from the enormity of change the current communications environment is undergoing. The communications industry is in a period of institutional and market turbulence brought on largely by technological advances. Our focus in this period of rapid technological change is the household television set, which is being deluged by new entertainment services brought into the home through off-air broadcasting, cable, videocassette and within a few years videodisc and direct broadcast satellite. The result is a magnified competition for the consumer's entertainment dollar, which is leading to an increasingly international struggle; joint ventures in consumer electronics, cable-satellite delivery systems and program production now span three continents. The 1980s scenario presents a highly competitive international marketplace, one which has new markets and new opportunities for entrepreneurial program producers.

Television production and distribution have entered the digital era. One consequence is the potential emergence of a new kind of 'transborder data flow' - a television programming trade carried by satellite. Together with the aggressive distribution of programming to feed new home video equipment, the new technologies make the world an even more open marketplace for program producers.

Competitiveness as the only Choice

Given these conditions Canadian program production will have to be increasingly competitive to survive in the domestic as well as foreign marketplace. One could possibly propose alternatives to ensure at least a Canadian programming presence in the domestic market - either through a tighter control over imported foreign programming or through subsidising Canadian production.

A major problem with tighter control over the foreign content in existing and future broadcasting is the severe limitations on viewer choice this would entail. As well, the growth in television 'traffic' via satellite that is accessible to the home consumer will inexorably reduce public policy options to control it. While the broadcasting environment can be shaped by public policy, an accompanying strategy to increase the competitiveness of domestic program production seems more profitable than relying strictly on a 'chateau fort' strategy.

The other broad policy option is to subsidise or fund public institutions to produce programming to the levels required for ensuring Canadian content in all video media forms. Aside from being very costly, this approach might not succeed because of the rapidly changing distribution patterns for television production. Reluctance by government to invest the needed resources is evidenced by continuous constraints on the CBC's budget. For example, the CBC's budget today would be about $850 million (compared to $680 million for 1980-81) if the five year expenditure plan approved by Cabinet in 1975-76 had been followed. Even with larger budgets, the ability of public institutions to keep ahead of emerging market and distribution patterns is compromised by the limitations of their mandates.

Given that the federal government cannot afford to pay totally for Canadian content, and that it is not feasible to place effective controls on foreign content, the alternative is to try to make the production industry more economically viable so that it can produce more competitive programming. If Canadian programming is more competitive, the production sector will require less government funding, and it will better survive the dawning open market conditions of the 1980s.

DOC ORIENTATION

Given the evolving business climate in entertainment and communications, the Department's judgement is that the program production focus should now be on how to make the industry more economically viable. The cultural dimension of broadcasting and program production has received considerable attention in the past, and must remain the overriding sine qua non of government policy in program production. However, economic viability in the program production component of broadcasting is complementary to the cultural objectives of broadcasting, and indeed, a prerequisite to achievement of these objectives. If programming is not competitive, then much of the cultural objective of Canadians expressing themselves to each other through the video formats will be lost because Canadians simply won't watch Canadian programming.

Rationale for Strengthening the Independent Production Sector

For Canadian programming to be more competitive, all elements of the production sector must be strengthened. Since most of the current program production capability is contained within public broadcasting organisations, they will be key actors in the transformation of the Canadian program production sector. Similarly, commercial broadcasters have developed important production capabilities which also must grow more competitive.

While broadcasters do the bulk of television production in Canada, the focus of the Department of Communications at this time is on the private sector that is not vertically integrated with the broadcaster, i.e., the independent production sector. With only about $16 million (1979) in sales of television programming, the independent production sector remains the weakest link in the program production industry. However, it is the most entrepreneurial and potentially capable segment of the industry to seize market opportunities that are emerging in Canada and abroad. Already, certain independent producers appear to be the most export oriented of the production industry, with a reported very active marketing and co-production effort in foreign markets. A growing, prosperous independent production sector would tend to redress the imbalances in the broadcasting industry, where most production is currently done in-house by the broadcasters or their affiliated companies.

If there is more confidence in the quality and stability of the supply of programming, Canadian broadcasters will have increased variety and alternatives in Canadian programming sources. Conversely, if there are more market opportunities in Canada for the independent producer, he is more apt to remain in Canada and develop projects that are based on Canadian program production creativity. A better balance in original production between broadcasters and independent producers should contribute to the cultural objectives of Canadian programming, as well as develop more economic viability among the independent producers. Thus, an emphasis on strengthening the independent production sector is an important part of the overall policy framework that would encompass public and private broadcasters and the regulatory structure of future broadcasting services.

TEST FOR ECONOMIC VIABILITY

Since economic viability is a relative term, it is important to flesh out the concept with performance measures. Economic viability can be expressed in terms of targets for program production projects, companies, and the nature of the product itself, as follows:

- The projects should be profitable, albeit taking into account existing or future financial support programs (eg., capital cost allowance).
- The volume of program production should be sufficient to ensure the viability of several Canadian production companies.
- The product should be Canadian-produced with creative and technical content also essentially Canadian.

In setting performance measures for a viable program production industry, there is sometimes a difficult balance to be struck in terms of objectives. The purpose is not to create branch plants of American television and film 'majors', although the economics of U.S. markets and distribution systems will often put the 'product' criterion through severe tests. Neither is the objective to stipulate that productions must be identifiably Canadian, although Canadian themes may turn out to be one of the best routes to commercial success. In any case, for many kinds of production (eg., children's programming, animation, science fiction/ horror drama), good productions can be undertaken without self-conscious treatment of national characteristics.

Economic viability has to meet the test of reasonableness as well. Just as Canada can cope with the development of world class executive jets as opposed to commercial aircraft, program production aspirations should also respect certain scale limitations. Replicating Walt Disney, the blockbuster film (in budget terms), or expensive sitcom series, is probably beyond the capability of Canada's program production industry in the near to intermediate future. This caveat does not necessarily rule out entertainment programming (variety and drama) outside the more extravagant forms.

It is tempting to specify in advance what program product niches should be sought in competitive programming. Canada enjoys strength in educational (eg., OECA's "Readalong" series), animation (eg. Nelvana's "Cosmic Christmas" and "Intergalactic Thanksgiving"), and perhaps ethnic programming. Rather than picking winners beforehand, government policy should set the framework for encouraging economic success in any programming stream that meets the appropriate performance criteria.

HOW TO ACHIEVE ECONOMIC VIABILITY

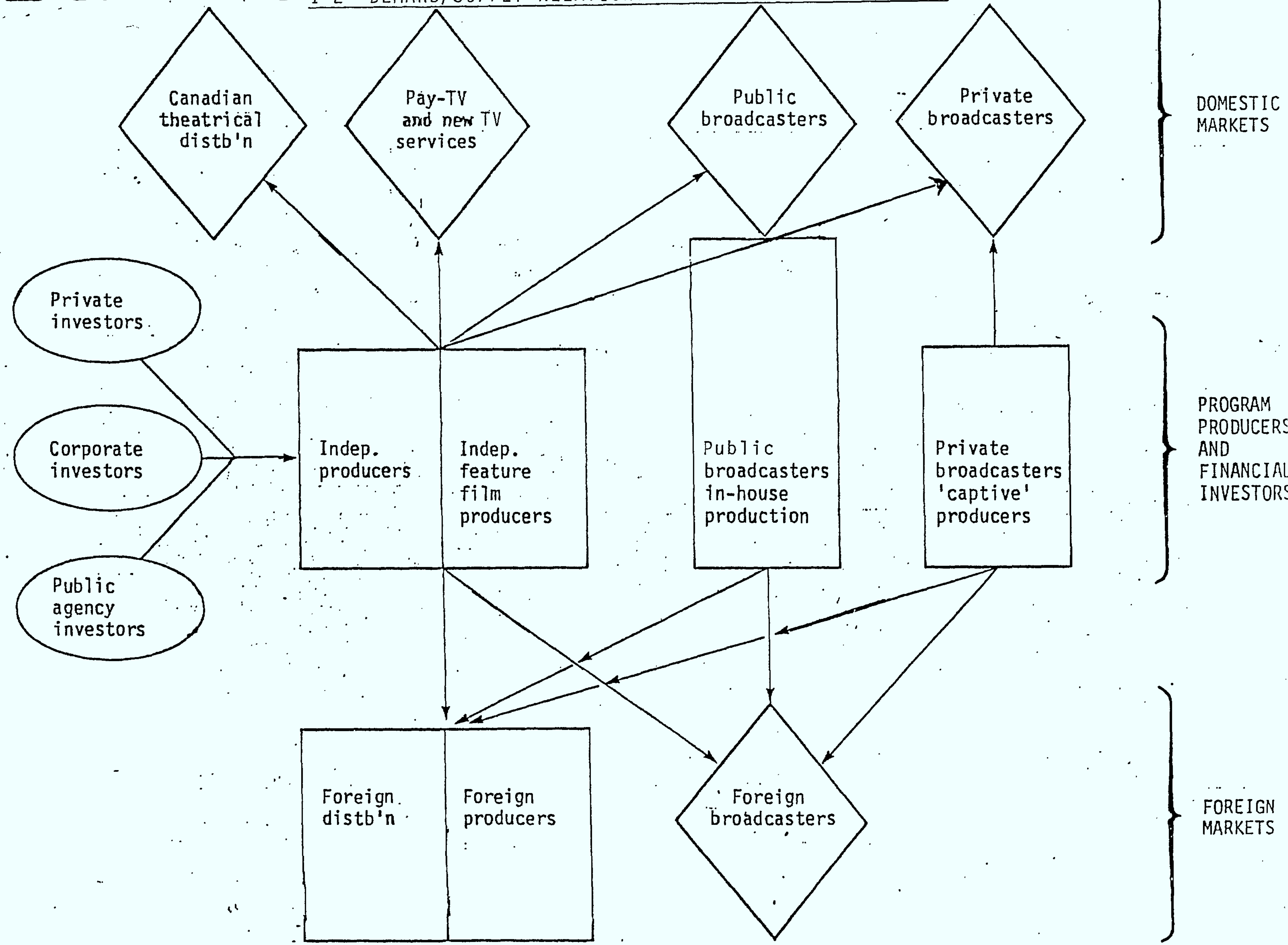
Measures aimed at achieving economic viability in the Canadian program production industry are similar to economic strategies in other sectors. The Canadian program production industry currently exists in a sheltered or protected environment, as do many industrial sectors. It should gradually evolve into an industry that is more internationally competitive, as some industrial and service sectors have already done.

Generally, there are two requirements for sophisticated industries with high technology or creative ingredients to be competitive. First, they must export to recover their investment, and second, the Canadian domestic market must be sufficient to anchor their export drive. To achieve this result, the products must be developed from the beginning to be competitive on a world class basis. The Canadian market itself is usually not large enough to amortize the R&D and manufacturing investment required.

Similarly, the production values of television programming (i.e., investment in production) must be high enough to be competitive in the television business. Investing only enough to meet Canadian content quotas is like manufacturing for the Canadian market under heavy tariff protection. The investment should be large enough to target the production to be competitive in the domestic and international markets.

Fraught with problems of generalization and lack of comparable data, it is difficult to document the basic problem of underinvestment. A general three or four to one ratio seems to be the industry norm for American to Canadian investments in comparable programming. With such under-investment in production values, Canadian programming faces long odds in seeking to become competitive. It needs a much better domestic base and vastly improved performance in the international marketplace.

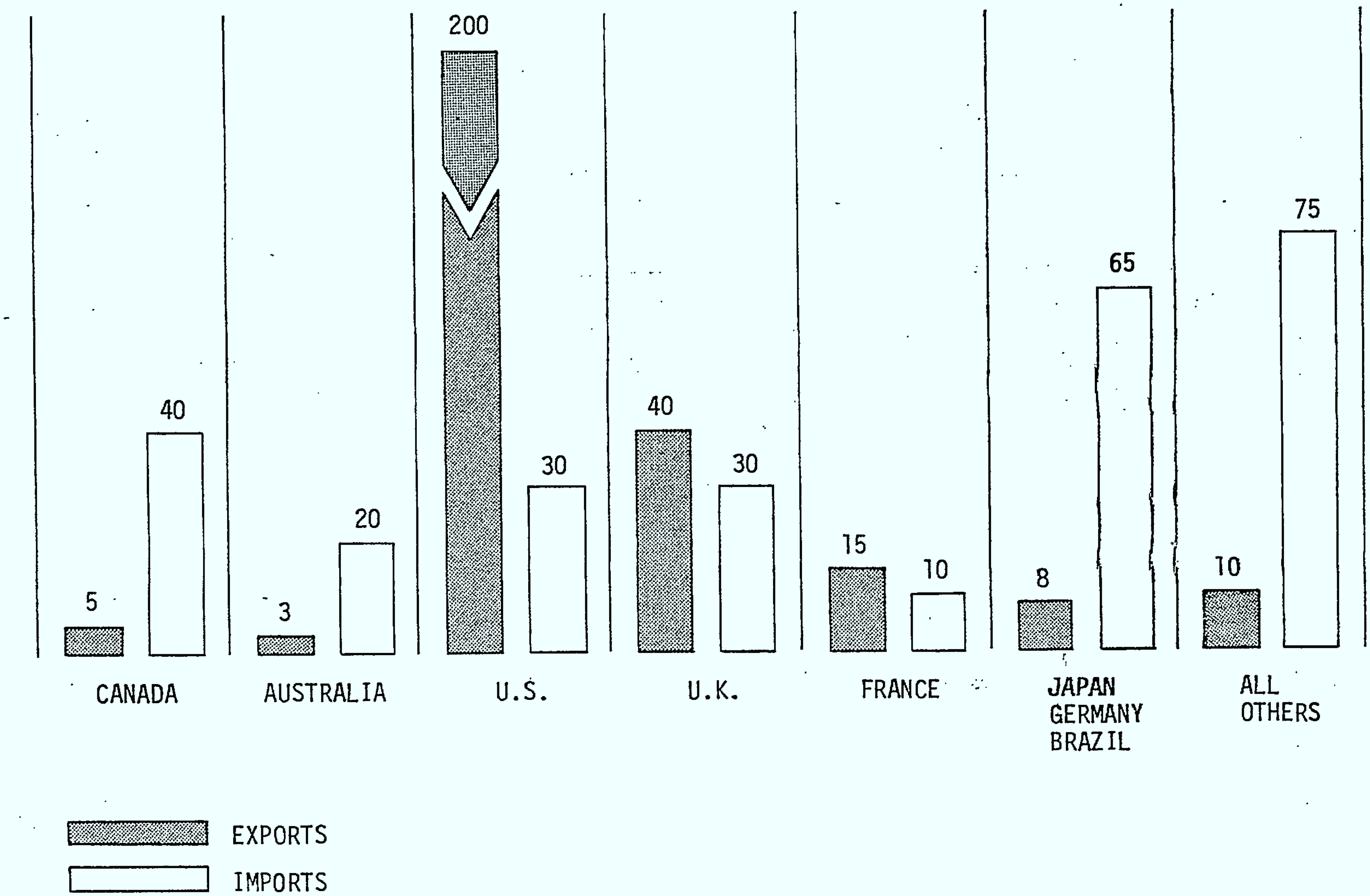
I-2 DEMAND/SUPPLY RELATIONSHIP OF PROGRAM PRODUCTION



The next three sections (II, III, IV) characterise the constraints on the program production industry from making adequate investments. The constraints stem from problems in penetrating both domestic and international markets (the 'demand' for program production), which in turn contribute to resource shortages to program producers (the 'supply' of program production).

There is a fairly complex demand and supply system for the program production industry. Exhibit I-2 portrays this system and illustrates where there could be improvements toward the objective of strengthened economic viability. Very quickly one can conclude that overall improvements will likely require dealing with several areas simultaneously rather than focussing on only one or two of them. Public policy measures that bear on most of these relationships are discussed in subsequent sections (V, VI) which propose ways of altering the demand and supply economics of program production. The overall conclusion is presented in Section VII.

II-1 EXPORTS/IMPORTS OF TELEVISION PROGRAMMING (1978)
($000,000)



Source: External market research commissioned by the CBC in 1979.

II INTERNATIONAL MARKET FOR TV PRODUCTION

Though a viable program production industry in Canada must be developed from a domestic base, success in foreign markets is crucial to the recovery of the investment required to generate high production values*. Since international trade in TV programming is growing and new markets are opening up, the prospects for Canadian program production warrant further examination.

RECENT TRENDS

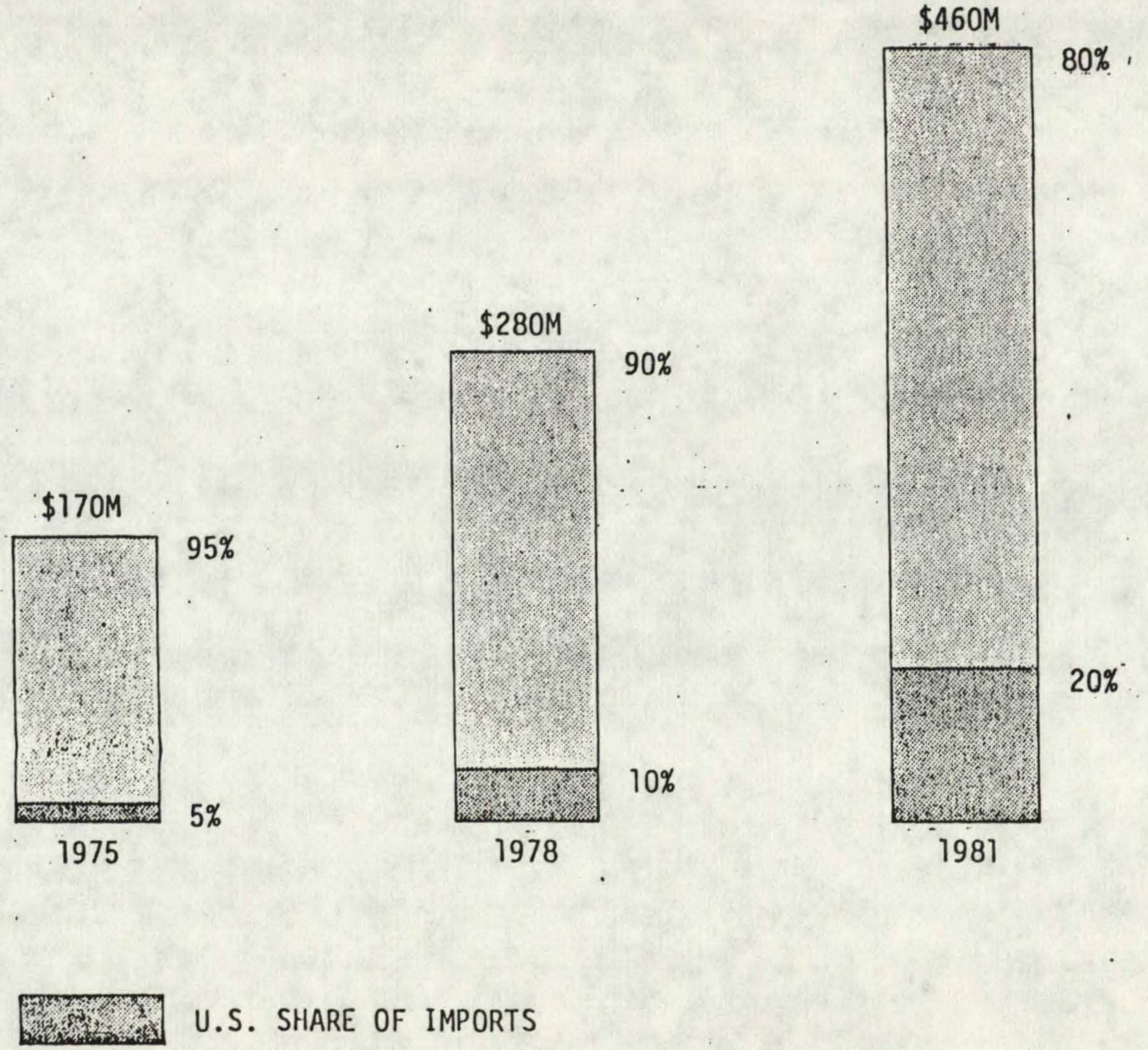
The U.S. television industry has historically dominated the international market**. A recent snapshot of the trade flows of the major producers and buyers (see Exhibit II-I) substantiates the U.S. strength, but also shows that both the U.K. and France export more television production than they import. The volume of trade is estimated at approximately $280 million for 1978. Both Canada and Australia, with large English speaking populations, represent very significant television production markets and export very little on their own.

