# THE ECONOMICS OF CULTURE AND CANADIAN CONTENT IN THE INFORMATION SOCIETY: AN OVERVIEW OF THE NUMBERS AND THE ISSUES

**Background Paper for the Information Highway Advisory Council**

March 1997

**Information Highway Advisory Council**
**(http://strategis.ic.gc.ca/ihac)**

# THE ECONOMICS OF CULTURE AND CANADIAN CONTENT IN THE INFORMATION SOCIETY: AN OVERVIEW OF THE NUMBERS AND THE ISSUES

**Background Paper for the Information Highway Advisory Council**



**KPMG Centre for Government for the Department of Canadian Heritage, March 1997.**

Ms. Susan Baldwin
Director General
Broadcasting Policy
Canadian Heritage
15, rue Eddy
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Room 70
Hull QC K1A 0M5

March 26, 1997

Dear Ms. Baldwin:

I am pleased to submit our report "*The Economics of Culture and Canadian Content in the Information Society: An Overview of the Numbers an the Issues.*"

As the title indicates, the report is intended to be factual and descriptive, and does not attempt to draw policy recommendations. However, we could not immerse ourselves in these issues for two months without developing some views about courses of action for the Government of Canada to consider. This transmittal letter sets out these views, even though we would not claim that they can be definitively substantiated by the material included in our report.

## Past Successes

Canadian cultural industries have generally been successful, and have enjoyed strong public policy support. For example, film and video production, dependent on critical mass, has been fostered by a series of public policy measures. Other industries, such as broadcasting, have contributed to the size and depth of the Canadian cultural industry sector through a combination of private and public vehicles working side by side. These successes have occurred over the past several decades in an environment which could be classified as evolving but relatively stable.

Public policy measures include government subsidy, financing measures, and regulation primarily covering ownership and content. These policies were particularly effective in a world of analog technology, limited trade agreements, and "linear value chains." Perhaps most importantly, Canada has been blessed with many visionary entrepreneurs and artists.

## Current Challenges

Cultural industries, like other industries, now find themselves amidst a dynamic and, some would say, chaotic environment. New developments are directly challenging many of the measures that have led to past successes. The changing environment is having a profound impact on traditional public policy goals of protecting and promoting Canadian culture, and encouraging the health and strength of the cultural industries. While Canadians still appear to embrace these goals, new technological developments are challenging old models for achieving them. A challenge for the future is how to ensure that Canada continues to meet these goals.

Digital technologies and convergence across industries and functions are exerting a massive impact on virtually all cultural industries. For example, the shift away from analog technology has dramatically increased channel capacity and raised the specter of Canadian content getting lost in a sea of choice, or becoming difficult to find. This is exemplified to a certain degree by the many offerings of direct-to-home satellite TV and, in the extreme, by the offerings of the Internet. Furthermore, the ability to transmit data digitally can bypass physical borders.

Digital technologies and convergence are also having an impact on the fundamental business processes of production and distribution. They have transformed traditional arts and cultural industry value chains (i.e., create, produce, market, distribute/retail) into "value networks." They have also underpinned the growth of "new media" and new content.

Ongoing fiscal restraint, as governments worldwide grapple with debts and deficits is leading to lower government funding for cultural industries. And we are witnessing comprehensive trade agreements, general liberalization, and the globalization of telecommunications, broadcasting and intellectual property regimes.

## The Future

Our review of these developments leads us to the following broad conclusions.

(1) *The future of Canada's cultural industries is significantly dependent on the degree of commitment of Canadians and their governments to Canadian content in the information society.*

Many studies, task forces, and commissions have produced important analyses relating to arts and culture in Canada. While some additional deliberation and research is desirable, given developments noted above the time has arrived for decision making.

Policy makers need to first decide what importance to give Canadian content in the Information Society, and then commit the necessary resources to implementation.

(2) *Canada's cultural industries should be recognized as economically important and technology-related.*

Cultural industries make a larger contribution to the Canadian economy than many Canadians might believe. Based on Statistics Canada analyses, the arts and culture sector made a direct contribution of \$29.4 billion or 4.5% to Canada's Gross Domestic Product in 1994-95. Statistics Canada also estimated arts and culture directly employed almost 900,000 Canadians or 6.7% of the Canadian labour market in that same period. These impacts appear to have been relatively stable from 1989-90 to 1994-95. While there are legitimate concerns about the validity of some of the data relating to the significance of cultural industries and comparisons with other industries, it is clear that cultural industries represent a significant part of the Canadian economy.

We also found that linkages between technology and cultural industries are becoming more evident, most notably in the area of "new media." While there have always been strong links between technology and certain cultural industries such as broadcasting, the rate of technological linkage and needed adaptation in many other areas is evident. In the future, it will be important to take into account the increasingly technological nature of Canada's cultural industries.

*(3) It is time to reassess the type and application of cultural regulation.*

The regulatory framework governing Canada's cultural industries was put in place in an environment very different from the one facing Canada today. Technological change has served to make certain regulations less applicable. The *Sports Illustrated* split-run matter has shown how new technology can thwart the intention and practicality of a regulation. There is a clear need to review current regulations to determine their need and effectiveness in a changing global and technological environment.

*(4) New measures will be needed to promote accessibility of Canadian content and "shelf space" for Canadian content suppliers.*

Public policy measures such as magazine postal subsidies, priority carriage rules for Canadian broadcasting and various marketing assistance programs have been designed to make Canadian content accessible. As new media vehicles, content forms, and distribution channels proliferate, the challenge of assuring adequate content increases. With fragmentation and the enormous expansion of choice, Canadian content could conceivably "get lost in the shuffle" of the global information society. For example, in a 500 TV channel universe, if only one or two Canadian programs are on at prime time, they could easily be missed, especially in the absence of access devices. The same holds true for the Internet with its virtually unlimited programming options. The creation and successful implementation of navigational systems in both official languages will be a significant determinant of accessibility to Canadian content.

*(5) Success will require concentration on niches of strength to develop critical mass.*

Given the realities of fiscal restraint, and the need for critical mass in many cultural industries, it will be necessary to be selective in the development of niches of strength. Canadian broadcasters cannot, for instance, expect to compete with Hollywood on its terms. Resources are too limited to try to provide all things to all audiences. To be successful, Canadian production will have to increasingly concentrate on areas of strength. What these areas are is beyond the scope of this report but those we interviewed made suggestions such as children's material, where Canada is noted for its television, book and magazine strength. Others have suggested a special emphasis on the new media industry given the education, animation, computer, film and sound resources already available in several major centres.

The clustering effects of successful industries are well known. We have studied new media clusters in other jurisdictions, such as "Silicon Alley" in New York, and believe certain lessons can be learned and successfully applied in Canada. The term "cluster" need not be narrowly seen in the traditional geographic sense, and could be developed in functional and strategic ways across Canada using electronic connections.

It is important to recognize that regulation is likely to be of limited effectiveness for new media industries. The Information Technology Association of Canada has warned that "attempts to subject new multimedia services to regulation will delay introduction of leading-edge services, harming Canada's global competitiveness and Canadian jobs."

(6) *There is a need for significant public/private collaboration in the context of a long term strategy with stable government support.*

In an era of ongoing fiscal restraint, additional public/private collaboration will be needed to advance Canadian content. Such collaboration will be best fostered in the context of a long term development strategy that includes both an articulated vision and measurable objectives which could be monitored and adjusted over time. Total government support for arts and culture has declined in recent years in real terms, as has support for other industries. Whatever support level is determined, it is important for this level to be as stable and predictable as possible, particularly for investment-oriented areas such as educational programs.

(7) *There is a need for better data on some elements of cultural industries.*

During our study we found certain areas lacking in terms of up-to-date, valid data. Categorizations used for economic impact data have been questioned by some interviewees, who challenged the validity of cultural industry GDP, employment and export figures. Comprehensive data on new media data is almost nonexistent, and international comparative data is scarce[1].

(8) *Success will continue to be dependent on visionary entrepreneurs and artists.*

Canada continues to need visionary entrepreneurs and artists. Our interviews have led us to conclude that much of the reason for past success has been those individuals who have forged ahead against significant challenges. These individuals appear to be 'driven,' anxious to succeed almost for the pleasure of success alone. Many have become recognized as leaders in their fields internationally.

We have enjoyed doing this study on a fast moving and nationally important subject. I hope that our report and these broad conclusions will be helpful in your deliberations.

Yours very truly,

Salvatore M. Badali

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[1] *Notwithstanding these shortcomings, pockets of strong data and analysis do exist. Examples include: the Statistics Canada industry profiles and bulletins (e.g., the profile,* ***Canada's Information Technology Sector****, and the quarterly bulletin ,****Focus on Culture****); numerous task force reports (e.g., the* ***Task Force on the Future of the Canadian Magazine Industry****); and academic publications (e.g.,* ***The Cultural Industries in Canada****, edited by Michael Dorland).*

*Partner*
KPMG Centre for Government

*SMB/hl*
*Enclosure*

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# I

# *Introduction—Project Objectives*

We were asked to provide an economic portrait of cultural industries and Canadian content. Specifically, in the context of the Information Society, we reviewed:

- the economic impact, structure, and operations of Canada's cultural industries;
- the impact of new technologies; and
- general cultural policies and regulations.

Our assignment lasted approximately two months and was limited by budgetary constraints to a literature review and interviews with selected stakeholders in the cultural industry sector. Although little original research was possible, we believe we have been able to outline important issues and arrive at a number of useful conclusions to assist policy makers in their deliberations.

Before presenting a portrait of cultural industries, we must first agree on what they are. As Professor Michael Dorland of Carleton University has noted in his recent book, *The Cultural Industries in Canada*, it is important to recognize that the term "cultural industries" refers both to sectors of the economy producing cultural commodities (films, books, TV programs, etc.) as well as to a concepts involving the identity of Canadians. To look at it another way, cultural industries refer to not only economics but also to those activities involving arts, culture, and national identity. This dichotomy can be expressed in different ways, and it raises a number of issues. For example, there are those who argue that cultural products could be "industrially" Canadian, but not "culturally" Canadian. Others might say that this concern is misplaced since Canadian material of any kind provides jobs and helps build critical mass for cultural content providers. Moreover, in the Information Society, demand by consumers and distributors for content of all types will inevitably ensure the production and distribution of Canadian content.

In Canada, as elsewhere, cultural and linguistic diversity of "content" is a key element in the "global information society." Content, and the culture and language it reflects, have important social and cultural implications as society evolves and as technology expands and changes how individuals, communities, nations, and global partners interact together. The arts and cultural sector, as traditionally defined, or including new industries created by technological convergence, have a unique contribution to the production of content in the global information society.

Until recently in Canada, the arts and culture sector has not been considered an industry or business in the traditional sense. Rather, it has been treated as a unique domain, a part of the economy whose objectives are not primarily financial, but whose key value is its contribution to the quality of life and shared national identity. However, according to Statistics Canada, the arts and culture sector directly contributed over

$29.4 billion to the Canadian economy (4.5% of GDP) in 1994-95; in that same year, the sector employed almost 900,000 Canadians (6.7% of the labour market). Further, cultural products and services are beginning to emerge—for example, multimedia—which will have an increasing presence in the global information society and which will likely increase the economic significance of the sector.

For purposes of our study, we have used a definition of cultural industries which essentially follows the framework of the United Nations Educational, Scientific and Cultural Organization (UNESCO). This framework divides the cultural universe into ten sectors: cultural heritage; printed matter and literature; music; performing arts; visual arts; cinema and photography; radio and television; socio-cultural activities; sport and games; and environment and nature. Given our mandate, we have generally excluded from our analysis five of the ten categories: cultural heritage, performing arts, socio-cultural activities, sport and games, and environment and nature. We have concentrated on cultural industries most directly related to the creation and distribution of Canadian content on the information highway.

# II

# *Executive Summary*

The term cultural industries refers both to sectors of the economy producing cultural commodities and services as well as to concepts involving identity. In our literature review, statistical analysis, and in discussions with selected stakeholders, this duality of the term arose time and time again.

The report outlines the structure, operations, economic impact, and public policy for Canada's cultural industries. International comparisons of regulation and support relating to cultural industries are also made.

Cultural industries are important in terms of economics. Based on Statistics Canada analyses, the arts and culture sector made a direct contribution of $29.4 billion or 4.5% to Canada's GDP in 1994-95. Statistics Canada also estimated arts and culture directly employed almost 900,000 Canadians or 6.7% of the Canadian labour market in 1994-95. These impacts were relatively stable from 1989-90 to 1994-95. While there are legitimate concerns about the validity of some of the data relating to the classification of cultural industries and comparisons with other industries, culture nonetheless represents a significant part of the Canadian economy.

Technology can be viewed as a powerful force which will drive change in many aspects of our society, including arts and culture. In the Information Society, classic arts and culture versions will change shape as they become integrated with each other and with new technology. Even the traditional three-sector "communications" categorizations—broadcasting, telecommunications, and publishing—will no longer be seen as discrete areas.

Many aspects of these industries are affected in various degrees by the shifting environment. Technological change, the evolving media universe, forces of globalization and convergence, and new media such as the Internet will all influence components of the arts and culture value network.

The "new media" industry involves Internet-based services, various forms of multimedia, and new technology. It is an infant, experimental industry, whose players often combined cultural and technological efforts and skills. Converging and colliding industries are part and parcel of new media industries, though information regarding new media in Canada is sparse. The case study of Silicon Alley, New York, demonstrates the importance of clustering in areas of selected niche strength, and the importance of strategy around new media. It holds possible lessons for Canada.

New media relies on "new content," which is dynamic, interactive, executable, less linear, less one-dimensional. It reflects an altered synthesis of traditional content. Internet business, marketing, publishing and broadcasting are emerging, though various barriers exist. Despite its unlimited channel capacity, the Internet cannot be conceptualized solely as a "pull" technology. There exist many issues around regulation in new media.

Historically, there have been two main objectives of government policy with respect to culture: (1) to protect and promote Canadian culture, and (2) to encourage the health and vitality of the cultural community. However, in a complex and changing world, the best means for realizing these objectives are likely to change.

# III

# *Canadian Culture—Issues*

While the subject of this report is the economics of culture and Canadian content in the Information Society, we must first deal with the concept of Canadian culture. What is it? And, is it linked to economics and changing technology?

## A. Canadian culture

It is not a simple matter to define or describe Canadian culture and we make no attempt to do so. However, there are a number of distinguishing features of Canada that provide the context for Canadian culture.

Canada has two official languages. About two-thirds of all Canadians speak English only. Over 80% of the Quebec population speaks French. There also exist significant French-speaking populations in New Brunswick, Ontario, and Manitoba. Public education is generally available in both official languages.

Canada contains a variety of indigenous cultures, most prominently in remote areas such as the Territories and the northern portions of the provinces.

A modern trademark of Canada is its promotion of and respect for multiculturalism. In large urban centres, particularly Toronto, Montreal, and Vancouver, visible minorities comprise a substantial segment of the population. About 60 % of all immigrants arriving in Canada speak neither English or French. One striking feature of Canadian culture is its extreme diversity—reflecting many communities spread over a huge geographic area, encompassing numerous languages, religions, ethnic backgrounds, and lifestyles.

The federal government has encouraged respect for diversity with the *Official Languages Act* and through its multiculturalism programs. In addition, the 1982 *Charter of Rights and Freedoms* legally guarantees all Canadians freedom from discrimination based on race, colour, gender, or any other aspect of demography.

Canadians have concerns about their culture arising from their close proximity to the massive entertainment and culture exporter, the United States. These concerns were reflected in the determination to keep cultural industries "off the table" in the Canada-U.S. free trade agreement.

## B. The information society and globalization

It is expected that progress in telecommunications, audio visual, and information technology will further integrate Canadians with themselves and the rest of the world. Assuming reasonable access to new technologies such as the Internet and direct-to-home satellite, remote and minority Canadians will increasingly be linked to major centres and culture in Canada, and Canadians of all types will be further exposed to the cultures and forces of the rest of the world.

John Naisbitt and Patricia Aburdene predicted in *Megatrends 2000* that the world will become more cosmopolitan, with all cultures influencing each other as they approach a single market. Yet they also cautioned:

> as our lifestyles grow more similar, there are unmistakable signs of a powerful countertrend: a backlash against uniformity, a desire to assert the uniqueness of one's culture and language, a repudiation of foreign influence.

Thus, while the Information Society ushers in globalization and integration, it may force nations to re-examine their identities—and sometimes to defend their cultures.

Canadians sometimes feel "awash" in an increasingly connected and global world where barriers and boundaries are diluted or surpassed. Publications from all across the world are readily available in most urban centres. For example, with satellite transmission, the *Economist* is published on the same day on most continents, and a plethora of television offerings have invaded the airwaves.

Cultural and linguistic nationalism will co-exist, not in spite of globalization, but because of it. Naisbitt and Aburdene believe that[1]:

> the more homogeneous our lifestyles become, the more steadfastly we shall cling to deeper values—religion, language, art, and literature. As our outer worlds grow more similar, we will increasingly treasure the traditions that spring from within.

## C. Canadian cultural concerns and issues

Many Canadian cultural concerns/issues are ubiquitous, applying to most developed nations:

- *How to define national arts/culture in a changing world*: this question becomes important, for example, when economic analysis of arts and cultural industries is called for.

- *Dealing with technology*: digitization, convergence, satellite delivery, CD-ROM usage, and the Internet, all have significant effects on arts and culture; related issues include copyright, security, privacy, electronic currency, standardization, interconnectivity, vertical integration, choice, efficiency, equity, accessibility, diversity, decency, censorship, accountability, pricing, and competition.

- *Reductions in government funding and rethinking the role of government*: governments across the world have had to tackle large debts and deficits and unemployment, while facing

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[1] *Naisbitt, J. and Aburdene. **P. Megatrends 2000.** 1990.*

increased pressures in areas such as health and education; in many cases government funding or indirect support for arts and cultural communities has eroded.

- *Updating content and distribution regulation*: liberalizing world telecommunications regulation (World Trade Organization) may alter the balance and justify new broadcasting policy; the convergence or blurring of boundaries between broadcasting and telecommunications is an issue raised for the European Commission in a 1996 KPMG study, *Public Policy Issues Arising from Telecommunications and Audiovisual Convergence*.

Other concerns appear to be more specific to Canada (though other nations may share some of these concerns), such as:

- How to promote national culture content as the closest neighbor of a very large cultural exporter.

- How to promote multiculturalism, pluralism, and diversity.

- How to guarantee access for those in remote communities.

- How to promote French-language, minority and indigenous cultures.

Given the above, it is not surprising to find that, historically, there have been two main objectives of government policy with respect to culture[1]:

1. *To protect and promote Canadian culture*: for example, at the federal government level, the *Broadcasting Act (1991)* grants the CRTC the mandate to "encourage the development of Canadian expression by providing a wide range of programming that reflects Canadian attitudes, opinions, ideas, values, and artistic creativity." This mandate addresses the very core of Canadian cultural essence and distinctiveness. In practice, its focus is on the actual content of cultural services and products; and

2. *To encourage the health and vitality of the cultural community*: this entails supporting and developing the cultural industries—promoting talent, artistic development, business growth, and positive economic contributions such as exports and jobs; direct funding and loans, or indirect support such as tax incentives and foreign investment restrictions, play a large role in buttressing the economic vitality of the Canadian cultural community .

These two objectives have been pursued in Canada for many years, and will likely ensue. However, in a complex and changing world, the means for realizing these objectives will need to change.

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[1] *See, for example,* ***Canada's Culture, Heritage and Identity: A Statistical Perspective: 1995 Edition.*** *Statistics Canada.*

# IV

# *The Economic Importance of Canada's Cultural Industries*

Canada's cultural industries make both qualitative and quantitative contributions to Canadian life. Arts and culture enrich individual lives and communities. This contribution is probably impossible to define or quantify, but plays a crucial role in the lives and experiences of most Canadians.

This report focuses on the economic impact of the cultural industries—on jobs, on industries, on national wealth—using the most recent Statistics Canada data and a variety of other sources.

## A. Culture—important contributions to the Canadian economy

While some observers have questioned the validity of certain data as outlined later in this chapter, Statistics Canada estimates that the arts and culture sector had a direct impact of $29.4 billion GDP or 4.5% of the Canadian economy in 1994-95. It also estimates that arts and culture directly employed over 894,000 Canadians or 6.7% of the Canadian labour market (see Exhibit IV-1 below). These direct impacts appear to be relatively stable from 1989-90 to 1994-95[1].

The largest direct impact came from the *written media* category ($8.7 billion GDP, 197,000 jobs). This area includes activities such as publishing, combined publishing and printing, specialized services to printers and publishers such as making image bearing photographic films, and wholesale and retail dealing in books, periodicals, and newspapers.

The category *film* also had a large impact ($2.0 billion GDP, 69,000 jobs). This area include the Standard Industrial Classification groupings covering motion picture audio and video production, laboratories, distribution, and exhibition.

The *multidisciplinary* category, which entails mainly audio and video equipment and parts manufacturing and retail distribution of audio and video tapes, equipment, and musical instruments, also contributes substantially to the Canadian economy ($2.7 billion GDP, 109,000 jobs) .

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[1] *The first study is the October 3, 1996 draft,* ***The Economic Impact of the Arts and Culture Sector in Canada****; also published by Statistics Canada as an abridged article in Focus on Culture, Summer 1996, 8(2); the second study is the Feb 26/97 draft,* ***The Economic Impact of the Culture Sector in Canada.*** *Both studies are by Michel Durand, Chief, Research and Communication Section, Culture Statistics Program, Statistics Canada.*

Exhibit IV-1 also shows that each of the remaining categories of the arts and culture sector—broadcasting, music, stage performances, heritage, libraries, visual arts, education, architecture, design, photography, and advertising—contribute significantly to Canada's economy.

Using analysis which takes into account the *indirect impact* of the arts and culture due to economic spin-offs to other (noncultural) businesses, Statistics Canada estimates that arts and culture had a *total impact* (direct + indirect) of $42.8 billion in GDP or 1,230,000 jobs in 1994-95. This total impact represents 6.6% of Canadian GDP and 9.2% of Canadian jobs. As with the above-noted direct impacts, the total impact was stable relative to the overall economy from 1989-90 to 1994-95.

**Exhibit IV-1**
**Direct and indirect economic impact of arts & culture, 1994-95**

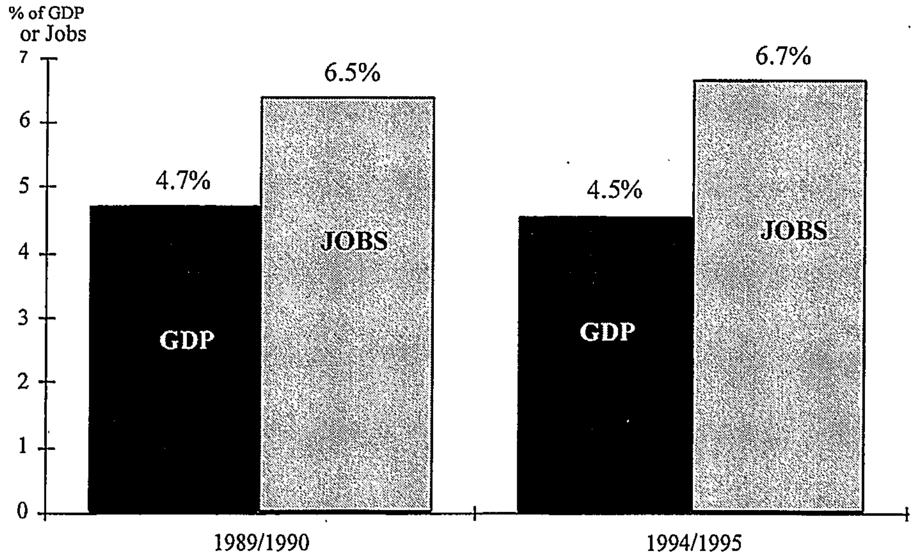
| Activity | Direct Impact Jobs | Direct Impact GDP ($millions) | Direct & Indirect Impact Jobs | Direct & Indirect Impact GDP ($millions) |
|---|---|---|---|---|
| Written Media | 197,2 | 8,7 | 258,4 | 12,2 |
| Film | 69,2 | 1,9 | 109,3 | 3,5 |
| Broadcasting | 51,0 | 3,7 | 103,0 | 5,7 |
| Music Industry | 54,2 | 2,3 | 69,7 | 3,4 |
| Performing Arts | 34,1 | 234 | 46,4 | 358 |
| Other Stage Performances | 34,6 | 346 | 47,1 | 530 |
| Total Stage Performances | 68,8 | 580 | 93,6 | 888 |
| Heritage | 32,1 | 966 | 44,3 | 1,3 |
| Libraries | 39,5 | 1,0 | 55,3 | 1,5 |
| Visual Arts and Crafts | 51,3 | 1,0 | 65,2 | 1,4 |
| Arts and Culture Education | 25,3 | 619 | 32,7 | 786 |
| Architecture | 15,0 | 407 | 18,0 | 488 |
| Design | 28,0 | 937 | 43,5 | 1,2 |
| Photography | 59,8 | 1,8 | 69,8 | 2,8 |
| Advertising | 70,7 | 1,1 | 109,7 | 1,8 |
| Multidisciplinary | 108,5 | 2,7 | 126,7 | 3,7 |
| Government | 22,1 | 1,2 | 29,1 | 1,6 |
| TOTAL ARTS & CULTURE | 893,6 | 29,4 | 1,2 | 42,8 |
| % of Economy 1994-95 | 6.7 | 4.5 | 9.2 | 6.6 |
| % of Economy 1989-90 | 6.5 | 4.7 | 8.8 | 6.7 |

*Source: Tables 1-4 of* ***The Economic Impact of the Culture Sector in Canada****, Feb. 26/97 draft and Tables 1-2 of* ***The Economic Impact of the Arts and Culture Sector in Canada****, Oct. 3/96 draft, by Michel Durand, Research and Communication Section, Culture Statistics Program, Statistics Canada.*

As can be seen by comparing the direct economic impacts on jobs and GDP for 1989-90 and 1994-95, the arts and culture sector represents a large and stable portion of the Canadian economy. This is depicted in Exhibit IV-2 below.

**Exhibit IV-2**

**Direct economic contribution of Canadian cultural industries—a large and stable part of the Canadian economy**




The above analysis aligns fairly closely with the UNESCO framework for statistics except that it includes aspects of advertising and does not include sport.

## B. New categorizations connecting culture and information services

A much broader economic impact analysis has also been completed by Statistics Canada for 1993-94[1]. This latter analysis includes *arts and culture* within a larger category known as *culture and information services*. This broader approach is meant to recognize arts and culture within the context of an Information Society, that is, meshed in a high-technology world. *Culture and information services* includes five sub-categories: (1) *culture* (corresponding to *arts and culture* from the previous study), (2) *telecommunications*, (3) *computer services*, (4) *culture & communication*, and (5) *sport*[2].

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[1]*Durand, M. and Gordon, J.* ***Economic Impact of the Culture and Information Services Industries in Canada: The Value of Canadian Content.*** *Culture Statistics Program, Statistics Canada, Education, Culture, and Tourism Division, September 27, 1996.*

[2]*Details cited from the authors: telecommunications comprises carriers and other telecommunications industries, including the manufacturing, wholesale, retail of telecommunications equipment; computer services comprises computer software development and the computer-services industry, including the manufacturing, wholesale, retail of computer equipment and supplies; culture & communication includes*

The total direct impact is 1,502,000 jobs and $65.3 billion GDP. If indirect effects are included, these totals are increased to 2,003,725 jobs and $89.8 billion GDP (see Exhibit IV-3). These impacts also generate about $7.9 billion in government revenue through direct and indirect taxes, duties, and sales of goods and services.

While such effects cannot be attributed purely to the arts and cultural sector, they do show that arts and culture are related to many other parts of the Canadian economy.

Another classification scheme linking culture to information services involves the North American Industry Classification System (NAICS), a revision of the 1980 Standard Industrial Classification, which is being negotiated by Canada, the U.S., and Mexico as a means of mutual understanding and standardization. This system entails two new sector classifications[1]: (1) *information and cultural industries*, and (2) *arts, entertainment, and recreation.* Once again, culture is integrated and classified in the same sector as other industries—to reflect culture's relationship with technology and non-cultural economic activity.

Industry Canada has put forward another approach in defining *content industries*—print publishing, new media, and audiovisual—as a conceptual tool recognizing the role of art and cultural activities in the Information Society[2]. The total content industry economy is calculated as $14.1 billion[3], from print publishing ($4.9 billion), new media ($1.9 billion), and audiovisual ($7.3 billion) (see Exhibit IV-4). This definition focuses on the development, packaging, and distribution of content industries, but does not include heritage institutions, performing arts and music, and visual arts, crafts and design.