---

*'Production value' is a function of the time and investment in research, script development, talent and other components of a video production. More time and higher budgets do not automatically generate a better product, of course, but there is obviously a positive correlation between resources extended and quality of output.

**Television Traffic, a 1974 UNESCO study (discussed on pp.III-II to III-13 in Joint Action Committee on pay-TV and Satellite Policy, "Programming for Performance, Restructuring Canadian Television for the 80s", A Brief submitted to the CRTC, March 1980) shows that earlier in the decade, the U.S. exported 150,000 hours of films and television programming annually as compared to 20,000 hours by Britain, its closest rival.

II-2 VOLUME OF INTERNATIONAL TRADE IN TELEVISION PROGRAMMING
($000,000)



Source: External market research commissioned by the CBC in 1979.

Television programming has traditionally been 'dumped' into foreign markets at only a fraction of original production costs*. Through these aggressive pricing strategies, the leading American producers market programming at a tenth of its production value in the Canadian market and the same programming at a hundredth or less in small, Third World countries. The conventional expectation was that export sales were 'gravy' from television production, created for, and fully amortized over the domestic market. Thus, international trade in television production is relatively small in dollar terms. For example, compare a $280 million trade in 1978 from all countries with roughly $850 million in domestic production budgets for <u>each</u> of the three U.S. commercial networks.

This situation is changing, and a very rapid expansion of the international market is taking place. Exhibit II-2 shows how the television market should be approaching the half billion dollar mark by 1981. What is also of considerable importance is the apparent crack in the U.S. market, sometimes labelled xenophobic, where American imports of foreign production appear to be rising as a proportion of the total television trade.

<u>More Export Oriented Producers</u>

The international pace-setters are American and British, both of whom have highly competitive domestic markets. The U.S. strength lies in the motion picture 'majors', the large international distributors (eg. Viacom), and

*The term 'dumping' is <u>not</u> used in its legal sense, for the CRTC has ascertained that anti-dumping action would not be successful if applied to television programming.

the smaller, specialist syndicators. Led by BBC Enterprises (a subsidiary of BBC), the British have several export-oriented production companies, four of which have export sales of $5+ million annually*. Each one pursues separate production/marketing/distribution strategies to achieve its success.

With fast rising production costs and an apparent desire to diversify the U.S. product line, the nature of exportable television programming is changing as well. Some productions are now decidedly international in theme, usually co-productions among two or more countries...for example:

- "Inside Europe", financed by the U.K. production company, Granada;
- "European Theatre of Mystery", a thriller series co-financed in 13 countries;
- "Marco Polo", a co-production involving producers from 3 countries (Dentsu, Rai and P&G).

International selling is becoming less and less a business of straightforward off-the-shelf export sale of a single program or series. Besides new productions, there is repackaging of old programs, particularly with the huge 'stock' of footage in the inventory of the major production companies and broadcasters. Another way of creating saleable product is to adapt and edit program material to suit foreign markets. This may mean trimming hour shows down to half-hour ones, or making feature length programming out of mini-series and vice-versa.

---

*Thames International, Granada, London Weekend are the other three.

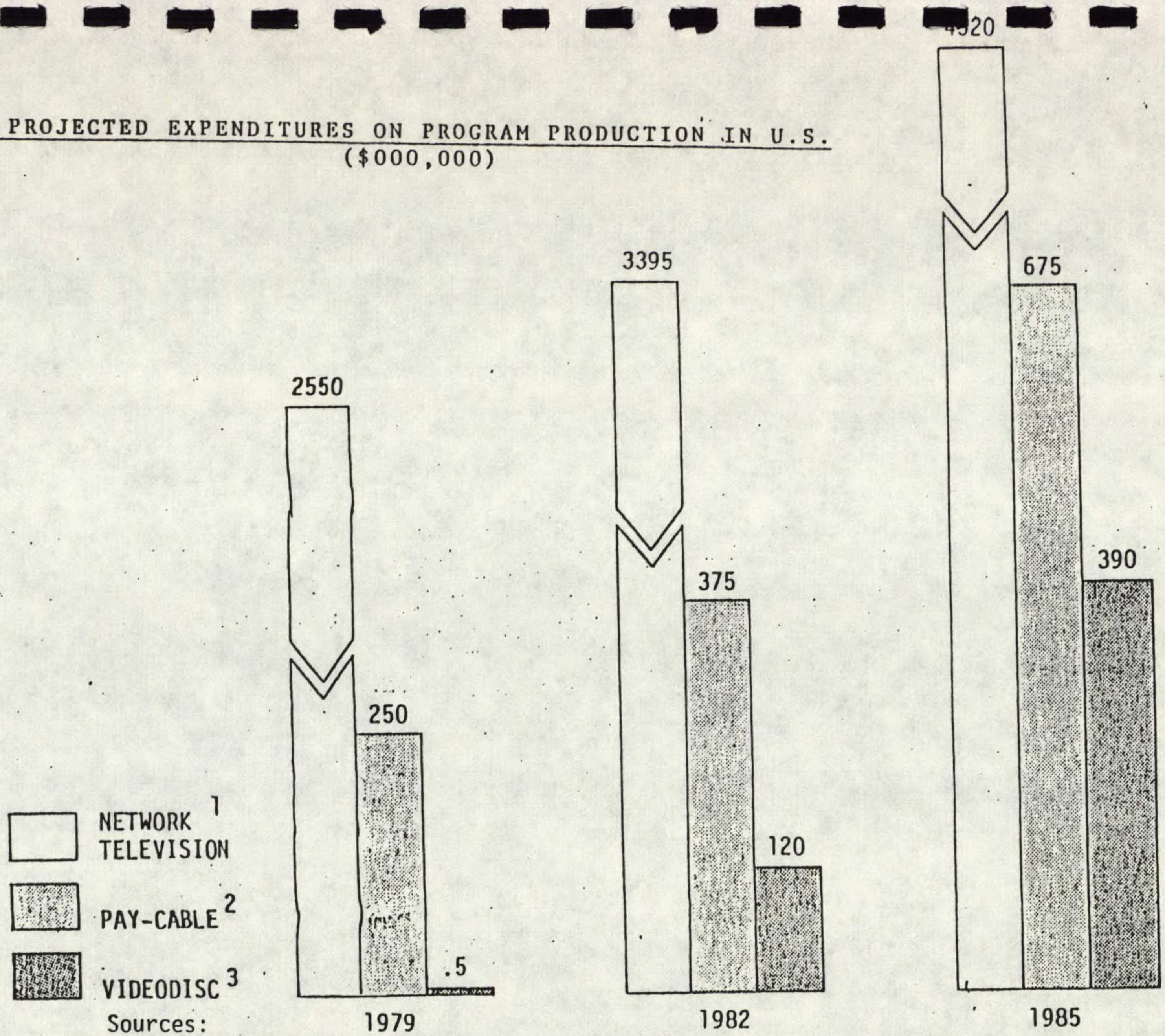
A common technique, too, is 'versioning', whereby productions are altered slightly or double soundtracked to meet the market requirements of different countries. For exmaple, a variety show has different acts spliced into the program according to the appeal to certain markets. A classic example of this is "Sesame Street" by Children's Television Workshop in New York, which is versioned for Canada by the CBC. Canadian producer Wendell Wilks versions a program called "The Palace Presents" for the Canadian, American, and Latin American markets.

Besides versioning the product, aggressive exporters are employing new marketing and promotional techniques to open up new business. Some producer/broadcasters are arranging reciprocity deals for each other's product. Others are splitting their program portfolio among different distributors in the same market or moving from one distributor to another (eg. BBC to Rockefeller Center TV from Time-Life). Still others are resorting to barter deals, where a program is supplied free to commercial stations in return for air time for an advertiser or sponsor.

New Markets

One of the main barriers to commercial success for non-American feature films is the difficulty in arranging strong international distribution. Historically, the profitable U.S. distribution systems have been closed shops to all but the U.S. majors. Television production was similarly restricted with six Hollywood producers supplying most of the three networks' requirements. In Europe, except for the U.K., the broadcasting players have all been public agencies who are not particularly inclined toward foreign production.

II-3 PROJECTED EXPENDITURES ON PROGRAM PRODUCTION IN U.S.
($000,000)



Sources:

1. Network television programming market projections to 1985 are based on an annual growth rate of 10%.
2. Pay-Cable estimates are based on cable revenues projections in Pay-TV Newsletter (May 7, 1980), p.7 and Cablecast (Nov. 16, 1979), p.3. Assumption is that 25% of projected revenues go to producers of programming.
3. Vidoedisc estimates are based on SRI International. Assumption is that 15% of revenues are royalties to producers. See Carnegie Corporation

The international television production market is becoming more 'open' than in the past in comparison with feature film distribution. In Europe, as noted above, the rising cost of program production seems to have propelled the search for foreign products or foreign co-productions. In the U.K., for example, about 5 of the 16 independent producers under contract with the IBA are becoming important buyers and co-producers.

In the U.S., with the advent of pay-television, cable satellite networks and the impending entry of videodisc/videocassette technology into the marketplace*, commercial networks will have less of a hold on television than in the past**. Their future domination possibly rests with their ability to adjust to the new distribution technologies - for example, the establishment of new 'vertical' networks (i.e., channels which emphasize specific programming themes). CBS Cable and ABC Alpha have already announced plans to begin a satellite-cable distribution channel in cultural programming. As well, each of the networks has established its own video product enterprise division to acquire the rights to products for further distribution through home video.

At a general level, it is possible to project how the U.S. video market will unfold in the 1980s, as shown in Exhibit II-3. Pay-TV, cable-satellite services, and

---

*Videocassette recorders are already in the marketplace with a 2-3% penetration of U.S. television households.

**Even conventional broadcasting is experiencing important market changes for the program producer. The independent station (or syndication) market is acquiring more original programming, rather than obtaining it secondhand after the major networks are through with it.

ultimately home video distributors will be increasingly important customers for program production. The pay-TV market is the largest and perhaps the best known element. It is important to recognize that pay-TV in the U.S. is more than a market for feature films, since pay-TV network operators are intent upon diversifying their programming sources*. More elaboration is required for the other two growth markets.

(i) Cable-Satellite Services

The new cable satellite services program production market is different from the pay-TV market. Cable operators pay suppliers of such new channels only a few cents per subscriber, as opposed to $3 to $4 per subscriber for a pay-TV service. Cable operators need the new channels to fill their franchise commitments and to help encourage television viewers to subscribe to cable. Cable operators will be trying to increase their revenue through 'service tiering' - i.e., providing a number of cable satellite television services for a few additional dollars per subscriber. For example, a $3 per month charge might provide the subscriber with another 6 channels. The early services of this type in the U.S. were sports, children's, and religious channels. Then followed ethnic, news, public affairs and composite services (i.e., a mixture of programming themes), as well as 'Super Stations' (eg. WTBS (TV) in Atlanta, or WFMT (FM) in Chicago, which are marketed to cable operators in other parts of the U.S.).

---

*For example, during the six month period ending in March 1980, Home Box Office filled 36% and Showtime 32% of their premier programming slots with specials (Pay TV Newsletter, April 1, 1980, p.2.) HBO's March 3, 1980 submission to the CRTC stated that, on average, 36 sports and special events and 36-45 movies are aired per quarter.

There are some projections on how large the cable-satellite market will be for program producers. By 1985, about two-thirds of American homes with cable will be served by 'new build' cable systems. As a result, they will be subscribers to cable systems which have the technical capacity to deliver 35 or more channels. There will be over 24 million cable subscribers in this category at the present cable growth rate*.

The estimated 1980 revenues for cable satellite services in the U.S. are $50 million, split roughly between advertising and tariffs paid by the cable operator. Advertising is likely to be the fastest growing source of revenue for financing these services. By 1985, there should be about $400 million in combined revenue, 3/4 of which would be from advertising**.

The cable satellite services will be an important but limited customer for programming material. The $400 million in revenue for cable satellite services is in contrast with the much larger broadcasting revenue from advertising which was $8.2 billion in 1978. Thus, although a great deal of programming is required to fill the new cable satellite services, the prices paid for the material does not match what network or pay-TV customers are prepared to offer. For example, the originally proposed "BBC in America" service (now altered) had calculated its programming costs at $10,000/hr., while Warner's children's channel, 'Nickelodeon', is paying the rock bottom price of $1,500/hr.

---

*Paul Kagan, Pay TV Newsletter, (May 7, 1980), p.7.

**These estimates were developed by a Nordicity Group Ltd. Principal for the English Services Division of the CBC.

Other cable-satellite services having stronger advertising support and reaching about 3-5 million homes (eg. ESPN (sports), CSN (news), and the U.S. network) have larger programming budgets. Pay-TV service vendors, on the other hand, buy their programming from 25¢ to 75¢ per subscriber, which means a producer selling to a pay network with a million subscribers would earn revenues in the hundreds of thousands of dollars.

(ii) Home Video*

The videodisc/videocassette market is already a factor in the international marketplace for video programming. Videocassette recorders are now in about 1.2 million American homes, while Canada is lagging behind in proportionate terms. While videocassette recorders are primarily an adjunct to television services, sales of pre-recorded videocassette materials are becoming measurable. There have been several gold cassettes, i.e., retail sales over $1 million, primarily in the feature film product category. Videodisc sales should overtake pre-recorded cassettes by the mid-1980s. As shown in Exhibit II-3, royalties to program producers (at $2 per disc sold) should reach $300-500 million in the U.S. by 1985, with perhaps an equivalent amount in Europe and Japan.

Videodisc in particular will at first be a medium for video entertainment, offering an important market 'window' for feature films. More closely related

*A more complete presentation of the international market for videodisc in particular is contained in Nordicity Group Ltd., "Toward a Canadian Position on Videodisc. A Discussion Paper for the Department of Communications", January 1981.

to television production, however, will be the special interest, institutional, and educational markets that videodisc and to some extent videocassettes will ultimately serve. At present, very little original production has been designed especially for this new home video market. As in the early period for the international market for television product, the new medium is simply regarded as a different way to sell off-the-shelf production. Following the pattern of the international television market, one can anticipate the evolution toward the development of programming material designed for first use in the new home video medium.

Already there is a highly competitive search by videodisc manufacturers/ distributors for the rights to existing video content. Thus, the market already exists for those active in international television trade. In fact, the more active participants in the international television trade will probably be the best prepared for penetrating emerging home video markets.

Conclusion
re: International Markets

The international market, as it is evolving, presents real opportunities to effectively marketed television production, although the historic U.S. production strength and control over distribution makes entry into new video markets very difficult. The battle between Home Box Office (the dominant pay-TV network) and the Hollywood majors over access to feature film product demonstrates the economic stakes in controlling distribution and supply*.

---

*In the Spring of 1980 four major motion picture studios - Fox, MCA, Columbia and Paramount - announced plans for a joint venture with satellite transponder owner Getty Oil (Pay TV Newsletter, April 25, 1980) to compete with existing pay-TV networks. However, HBO, Showtime and the Movie Channel launched successful legal action over the proposed service - Premiere - on anti-trust grounds. Premiere is appealing.

II-4 TELEVISION PRODUCTION[1] IMPORTS/EXPORTS

($000,000)

Exports	1977	1979
Independent production companies	1.7	6.0
"Affiliated" production companies	.3	.1
Public broadcasters	1.1	2.0
TOTAL	3.1	8.1

Imports	1977	1979
Private Broadcasters[2]	20.0	37.8
Public broadcasters	12.2 (1978 figure)	17.7
TOTAL	32.2	55.5

All figures rounded.

Source: Table derived from figures in Bélanger et al. p. 30-37.

Notes

1. Survey only obtained figures from four companies, although they were the major ones.
2. Includes both commercial networks and individual television stations, except for CHCH (Hamilton), CJOH (Ottawa) and CITY-TV (Toronto) which did not respond to the survey.

Other cable-satellite services having stronger advertising support and reaching about 3-5 million homes (eg. ESPN (sports), CSN (news), and the U.S. network) have larger programming budgets. Pay-TV service vendors, on the other hand, buy their programming from 25¢ to 75¢ per subscriber, which means a producer selling to a pay network with a million subscribers would earn revenues in the hundreds of thousands of dollars.

(ii) Home Video*

The videodisc/videocassette market is already a factor in the international marketplace for video programming. Videocassette recorders are now in about 1.2 million American homes, while Canada is lagging behind in proportionate terms. While videocassette recorders are primarily an adjunct to television services, sales of pre-recorded videocassette materials are becoming measurable. There have been several gold cassettes, i.e., retail sales over $1 million, primarily in the feature film product category. Videodisc sales should overtake pre-recorded cassettes by the mid-1980s. As shown in Exhibit II-3, royalties to program producers (at $2 per disc sold) should reach $300-500 million in the U.S. by 1985, with perhaps an equivalent amount in Europe and Japan.

Videodisc in particular will at first be a medium for video entertainment, offering an important market 'window' for feature films. More closely related

*A more complete presentation of the international market for videodisc in particular is contained in Nordicity Group Ltd., "Toward a Canadian Position on Videodisc. A Discussion Paper for the Department of Communications", January 1981.

A similar struggle of corporate titans is occurring in the videodisc area with major manufacturers buying as much video product as possible*. Clearly, opportunities will only be seized by aggressive producers with marketing and distribution muscle, which is related to product volume and marketability.

CANADIAN PERFORMANCE

Given Canada's fairly elaborate program production infrastructure, its historic export performance has been relatively dismal. However, as a result of the activity in the international marketplace referred to above, there are some signs that Canadian program producers are participating to some degree in the growing international television trade. Although information on sales to foreign markets is conflicting, some documentation of the recent upswing in exports - as well as in imports - is available (see Exhibit II-4). For the four independent production companies in the survey, about two-thirds of their revenues originate in international sales.

Contrary to the independent producers' record, only a very small percentage of the program production of affiliated independents reaches the export market (see Exhibit II-4). However, it would appear from actual export sales examples (eg., "The Littlest Hobo"**) that some of their productions

---

*For example, RCA, as part of an aggressive videodisc software acquisition program, has purchased tennis programming (Video Week, Sept.15, 1980), and is releasing a series of videodiscs based on Survival Anglia's extensive wildlife holdings (Variety, Oct.15, 1980). Pioneer, Philips, IBM and MCA are involved in joint ventures to produce entertainment software on discs manufactured by DiscoVision. 3M Company has been bargaining with BBC Enterprises for the rights to put BBC's programs on discs (Videodisc News, Aug.1980).