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*the wholesale of electronic household appliances (computers, A/V equipment, etc.) and the manufacturing of electronic parts and components (telecommunications and culture industries); note: these data cannot be specifically attributed to other sectors; sport includes amusement and recreational services and facilities, manufacturing wholesale and retail of sporting goods, and government (Federal, provincial, municipal).*

[1] *Refer to Cromie, M., and Salonius, A.* ***Introducing NAICS.*** *Focus on Culture, 8(1), 10-12, 1996.*

[2] *See D'Souza, R., de Tonnancour, S., Marineau, S., and Sheridan, A.* ***Content Industries in Canada: An Overview.*** *Industry Canada, Information Technology Industries Branch, March 1997 draft.*

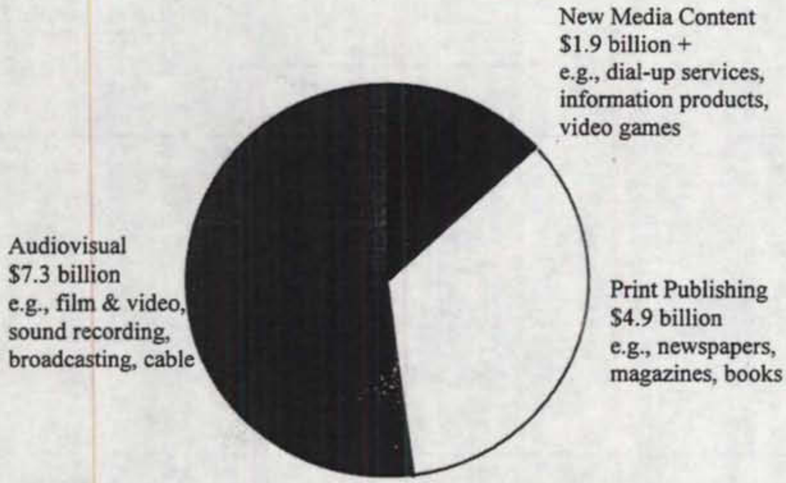
[3] *This amount is in 1986 dollars.*

**Exhibit IV-3**
**Economic impact of culture and information services, 1993-94**

| Activity | Direct Impact: Jobs | Direct Impact: GDP ($millions) | Direct and Indirect Impact: Jobs | Direct and Indirect Impact: GDP ($millions) |
|---|---|---|---|---|
| Culture | 899,50 | 29,18 | 1,19 | 42,08 |
| Telecommunications | 215,30 | 18,01 | 282,10 | 22,70 |
| Computer Services | 134,20 | 5,65 | 181,00 | 8,44 |
| Culture&Communication | 88,70 | 4,74 | 126,80 | 6,88 |
| Sport | 164,30 | 6,85 | 213;90 | 9,64 |
| TOTAL | 1,50 | 65,34 | 2,00 | 89,77 |

*Source: Andersen Consulting,* ***Electronic Publishing: Strategic Developments for the European Publishing Industry Towards the Year 2000****. Report for the European Commission, 1996.*

**Exhibit IV-4**
**Estimated Canadian content industry revenues, 1994**

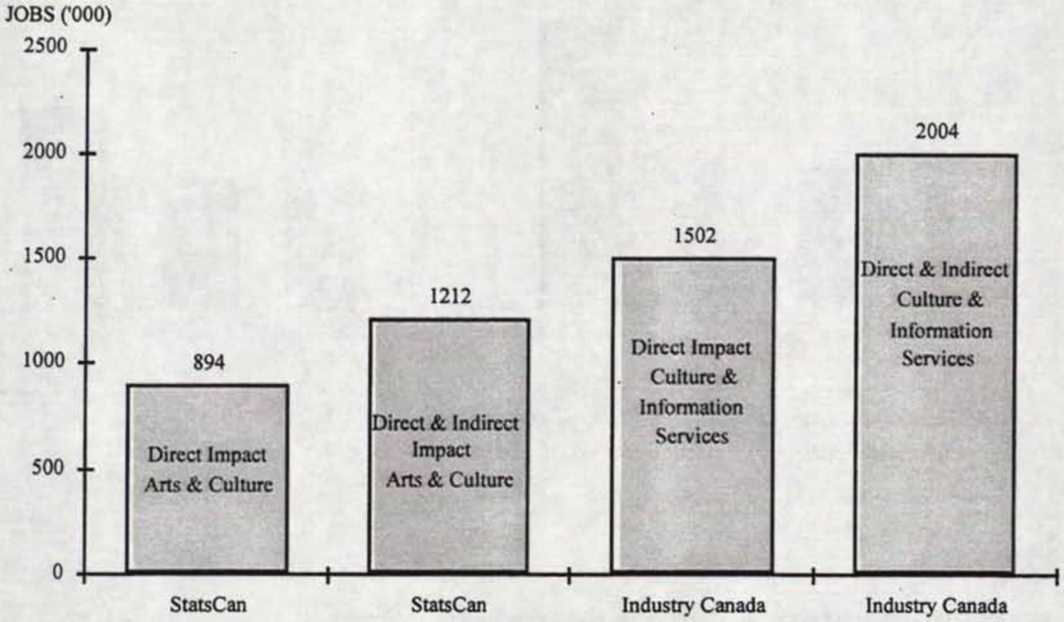



*Source: Industry Canada,* ***Content Industries in Canada****, March 1997 draft;*

*Note: figures expressed in 1986 dollars.*

In summary, new categorizations reflecting the integration of arts and culture with other industries such as information services widens the analytical framework for considering the economic role of arts and culture in Canadian society. Exhibit IV-5 shows the direct and indirect impact on jobs, for example, using the Statistics Canada "arts and culture" and "culture and information services" models.

**Exhibit IV-5**
**Economic impact of Cultural industries according to Statistics Canada models**



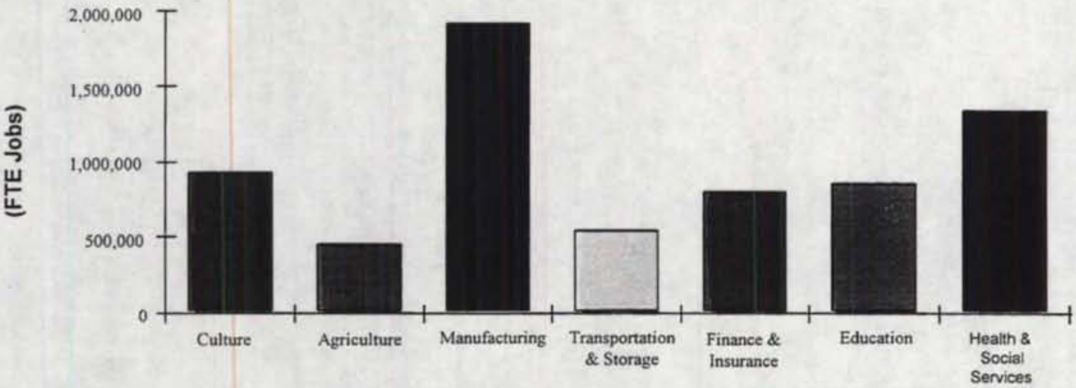

Source: *Statistics Canada*

Note: *"arts and culture" data 1994-95; "culture and information services" data 1993-94*

## C. Culture—employment versus selected other industries

Culture employment represents a significant part of the Canadian economy, and compares in magnitude with other well-known sectors of the Canadian economy. Exhibit IV-6 shows the employment of cultural and selected other sectors.

**Exhibit IV-6**
**Cultural industries—employment versus selected other industries, 1996**




*Source:* ***The Economic Impact of the Culture Sector in Canada****, Feb 26/97 draft , by Michel Durand, Research and Communication Section, Culture Statistics Program, Statistics Canada.*

## D. Arts and culture industries—trade balance

According to Statistics Canada, Canada's export of cultural goods and services increased 83% from $1,638 million in 1990 to $2,993 million in 1995[1] (see Exhibit IV-7).

In particular, *cultural goods exports* increased 125% from $514 million in 1990 to $1,159 million in 1995. Cultural goods exports relate mainly to books, printed music, newspapers, periodicals, other printed material, film and video, and works of art. Books (151%), sound recordings (324%), and films (133%), posted remarkable gains.

Who purchased these goods exports? The U.S. purchased $977 million or 84% of Canadian cultural goods exports in 1995 (75% of Canadian sound recording exports, 99% of Canadian newspaper and periodical exports). The next largest purchaser of Canadian exports was U.K. ($31million), followed by France ($26 million), and Germany ($13 million).

*Cultural services exports* increased 63% from $1,124 million in 1990 to $1,833 million in 1995. Cultural services includes tourism-related recreation and entertainment expenditures in Canada as well as other services related to transactions (such as copyright license fees, location shooting culture-related expenditures for foreign film production, fees to Canadian artists performing abroad, merchandising culture goods, advertising, prepublication costs, sale of subsidiary rights, and other royalties). The

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[1] *See* ***Focus on Culture****, Autumn, 1996, 8(3): commodity imports and export information from the Canadian International Merchandise Trade Statistical Program. Cultural goods and services does not include cultural equipment.*

improved export scenario can be related to many factors, such as the exchange rate, maturing cultural industries, and government programs and support.

Imported cultural goods and services increased 24% over the same five-year period, reaching $6,044 million by 1995.

The impact of the greater increase in exports relative to imports is that the relationship between imports and exports has changed, as shown in Exhibit IV-8 below. Whereas in 1990 exports were only about one-third the size of imports, by 1995 exports were one-half the size of imports. The result is that the cultural goods and services *balance of trade deficit* improved from $3,226 million in 1990 to $3,051 million in 1995.

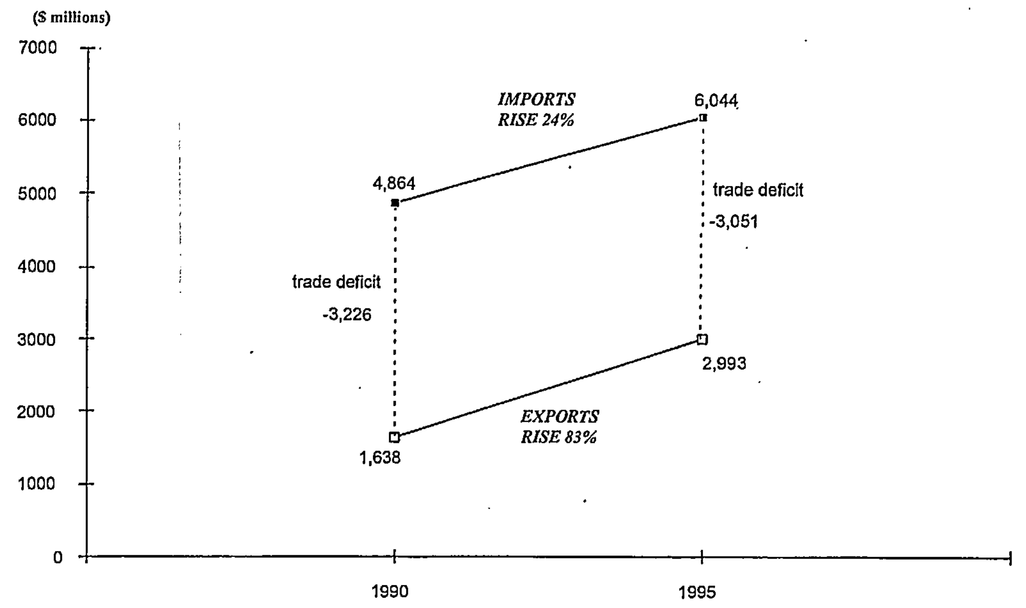
It should be noted that in the area of *cultural equipment*—which includes photographic, print media, and audio and visual equipment—Canada had a balance of trade deficit of $4,528 million in 1995, compared to $2,490 million in 1990.

**Exhibit IV-7**
**Balance of trade of cultural goods and services, 1990 and 1995 ($millions)**

| | 1990 | 1995 | % change 1990 to 1995 |
|---|---|---|---|
| *Cultural Goods* | | | |
| Imports | 2526 | 3225 | +28% |
| Exports | 514 | 1159 | +125% |
| Balance of Trade | -2012 | -2065 | -3% |
| *Cultural Services* | | | |
| Imports | 2338 | 2819 | +21% |
| Exports | 1124 | 1833 | +63% |
| Balance of Trade | -1213 | -986 | +19% |
| *Cultural Goods and Services* | | | |
| Imports | 4864 | 6044 | +24% |
| Exports | 1638 | 2993 | +83% |
| Balance of Trade | -3226 | -3051 | +5% |

*Source: Durand, M. (1996) "International Trade in the Arts and Culture Sector,"* ***Focus on Culture****, 8(3), 1-4.*

**Exhibit IV-8**
**Balance of trade of cultural goods and services—exports growing faster than imports**




*Source: Durand, M. (1996) "International Trade in the Arts and Culture Sector,"* ***Focus on Culture****, 8(3), 1-4.*

## E. Trade balance trends—culture versus the Canadian services and merchandise sectors

It is instructive to compare cultural industry trade balance trends with those of larger sectors of the Canadian economy. Exhibit IV-9 shows cultural trade alongside the more general trade balances of Canadian services and merchandise (goods). It can be seen that the Canadian merchandise sector has realized increasingly positive trade balances over the past few years. However, the Canadian services sector as been in a continual negative balance position. The cultural trade balance has remained steady and negative (though, as noted above, improving slightly) and located between the Canadian merchandise and services balances. This reflects the fact that cultural industries are both services and goods[1].

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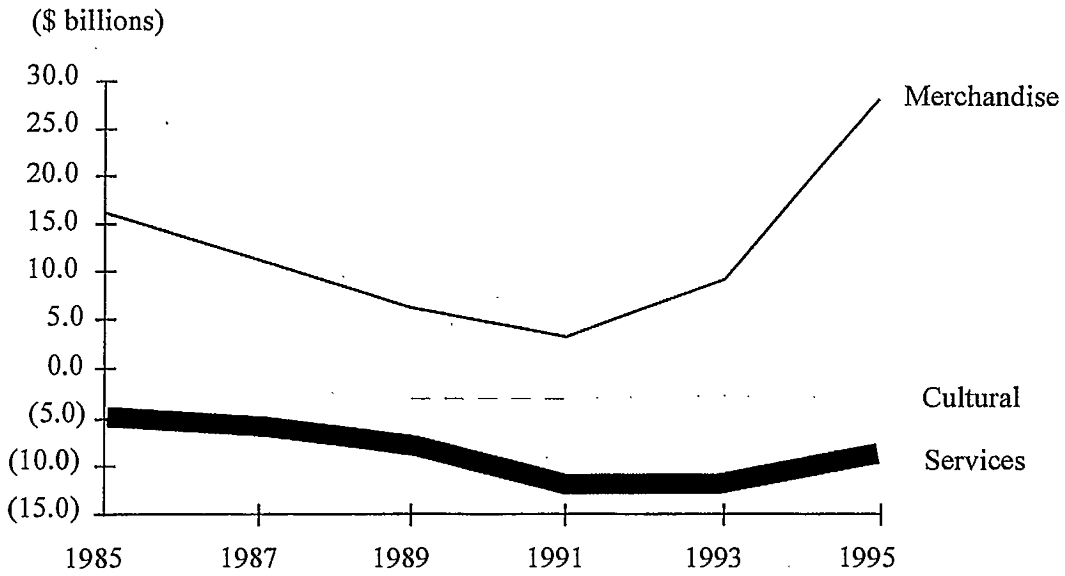
*[1] 1995 exported goods amounted to $1.159 billion, and services $1.833 billion; 1995 imported goods amounted to $3.225 billion, and services $2.819 billion*

**Exhibit IV-9**
**Trade balance trends—culture versus services and merchandise sectors, 1985 to 1995**




*Source: Statistics Canada, **Canada's International Transactions in Services**, 1994 and 1995.*

## F. Validity questions regarding cultural industry data

Questions have been raised about way data on cultural industries is classified in Canada. For example, according to Paul Audley and Associates[1]:

- Statistics Canada reports that exports in cultural goods and services increased 83% from 1990 to 1995, yet this data may have little to do with cultural works exports *per se*. The largest export item used is derived from cultural tourism and services, which includes recreational site visits and entertainment expenses of foreigners in Canada, but does not necessarily involve consumption of Canadian content productions. Also, cultural services exports include the amounts for American production of films, TV programs and commercials in Canada.

- The Industry Canada data on the size of the content industries is reported as $14.1 billion—including print publishing, new media, and audiovisual components; this data includes

[1] ***Issues Paper: IHAC Steering Committee on Canadian Content and Cultural Identity**, prepared for the IHAC Secretariat, Industry Canada, February 24, 1997.*

portions from the distribution sector cable television, which deals with foreign content, not just Canadian content.

In our view, these are legitimate concerns and do raise questions about the way cultural data is classified in Canada. However, we believe that these concerns do not call into question the conclusion that cultural industries make a significant economic contribution in Canada. There exists no universal definition of culture, and current data gathering and analysis can only be as good as a common acceptable definition.

## G. Government support for Canadian cultural industries

In 1994-95, all levels of Canadian government spent a total of $5.839 billion on culture (excluding sports & games or nature & environment, of the broader UNESCO framework). Exhibit IV-10 provides a snapshot of government cultural spending at all levels from 1990-91 to 1994-95. In 1994-95, the federal government contributed $2.875 billion; provincial and territorial governments $1.824 billion; and municipal governments $1.426 billion[1]. These data include the three main types of government expenditures: *operating expenditures* (costs to run cultural departments and agencies), *capital expenditures* (costs for constructing or acquiring buildings, machinery, equipment, or land), and *grants and contributions* (financial transfers to artists and cultural organizations).

*[1] Inter-governmental transfers made up about $286 million, so totals do not add to the above-noted $5.839 billion*

**Exhibit IV-10**

**Government expenditures on culture, by level of government and type of expenditure 1990-91 to 1994-95 ($ thousands)**

| Level of Government and Type of Expenditure | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 |
|---|---|---|---|---|---|
| All Government Levels (current dollars) | 5,5 | 5, | 5, | 5,8 | 5,8 |
| All Government Levels (constant 1986/87 dollars) | 4,7 | 4, | 4, | 4,5 | 4,5 |
| FEDERAL | | | | | |
| Intramural Expenditures | | | | | |
| • Operating Expenditures | 2,2 | 2, | 2, | 2,1 | 2,1 |
| • Capital Expenditures | 242,3 | 279, | 302, | 291,2 | 295,0 |
| *Total Intramural* | *2,4* | *2,* | *2,* | *2,4* | *2,4* |
| Extramural Expenditures | | | | | |
| • Operating grants, contributions, transfers | 404,4 | 399, | 408, | 389,8 | 373,4 |
| • Capital grants, contributions, transfers | 14,8 | 34, | 30, | 16,6 | 30,5 |
| *Total Extramural* | *419,2* | *434,* | *428,* | *406,4* | *394,0* |
| TOTAL FEDERAL | 2,8 | 2, | 2, | 2,8 | 2,8 |
| PROVINCIAL/TERRITORIAL | | | | | |
| Intramural Expenditures | | | | | |
| • Operating Expenditures | 596,6 | 685, | 709, | 684,5 | 690,3 |
| • Capital Expenditures | 65,4 | 83, | 80, | 69,2 | 55,2 |
| *Total Intramural* | *662,1* | *769,* | *789,* | *753,8* | *745,6* |
| Extramural Expenditures | | | | | |
| • Operating grants, contributions, transfers | 1,0 | 1, | 1, | 1,0 | 1,0 |
| • Capital grants, contributions, transfers | 85,9 | 87, | 74, | 86,7 | 65,3 |
| *Total Extramural* | *1,1* | *1,* | *1,* | *1,1* | *1,0* |
| TOTAL PROVINCIAL /TERRITORIAL | 1,7 | 1, | 1, | 1,9 | 1,8 |
| MUNICIPAL | | | | | |
| Current Expenditures | 1,0 | 1, | 1, | 1,2 | 1,2 |
| Capital Expenditures | 221,0 | 170, | 203, | 203,5 | 209,1 |
| TOTAL MUNICIPAL | 1,237,280 | 1,262,909 | 1,362,675 | 1,413,462 | 1,426,266 |

*Source: Statistics Canada—87F0001XPE/F;* ***Government Expenditures on Culture,*** *Culture Statistics, Education Culture and Tourism Division, unpublished data, 1994-1995.*

*Note: all municipal spending on a calendar year basis.*

Total gross expenditures by governments increased 4.7% from 1990-91 to 1994-95. Increases came mainly through a 15% increase in municipal government spending, and a 3% increase in provincial spending. Federal support actually declined about 1% over the same period.

Government support, however, is most appropriately viewed from the perspective of constant dollars—adjusted using a price index for government costs of goods and services. Using a constant dollar approach, total art and cultural spending by all levels of government *declined* 4.2% from 1990-91 to 1994-95 (see Exhibit IV-11).

Exhibit IV-12 below shows 1994-95 government expenditures for various cultural functions, again by level of government. Here we see that the three levels of government play very different roles in the support of arts and culture: municipalities are heavily involved in libraries; provinces in libraries, heritage resources, and broadcasting; the federal government in broadcasting, heritage resources, literary arts, and film and video.

It should also be noted that government spending on arts and cultural industries has declined significantly since the 1994-95 data shown above were compiled. For example, in the February 1995 budget, the Minister of Finance announced spending cuts to the Department of Canadian Heritage and its agencies of $675 million over 3 years, starting in 1995-96. Authorized spending levels are budgeted to fall from $2.875 billion in 1994-95 to $2.2 billion in 1997-98. These reductions include, in 1995-96 alone, a 4% cut to the CBC[1], and 5% cuts to Telefilm Canada and the National Film Board. The Canada Council, too, has made major changes in order to reduce its budget while trying to maintain support to the cultural community.

At the provincial and municipal levels, significant subsidy reductions have also taken place beyond 1994-95. For example in Ontario, the Ontario Arts Council transfer grant of over $40 million was reduced 29% from 1994-95 to 1996-97, and the Royal Ontario Museum, Art Gallery of Ontario and Ontario Science Centre each experienced grant reductions of about 10%[2].

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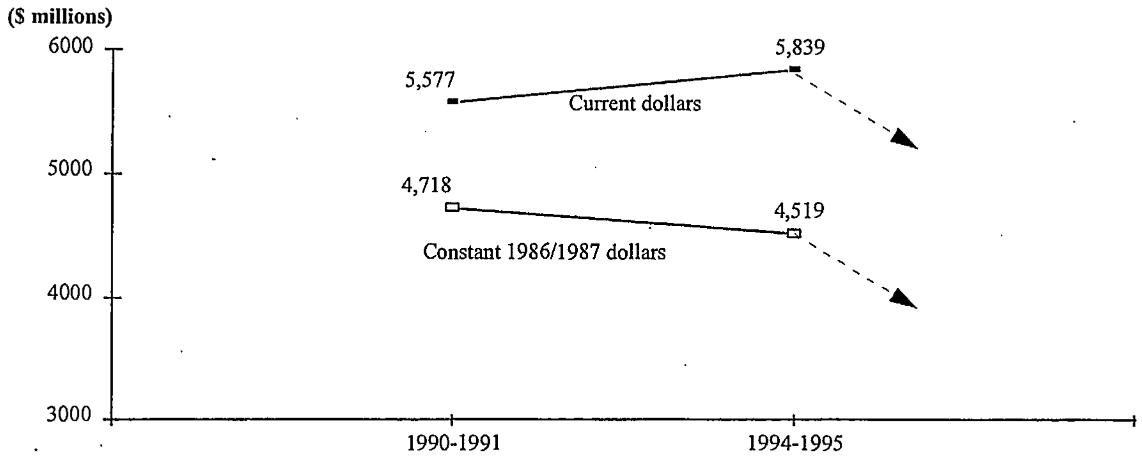
[1] *In fact, the CBC will be funded at a level of $820 million in 1998-99, down from $1.2 billion five years ago.*

[2] *According to spending estimates provided by the Ministries of Finance and Citizenship, Culture and Recreation, cited by **The Arts Avocate**, November 29, 1995.*

**Exhibit IV-11**

**Current and constant dollar total government support for culture, 1990-91 versus 1994-95**




*Source: Statistics Canada:* ***Government Expenditures on Culture,*** *1994-95 and unpublished data; constant dollars in 1986-87 terms.*

**Exhibit IV-12**

**Government expenditures on culture, by function and level of government, 1994-1995 ($ thousands)**

| | Level of Government | | | |
|---|---|---|---|---|
| **Function** | **Federal** | **Provincial/ Territorial** | **Municipal[1]** | **Total Gross Expenditures** |
| Libraries | 37,5 | 676,17 | 1,10 | 1,81 |
| Heritage resources | 622,1 | 450,85 | 35,86 | 1,10 |
| Arts education | 3,2 | 75,77 | - | 79,07 |
| Literary arts | 164,4 | 21,64 | - | 186,06 |
| Performing arts | 105,8 | 134,22 | 38,78 | 278,89 |
| Visual arts and crafts | 14,7 | 38,55 | - | 53,30 |
| Film and video | 241,0 | 76,26 | - | 317,30 |
| Broadcasting[2] | 1,5 | 217,78 | - | 1,79 |
| Sound recording | 5,1 | 3,98 | - | 9,13 |
| Multiculturalism | 6,0 | 47,58 | - | 53,61 |
| Other activities | 99,7 | 81,34 | 246,54 | 427,64 |
| TOTAL | 2,8 | 1,82 | 1,42 | 6,12 |

*Source: Statistics Canada (1997, unpublished),* ***Government Expenditures on Culture,*** *1994-95, Culture Statistics, Education, Culture and Tourism—87F0001XPE/F.*

From the above, a number of observations can be made, including:

- At the federal level, broadcasting is a major vehicle for cultural policy; radio and television broadcasting consumed $1.575 billion or 55% of total federal spending on culture in 1994-1995, with the remainder targeted primarily toward heritage resources, film and video, and performing arts; the CBC itself accounted for about two-thirds of federal broadcast funding.
- $622 million was spent by the federal government on Heritage resources in 1994-1995; that is, specifically, museums, public archives, historic sites and nature parks;

*[1] Municipal spending on calendar year basis.*

*[2] Broadcasting includes expenditures related to radio and television, including those associated with government broadcasting; also included is financial assistance to private stations and to institutions (e.g., grants for school broadcasting).*

*[3] Includes inter-governmental transfers of $286 million.*

- The largest single area for provincial and municipal government cultural support is libraries; the provinces spend $676 million (37% of total provincial spending on culture) and municipal governments spend $1.105 billion (77% of total municipal spending on culture).

- In nominal terms, federal arts and cultural support has declined, while provincial and especially municipal support increased from 1990-91 to 1994-95.

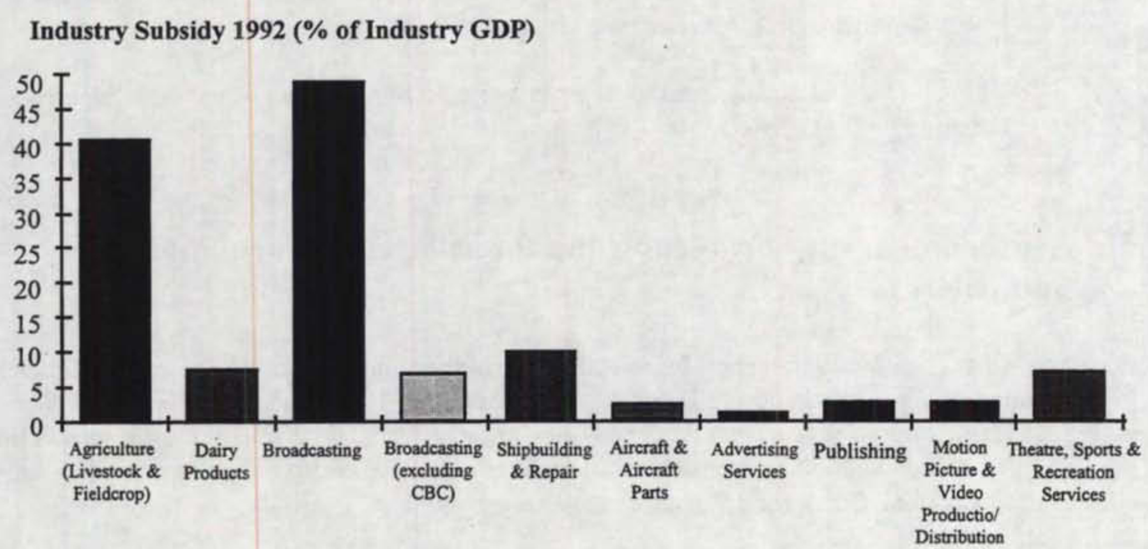
- In real (constant dollar) terms, total government support for arts and culture declined 4.2% from 1990-91 to 1994-95.

## H. Government support—subsidies for selected cultural and other industries

Comparable data on government support for non-cultural industries is not available in a format comparable to the cultural data presented above. However, direct subsidies for various industries are available, aggregated for all levels of government. While subsidies do not reflect all types of government support (for example, they do not take into account indirect benefits such as tax credits), they do provide a basic measure of support for different sectors of the Canadian economy.

Exhibit IV-13 shows operating subsidies (expressed as a per cent of GDP) for several cultural and non-cultural industry sectors as defined by Statistics Canada. Broadcasting is the most highly subsidized cultural industry. However, when CBC operating appropriations are factored out, broadcasting subsidies are in line with a number of other sectors. Many non-cultural industries, too, receive substantial subsidies, such as agriculture and shipbuilding & repair. Overall, the variation between industries is quite high, even within cultural industries.

**Figure IV-13**
**Subsidies for selected cultural and other industries, 1992**




*Source: Statistics Canada, Input-Output Division.*

*Note: subsidies include direct current payments of all levels of government; but do not include capital assistance, indirect benefits (e.g., tax credits), and transfers to governments or individuals*

## I. Summary

In conclusion, despite some questions about data validity, the arts and cultural industries represent a large and stable part of Canada's exports, workforce, and economy. Moreover, the arts and culture sector links with many elements of the Information Society, and this linkage is reflected through new classification models such as "culture and information services" and "content industries."

All levels of government are active in supporting cultural industries. Some non-cultural industries also receive substantial public support. In addition, as noted in Chapter VII "International Comparisons," other countries actively support their cultural industries.

Finally, the overall level of constant dollar (inflation-adjusted) government support for cultural industries is in decline.

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# V

# *The Shifting Environment*

Arts and culture industries reside in an environment which is changing at unprecedented rates. Technological forces stemming from mass penetration of new technologies are spawning massive change, including the integration of various types of media formats, convergence with non-cultural industries, economic and social effects, and the transformation of value chains into value networks. These and many other "shifting paradigms" of the environment are introduced and described in this chapter.

## A. Technological forces

Virtually all sectors of the economy have at some point been affected in the way they do business by new technology. The changes brought about by the personal computer, the fax machine and the electronic database, among others, are well documented. The rate of change today, however, is increasing. Technological infrastructure bought now will be obsolete within a couple of years. Business model assumptions and public policy frameworks that have held true for a generation or more are suddenly called into question. Organizations that once dictated the terms of competition are suddenly undermined by innovative newcomers that do things completely differently. The concept of uniqueness is being challenged. With digital art, authenticity is relative and ambiguous. Clones, rather than copies, can be made. Photographs can be digitized and touched up, artwork can be color-enhanced, music synthesized, re-worked, and integrated with other video and text. Each "version" of art is *de facto* unique, even if it "borrows" from one or more originals.