**See "A Television Mutt is our top export", Toronto Star (Nov. 15, 1980), p.F3, and "Export Sales Growing: A General Overview", Cinemag (Dec. 15, 1980), p.29.

II-5 REVENUE SPLIT BETWEEN FOREIGN AND DOMESTIC TV MARKETS

($000,000)

	Domestic Market	Foreign Market	Total
Affiliated producers	9.0 (99%)	.1 (1%)	9.1 (100%)
Independent producers	15.5 (92%)	1.3 (8%)	16.8 (100%)
TOTAL	24.5	1.4	25.9

Source: StatsCan unpublished results of 1979 survey of Motion Picture Production.

eventually do achieve export sales, perhaps as sales by the commercial broadcasters themselves .

Confusing the picture even more are recent Statistics Canada figures which indicate that only a small percentage of revenues are generated by export sales. Exhibit II-5 shows that barely $1 million in revenue is derived from export sales - in direct contrast to the Bélanger Chabot survey results of Exhibit II-4. The latter figures could be closer to the actual situation, given the $8.5 million the industry projects for 1981, but obviously Canadian export performance in television production bears further analysis.

Factored into the overall performance of the program production industry is the record of feature film producers in achieving penetration of foreign television markets. Exhibit II-6 shows the revenues generated by feature films financed in part by the CFDC between 1977 and 1979, including a comparison with revenues derived from sales to Canadian television broadcasters.

Tailoring to
U.S. Market

There are major cultural concerns about the supposed adulteration of the Canadian identity of a Canadian production to meet the perceived market expectations of U.S. or other foreign audiences*. However, the major

*What particularly galls the cultural community, of course, is program production that purposely denudes the production of any Canadian identity. See Canadian Council of Filmmakers "CTV Television Network Ltd." An intervention for submission to the CRTC on the subject of the application for renewal of the network license , Jan. 17, 1979. One could counter that this is an evolutionary stage for the Canadian production industry.

II-6 CFDC FINANCED SALES ('77-'79)
($000,000)

Television programming revenues		0.7
Feature film revenues		
CBC	1.8	
CTV, Global	2.6	
Total Canada		4.4
U.S. commercial networks	14.5	
Pay-TV networks	16.4	
Total U.S.		30.9
Total		36.0

Source: Bélanger, et al., p.36.

economic question is whether themes rooted in the general Canadian experience- wherein Canadian producers have a natural comparative advantage - can sell in foreign markets.

There is no particular reason to believe that dramatic themes based on Canadian history and experience will not sell internationally. In fact, regional and culturally-based programming seems to sell well in the U.S. Many aspects of Canadian culture probably represent an untapped regional/cultural resource for programming material, and high production value drama and variety programming should sell. A case for such export optimism could be made as follows:

- Canadian producers, including broadcasters, are steadily improving the overall quality of their productions*.
- As U.S. buyers develop confidence in Canadian producers, creative control should remain more in the hands of Canadian producers;
- With the development of foreign markets other than the U.S., there should be a better overall market for Canadian product;
- The breaking up of the mass market, abetted by new television services, should lead to a greater tolerance for non-American productions even in the U.S.;
- The new distribution technologies should also create a demand for a greater volume and variety of product; Canadian producers, if they move aggressively, should become a factor in that marketplace.

*For example, the CBC has won 4 international "Emmy's" in the last 3 years.

While Canadian programming if well produced should find international markets on its own merits, there are additional marketing factors to consider. Popular culture is very fashion oriented and some kinds of television production will be 'in' at any particular time. Therefore, some attention has to be paid to investing in production that is aimed at a current market fashion, or better still, the fashion that is about to happen*.

Some of the better producers use market research extensively as an input to the creative process. As described earlier in this section, international television is becoming a highly sophisticated business; with such intense competition, producers cannot wait for buyers to beat a path to their doors. Canadian producers must aggressively pursue international sales - with quality productions that are appropriate to current market needs.

As noted in Section I, the export advantage for any producer, as in manufacturing, is a strong domestic market. The American producer, who is able to amortize his production costs on the domestic market alone, makes for a tough competitor in foreign markets. The next action discusses the domestic market and the degree to which it has been able to support the Canadian producer.

---

*The notion of a cultural product life cycle, which has been developed by Robert Russel in unpublished documents, raises the question of whether Canadian producers' track record is investment at the wrong end of the cycle - <u>after</u> the current market fashion has peaked.

III-1 SOURCE OF TELEVISION PROGRAMMING[1]

($000,000)

	Public Broadcasters		Private Broadcasters	
	1978	1979	1977	1979
Internal Production	284 (93%)	332 (92%)	55 (65%)	76 (60%)
Acquisition of Canadian Programming[2]	10 (3%)	11 (3%)	9 (11%)	12 (10%)[3]
Acquisition of Foreign Programming	12 (4%)	18 (5%)	20 (24%)	38 (30%)
Total	306	361	84	126

all figures rounded

Source: Bélanger et al. p.31, 32.

Notes

1. Survey excludes CJOH (Ottawa), CHCH (Hamilton) and CITY-TV (Toronto).
2. These figures include both feature films and television production.
3. It is assumed that these figures are primarily from sales by affiliated ("captive") producers to commercial networks.

III DOMESTIC MARKET

This section describes the constraints of Canadian broadcasting as a market for program producers and discusses the potential for expansion of current and new domestic video markets.

EXISTING BROADCASTING MARKETS

Unlike in the U.S., the structure and policies of Canadian private broadcasters have resulted in an almost complete foreclosure of the domestic market to independent producers. Even though public broadcasters spend several million dollars on independent production, the proportion of their procurement to internal production is quite small. Exhibit III-l shows that public broadcasters spend over 90 per cent of their programming budgets on their own in-house production capacity. Private broadcasters spend 60 per cent of their programming budget on internal production, 30 per cent on foreign production, and most of the remainder on purchases from their affiliated production companies. Hence, the domestic broadcasting market for independent TV program producers has traditionally been very thin.

The independent production sector has specifically pointed out that CBC purchases do not constitute the bulk of their revenues from television programming. In a survey of $17.5 million worth of production projects over the last ten years, only a third of the production costs were recovered from CBC purchases and just over two-fifth of their revenues resulted from sales to the CBC (see Exhibit III-2)*. The documented stand taken by the CFTA is further substantiation of the vertical integration of the CBC.

*Presumably, much of the revenue is derived from export sales, though this is not confirmed.

III-2 CFTA SURVEY OF INDEPENDENT PRODUCTIONS OVER 1971-80
($000,000)

Total number of production projects surveyed: 69 Total costs of production: $17.5[1]		
	CBC	"other clients"
Revenues	$5.9	$8.4
Proportion of total revenues	41.3%	58.7%
Proportion of total production costs	33.7%	48%

Source: Survey of CBC support for Canada's independent television production industry commissioned by the Canadian Film and Television Association (CFTA), See CFTA press release Nov. 20, 1980 and *Cinemag* Dec. 15, p. 27.

Note

1. CCA financing amounted to $3.8 million.

Public Broadcasters - the CBC

The CBC and other public broadcasters have traditionally not acquired a high proportion of their programming from independent producers. The reasons for the CBC's behaviour/performance can be summarised as follows:

- CBC has 25+ years commitment to its own production capabilities, for many years all that existed in Canada.
- Like any public agency, there is a natural reluctance to contract out or otherwise lose control of resources, particularly when there was lack of confidence in the independent production sector.
- Public broadcasters have definite legislated mandates to define and produce Canadian programming that meets essentially cultural objectives. This orientation is perceived to be quite contrary to commercial and export motives of independent producers;
- While the CBC has committed itself to assisting independent production development (eg., through setting up a Head of Independent Production), the corporation has had severe budgetary and mandated constraints in the last three years. The 'critical mass' (and morale) arguments of its own internal production departments further constrain the CBC from following through on independent production;
- The talent and technical union agreements have imposed further constraints on CBC's ability to farm out production (eg. NABET's anti-contracting out clause, AFofM's expenditure commitment guarantees);
- The network schedule of the CBC, especially the English Services Division (ESD), poses its own severe constraints on available air time for independent producers, a problem which CBC-2 is in part designed to resolve. Moving the 'National News' to 10:00 p.m. could exacerbate the problem of limited prime time air time for independent producers.

III-3 ECONOMICS OF CBC PRODUCTION DECISION

($000)

	Independent Production Company	U.S. Procured
Revenues		
Advertising revenue[1]	1,000	1,500
"Packaging benefit" (35% of advertising generated by American programming)	-----	525
	1,000	2,025
Costs of Production (½ hour/wk for 26 weeks)		
Procurement of programming	-----	312
Commissioning an indep. production[2]	1,300	-----
Net Revenue (LOSS)	(300)	1,713

Source: Internal CBC Study, July 1979.

Notes

1. Assumes Canadian produced shows can be sold "packaged" to advertisers with American programming.
2. Assumes commissioned cost of $100M/hour, or 50% of cost of production.

Apart from the above reasons, there are some basic economic factors which have inhibited the CBC from buying more from Canadian independent producers. From the CBC's perspective, replacing 26 episodes of a half hour of American light entertainment programming with a Canadian production from the independent production sector would cost approximately $2 million a year.

This oft quoted CBC estimate assumes that the CBC would pay half the independent producer's cost, and that it would not attract as much advertising revenue as the American program (see Exhibit III-3). If the CBC were to pay a third of the producer's cost, or if the production were fully competitive with the American equivalent and could generate equal advertising revenue, the economics to the CBC would not be as unfavourable. Nevertheless, the overall economic advantage of 'dumped' American programming remains high.

The economics for replacing in-house CBC production with independent production company programming are much more favourable, but inhibitions to farm out production remain. To overcome them, ESD has introduced an organisational dynamic which could substantially increase the amount of programming being undertaken by the independent production sector. ESD has established a Head of Independent Production, who acts as an 'area head' and competes with the heads of specific programming areas (variety, drama, children's, and public affairs, etc.). It is an important organisational dynamic, for now there is someone specifically responsible for a 'bank' of scheduled time to fill with independent productions, as well as someone to argue for discretionary funds for that purpose. Some of the practical measures that are possible in this set-up include the following:

- Showcasing top Canadian feature films in a scheduled prime time slot, earmarking additional feature film time in the summer schedule, and encouraging late night re-runs for Canadian feature films on owned and operated stations;

- Extending the "Canadian Reflections" kind of program which showcases 'small film' and 'filler' material that CBC acquires for spots on the schedule. With $1 million spent over the last three years, this practice is an important boost to producers at the early stages in their careers;

- Improving the odds for an independent producer to translate his proposals into programming concepts that capture an important TV production occasion (eg. a special on Terry Fox).

- Causing new original programming to happen through up-front investment of funds or facilities in independent production.

The early results of this move show a positive trend. ESD has publicly used $18.2 million as a target figure for 1980-81 for expenditures on private sector resources - up from $14.2 million in 1979-80. These figures include feature films, television programming commissioned or bought off-the-shelf productions that the CBC co-finances (with CBC dollars up front), or that CBC co-produces (with CBC facilities up front), and craft resources. If the roughly $7 million stable expenditure on 'craft resources' from both these totals is subtracted, the result is more than a 50% increase in Canadian programming procured in various forms from independent producers. ESD is confident that the 1980-81 target will be met and possibly exceeded.

The French Services Division (FSD) has begun to provide for the independent production sector as well, although different approaches have been used. The FSD has adopted a policy of making small equity investments in feature film, and has purchased the rights to virtually every Quebec film made. It has contracted out more series to the independent production sector than ESD, although it does not generally engage in co-productions as ESD does. Overall, however, the record of constraints mixed with some progress, seems to match ESD.

With the CBC now having demonstrated more confidence in independent producers (about 20 series are now produced by the independent production sector for the English and French Division), how much more of the schedule can become a market for independent producers?

A closer examination of the programming budget for English language television production shows that even with radical policy changes, the total potential production budget in the hands of independent producers does have limits. If, for the purpose of argument, the local and regional programming budgets are removed from the CBC's budget, there remains about $150 million in English network production. But about a third of that amount is for fixed overhead charges and procurement of American programming. Another perhaps fifth of the network programming budget is for news and current affairs, which is a broadcaster's function even in the U.S. where all other programming is farmed out. The remainder

III-4 CTV NETWORK ANNUAL PROGRAM PRODUCTION

(hours)

	Total original hours of Canadian network Programming		
	1976-77	1977-78	1978-79
All sources	1443	1380	1343.5
Independent producers and direct co-production	38	36	0
Co-productions, excluding independent producers	38	21.5	0
Independent producers, excluding direct co-production	0	14.5	0

Source: Council of Canadian Filmmakers CTV Intervention, Jan. 17, 1979, p. 27.

of the programming budget is about $65 to $75 million, some of which is 'below the line' (i.e., fixed costs of facilities)*. Thus, the total programming budget that is potentially 'available' to the independent production sector, while substantial, is much smaller than the $680 million total CBC budget would first indicate.

Commercial Broadcasters

The policies of the CBC are not the sole cause of the limited market for program producers, for it is a structural problem throughout Canadian broadcasting. The vertical integration of commercial broadcasters has severely limited the other major market. Exhibit III-4's breakdown of CTV network program production shows how small that domestic market has been for independent producers.

In awarding the initial network franchise, the CRTC has encouraged vertical integration in order to ensure that 'self-sufficient' production facilities were established in Canada. Once production studios and facilities have been acquired by the broadcasters, they become 'fixed costs', along with the technical and operating personnel associated with the facilities. Therefore, the costs for any additional production, assuming there is spare capacity in the production facilities, are variable only to the broadcaster. When pricing a production for a potential client an independent producer without similar facilities obviously must factor in the total costs of production, as well as his profit margin.

*The French language figure with similar assumptions would be about three quarters of the English programming budget.

The independent producer is thus competing at an economic disadvantage against producers affiliated with broadcasters, who can quote marginal costs only.* As was the case with CBC, vertical integration also provides a more reliable market for broadcasters' affiliated production houses. To wit, the CTV network habitually buys production from its member stations, principally that of Baton Broadcasting and Multiple Access. These two broadcasters, through their affiliated production companies, Glen Warren and Champlain Studios, provide about 3/4 of the production for the network**.

In effect, independent producers are in the position of having to compete with U.S. production, which of course is sold in Canada at a fraction of its original cost. The CRTC decision of 1972 creating a 'special category' program to reduce Canadian content through co-production and joint venture with foreign partners has done little for Canadian independent producers.

---

*While it is difficult to assess the disadvantage in quantitative terms, Babe calculates that independent producers might be working under a 20 per cent disadvantage as compared to vertically integrated broadcasters (Robert E. Babe, "Project #2, Report to Department of Communications on the Development of a More Mature Program Production Industry", August 16, 1979, p.5).

**CRTC Decision 78-669, Multiple Access Ltd., October 12, 1978, p.3 cited in Council of Canadian Filmmakers CTV Intervention, January 17, 1979, p.29.

Although the dollar figures are not available, the current practice of the Global Television Network is more favourable to independent producers. At present, 5 out of 6 Canadian content programs are being independently produced; only one is being produced entirely by Global's production affiliate, Barber Green Productions*.

The producers of feature films have had more success from sales to the public and commercial broadcasters, although of course, prices paid for these films rarely represent more than a fraction of their production costs. It is economical for the networks to purchase the exhibition rights of Canadian features as a relatively inexpensive means of supplementing their Canadian content. The CTV network has even gone further than that on occasion, through pre-sale agreements with feature film makers. The network has also co-produced a small number of films (eg., "A Man Called Intrepid", "Two Solitudes", and "Why Shoot the Teacher").

Although the CTV network as a 'cooperative'** makes almost no significant

*Financial Post (Jan. 3, 1981), p.9.

**On p.53 of Canadian Television Babe says that CTV:

> may be viewed as a 'non profit cooperative' owned by the largest stations for the purposes of: giving national distribution to programming produced by the largest affiliates; exercising concentrated buying power in the purchase of U.S. network programming and movie rights; acting as an intermediary to facilitiate the national advertising process; and serving as an instrument of cross-subsidization between the wealthy group of stations and the poorer ones.

profit itself, the television business is a very profitable one for most of the private sector holders of broadcasting licenses*. Recent announcements of the latest quarter earnings of Baton Broadcasting and Tele-Metropole are illustrative of this economic reality**. While the CRTC may eventually enjoin the commercial broadcasters to increase their Canadian content without specific references to independents, there is no guarantee that other than the affiliated production studios would benefit. As explained earlier, it is in the economic interests of commercial broadcasters to purchase from their affiliated production companies.

There is a small syndication market in Canada consisting of about a dozen French and English independent TV stations and served by distribution or production/distribution companies like Astral-Bellevue-Pathé. Syndication is distribution of programming that already has been used by networks, or inexpensive programming which has not already been aired. In the U.S., syndication can provide substantial returns to the program producer, but in Canada sales account for only at most a few thousand dollars toward the total production costs of any given television project.

---

*See CRTC, Special Report on Broadcasting in Canada, 1968-1978, 2 volumes (Ottawa: CRTC 1979). Vol. I, Table 32, on p.88 shows that operating profits increased from $15.8 million in 1967 to over $81.3 million in 1977.

**Baton Broadcasting had first quarter gains of 21 per cent in the 1980 fiscal year (Globe and Mail, January 23, 1981), p.B3). Tele-Metropole reported a 20 per cent gain in the three months ending Nov. 30, 1980 compared with the same period a year earlier (Globe and Mail, January 23, 1981, p.B7).

Producer's Cost Recovery from The Canadian Market

Even if broadcasters commissioned more programming from the independent sector, economics would still be unfavourable for the independent producers. The price paid by broadcasters covers only 20 to 30 per cent of production costs of many larger budget productions, and this low Canadian market is considered the main barrier to the economic viability of independent producers*.

The "Trails of Klondike" series currently being produced by Norfolk Communications is an example of the low payback from a production even when it is sold to the CBC. This series costs $350,000 to $400,000 per program**, with the CBC agreeing to pay $70,000 for each episode - which is slightly higher than the pre-sale arrangement with a German buyer**. The stiff challenge to the producer is (a) to finance production, and (b) to find other customers internationally to make up the large difference between the production budget and what can be recouped from the Canadian market.

Feature films recover an even smaller percentage of production on sales to Canadian television. For example, the CBC would typically pay between

---

*CFTA President Pat Ferns says, "Canadian independent producers, if they can command only 20-30% of the production costs from the domestic market, are in a substantially worse position than independent producers in most other significant TV markets", (Financial Post, Jan. 3, 1981, p.9).

**From a discussion with Norfolk Communications, the series producer.

$150,000 and $250,000 for a feature shown on prime time, and from $40,000 to $75,000 for features shown in summer*. The CTV network pays less, although apparently it recently paid a record $200,000 for "Prom Night", a Canadian feature film that had grossed $14 million at U.S. wickets by November 1980**. The budget for Canadian feature films currently averages $3 to $5 million, which is more than ten times the return that could be expected from the Canadian television market.

PAY-TV AND OTHER FUTURE MARKETS IN CANADA

Pay-TV in the U.S. has become an important new 'window' in marketing feature films. In Canada, it has often been heralded as the potential saviour for the feature film and independent production industry. How will the Canadian pay-TV market effect the economics of program production in Canada?

Pay-TV will become an important buyer of feature films and other high quality programming in Canada. Whether one or more licenses are issued, how important Pay-TV is to the program production industry will depend on the following:

- programming mix, i.e., number and quality of feature films and special programming;
- nature of the Canadian content regulations;

---

*From a discussion with the Head of Independent Production, ESD, CBC.