References are frequently made to "multimedia," the multi-channel universe, video on demand, the Internet, virtual reality, and "cyberspace." Commentators proclaim the beginning of a new era where people have access to whatever they want, whenever they want, where programs will be tailored exactly to their taste, and anything they want will be at their fingertips. Furthermore, everyday one hears of new alliances, joint ventures, acquisitions, technology trials or product announcements that seem to herald the new era.

Yet Canadians see that most of their arts and culture has not fundamentally changed. They still read newspapers, books and magazines, watch TV, go to the movies or the theatre, and listen to music in much the same way. On the other hand, changes are obviously taking place.

Historically, technology is best seen as an "enabler" that pushes the boundary of what is possible in communications and cultural industries. Mechanical production—photography, printing, and audio recording—permitted art and music to escape museums concert halls. The theory of the telephone, developed since the 1830s, was gradually applied and improved (two-circuit wire, hard-drawn copper wire, multiplexing, switching, transatlantic telephony, fibre optical cable, wireless, digital wireless).

Although rapid progress is being made on a number of fronts, technology is moving fastest and most significantly in two areas: processing speed/capacity and transmission rates/quality. Moore's Law, for example, has held remarkably true since 1965: computer chip processing capacity has continued to double every one-and-one-half years. However, communications bandwidth remains somewhat of a bottleneck. Materials offered on the Internet are often graphical, straining analog line modems and even ISDN[1]. Delivery through the network of television-quality video requires bandwidth several orders of magnitude greater than that currently available. But then, the history of communications "boils down to a search for ways to transmit larger volumes of information over longer distances without losing information to noise or interference"[2].

Many technologies will mature over the next decade. For example, direct broadcast satellites (DBS) will develop, with the capacity to send sight, sound, and data digital streams in high bandwidth, and good potential for integration with the Internet (combining ground and non-ground systems).

In 1975, a typical broadcast satellite may have held 12 transponders, each capable of broadcasting one channel to earth; today, a broadcast satellite can readily carry 24 transponders each capable of broadcasting one to six channels. The 100-200 channel universe has already arrived. Mobile communications of personal communicators (PCS), offering mobility not yet realized by cellular telephones, has the potential to be linked with DBS (with DBS providing the down-link). Thus we see the potential for a three-way macro-link between three rapidly emerging phenomenon—DBS, PCS, and the Internet.

Electronic reproduction and networked communications will undoubtedly push culture and entertainment into new realms. The means to create, produce, and distribute digital information is becoming available to many individuals for only a few thousand dollars, though the distribution of this availability is uneven across the world and a source of concern for many.

## B. The evolving media universe

Indeed, the media universe itself is in a state of flux, driven by new technologies. The penetration rates of basic communication devices in Canadian households in 1990 and 1995 is shown in the Exhibit V-1 below.

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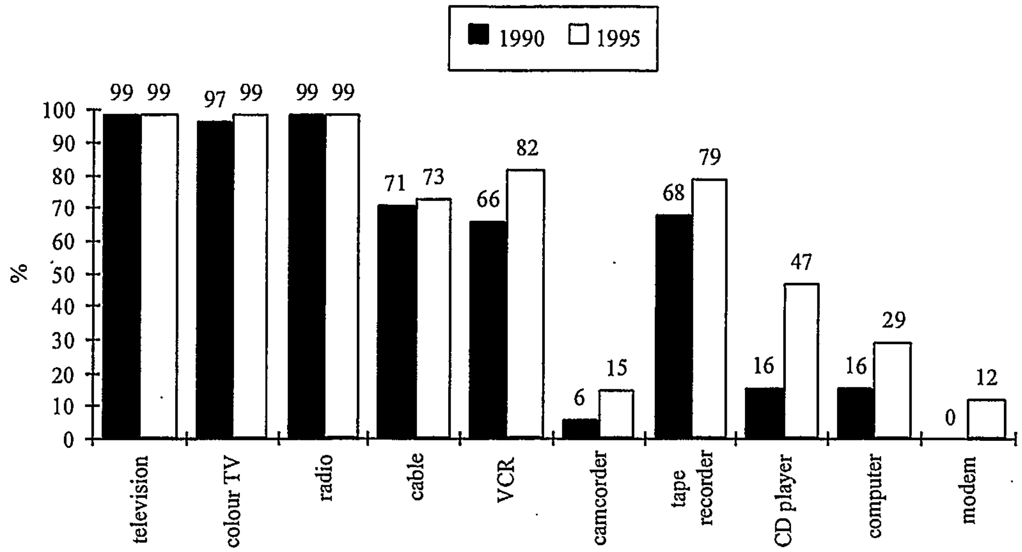
[1] *Integrated Services Digital Network, which is among the fastest services telephone companies can offer, and is suitable for transmission of data such as that required for videoconfrencing and other data-rich functions, but is below capacity for delivering broadcast television.*

[2] *Gruen, A. (MCI historian)* ***Telecom Past, Present, & Future: An Analysis*** *at www.mci.com/technology/ontech/hilight.shtml.*

**Exhibit V-1**
**The evolving media universe, 1990 versus 1995**



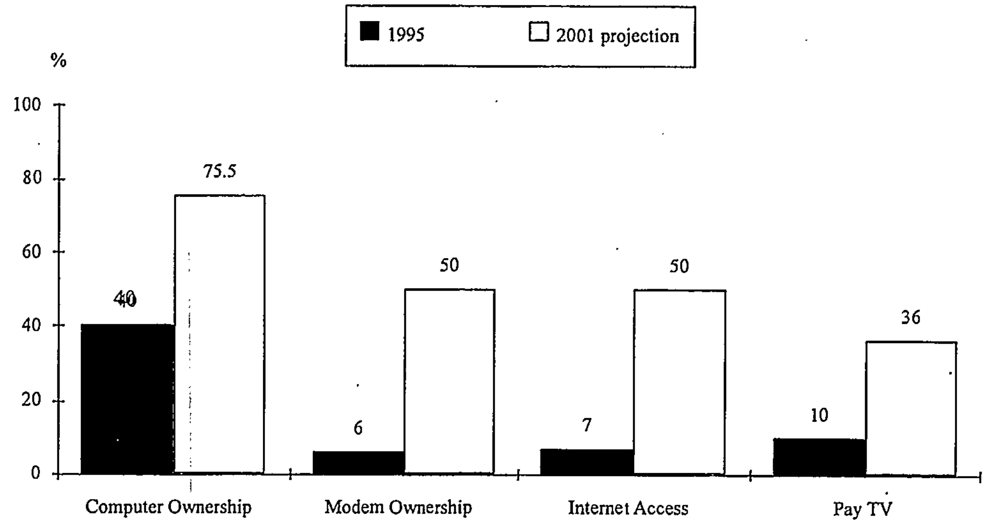

*Source: Dickinson, P. (1996, March)* ***Access to the Information Highway: Canadian Households in 1995****, commissioned by Industry Canada; and Sciadas, G. (1996)* ***Linking Information Highway Infrastructure with Transactions****, Statistics Canada for OECD Workshop, Tokyo 1996.*

Most visible in this data is the rapid uptake of CD players, computers and modems. Modest increases in penetration of VCRs, camcorders, and tape recorders is also taking place.

Focusing on the newer media devices, a study by the *New Media and Technology Monitor* in September, 1996, shows the North American "technology base" rising rapidly. Further gains are expected over the next few years (see Exhibit V-2):

- Computer ownership rose from 40% in early 1995 to 56% in late 1996, and will rise to 72% - 79% by the year 2001.
- Modem ownership rose from 6% in early 1995 to 18% in late 1996, and will rise to 43 - 57% by the year 2001.
- Internet access (from home or work) rose from 7% in early 1995 to 20% in late 1996, and will rise to 42 - 57% by the year 2001.
- Pay TV penetration stood at 10% in late 1996, and will rise to 29 - 44% by the year 2001.

**Exhibit V-2**
**Percentage of penetration of selected new media technologies, 1995 versus 2001 projections**




*Source: **New Media and Technology Monitor**, September, 1996.*

*Notes: Pay TV for 1996 (not 1995); Internet access is from home or work.*

Satellite TV subscription, not shown above, is also in a high growth mode. Satellite TV has already captured about 7% of the TV viewing market in the United States, despite regulations forbidding it in areas where consumers can access a regular TV signal or cable TV[1] . It is estimated that Canada now has about 300,000 satellite dishes.

[1]*According to the **Wall Street Journal**, Jan 30, 1997. Networks such as ABC, CBS, NBC, and Fox are suing the direct-to-home satellite companies such as PrimeTime 24 for allegedley selling to markets where they are forbidden by the 1988 Satellite Home Viewer Act. This law basically prohibits selling to customers who already has access to antennae or cableTV.*

## C. Macroeconomic and social trends

Technology is such a vital and pervasive issue that U.S. President Clinton personally announced an industrial policy team to advise his government on computing, network infrastructure, and communications[1].

It is useful to conceptualize the major economic and social forces characterizing the Information Society. Few authors have described these forces better than Donald Tapscott[2] in his seminal 1995 work, *The Digital Economy*. Tapscott elaborates the following twelve "themes" of the new economy in the age of "networked intelligence":

(1) *Knowledge:* general shift toward knowledge work.

(2) *Digitization*: information represented in binary electronic form.

(3) *Virtualization*: physical reality becoming simulated or virtual.

(4) *Molecularization*: "mass" becoming "disaggregated" in all aspects of social and economic life; e.g. the mass media becomes the molecular media.

(5) *Integration/Internetworking:* networked organizational structures; virtual corporation outsourcing, internetworked business and government; deep, rich interconnections within and between organizations.

(6) *Disintermediation*: middleman functions between producers and consumers eliminated through digital networks.

(7) *Convergence*: dominant sector becoming the new media—the convergence of computing, communications, and content industries, with proportionally more value and profit accruing to content.

(8) *Innovation*: e.g., in the arts, entire new art forms emerging based on interactive multimedia.

(9) *Prosumption*: consumers becoming more actively involved and empowered in production.

(10) *Immediacy*: operations "real time" or "just in time"; decreased product life cycles.

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[1] *The group of experts, known as The Advisory Committee on High Performance Computing and Communications, Information Technology, and the Next Generation Internet, includes Vinton Cerf, (MCI), Danny Hills (Disney), Eric Benhamou (3Com), Susan Graham (University of California, Berkeley), and sixteen other industry and academic representatives.*

[2] *Donald Tapscott is also Chair of the* ***Alliance for Converging Technologies,*** *and co-author of an earlier book,* ***Paradigm Shift: The New Promise of Information Technology*** *(1993), co-written with Art Caston.*

(11) *Globalization*: individual organizations operating in a national, regional, or local setting, yet world economy and knowledge knowing no boundaries.

(12) *Discordance*: unprecedented social issues; employment haves (knowledge workers) and have-nots (industrial, unskilled, laid-off); concomitant conflict and trauma.

Probably the single greatest barrier that stands in the way of more people making greater use of technology, either at home or at work, is not the cost of new technology but rather the psychological acceptance of change. Organizations that attempt to bring technological progress to market are also confronted with the universal classic economic questions regarding risk and return.

Human factors, such as free time and choice, cannot be overlooked. First, most Canadians have a limited "time budget" for information and cultural products. New technologies will bring about the substitution of one leisure activity for another. For example, some surveys show that watching TV decreases with increased use of the Internet.

Second, consumers may well have come to expect greater choice in their purchasing selections. Many of those involved in cultural industries are working on the assumption that people want greater choice. They assume, for example, that it is attractive to be able to access thousands of files through the Internet and that people will want more programming options. However, it is not clear whether it is true in all cultures and markets.

## D. Globalization and the challenges of cultural policy

The advancement of communications technologies along with the abundance of information in today's knowledge-based society are creating a new integrated "global culture."

According to the authors of *Challenge and Survival: Canadian Cultural Policy and Globalization*, the globalization of culture is characterized by several key trends.[1]

1) The emergence of enormous cultural and communications conglomerates, primarily American (but also Japanese and Western European), which together generate by far the greatest part of the world's total cultural production.

2) Increased vertical concentration and integration of production and distribution systems which allow large corporate entities to reduce their risk.

3) Increased tendency to produce cultural products which have a mass consumer appeal, thus reducing the business risk.

[1] ***Challenge and Survival: Canadian Cultural Policy and Globalization***, *Joseph Jurkovic and Vladimir Skok, Cultural Symposium of the Conference on Security and Cooperation in Europe (CSCE), May 1991*

4) Rapid expansion of retail chain stores for the marketing and sales of cultural products, particularly books, videos and records; catering to mass consumer appeal, with products destined for specialized, "niche" markets being squeezed out.

New domestic and international opportunities are expected to emerge as mass cultural preferences have become globalized, translating into expanded cultural markets and potentially great economic gains. The global "entertainment industry" is estimated to earn $150 billion per year and is growing at 15% annually.[1]

While globalization offers vast economic opportunities in the market of cultural products, it also brings forth major challenges. Cultural dividing lines devised to protect domestic culture are now becoming blurred, causing governing bodies around the world to ponder the issues of regulation and protection of cultural identity.

Countries may look towards international regulation to ensure that domestic cultural interests are addressed and protected. "As a global phenomenon, the knowledge based society will increasingly be regulated at the international level."[2]

While policies can be used to protect culture, they can also be used to promote and develop cultural products on the international market. The successful balance between the desire to operate in an open environment and the need to maintain and promote national culture and identity will be key to surviving and maximizing gains from the global information society. To achieve this delicate balancing act, policy frameworks must be in place that will allow for growth in foreign investment and innovation of information technologies while at the same time safeguarding national culture.[3] The optimal case would be to use the information highway as a vehicle to promote culture to the world while achieving cultural objectives.

## E. Cultural and related industry convergence

According to the OECD, "convergence" has at least three dimensions:

(1) *Technical convergence*: the trend toward single carriage medium capable of transmitting many types of information such as voice, data, image, and text. Digitization directly drives technical convergence. An example is a cable connection used for cable TV, telephone, or the Internet.

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[1] ***ibid.***

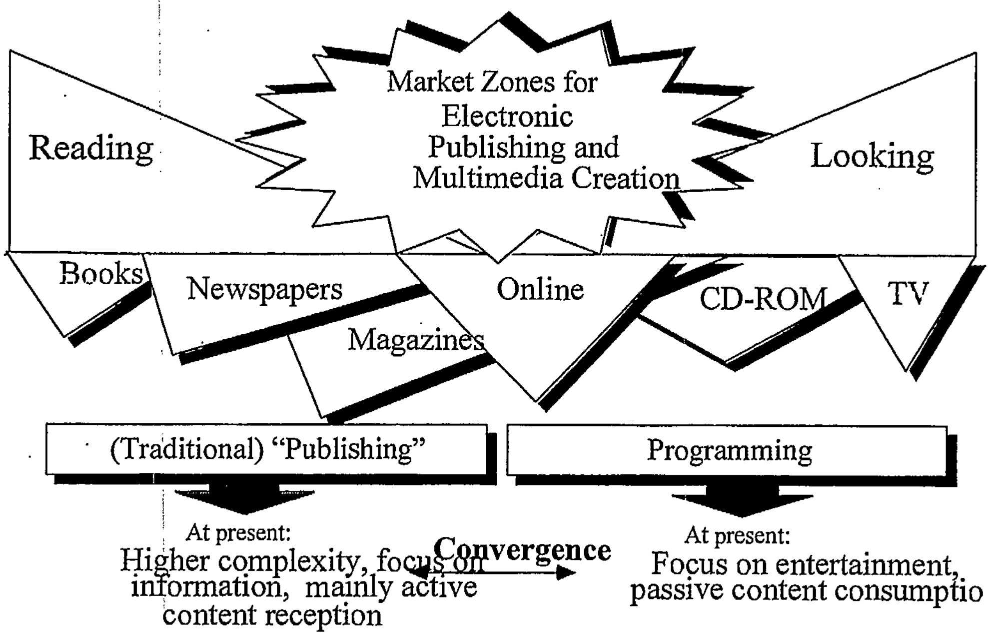
[2] ***Technology and the Knowledge-based Society****, Challenge Paper prepared for the ADM Policy Research Sub-Committee, Global Challenges and Opportunities for Canada -2005, Dec. 23, 1996.*

[3] ***Crossing Frontiers: Issues of Heritage, Culture and Identity in a Comparative Context,*** *Conference Report, Canadian Heritage, Hull, Quebec, June 1994*

(2) *Functional convergence*: sometimes called "multimedia," this refers to emerging services or products which combine voice, data, image, and/or text. For example, CD-ROM-based encyclopedias often utilize simultaneous text, video, and sound.

A schematic of functional convergence is seen in Exhibit V-3 below. It shows the convergence of different form of media across two dimensions of information intake—reading and looking. Traditional and new media are both involved in this convergence.

**Exhibit V-3**
**Functional convergence—reading versus looking**




Source*: Anderson Consulting,* ***Electronic Publishing: Strategic Developments for the European Publishing Industry Towards the Year 2000****, Report for the European Commission, 1996.*

(3) *Corporate convergence*: entails media organizations merging, restructuring, or diversifying such that they span industry boundaries which were more or less distinct in the past; Rogers, for example, is involved in newspapers, magazines, and cellular phone, cable television, and radio and television broadcasting. Cable companies delivering telephony, and telephone companies delivering cable TV (e.g., Bell Canada pilot tests in London, Ontario) will be more commonplace in the future. Most agree that digitization will lead to some convergence across the audiovisual, telecommunications, and information technology industries, although it is

difficult to predict the degree and nature of this change. AT&T, for example, is currently seeking a partner to enter the local phone market, and has already partnered with Canadian Internet provider *Istar Internet Inc.* of Ottawa. Companies such as Viacom and Time Warner are focusing on synergies between sound, image, and text.

There does seem to be a trend for "backward integration" as many media distributors attempt to enter the content business or "new media." Consider a few examples:

- Turner Broadcasting secured the rights to the MGM film library, purchased New Line Cinema and Castle Rock Entertainment, and bought Hanna-Barbera's cartoon library in order to strengthen unique content offerings for its cable network.

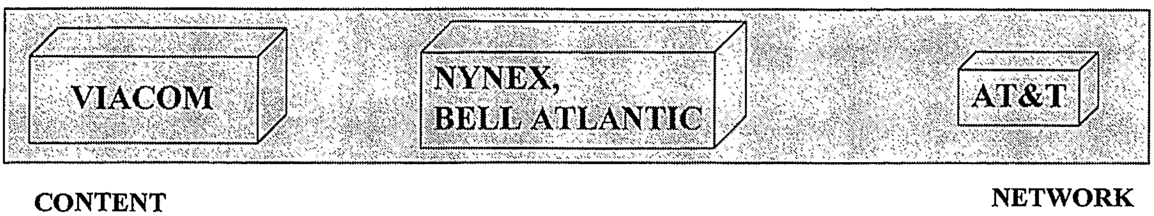
- Stentor Videotron with modem-cable (two-way cable) is a general campaign to capture new clientele through the Internet.

- A variety of cable movie channels, including HBO and Showtime, are financing many of their own productions rather than functioning merely as release windows for Hollywood products.

General corporate convergence, however, cannot be assumed since the dynamics of repositioning, acquisitions, mergers, or partnerships is complex. Viacom has sold many of its network assets to concentrate on content, while AT&T has invested in very few content-producing assets and has a strong distribution focus. In October 1993, Bell Atlantic announced a $32 billion takeover of Tele-Communications Inc. to create a large telephone/cable TV entity, but by February 1994 the deal had collapsed.

Generally, Bell Atlantic and NYNEX are currently located in the middle of the content versus distribution network continuum, with Viacom and AT&T located closer to one end or the other (see Exhibit V-4).

**Exhibit V-4**
**The content-network continuum**




Columnist Terence Corcoran of *The Globe & Mail* argues that telecommunications *divergence* is more likely in the short and middle term: he points to the example of the U.S. cable company Tele-Communications Inc., which recently refocused toward protecting its core cable business (from direct-to-home satellite competition) by accelerating the introduction on of digital cable boxes to provide satellite-quality pictures and about 100 channels. TCI delayed plans to pursue two-way Internet and telephone business. Telephone companies appear to be equally ambivalent toward convergence strategies: the Beacon initiative for laying down hybrid fibre-optic and coaxial cables across Canada to carry two-way video, voice, data, and Internet, is proceeding more slowly than planned.

What does the future hold with respect to convergence? Many believe that multiple transmission media will emerge—involving air and wire-based delivery. Most believe satellite-to-dish delivery will increase. Asymmetric digital subscriber loops (ADSL) may enable high-quality video with interactivity over copper wires in the near future. Telephone companies will eventually transmit high-quality programming along optical fiber. Television sets will become "smarter" multimedia/information stations based on sophisticated microprocessor technology.

Many believe that in a world of telecommunications deregulation and competition, distribution will look after itself and become more of a commodity, while strong content will provide strategic and increasing value-added. In this scenario, intellectually intensive creative functions will predominate. This may be so, but issues such as how to find particular content may arise.

The media business appears to be bifurcating into "mass makers" and "niche players," as digital technology lowers barriers to entry and enables small players to spring up and take advantage of new tools to produce high-quality content. Large, integrated players such as record labels and Hollywood studios will continue to play a role, especially for high-cost sophisticated productions.

## F. Cost and quality effects

As new technologies are rolled out and adapted, the general rule that "early adapters" will pay a premium price will likely apply. However, cost and quality effects are always somewhat unpredictable, and interesting to gauge. Below we speculate on the medium and long term price cost and quality effects of new technologies related to the arts and cultural industries.

*Technology will, in some cases, lead to lower costs of production and distribution.* In the magazine industry, production costs and cycle times have been reduced substantially due to digital technology. Consider the effects of the information highway on something as fundamental as publishing. There are those that assume eventual "low friction" publishing on the Internet due to lower costs and lower barriers to entry. Internet publishing and commerce have been held back while authors and publishers wait for secure mechanisms, alternative billing techniques for users and advertisers, and revenue streams beyond reliance on advertising. It is likely that the security issue will eventually be resolved. Increasingly, new low-cost mediums such as the Internet will challenge the stable worlds of publishers and broadcasters.

*Technology will, in other cases, lead to higher costs in certain realms.* In feature film production, new technologies have had the paradoxical effect of raising costs. High-priced, high-technology movies have captured a large part of the blockbuster film market, and probably will continue to do so in the foreseeable future. It is expected that Hollywood will push the state of the art in special effects for movies. Related developments in the production of simulation and virtual reality will also ensue. In these cases new high-cost markets and services will be developed from scratch. It is not a question of lowering costs in traditional domains, rather, it is a case of giving consumers something they never could imagined even a few years ago. In fact, imagination, not just technology, will be a key element in the creation of new content in new applications. Quality and innovation, not low cost, will be key drivers in this respect. As with most technologically-based innovation, eventually costs will decline and adoption and usage will increase.

*Technology will lead to far-reaching "customization and prosumption" quality effects,* due to abundance in spectrum, increased access to systems, and more interactive means of delivery. In a world of digitized multimedia, the reader can interact and alter aspects of information. Television, radio, and publications will no longer need to be delivered synchronously, since users will have the ability to access information at their convenience and link it with other sources. For example, readers may request and receive a publication exactly when they wish, rather than having it delivered a certain set times. Or they may transmit a radio program to themselves and fast forward and search through it for particular commentary. Viewers may order a specific film to be transmitted in fifteen minutes.

The result of such developments will be customization of consumer choice in terms of selection, taste, use sophistication, and transactional options. Some believe that a "killer application" mass market product which saves significant time and money or opens up new worlds for customers (such as the wordprocessor or spreadsheet applications, which drove PC sales) will fuel new technologies or new media industries. Others believe that customization and heterogenous markets will prevail in the Information Society. Customization will ultimately lead to what is referred to as "prosumption"—consumers actively partaking in the production process, and blurring of boundaries between producer and consumer. Some anticipate more individual time spent with information-based interactions on home computers, and less time spent passively watching dramatic productions.

## G. Technology and broadcasting

Exhibit V-5 below shows Donald Tapscott's predictions regarding the effects of new technologies on broadcasting in particular. The basic thrust is that customer choice and empowerment will revolutionize broadcasting. While customers will still "tune in" for some scheduled live events, they will increasingly set their own schedules as broadcasters become diverse content providers rather than mass schedulers. Pay-per view will become more common, and advertising will in many cases be "selected" by viewers rather than imposed upon them—a development which should lead to more factual (less hyperbolic) advertising and better targeting.

More active or interactive "information-based" programming will replace traditional, passive, dramatic programming. Mass media will be replaced by "molecular media." This future goes way beyond the rhetoric of the "few hundred channel" universe by offering up literally millions of "channels" or "sources of information." While at one time, mass media market research combined with accurate ratings was enough to plan broadcasting schedules, in the digital economy solutions will be chaotic and complex, within a volatile environment.

**Exhibit V-5**
**Broadcasting paradigms in the old and new economies**

| Area of Effect | Old Economy | New Economy |
|---|---|---|
| Control | Broadcaster | Customer |
| Scheduling | Prime Time | Anytime |
| Funding | Advertising | Customer Direct |
| Advertising | Hyperbolic | Content |
| Programming | Dramatic | Information-Based |
| Programming Cost | High | All Over the Map |
| Industry | Mass Media | Molecular Media |
| Business | Stable | Volatile |
| Success Requirements | Sound Management | Visionary Leadership |

*Source: Tapscott, D.,* ***The Digital Economy****, 1996.*

## H. Other technological effects

Other selected technology effects relating to arts and culture industries are:

- Digitization enabled *Sports Illustrated* to beam its split-run issue across the border to a Canadian-based printer, creating the need for the 80% excise tax on advertising revenue and leading to the current issue between Canada and the U.S. at the World Trade Organization.

- Direct-to-home satellite bypasses borders because physical connections are minimized—e.g. *Primetime 24*, the largest U.S satellite provider of TV network signals, is being legally challenged in federal courts by ABC, CBS, NBC, and Fox for sending out-of-market network signals to subscribers in distant cities who should not be eligible for satellite service because they already have access to antennae or cable TV. The issue is that viewers of *Primetime 24* do not see local advertisements, which provide affiliates with about 40% of their revenue. The direct-broadcast satellite industry has captured about 7% of the TV market, and has about four million subscribers in the U.S. It offers about 200 channels of high-quality digital video and sound. Satellite TV developments can work both ways for a nation such as Canada: for example, *Direct TV* already exports *MuchMusic, Newsworld International,* and *Trio* (a selection of CBC programs) to the U.S. market.

- An impending technology which may circumvent cable and phone lines and compete against direct-to-home satellite is local multipoint communications system (LMCS), a wireless technology using radio frequencies to transmit in local areas.

- Digital technology has lead to the proliferation of newsletters of all sorts over the past decade or so, due to desktop publishing technology.

- The U.S. and E.U. synchronized their efforts to liberalize telecommunications markets, though many WTO partners slowed negotiations. On February 5, 1997, 68 countries in the World Trade Organization agreed to broadly increased global telephone competition. The deal offers large opportunities for American entities such as AT&T and MCI (recently acquired by British Telecommunications), who had previously been limited to competing in about 17% of the top 20 telephone markets in the world. Now they can compete for 95% of these markets. It is estimated by the Institute for International Economics that, because of this deal, consumers will realize more than $1 trillion in benefits from lower rates and better service over the next fourteen years.

- Due to new technologies, content can be created in unison from "different locales" simultaneously, and finally integrated into one service or product. This should increase linkages between different cultural sectors, such as publishers, broadcasters, and sound recorders.

- TV video-on demand (VOD) and interactive browsing capabilities will lead to new products and rethinking old ways, e.g., simulating walking down the aisle of a CD store and enabling music sampling. Marketing managers may eventually need to be more concerned with VOD interface design than with physical shelf space or in-store displays.

- Distance education provides an example of culture-related domain where Canada is said to have a distinct competitive advantage; because of technological know-how, diverse cultures, widely dispersed communities, and strong education system, Canada is a leader in distance education[1]. For example, *SchoolNet* provides a network for the development of learning materials which can be exported; expertise in distance learning course-ware, delivery, and other software applications may also be exported.

- Practically anything can be digitized, and vast quantities of information have been scanned or are in the process of being scanned: e.g. the Vatican library, 10 million images of the Edo Museum in Tokyo, every painting in the Louvre, and full text of 400,000 books of the Bibliotheque de la France.

## I. The Internet

North Americans already spend more time on the Internet than they do watching rental movies[2].

The Internet is a classic example of the convergence of many different industries and technologies. Originally a network of computers subsidized by the U.S. federal government and used by academics, defense contractors, and government entities over twenty five years ago, the Internet has evolved to the

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[1] ***The Development of Education: Report of Canada,*** *Council of Ministers of Education, Canada, 1996.*

[2]*See Wade Rowland in "Internet at the Crossroads."* ***Toronto Star.*** *June 13, 1996.*

point where it now contains more commercial domains than educational domains and is financed primarily by the private sector.

Individuals may connect directly to the Internet through access services provided by MCI, NETCOM, PSI, UUNET, AT&T[1], and various local providers. Rogers Cable, for example, is already offering high-speed internet access in parts of Vancouver, London, and Toronto, guaranteed at 120 kilobits/sec (superior to current ISDN). Consumer online services such as *AOL, Compuserve,* and *Prodigy* offer competing "gateways" to the Internet.

Electronic documents are placed on the Web (graphical interface, using a common format, Hypertext Markup Language, or HTML[2]) and accessed by non-technical users by means of requests through Hypertext Transfer Protocol, or HTTP[3]. Web software can browse and retrieve documents at will. More recently, the usefulness of the Internet medium for commercial trade (e.g., through *Netscape Navigator*) and electronic publishing (in the form of audio files, video clips, and the like) has been demonstrated. Many traditional businesses—such as financial services, brokerage houses, and consumer information services—now offer services on the Internet.

Due to its rapid development, and the fact that it crosses national jurisdictions, the Internet remains a relatively unregulated phenomenon. It is truly chaotic and global in nature. However, regulations and standards will need to be developed, for example, to deal with the need for integrity and security of business transactions. Increased international cooperation will likely be required to fashion or grapple with some regulation for the Internet[4], including:

- Providing common standards and security for users, in areas such as education and electronic commerce.
- Providing copyright protection for knowledge providers, in a way which properly balances the right of authors and publishers while recognizing the unique challenges of the Internet relative to hardcopy media.
- Balancing freedom of speech versus limiting offensive and libelous use.

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[1] *In June 1996 AT&T announced it would offer free Internet access and five free hours free connection time plus unlimited additional hours for a flat fee of $19.95 per month, for any of its 80 million U.S. customers who requested it. Within 2 months 150,000 customers were signed up.*

[2] *The standard format used for hypertext documents on the World Wide Web, containing both text and codes in American Standard Code for Information Interchange (ASCII) format; when Web browsers read HTML documents the codes indicate to the browsers what to do with pieces of text, such as which words are linked to other documents, etc.*

[3] *A data transmission protocol used for transferring documents across the Internet.*

[4] *From Adam, N., Awerbuch, B., Slonim, J., Wegner, P., and Yesha, Y. (1997, February) "Globalizing business, education, culture through the Internet."* ***Communications of the ACM,*** *40(2), 115-121.*

- Encouraging educational and socially beneficial uses.
- Protecting countries, languages and cultures.
- Promoting access for rich and poor individuals or nations.

The *Global Internet Project*, a group representing sixteen leading Internet software, telecommunications, and digital commerce companies worldwide, is dedicated to dealing with Internet issues at a worldwide level. It seeks to promote Internet growth across geographic boundaries. Interestingly, this group has identified 1.5 million jobs directly related to the Internet (a number which they predict will rapidly expand, and which does not take into account "indirect" jobs arising from Internet utilization such as commerce).

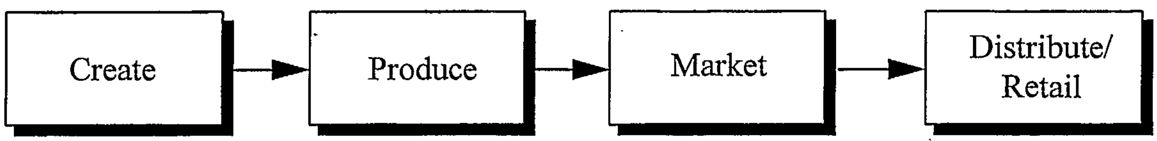
Most of the world's people remain unconnected to the Internet. This is especially true for individuals or households, but not for corporate or government sectors. Only one or two per cent of the world's population is connected today. Reasons for this are many: including fears of loss of control by governments; and financial, technological, and political barriers. There also exist language barriers, as English-language content largely prevails on the Internet. These barriers will have to be overcome to address the equity and access problems around new technologies. Groupings such as the *Information Society and Development Conference* (held in Midrand, South Africa in May 1996) have started to address such issues for developing nations.

## J. The value chain and emerging value networks

A more refined understanding of how technology, particularly digital technology, does or does not reshape market behavior can be obtained by analyzing value chains.

Rooted in industrial era economics, the concept of the value chain embraces a sequence of steps such that the output of one step serves as the input of the next (see Exhibit V-6 below). Collectively, these steps transform raw materials into finished goods available to customers. Each step in this conversion effort reflects a certain combination of skills, resources and capabilities which must add value to the production and distribution process if it is to remain economically viable.

**Exhibit V-6**
**The traditional value chain**



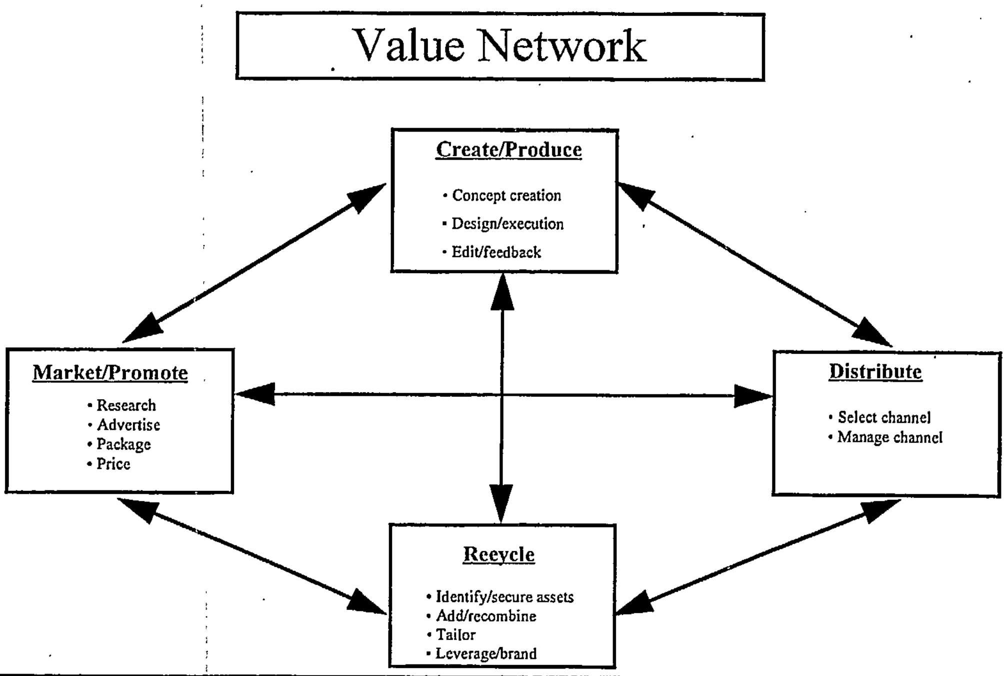

*Source: KPMG (1995)* ***The Emerging Digital Economy: A Field Guide to the Economics of New Media.***

Technology, particularly digital networks and their attendant technologies, are reshaping value chains. What were once discrete, clearly defined steps (such as creation, production and distribution) increasingly blur into one another. Emerging technologies of groupware and electronic data interchange enable nominally independent participants in disparate parts of the value chain to function as an integrated unit. Most significant, intelligent networks permit companies to draw upon more robust and timely feedback loops from suppliers, customers and other participants. In these and other ways, value chains are becoming *value networks.*

What was once a roughly mechanical and sequential process of steps is evolving into a more organic, interactive and dynamic structure of interactive nodes. Organizations recognize the significance of value networks by forming and fine-tuning their many alliances, joint ventures and consortia. Even within organizations, inter-divisional collaboration will be key.

KPMG[1] has identified four intertwined processes or nodes in a "value network" model characteristic of many cultural industries (see Exhibit V-7): (1) create/produce, (2) market/promote, (3) distribute, and (4) recycle.

**Exhibit V-7**
**The KPMG Value Network**




*Source: KPMG (1995)* ***The Emerging Digital Economy: A Field Guide to the Economics of New Media.***

[1]*See* ***The Emerging Digital Economy: A Field Guide to the Economics of New Media.*** *KPMG Information, Communications, and Entertainment Practice, 1995.*

## 1. Create/produce

In many ways, the progress of creativity in media is the progress of tools. Across vast stretches of the information, communications and cultural marketplace, the importance of creative talent—whether in interface development, marketing, or chip design—has never been greater. The spread of ubiquitous networks, open systems and off-the-shelf media tools renders this talent more mobile, independent and difficult to retain than ever before. Barriers to entry in production have been dramatically lowered. One can now set up a basement music studio, for instance, for a few thousand dollars.

The economic impact of such tools, however, tends to vary by scale of production. At the low end, where hundreds or thousands of independent content producers toil away creating new content, digitally enhanced tools have lowered the costs of production and have made possible higher quality products. For large-scale productions involving media conglomerates and mass markets, the application of such tools has actually increased production costs as producers stretch the technologies to their limits and enlist platoons of specialists to master the myriad of technical details of using the most advanced and experimental capabilities.

## 2. Market/promote

Media producers and distributors are using digital technology to support the marketing and promotion process by: tracking and responding to market conditions more flexibly; changing the way consumers learn about and shop for their products; packaging media-related products and services into customized bundles that vary by customer segment; and by pricing media and transactional services to better match customer demand preferences.

## 3. Distribute

As new media distribution outlets gradually emerge and proliferate, media producers face new challenges in choosing appropriate distribution strategies and the new types of channel relationships likely to grow (such as online services or telephone companies' video services). Digital technologies also permit greater opportunities—at least in theory—for "disintermediation": the elimination or reduction of intermediary distributors sitting between a content producer and its audience. Why can't a musician sell a CD directly, for example, and not have to go through a complicated expensive distribution channel? With the Internet, for example, the cost of distribution to the consumer approaches zero. Also when Internet distribution does occur, it can often directly link creators and vendors with customers—provides direct feedback along new lines. Despite many technological advances, changing consumer behavior and reducing the power of retailers will take a long time in selected segments of the information, communication and entertainment industries.

One of the ironies about the proliferation of new media distribution formats and channels is that it actually reinforces the need for old-fashioned mass media. As new media choices multiply for consumers, the need to promote and maintain product awareness will only increase. Conventional mass media advertising outlets remain the most cost-effective way of launching new products and promoting brand awareness.

### 4. Recycle

Fundamental to the "recycling" of media products is the translation of a media asset from one format to another, and the subsequent need to tailor the design of the original media asset to the requirements of the new format. Digital technology simply makes this more tempting to do. The recycling of classical music for use in film footage has become easier due to digital mastering technology. Content producers and suppliers must identify the appropriate media assets worth recycling (characters, icons, plot lines, etc.), combine these with new elements, tailor these new hybrids to new markets and applications, and transfer the brand equity from the original asset where appropriate. Certainly there has been great success with "parallel shooting"—the simultaneous shooting of film for a movie and its accompanying video game, which has become so common project alliances have been set up between in film studios and video game companies. While such a recycling formula appears to make sense, it is no guarantee for success, particularly in such a fickle market as entertainment. Many attempts to re-use film footage in CD-ROM video games to capitalize on a movie's popularity have failed[1]. Atatri, for example, paid $32 million for the rights to market a video game based on E.T., which turned out to be a commercial flop. Finally, many successful video games such as *Carmen Sandiego,* had no media antecedents whatsoever, and their gameware characters rivaled the popularity of many media icons of such as Time Warner's *Bugs Bunny.*

New media technologies hold great promise for innovation and creativity. Yet the financial scale associated with mass market entertainment can lead to a conservative approach that is too reliant on old content and tried-and-true genres. Thus it is likely that, as with conventional media, the truly innovative applications in new media will emanate from the many small and dispersed producers serving constantly changing and diverse niche markets.

## K. Summary

In summary, technology can be viewed as a powerful force which will drive change through all aspects of our society, including the arts and culture sector. Broadly-speaking, technology will integrate with the arts, becoming part of its essence. A recent report by the OECD and various departments and agencies of the Canadian government presents three main "sectors" of the Canadian economy most relevant to the "global information infrastructure and society"[2]. These sectors are:

(1) *Information and cultural industries:* including broadcasting and telecommunications, information services and data and transaction processing, publishing, motion picture and sound recording. These industries will build and maintain infrastructure and provide content; content is seen as consisting of services and goods created by packaging information in a way

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[1] *See "Reverse Synergy."* ***The Wall Street Journal.*** *Sept.15, 1995, p.R10.*

[2] *See* ***Measuring the Global Information Infrastructure for a Global Information Society,*** *report submitted to the OECD by the Delegation of Canada, September 1996.*

which adds value. It includes knowledge bases, television/file programming, multimedia, education courseware and interactive TV.

(2) *Computer and electronic product manufacturing*: including computer and peripheral equipment, communication equipment, audio and visual equipment, semiconductor and electronic components, navigational, measuring and control instruments, manufacturing and reproduction of magnetic and optical media. Software and hardware applications; e.g. large growth in multimedia and electronic equipment applications and CD-ROM technology.

(3) *Performing arts, spectator sports and related industries, heritage institutions, recreation, amusement and gambling*. More and more heritage institutions will upload, tape, or broadcast events or collections. Computers and televisions will be adopted to better deliver recreation, amusement and gambling-related activities for the public.

A quick glance of these sectors reveals that the first and third have very strong connections with what could be termed the "classic" cultural industries. In the Information Society, however, classic older versions will likely change shape or even disappear as they become integrated with each other and with new technology. Even the traditional three-sector "communications" categorizations—broadcasting, telecommunications, and publishing—are no longer properly seen as discrete areas[1].

All aspects of art and culture will be affected in various degrees by the shifting environment. Technological change, the evolving media universe, forces of globalization and convergence, and the Internet will all serve to influence the components of the value network. This leads directly to the next chapter on new media and new content.

[1]*For example, Robert E. Babe, "Convergence and the New Technologies," in Michael Dorland (ed.) (1996)* ***The Cultural Industries in Canada: Problems, Policies and Prospects,*** *pp. 283-307.*

# VI

# New Media and New Content

## A. Introduction

New media is an experiment of sorts for the arts and cultural industries, involving the convergence of Internet-based services and various types of multimedia and new technology. It is a true (and perhaps compelling) opportunity for dialogue and concerted action between the technical and artistic/cultural communities. In fact, according to one observer, this is one of the trademarks of multimedia: the challenge of creating a culture where "both sides learn and understand how to acknowledge one another"[1]. Artists and technical experts involved with new media technologies, virtual art galleries, electronic artwork collaboration, interactive forms of cyber-reality, information networks, small-scale publication of CD-ROMs, etc., together have the potential to transform cultural communication.

What is the new media industry? How does it relate to technology? How does it relate to arts and culture industries?

The new media industry is still in its infant stages, with many new entrants, keen competition, and many sizes and types of players. Cottage industries of new media in the form of fledgling businesses are competing or perhaps even joining forces with each other or with well established mass distribution media entities seeking to expand their operations. For example, according to *Multimedia OnLine,* individuals now have the ability to undertake animation and virtual reality creation if they invest in a super-VGA video system, mouse, keyboard, Nintendo Power Glove, Sega Glasses, and a sound card—for a total cost of about $3,000. It is estimated that the demand for animators will grow, to serve not only the traditional industries of film, video, and television, but the new media worlds of Internet and CD-ROM.

Traditional media companies such as publishers and broadcasters, must distribute and sell through media such as television (video, audio, limited text), radio (audio), and newspapers (text and some visual). With new media, however, text, video, and audio are joined in one new medium which can serve many industries.

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*[1]Linda Stone, Director, Virtual Worlds Group, Microsoft Advanced Technology and Research Division, interviewed in John Brockman (ed.) (1996)* ***Digerati: Encounters with the Cyber Elite.*** *San Fancisco: Hardwired.*

However, many new media industry players are currently unprofitable. Many have failed and many more will fail, because of intense competition[1]. New media is considered by the investment community to be a high-risk area with long term growth potential. For example, book publisher Random House, is trying to sell its 50% share of *Living Books,* a children's interactive book multimedia software company which created titles such as *Dr. Seuss' ABC's,* but which has lost money overall. In October, 1996, *Living Books* downsized its workforce 40%. Other traditional media players have had to rethink their multimedia investments or backtrack on multimedia forays—including large multinational ventures such as *Disney Interactive, Philips Interactive,* and *Viacom NewMedia.*

New media is a partial threat to traditional media. For example, it appears that broadcasting analogous to what we know with television is emerging on the Internet. *Starwave Direct* will begin to broadcast news, sports scores, and other information, in spring, 1997, competing with *Pointcast, Backweb,* and other services which aggregate content into clusters to be used for Internet "broadcasting networks." *Starwave Direct* represents a first in Internet broadcasting: offering its own original content (*PointCast* offers content developed by others such as *Wired Ventures* and the *New York Times*). *Starwave Direct* will automatically broadcast its content (brand-recognizable items such as *ESPNet, Mr.Showbiz,* and *Outside Online*) to users at regular intervals—just like TV networks broadcast regular shows to millions of viewers. *Starwave Direct* will use push technologies from Netscape Communications and Microsoft in this venture. However, new media can also act as a complement to traditional media at times, as in the case of a weekly magazine with successful print and online versions.

## B. New York—a rapidly emerging new media centre

A 1996 study of the new media industry in New York presented new media as a success story and a major generator of new jobs[2]. The new media industry is centred in Manhattan ("Silicon Alley," south of 41st Street) in New York. This new media cluster employs an estimated 18,000 FTE jobs, and is expected to more than double in size by 1999. Total annual revenues are about $1 billion (U.S.).

The New York Media Association convened a meeting in Summer, 1994, launching a quasi-organized attempt to nurture and develop this industry in the New York area and elsewhere.

Creative artists (artists/designers, directors/producers, or writers) account for almost 50% of Silicon Alley new media positions. Technical staff (programmers, engineering and technology management, and programming management) make up about 25%. New media workers are composed of 33% freelance and part-timers (as a proportion of total new media FTEs).

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[1] *See "risk factors" section of the* ***Offering Memorandum for Internet and the New Media Fund, L.P.****, March 15, 1996, a newly formed closed-end limited-life investment fund focusing on new media in the New York City area.*

[2] *According to April, 1996, Coopers & Lybrand study,* ***New York New Media Industry Survey****.*

New media is closely aligned with advertising, marketing, education, and entertainment sectors. "Core" new media companies are involved with entertainment software, online services, CD-ROM titles, and web site design.

### 1. Silicon Alley—case study overview

- Cluster of new media businesses in New York.
- Strong industry group—NYMA.
- Focused in Manhattan, south of 41st St.
- 700 establishments.
- 18,000 FTE in 1996, expected to double by 1999.
- Generates $1.04 billion U.S. gross revenues.
- Creative artists account for 50% of employment.
- Technical staff account for 25% of employment.
- Heavily staffed by young people.

The need for technology infrastructure such as widespread availability of high-speed telecommunications (such as ISDN and T1 lines) was identified as a key developmental issue for the Silicon Alley cluster. Tax structures and overall costs of doing business were also identified as key challenges, though reform efforts in this respect have been put forward by the City and the State. Competitive strengths included access to content owners and partners, access to investors, access to editorial/artistic talent, access to customers, and a strong education system anchored by several engineering and design school programs, such as NYU's *Interactive Telecommunications Program*.

The New York new media cluster has generated considerable interest on the part of the investment community. One $25 million U.S. limited partnership fund included the following information in its offering memorandum:

> The New York City and State governments have taken action to encourage "new media" companies to conduct business in New York City, through real estate tax abatements, commercial rent tax exemptions and reductions in electricity costs. Symbolic of these efforts is the refurbishing and rewiring with voice-grade copper wire, high-speed wire for speedier access to the Internet and single and multimode fiber optics of a 31 floor skyscraper located in downtown Manhattan, which is now known as the New York Information Technology Centre, in an effort to attract new electronic media tenants. The New York Media Association, an industry group formed in 1994 whose membership has been expanding, currently has 2,100 individual members representing approximately 1,800 regional multimedia and

Internet development companies, the majority of which are located in New York City.

**2. Silicon Alley—competitive strengths**

- City and state tax incentives.
- City-wide strategy.
- Access to content owners/strategic partners.
- Access to editorial/artistic talent.
- Access to customers (clients in advertising, entertainment and publishing).
- Strong education system.
- Access to investors.
- IT Centre at 55 Broad Street—public/private initiative.

The Silicon Alley case study demonstrates the importance of clustering in areas of selected niches, while highlighting related issues such as educational programs, concerted action (cultural/technological, as well as public/private), business taxes, and technological infrastructure. Elements of this case represent possible lessons for Canada.

## C. Business considerations

Walmart already offers direct sales of 7,000 products on the Internet, at web site *http://www.walmart.com*. Customers pay by credit card and receive product via UPS within 48 hours. Walmart claims it will diversify this electronic offering to 80,000 products by the end of this year[1].

Can cultural industries succeed using the Internet and other new media? According to the authors of the above Silicon Alley study, by 1999 new media U.S. revenues are expected to equal or surpass revenues of each of the following three major traditional media industries: cable networks, TV broadcasting networks, and radio broadcasting. Estimated U.S. new media revenues of $7.2 billion in 1995 are expected to double by 1999.

An advantage of new media is that distributing content online or using CD-ROM can reduce paper, printing, postage, and other normal costs of doing business. Content providers such as magazines and newspapers will benefit.

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[1] *Randall, N. (1997, March) "Can You Make Money on the Net?",* ***Globe and Mail Report on Business.***

Providers of new media product such as film will need to replicate the real-life "browsing experience" for the consumer. They can perhaps even enhance it. Microsoft's *Cinemania* CD-ROM program, which enables users to search a database of movies and view 30-second clips, is now a pleasant diversion for cinema buffs. In the future, however, this type of electronic browsing may serve as a model for selling video-on-demand or music-on-demand through new media.

Excitement around new media should be tempered with realistic notions that Canadian consumers have high satisfaction levels with traditional forms of media, especially television, radio, magazines and newspapers. This means adoption of new media will have natural barriers, and that new technologies will need to respond to existing basic human needs in order to prove successful. Or, as Barry Kiefl of the CBC has written[1]:

> typically, no more than one-third of respondents in various studies which we have conducted indicate that they are interested in new communications services, somewhat less if there is an additional cost of more than a few pennies per month.

Convincing advertisers to place ads on such media is fraught with difficulties, since pricing for ads and user receptivity to ads in an interactive environment which gives the consumer more control are relative unknowns in this new environment. Media companies must also guard against cannibalizing their business by weakening their traditional channels of distribution when they forge new media distribution strategies. The potential for cannibalization is real—already CD-ROM encyclopedias outsell their print counterparts. Companies will probably continue to make use of traditional media for the all-important release windows (e.g., the theatre for new blockbuster films, the hardcover book for new publications) in their marketing strategy. Electronic distribution will likely remain as an experimental or supplemental strategy for many companies for the time being.

Tremendous technical and standardization challenges also face purveyors of new media. For example, hexachrome (six-color) design gives computer designers an expanded gamut of colors as compared the traditional four-colour process. But most physical printers do not have six-color presses, so the technology is still not workable for most designers. The *International Color Consortium* is trying to convince several industries (graphic arts, motion pictures, photography, desktop publishing) to agree on and use a single, standard communication mechanism for color.

Copyright represents another fundamental is barriers to new media business expansion. For artists and content providers, this issue is key. Canada protection of creation and distribution rights is seen by some as inadequate for the new technologies[2]. The copyright issue is discussed further in Chapter VII (Section 1D).

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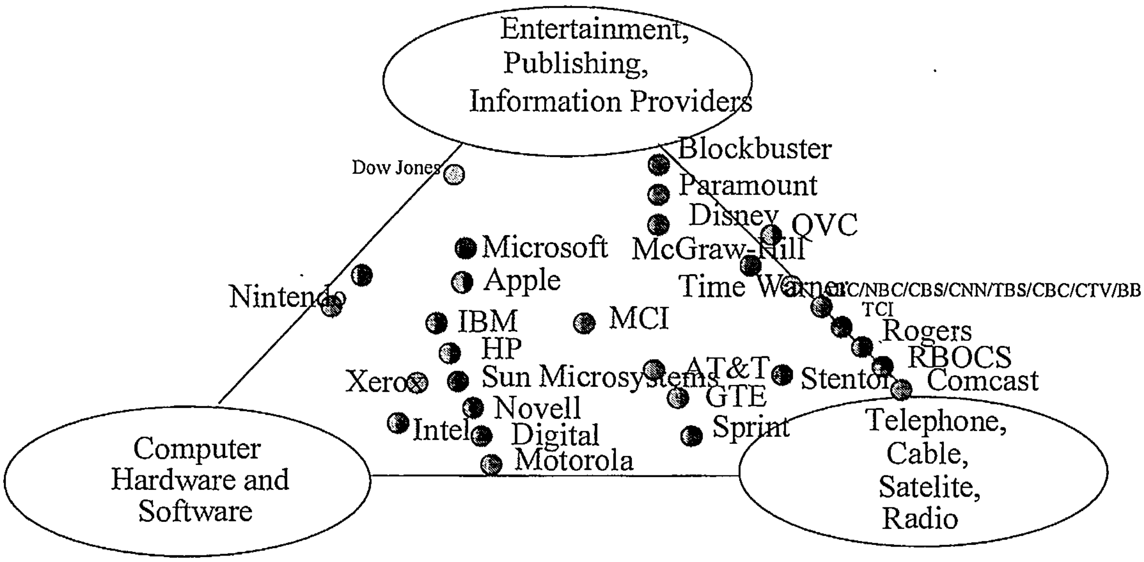
[1] *See* ***Measuring the Use of the Internet: The Future of New Media****, paper presented at the Institute for International Research, Ninth Annual Conference on "Pricing Research", April 24, 1996.*

[2] *E.g., Paul Audley and Associates Ltd., (February 24, 1997)* ***Issues Paper: IHAC Steering Committee on Canadian Content and Cultural Identity****, prepared for the Information Highway Advisory Council Secretariat, Industry Canada.*

## D. New Media Industries—Converging and Colliding

The new media industry, according to Tapscott, derives from the convergence of: (1) *traditional computing* (hardware, software, services), (2) *communications* (telephony, cable, satellite, radio) and (3) *content* (publishing, entertainment, advertising, information providers). The position of major players in the converging industries triangle is shown in Exhibit VI-1 below. The largest players are actively positioning themselves in this triangle.

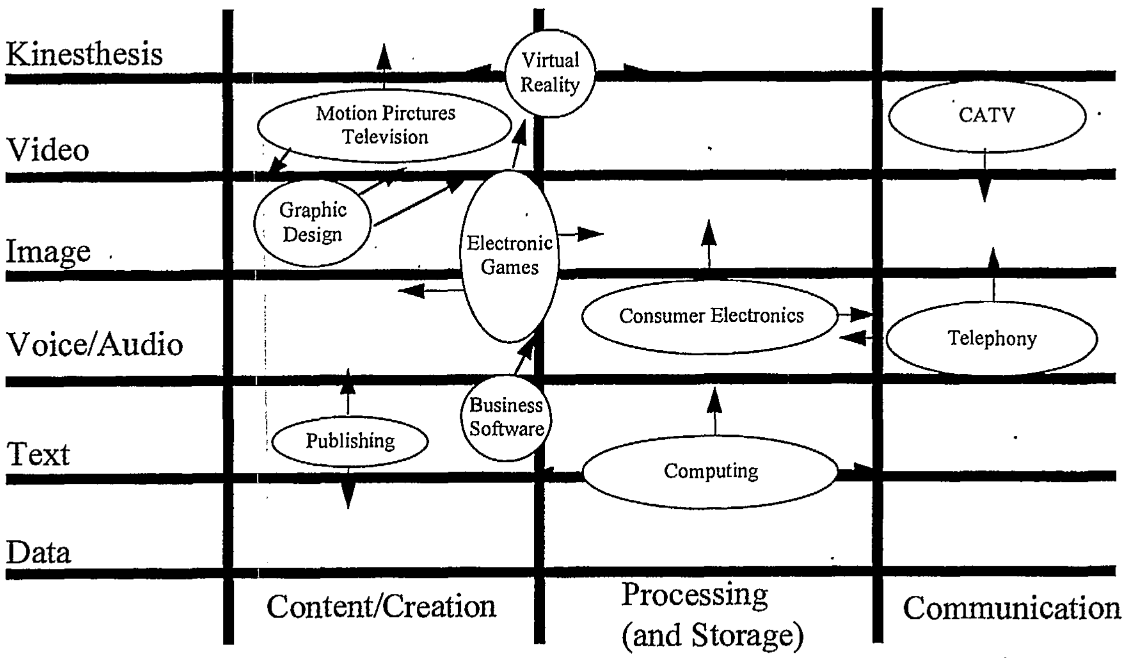
**Exhibit VI-1**
**New media—converging industries**




*Source: D. Tapscott,* ***The Digital Economy****, 1996.*

The "colliding industries" concept (see Exhibit VI-2) presumes traditional lines are becoming blurred for businesses of data, text, voice/audio, image, video, and kinesthesis. Colliding industries also come together across functions of content/creation, processing (and storage), and communication.

**Exhibit VI-2**
**New media—colliding industries**




*Source: D. Tapscott, **The Digital Economy**, 1996.*

Tapscott predicts that colliding industries "shakeout" could take place, characterized by:

(1) A reduction in number of general-purpose hardware and software suppliers.

(2) An increased alliances (versus vertical integration).

(3) Fewer carriage providers as bandwidth becomes a "commodity"—cable companies might be the big losers here (monopoly mentality, inoperability during storms).

(4) An unprecedented growth in software and services industries.

(5) Large growth in entertainment industry, driving content and software development; the electronic games industry already has greater revenue than the entire American motion picture industry, and the gaming industry is larger still.

(6) More open competition in computing and telecommunications.

(7) The creation of new hardware product categories, driven by multimedia; home television sets could transform into a computer with high resolution screen and communications hardware and software; the interface between digital and real physical worlds could provide the needs for a range of items such as biosensors, scanners and digital cameras.

## E. New media in Canada

As mentioned in Chapter IV, the Industry Canada draft report, *Content Industries in Canada,* uses a framework for Canadian "content industries" with three categories:

(1) *Print publishing:* newspapers, magazines, books, and corporate publishing.

(2) *Audiovisual:* film and video, TV and radio broadcasting, cable, and sound recording.

(3) *New media content:* online databases, multimedia contents, videotex, fax-and CD-based contents, and video games.

The authors state that the new media content industry is in a state of flux, with implications for traditional content players:

> as traditional content industries become more familiar with the new technologies and the opportunities they present, their strategies for entering the market are expected to change. The current proliferation of alliances for co-development with new media developers is leading toward takeovers and mergers designed to build capacity in-house.