**See Variety (Nov. 26, 1980), p.33.

- degree of vertical integration permitted for the pay-TV operator;
- level of market penetration by pay-TV;
- prices paid to the producers for exhibition rights.

Without knowing pay-TV regulatory ground rules, there can be no accurate forecasts for future cost/revenue projections from pay-TV services in Canada. However, financial scenarios can be developed to obtain some understanding of the parameters of a potential market for program production as attempted in Exhibits III-5 through III-8. This pay-TV scenario makes the following assumptions:

- About half the program offering is in feature films and half in special TV productions; as previously noted, the figure is about 1/3 for HBO and Showtime;
- The Canadian content is assumed to be about 36% of broadcast hours; it is enough to absorb all passable Canadian feature films, and assumes a large growth in television entertainment production capability.
- The penetration level is projected to be about 1/4 of cable subscribers, with program acquisition costs estimated on a per subscription basis*;
- One national system is assumed. Two or more competing services, or franchises awarded on a geographic basis, would alter the structure of the market for programming, and could vary considerably the overall revenue picture.

In this scenario, about $7 million is pumped into the feature film industry by 1983, although the price paid for the rights to the feature films - very roughly $280,000 - is only a part of the feature film production costs.

---

*Penetration levels are a great subject of debate and depend on many factors. The 25% estimate is based on an overall assessment of pay-cable experience for a competitive premium channel service.

III-5 PAY-TV REVENUE SCENARIO

(000,000)

	1983	1985
Cable households[1]	4.63	5.10
Estimated year end market penetration[2]	25%	30%
Average number of subscribers throughout year[3]	0.78	1.29
Revenue projection[2]		
- at $12/mo./sub	$113	$186
- at $15/mo./sub	$141	$232

Source: Unpublished estimates by Nordicity Group Ltd.

Notes

1. Includes French and English language.
2. Market penetration and revenue per subscriber depend on richness of pay offering, cable company flexibility in marketing and packaging discretionary services, number of competing (if any) pay-TV services licensed, etc.
3. Assumes that (i) some small cable systems will not install satellite dish to connect pay service, and (ii) there is a lead time to the build-up of subscriber.

III-6 PAY-TV DELIVERY COST ESTIMATES
($000,000)

Costs	1983	1985
Payment to cable companies ($4.20/subscriber/month)	40	65
Studio/signal origination	.5	.25
Satellite rental (2 transponders)	2.0	2.0
Administration & marketing	3.0	3.0
Working capital cost ($5MM at 12%)	.6	.6
Show guide ($1.80/subscriber/year)	1.4	2.3
Capitalize start-up losses	.2	.2
	47.7	73.35
Available for program acquisition and profits at $12/subscriber/month. revenue[1]	63.5	112.66
Available for program acquisition and profits at $15/subscriber/month. revenue[1]	93.3	158.65

Notes

1. These figures are derived from subtracting the costs on this exhibit from the revenues calculated in Exhibit III-8.

III-7 PAY-TV PROGRAM ACQUISITION COSTS

		Average price paid to producer ($000)	
Pay-TV offerings	Number/year[1]	1983 Scenario (780M subs)[2]	1985 Scenario (1,290M subs)[3]
Foreign feature films (90 minutes)	125	$310	$510
Canadian feature films (90 minutes)	25	280	460
Foreign TV entertainment (including live specials and sports)	56	200	320
Canadian TV entertainment (including live specials and sports)	100	200	320

Notes

1. The Pay-TV offering assumption of 306 new titles/year compares favourably with the richest offering in the U.S. of 1 new title per day or 365/year.
2. Calculated on the basis of a weighted average cost of a range of productions - at a per subscriber cost of 25¢ to 75¢ depending on the quality of the production; foreign films include some "blockbuster" quality.
3. Price rises because 1985 pay-TV penetration is higher than in 1983.

III-8 PROFIT TO PAY-TV NETWORK OPERATOR (LICENCEE)
(000,000)

	1983	1985
Costs		
- delivery	47.7	73.3
- program acquisition	76.0	124.0
	123.7	197.3
Revenue @$12/subscriber	113.0	186.0
Profit (loss)	(10.7)	(11.3)
Revenue @$15/subscriber	141.0	232.0
Profit (loss)	28.0	46.0

Source: Derivations from Exhibits III-8, III-9, III-10.

The program production industry gets a $20 million boost in the 1983 projection*. The average amount for each production is approximately $200,000, or about 50% of the production budget of a series like "Klondike" described above. Once it is sold to pay-TV in Canada, it could be argued that the value of the production to the CBC or to a private broadcaster is reduced, which means the broadcaster would pay less than at present. One could also argue that exhibition on pay-TV - as long as the services tape only a minority of TV households - would in fact be excellent PR for the production's conventional broadcasts.

While the benefits of pay-TV exhibition to the individual producer are substantial, he still cannot plan on recovering the total cost of production from domestic sales. An active pay-TV market would change the 25% (domestic) - 75% (foreign) economics to perhaps, '60-40'. Exports would still be necessary, but the domestic market could be sufficient to induce more investment in Canadian program production.

Exports could also be enhanced through the use of Canadian pay-TV's foreign programming acquisition leverage - which could also be worked more frequently for conventional TV. For example, the pay-TV network operator and Canadian producers could 'barter' with U.S. pay services, selling Canadian production to them in exchange for programming whose rights they own.

*The Department of Communications "PATV Study", Phase 3, Nov. 1980, estimates for a mid-point base case, a return to Canadian feature film producers of $3.5 million (average) per year and $6.4 million (average) per year for 'live' events, most of which are Canadian. This model bears the following different assumptions from the scenario developed for this discussion paper: lower quality offering, lower penetration rate, lower price to subscriber, lower prices paid for Canadian production, higher overhead and distribution costs, and a profit allocation. These differences reflect the enormous range of philosophies and approaches that can be taken in pay-TV scenarios.

The total volume projected for Canadian TV program production from a pay-TV service may not end up being as much as it looks, for a number of reasons. First, the pay-TV network license holder could program less expensive Canadian product to meet Canadian content regulations, and thus increase his profit as long as foreign films are sufficient to convince subscribers to buy the service. Second, this amount of money injected into the program production industry in Canada may lead to expensive co-productions with other countries, with no corresponding quid pro quo from foreign markets. Third, the network operator will be motivated by the strong economic rationale toward vertical integration. He could develop his own extensive production facilities and tend not to spread the production budgets to the rest of the industry. These caveats reinforce the need to design properly pay-TV's introduction into Canada - setting appropriate ground rules for Canadian content, co-production, and carriage/content separation.

Other New Canadian Television Services

As they are authorized in Canada, new cable satellite services would require new programming. However, as explained in Section II regarding the cable satellite services in the U.S., prices paid for such programming are very low compared to high quality pay-TV services.

TV-2, as proposed by the CBC, illustrates the economic realities of the satellite television services. Within a proposed budget of $25 to $30 million discussed in the recent CBC-2 CRTC hearings, the talent community should benefit financially from re-runs and small or non-profit producers will have increased television market windows. However, the business-oriented independent production sector will receive a fairly small increment to sales. In some very preliminary projections, the French Services Division of the CBC estimates that about 3-1/2 hours a week (12% of schedule) will be programmed by the independent production sector for Télé-2. The four programs tentatively planned are budgetted at $1.5 million for the whole year. A similar figure could be envisaged for CBC-2 although no such estimates have yet been made.

While the new satellite services, such as CBC-2 and Télé-2, will not generate important sales for world competitive drama and variety productions, they will encourage small scale, local, regional productions. Due to their projected types of service, CBC-2 and Télé-2 should also boost the sales of public program production agencies, particularly the NFB and provincial educational institutions*.

A new service like a cultural channel could contribute in a small way to the demand for Canadian cultural productions. For example, high quality, subscription-based cultural programming services could possibly attract 150,000 subscribers (3-4 per cent of the total Canadian cable market), paying several dollars per month. Alternatively, an advertising sponsored channel rather than a subscriber-based one could generate equivalent revenues.

*The impact on the NFB could be substantial in another way, as well : With a large new television outlet, NFB will have an enormous incentive to restructure its product for television.

Assuming in either case an acquisition budget of 25¢ per subscriber, the total would be $37,500 for each production acquired - perhaps barely sufficient to pay for additional production and talent fees involved. One could possible procure foreign cultural production less expensively than 25¢ per subscriber, and thus generate a higher benefit for Canadian talent in theatrical, orchestral, and other live performance events. While the impact on cultural production could be meaningful in terms of financial assistance to the arts, the overall result may not be substantial.

IV PROGRAM PRODUCTION RESOURCES IN CANADA

The two previous sections dealt with the international and domestic markets, i.e., the 'demand' side of the economic demand/supply equation. This section reviews the program production industry's capacity, i.e., the 'supply' of programming. First, there is an assessment of the general talent base for production followed by a brief review of the actual competitive record of Canadian programming. Second, the CBC's network, program production capability and role is examined, along with a brief look at the NFB. Finally, this section assesses the resources and capabilities of the independent production sector, including the affiliates of the commercial broadcasters.

TALENT BASE

Many people in the Canadian program production industry are quite proud of the successful exploits of Canadian ex-patriots in London, New York and Hollywood. The CBC and NFB play legendary roles as a training ground for program production talent and technicians, but the best ones always seem to leave - lured by larger entertainment centres or driven by lack of work in Canada.

These ex-patriots are credited with having returned to create two successful sit-coms in English Canada - CBC's "King of Kensington", and CTV's "Excuse my French". Since there was little of that kind of Canadian drama programming, it was felt that Canada could only create commercially successful drama and variety productions by calling back its ex-patriots with appropriate

IV-1 PAYMENTS TO ACTRA MEMBERS
($000,000)

ENGAGERS	1978	1979	1980 (Estimated)
CBC	15.4 (45%)	17.0 (43%)	18.6 (36%)
CTV and Affiliates	3.0 (9%)	2.9 (7%)	4.6 (9%)
Commercials Advertisers	10.7 (31%)	11.0 (28%)	14.2 (28%)
Independent Producers	2.9 (9%)	6.1 (16%)	11.1 (21%)
All others	2.4 (6%)	2.5 (6%)	3.3 (6%)
Total	34.4 (100%)	39.5 (100%)	51.8 (100%)

Source: Annual ACTRA Survey

foreign experience. Some successful television productions by the independent production sector appear to be erasing this relatively negative image - i.e., Canadians cannot produce good entertainment programming. CBC, for example, has developed sufficient confidence in the private sector by giving it responsibility for series programming (eg., Interimages téléromans). How to keep talent is what one industry spokesman referred to as the Andy Alexander syndrome, referring to Alexander's first generation of 'Second City Review' creative talent having been attracted away to New York and Hollywood. The challenge is how to create the opportunities and provide a sufficiently prosperous base for the next generation of Alexander's creative talent to remain in Canada.

The results of the film industry's boom demonstrate that the answer is developing a talent base, not simply increasing financing for production. The film boom shows what evolutionary stages through which productin may have to pass, briefly highlighted as follows:

- Initial lack of confidence by international buyers/distributors means little creative control by Canadian producers;
- Few specific opportunities are generated for key creative positions, notably director/screenwriter, particularly in co-production*;
- Artificial inflation occurs in payments to the few Canadians qualified in the critical shortage talent areas.

---

*See the Council of Canadian Filmmakers, "A Report on Canada's participation in International Feature Film Co-Productions and Their Impact on the Canadian Film Industry", March 3, 1980. On. p.21, for example, the CCFM notes:

> Of the 13 most recent co-productions undertaken since 1978,... 3 have had Canadian directors and 2 have had shared Canadian/foreign scripts .

They also note:

> the French co-productions overall are seriously imbalanced with only 2 Canadian directors in 15 films. The Italian films are also seriously imbalanced. There is a better balance in the British films, but the recent projects have tended to be controlled by Americans who have British 'front' companies.

IV-2 TALENT/TECHNICAL RESOURCES

	Market Availability		
	Strong	Medium	Weak
Technical Services	...basic design...		
		...special design...	
	labs...		
	post-production houses		
People Resources		...editors	
			...writers...
		...video technicians...	
		...design technicians...	

Source: Internal CBC study.

However, there has been some overall 'trickle down' impact of the feature film industry on talent. Exhibit IV-1 shows that independent production's contribution to ACTRA members has jumped almost fourfold in the last two years. With the growing crossover between feature film and TV production, the former's increased economic activity should provide a better base for expansion in television entertainment programming.

Although now 18 months old, one independent assessment concluded quite positively that the talent base would support increased program production in most skill areas (see Exhibit IV-2). Though there is little doubt that film-making talent abounds in Canada, according to industry spokesmen, the screenwriter/scriptwriter shortage remains a bottleneck for entertainment programming. However, many elements of the industry are paying particular attention to this creative role (eg., CFDC, Institut Québeçois du Film), and simply greater demand - with the insistence that the key talent be Canadian - should overcome this skills shortage.

Programming Competitiveness

With such a relatively capable talent base, some Canadian programming has become quite competitive despite the uneven battle it must wage for prime time viewers against American programming competition. While it is possible to generate competitive production in areas like public affairs, however, English variety and drama cannot deliver large enough audiences

IV-3 COMPETITIVENESS OF CANADIAN TV PRODUCTION - PUBLIC AND COMMERCIAL BROADCASTERS

	French Programming (1978-79)			English Programming (1978-79)		
	Public Affairs	Variety	Drama (téléromans)	Public Affairs	Variety	Drama (series)
Cost per hour ($000)	$ 59	$ 78	$ 52	$ 74	$ 231	$ 230
Actual Audience (000)	688	795	1,381	1,057	1,153	922
Imputed Revenue per hour ($000)	36	44	89	68	74	60
"Break-even" Audience (000)	1,135	1,392	802	1,142	3,580	3,552

All figures rounded.

Source: Alain LaPointe et Jean-Pierre Le Goff, "L'Industrie De La Production D'Emissions De Television Au Canada", Mai 1980, pp. 104-105.

Note

Above figures are calculated on a per-hour basis from a small sample of programs (12 English and 7 French). "Revenues" are based on the minimum advertising costs for prime time, less 15% advertising agency commission.

to advertisers to pay for the production costs. An examination of the comparative competitiveness of various production categories in the French and English markets (see Exhibit IV-3) substantiates this point as follows:

- Much of French drama production 'pays' for itself, while the more competitive English programming environment means that English language drama and variety fall far short of their 'break even' audience*.
- News and public affairs in both languages - and presumably for the private television networks as well - meet the 'break even' test.

Presumably, if sufficient production values were invested in English drama and variety, audiences would expand, though it would be next to impossible to recover production costs from the Canadian market alone.

The capacity to respond to these economic realities differs with each component of the program production industry, as described below.

PUBLIC AGENCIES

As is quite evident in Canada, the bulk of the program production establishment resides in four public agencies: NFB, TVO, Radio Québec, and principally, the CBC. Their objective is essentially cultural with economic

---

*As a public broadcaster, the CBC is not tied to advertising, but hypothetical advertising revenue is a useful measurement for competitive programming.

viability of a program production industry not directly considered in their mandates. Clearly, however, these public agencies in their capacity as program producers have very important roles in enhancing competitive program production in Canada. Public agencies can be more effective production partners with the private sector. As well, these public agencies can undertake their own production responsibilities in ways which increase the competitiveness - and thus the economic viability - of their own programming.

CBC

CBC production could be more 'economically viable' if its programming were more exportable. Some of the reasons why its export sales performance is not better appear to be the following:

- International buyers consider that CBC drama and variety programming suffer from script limitations, slow pacing/editing, and lack of international stars. Higher production budgets for development of project ideas, the making of pilots, and more investment in talent could, of course, overcome some of these deficiencies.

- Because of the CBC objective to Canadianize its schedule, there has been a decrease in international themes in CBC productions. The result is less 'exportable' material where, for example, Canadian personalities are featured instead of international figures like Sarah Bernhardt, George Bernard Shaw, and Germaine Greer as in earlier days.

- Budget cuts have impeded the production of drama series, although informational, sports and documentary programming remains reasonably well supported.

In spite of these limitations, CBC's public broadcasting mandate can be quite compatible with the demands of the international marketplace. A program like "Ritter's Cove", which is actually a German/CBC co-production, and the "Music of Man" documentary series are examples of matching the "right" public broadcasting programming with international appeal. Some of the ways to produce a stronger export orientation with the CBC could include the following:

- Introduce export opportunities early into programming plans and project contract negotiations;
- Provide 'CBC exports' its own investment budget to increase its leverage within the CBC;
- CBC producers could attend major international marketplaces to obtain firsthand exposure to other product and potential co-production partners.

CBC's export performance could be improved through a restructuring of its program offering. To do this would require an increased organisational and budget commitment.

Not all export revenues are pure profit, of course, since there are high selling costs involved. A foreign sale triggers residual payments to talent, entails operating expenses, and could mean more production investment. CBC's annual record of less than $2 million in revenues from export sales in the late 1970s contributed a much smaller amount to overhead. However, while the contribution to CBC's overhead from export sales of television production is unlikely to exceed a few million dollars , there are important financial and career benefits to Canadian producers, actors, musicians and writers who receive international exposure and additional residual payments*.

---

*BBC Enterprises netted perhaps $2 million from $22 million in export sales in 1978, for example, according to an internal CBC study. However, a substantial portion of the $20 million in costs benefitted British talent and technicians.

Co-productions and co-financing may yield the greatest public broadcasting stimulus toward competitive programming. In a typical co-production arrangement in Canada, the CBC provides its facilities ('below the line' costs) while the independent producer puts up his share in cash, and retains the lion's share of future sales revenue. Independent producers chafe at this type of arrangement whereby they have to use CBC crews and facilities. However, since the independent producer is highly motivated to achieve additional sales, the result is usually a more viable production.

In a co-financing arrangement the broadcaster is really an upfront customer for the independent producer - a 'pre-sale' arrangement which can take a variety of forms. For example, the CBC may share the costs of developing a script, even before the go/no go decision on the project is made.
The French Services Division of the CBC has committed itself to making small equity investments in worthwhile feature film projects (eg. "The Coffin Affair", "Fantastica", and "Une journée en Taxi"). Instead of waiting for the film's completion and paying for exhibition rights (for, say, $25,000), FSD also invests a similar amount or more in the film's development phase. While the investment is but a fraction of the total production cost, the' Radio Canada' imprimatur is valuable to the producers for attracting further investors.

The greatest prospect for competitive television drama and variety programming - for the CBC as well as for private broadcasters - is through the major program production with the broadcaster sharing in an industry-wide financial effort. A potential model is the $5+ million production of "Les Plouffe" which has the following production financing and marketing structure:

- The output is a series of six one hour television productions, a feature film, and subsidiary publishing and music rights;

- A major Canadian literary property is utilized, one which also benefits from a television series popular in another era;

- A major corporate sponsor, Alcan., acted as an important catalyst, investing $700,000 in the project;

- Other major participation has been drawn from both English and French CBC ($500,000 from FSD and $800,000 from ESD) with tax sheltered private investment financing most of the rest (mostly raised outside Quebec, incidentally);

- The independent producer (Denis Heroux) has a good commercial track record, and a strong distribution is arranged via Columbia Pictures Inc.

"Les Plouffe" is the first of possibly several major productions jointly involving the two linguistic divisions of the CBC linked to private investors by an independent producer. Neither CBC division could afford on its own or even together such high production values. Moreover, the project has an excellent chance of recovering its total production cost for the investors. This formula requires substantial collaborative efforts and may be the only way to mount truly viable drama productions. If so, its basic economics will force the CBC to cast around for more independent productions that can attract private investors and have a reasonable chance of paying for themselves.

National Film Board

While the National Film Board is part of Canada's national film heritage, its assets have never been fully exploited for television program production. NFB is a potentially valuable asset in training, experimentation, production R&D,

and in joint ventures with the independent production sector. However, its direct financial payments to film makers, talent and technicians, researchers and lab processing drop whenever NFB's budget is constricted*.

The Montreal head office location, which is helpful to French language production, and regional English language centres continue to help equip and train the independent production sector**. One example of the output of such collaboration is the Hollywood Oscar animation nominee "Nails", a private Vancouver-based production assisted by the NFB.

The Board has recently adopted a policy of co-producing French feature films with the independent production sector. Two projects are in the works, with NFB permitting the creative control to be exercised by independent producers in one of them. This kind ofcollaborative approach is now being developed for English language feature films, with the probable result being more commercially viable productions. With the likely advent of CBC-2 and Télé-2, as well as increased use of NFB material planned by the CBC's main service, there is additional incentive to restructure NFB inventory and future programming to fit the television medium. Such a process could bring this important production resource into play as a major participant in television programming***.

---

*NFB's preliminary figures for 1980, as yet unofficial, show a 30% drop from 1978 in private sector expenditures; this is partly attributable to a decrease in federal departments' expenditures on sponsored films.

**NFB can also be viewed as a competitor to the small film maker, however. From the perspective of the independent producer, NFB is a competitor with enormous advantages - large budgets and low prices to users.

***The Board approved 'objectives' in its June 13, 14, 1980 meetings, which included the reference to the NFB "as a catalyst working more closely with all of the elements of the audio-visual environment to better serve the public interest".

IV-4 NUMBER OF INDEPENDENT PRODUCERS BY REVENUE SIZE

Revenue Size	Film and Videotape Producers with no TV Programming Sales	Producers with TV Program Sales		TOTAL
		Affiliates of Broadcasters	Independent Producers	
Under $100,000	101	4	27	132
$100,000 - 249,999	39	2	26	67
$250,000 - 499,999	20	0	9	29
$500,000 - 1,000,000	12	0	6	18
Over $1,000,000	14	4	9	27
TOTAL	186	10	77	273

Source: Statistics Canada unpublished results of Motion Picture Production, 1979 survey.

INDEPENDENT PRODUCTION SECTOR

The independent production sector is usually assumed to provide the main commercial ingredient in a quest for a viable program production industry in Canada. Broadcasters and others often ask whether this sector is capable of fulfilling that role or is in the process of developing some measure of economic viability.

Record of Independent Producers

Recently available StatsCan data identifies who the independent producers are (see Exhibits IV-4 to IV-11), and leads to several observations about their characteristics as follow*:

Numbers of Producers (IV-4)

- While one might expect a number of producers in the business of making TV programming with revenues over $1mm to be small, there actually nine companies in this category in Canada;
- There are fewer (four in all) affiliated producers who have revenues over $1mm;
- There is an almost equal number (fourteen) of 'large' film and videotape producers (over $1mm) who make no television programming at all.

From 1978 to 1979, there was a 35 per cent jump in the total number of production companies over $1mm in sales - from 20 to 27 of them**.

---

*For this discussion paper, DOC requested StatsCan to provide 1979 data prior to its publication; some additional breakdowns of the data were obtained as well.

**StatsCan 1978 as well as 1979.

IV-5 ALL PRODUCERS MAJOR SOURCES OF REVENUE 1979

($000,000)

Major Sources of Revenue	All Producers (273 companies)
Features and shorts	5.2 (4%)
Television Programs	25.8 (21%)
Television Commercials	39.4 (32%)
Industrial & Educational Productions	28.9 (24%)
Rental of Facilities	7.3 (6%)
Distribution	3.0 (3%)
Other Sources	13.0 (10%)
TOTAL	122.6 (100%)

Source: Statistics Canada unpublished results of Motion Picture Production, 1979 survey.

Sources and Volume of Business (IV-5)

- TV production is only about 20 per cent of all video production revenues by independent producers - less than the sales generated by the TV commercials and 'institutional' markets (i.e., industry and educational);

- Feature film revenues are a very low proportion of the independent producers' income, which is perhaps surprising in view of the large recent feature film investments. Presumably investors would obtain a substantial amount of the total return from feature film investments, which does not show in StatsCan calculations*.

Growth of Film Production Compared to Videotape Producers (IV-6)

- From 1978 to 1979 the growth of videotape production (28%) has exceeded the growth in film production (7%). (StatsCan 1979 figures in videotape include one large producer for the industrial and educational market that may have been omitted in 1978);

- TV production increased nearly 30 per cent for videotape producers, while that market remained static for the film producers;

- The TV production market accounts for about one third of the total business for videotape producers, and only about one sixth for film producers.

---

*The only other overall feature film revenue figure is $9.5 million for 1977, the latest year available ("An Evaluation of the Impact on the Canadian Feature Film Industry of the increase to 100% of the Capital Cost Allowance", A Report of the Research and Statistics Directorate, Arts and Culture Branch, Secretary of State, Dec. 1979, Table XXI). This figure is only for gross theatrical revenues, however.

IV-6 SOURCE AND VOLUME OF REVENUES TO FILM AND TV PRODUCERS[1]

($000,000)

	1978 (276 companies)		1979 (268 companies)	
	Film	Videotape	Film	Videotape
SOURCES OF REVENUE:				
TV Programs	11.5	10.4	11.8	13.2
TV Commercials	29.4	5.7	32.0	7.4
Industrial and Educational Productions	10.4	2.0	11.2	11.6
All other sources	8.5	10.9	9.1	8.1
TOTAL	59.8	29.0	64.1	40.3

Source: Statistics Canada, Motion Picture Production (63-206), 1977 and 1978, Tables 5 and 17; 1979, Tables 3 and 9.

Notes

1. For this table only, StatsCan has excluded (i) government agencies and (ii) the secondary film or videotape revenues of producers. (For example, if a company declares that it is primarily involved in film production, only its film revenues are counted, and vice versa).

IV-7 SOURCES OF REVENUE

PRODUCERS OF TV PROGRAMMING VS PRODUCERS FOR OTHER MARKETS

($000,000)

Revenue Sources	Producers of TV Programming	Producers for Other Markets
Features and Shorts	1.5 (2%)	3.7 (6 %)
Television Programs	25.8 (47%)	0
Television Commercials	7.9 (15%)	31.5 (46 %)
Industrial & Educational Productions	9.2 (17%)	19.7 (29 %)
Rental of Production Facilities	6.4 (12%)	1.0 (1.5%)
Distribution	2.0 (4%)	1.0 (1.5%)
All other sources[1]	1.8 (4%)	11.1 (16 %)
TOTAL	54.6 (100%)	68.0 (100 %)

Source: Statistics Canada unpublished results from Motion Picture Production, 1979 survey.

Note

1. "Other sources" includes other production revenue, laboratory operations and all other sources of operating revenue.

TV Producers versus Non-TV Producers (IV-7)

- Independent producers with sales of TV programming still have slightly more than half their revenues derived from markets other than television broadcasters;
- The main markets for film and videotape companies with no TV sales are television advertising and institutional productions.

Affiliates versus Independents (IV-8)

- As might be expected from affiliates of broadcasters, these companies have substantial investment in facilities, from which they generate a quarter of their revenue through rentals;
- The 'true' independents earned $16.7 million in sales of TV programming in 1979, but this represents only just over half their total revenues. About a quarter of their revenue is generated by sales of programming to institutions.

Revenue Source by Size (IV-9)

- The 'medium' sized firm from $250,000 to $1,000,000 in sales is heavily concentrated in production for television - as shown in Exhibit IV-4 there are 15 producers in that category, all of them independent;
- Both small and large companies rely rather more on the TV commercials and the institutional markets than the medium sized companies;
- As might be expected, the large companies dominate the facilities rental and distribution sources of revenue.

Use of CCA (IV-10)

- While it is not possible to identify how much CCA funding was attracted to TV production, the evidence is that this tax shelter mechanism is used to some extent by independent producers of all types - including affiliated producers.

IV-8 SOURCES OF REVENUE

AFFILIATED AND INDEPENDENT TV PRODUCERS

(1979)

($000,000)

Revenue Sources	Affiliates (10 companies)	Independents (77 companies)
Features and Shorts	.2 (1%)	1.3 (4%)
TV Programs	9.1 (41%)	16.8 (51%)
Commercials	4.2 (19%)	3.7 (11%)
Industrial & Educational Programs	1.4 (7%)	7.8 (24%)
Rental of facilities	5.7 (26%)	.6 (2%)
Distribution	.2 (1%)	1.8 (5%)
Other Sources[1]	1.0 (5%)	.8 (3%)
Total Operating Revenue	21.8 (100%)	32.8 (100%)

Source: Statistics Canada unpublished results of Motion Picture Production, 1979 survey.

Note

1. "Other Sources" includes other production revenue, laboratory operations and all other sources of operating revenue.

IV-9 SELECTED REVENUE SOURCES BY TV PRODUCER SIZE

($000,000)

Revenue	Television Programs	Television Commercials	Industrial & Educational Productions	Rental of Production Facilities	Distribution
Less than $250,000	2.7 (11%)	1.0 (12%)	1.1 (12%)	.2 (4%)	.1 (4%)
$250,000 - 1,000,000	4.8 (18%)	.3 (4%)	.5 (6%)	.05 (1%)	.01 (.5%)
Over $1,000,000	18.3 (71%)	6.6 (84%)	7.6 (82%)	6.1 (95%)	1.9 (95.5%)
TOTAL	25.8 (100%)	7.9 (100%)	9.2 (100%)	6.35 (100%)	2.0 (100%)

Source: Statistics Canada unpublished results of Motion Picture Production, 1979 survey.

IV-10 USE OF THE CAPITAL COST ALLOWANCE

	Producers of TV Programming			Producers with no TV Sales	Total
	Affiliates	Independents	Total		
Total number of companies	10	77	87	168	255
Number of companies using CCA	3	19	22	26	
Total number of productions	5,396	3,175	8,571	5,140	13,711
Number of productions certified under CCA	567	277	844	279	1,123

Source: Statistics Canada unpublished results of Motion Picture Production, 1979 survey.

IV-II PERCENT OF REVENUE EARNED IN CANADIAN MARKET FOR SELECTED REVENUE GROUPS (1979)

SORUCES OF REVENUE	Producers of TV Programs		All Non-TV Producers
	Affiliates (10 companies)	Independents (77 companies)	
Features (75 min. &)	100%	94	97
Theatrical shorts	100	89	100
TV Programs	99	92	-
TV Commercials	96	98	98
Industrial & Educational Production	99	94	95
AVERAGE	99	93	98

Source: Statistics Canada unpublished results from Motion Picture Production, 1979 survey.

<u>Canadian Market Revenue</u> (IV-II)

- Contrary to other survey documentation (eg. Bélanger Chabot, CFTA, CBC studies), StatsCan results record very little non-Canadian market revenue for independent producers. (Further documentation would be required to substantiate these StatsCan survey results, since it appears that some companies' data is missing).

The StatsCan figures' portrait of the independent production industry is one of diversity in product, market and size. Although no documentation on profitability and cash flow needs is available, there does seem to be a reasonable economic base of several medium and large sized firms to generate a substantial expansion in this sector. In view of the reported low revenues generated by foreign sales, the more recently touted export prowess of independents in foreign markets needs to be re-examined.

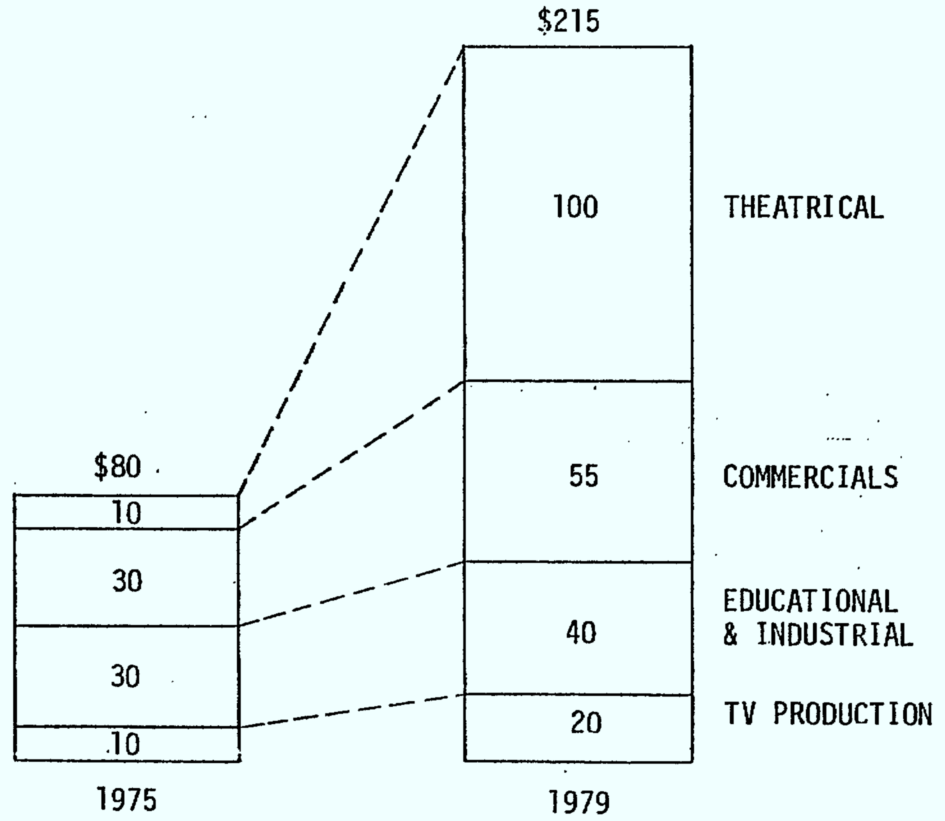
<u>Capacity to Expand</u>

Without knowing many of the future variables in the program production industry, targets cannot be realistically established. However, let us begin with a hypothetical tripling of the television production market within, say, five years - to reach a $75mm level from 1979's $25 million in revenue. If there were an expansion of this magnitude, the plausible distribution of sources of revenue would be as follows:

- Domestic market improves with introduction of appropriate policies;
  - up to $5 million from commercial broadcasters;
  - $10-15 million from public broadcasters;
  - $15-20 million from pay-TV and cable-satellite services.

- Foreign market continues to expand but ends up being about equal to the domestic market, i.e., $30-40 million (up from the $8.5 million expected for 1981).

IV-12 INDEPENDENT PRODUCTION SECTOR ACTIVITY
($000,000)



Source: Internal CBC Study, July, 1979.

While these figures are simply 'guesstimates', they do at least indicate where the sources of revenue would be. How independent producers could expand from their existing base to achieve these sales is discussed below.

While the total and mix of revenues has grown steadily over the past several years, the production investment generated by the independent production sector has grown dramatically in the last few years. Exhibit IV-12 documents the growth of the industry from a total volume in 1975 of about $80 million, to $215 million in 1979, primarily fuelled by the feature film investment boom. Although much of this production is directed toward markets other than television , it is still a sizeable production base. How it might be channelled into greater television production is described as follows:

- The television capabilities of feature film producers are most obvious in the made-for-TV movies and the drama series categories, while documentary and variety capability also exists among film makers;
- Many production companies are already specialising in film and video productions for television, including light entertainment specials and drama series, documentaries and sports specials; they are gaining increasing experience in high production value drama and variety;
- Producers for the educational or industrial film markets have a developed base for the television market, particularly in the category of documentaries, shorts and fillers, children's, and entertainment specials;
- Producers of television commercials tend to be quite specialised but there is some potential transfer of skills to the television market in some forms of documentary and light entertainment. Television commercials' main contribution is in the form of cash flow and experience for companies, talent and technicians.

While the legacy of the feature film boom is subject to controversy, overall it contributes to a base for a viable program production industry. The investment community has been geared up to handle the retailing of film projects to the private sector (eg. Merrill Lynch, Nesbitt Thompson, and Pitfield, Mackay, Ross are three such companies). Banks and other financial institutions have now gained experience in handling interim financing of projects. Most important, there are perhaps a half dozen producers who can be trusted with the handling of $10+ million projects. A producer like Denis Heroux, for example, is able to manage "Les Plouffe", "Cross Fire", "Bethune", and "Atlantic City" over a one to two year time period.

The major constraints to the viability of an independent producer is the cash poor, project-by-project existence that characterises many in the business. This is the chronic situation in which independent producers feel they are maintained for lack of market outlets in Canada. Some companies have parent affiliations or a steadier source of revenue which eases the cash flow problem (eg. Nielson-Ferns is owned by Torstar; Astral Bellevue-Pathé has a lab processing business and is partly owned by Cemp).

The so-called 'captive' independent producers who are owned by broadcasters are also well financed. However, until recently the broadcasters have found more viable investments than televison production for markets other than their own Canadian production needs. This situation may be changing somewhat, at least in the case of Barber Green, Global's production company, which is aiming toward markets other than the Global network. A business objective of Barber Green is to develop a 'portfolio' of productions that spread the economic risk among several projects.

There is some debate as to whether a viable program production industry requires the formation of well-financed, stable production companies instead of the instability of lone independent producers. Some independent producers seem to be successful by retaining the flexibility of pulling together entirely different production teams to fit the particular circumstances of the project, while others aim for a more permanent 'critical mass' of projects*. While there is no one model, a successful independent producer has sufficient time and resources to spot and cultivate emerging production opportunities, to be 'executive producer' for a number of concurrent projects, and to develop strong marketing and distribution contacts.

While different organisational forms will develop according to what part of the overall program production business becomes a company's specialty, the core problem is the high risk/low reward perception for investors. If a company can escape from the precariousness of the single project-by-project survival existence, individual investors will develop more confidence in the independent production sector.

More important is the attraction of corporate investment interests, particularly by communications companies. As their corporate diversifications vividly illustrate, broadcasting and cable companies, as well as others less directly related to the television business are fully capable of investing profits in additional franchises or related industry. Except for the occasional feature film speculation, they seldom invest in program production - for other than

---

*eg., Nelvana specialises in animation and has 150 employees; Nielson-Ferns has only 15 people but is fully equipped to handle the development, management and marketing of several productions.

PR reasons as some would allege. Until program production investment becomes more viable to attract the participation of these companies, the industry will have to exist on a combination of public funding, tax shelter motivated private investment, and the scrambling of the independent production sector. How public policy can alter the 'demand' and 'supply' economics to help the independent producers is discussed in the next two sections.

V ALTERING THE DEMAND ECONOMICS

As explained in Section I, this paper develops from an assumption as to the strategy for creating a more viable program production industry. That strategy is fundamentally tied to increasing the prospects for cost recovery of Canadian production through export sales and taking substantially more advantage of the Canadian domestic market. This section deals with the domestic demand and how it could be altered to the benefit of Canadian program production.

INCREASING DOMESTIC DEMAND

Adequate domestic demand in all video formats is the sine qua non of a competitive program production industry. Broadcasting is advised as a strategic target because public policy can alter its distribution structure far more readily than in home video or feature film theatrical release. Re-orienting the structure of conventional television and establishing it for the new television services are the suggested initial approaches. The overall target is a reasonable share for Canadian production in all video outlets, whether they be television, home video, or theatrical films.