They estimate that Canada has over 500 "new media" firms, though information on the exact number of jobs with these firms is unavailable[1]. The authors also state that government support does not seem to be as great a priority for the new media industry as compared to other cultural industries, despite the fact that many new media entities are in the infancy stage.

The report makes the following positive assessment of the prospects for the Canadian new media industry:

> Canadian firms may have an advantage in some areas of multimedia and new media development as a result of our unique mix of content, technology, and infrastructure. The capabilities of our content industries are immense, the quality of Canadian artists is recognized worldwide. Canadian-based companies such as Alias, SoftImage and Corel have been in the forefront of developing graphics, animation and special effects software, in fact, industry experts estimate that 60% of the software used in Hollywood was developed in Canada. Canada's high technology community provides a world class broadband network and other basic information infrastructure. Educational institutions support both the creative and technical needs of the developing new media from Sheridan College and Emily Carr

[1] *Ironically, new media itself may help rectify this lack of information: the* ***Multimediator*** *service on the Internet provides a list of almost 300 Canadian multimedia companies, by province or by city.*

Institute's animation programs to Waterloo University's computer science programs. Canada is widely recognized as a source of talent, this is why Disney Inc. is locating two animation studios in Canada. With all these elements pulled together, Canadian companies should be well placed to face the new challenges of the information age.

New media support in Canada includes: (1) Québec tax credit program: proposed legislation for the new tax credit was released on December 18, 1996 in Bill 81, *An Act to amend the Taxation Act, the Act respecting the Québec sales tax and other legislative provisions.* The new tax credit is intended to cover up to 30% of the production costs of a multimedia title in Québec. The tax assistance available depends on the eligible wage expenditures incurred in the production of the title and the operating revenues it generates. French productions destined for the consumer market may be eligible for an enhanced credit, (2) the Canada Council provides $500,000 to artists for use of new media, (3) Telefilm Canada has a $1 million annual Pilot Program for Multimedia Production and Publishing Assistance, (4) the Cultural Industries Development Fund provides some loans for multimedia businesses, and (5) the Société de développement des enterprises culturelles operates a Multimedia Production Assistance Program.

## F. Internet Usage—Canadian and International Arts and Culture

The Internet is a new media forum, enabling the storage and distribution of information at low costs. Currently it works well as an extension of much traditional media (as in a print advertising inviting readers to "visit the web site"). But its revolutionary aspects should not be underestimated: it enables millions of people (currently about 40 million worldwide) to share information and communicate, and provides groundbreaking means of communicating and conducting business for individuals and organizations.

Consider the following "sample" of arts and cultural sites currently operating on the Internet[1].

### 1. Sites outside the United States

*Bienvenue sur le Web de Picasso:* gives advance notice of Picasso events worldwide, and exhibits scanned images of his work; *Canadian CultureNet:* provides a central resource for Canadian cultural community, such as the National Ballet of Canada, the Stratford Festival, and the Aboriginal Films and Arts Alliance; *Ukiyo-e Museum:* available in English and Japanese, provides excellent scanned representation of Japanese woodblock prints; *Photon:* photographic magazine which includes articles, pictures, camera equipment and reviews.

### 2. Galleries

*The Amazon Project:* presents artists from Peru; *FineArt Forum:* a resource for those interested in fine art and its relationship with technology; *Iranian Cultural Information Center:* presents information on Persian antiquities and current culture.

[1] *Derived conveniently from the* ***Civilzed Explorer*** *website, www.cieux.com/~philip/Arthome.html*

### 3. Commercial sites

*Blind Spot:* the web version of the print magazine committed to reproducing and designing unpublished artwork of photographers; *Wired:* a computer graphics entity offering free culture and technology news as well as an online magazine (for use with a personal identification number); *Artnet:* a new site for artists to display work and background.

### 4. Personal pages

This is a plethora of pages offered up by individuals—with a wide ranges of themes and talent.

### 5. Experimental sites

*BRAID Media Arts:* provides a discussion about presenting art sites on the web; *think:* solicits short works of fiction, poetry, sketches, computer art, etc. for distribution; *Mkzdk:* provides highly enhanced visual s using all computer-generated materials.

### 6. Literature

*The Writers Guild of America:* an excellent resource for aspiring or professional writers, includes links with on craft tools, writing for different types of media, etc., as well as sample articles form the Guild's monthly newsletter; *amp magazine:* a monthly magazine with well-written content on film, fiction, photography, music, and interviews. *The Muze:* a well-produced magazine about dance, music, art, etc.; *Firehorse:* an Australian website on art, music and multimedia.

### 7. Film and theatre

*Communications Studies and Theatre Arts:* Stetson University's very extensive set of links to Internet resources in theatre and performing arts; *Kulture Void Pictures:* a journal for independent film makers; *Canadian Flimmaker's Distribution Center:* an artist-run centre of over 1200 films, rentable for nontheatrical screening, available for free preview to educational institutions, governments, and selected other organizations; films may also be purchased using "licenses" for exhibition with certain restrictions.

### 8. Jump sites

*World Wide Arts Resources:* a searchable database of over 9,000 resources; *Yahoo:* Arts section with an extensive amount of information; *Xplore arts:* many interesting sites, ranging from the classics to *neo-avant garde.*

As seen from the above examples, both traditional and nontraditional content providers have taken their place on the Internet, and Canadians are represented.

According to a report by *Editor and Publisher*[1], traditional "content providers" had set up almost 2000 online service sites worldwide by January, 1996. Commercial newspapers held 38.5% of those sites, followed by magazines (36%), campus newspapers (10%), TV stations (7.5%), radio and TV networks (4%), and radio stations (4%). On a per capita basis, Canadian companies were strongly represented online.

## G. Internet broadcasting

Known as "webcasting," the idea of internet broadcasting is that certain items or services are delivered to customers so that they can avoid spending time scouring the Internet for specific items. Webcasting helps alleviate the "information clutter" of the Internet. The value added is content selection efficiency.

Currently, the largest markets for webcasting are "intranets" usually used in organizations. By the year 2000, webcasting and related "push" technology is expected to generate about one-third of Net advertising, subscriptions, and retail revenues[2]. The main webcasting players are *Pointcast* (a 5-year old company, and the pioneer of webcasting, which uses content from partners *CNN*, *New York Times*, and *Wired* displayed on screen savers along with advertisements; $48 million is invested in Pointcast by venture capitalists and partners, including *Knight-Rider*, *Compaq Computer*, and *Adobe Systems*); other players include *AOL* (launching *Driveway* in Spring 1997), *Ifusion* (which is similar to *Pointcast*), *Berkeley Systems*, *Backweb*, *Marimba*, *Microsoft* (through a new version of *Windows* merged with *Internet Explorer*, organized into channels), and *Netscape* (introducing *Constellation* in the spring, 1997, a browser and user interface content broadcaster).

## H. Internet publishing and distribution

Barnes and Noble, a U.S. superstore distributor, has just entered into arrangements with *America Online* to distribute books on the Internet. With a database of more than one million titles, fast delivery, and deeply discounted pricing (more so than its discount stores), it will be interesting to see what Internet selling does to the book publishing and distribution market. *Borders Group*, the second largest U.S. operator of book superstores, is reportedly readying their own online operation.

Seattle based company *Amazon.com* was one of the first venturers into the Internet distribution business. According to the company's founder, revenue has been increasing by 20 % to 30 % per month while their workforce has grown to 200 from 7 in less than 2 years. One interesting development from Amazon.com's experience is how different the book market place is online. The company's 1996 top-100 sellers list was headed by a book on website which never made it onto any published newspaper top list. It also featured a Canadian book, *The English Patient* by Michael Ondaatje.

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[1] *"Report of the Electronic Media." **Editor and Publisher**, p.61, February 17, 1996.*

[2] *According to Yankee Group Inc. (cited in **Business Week**: Feb 24, 1997).*

*Canada's Virtual Bookstore* (*http://www.cvbookstore.com*) began operations in July, 1996, offering both Canadian and international publications. Sales are projected to approach $12 million within three years.

A recent study for the European Commission predicts that electronic publishing's share of the total European publishing market will increase to between 5% and 15 % by the year 2000, though profitability will be limited until then[1].

## I. New content

Linda Stone, Director, Virtual Worlds Group, Microsoft Advanced Technology and Research Division, states the following regarding the relationship between technology, multimedia, and content[2]:

> the effective interplay between content and technology is necessary for us to realize the potential of multimedia. Content with poor technology results in inadequate performance and poor usability. Technology without attention to content may perform well, but it is unlikely to have a purpose. Try to imagine a musical recording, a movie, a book, or a magazine article without something creative to say. Empty. So it is with so many CD-ROMs and much of what we see on the Web. Multimedia is more interesting when content and technology work well together. Multimedia products are often loaded with beautiful images, and high-quality video and audio. Yet even the most perfectly produced multimedia product can leave us cold. It is ultimately point of view and interface that breathe life into any media. When the technology works, it disappears—it becomes transparent in a way that facilitates the content.

It appears the *nature of content* will be transformed in the Information Society. According to Bill Gates, Chairman of Microsoft Corporation, content will become less static, less linear, and more of a dynamic, complex, process-related phenomenon. Digitally-linked content will be more interactive, animated, and will combine photos, video, audio, and programming instructions in imaginative and unheard-of ways. Since bits of information in digital form can more easily intermingle than traditional items such as books and movies, the result should be what Gates refers to "rich electronic documents" (not printable on two-dimensional paper). These new media documents will encompass a sort of "altered synthesis" of current media. Gates admits, however, that some documents, such as narrative fiction, will likely retain their linear structure because linearity is inherent to the art of storytelling. However, he cautions that much content on the Internet or other new media cannot simply be digitized then downloaded: content in the new media requires new ways of creating and packaging.

According to Gates, there will be a transition period for magazines and other publications, during which time many will simultaneously publish in traditional print form and on the Internet. New content must be fashioned to take full advantage of the characteristics and capabilities of the new media. Certainly graphics, pictures, charts, photos, and audio—increasingly in combination—will characterize new content, with advancements in technology acting as a potent enabler. Digital Video Disc, for example, will likely

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[1] *Andersen Consulting, 1996,* ***Electronic Publishing****. Report for the European Commission.*

[2] *From John Brockman (Ed.) (1996)* ***Digerati: Encounters with the Cyber Elite****, San Fancisco: Hardwired.*

replace the CD ROM for many applications and allow storage of an order of magnitude greater capacity increasing high-quality packaging of movies.

Examples of these trends abound. Magazines which have gone online by merely reproducing their print versions, without taking a serious look at features such as chat rooms, live question and answer sessions, message boards, polls, and hot links, are unlikely to be successful. *Newsweek Interactive* (online version which contains about 85% of the *Newsweek* print version content) is updated daily, so new stories are available almost immediately and well before the printed version. Thus the online version retains some of the columnists and articles of the original, but acts as a "complement" rather than a "duplicate"—adding elements of immediacy and interactivity. Financial magazines, too, are strong candidates for online versions because of the importance of updated information and analysis. For example, *Worth Online*, derived from the monthly *Worth,* enables readers to navigate their finances electronically. To a certain extent, content is transformed when going from a print to an electronic version of the same magazine. Content becomes more dynamic and interactive. Online versions can be adapted for about one-tenth the cost of print versions, according to John Pavlik, executive director of the graduate school of journalism at Columbia University's Centre for New Media; he also notes "this world represents a new medium with new capability, combining video and sound text that could tell stories in new ways."

Many magazines have launched directly as online entities. Time Inc. launched both *Virtual Garden* and *Thrive* (focusing on health and wellness) with no print version precursors. *Word* and *Feed* are original online publications competing with online traditionals such as *Newsweek* and *Time.* While the online magazine industry is not expected to eliminate print media (just as TV did not eliminate radio), it will grow in importance, evolve, and take advantage of the most inventive aspects of new media.

Many comics, too, have gone online. *Marvel Online* launched in July, 1996, with a weekly feature Spider-Man "cybercomic" which looks like the print version but is imbedded with sound effects, text balloons, hotspots (to reveal more background on characters), and plot twists. Marvel will unveil characters exclusively for the online world in the near future. Interactive multimedia comic strips already exist, such as *Cyber Chicken* and *Zombie Detective.*

Interactive fiction or "hyperfiction" has established itself as a genre of multimedia. "Hyperizons" on the web is an excellent gateway to this art form. Authors of interactive fiction (or "hyperfiction") have had to redefine traditional, linear, closed narrative techniques of books, to address challenges of nonsequentiality, multidimensional perspectives, and less structure. For instance, "Matthew Miller's Trip" uses the U.S. highway system as an interface and navigational anchor for an adventure hyperfiction. The success of the interactive fiction art form depends on a readers' willingness to make creative efforts.

Finally, new content involves design of Internet website pages and "hot links" to other pages . Successful implementation requires that such links: (1) anticipate the viewers thought process, (2) avoid drowning the reader in a landslide of information, (3) do not interfere with an overall, clear, simple message, and (4) can operate with modest modem connections, unless it can be assumed that the target audience uses faster technology. Web design, though technological, still adheres to many basic principles of communications and marketing.

## J. New media regulatory issues

Convergence between information, telecommunications, and broadcasting technologies has helped give rise to a new media industry. The Internet is most often cited as a means by which these services are and will be delivered, but other new media distribution and storage technologies such as the CD-ROM and cable are important. Convergence, especially with Internet distribution, poses a number of complex regulatory issues.

### 1. The regulatory environment—dramatic changes

Contrasting the customized, dynamic future state of media such as the Internet with the limited and rigid scenario of broadcasting/mass media today, it becomes clear that government regulation will need to be re-thought.

Generally, the Canadian telecommunications system is undergoing major changes driven by global and technological forces, economic and social factors, and government policy. These changes include: consolidation (such as the creation of Stentor entities in January 1992), new legislation (the 1993 *Telecommunications Act*), *Telecom Decision 94-19* (which promoted competition), and the creation of the *Information Highway Advisory Council* (in April 1994). While deregulation and competition will be a slow and complex process, Canada appears to be moving toward participation in an integrated North American telcommunications market, as evidenced by alliances such as AT&T/Unitel, and MCI/Stentor[1].

Many see new freedoms as a result of telecommuncation deregulation and the expansion of deregulated media such as the Internet. Consider the response of James Burke, American philosopher, writer, broadcaster, and multimedia commentator[2], when asked "What can we do to change the political regulatory process?:

> . . . technology exists to allow us many more freedoms than before. Technology can also help to keep control while we participate. A diversity of interests is the greatest thing that any society can have. While we're on the subject, I think political correctness is just the last fling at this out-moded centrist idea. We're not the same. It is ridiculous to try to make everything generic because everything is different. We should celebrate these differences. We haven't had the technology to celebrate the differences before, but now we do. I believe we're in a transition phase. Things are falling apart and I welcome this. The ability to fragment is there. . .

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[1] *See "Editor's Introduction" in Stanbury, W.T. (ed.) (1996)* ***Perspectives on the New Economics of Regulation of Telecommunications****. IRPP.*

[2] *Author of* ***Pinball Effect****, which can be read linearly from cover to cover, or using a series of hyperlink jumps.*

According to the Industry Canada draft report, *Content Industries in Canada*[1], Canadian content industries have historically been:

> subject to a high degree of regulation and legislation, from Canadian content rules to international copyright regimes. The new media create challenges that were never considered by existing legislation. It is possible that some of the traditional protections of Canadian creators will no longer be available to government regulators (e.g., how would you regulate levels of Canadian content when people can directly access worldwide suppliers?), while other legislation will need to be adapted and altered. The Internet has immediate, far reaching impacts, but it is difficult to administer or enforce legislation controlling it since it transverses political borders. As a result many of the issues raised by new technologies and mediums will have to be solved in the global arena. For Canadian issues to be heard, Canada will have to work to be a prominent player in these discussions ... one of the most difficult areas will be adapting our national cultural policies so that they continue to be relevant in the information age. Successive governments have implemented regulations and protections designed to promote the creation of national cultural industries. As it becomes increasingly difficult to regulate what is offered to Canadians (Internet, on-demand content, etc.) governments and industry will need to come up with innovative ways to make Canadian cultural content appeal to the Canadian public, since in many forums it will succeed based solely on its ability to appeal to Canadians in the context of the global market. This may also present an opportunity for Canadian creators to develop a greater global vision that will help them succeed internationally as a source of high-quality, innovative content. Global communications, such as the Internet, are expected to bring down cultural barriers and create a stronger global community.

Satellite broadcasting is a case in point. Canada has at least 200,000 satellite dishes which are associated with average programming fees of at least $40 per month. This implies significant revenues from the satellite "grey market" in the neighbourhood of almost $100 million annually[2]. American operators such as *DirectTV* and *EchoStar* are primary players in this market, and there is no Canadian content regulation.

Canadian entities *ExpressVu* (39.5% owned by BCE Inc., which is currently attempting to gain permission for majority control from the CRTC), *Star Choice*, *AlphaStar* and *Power DirecTv* have been granted licenses by the CRTC to launched direct-to-home TV services[3]. While Industry Canada has stated that grey market satellite dishes are illegal, no Canadian court has ruled so.

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[1] *March 1997 draft, by the Information Technology Industry Branch, Industry Canada, prepared by Ritoo D'Souza, Slyvain de Tonnancour, Suzanne Marineau, and Andrea Sheridan.*

[2] *Eggertson, L. (1997, February 1) "Shaw Awarded Licence for DTH Service,"* ***The Globe and Mail****, p. 82.*

[3] *At time of writing, none of these Canadian firms has product to market, though AlphaStar (using a U.S. satellite) claims that it can offer 45 channels, and that it has hardware sets ready for delivery.*

*Telesat Canada* (58.5% owned by BCE Inc., though with 26.1% direct voting share) has been trying to gain approval from Industry Canada for high-powered satellite orbital space so it can act as a platform for enhanced direct-to-home satellite, probably with more respect for Canadian content. It appears that it may be cooperating with Spar Aerospace on a new proposal to launch a 32-transponder satellite within about two years to compete with American services[1].

**2. IBM discussion paper**

A paper released by IBM Canada in December 1996 deals with the subject of a convergence policy framework for Canada. IBM Canada presented a number of assertions, which are listed below:[2]

- Providers of new media do not require protections that have been afforded in the past to traditional broadcasting services, such as Canadian content exhibition and funding quotas. New media services are significantly less costly and have a limitless supply of channel through which they can distribute their services. New media services need not rely, therefore, on the mass distribution of their services over conventional distribution technologies (e.g. analog cable systems) as a means of recovering their production cost.

- In light of the fundamental differences between new media services and traditional broadcasting services, the regulatory framework applicable to new media services, to the extent that they require regulation at all, should differ in some key respects from the framework governing traditional broadcast services. This conclusion is based not only on the fact that new media are entirely different in character than regular broadcasting services, but also on the fact that it would be a pointless and likely futile exercise to apply to these services the same kinds of regulatory mechanisms that have been adopted in the past with respect to traditional broadcasting services. New media service providers must compete in the global marketplace for information and ideas. Domestic regulations that impose costs on these service providers can easily undermine their competitive advantages and will simply force these service providers to re-locate their content production activities outside of the country—something which is easily accomplished in a world where the underlying distribution networks for new media services transcend national boundaries. The loss to the economy in terms of both jobs and innovation as well as future plans to build a knowledge-based, information economy is readily apparent given this global operating environment.

- An approach which would extend the traditional broadcasting regulatory framework to new media content and distribution undertakings should be ruled out. Any effort to impose conventional regulation, including Canadian content quotas and related program expenditure requirements, on Internet-based service providers will prove to be unenforceable and serve only to competitively disadvantage Canadian companies

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[1] ***The Toronto Star*** *(1997, March 1) "Telesat, Spar Partners up on DTH Satellite," p. F3.*

[2]***Multimedia Content & Services in a New World: A Rationalized Convergence Policy Framework for Canada.*** *Discussion paper by IBM Canada Ltd., December, 1996.*

relative to their international competitors, or force their migration from Canada altogether.

Given these assertions, a policy and regulatory framework for new media services is offered by IBM that reflects an almost limitless supply of content and distribution channels. Under this approach to regulation of new media services, there are two broad categories of undertakings (1) New Media Transitional and (2) New Media Unconditionally Exempted/Excluded. The former category can be further divided into New Media Transitional Programming Undertakings and New Media Transitional Distribution Undertakings.

New Media Transitional Programming Undertakings offer primarily two-way, point-to-point, nonscheduled, transactional services that are carried over regular broadcasting distribution undertakings. A good example of such a service is a true movies-on-demand service that is distributed over the network of a conventional cable TV operator. In the case of New Media Transitional Distribution Undertakings, these services providers are simply distribution undertakings which carry the services of New Media Transitional Programming Undertakings (i.e., a conventional broadcasting undertaking (BDU) such as a cable TV operator, a Direct to Home (DTH) satellite service provider, an operator of a Multipoint Distribution System (MDS) or an operator of a Local Multipoint Communication System (LMCS)).

IBM foresees that technological advances will at some future point allow the new media service in question to be distributed over the Internet or some other global distribution network, and not merely by traditional BDUs. Once that is the case, efforts to regulate the service will prove to be impracticable, counter-productive and unenforceable. A Canadian-based New Media Transitional Programming Undertaking that begins to distribute its content over the Internet would likely find itself at a competitive disadvantage if its programming was subject to regulation while the programming of its foreign-based competitors was free from similar regulatory controls. Under the proposed policy and regulatory framework, both New Media Transitional Programming Undertakings and New Media Transitional Distribution Undertakings could be either licensed by the CRTC or receive conditional exemptions where the Commission determines that licensing would not contribute in a material manner to the implementation of the broadcasting policy set out in subsection 3(1) of the Broadcasting Act. IBM recommends a regulatory framework for New Media Transitional Undertakings which requires them to provide prominence and shelf space to Canadian content in their programming and distribution services and to contribute to a "New Media Production Fund" in recognition of the fact that many of these services exhibit some of the characteristics of regular broadcasting services such as limited channel capacity and customer bases which, in turn, require higher-cost productions to attract a broader customer set.

However, in recognition of the fact that the New Media Transitional Undertakings are somewhat more limited in their ability to influence audiences en masse because they offer services which are primarily two-way, nonscheduled and transactional in nature, IBM recommends that the Federal Cabinet's Direction to the CRTC on the eligibility of "Non-Canadians" to hold broadcasting licenses be modified so as to allow up to 49.9% of voting shares of these licensees to be held by non-Canadians.

Under IBM's proposed policy and regulatory framework, once a new media service can be distributed over global distribution networks such as the Internet, it would be appropriate to reclassify the service as a New Media Unconditionally Exempted/Excluded Undertaking. The category would include services that are non-scheduled, two-way, point-to-point, and transactional in nature and which are distributed over the Internet or other global distribution networks. Unlimited channel capacity and access to the same global customers for all service providers enables the development of a broad range of affordable on-demand content and services to meet every demand, thus leveling the playing field and making support mechanisms unnecessary. Examples of these on-demand services include interactive educational, health and commercial services which technically fall within definitions of "broadcasting" and "program" contained in the Broadcasting Act. In recognition of these very different characteristics, there would be no ownership or content regulations.

It should be noted that IBM's suggestions are based on the belief that Internet-based distribution should, ultimately, be unregulated. This viewpoint is premised on the notion that, in contrast with radio or TV public space, the Internet bandwidth is not scarce and is primarily interactive and "pull" in nature.

### 3. Regulation versus "chaos:

Global communications are expected to break down barriers while creating a stronger global community in a more chaotic way. According to David Ellis[1], the Internet is "chaotic in a good way" because it is:

- *Demand-based*: completely reverses the "push model" of mass media by relying on end-user pull; leaves the 500-channel universe far behind, offering millions of destinations.
- *Two-way*: easily offers feedback from the community at large.
- *Cheap:* compared to any conventional media, and without typical exclusivity or licensing barriers.
- *Value-free*: participation is not content-based, that is, does not have to satisfy authorities, promote national unity, promise to be nonoffensive, etc.; publishing content depends only on the importance to the publisher.
- *Open protocol:* technical standards enabling an individual to set up and operate on the Internet are not private or proprietary, and not dependent on being a member of an exclusive club.

Ellis concludes that:

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[1] *David Ellis, **Citizens of the Electronic Village: Smartening Up or Dumbing Down?** Couchiching Institute on Public Affairs, 1996 Conference Proceedings.*

without a cheap, accessible and non-hierarchical platform for the marketplace of ideas, democracy remains the province of cultural and political elites with a vested interest in protecting the traditional control structures.

Despite the above thinking, new media regulation is inevitable. The U.S. *Communications Decency Act*, signed into law in February 1996, imposes fines for posting indecent Internet text or pictures accessible to minors[1]. In this case it is argued that the Internet is public space (certainly it is not owned by anyone in particular) and, as such, may be subject to the purview of the public interest and the force of public regulation.

Others, for instance Paul Audley & Associates[2], have recommended that "where applicable, existing programs assisting in the marketing and distribution of Canadian content should be expanded to encompass on-line promotion, advertising and distribution." For example, they suggest, "Section 19 of the Income Tax Act should be expanded so as to encompass Canadian content provided on-line through multimedia production." This stance on new media differs somewhat from the views of Industry Canada and IBM, outlined above.

## K. Summary

Exhibit VI-3 provides a synopsis of new media and new content according to the discussion above. New media involves Internet-based services, various forms of multimedia, and new technology. It is an infant, experimental industry, whose players often combined cultural and technological efforts and skills.

New content is dynamic, interactive, executable, less linear, less one-dimensional. It reflects an altered synthesis of traditional content.

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*1 The power of this Act is in question: on June 12, 1996, three federal judges struck it down, precipitating what will likely be a lengthy legal battle eventually involving the Supreme Court of the United States.*

*2 (February 24, 1997)* ***Issues Paper: IHAC Steering Committee on Canadian Content and Cultural Identity****, prepared for the Information Highway Advisory Council Secretariat, Industry Canada.*

**Exhibit VI-3**
**New media and new content—a synopsis**

| New Media | New Content |
|---|---|
| • involves Internet-based services, various types of multimedia, and new technology | • dynamic, process-oriented, interactive, animated, executable |
| • an experiment of sorts, an infant industry | • complex, non-linear, imaginative |
| • requires concerted efforts of artistic/cultural and technical communities | • an "altered synthesis" of current media |

Internet business, marketing, publishing and broadcasting are emerging, though various barriers do exist. Despite its unlimited channel capacity, the Internet cannot be conceptualized solely as a "pull" technology.

The case study of Silicon Alley, New York, demonstrates the importance of clustering in areas of selected niche strength, and the importance of strategy around it. It holds possible lessons for Canada.

# VII

# *International Comparisons*

In Canada, and in many other countries, regulation and policies have been the vehicles used to protect and promote domestic culture. Governmental support of domestic cultural industries is available in the form of financial and program assistance as well as regulatory restrictions on foreign investment, and domestic content rules.

To determine how Canada's support of cultural industries compares to the rest of the world, we gathered cultural data from Europe, the United States, Australia and other countries. It should be noted, however, as with most other international comparisons, the comparison of international cultural statistics is a difficult task due to the different political structures as well as varying collection techniques and definitions of cultural industries.

For the purposes of this analysis, cultural industries have been segmented into four areas: broadcasting, newspapers and periodicals, film and video and sound recording. Public policies are presented and discussed in four sections:

A. International regulation—including foreign investment restrictions, television content rules, cultural exemption in selected treaties, and copyright legislation.

B. International governmental assistance.

C. European cultural strategy.

D. Summary of the Canadian public financing and regulation.

## A. International regulation

### 1. Foreign investment restrictions on cultural industries

#### a) Radio and television broadcasting

Foreign ownership rules have traditionally been strict in the broadcasting sector. Western European countries permit foreign investment but in limited and varying degrees. Increased commercialization as well as globalization has led to some deregulation; however, countries remain protective of the broadcasting sector. Government approval in foreign investment is required in countries such as Australia and New Zealand.

While most countries impose foreign investment restrictions for the protection of domestic culture and national interest, the United States rationalizes a need for foreign ownership restrictions on the basis of "national security"—this despite the U.S. position against any cultural exceptions at GATT. A summary of foreign investment regulation for seven industrialized countries is provided below[1]:

*Canada*

- Foreign ownership is limited to 20% in a broadcasting company, 33.3% of a broadcaster's holding company or a combination of the two, up to a maximum of 46.7%.

*Australia*

- Foreign investment in radio and TV broadcasting is governed by the Broadcasting and Television Act 1942—a foreign person cannot hold or control, directly or indirectly, more than 15% of the issued capital or voting rights in a licensee company, two or more "foreign persons" may not hold or control in aggregate more than 20% of the issued capital or voting rights in a licensee company.

*France*

- Permits foreign investment—audiovisual communication enterprises, with the exception of computer services activities, are subject to authorization or concession requirements: 20% limit on ownership for non-EC companies, 25% ownership restriction of a national broadcaster, and 50% limit on ownership of a satellite or regional broadcaster.

*Germany*

- Foreign ownership is permitted; in some federal states, private broadcasting companies may be licensed if criteria are met, irrespective of domestic or foreign ownership.

*Spain*

- Foreign direct and indirect investment is restricted to 25% of ownership.

*UK*

- No restrictions on foreign ownership of local enterprises and joint ventures, except for public monopolies.

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[1] ***Cultural Industries Foreign Investment Measures in Selected Countries.*** *Tamara Andruszkiewicz, Vladimir Skok, International Comparative Policy Unit, Department of Communications, October 1990.*

*US*

- Foreign controlled firms cannot own more than 20% of a company with a broadcasting or carrier licence, and 25% of a company controlling such a licensed company.

- Foreign interest in a company exceeding 25% may be subject to the review and approval of the Federal Communications Commission (FCC) if public interest is involved.

**b) Newspaper and periodical publishing**

Policies regarding newspaper and periodical publishing vary from country to country. While there are no apparent ownership rules in the United States and Germany, most countries do restrict the extent of foreign investment[1].

*Canada*

- Section 19 of the Income Tax Act limits tax deductions to advertisements placed in Canadian newspapers and periodicals.

- In the case of split-run magazines: 1) border measure against the import of split-run magazines that direct more than 5% of their ads to Canadian audience, and 2) and 80% excise tax on advertising revenue on split-run magazines.

[1] *Sources:* ***Cultural Industries Foreign Investment Measures in Selected Countries.*** *Tamara Andruszkiewicz, Vladimir Skok, International Comparative Policy Unit, Department of Communications, October 1990; and* ***Public Sector Support to the Print Media Industry: A Survey of Mechanisms Abroad.*** *Barbara Motzney and Terrence Cowl, International Comparative Policy Group, Canadian Heritage, October 1993.*

*Australia*

- Foreign investment in mass circulation newspapers is restricted— foreign interest proposals or greater than 15% acquisitions are reviewed by the Foreign Investment Review Board on a case by case basis—no restrictions on book publishing or the sale of foreign periodicals.

*France*

- Corporate body with greater than 50% foreign ownership is prohibited from direct financing of a publication in the French language, in political or general information, appearing at least once a month—direct or indirect voting rights is limited to less than 20% ownership—foreign investment approval can be withheld in cases involving national interest and public security.

*Germany*

- Foreign ownership is permitted.

*Spain*

- Foreign investment permitted—acquisitions of less than 50% of share capital of a Spanish firm does not require authorization.

*UK*

- 20% foreign ownership restriction on national newspapers—non EC member states are prohibited from control of the print industry—cross ownership is limited to 20%.

*US*

- No ownership rules.

**c) Film and video**

Film and video has long been dominated by the United States worldwide. European countries impose foreign ownership restrictions, along with quotas and subsidies to promote domestic industries, despite the language barriers. Canada, as well as Australia, have foreign investment rules to promote domestic content and industries. Below we summarize film and video regulation for several countries[1]:

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[1]*Source:* ***Cultural Industries Foreign Investment Measures in Selected Countries.*** *Tamara Andruszkiewicz, Vladimir Skok, International Comparative Policy Unit, Department of Communications, October 1990; and* ***An International Comparative Review of Distribution Policies and Regulatory***

*Canada*

- Foreign investment restrictions in film distribution.
- Takeovers of Canadian-owned distribution firms prohibited.
- Foreign takeovers of foreign-owned operations subject to condition of reinvestment of a percentage of Canadian earnings into domestic operations.

*Australia*

- Foreign Investment Review Board reviews: any acquisition of share holdings of 15% or more in Australian companies with total values exceeding $5 million; takeovers of Australian companies by means other than acquisition of shares; takeovers of off-shore companies that have Australian subsidiaries or assets valued at $20 million or more or where the value of Australian subsidiaries or assets is more than half of the value of global assets of target company; and any proposals in media sector.
- Foreign ownership of commercial television stations is limited: not exceeding 15% in the case of commercial television licence, 20% limit for aggregate foreign ownership in television stations; foreign directors of a broadcasting licence company are limited to 20%; foreigners restricted to 20% ownership interest in a single subscription television license; 35% limit of aggregate foreign ownership of subscription television licenses.

*France*

- Purchases of French firms valued at greater than FF50 million or having more than FF500 million in sales by firms not controlled by French nationals or established EU investors require the approval from the Ministry of Economics.

*Germany*

- Restrictions can be imposed on private direct investment relating to foreign policy, foreign exchange, or national security—to date no such restrictions have been imposed—no regulatory body in place to screen and prevent foreign direct investment.

*Spain*

- Non EU resident investors must seek authorization if: direct investments exceed 500 million pesetas given the foreign holding is greater than 50% of capital

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***Framework in the Film and Video Industries.*** *Terrence Cowl, International Comparative Research Group, Canadian Heritage, January 1996.*

stock in a Spanish firm; certain forms of investments made by parties in tax havens; joint investments exceeding 500 million pesetas.

*UK*

- No restrictions on foreign ownership of local enterprises and joint ventures, except for public monopolies.

**d) Summary of Foreign Investment Restrictions in Other Countries**

Compiled by the International Comparative Policy Group of Canadian Heritage, Exhibit VII-1 is a comparison of foreign investment restrictions in the broadcasting, newspaper and periodical publishing, film and video and the sound recording industries in 25 countries.

**Exhibit VII-1.**
**Foreign investment restrictions in broadcasting, newspaper and periodicals, film and video, and sound recording**

| Country | Broadcasting | Newspaper and Periodical | Film and Video | Sound Recording |
|---|---|---|---|---|
| Argentina | 3 | 3 | - | - |
| Australia | 3 | 3 | - | - |
| Belgium | 3 | - | - | - |
| Brazil | 3 | 3 | 3 | - |
| France | 3 | 3 | 3 | - |
| Greece | 3 | - | - | - |
| India | - | - | 3 | - |
| Indonesia | - | - | 3 | - |
| Ireland | - | - | - | - |
| Italy | 3 | 3 | - | - |
| Japan | 3 | - | - | - |
| Korea - South | - | - | - | 3 |
| Luxembourg | - | - | - | - |
| Mexico | 3 | 3 | 3 | - |
| Netherlands | 3 | - | - | - |
| New Zealand | 3 | - | - | - |
| Norway | 3 | - | - | - |
| Philippines | - | - | 3 | - |
| Portugal | 3 | 3 | 3 | - |
| Spain | 3 | - | 3 | - |
| Sweden[1] * | - | 3 | - | - |
| Switzerland | 3 | - | 3 | - |
| United Kingdom | - | 3 | - | - |
| United States | 3 | - | - | - |
| Venezuela | 3 | - | - | - |

Source: *Cultural Industries Foreign Investment Measures in Selected Countries*, International Comparative Policy Unit, ICP/DGIR, Tamara Andruszkiewicz and Vladimir Skok, October 1990.

Of the countries surveyed, all but two (Ireland and Luxembourg), had restrictions on foreign investments in the cultural industries. Restrictions appeared most often in broadcasting (in 17 of the 25 countries) while more than a third of the countries had restrictions on newspaper and periodicals as well as in film and video. Only South Korea restricts foreign investment in its sound recording industry. Researchers noted that none of the countries surveyed had foreign investment restrictions on book publishing.

[1] *Sweden is considering cultural sector wide treatment.*

In comparison, Canada has restrictions on all cultural industries, including book publishing[1].

### 2. Television Content Rules

Content rules in television broadcasting in European countries are in accordance with the 1989 *European Union Broadcasting Directive.* The Broadcast Directive, *Television Without Frontiers,* established a legal framework for deregulated trans-border broadcasting between member states assuming broadcasters met minimum requirements of target states. The European Parliament does not police the Directive and the result is that the majority of the guidelines are not met by some of the private broadcasters. Some countries have imposed increased content rules and even language provisions, as in the case of France.

*Canada*

- Private broadcasters must air a minimum of 50% domestic content between 6 pm and midnight; CBC must broadcast at least 60% domestic content during the same hours.

- CBC and private broadcasters must meet 60% Canadian content quota overall; CBC is currently broadcasting 80% domestic content and intends to exceed 90%.

- In Canada, private broadcasters spend a designated amount every year for Canadian production but no set percentage.

*Australia*

- Australian Broadcasting Authority, since 1993, 50% domestic content for commercial television station weekly broadcasts between 6 am and midnight; content requirement will increase to 55% in the coming year.

- Requires pay TV services to invest 10% of the amount spent on drama into first release domestic drama programs.

*France*

- While the 1989 Broadcast Directive was legislated in France in 1992, France exceeds requirements by setting a quota of 40% French programming and 60% European programming, applicable throughout a 24 hour period.

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[1] *There exist significant foreign investment policy guidelines for the Canadian book trade which cover both publishing and distribution. For example, acquisition of Canadian-controlled businesses by non-Canadians will not be permitted except under extraordinary circumstances.*

- France is the only EU country which imposes a language provision in its application of the Directive, requiring at least 50% of programming to be in French.

- Production obligation for television broadcasters where 15% of any French broadcasters total budget must help finance programs made in France.

*Germany*

- Follows the Broadcast Directive of EU, October 1989, which imposes a quota on member states to broadcast a majority of television programming of European origin "where practicable," excluding sports, news, advertising, game shows and teletext.

*Spain*

- The Broadcast Directive was legislated in July 1994; imposes a quota on member states to broadcast a majority of television programming of European origin "where practicable," excluding sports, news, advertising, game shows and teletext.

*UK*

- The EU Broadcast Directive is applied to all terrestrial, satellite and cable television channels.

- The Independent Television Commission, which regulates private television stations, requires a minimum of 65% of transmitted programming in a calendar year to be originally produced or commissioned by Independent Television Stations (ITV); ITVstations also have to commission from the independent sector 25% of programming.

- BBC voluntarily imposed a limit of 80% domestic content for fiction programs.

- Under licence conditions, private broadcasters must have domestic content of between 67% to 74% for fiction programming.

Sources*:* An International Comparative Review of Distribution Policies and Regulatory Framework in the Film and Video Industries, *Terrence Cowl, International Comparative Research Group, Canadian Heritage, January 1996, and "European TV reflects Copps'.culture ideas," Sid Adilman,* Toronto Star, *February 22, 1997, Arts Section*

### 3. Cultural Exemptions in Selected Treaties

Exhibit VII-2 summarizes selected treaties regarding cultural trade exemptions:

**Exhibit VII-2**
**Cultural trade exemptions in selected major treaties**

| **Treaty** | |
|---|---|
| General Agreement on Trade and Tariffs, 1947 | *Article III (10)*: reference to cinema exhibition quota exemption<br>*Article IV*: cinema exhibition quota exemption; potential application to TV and other mass media<br>*Article XII*: exemption for temporary measures to safeguard balance of payments<br>*Article XX* (a): exemption to protect public morals by restricting import of goods threatening public morals<br>*Article XX* (f): exemption to protect artistic, historic and archaeological treasures; potential application to arts industries<br>*Article XXI*: exemption when national security involved |
| Treaty of Rome 1954 (creating European Communities) | *Article 36*: exemption to protect artistic, historic and archaeological treasures; potential application to arts industries |
| General Agreement on Trade in Services (GATS), 1995 | Article XVI, 2: no limitations on the number of service providers allowed, the value of transactions or assets, the total output of the service, the number of persons employed, the organizational form a supplier can adopt, the extent of foreign shareholding or the absolute value of foreign investment |

Other international treaties and agreements include the 1954 Convention for the Protection of Cultural Property in the Event of Armed Conflict, the 1970 UNESCO Convention on the Means of Prohibiting and Preventing Illicit Export and Transfer of Ownership of Cultural Property, and the 1972 UNESCO Convention for the Protection of the World Cultural and Natural Heritage.

Canada negotiated an exemption for cultural industries from trade liberalizing provisions of the Canada-United States Free Trade Agreement (FTA), the terms of which were carried over to the North American Free Trade Agreement (NAFTA). [1] Provisions relating to culture under the FTA are contained in Article 2005: paragraph 1 provides that specific trade and market access commitments are made in exchange for a general exemption of culture; paragraph 2 allows either country to "take measures of equivalent effect in response to actions that would have been inconsistent with this agreement but for paragraph 1." In the Canadian Statement of Implementation, the Canadian interpretation of the NAFTA provisions is that,

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[1] ***Canada's Cultural Policies—You can't have it both ways.*** *Keith Acheson and Christopher Maule, Department of Economics, Carleton University, 1996.*

> By virtue of article 2106 and annex 2106, the cultural industries specified in article 2107 are exempt from all NAFTA obligations except for article 302 on tariff elimination. This ensures that NAFTA leaves unimpaired Canada's ability to pursue cultural objectives...while the cultural industries exemption has been retained and applies in respect of any Canadian cultural industry, the US right to retaliate is limited to measures inconsistent with the FTA, not the NAFTA, and therefore cannot be exercised with respect to new areas covered by the NAFTA such as intellectual property. Between Canada and Mexico, rights and obligations regarding the cultural industries will be identical to those applying between Canada and the United States. (*Canada Gazette*, Part I, January 1994, 218-9)[1]

Under the 1995 *General Agreement on Trade in Services Framework Agreement* (GATS), countries may exclude individual sectors from the agreement or make limited commitments for each sector. Canada chose not to include cultural industries for most-favoured-nation (MFN) status which would require application of market access (import quotas) rules and national treatment (subsidies).

While there was much discussion on international rules concerning cultural industries, General Agreement on Tariffs and Trade (GATT), the Canada-U.S. Free Trade Agreement (FTA) and the North American Free Trade Agreement (NAFTA), all have failed "to develop either a distinct comprehensive regime for trade, investment and labour movement for these industries or to integrate cultural activities under the same codes applicable to other industries."[2]

### 4. Copyright Legislation

While Canada does have domestic copyright legislation, it is only now that steps are being taken toward ratification of international legislation, i.e., The 1961 *Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations.* The *Rome Convention* grants protection for the "user" of the work, and provides protection for performers, producers and broadcasters.[3] The agreement has already been implemented in 52 countries.

The advances of multimedia products, the Internet and digitalization of images opens cultural industries to tremendous opportunities but at the same time, makes the protection of copyright material a significant challenge. The absence of copyright provisions to address new issues posed by the global information society has prompted the World Intellectual Property Organization (WIPO) to adopt two treaties: a *WIPO Copyright Treaty* and a *WIPO Performances and Phonograms Treaty.* These treaties, adopted on December 20, 1996, grant exclusive rights to authors, performers and producers of phonograms of their works, performances and phonograms to

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[1] ***International Agreements and Cultural Industries.*** *Keith Acheson and Christopher Maule, Department of Economics, Carleton University, December 1995.*

[2] *Ibid.*

[3] ***International Copyright Legislation—Neighbouring Rights, Rights in Performers' Performances.*** *Danielle Cliche, Strategic Research and Analysis, Corporate and Intergovernmental Affairs, Department of Heritage Canada, March 1994.*

the public, including Internet access.[1] Provisions concerning the obligations of signatories for technological measures of protection and information required for electronic rights management are also addressed by the treaties.[2]

## B. International governmental assistance

In an effort to promote domestic cultural industries, many countries have adopted initiatives to provide financial assistance in book publishing, newspaper and periodical publishing, film, video and sound recording. Assistance covers loans, direct and indirect subsidies as well as ownership of enterprise.

Assistance for book publishing, newspaper and periodical publishing and film and video is provided by six of the countries. Sound recording assistance is only provided by France.

In Canada, there are a considerable number of assistance programs for all of the cultural industries (see Section 3).

Exhibit VII-3 below provides a comparison of government assistance of ten European countries in 1990, across several cultural industries.

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[1] ***Issues Paper: IHAC Steering Committee on Canadian Content and Cultural Identity.*** *Prepared for the Information Highway Advisory Council Secretariat, Industry Canada, by Paul Audley and Associates Ltd., February 24, 1997.*

[2] *Ibid.*

**Exhibit VII-3**
**Government assistance provided in selected European countries**

| Country | Assistance | Book Publishing | Newspaper and Publishing | Film and Video | Sound Recording |
|---|---|---|---|---|---|
| Austria | Loans | 3 | - | - | - |
| | Subsidies | 3 | - | - | - |
| | Enterprise Ownership | 3 | - | - | - |
| Denmark | Loans | - | 3 | 3 | - |
| | Subsidies | - | 3 | 3 | - |
| | Enterprise Ownership | - | - | - | - |
| France | Loans | 3 | - | 3 | 3 |
| | Subsidies | 3 | 3 | 3 | 3 |
| | Enterprise Ownership | - | - | 3 | - |
| Italy | Loans | 3 | 3 | 3 | - |
| | Subsidies | - | - | 3 | - |
| | Enterprise Ownership | - | - | - | - |
| Netherlands | Loans | - | 3 | 3 | - |
| | Subsidies | - | - | 3 | - |
| | Enterprise Ownership | - | - | - | - |
| Norway | Loans | - | 3 | 3 | - |
| | Subsidies | - | - | - | - |
| | Enterprise Ownership | - | - | - | - |
| Spain | Loans | 3 | - | 3 | - |
| | Subsidies | - | - | - | - |
| | Enterprise Ownership | - | - | - | - |
| Sweden | Loans | 3 | 3 | - | - |
| | Subsidies | - | - | - | - |
| | Enterprise Ownership | - | - | - | - |
| Yugoslavia | Loans | 3 | - | - | - |
| | Subsidies | - | - | - | - |
| | Enterprise Ownership | - | - | - | - |

Source: **Cultural Industries Investment Assistance Programs: Comparable Measures in European Countries**, *Vladimir Skok, International Comparative Policy Group, Department of Communications Canada, March 1990.*

## C. European cultural strategy

The European Economic Community was created by the 1957 Treaty of Rome. Original member states of Belgium, France, Luxembourg, Italy, the Netherlands and West Germany were later joined by Denmark, Ireland, United Kingdom, Greece, Spain and Portugal. Except for Article 36, which calls for exemption in the interest of "the protection of national treasures possessing artistic, historic or archaeological value," the Treaty does not address "culture."

However, after the March 1987 conference "Changing Europe: The Challenge of Culture, Technology and Economics," the European Commission (the central bureaucracy of the Community) instituted an action plan which addressed the Community's concerns arising from new technologies, competitiveness and globalization. The strategy, to have been implemented over the five year period between 1987-1992, was[1]:

- To provoke debate on the ways and means to support culture at the Community level.
- To complement and cooperate with the activities of cultural workers.
- To become directly involved in various aspects of cultural affairs if the Treaty of Rome permits and if the Court of Justice confirms the Commissions' jurisdiction, or alternatively, through close cooperation with member states.

The five part plan consists of:[2]

1) Creation of a European Cultural Area

    a) To facilitate adjustments of the cultural sector to the demands of a single market.

    b) To develop an information bank on the cultural aspects of Europe.

    c) Sponsorship, and the development of a European data bank to exchange experiences.

    d) To develop a publishing policy that would balance the interests of authors, publishers, distributors and readers.

2) Promotion of the Audio-Visual Industry

    a) A directive concerning the pursuit of television broadcasting activities, i.e. content quotas for television programming.

    b) A MEDIA program to promote the distinctiveness qualities and diversity of Europe, and to create synergies within the Community to enhance international competitiveness; covers distribution and production.

3) Improved Access to Cultural Resources.

4) Training for the Cultural Sector.

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[1] *"Canada and the European Community Cultural Policy Commonalities and Convergence," Harry Hillman Chartrand, **Arts Bulletin**, Canadian Conference for the Arts, 6-13, Spring 1991*

[2] *Ibid.*

5) Dialogue with the Rest of the World.

In an article "Canada and the European Community Cultural Policy Commonalities and Convergence," author Harry Hillman Chartrand notes that the two significant differences in the cultural policy of the European Community relative to Canada are 'harmonization' and the role of 'subsidiarity'[1]:

> The Commission has the authority to harmonize policies and practices of member states to ensure a fair and equitable single market. This is unlike the Canadian situation .... In Europe, subsidiarity amounts to the Community targeting policies and programs at the regional or sub-national level.

## D. Summary of Canadian public financing and regulation in cultural industries

### 1. Television

Measures have been implemented to ensure that Canadian audiences are provided with domestic programming along with the many programs from satellite and American networks.

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1 *"Canada and the European Community Cultural Policy Commonalities and Convergence," Harry Hillman Chartrand, **Arts Bulletin**, Canadian Conference for the Arts, 6-13, Spring 1991.*

**Exhibit VII-4**
**Canadian television—public policy and support**

| Financing/Subsidies | Regulation | The Future |
|---|---|---|
| • TV programming subsidies from Telefilm Canada<br>• limited access to the $200 million Canada Television and Cable Production Fund | • licences for TV broadcasters granted only if all directors and 80% of shares are held by Canadians<br>• programming on Canadian TV stations must be a minimum of 60% domestic content<br>• at least 50% of prime time schedule must be Canadian-produced<br>• cable companies must provide more Canadian than foreign channels<br>• foreign-owned channels licensed only if they do not directly compete with Canadian operations<br>• CRTC requires cable companies to practice simultaneous substitution of non-local source program and related commercials with local source if both showing same program at same time<br>• Section 19 of Income Tax Act reduces capacity of U.S. stations to use Canadian ads<br>• U.S. pay TV and specialty channels may not be carried on Canadian DTH cable systems | • expect trade battles from the U.S. as the number of cable channels in Canada increases<br>• Canada-U.S. talks re: direct-to-home satellite television have broken down<br>• Canadian content requirements will continue to be an issue with the U.S. |

*Sources: "Canadian culture policies pique U.S. interest,"* ***Globe and Mail,*** *Drew Fagan, January 1997; "Issues Paper: IHAC Steering Committee on Canadian Content and Cultural Identity," Paul Audley & Associates Ltd., February 24, 1997, and other sources.*

### 2. Film and Video

The expansion of Canada's film industry has been aided by policy initiatives such as the implementation of the Film and Video Production tax credit and the CRTC ruling regarding Direct-to-Home (DTH) pay-per-view services. The requirement that independent foreign films must be acquired from Canadian-controlled distributors has appealed; both the Cabinet and the Federal Court denied the appeals.

**Exhibit VII-5**
**Canadian Film and Video—Public Policy and Support**

| Financing/Subsidies | Regulation | The Future |
|---|---|---|
| • funding from the National Film Board, \$56 million in 1997/98 (down from \$65 million in 1996/97)<br>• Telefilm Canada's Feature Film Fund (\$24 million 1995/96), Feature Film Distribution Fund (\$18.1 million 1995/96), Commercial Production Fund (\$15.6 million), and<br>• some funding from the Canada Television and Cable Production Fund<br>• Canada Council support for individual film and video artists<br>• Canadian Film or Video Production Tax Credit, worth about \$80 million; and numerous provincial tax credit programs<br>• Cultural Industries Development Fund loans | • restrictions on foreign investment in Canadian film distribution<br>• takeovers of Canadian-owned distribution firms prohibited<br>• establishment of foreign-owned operations only permitted for the purpose of marketing own films<br>• foreign takeovers of foreign-owned operations contingent on reinvestment of a portion of Canadian earnings into domestic film production<br>• 1995 requirement that Direct-to-Home pay-per-view services acquire independently produced foreign films from Canadian distributors | • current review of 1988-established ownership restrictions prompted by attempts by the Netherlands-based subsidiary Polygram Filmed Entertainment to establish Canadian operations; issue may be revisited<br>• market openings may be seized by international firms at the expense of smaller Canadian-owned film distributors |

*Sources: "Canadian culture policies pique U.S. interest,"* ***Globe and Mail****, Drew Fagan, January 1997; "Issues Paper: IHAC Steering Committee on Canadian Content and Cultural Identity," Paul Audley & Associates Ltd., February 24, 1997, and other sources.*

### 3. Sound Recording

At present, there are no foreign investment guidelines for the music industry, however there are plans to create guidelines to strengthen Canadian record companies.

**Exhibit VII-6**
**Canadian sound recording—public policy and support**

| Financing/Subsidies | Regulation | The Future |
|---|---|---|
| • government subsidy, Sound Recording Development Program for 1997-98 totaled $9.5 million; funding divided on 60/40 basis between English/French<br>• no significant tax measures to encourage music recordings<br>• radio stations are required to fund the Foundation to Aid Canadian Talent on Records (FACTOR), which helps Canadian recording activities<br>• funding from the Canada Council, the CBC and the provincial arts councils for the composition of Canadian music<br>• government financing for radio limited to CBC radio services and community radio stations<br>• Cultural Industries Development Fund loans | • radio stations must broadcast at least 30% Canadian-produced recordings; lower % for jazz and classical music radio stations; higher % for CBC<br>• 65% French-language quota for French stations<br>• all radio stations and networks must be Canadian-owned and controlled<br>• according to the Broadcasting Act and Income Tax Act, non-Canadian radio broadcasters cannot compete directly for advertising revenue with Canadian radio<br>• policy using MAPL system (music, artist, production, lyricist) to determine Canadian contentpolicy has been in place for about 25 years | • as specialty radio stations increase, expect more Canada-U.S. disputes over Canadian content<br>• content requirements for pay audio has been disputed by U.S. claiming limited Canadian produced music for certain types of music<br>• a trade case re: specialty programming could be a basis for U.S. challenge to content rules for traditional radio |

*Sources: "Canadian culture policies pique U.S. interest,"* ***Globe and Mail****, Drew Fagan, January 1997; "Issues Paper: IHAC Steering Committee on Canadian Content and Cultural Identity," Paul Audley & Associates Ltd., February 24, 1997, and other sources.*

### 4. Periodicals

Measures to encourage Canadian advertisers to use Canadian magazines include provisions under, Section 19 of the *Income Tax Act*, customs tariff provisions and an excise tax on "split-run" editions of foreign magazines. The Canadian edition of a split-run magazine usually has foreign content. A recent decision by the World Trade Organization (WTO) declared the customs tariff and excise tax measures affecting split-run magazines violated GATT rules. It is expected that Canada will challenge the decision.

**Exhibit VII-7**
**Canadian periodicals—public policy and support**

| Financing/Subsidies | Regulation | The Future |
|---|---|---|
| • $50 million to periodicals from Heritage Canada's Publications Distribution Assistance Program (1996/97)<br><br>• Canada Council and SSHRC support non-commercial, cultural and scholarly periodicals<br><br>• Cultural Industries Development Fund provides loans to some magazine publishers | • WTO decision struck down 2 policies contained in Section 19 of the Income Tax Act re. split-run magazines: 1) border restriction against the import of split-run magazines that direct more than 5% of their ads to Canadian audiences, and 2) 80% excise tax on advertising revenue on split-run magazines<br><br>• Section 19 of Income Tax Act: advertising expenditures tax-deductible only if ads placed in a 75% Canadian-owned magazine, with editorial content of minimum 80%; this policy may be challenged by U.S. | • WTO decision may lead to split-run magazines in Canada |

*Sources: "Canadian culture policies pique U.S. interest,"* ***Globe and Mail****, Drew Fagan, January 1997; "Issues Paper: IHAC Steering Committee on Canadian Content and Cultural Identity," Paul Audley & Associates Ltd., February 24, 1997, and other sources.*

### 5. Book publishing

Regulations regarding distribution rights and acquisitions of a Canadian publishing firm are the main policies. Under the reforms in Bill C-32, Canadian publishers and exclusive agents are granted the protection of exclusive distribution rights. Protection of Canadian publishers is addressed by Investment Canada guidelines.

**Exhibit VII-8**
**Canadian book publishing—public policy and support**

**Financing/Subsidies**

- $15.9 million Book Publishing Industry Development Program 1996/97
- encourages growth of Canadian-controlled publishing firms
- Canada Council and SSHRC provide grants for publication, promotion and book translation
- Association for the Export of Canadian Books provides international marketing assistance
- provincial grants provide significant support

**Regulation**

- federal ownership rules prohibit establishment of foreign operations in Canada unless it is Canadian-controlled
- foreign acquisition of Canadian-controlled operations is prohibited unless the business is in financial distress and no Canadian entity will purchase it - a non-Canadian bid will be subject to a net benefit test
- foreign investment policy prevents U.S. book retailers from directly operating in Canada
- provisions of the Copyright Act reforms in Bill-C32 protect the exclusive distribution rights of Canadian publishers and exclusive agents

**The Future**

- tight balance between Canadian industry and the U.S.
- tension, previously, Canadian publishers angered by the sale of the textbook company Ginn Canada Publishing to U.S. interests; U.S. angered by refusal of the American book chain, Borders Inc., to establish operations in Canada

*Sources: "Canadian culture policies pique U.S. interest,"* ***Globe and Mail****, Drew Fagan, January 1997; "Issues Paper: IHAC Steering Committee on Canadian Content and Cultural Identity," Paul Audley & Associates Ltd., February 24, 1997, and other sources.*

### 6. Newspapers

Foreign ownership is prohibited. Section 19 of the *Income Tax Act* stipulates that newspapers must be owned by Canadian citizens or 75% of the capital must be held by Canadian citizens or Canadian-controlled corporations.

**Exhibit VII-9**
**Canadian newspapers—public policy and support**

| Financing/Subsidies | Regulation | The Future |
| --- | --- | --- |
| • community newspapers also benefit from subsidized postal rates, i.e. Publications Distribution Assistance Program (estimated at less than $5 million) | • Section 19 of Income Tax Act stipulates that advertising deductible only if newspaper owned by Canadian citizen or capital is 75% Canadian owned, and 80% of content is different from any foreign magazine | • as ownership of newspapers nationwide become increasingly concentrated, ownership restrictions may become a concern to the U.S. |

*Sources: "Canadian culture policies pique U.S. interest,"* ***Globe and Mail****, Drew Fagan, January 1997; "Issues Paper: IHAC Steering Committee on Canadian Content and Cultural Identity," Paul Audley & Associates Ltd., February 24, 1997, and other sources.*

# *Appendix I*

# *Selected Cultural Industries—Current Status and Trends*

## A. Periodicals

### 1. Background

Magazines and other periodicals provide a specialized medium for the distribution of culture. The 1994 *Report of the Task Force on the Canadian Magazine Industry* indicated that magazines synthesize, expand and comment upon information, rather than simply reporting it. Magazines add an element of reflection to the abundance of information presented by the media.

Canadian periodicals range in subject from Innuit art to business, women's health and children's activities.

In the 1992 General Social Survey, almost 62% of Canadians reported that they had read a magazine in the week prior to the survey; 80% had read at least one during the previous year. Close to half of Canadian households (42%) subscribe to periodicals; 46% reported buying single issues. Canadian households spent an average of about $65 per year on magazines and periodicals ($34 by subscription and $31 on single issues).

Through a combination of changing technology, the recession of the early 1990s, and general changes in behavior and market conditions, a number of observers believe the Canadian periodicals industry has demonstrated a resilience beyond that which may have been expected.

Exhibit AI-1 below provides revenue, circulation, and number of periodicals in the Canadian periodical sector from 1989-90 to 1994-95.