Canadian Content

Since the landmark issuance of Canadian content regulations by the CRTC in 1970, there has been a constant CRTC rearguard action to make broadcasters live by the spirit of the content objectives*. However, the Commission has not received clear and sufficient Parliamentary or Cabinet clout in its endeavour; although Canadian content hearings provide a fresh opportunity to define the means of increasing the television demand for Canadian program production.

As has been documented elsewhere, broadcasters' profits in the 1970s grew substantially despite the 1970 Canadian content stipulations, as attested to even by a Canadian Association of Broadcasters' internally commissioned study**. The broadcasters have been able to attract advertisers to the technique of 'packaging' Canadian and American programming for sale to the advertiser, exploiting CRTC's cable substitution ('simulcast') policies, and through aggressive scheduling of some programming in advance of the U.S. border stations.

---

*For example, on Dec. 30, 1980, the Federal Court of Appeal set aside certain conditions attached to the November 1980 renewal of the CTV Network license by the CRTC. The renewal specified that the CTV produce 26 hours of original new Canadian drama in 1981 and 39 hours total in 1981-82. The Court ruled that the CRTC had the right to require specific programming conditions but that, in this case, CTV was not sufficiently informed of the new conditions nor given a fair chance to defend itself during the hearings (Globe and Mail, Dec. 31, 1980, p.5). The CRTC is apparently appealing the case because of the decision's procedural rather than policy implications (it implies that the CRTC might have to hold two hearings for each license renewal to enable the applicant to respond adequately to license renewal conditions), but the Federal Court's ruling also points to limitations on CRTC powers to impose license restrictions without consulting applicants.

**The Bélanger, Chabot and Associates report commissioned by the Canadian Association of Broadcasters (CAB) and examining the private sector broadcasting industry's finances, observed that, according to CAB, "the impact of Canadian content regulations was not as negative as had been forecast in 1971, largely as a consequence of the ability of operators to package the sale of advertising". See Canadian Association of Broadcasters, "Canadian Content: The Next Decade", A Canadian Content Review Submission to the CRTC, September 1980, p.32.

Through cable substitution, broadcasters have been largely spared from audience fragmentation caused by the delivery of U.S. stations into cable subscribers' homes. By scheduling their American programming simultaneously with the cable delivered American channels, broadcasters can, in effect, substitute U.S. advertising with Canadian ads. Although broadcasters do not have the rights to pre-release most U.S. network programming, they do try to schedule some programming, including feature films, a few days in advance of their scheduled appearance on the cable delivered American stations - thus hoping to cut into the border stations' audience. Any attempt to increase prime time Canadian programming seriously interferes with a very strong economic motivation by the commercial broadcasters to schedule around the offering of border stations.

The underlying theme of most submissions to the CRTC on the Canadian content hearing process - both by broadcasters and their detractors - is a focus on quality rather than quantity of Canadian content. Broadcasters would prefer further incentives, eg., 'EDP'-type program incentives as proposed by Selkirk; double value for Canadian content on prime time (CAB); a tax exemption for export sales (Global)*. Alternatively, broadcasters favour trade-offs to promote higher quality Canadian programming, eg., more flexibility in meeting content rules to enable broadcasters to concentrate existing production dollars on fewer programs.** Cultural and program production

*See: Selkirk Communications Ltd., "Recommendations for New Canadian Content Regulations", July 1980, p.5-6; CAB "Canadian Content", September 1980, p.11; Global Communications Ltd., "A Submission to the Canadian Radio-Television and Telecommunications Commission", September 12, 1980, p.24.

**Belanger et al observe that advertising agencies as well seem to favour this approach: "Advertising agency executives suggest in this regard that budgets should be allocated to help produce fewer but better Canadian programs" (Belanger Chabot et Associés, "Financial outlook for private Canadian television Stations", Report for the Canadian Association of organizations propose increased prime time content and allocation of more production to the independent production sector at the same time as advocating the maintenance of quantitative quotas for Canadian content*.

Without prejudicing the CRTC's deliberations in this matter an approach that 'motivates' commercial broadcasters to develop more competitive programming is preferable to one that closely regulates their administrative or programming choices. The broad strategy could be based on the prime time 'stick', with programming category flexibility, as follows:

- The key is to increase content stipulations for prime time viewing, perhaps coupled with very general programming categories. Being too specific about quotas for certain categories of programming (the Australian approach**) does not allow for much flexibility in consumer taste changes.

- Any stipulation about percentage of profits to Canadian content, or percentage of production dollars earmarked for independent producers, would lead to figure juggling by broadcasters and great administrative demands on financial monitoring by the regulatory agency***. Again, prime time emphasis would encourage Canadian program production that is competitive in commercial terms.

Tracing through the impact of increased prime time stipulations would show what the result could be in terms of competitive programming. Let us use the CRTC's aborted target for CTV - i.e., 26 and 39 hours of original drama production per year. Ideally, the result would be as follows:

---

*Joint Action Committee on Pay-TV and Satellite Policy, Canadian Content Submission to the CRTC, p.13-14.

**The Australian content regulations divide programs into over twenty categories and sub-categories (see Australian Broadcasting Tribunal Annual Reports). The regulations are modified every few years, but there are no provisions for broadcasters to change programming quickly in response to shifts in consumer tastes or demand.

***Belanger et al., CAB Report, pp.52-53, found that broadcasters do not have sufficiently sophisticated cost accounting systems, and advised that the CRTC would have to refine a mechanism to define and monitor admissable expenses.

- Broadcasters would attempt to substitute American programming with high production value Canadian equivalent to keep advertisers;
- High production value programming might cost (say) $400,000 an hour, which would motivate broadcasters to seek co-producers and/or foreign market sales;
- The cost of production to the broadcaster could thereby be reduced substantially, to, say, $100,000 per hour, which would cost the broadcaster annually $2.6 million ($3.9 million in '81-'82), or roughly three to four times more than it would for comparable American programming;
- To produce this kind of programming would force the 'captive' independent producer into the international marketplace, or into the arms of the co-producer;
- If the Canadian content definition remained strong enough, the co-producer from the independent production sector would also bring CCA inspired private funding to the project - and thus begin to compete with the foreign producer.

This scenario shows that the CRTC's drama programming targets for the CTV are not outrageously ambitious in terms of impact for broadcasters. It should always be remembered that some broadcasters are in a much less precarious position than the most profitable leaders. However, it is reasonable to expect that the commercial networks will continue to be the vehicle for cross subsidization in any change in conditions.

Since broadcasters are commercially motivated, they might not find themselves drawn by the public policy logic of the above scenario. For example, advertisers might not have the same confidence in Canadian production value, and could flee to border stations (in spite of the disincentive of C-58). Then, the broadcaster might 'low ball' the production by providing inexpensive public affairs programming and simply attract less advertising revenue. Nevertheless, if buttressed by other supportive measures, the broadcaster could be drawn into the challenge of and potential profit from Canadian production rather than being forced to simply minimize losses. Since successive 'carrots' have not enticed a broadcaster to competitive programming (eg. cable substitution, the Global franchise, C-58), the Canadian content prime time 'stick' would be fundamental to the success of this approach.

One economic factor that bears on the behaviour of broadcasters is the quadrupling of the cost of foreign prime time programming from 1976-79*. While to date broadcasters have coped with higher foreign programming costs by cutting down expenditures on Canadian programming, this does not have to be the case in the future. Competitive Canadian programming, as the above hypothetical case illustrates, could lead to more successful amortization of production costs over foreign and domestic markets, and thus become a viable substitute for U.S. programming**.

Given the uncertain competitive position of broadcasters in the face of new TV services, broadcasters will argue for a financial incentive or other 'carrot' to increase prime time Canadian content. At the very least they may need some initial inducement to meet increased prime time content rules by engaging the independent production sector. Once the confidence of

---

*Belanger et al., CAB report, p.12.

**Belanger et al. forecast difficult days ahead for commercial broadcasting but conclude that competitive Canadian programming could be key to future prosperity:

> No easy, straightforward solution appears on the horizon except the development of some forms of incentives that will stimulate investors, broadcasters, producers and the Canadian government to develop a viable, competitive, national program production industry for television. (CAB report, p.55.).

broadcasters in independent producers is developed, dealing with the independent production sector could become the norm. A way to initiate the practice without too much of an accounting and monitoring burden would be to establish a financial incentive system, along the following lines:

- tax incentive of, say, 150% capital cost allowance for expenditures on eligible independent producers, or
- program incentive of, say, interest-free loans for financing the broadcaster's proportion of project costs in programming contracted out to the independent production sector;
- such incentives to be regularly reduced over a five-year period as the program production sector becomes more competitive.

This approach does not follow the more blanket incentive systems proposed by the broadcasters, since it is tied to expenditures on the independent production sector. A more detailed examination would be necessary to determine how effective such incentive systems could be.

The CBC

The CBC has been entreated over the last several years by successive Secretaries of State to utilize the independent production sector for a greater percentage of its programming needs. There are signs that the CBC is slowly shifting in that direction, as discussed in Section IV. The CBC has more confidence in the independent production sector, and budget pressures are forcing outside collaboration. The economics of high production value projects will lead inevitably toward international co-productions for access to foreign markets, and toward the independent production sector for access to private sector financing.

The federal government is in a position to reinforce these trends by being tough on the CBC at capital and operating budget approval. Two approaches are:

- earmarking a specific dollar component of the CBC's programming budget for the independent production sector;

- requesting the CBC to produce a plan for increasing the proportion of its Canadian programming budget to be directed toward independent producers (say, 50% of the network programming budget exclusive of news and current affairs by the end of ten years).

Before targetting for a higher independent sector participation in such a specific way, the whole government-CBC budget relationship should be put into perspective.

The CBC is attempting to achieve a number of ambitious objectives - Canadianization of the schedule, moving the national news on the English network to 10:00 p.m., and launching CBC-2/Télé-2*. There will be ample opportunity for the federal government to employ the budget 'stick' over the CBC as a tradeoff between funds for fulfilling CBC's ambitions and CBC's plans for making Canadian programming more competitive. The CBC budget negotiation process will in fact thrust the burden of defining CBC's mandate back to government.

---

*A.W. Johnson, "Crisis in Canadian Television", October 1979.

If economic viability of program production were to be part of the overall mandate of the CBC, the Department of Communications might not need to resort to quotas and targets for the independent production sector. It could help orient CBC's budget along lines that would induce more procurement from the independent production sector, and subsequently support such a budget before Cabinet. Among the ways to shape the CBC's budget that would be favourable to independent producers are the following:

- Support financially the start-up of "CBC Enterprises" in which the CBC would more aggressively exploit the commercial potential of all its programming assets in publishing and recording, as well as all video media*;
- Support the CBC's export sales activity, possibly backed up by quid pro quo export assistance funding. Such a mechanism would be difficult to set up administratively, but the objective could be achieved through a financial assistance vehicle (see Section VI);
- Apply as a condition to financial support that the CBC fully utilise the private sector as its instrument to carry out "Enterprises" and export sales.
- To reinforce the development of budding talent in program production 'small firms' and 'fillers' programming, CBC should showcase the best of its productions on regular prime time slots.

If the CBC makes definite moves in these directions, there would be quite substantial ramifications to CBC's programming content. The programming output would quite likely vary noticably, with a pronounced commercial orientation. (As the BBC began to recognise the economic benefits of exports to America, there was apparently a pronounced emphasis toward drama production.)

---

*ESD has developed an enterprises concept which is roughly analagous to BBC Enterprises - a subsidiary company of the BBC, mandated to exploit the further use and export sales of BBC programming material in all music, video, and publishing media.

Government pressure on the CBC to expand its effort on enterprises, independent production and export sales will subject the corporation to further tensions vis-à-vis the talent and technical unions and producers' associations. The current agreements do not encourage the full exploitation of "supplementary markets" for CBC programming. The main issues for talent will involve payments for revenues from the supplementary markets of export sales, audio recordings, videocassettes, etc. This is already a critical issue around negotiations for use of material on CBC-2. The producers and technical unions will of course be affected by shifts toward external resources.

As in any large organisation, the CBC establishment in television facilities and human resources represents an inertia that has to be recognised. However, as the climate improves for independent program production, opportunities in the private sector should assuage the lack of internal growth. Already, as Exhibit IV-I showed, an increasing percentage of ACTRA payments is derived from independent production, with a corresponding decrease in percentage payments from the CBC.

STRUCTURING THE NEW TELEVISION SERVICES

Pay-TV and other new cable-satellite services can be structured to encourage the independent production sector, though it is preferable to allow considerable flexibility in the initial stages. The range of proposals for the 'extension of services' franchises requested by the CRTC demonstrates the ingenuity of license applicants to respond to public sector objectives. Remote services franchise applicants are turning what seemed to be far from lucrative opportunities into quite viable propositions. While the structure for pay-TV should not be specified in too much detail, certain principles should be established to provide as much support as possible for the development of a more viable program production industry.

The new television services will be essentially grouped into two categories. First, there will be premium TV services, which could be composed of one or more national or regional 'pay-TV' services with high production values, commanding a $12 to $15 monthly fee from cable subscribers (or in the future, direct broadcast satellite subscribers). As the technology and marketing experience with pay-TV develop, services which even more efficiently generate revenues will be established, eg., a pay per service program to extract increased revenues from super attractions like a Mohammed Ali fight or a "Jaws" feature film.

The second category of new services is the programming that will be made available as public broadcasting (like the House of Commons Debates or CBC-2) or those which will be advertising/sponsor supported. This category will command only a small fee, if any, from subscribers. Within some CRTC guidelines, cable companies will be permitted to package and market both new kinds of services.

Pay-TV Structure

New television services, especially pay-TV, will exist in the same economic climate as currently prevails in conventional television broadcasting - i.e., high economic motivation to use comparatively less expensive American programming, against the public policy objective of 'cross-subsidization' of Canadian programming. Every new service applicant will have a different proposal for redirecting these cross subsidization funds. To be of greatest benefit to the program production industry, the following two principles would seem to be fundamental:

(i) The premium channels are equivalent to prime time on conventional television and should have specific Canadian content stipulations - sufficient to counteract any possible banishment of Canadian programming into the least 'prime time' portion of the pay service. However, the content stipulations should emphasise investment in competitive Canadian programming rather than meeting high quantitative quotas.

(ii) The pay-TV network operator should procure Canadian programming on an arms-length basis directly from the program production industry. Any other mechanism for re-directing funds would imprison production dollars within a specific distribution technology (i.e., cable or broadcasting), or organisational motivation (i.e., public broadcasting objectives, or vertically integrated profits).

In Section III, figures were presented on the possible boost to demand for Canadian program production. If pay-TV is organized with the objective that all but profits are to be directed toward the acquisition or production of programming, then it is critical to (a) specify Canadian content objectives, and (b) separate the production, packaging and exhibition functions, so that original programming will be undertaken by producers on an arms length basis. A public agency or quasi-public agency could be necessary to act as the packager to ensure Canadian content and arms length production arrangements. It must be remembered, however, that the packager must be profit oriented, or else the pay-TV service will not make substantial revenues to pay for new Canadian programming.

The proposed approach to award licenses to those organizations which can demonstrate 'executive producer', programming, and procurement capabilities, but not be tied to broadcasters, cable companies, or production companies. The necessary complement to this approach would be to ensure that the license renewals are competitive every few years, and that all independent producers have an equal crack at the network operators (the packagers), or else the licensees would eventually transform themselves into broadcasters. Such an approach is akin to the British IBA model, where commercial broadcasting licenses are awarded subject to renewal every few years.

The most crucial analysis now being undertaken by the CRTC is how to call for pay-TV proposals, balancing explicit direction with room for flexible responses. Viability in program production should be expressed in the two principles espoused above - Canadian content and production/distribution separation. Within these principles the government could evaluate how well the applicants use the pay licenses to lever foreign sales, capitalize on the independent production industry's growing strength, and access the production resources of the public agencies.

Cable Revenues for Program Production

Among the main issues is whether or not some revenues should be extracted from all new cable television services or diverted in some fashion to program production. This would mean financial resources additional to purchasing commitments by the network operators of new services. Establishing the principle that program production can be financed through a 'tithe' on cable fees would provide a second major key to the viability of program production - the first being the structuring of the premium services so that pay-TV becomes an important program production customer.

If the principle is acceptable the question remains of how redirecting a portion of cable revenues to independent producers would be accomplished. Placing a surcharge on existing cable revenues would probably be one of the least politically attractive means of raising production funds through the cable industry. Asking the cable industry for a 5% of revenues plough-back to production has not proven effective for the reasons set out earlier. However, in the structuring of the introduction of new services, there is a major opportunity to consider ways to derive extra income for program production. For example, one proposal by the Joint Action Committee to the CRTC had the following components*:

*Joint Action Committee, "Programming for Performance", March 1980, Sections IV and V.

- All existing and new Canadian television services, including a premium channel and CBC-2, etc., would become part of the 'basic' cable service, i.e., a universal service for all consumers subscribing to cable TV;
- The re-broadcast of American network channels would be placed on a second 'tier' of services for an additional fee to be paid by the subscriber; it would also require the subscriber to buy a cable converter;
- The third and fourth 'tiers' of non-programming and discretionary entertainment channels would be supplied by the cable operators through further costs to the consumer.

The logic of the proposal is to use the U.S. programming and cable industry's new services motivation to market and finance the basic programming services. However, such a total re-organization of cable services dictates a technological and marketing structure in advance of any consideration by the cable, broadcasting, and program production industry of how they are going to make new services a viable proposition. This approach fights the market system, rather than providing guidelines to which industry can respond - even if the components of the industry are not too happy about such guidelines.

The Joint Action Committee proposal does raise the main principle of whether cable service subscribers should provide funds specifically designed to enhance indigenous program production. A precedent of sorts was established in Quebec via the CRTC decision to allow a 50¢ cable fee increase to finance the provision of TV services from a French channel (LA-SETTE). Extra revenues from higher cable fees could be diverted directly to a programmer or a cable company to pay for new programming, as in the

LASETTE case. However, it would be more effective from the perspective of the independent production sector if these revenues passed through an investment intermediary like the CFDC. Again, the critical separation of the producer from the distribution system should be maintained.

VI ALTERING THE SUPPLY ECONOMICS

While ensuring greater access to the domestic market and boosting export sales are crucial to a strategy for program production industry viability, how to strengthen the supply side should be examined. That fiscal or program incentives for program production are important, though secondary, is also the conclusion of previous assessments of the program production industry*. This section discusses possible government support programs and how to pay for them.

SUPPLY EXPECTATIONS

While Canada cannot expect to be a world leader in all forms of video production, there are few programming areas that should be ruled out from the outset in terms of developing competitive products. Indeed, it would be foolish to compete head on against American sitcoms, or indulge in too many $20+ million blockbuster/TV series. Nor can Canadian program production be as prolific as the U.S. However, Canadian program production should strive to be a factor in the entertainment/high audience appeal programming categories. Drama, docudrama, variety, soaps, animation and straight documentary and public affairs programming can all generate significant audiences. Children's, educational, science and nature, ethnic and other program productions with a narrower appeal can all be economically viable in the right investment and market circumstances. It is probably counter-productive for

---

*See, for example, David Ellis, "An Assessment of Measures to Stimulate Growth of the Domestic Program Production Industry for Television, with Respect to the Federal Broadcasting Objectives and a Comprehensive Policy for Canadian Television", A report prepared for the Broadcasting Policy Division, Department of Communications, Sept. 28, 1979, and Alain Lapointe et Jean-Pierre Le Goff, "L'industrie de la Production d'Emissions de Television au Canada", May 1980 government to specify in advance the segments of programming which may flourish better than others, although the track records of some areas (eg. public affairs, science and nature, téléromans, animation and documentaries) indicate that there is a more sound economic base in some program areas than in others.

Where the economic and cultural objectives happily intersect is in the capacity of the program production industry to exploit a growing percentage of significant Canadian events and literary works. A program production industry that can create viable products from Peter Newman's books, a Prix Goncourt winner's novel, the exploits of a genuine Canadian hero, Terry Fox, and the 'Canadian Caper' in Iran will have achieved its purpose. The program production industry is geared up for producing competitive programming from many of these properties now, and will be in a better position to do so as links with the publishing industry are strengthened.

EXTENDING FEATURE FILM SUPPORT TO TV PRODUCTION

The Canadian program production capacity is poised to respond to a greater participation in video productions. In many respects the support systems developed for the feature film industry can be harnessed to the shift toward television production. Government should be reviewing its existing program infrastructure to determine how best to respond to the emergence of a strong television production industry.

Similar to the feature film industry, some of the apparent needs for fiscal and other support services incentives are:

- Working capital and development funding (i.e., to explore projects, invest in script development, etc.);
- Financial partners for investing in specific productions;
- International market intelligence and distribution access.

A strong domestic and international demand for Canadian programming would be the most desirable means of fulfilling these needs. However, there is certainly a stage to go through which requires the continued existence and renewed commitment to the network of government support mechanisms developed first for feature films, including the capital cost allowance provision (CCA), the NFB, and the CFDC.

CCA Tax Incentive

The latest revisions announced by DOC* for the capital cost allowance were not designed to overhaul this taxation tool for the benefit of television production. Further proposals to improve the flexibility of the CCA for television production are under consideration by DOC, as part of modifications to the CCA for 1982.

Nevertheless, the tax incentive as it exists now can be applied to television production. In fact, the use of the CCA to attract private investor equity has shown up dramatically in the last year. Certification for non-feature

*Department of Communications, "Minister of Communications announces changes to film certification regulations", Press Release, Dec. 30, 1980.

film projects - about half of which is accounted for by production for television - rose from some $7 - 9 million in 1978 to a projected $36 million in 1979*. The figures for 1980 will probably be still higher.

The CCA has limitations which are mainly problems for the packager rather than the investor, but it is a very powerful tool to raise television production equity financing. The television business, with its somewhat more assured market success is in fact of growing interest to investors, who have won few gambles on their wild card feature film investments**.

There are two basic shortcomings to the CCA as a service to attract equity capital to program production in both feature film and television. First, the emphasis is on project-by-project financing rather than on providing stability to a producer for several projects. Secondly, there is little direct incentive for earnings. In the past, this deficiency led to the notorious 'deal making' tendency in feature films. The 1980 market shortfall on sales indicates, however, that investors are in fact interested in returns, not just in sheltering income.

The federal government could create a special purpose corporation designed (a) to attract investor capital to production companies, and (b) to reward profits by not taxing revenues ploughed back into the company. Such proposals have been developed with reference to Ontario's Small Business Corporation and even to the U.S. DISC tax incentive for exports. However, the same effect can be largely achieved by the creative packaging of projects designed to use the CCA tax incentive.

---

*Preliminary estimates from Film Certification Office, Dept. of Communications

**"Meatballs" is the most outstanding success story to date, which returned 3-1/2 times the amount put up by private investors.

With respect to the first objective of providing company stability, it is possible to package the CCA offering for a series of productions, as typified by Les Plouffe production and the proposed television series on immigrant entrepreneurs*.

Grouping projects tends to stabilize both the production company and the investment. The next step is to utilize the CCA tool to develop a portfolio of various production properties. As the Robert Cooper proposed offering attempted, it may become possible to attach development funding to a CCA offering even though there are no tax advantages for that component of the investor's equity participation**. The CCA tax shelter has led to the development of a full retail mechanism by the investment community - one that can be used to raise general development funds and working capital for independent producers as well as tax sheltered funds for specific projects.

The second objective to ensure that projects make money, and are not just put together for the financial benefit of the packager, can also be met more or less by the CCA provision. Investors are now looking more closely at the track record of the producer and the prospects for getting a return on their investment. This investor perspective, in itself, tends to reward performance rather than just deal-making. In addition, any return to the investor is taxable income in the year received, which should motivate the investor to reinvest in a similar tax sheltered program production project. The proposal for a special purpose corporation would not tax earnings from production project sales as long as such earnings were left inside the special purpose corporation. However, the CCA mechanism encourages investors to reinvest in an equivalent way, and thus appears to achieve the same purpose***.

---

*On Plouffe see Le Devoir (18 Nov. 1980, p.9. On immigrant entrepreneurs see Financial Post (Jan. 17, 1981), p.4.

**Cooper was trying to raise $13.3 million for two film projects, "Bells" and "Utilities", with some part of that amount directed to equity funding to develop further projects. See Variety (Nov.26, 1980), p.37, and Financial Post (Nov.15, 1980), p.12.

***The CCA could even be used to finance video productions that would be distributed through the new videodisc/cassette media. The music industry does not yet appear to have utilized the CCA for financing production.

CFDC

An important support mechanism to the feature film industry has been the Canadian Film Development Corporation. Television as a market for features has been an extremely important factor in the industry's development and the CFDC has gained considerable experience with the TV market*. Certainly the existence of an organization as flexible and experienced as the CFDC makes the creation of a separate program or agency to assist television program production a less attractive approach.

The CFDC is in the business of assisting feature film projects where it feels it is appropriate. Its orientation toward either cultural or industrial objectives can be changed quite readily through appropriate policy direction**. Thus, the CFDC could become the chief government program to assist the financing of independent television production (and ultimately home video production).

The CFDC has a clear mandate from Cabinet, flowing from a recommendation from the Corporation's Advisory Committee, to assist production made specifically for television. However, from the perspective of the CFDC, there are limitations placed on the CFDC's scope by the Act's specific reference to 'feature'. Whether this legislative reference is a serious barrier would require further examination.

An important question is the funding level required to sustain a commitment toward the program production industry that will enable it to take advantage

*See Ellis, "Domestic Program Production Industry", Sept. 28, 1979, for a thorough description of the CFDC and possible government policy directions regarding support of television production.

**The 'Spencer' and 'McCabe' eras of the CFDC show that appointment of Executive Directors can achieve quite different policy orientations.

of new market opportunities. The CFDC's recently proposed three year plan incorporates, as an objective, the development and implementation of financing programs for feature films and television series. To meet the demands of the growing program production industry, the CFDC is requesting funding at the $30 million level to be spent over a three year period*. The proposal covers project interim financing, project development financing, and general development support. The projected annual impact proposed for television is as follows:

- Interim financing for 10 TV projects (assuming a total $5 million average cost of production for each series), and for television series distribution;
- Development financing for another 10 TV projects (at a CFDC cost of $100,000 each);
- Further assistance in cooperative television production projects, including distribution, international festivals, training, aid to script writers and business information for the industry.

The television financing and marketing business is quite different from that of feature films. Clearly, however, the CFDC has taken some initiatives with respect to financial assistance to television production. Whether or not the proposed budgets and programs are appropriate to the needs of the television program production sector, it is at least a start in estimating the financial needs of the television production support system.

---

*Canadian Film Development Corporation's "Three Year Plan Project 1981-82 to 1983-84".

Financial support flowing through an agency like the CFDC reinforces the independent production sector role in the development of competitive television programming. Funds made available through a CFDC-type agency could become an important inducement for public broadcasters to increase their procurement from independent producers. Possibly, there may be co-production opportunities with that sector generated initially by CFDC assistance.

As stated earlier, the CFDC with its experience seems to be the appropriate vehicle through which to channel financial assistance*. It is a direct form of assistance which allows government to achieve broad cultural and economic objectives, and is complementary to the indirect, relatively automatic CCA support mechanism. Both are, in fact, financial instruments vital to television, and each can function most effectively with the support of the other.

Co-production Treaties

Another feature film industry mechanism is the set of co-production treaties signed between Canada and several non-U.S. countries. Apparently the rationale behind these treaties was essentially cultural on both sides, i.e., a desire to stem the cultural onslaught of the Hollywood produced feature film. According to the CFDC, which administers these co-production agreements on behalf of the federal government, television series can probably be certified if associated with a feature film. While the attitudes of all

*Ellis, "Domestic Program Production Industry", Sept. 28, 1979, concluded that an alternative like the Federal Business Development Bank, which essentially serves the manufacturing sector, is not a very appropriate vehicle for the program production industry.

European countries are unknown on this subject, recent discussions by the CFDC with the German authorities, for example, indicate there is an interest in pursuing television co-production arrangements.

Co-productions make economic sense in many situations already, and are actively pursued by public broadcasters and independent producers alike. Amortizing production costs over two countries' markets shares the investment risk and improves the profit potential of a project. It would be worthwhile for the federal government to further the co-production objective in its government-to-government relations capacity.

While in the past co-productions in feature films have been abused from a cultural and, some would argue, economic point of view, there is general optimism in the industry toward change in the future. With the growing European confidence in the capability of at least a few Canadian producers, the CFDC believes there will be a shift in creative control from Europe toward Canada. This optimism is echoed by the independent production sector for television series, whether or not productions come under the co-production treaties, since Canadian-based television productions are felt to have better access to the U.S. market.

Export Assistance

As argued in the first section, competitive televison production depends on export markets for the same economic logic that prevails for many technology intensive or high value added goods and services. For the same reasons, then, Canadian exporters of television production should be supported by the full panoply of government programs and services that are designed to improve Canada's export performance.

There are current programs within the federal export assistance rubric that could be mobilized for the program production industry. For example, the program for Export Market Development (PEMD), one of several industrial assistance programs administered by IT&C, defrays export business expenses in the following categories:

- market identification through international exploratory visits;
- participation in foreign trade fairs;
- subsidizing costs of bringing foreign buyers to Canada;
- feasibility assessment and formation and initial operation of export consortia;
- development of proposals or bids for specific projects.

Apparently, PEMD is used by the independent production industry, although the program did not seem widely known among independent producers with whom discussions were held. In any case, programs have not been designed specifically for that industry.

The concept of specific tax or fiscal incentives for export earnings has been raised in some quarters, although such proposals could be in violation of GATT. In many ways the CCA (and to some extent CFDC) financing has been applied as an export oriented incentive for program production, and it is questionable whether there should be additional financial incentives specifically to promote export sales. However, for production projects to be competitive internationally, the gamut of export financial assistance programs should be explored.

COST RECOVERY PRINCIPLE

Fortunately, increased financial support for program production can be matched by recommendations for increasing revenues from the program production and distribution industry, particularly the latter. Unlike Europe, the taxation tradition in Canada is to completely separate revenues raised through taxes from program expenditures to meet government costs. Therefore, a cost recovery principle is discussed notionally, i.e., funds may be raised independent of government expenditures and only related indirectly.

Home entertainment equipment tax

Canada abandoned radio license fees as a means of supporting public broadcasting in the late 1940s and it is unlikely that there will be a return to this approach. A somewhat similar user-oriented revenue raising approach is to tax home video equipment purchased by consumers. For example, the federal excise tax could be increased on such 'luxury' products as colour television, video cassette recorders, and videodisc players. Although colour television sales peaked several years ago, a two per cent (retail price base) increase in the excise tax on colour TV sets would have raised about $10 million in taxes last year*. However, with the anticipated consumer product demand in new home video equipment projected to achieve fairly high penetration in the 1980s, this source of revenue could become somewhat more important if new home entertainment equipment were taxed. A two per cent excise tax on a

*Based on total colour sets sold at an average cost of $500 each. See Television Bureau of Canada "TV Basics".

million units (10 per cent of TV households) sold over the next, say, 5 to 7 years, could net the federal government a further $20 million (at $1,000 per unit retail price). Similar computations could be made for sales of videodisc and pre-recorded videocassette material. The annual federal government take would of course vary with volume and actual tax applied, but would be a quite small disincentive to their purchase. In addition, given that there is little Canadian manufacturing content in home video hardware, the taxes would be levied primarily on an import item.

Taxing new home video equipment runs against a possible strategy to encourage high penetration of videodisc players. Such an approach has been suggested for the purpose of stimulating the program production industry through the rapid expansion of the domestic market*.

Cable Levy

The other major source of revenue has already been discussed in part above - a cable service levy or tax. In gross terms the taxable volume of business is nearly $300 million today, with the possibility of roughly doubling over the next several years, provided cable companies are permitted to offer 'discretionary' programming and non-programming services (i.e., beyond the basic cable service).

*Nordicity Group Ltd., "Canadian Position on Videodisc", Jan. 1981, p.40.

The tax would not likely be directly applied to cable companies, but would be added to the subscription bill. However, since cable tariffs are regulated, cable companies' revenues could be depressed to make allowances for the federal cable tax on the subscriber. One simple suggestion on this line is for a 50¢ tax added to the monthly subscriber bill, which would earn $20 million*. If such a tax were put into effect, presumably it could have an impact on the CRTC's decisions regarding rate increase applications.

One could formulate many assumptions about possible percentages of the next $300 million of cable revenues derived from additional information and entertainment services. Adding a cable tax of, say, 5 to 15 per cent of revenues from those discretionary services would generate in the order of $15 to $45 million per year.

The cable industry faces over time a fairly massive upgrading program to the cable plant, costing up to $400 per subscriber - and is looking over its shoulder at the telephone companies' competition. In the U.S., cable companies are anticipating the amortization of such an expenditure in new revenues for all programming and non-programming services at a rate of about $16 per month per subscriber. Thus, the cable industry will be arguing for the minimum diversion of revenues into support for public objectives like program production.

---

*A.W. Johnson, "Crisis in Television".

It is feasible to generate tax revenues from cable services which would approximate the new expenditures and tax incentives for program production as discussed above. Some restructuring of the broadcasting system will certainly be necessary if the government intends to 'recover' its program production financial assistance expenditures. Such a restructuring will obviously require taking into account the legitimate interests of the cable industry and public and private broadcasters.

VII CONCLUSIONS

This section brings together the main conclusions as to the economics of the program production industry, a general federal strategy for improving the industry's viability, and the potential cost to government.

PROGRAM PRODUCTION ECONOMICS

Though the base of the program production industry is similar, the economics differ substantially according to the type of program production and its market outlet. These differences are highlighted briefly as follows:

- Television production normally involves less investment than feature film. Financing, which is often tied to pre-sale commitments is easier, and export markets are evolving and thus are less 'closed' than theatrical distribution of feature film. Although public policy leverage over distribution of TV production is diminishing because of technological change, there is a major opportunity for influencing the market structure of new cable-satellite and pay services.

- Feature film production is a much larger gamble for investors than television production, though the pay-off can be enormous. Distribution via theatrical release is not very accessible to the independent producer, nor to the Canadian policy-maker.

- Videodisc/cassette production will have the distribution characteristics of the record/tape industry, which is as inaccessible to public policy as feature film distribution. Production for videodisc should accommodate greater specialization than television production though it is very unclear how the market will develop.

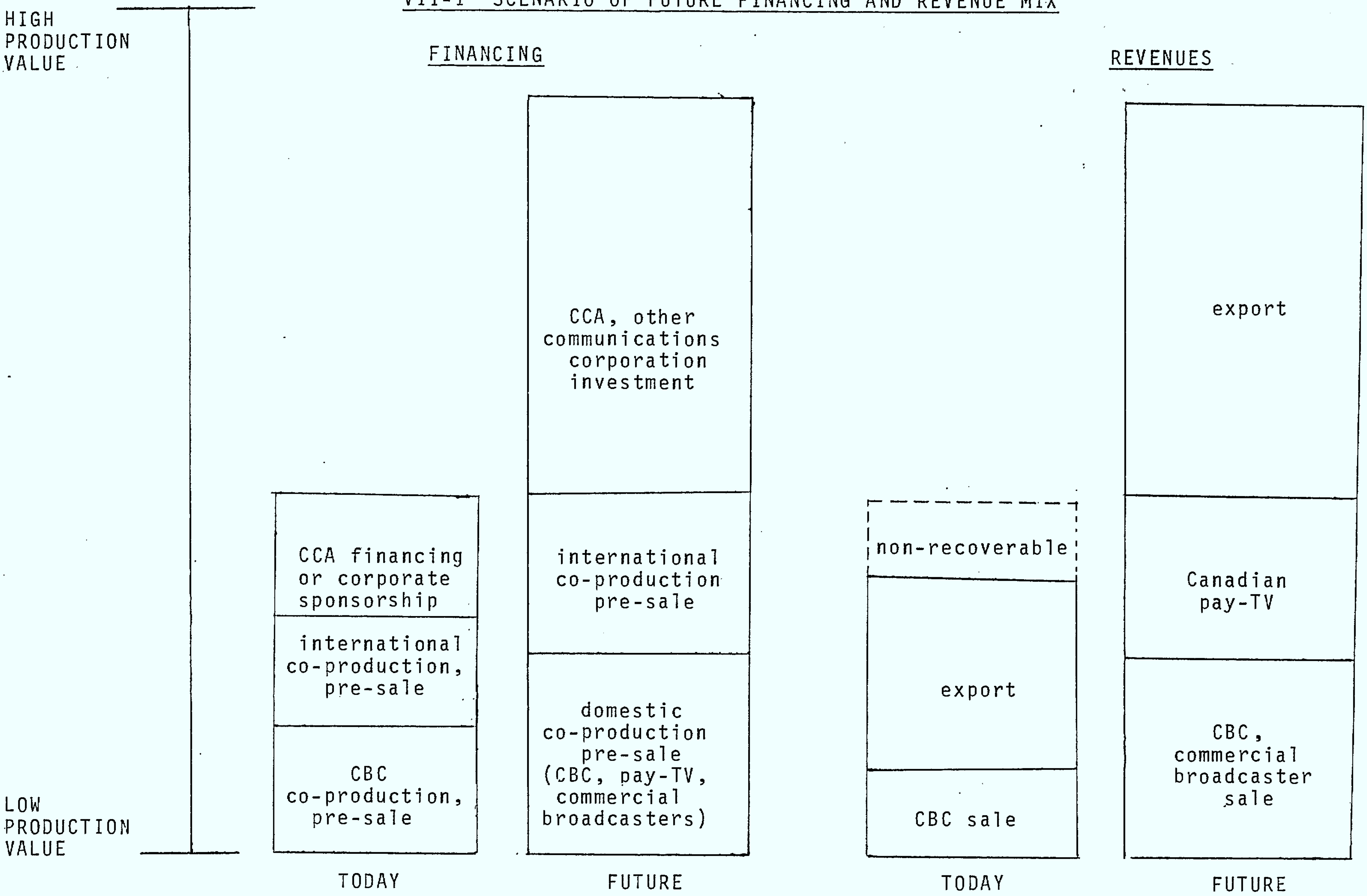
In spite of these differences in economics, feature film and television production is merging. Many successful creative concepts flow through the production, marketing, and distribution of both industries. In the future, the videodisc/cassettes market represent a further distribution channel for the same productions, as well as eventually generating its own original production. Therefore, the economic viability of any one market is linked to the viability of the total video program production industry.