**Exhibit AI-1**
**Revenue, circulation and number of periodicals, 1989-90 to 1994-95**

| Category of Periodical | 1989-90 | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 |
|---|---|---|---|---|---|---|
| *General Consumer* | | | | | | |
| Revenue ($ millions) | 418 | 378 | 355 | 356 | 316 | 350 |
| Circulation (millions | 291 | 268 | 271 | 217 | 216 | 228 |
| Number of periodicals | 237 | 198 | 166 | 162 | 135 | 143 |
| *Special-interest* | | | | | | |
| Revenue ($ millions) | 170 | 167 | 171 | 190 | 189 | 204 |
| Circulation (millions) | 94 | 96 | 108 | 149 | 151 | 158 |
| Number of periodicals | 443 | 417 | 408 | 389 | 386 | 407 |
| *Other* | | | | | | |
| Revenue ($ millions) | 297 | 322 | 312 | 306 | 290 | 312 |
| Circulation (millions) | 137 | 150 | 143 | 138 | 129 | 127 |
| Number of periodicals | 813 | 886 | 866 | 849 | 810 | 854 |
| *Total* | | | | | | |
| Revenue ($ millions) | 885 | 867 | 838 | 852 | 795 | 867 |
| Circulation (millions) | 522 | 514 | 522 | 504 | 496 | 512 |
| Number of periodicals | 1,49 | 1,50 | 1,44 | 1,40 | 1,33 | 1,40 |

*Source: Statistics Canada, 1995.* ***The Periodical Publishing Survey.***

*Note: "other" includes business or trade, farm, religious and scholarly periodicals.*

As is evident from the above, total circulation has been fairly stagnant, declining slightly from 522 million in 1989-90 to 512 million in 1994-95. Revenues and number of periodicals have also waned somewhat.

The circulation of top Canadian and foreign periodicals is presented in Exhibit AI-2.

**Exhibit AI-2**
**Top periodicals in Canada for the six months ended December 31, 1995**

| Ranking | Title | Circulation |
|---|---|---|
| 1 | Reader's Digest | 1,1 |
| 2 | Chatelaine | 808,9 |
| 3 | TV Guide | 790,1 |
| 4 | Canadian Living | 595,0 |
| 5 | Maclean's | 507,1 |
| 6 | Time | 327,7 |
| 7 | Selection du Reader's Digest | 291,0 |
| 8 | Canadian Geographic | 239,1 |
| 9 | TV Hebdo | 230,3 |
| 10 | L'Actualité | 200,0 |
| 11 | Châtelaine (French) | 187,7 |
| 12 | Flare | 182,4 |
| 13 | 7 Jours | 166,3 |
| 14 | Coup de Pouce | 150,0 |
| 15 | Harrowsmith Country Life | 140,1 |
| 16 | Canadian Select Homes | 140,1 |
| 17 | Canadian Gardening | 135,0 |
| 18 | Canadian House & Home | 135,0 |
| 19 | Equinox | 129,7 |
| 20 | Le Bel Age | 128,6 |

*Source: **Masthead**, April 1996.*

## 2. Industry structure

The Canadian periodicals industry's main players are large media companies with publishing divisions and small magazines produced by single-publication publishers. The industry is concentrated by some measures, although it has deconcentrated over the past few years. Exhibit AI-3 below shows concentration ratios for this industry from 1990-91 to 1994-95. The data indicates that market dominance by the twelve largest publishers has hovered around 50% in terms of revenue and circulation; in 1994-95, these publishers (who release about 10% of titles) accounted for 48% of revenues, 51% of circulation and 32% of wages and salaries. The largest four publishers (who release about 5% of the titles) accounted for 34% of revenues, 32% of circulation and 23% of wages and salaries.

Canada has a very diverse periodicals sector with a few large well-known consumer magazines and hundreds of smaller periodicals serving niche markets.

**Exhibit AI-3**
**Canadian periodicals industry concentration ratios: 1990-91 to 1994-95**

| | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 |
|---|---|---|---|---|---|
| Total number of publishers | 1,09 | 1,05 | 1,04 | 1,00 | 1,08 |
| Largest 4 Publishers | | | | | |
| % share of revenue | 38 | 37 | 39 | 39 | 34 |
| % share of circulation | 35 | 33 | 34 | 36 | 32 |
| % share of salaries & wages | 25 | 24 | 25 | 29 | 23 |
| Largest 8 publishers | | | | | |
| % share of revenue | 48 | 46 | 47 | 48 | 43 |
| % share of circulation | 42 | 45 | 48 | 52 | 37 |
| % share of salaries & wages | 35 | 32 | 30 | 34 | 28 |
| Largest 12 publishers | | | | | |
| % share of revenue | 52 | 51 | 52 | 52 | 48 |
| % share of circulation | 46 | 52 | 52 | 56 | 51 |
| % share of salaries & wages | 39 | 36 | 35 | 38 | 32 |

*Source: Statistics Canada—87F000 FXPE*

Partly because of a reduction in the number of periodicals published, new technologies and general competition, paid employment in this sector has declined in recent years. In 1994-95, periodical publishers provided 4498 full-time and 1581 part-time positions, down modestly from 1990-91.

Many volunteers also work in the periodical industry, about 3,727 in 1994-95.

### 3. Marketing and business considerations

The domestic market is of major importance to the Canadian periodicals industry. No Canadian publication enjoys a wide circulation outside the country (with the exception of the United States, no industrialized country has a particularly strong magazine export industry). While there are exceptions at a city or regional level, major Canadian magazine distribution is usually national in scope. Distribution usually takes place via Canada Post or private delivery.

In 1991-92, approximately 30% of all Canadian magazines were found on newsstands, with circulation from this medium at about 6% of total circulation. Canadian English-language publications accounted for only 18.5% of English-language magazines distributed on newsstands, where space was occupied mainly by foreign publications. Canadian French-language publications accounted for 95% of all single-copy or newsstand sales of French-language magazines in Canada. For Canadian magazines, approximately 10% of English-language and 27% of French-language magazines were sold on newsstands. By contrast, 89% of all imported consumer magazines were destined for newsstands.

Newsstand revenues, in general, are minimal even for those Canadian magazines which are available widely. The reasons for this situation relate to the nature of newsstand operations. For newsstand sales, the publisher or distributor arranges for copies to be shipped from the printer to a wholesaler who, in turn, delivers them to retail outlets. Copies not sold by the time of the next issue are returned by the retailer to the wholesaler for credit. The percentage of magazines sold (sell-through) varies considerably from one magazine to another and for particular issues of the same magazine. A sell-through rate of 60% to 70% is considered very good; 40% to 45% is the average. The retailer receives about 20% of the cover price for issues sold. The wholesaler and distributor share 30%, and the publisher receives about 50% of gross sales. Thus with high newsstand returns (from retailers to distributors) and with low circulation and margins in the industry, it is difficult for Canadian periodicals to afford newsstand sales.

Advertising is a key economic element in the sector, accounting for about 60% of total revenues. In 1994-95, total magazine industry advertising revenue stood at $521 million, down from $565 million in 1990-91. Although subscription revenues are far more important than newsstand revenues for Canadian publishers, very few periodical publishers can cover their costs, let alone make a profit, solely through circulation revenue. Advertising revenue supports the editorial content and allows the magazine to be provided at lower cost (or no cost) to readers.

### 4. Public policy and support

Canadian magazine policy has the objective of ensuring that Canadians have access to Canadian information and ideas through genuinely Canadian magazines. Advertising is a major source of revenues for both consumer and business and trade magazines. Thus, successive Canadian governments have implemented policies designed to ensure that a Canadian magazine publishers have access to domestic advertising market.

In the late 1950s and early 1960s, the governments became aware of the increasing difficulties in the Canadian magazine industry. To address these issues, the government appointed a Royal Commission on Publications. The recommendations contained in the report of this Commission (the O'Leary Report) became the basis of current magazine policy.

The Government introduced two policy measures in 1965, following the O'Leary Report. One disallowed tax deductions for advertising directed at the Canadian market placed in non-Canadian periodicals and newspapers; the second measure was an amendment to the Customs Tariff. This second measure contained two parts:

1) It prohibited the physical importation of split-run editions of magazines. A split-run edition of a magazine uses articles and other editorial material prepared and paid for in the magazine's home market and inserts advertising aimed at another market. Thus, a Canadian split-run edition of a foreign magazine can undercut the advertising rates offered by Canadian magazines.

2) It imposed a 5% limit on the amount of advertising in foreign magazines imported into Canada which could be directed to a Canadian audience.

In the 1990s, *Sports Illustrated* circumvented the import prohibition on split-runs by transmitting an electronic version of the magazine to a printer in Canada and inserting Canadian advertisements. The Government responded in 1995 by imposing an 80% excise tax on advertising placed in split-runs. *Sports Illustrated* then withdrew its split-run version from the Canadian market.

In March 1994, the U.S. government launched a challenge before the World Trade Organization (WTO) to four of Canada's measures in support of its domestic magazine industry. The WTO dispute settlement panel examining the Canadian measures found that Tariff Code 9958, Part V.1 of the Excise Tax Act, and Canada Post's commercial rates for periodicals are inconsistent with Canada's obligations under the General Agreement on Tariffs and Trade (GATT).

The panel also found Canada's funded postal rates to be allowable under the provisions of GATT 1994. This measure refers to the Publications Assistance Program (PAP), commonly referred to as the postal subsidy. The responsibility for administering the Program has been transferred to the Department of Canadian Heritage from Canada Post Corporation. Reduced postal rates ensure that Canadian publications are available to Canada's widely dispersed readers at comparable costs. The PAP provides funded rates to eligible Canadian publications including periodicals, commercial newsletters, small community weekly newspapers, minority official language and ethnic weekly newspapers mailed in Canada for delivery in Canada. These rates are available to Canadian owned and controlled paid circulation publications that are published and printed in Canada and meet certain editorial and advertising requirements. The budget is approximately $58 million for 1996-97.

In addition to income tax preferences and the customs tariff provisions described above, the Canadian government provides other assistance to the periodicals industry. Financial support is granted to a wide array of non-commercial, cultural and scholarly publications through the *Canada Council* and *SSHRC*.

It is interesting to note the growth in market share of Canadian magazines over the last 25 years: from 20% in 1956, to about 60% in 1996[1]. It would certainly appear that Canadian periodicals benefited from public policy measures.

Exhibit AI-4 below reveals that editorial content (text or illustrations and photography) in a typical Canadian magazine is overwhelmingly Canadian-produced, whether carried out in-house or purchased externally. Public policy initiatives are credited by the industry for the high levels of Canadian content in the periodicals industry.

[1] ***Bill C103 and the Canadian Magazine Industry**, Canadian Magazine Publishers Association, February, 1996.*

**Exhibit AI-4**
**Origin of editorial content and artwork of a typical issue, 1990-91 to 1994-95**

| | 1990-91 % | 1991-92 % | 1992-93 % | 1993-94 % | 1994-95 % |
|---|---|---|---|---|---|
| Text | | | | | |
| In-house | 50.4 | 49.3 | 49.4 | 48.3 | 49.0 |
| Outside the organization | | | | | |
| Canadian -authored | 42.0 | 43.0 | 42.6 | 43.9 | 43.1 |
| Foreign-authored | 7.6 | 7.7 | 8.0 | 7.8 | 7.9 |
| TOTAL | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Illustrations and Photography | | | | | |
| In-house | 44.1 | 42.2 | 42.9 | 40.7 | 43.6 |
| Outside the organization | | | | | |
| Canadian-authored | 49.3 | 50.5 | 50.2 | 52.4 | 50.2 |
| Foreign-authored | 6.6 | 7.2 | 6.9 | 6.9 | 6.2 |
| TOTAL | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

*Source: Statistics Canada—87F0005XPE*

## 5. The impact of technology

### a) Creation, production and distribution

Along with films, digital technology has had its greatest impact on the production process in magazine publishing, where costs and cycle times have improved dramatically. In addition, advanced database technology permits the simultaneous pursuit of many more niche markets than in the past.

Periodical production and distribution have been very much affected by technology. Advanced desktop publishing software, high-resolution color scanners, and CD-ROM-based photograph and artwork libraries have dramatically reduced the number of steps necessary to create a top-quality publication. Typesetting, cropping of photos and illustrations, graphic design, production, and many other functions can be performed by one person at a desktop computer. Editing functions are all electronic, and can be implemented in a fraction of the time it took with older manual methods. As a result, publishers can operate leaner in an increasingly competitive atmosphere, while responding more quickly to rapid marketplace changes. Over the past ten years, technology has replaced the roles of many people involved in the production process. This will likely accelerate as new printing technology enables publishers to upgrade from offset lithography to CTP (computer to press).

It is true that substantial savings may accrue to those publishers who have made the transition to digital. However, use of digital technology is necessary, though not sufficient to sustain competitive advantage in the magazine business.

With the Internet and other electronic media, distribution becomes less of an issue, and the temptation for some writers to go independent increases. This could have an impact on the brand power of certain publications.

Finally, technology has changed the look and feel of many magazines. *Wired*, whose unique design is enough to warrant people's interest by itself, is an example of a wider trend. *Wired* has achieved a circulation 110,000 in less than two years.

### b) Marketing and targeting

Magazine publishers are moving away from service bureaus which, in the past, have handled their mailing lists and subscription fulfillment. There is a trend toward in-house subscriber database management. Some publishers have realized that in-house databases are a powerful tool in solidifying existing relationships with their readers and in pinpointing new demographic and psychographic trends, which might suggest and inspire profitable new publications. The process of contracting outside for mailing list management is being replaced by advanced, in-house database management systems. This is the case, for example, with *Reader's Digest* and *Meredith.*

Many magazine publishers are coming to rely increasingly on niche publications, which cover a specialty or single subject. As a result, a host of increasingly specific titles has emerged. Fortunately, the electronic pre-press systems described before allow publishers to produce niche publications fast enough and cheaply enough to capitalize on changing demographic and psychographic factors. These magazines attract readers with their advertising as well as their editorial content. The bond between advertising and reader, and the information appeal of advertising, is much stronger than with consumer mass-market magazines.

Technology is aiding publishers in satisfying customer needs. By combining the advanced database software described above and new production techniques, publishers can produce customized issues—targeting specific areas of the country or specialized reader interests. For example, the issue of *Business Week* that goes out to employees of technology companies might be different from the one read by a manager at an industrial corporation. Ads for an issue in one part of the country can be different from those in another part. Furthermore, customized inserts can also be used to target varying reader interests.

Advances in "microtargeting" through the use of database technology permit an ever narrower slicing of the readership, such that relatively small circulation magazines can remain viable. The use of such targeting capabilities for advertising by mass circulation magazines has met some resistance from some quarters, most notably advertisers and advertising representatives themselves. The economic incentives are not clear for these players. Similar questions on advertising and economic incentives raise doubts about the viability of purely online publishing. Advertisers and their agencies remain wedded to the business models developed for mass media and have been slow to embrace more targeted models. Similarly, advertising representatives who are paid by commission may have little incentive to push targeted innovation.

**c) Online issues**

The online phenomenon presents opportunities but also poses some major problems to magazine publishers. Information on a wide range of topics is readily available at low cost via networks. Not only that, many advertisers are creating their own "store fronts" on the Internet, supplementing the glossy editorial environment provided by magazines. However, interactive advertising, such as that appearing on the Internet, puts consumers in control. More consumer control makes it difficult to motivate them to read intrusive advertising. This is especially true of small-ticket packaged items like soap or aspirin. These products accounted for approximately 46% of consumer magazines' advertising revenues in 1993. While online advertising will gain momentum as more and more households are connected, one major question will be: Can magazine publishers keep pace online and offer innovative, cost-effective alternatives that will appeal to both readers and advertisers? Convincing advertisers to place their advertisement online is fraught with challenges. Even the pricing of advertisements requires re-thinking. Furthermore, once editorial information is online, almost anyone can print it out, download it, copy it and manipulate it. Maintaining the integrity of the product, enforcing copyrights and paying royalties represent a problem.

**d) Future prospects—The Information Highway**

There will be a market for traditional print-based periodicals for the foreseeable future. People enjoy reading varied material at their leisure, in a format that they can easily handle.

Witness the number of magazine stands on city corners and the amount of space at the retail level devoted to periodicals.

In a brief to the CRTC, the Canadian Magazine Publishers' Association reported that most magazine publishers are interested in and excited about the possibilities of producing content for the Information Highway. They are aware that online sales are potentially large, and that there will be many more Internet users by the year 2000.

In many respects magazines face the same business challenges in creating products for the Information Highway that they face in the day-to-day business of publishing: potentially low profit margins, intense competition, and dependence on advertising.

Many smaller magazine publishers do not have the money to invest in online experiments, but they do have the keys to content and the talent and skills needed to produce it. The government, in their view, should look at ways to facilitate partnerships between pipeline providers looking for content and magazine publishers holding the keys to Canadian content. The global marketplace is open already, so carriers and content providers must act in concert, and quickly, to offer competitive Canadian content on the Information Highway.

Online publishing is not a money-making venture for most publishers, either in Canada or the U.S. Most successful U.S. publishing companies are reporting revenue from electronic publishing equaling only about 5% of total revenue. The amount of money dedicated to training and the increased effort needed to handle research, implementation and service, far exceed any profits realized now or in the foreseeable future.

Nevertheless, publishers are experimenting with online extensions of their magazines along with other multimedia products (see Chapter VI). The Information Highway is another way to expand magazine publishing in a new medium while complementing current business, and may prove lucrative in the long term because of its global reach.

In a late 1996 report, the U.S. Magazine Publishers' Association presented the results of a member survey involving online publishing. There were four major findings from the research:

- The overwhelming majority of magazine publishing companies responding to the survey had an online presence, mostly to promote and support their print-based brands.

- Most publishers do not expect their online activities to be profitable until 1998 and beyond. Their activities are designed not so much to make money in the short run, but to achieve three major objectives: improving marketing and public relations; creating competitive advantage, and development a new business line.

- Revenue sources and pricing models remain obstacles to successful online ventures; until successful pricing and measurement models are fully established, online advertising will be constrained.

- In order to build successful online ventures, magazine publishers overwhelmingly recognize the importance of developing relationships to provide competencies which do not exist internally. Publishers view communications firms, ranging from Internet access providers and telecommunications firms to cable companies, as key alliances.

Our interviews with Canadian industry participants and observers supported the above survey: online publishing offers tremendous potential, but it will be some time before maturity and profitability is brought to the market.

## B. Book publishing

### 1. Introduction

In spite of competition from television, new media and other leisure activities, book publishing continues to be a relatively strong and important cultural industry in Canada. According to Statistics Canada, in 1993-94, 316 publishers and 42 exclusive agents reported total revenues of $1.7 billion, translating into $3 billion in retail sales.

The industry is located throughout the country, has both large and small players and publishes a large number of Canadian titles. It is seen as promoting new authors covering a wide field of political, cultural and social orientations, contributing to Canada's international presence and playing an important role in articulating Canadian ideas and realities. According to Rowland Lorimer of Simon Fraser University, the cultural achievements of the book publishing industry has been outstanding over the past 30 years[1]. Canadian creativity, thoughtfulness, commentary and analysis are now recognized worldwide. However, publishing especially in the field of trade-books is far from a profitable enterprise and is under constant threat of collapse or inundation by imports.

### 2. Industry Structure

The Canadian market is characterized by two linguistic and cultural markets—English and French. The English-language publishing industry is economically centred in Ontario where 127 publishers and 25 exclusive agents had revenues of $1.1 billion in 1993-94, publishing almost 5,700 titles and reprinting 4,300 titles. In Quebec 121 publishers and 14 exclusive agents had revenues of $487 million with more than 3,200 published titles and 3,000 reprinted titles.

In English language firms, including the large publishers that dominant the Ontario market, received almost 80% of revenues but made of just over 62% of publishers and 60% of exclusive agents. French-language firms, catering to a separate market, were responsible for 31% of new titles and 52% of reprinted titles in 1993-94.

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[1] *Lorimer, R. "Book Publishing," in Dorland, M. (ed.).* ***The Cultural Industries in Canada: Problems, Policies and Prospects.*** *Toronto: James Lorimer and Company, 1996, 3-34.*

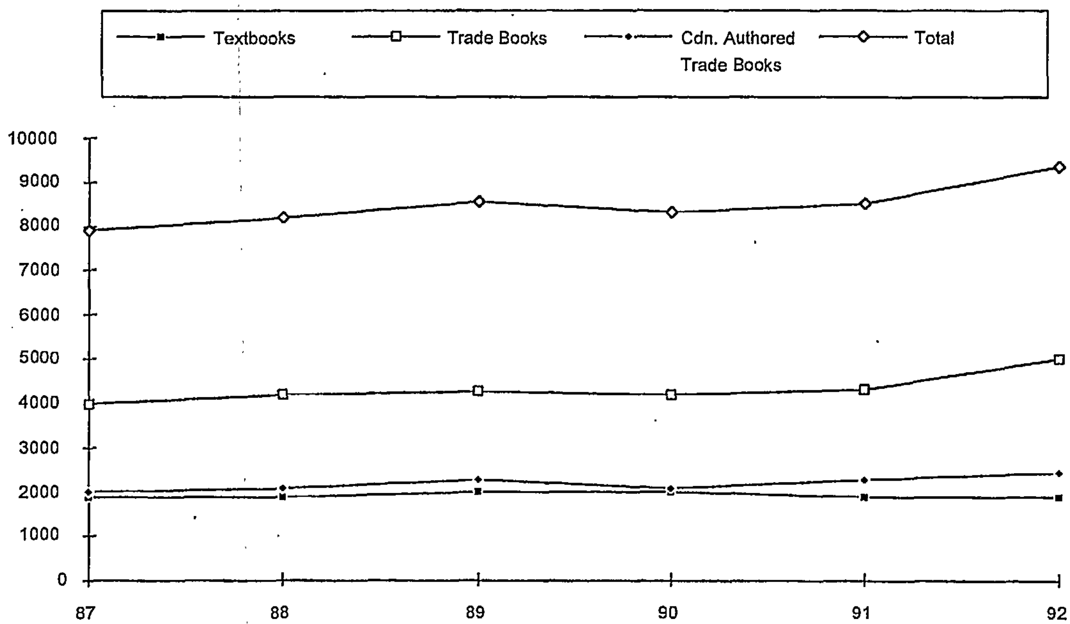
### 3. Ownership and Control

Foreign-controlled companies made up 11% of the firms in the industry, yet they received 36% of total revenues in 1993-1994 (down from 40% of total revenues in 1989-90)[1]. They represent 8% of publishers, 36% of publisher sales, more than one-third of exclusive agents and over one-half of agent sales. However, foreign companies were responsible for only 17% of new titles and 20% of reprints. Much of their interest is in textbooks, where foreign-controlled publishers reported nearly half of total sales and foreign-controlled exclusive agencies accounted for three-quarters of sales in 1993-1994. In fact, 49% of own title sales by foreign-controlled publishers came from textbooks.

### 4. Industry Economics

To understand the industry fully, a large number of factors must be considered including: the number of titles published, sales, exports, language of the publisher, market segment, new titles and Canadian authorship. Putting all these factors together is a somewhat difficult exercise and is probably best shown in tabular or chart form. Some of the more relevant data are as follows in Exhibits AI-5, AI-6, and AI-7:

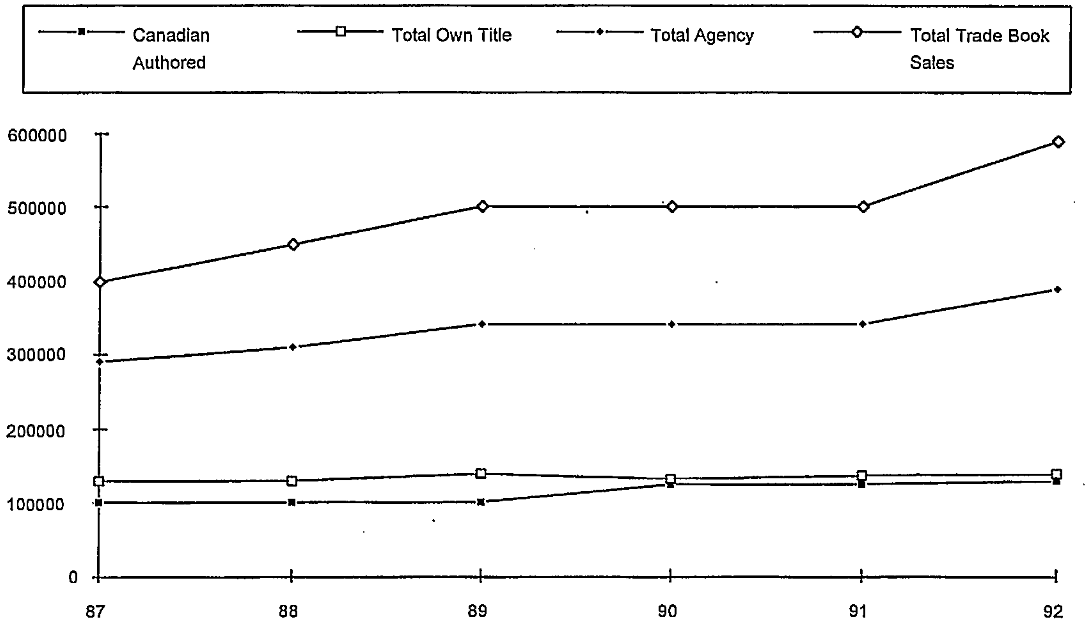
**Exhibit AI-5**
**Number of titles, trade titles, textbook titles and Canadian-authored trade titles published in Canada, 1987 to 1992**




[1] *Statistics Canada, various published and unpublished.*

*Source: Canada. Statistics Canada. 1993. Catalogue 87-210*

**Exhibit AI-6**
**Domestic trade book sales ($000), 1987 to 1992**




*Source: Canada. Statistics Canada. 1993. Catalogue 87-210*

**Exhibit AI-7**
**Profit margins—book publishing (%)**

| | 1987-88 | 1988-89 | 1989-90 | 1990- 91 | 1991- 92 | 1992-93 | 1993-94 |
|---|---|---|---|---|---|---|---|
| Publishing Profit Margin | 7.3 | 6.7 | 6.1 | 6.2 | 3.6 | 4.5 | 4.9 |

*Source: Statistics Canada, Catalogue 87F004XPE.*

### 5. Exports

Exports from the book publishing industry are of growing importance. Exports can take three forms: sales of books, sales of rights, and sales of services (e.g., providing publishing expertise). Despite the increasing value of the Canadian dollar from 1987 to 1991, book publishing succeeded in maintaining its position in the international marketplace with notable improvement in more recent years of book exports and other foreign sales related to title rights and publishing expertise (see Exhibit AI-8).

**Exhibit AI-8**
**Book export sales ($000)**

| | 1989-90 | 1990-91 | 1991-92 | 1992-93 | 1993-94 |
|---|---|---|---|---|---|
| Book exports | 38,6 | 40,5 | 48,3 | 71,5 | 115,5 |
| Other foreign sales[1] | 174,7 | 178,4 | 177,8 | 202,6 | 228,4 |
| TOTAL EXPORT SALES | 213,3 | 218,9 | 226,1 | 274,2 | 343,9 |

*Source: Canada. Statistics Canada, Catalogue 87F004XPE.*

### 6. Distribution

In Canada, books are distributed by publishers and exclusive agents and by companies that act as both. Total sales in Canada by book publishers and exclusive agents amounted to $1.3 billion in 1993-1994; $606 million were publishers' own titles. Exclusive agencies, however, accounted for the majority of sales in Canada. In 1993-1994, their sales were $691 million, or 53% of the total. Trade books made up the bulk of their activity, where they controlled 64% of the market.

The distribution system for books differs significantly for French-and English-language publishing firms. There are a variety of relatively equal players in the English-language market. Retailers buy 40% of books, institutions (predominantly schools) account for 24%, direct sales to the public (including book clubs and unallocated sales) make up 26%, and sales to wholesalers comprise the remaining 10%.

In Quebec, however, the distribution of books is closely controlled by the *Loi sur le développment des entreprises québécoises dans le domaine du livre.* As a result, the major part of the market for French-language firms is structured quite differently. In 1993-1994, retailers, predominantly legally accredited bookstores, accounted for 54% of sales of French-language firms.

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[1] *Includes sales of rights to publish the title elsewhere in a different form, plus sales of services in publishing expertise.*

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## 7. Libraries

Canadian libraries are very active in promoting both reading and books, particularly books by Canadian writers. In 1992, 34% of adult Canadians used libraries. More women (38%) than men (30%) said that they had borrowed a book from the library in the previous year. One-quarter of women and 18% of men had used the library in the previous month. Governments spent close to $1.9 billion on libraries in 1993-1994, 30% of total cultural spending. Municipalities and provinces spent the bulk of their cultural expenditures to support libraries.

## 8. Canadian reading

Reading books is a more common activity for women than for men. In 1992, 53% of women and only 35% of men had read a book in the previous week; 75% of women and 57% of men had read a book in the previous year. When asked about the last book they had read, 53% reported that is was fiction. This again differs by sex with 59% of women and 44% of men stating they had last read fiction. In 1992, almost half of Canadian households purchased books or pamphlets, with average household spending for the total population of $68.

## 9. Public policy and support

The book publishing and distribution industries are influenced by several public policy practices.

The Department of Canadian Heritage's Book Publishing Industry Development Program (BPIDP) is designed to strengthen the capacity of the Canadian-owned and -controlled sector of the book publishing industry. The 1996-97 budget was $19.1 million, reduced from $22.6 million in 1993-94. the program provides financial assistance to Canadian-owned and -controlled firms who publish and market Canadian books in both domestic and international markets. Assistance is provided to firms that qualify under specific definitions of book publishing, eligible titles and eligible sales. The Association for the Export of Canadian Books (AECB) administers the "International Marketing Assistance" on behalf of the Department.

Created in June 1990, the Cultural Industries Development Fund (CIDF) was operational by fiscal year 1991-92. The CIDF is managed for the Department of Canadian Heritage by the Business Development Bank (BDC) through its network of branches across the country. The CIDF provides financing services, mainly term-loans, to Canadian-owned and -controlled firms (same definition of Canadian control applicable to the three previous programs—i.e., 75%) operating in five cultural sectors: book publishing, magazine publishing, sound recording, film and video, and multimedia.