Economic viability in the television market is easier to achieve in Canada than feature films for theatrical distribution. This is due to the potential for improving access of Canadian programming to the domestic Canadian market, for the comparatively greater prospects for reaching international markets. While feature film investments have enjoyed enormous growth in the last few years, recent usage of CCA financing indicates there is already a shift toward production for television markets. As the two types of production become more interrelated, achieving economic viability in television production could reinforce feature film development in Canada, and indeed the overall video production industry.

Television Production

Television production projects can achieve viability in two ways. First, some productions can be undertaken cheaply enough to meet the economics of the Canadian market - though such production will generally not be competitive anywhere else. Second, sufficient production values can be invested in a project to make it competitive enough to recover costs in several markets.

VII-I SCENARIO OF FUTURE FINANCING AND REVENUE MIX



If measures are adopted to generate new financing possibilities (see Section VI) and the domestic market is expanded (see Section V), the second path toward viability becomes more feasible. In Exhibit VII-I, a financing and revenue scenario, it is shown schematically how production projects would become more viable as they achieve international competitiveness. Investments are greater and the production can reach a full pay-back position.

The television production industry receives $400 million in production investment*. However, due to the larger in-house capacity of broadcasters, revenues to the private sector producers are only $25 million in all. Nevertheless, the independent production sector is fairly well positioned to increase its role in television production:

- The total independent production sector income is $125 million, drawn from several film and video-tape markets.
- There are 27 producers (1979) generating over $1 million in revenue, 9 of whom are independent producers of television programming.
- There are indications that the independent production sector can sell abroad, as an important part of its revenues are derived from foreign sales.

In section I, viability was translated into three working measures of performance - that both the <u>projects</u> and <u>companies</u> be viable, and that the <u>products</u> be Canadian-based in conception. While project and company viability can be projected under more favourable economic conditions, the Canadian content criterion is somewhat more subjective. Under present

---

*See Lapointe et Le Goff, "L'Industrie de la Production d'Emissions", p.26.

circumstances there is little domestic demand, while sizeable U.S. markets are often available only if creative control remains in the U.S. Canadian television producers are hard put to develop, market, and produce Canadian creative properties in these conditions. However, future conditions may change the basic market factors, including the following:

- A larger domestic base from pay-TV sales, for example, makes a producer less dependent on U.S. buyers dictates.
- More experience in competitive drama projects should enhance the confidence of foreign co-producers or buyers in Canadian productions.
- A larger international market as opposed to the simple dumping of national programming, should expand the possibility of Canadian creative concepts.
- As Canadian programming becomes more competitive, the potential increases to use the domestic market to lever foreign market entry through barter deals with foreign programming suppliers.

These potential changes tend to break down the automatic assumption that competitive programming means neutred or 'Americanized' Canadian programming. While there will still be the need for public broadcasting programming - which may be good quality but by its nature not necessarily competitive - there could be a growth in production of competitive programming that evolves from a strong Canadian industry.

A FEDERAL STRATEGY

In Section I, two broad alternatives to ensure a Canadian presence in the domestic market are ruled out: a total commitment to public broadcasting because of cost; and tighter control over the entry of foreign programming because of the 'end runs' of the new distribution systems. The alternative proposed is to make program production more competitive at home and in the international marketplace.

The cultural community has recently advanced its own articulate views on an economic strategy for cultural industries*. Quite understandably, the proposals include substantial increases in public spending (eg., increase in CBC's budget by 50% over three years), as well as extensive structural change (eg., adopting the Joint Action Committee's recommendations on re-structuring of the broadcasting/cable system highlighted in Section V). In the broadcasting area, the federal government could counter with a coherent set of measures that would develop an economically viable program production industry for television and indirectly other video market outlets.

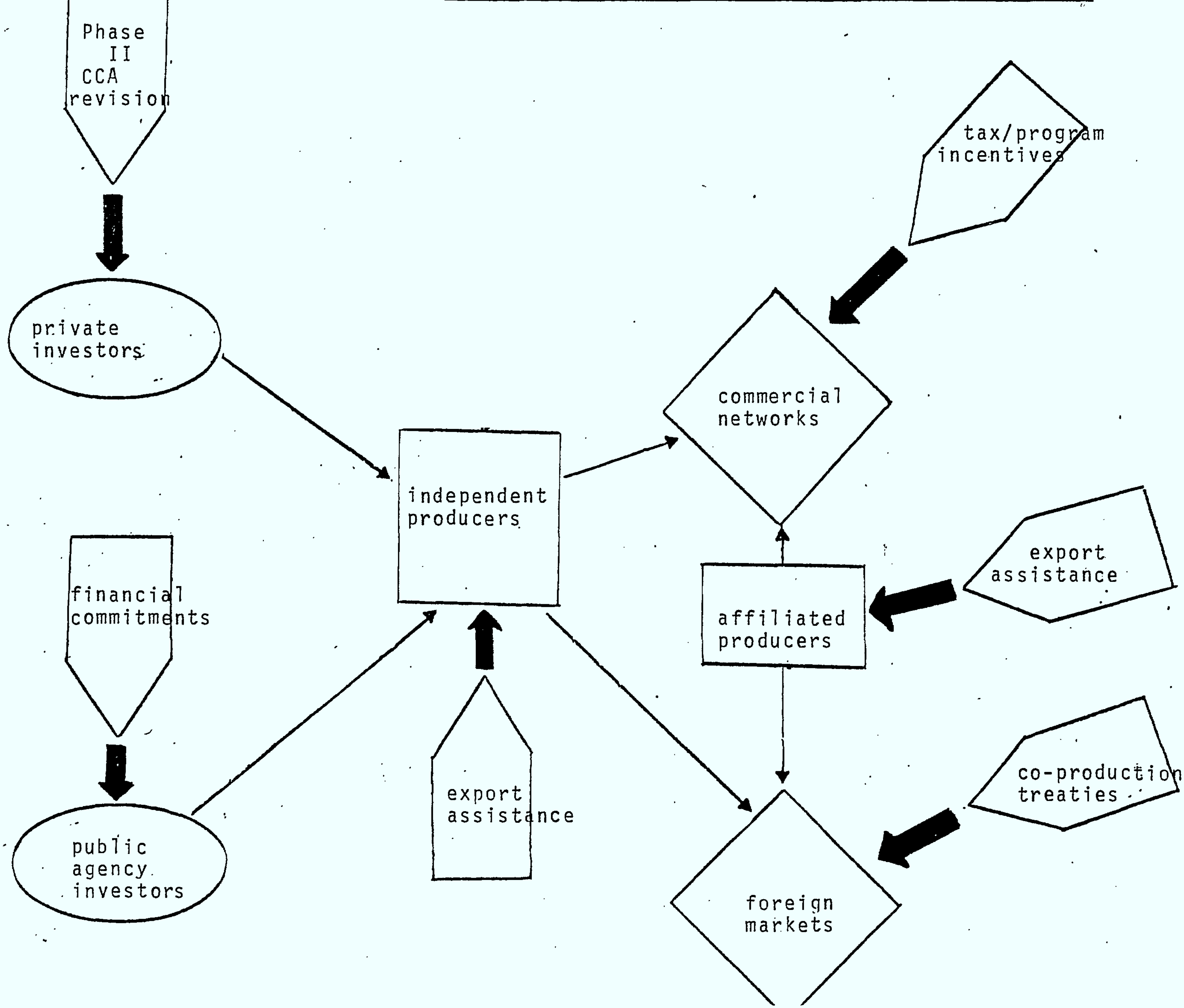
In designing a federal strategy, certain assumptions are made as to the criteria that must be met, summarized explicitly as follows:

- institutional, as well as budgetary feasibility, i.e., avoidance of new programs if possible, or radical changes in existing public agencies;
- appropriate timing, i.e., taking advantage of the urgency of related policy decisions;

---

*See Canadian Conference of the Arts, A Strategy for Culture, Proposals for a Federal Policy for The Arts and the Cultural Industries in Canada, Ottawa, December 1980.

VII-2 PROPOSED PROGRAM AND TAX INCENTIVE MEASURES



- emphasis on structuring the new broadcasting environment rather than rolling back the old;

- channelling of private sector investment and initiative rather than replacing it with public sector institutions.

Within these parameters, the federal strategy could encompass measures affecting program expenditure commitments, tax incentives, crown corporation mandates, and particularly the regulatory framework for broadcasting. In Section I, a series of relationships affecting the total demand and supply system of program production are exhibited graphically. The possibility for the federal government to alter the demand and supply economics of the program production industry, the subject of Sections V and VI, are shown in a similar graphic fashion in Exhibits VII-2 to VII-4. While some new programs are discussed, the strategy emphasises a substantial re-orientation of existing federal activities and structural decisions which are quite interventionist in nature. The highlights of the proposed strategy are:

1. Program expenditures and tax incentives (VII-2)

   - tax or program financial incentives for commercial broadcasters to procure from Canadian independent producers - with a five year sunset limit on such incentives;

   - financial commitments to support federal banking and business assistance functions for independent producers

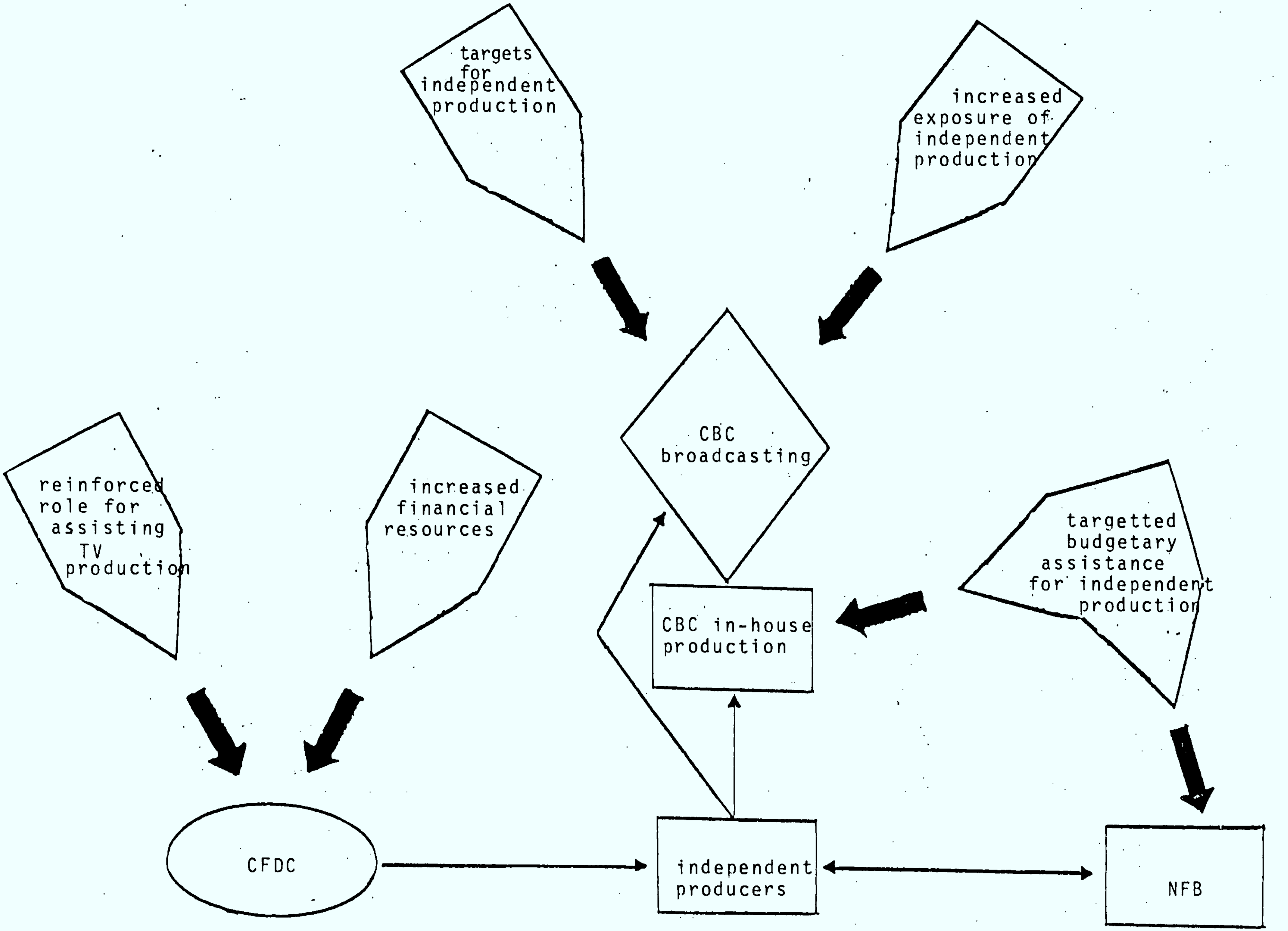
     - interim financing and financing project development
     - training and development assistance
     - marketing and distribution assistance;

   - Phase II revision of CCA to improve its usefulness to independent TV producers;

   - export assistance to independent producers and affiliated producers

     - program and credit assistance geared to exploiting international TV market opportunities

VIII-3 PROPOSED MEASURES FOR CROWN CORPORATIONS



- negotiation of co-production treaties or similar arrangements for television.

2. Crown corporation operating role (VII-3)

- budgetary 'stick' for CBC to improve the domestic market for the independent producers

  - long term specific quantitative targets for CBC to procure programming from independent producers;
  - increased exposure for shorts and other programming produced by budding talent in the private sector;

- budgetary assistance for competitive programming by the CBC and NFB in their capacities as program producers;

  - re-structuring of programming and talent agreements for full exploitation of all media formats, i.e., an 'enterprises' orientation;
  - development and marketing of projects that have high export potential;

- reinforce CFDC role in TV production through revising its mandate and adding resources to carry out the proposed banking functions.

3. Regulatory Action (VII-4)

- increase broadcasting prime time Canadian content stipulations;

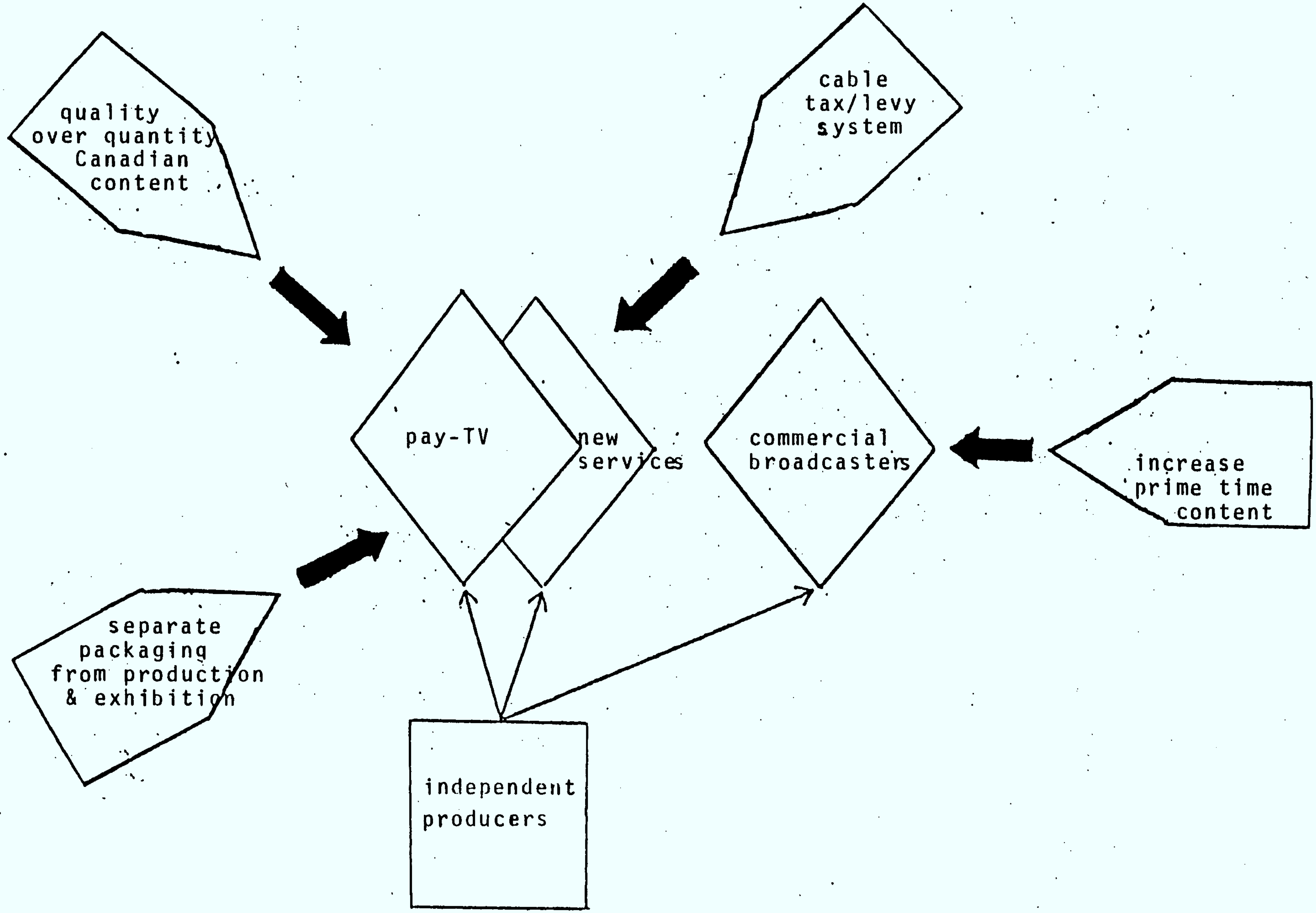
- establish pay-TV principles;

  - Canadian content definition emphasising quality over quantity;
  - separation of network packaging operation from production and exhibition;

- structure new TV service tiers to institute an effective tax/levy system to 'offset' increased government financial assistance for TV programming.

The essence of this federal strategy is that it is designed to enhance the key creative and entrepreneurial component of the program production industry - the independent production sector. As stated in Section I, the rationale for supporting the private sector producers is that it appears to be the best way to develop competitive programming, which in turn is the

VII-4 PROPOSED REGULATORY ACTION



only way to ensure the economic viability and largely the survival of Canadian cultural expression in video form.

The results should eventually show up in expanding viewership figures as well as in widening programming choices for Canadians. As Canadian programming becomes more competitive, it will replace more foreign programming at times when most people are watching TV. It will also find its way onto the schedule of pay-TV and other new TV services, as well as into pre-recorded video material as that media format develops.

Cost Implications

Though some cost is anticipated in the proposed federal strategy, the main emphasis is on re-directing private sector investment into program production - by the private investor, independent producer, commercial broadcaster and communications company investor. The main areas of 'cost' to the federal government would appear to be the following:

- Banking and export financial assistance to the independent (and affiliated) producers;
- Possible tax deferral or program incentive measures for the commercial broadcasters;
- Budgetary assistance to CBC and NFB to complement expenditures toward more competitive programming.

It is argued that these costs would not be as great as full support of public broadcasting and public film production - plans which would be in the $100 million+ category. To some extent more competitive programming would reduce the financial needs of the CBC/NFB to accomplish their objectives, though this assumption bears further examination.

If the federal strategy is implemented overall as proposed, additional federal revenues would be derived from regulatory decisions affecting the addition of new entertainment services to the home. A home video equipment tax is also possible. These funds would be sufficient to underpin the public sector component of the financing for economically viable program production. While there will likely be other 'claims' on this extra revenue, for example, to pay for additional public broadcasting services, an emphasis on competitive programming could become the most cost effective approach for the federal government to meet its broadcasting and cultural objectives.