The *Canada Council* and *SSHRC* are also involved indirectly in the book publishing field through their support of Canadian authors. Provincial support is also directed at writers and publishers.

In terms of ownership, foreign ownership rules prohibit foreign operations from operating in Canada, and federal ownership rules prohibit the purchase of Canadian-controlled operations, unless the operation is in distress and no Canadian entity offers to purchase.

Lastly, there are provisions in the proposed Bill C-32 *Copyright Act* to protect the exclusive distribution rights of Canadian distributors.

### 10. The impact of technology

We see technology having an impact in three areas of the book publishing distribution sector: multimedia publishing; computerized distribution; and Internet distribution.

Multimedia publishing, in effect publishing on the Internet or in CD ROM format, is currently a reality although still in its infancy. Exactly how it will develop in the future is uncertain although investments by the Disney Corporation, Microsoft, National Geographic among others suggest multimedia publishing will grow in the future. Already, the encyclopedia market is well-developed in the CD ROM field.

Concern about multimedia and Canadian content centres around the extensive investment in integrating sound, image and text. To recover in cost centre profits the market is felt to be too small.

A second issue involving technology stems from computerized distribution systems. A number of US based wholesalers have established themselves to serve the entire American market. In doing so, they are able to supply books to Canadians, thereby possibly circumventing the reality of copyright and/or distribution agreements in which Canadian based firms are the sole agents and distributors.

A number of Canadian publishers have set up their own electronic ordering system to counter this threat and have lobbied for the inclusion of a distribution right in the proposed copyright legislation.

The last area of potential changes brought about through technology involve the Internet. Barnes and Noble, a U.S. superstore distributor, has entered this business in partnership with *America Online*; the U.S. *Borders Group*, is reportedly readying their own online entry; Seattle-based company *Amazon.com*, one of the first venturers into the Internet book distribution, has experienced strong revenue growth over the past two years.

## C. Sound recording

### 1. Structure and economic impact

The Canadian sound recording industry is complex, involving numerous sub-sectors[1], including:

(1) Composers, lyricists, performers, and musicians.

(2) Publishers—promote composed works, deal with mechanical and performing copyrights on behalf of the authors of music.

(3) Managers—advance the interests of artists; arrange concerts, provide tapes to radio stations, etc.; some evolve to become agents.

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[1] *List based primarily on Ernst & Young (1995, March).* ***Report to the Task Force on the Future of the Canadian Music Industry: A Study of the Sound Recording Industry.***

(4) Labels—large "multinationals" and smaller "independents" who coordinate record//video production, sign and promote artists, distribute product to wholesalers/retailers, and perhaps publish, manufacture, and promote concerts.

(5) Producers—those who assist in the production of a demo or tape; includes many individuals or small organizations with sound engineering expertise.

(6) Studios—house the equipment required to record music, often available for rent; range from basements set-ups of individual artists to sophisticated full-service studios involved in music, television, film, advertising.

(7) Manufacturers—produce the CD, cassettes, and CD-ROMS; produce contract out label negatives or printed inserts; comprised of two large Canadian firms —Cinram and Disque Améric (DA)—as well as Sony.

(8) Distributors—move product from the labels to the retailers; may be independent or affiliated with major labels or retailers.

(9) Retailers—sell to the consumer; e.g. Sam the Record Man, HMV, The Bay, Walmart; also includes direct selling as with Columbia House (jointly owned by Warner and Sony).

(10) Concert promoters—organize and promote concerts and tours; e.g. Concert Productions International (CPI) dominates the Toronto scene, and Donald K. Donald (DKD) in the Montreal area, and Periscope in Vancouver.

Key sources of revenue in the recorded music industry are:

- Sale of CDs and cassettes.
- Licensing of sound recordings for use in films, TV, videos and multimedia.
- Live concert tours and related sales of souvenir merchandise.

Sound recording companies are central to this industry, since they bring together artists, songs, technical facilities, producers, funding, as well as expertise in marketing and distribution.

Estimated total industry revenues were $1,175 million in 1993. About $925 million or 79% of this total derives from retail sales of cassettes and CDs—based primarily on sound recording annual expenditures of about $100 per Canadian household. Exhibit AI-9 shows the size and nature of the Canadian market at retail or equivalent.

**Exhibit AI-9**

**Estimated industry revenues in Canada, 1993 (at retail or equivalent level)[1]**

| | Total Market ($million) | % |
|---|---|---|
| Retail Sale of Tapes and CDs[2] | 925 | 79 |
| Concerts | 140 | 12 |
| Performing Rights Royalties[3] | 65 | 5 |
| Merchandise | 30 | 3 |
| Sheet Music | 15 | 1 |
| TOTAL | 1,175 | 100 |

*Source*: Ernst & Young (1995), *Report Submitted to the Task Force on the Future of the Canadian Music Industry: A Study of the Sound Recording Industry.*

This area has been growing at about 15% per year recently. Large multinationals usually distribute the music for the much smaller Canadian production independents, except in Québec where local independents generally distribute and retail in a more vertically integrated system (due to strong quotas for French-language radio content and natural barriers to multinationals related to language). The multinationals produce and/or distribute about 85% of all recordings sold in Canada, and earn about 80% of total Canadian revenues (69% in Québec) (see Exhibit AI-10).

[1] *All figures exclude commodity taxes.*

[2] *This is comprised of an estimated 43 million CDs and 34 million cassette tapes as detailed in the text. This figure will vary depending on the volume of direct sales and the size of mark-up applied at the retail level, among other factors.*

[3] *Collections based on actual data from SOCAN.*

**Exhibit AI-10**
**Foreign controlled and Canadian controlled shares of the Canadian market, 1993 (at retail or equivalent level)**

| | $ millions | | % | |
|---|---|---|---|---|
| | Foreign Controlled | Canadian Controlled | Foreign Controlled | Canadian Controlled |
| Retail Sale of Tapes and CDs (direct sales) | 790 | 135 | 86 | 14 |
| Concerts | 60[1] | 80 | 43 | 57 |
| Performing Rights Royalties[2] | 33 | 14 | 70 | 30 |
| Merchandise | 14 | 16 | 47 | 53 |
| Sheet Music | 13 | 2 | 87 | 13 |
| TOTAL | 910 | 247 | 79 | 21 |

*Source:* Ernst & Young (1995), *Report Submitted to the Task Force on the Future of the Canadian Music Industry: A Study of the Sound Recording Industry.*

Increasingly, multinationals are searching for musical styles which were once considered too "marginal" for anyone except Canadian owned firms to deal with. This multinational interest in Canada artists and general fragmentation of markets is good news for many of Canadian artists, though it can be challenging to small domestic independent recording firms, forcing them to pursue international niche markets in order to survive.

In 1995 the market share held by recordings with Canadian content (as defined by the CRTC) rose from 8% to 13%. The value of these sales rose markedly from $36.7 million in 1989-90 to $92.7 million in 1993-94. Foreign-controlled companies play a large role in the release of Canadian content: they released 29% of Canadian content music in 1993-94, and accounted for over 50% of the sales of Canadian content recordings. Canadian success is exemplified by the success of artists and groups such as Céline Dion, Snow, Alanis Morrissette, k.d. Lang, Barenaked Ladies, Tragically Hip, the Jeff Healey Band, and Shania Twain.

Exports of Canadian recorded music increased dramatically from $64.4 million in 1988 to $266 million in 1992. By 1993, Canadian songwriters were earning more from sales abroad than from domestic sales. As far as the world market, the U.S., Europe and Japan account for about 86% of total sound recording spending. However the Asian markets—China, India, and South Korea, to

[1] *This is an estimate of the amount of Canadian concert revenue accruing to foreign artists.*

[2] *$16 million of total royalties were used to defray expenses. These are not included in the amounts shown above.*

name a few—are expected to open up due to enhanced copyright regulation and increased demand for Western-style music. Penetrating such markets generally requires licensing arrangements with foreign distributors (who have the funding, distribution, marketing, and promotion expertise). Participation in international trade fairs or festivals is seen as key to exposure, contacts, and eventual success.

Estimates of total employment in this industry are difficult to come by. A full-time equivalent estimate of 16,000 was provided in a consulting study (see Exhibit AI-11 below). The largest workforces include 5,000 distributors and retailers, 4,500 performers, composers, and lyricists, 2,000 in manufacturing, and 1,600 working for the major labels.

**Exhibit AI-11**
**Canadian music industry, employment estimates, 1995**

| | FTE Employment |
|---|---|
| Independent labels | 400 |
| Major labels (including mail order companies) | 1,600 |
| Manufacturers | 2,000 |
| Distributors and retailers | 5,000 |
| Performers, composers and lyricists | 4,500 |
| Studios[1] | 300 |
| Concert workers[2] | 800 |
| Associations | 150 |
| Other (managers, press, producers, graphic artists, misc.)[3] | 800 |
| TOTAL | 16,000 |

*Source:* Ernst & Young (1995); *Report Submitted to the Task Force on the Future of the Canadian Music Industry: A Study of the Sound Recording Industry.*

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[1] *According to selected directories, there are 160-170 studios in Canada. An estimate of around two employees per studio suggests around 300 people nationwide.*

[2] *Estimated that "other concert expenses" of $25 million would support approximately 800 people at an average salary of $30,000.*

[3] *Assumed 5 % of the total.*

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Six multinationals dominate the international (as well as Canadian) sound recording industry—EMI, MCA, BMG, Sony, Warner Brothers, and Polygram (see Exhibit AI-12). Many operate subsidiary firms in Canada originally set up to avoid tariff laws on imported recordings prior to the Canada-U.S. Free Trade Agreement. Since then import tariffs have been lowered, although there has been no noticeable shift of manufacturing to outside Canada. A possible explanation for this lack of shift is the decreased value of the Canadian dollar, which renders the import of recorded music more expensive.

**Exhibit AI-12**
**International ownership and market share of major sound recording companies, 1995, first quarter**

| Major Sound Recording Company | Ownership | Market Share (%) |
|---|---|---|
| PolyGram | Philips (Holland) | 19.9 |
| Warner Music | Time-Warner (US) | 19.2 |
| MCA | Seagram's (Canada) | 19.1 |
| EMI | Thorne-EMI (U.K.) | 12.4 |
| Sony Music | Sony (Japan) | 11.8 |
| BMG/RCA | Bertelsmann (Germany) | 8.2 |

*Source:* ***The Record**, 1995.*

The Canadian industry may be roughly divided into production, distribution, and retailing. Canadian-owned firms earned only about 20% of total industry revenues in 1992-93. Seldom will one company be vertically integrated across all three. Retailing is typically done by small-scale outlets and general merchandising stores, with high levels of Canadian ownership. However, worldwide companies such as HMV have operated superstores in Canada since the 1980s. More recently, Walmart's and other warehouse-style stores have entered the market. The result has been price competition in recorded music.

### 2. Public policy and support

Sound recording received a total of $9.137 million in government support in 1994-95, coming from federal ($5.149 million) and provincial ($3.988 million) sources. This support is minimal compared to the $6.125 billion total government support for all cultural industries in 1994-95.

*The Sound Recording Development Program* (SRDP, established 1986) supports the Canadian-owned sector of the music industry for the production of audio and video music products and radio programs; it also supports marketing, international touring, and business development through contributions, loans and guarantees. SRDP is administered by the *Foundation to Assist Canadian Talent on Records* (FACTOR, an association of English-language sound recording companies and radio broadcasters, created 1982[1]) and *MusicAction* (an association of French-language sound recording companies and radio broadcasters). These two organizations administer most aspects of SRDP through their umbrella, *FACTOR MusicAction Canada.*

Over 50% of SRDP was traditionally dedicated to sound recording production—with the remainder spread across music video production, syndicated radio programming, international touring, specialized music production, international marketing, business development, and specialized music distribution (see Exhibit AI-13). In inflation-adjusted dollars, total SRDP support declined about 26% from 1986-87 to 1995-96.

However, SRDP was recently doubled in size to about $9.5 million for 1997-98, reflecting new support targeted at marketing.

**Exhibit AI-13**
**Sound recording development program, funding by component, 1994-95 and 1995-96**

| Component | Annual Funding ($) | % of Total | Administrative Responsibility |
|---|---|---|---|
| Sound recording production | 2,34 | 52.7 | FACTOR MusicAction Canada |
| Music video production | 500,00 | 11.2 | FACTOR MusicAction Canada |
| Syndicated radio programming | 180,00 | 4.0 | FACTOR MusicAction Canada |
| International touring | 455,00 | 10.2 | FACTOR MusicAction Canada |
| Specialized music production | 250,00 | 5.6 | Canada Council |
| International marketing | 315,00 | 7.1 | FACTOR MusicAction Canada |
| Business development | 270,00 | 6.1 | FACTOR MusicAction Canada |
| Specialized music distribution | 135,00 | 3.0 | FACTOR MusicAction Canada |
| TOTAL | 4,45 | 100.0 | |

*Source: Department of Canadian Heritage.*

[1] *Started as a joint undertaking of CHUM Limited, Moffat Communications, Rogers Broadcasting Limited, CIRPA, and CMPA.*

The Cultural Industries Development Fund (CIDF, started 1991, now managed through the Department of Canadian Heritage) finances loans (and to a lesser extent, consults) to businesses in sound recording and other many cultural industries. Sound recording accounted for 9.36% of CIDF loans in 1994-95 (down from 22.19% in 1993-94). CIDF is administered through the Business Development Bank of Canada.

There are no restrictions on foreign investment in the Canadian music industry, although radio stations and networks must be Canadian owned and controlled. Notably, the CRTC Canadian-content and French-language content quotas as a condition of radio licensing since the 1970s have played a large part in buttressing the careers of Canadian recording artists and businesses. At least 30% of all recordings broadcast by domestic radio stations must be "Canadian" according to the MAPL system[1] (quotas are usually lower for jazz or classical music specialty stations; popular music quotas are higher for the CBC at 50%). Fully 65% of French-language radio content must be in French. Many believe these policies have allowed Canadian artists to build success and critical mass required to pursue international markets. For example, Canada is the second-largest supplier of French-language recordings to the world market, trailing only France.

Finally, the proposed Bill C-32 copyright law would increase compensation for authors, performers, and producers by means of a special levy for blank tape sales. However, at the time of writing, it appears the legislative future of *Bill C-32* is unclear.

### 3. The Impact of technology

Technology has had marked effects on the music industry. The introduction of CDs in the 1980s, for example, contributed to the virtual elimination of singles. CDs also served to divide the market into high end (CDs) and low end (cassettes). In 1992-93 CDs accounted for 53% of units sold and 62% of revenues.

Digitization in general has enabled more "do-it-yourself" demo tapes or recordings which allows artists and rock bands to sign directly with multinational labels. Near professional quality home recording threatens normal revenue streams in the industry. Today, more artists create their own recordings and act as their own labels by selling directly where they perform. New methods of electronic distribution may potentially free artists from the distribution panopoly of the major players, assuming new distribution is not tightly controlled.

Digital radio broadcasting and music files available on the Internet have opened up larger questions around copyright. In late 1995 the CRTC licensed four pay audio services with Canadian content requirements of only 15%.

Copyright reform through *Bill C-32*, which has been negotiated since the last round of reforms in 1989, addresses many new issues such as music-publisher compensation for home taping of music and exemptions for certain users such as libraries and schools. According to the *Task Force on the*

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[1] *Music must reflect two of the following four criteria to qualify as "Canadian": (1) composed entirely by a Canadian, (2) singing or instrumental artist is a Canadian, (3) recording or live performance takes place in Canada, or (4) lyrics at least cowritten by a Canadian.*

*Future of the Canadian Music Industry*, without this copyright reform many music recording industry members see new technologies and the information highway as a threat[1].

In a recent study examining the impact of new technologies on the music sector commissioned by the *Task Force on the Future of the Music Industry in Canada*[2], the following scenarios were set out:

(1) Electronic distribution to retailers: retailers bypass manufacturers, stores large volume of titles but produces CDs on site, which consumers order; could lead to CDs on demand at home; issues: may only develop for niche products, while stores still stock physical copies of most popular music, higher speed and higher-integrity data transmission connections are needed.

(2) Online access: Internet and online service delivery of music to the home; issues: data transmission time problems, hard disk storage capacity, copyright infringement.

(3) Digital audio broadcasting: e.g., satellite-to-cable music services (typically all-music, commercial free, for a subscription fee of about $10/month); has the potential to move to pay-per-listen or CDs-on demand; issues: lack of receivers; consumers not familiar with these concepts; Canadian content will be difficult to control—contravening policy objectives of the *Broadcasting Act*.

Other findings of the study were:

- Music will become an input to multimedia products; and the music industry will need to explore alliances with other industries; music alone is not seen as a "killer application."
- New distribution technologies, while difficult to foresee and laden with potential new issues, could lead to benefits for creators of music if networks are accessible to creators and independent labels and not controlled by a few large companies.
- Electronic distribution networks such as online services are primarily U.S.-based; increased use of such distribution (and less use of TV and radio) may lead to challenges in accessing Canadian music.
- Music industry winners and losers of the next ten years will depend on who can best adapt to the new technologies; manufacturers roles should diminish as the physical product becomes less important.

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[1] *c.f. Paul Audley and Associates Ltd., Issues Paper:* ***IHAC Steering Committee on Canadian Content and Cultural Identity****, prepared for the Information Highway Advisory Council Secretariat, Industry Canada, February 24, 1997.*

[2] *Nordicity Group Ltd. (June 5, 1995)* ***Study of the Impacts of New Technologies on the Sound Recording Industry in Canada.***

- Authorization and copyright infringement are central issues with upcoming technological change.

- Canadian multimedia content development funds and initiatives can be supported by setting aside funds derived from licenses, similar to the former cable production fund for Canadian content film production.

- Québec independent record companies are well positioned to adapt to new realities and continue to promote Quebec talent, assuming they negotiate with distributors.

The *Task Force on the Future of the Canadian Music Industry* also recommended a series of changes to deal with technology, including:

(1) Address the many copyright concerns for "music on the information highway."

(2) Create a definition of sound recording which is independent of medium.

(3) Impair copying through means such as incorporating Serial Copy Management System in digital recordings[1].

(4) Set the content requirements of digital radio services to a degree comparable to conventional radio.

(5) limit the expansion of foreign music video service into the Canadian market through control of the list of eligible satellite services.

## D. Film and Video

The 1951 Massey Report on cultural industries made an emotional appeal for government initiatives to support Canadian film, for sake of our identity, and to combat American influence. Yet by 1992 American films held 96% of the Canadian market outside Québec, and 83% of the Québec market itself (see Exhibit AI-14).

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[1] *This preventative measure works to prevent copies of copies, but does not forestall the first copy infringement.*

**Exhibit AI-14**
**1992 market share of feature films distributed to Canadian theatres, according to country of origin**

| | Market Share (%) | | |
|---|---|---|---|
| | **American Films** | **National Films** | **Other Films** |
| Canada (except Quebec) | 96 | 2 | 2 |
| Quebec | 83 | 3 | 14 |
| France | 58 | 35 | 7 |
| Spain | 77 | 9 | 14 |
| Great Britain | 84 | 14 | 2 |
| Australia | 76 | 9 | 15 |

*Source: Groupe Secor, 1994: 24.*

Canadian film and video can be roughly divided into four sub-components:

- Production (script, actors, directors, technicians, financing, distribution arrangements).
- Laboratory and post-production (completion of film process after principal photography).
- Distribution (middlemen between producers and exhibitors).
- Exhibition (conventional TV, theatres, home video, pay-TV, pay-per-view, specialty channels).

As shown in Exhibit AI-15, the largest component of Canadian film and video production revenues relates to conventional television and advertising. Production accounted for $797 million out of the total of almost $1.109 billion Canadian film and video revenues in 1994-95[1] . The average profit margin was 5.8% in 1994-95 (down from 8.7% a year earlier). Profitability varied greatly by type of production company.

[1] *Does not include production of foreign films on Canadian sites.*

**Exhibit AI-15**
**Film, video and audio-visual production industry, Canada, summary, 1990-91 to 1994-95**

| **Production Revenue (by client type, $millions)** | **1990-91** | **1991-92** | **1992-93** | **1993-94** | **1994-95** |
|---|---|---|---|---|---|
| Distributors | | | | | |
| Theatrical features | 17.0 | 8.5 | 3.7 | 3.7 | 42.0 |
| Other placements | 12.3 | 74.2 | 63.6 | 55.9 | 78.3 |
| Conventional television | 146.1 | 138.0 | 200.3 | 236.8 | 290.2 |
| Pay television | 32.5 | 33.9 | 7.3 | 23.4 | 18.0 |
| Non-theatrical | | | | | |
| Advertising | 131.9 | 137.0 | 147.3 | 146.0 | 142.8 |
| Government | 38.0 | 45.0 | 45.8 | 70.3 | 35.8 |
| Educational | 5.0 | 3.5 | 2.1 | 3.2 | 2.2 |
| Industrial | 95.1 | 78.1 | 54.1 | 68.4 | 75.2 |
| Non-theatrical sub-total | 270.0 | 263.6 | 249.2 | 288.0 | 256.1 |
| For other production companies | 89.3 | 50.2 | 42.1 | 87.4 | 90.1 |
| Other (non-specialized) | 14.0 | 13.3 | 20.3 | 38.7 | 22.5 |
| Total Production Revenue | 581.2 | 581.8 | 586.4 | 733.9 | 797.4 |
| Non-production revenue | 119.3 | 106.4 | 111.0 | 262.6 | 312.4 |
| TOTAL REVENUE | 700.6 | 688.2 | 697.4 | 996.5 | 1,109 |
| Exports | 80.6 | 82.8 | 132.0 | 148.8 | 163.1 |
| Total Operating Expenses | 693.5 | 611.9 | 637.0 | 909.7 | 1,045 |
| *Profit Margin* | *1.0* | *11.1* | *8.7* | *8.7* | *5.8* |

*Source: Statistics Canada—87FOO10XPE*

Exhibit AI-16 profiles Canadian film and video producers in 1994-95. Theatrical production was unprofitable.

**Exhibit AI-16**
**Profile of Canadian producers according to market specialization, 1994-95**

| Type of Production | Number of Producers | Profit Margin (%) |
|---|---|---|
| Theatrical | 11 | -27.7 |
| Conventional and Pay TV | 181 | 4.7 |
| Advertising | 53 | 4.8 |
| Government and Education | 96 | 6.9 |
| Industrial | 166 | 10.3 |
| Contracted by other production companies and executive producers | 129 | 9.2 |
| Other | 70 | 5.3 |

*Source: Statistics Canada, Film and Video Statistics—87F0010XPE.*

One major shift in the market over the past two to three decades has been the decline in theatrical movie production and rise of home video, television, and generally non-theatrical modes. As early as 1988, the home video market had overtaken the theatrical market as a revenue source for the U.S. movie distributors. Over 70% of Canadian households have at least one VCR. In 1986, 42% of "certified Canadian" production went to theatrical films. By 1993, that ratio had dropped to 22%[1]. Also, the economics of television production is such that Canadian broadcasters can virtually guarantee usage and revenues because of Canadian content TV quotas and the increase in the penetration of cable TV and the sheer number of Pay TV and specialty channels; the television scenario is more secure for producers than the high-risk and high-stakes pursuits in feature films[2].

Evidence of strong growth in conventional TV and pay-TV production is shown in Exhibit AI-17. Production revenue increased from $174.3 million in 1990-91 to $434.6 million in 1994-95.

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[1] *Home video is the distribution sector with the lowest percentage Canadian content; content is unregulated.*

[2] *Canadian film production costs average $2.1 million -- compared to the Hollywood figure of $35 million (U.S.). (Everett-Green, R. "Not Coming Soon to a Theatre Near You,"* ***The Globe and Mail,*** *C4, January 18, 1997.)*

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**Exhibit AI-17**
**Profile of conventional and pay television producers, 1990-91 to 1994-95 (revenue figures in $millions)**

| | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 |
|---|---|---|---|---|---|
| Number of producers | 119 | 137 | 138 | 164 | 181 |
| Number of Productions | | | | | |
| Theatrical features | 1 | 9 | 3 | 7 | 8 |
| Television productions* | | | | | |
| under 30 minutes | --- | 1,490 | 2,694 | 2,488 | 751 |
| 30 - 74 minutes | --- | 2,358 | 2,045 | 3,141 | 2,463 |
| 75 minutes or over | --- | 366 | 56 | 151 | 332 |
| Television sub-total | --- | 4,214 | 4,795 | 5,780 | 3,546 |
| TV commercials | 114 | 53 | 17 | 264 | 1,758 |
| Music videos | 19 | 1 | 7 | --- | 2 |
| Corporate videos[1] | --- | 208 | 13 | 174 | 59 |
| Home videos[2] | --- | 21 | 2 | 2 | 2 |
| Educational productions | --- | 18 | 2 | 18 | 2 |
| Other[3] | 14 | 91 | 194 | 110 | 232 |
| TOTAL PRODUCTIONS | 5,389 | 4,515 | 5,022 | 6,355 | 5,609 |
| Production Revenue | 174.3 | 172.6 | 271.7 | 348.8 | 434.6 |
| Non-production Revenue | 48.2 | 40.7 | 47.5 | 178.8 | 186.4 |
| Total Revenue | 222.6 | 213.3 | 319.1 | 527.7 | 621.0 |
| Total Exports | 11.2 | 18.7 | 85.1 | 104.1 | 129.2 |
| Total Operating Expenses | 224.2 | 191.1 | 287.0 | 464.5 | 591.6 |
| *Profit Margin* | *-0.7* | *10.4* | *10.1* | *12.0* | *4.7* |

*Source: Statistics Canada—87F0010XPE*

*[1] Due to a change in methodology in 1991-1992, the data for these categories are not strictly comparable with previous years.*

*[2] Due to a change in methodology in 1991-1992, the data for these categories are not strictly comparable with previous years.*

*[3] Due to a change in methodology in 1991-1992, the data for these categories are not strictly comparable with previous years.*

## 1. Exports and co-production

Exports accounted for about $83 million or 12% of all production revenues in 1991-92. By 1994-95 exports had almost doubled—to $163.1 million. Conventional television and pay-TV production exports comprised about 80% of the sector's exports (this does not include revenue guarantees in the form of pre-sale commitments to independent producers by television and pay cable services in the U.S.). Co-production activities—with France, the U.K., New Zealand, Germany, and Mexico, including a total of about thirty countries—are significant for Canada and can be instrumental in opening doors to foreign markets. The film industry appears to be moving to a more globalized format, with more partnerships across different countries. Indeed, a recent study on the Canadian independent film and video distribution industry states[1]:

> Co-production treaties have been identified as an important method of taking advantage of international opportunities and to offset the scale advantage of Hollywood films.

Past definitions of Canadian content may need to be revamped to recognize these changes.

In addition, participation in international festivals such as Cannes and Berlin are key methods of making contacts, building partnerships, and marketing Canadian film and video product in foreign markets.

## 2. Distribution and wholesaling

The film and video distribution and videocassettes wholesaling sector is comprised of a few foreign majors which control the industry to a large degree (Time Warner, Paramount and Disney) and many Canadian firms. The Canadian/foreign breakdown is shown in Exhibit AI-18.

**Exhibit AI-18**
**Film and video distribution and videocassettes wholesaling, number of firms by principal activity and financial control, 1990-91 to 1994-95**

| Principal Activity | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 |
|---|---|---|---|---|---|
| Total Distributing & Wholesaling | | | | | |
| Canadian Control | 147 | 142 | 133 | 135 | 146 |
| Foreign Control | 25 | 23 | 21 | 21 | 22 |
| TOTAL | 172 | 165 | 154 | 156 | 168 |

[1] *Wall Communications Inc. (1996, November). **The Canadian Independent Film and Video Industry: Economic Features and Foreign Investment Related to the Distribution Sector**, p.75.*

The foreign-controlled share of distribution revenues were quite significant in 1994-95, especially in theatrical (75.6%) and home entertainment (29.4%) (see Exhibit AI-19). As for non-theatrical distribution, Canadian firms controlled almost 98%.

**Exhibit AI-19**

**Revenue from the distribution of film, video and audio-visual productions and videocassette wholesaling by primary market, 1990-91 to 1994-95**

| | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 |
|---|---|---|---|---|---|
| **Primary Market ($millions)** | | | | | |
| Theatrical | 193.4 | 184.6 | 170.8 | 196.4 | 239.0 |
| Pay TV | 33.5 | 34.3 | 35.1 | 54.8 | 56.4 |
| Conventional TV | 329.5 | 308.9 | 275.9 | 375.5 | 305.4 |
| Home Video | 74.9 | 92.7 | 132.8 | 121.5 | 132.9 |
| Sub-total/Home entertainment | 437.8 | 435.9 | 443.7 | 551.9 | 494.7 |
| Non-Theatrical | 24.3 | 22.7 | 21.9 | 22.2 | 20.3 |
| Unspecified | - | - | 13.6 | 13.5 | - |
| Total Distribution | 655.5 | 643.3 | 650.0 | 784.0 | 754.0 |
| Wholesaling Videocassettes | 495.4 | 547.3 | 542.7 | 514.1 | 717.0 |
| Other Revenue | 32.9 | 40.1 | 36.4 | 38.0 | 32.4 |
| TOTAL REVENUE | 1,183 | 1,230 | 1,229 | 1,336 | 1,503 |
| **Foreign Controlled Share (%)** | | | | | |
| Theatrical | 84.0 | 83.4 | 87.5 | 83.0 | 75.6 |
| Home Entertainment | 47.7 | 47.6 | 38.9 | 39.7 | 29.4 |
| Non-Theatrical | 9.8 | 9.2 | 4.6 | 4.5 | 2.2 |
| Total Distribution | 57.0 | 56.5 | 51.8 | 50.6 | 43.3 |
| Wholesaling | 32.6 | 33.0 | 31.2 | 31.1 | 32.2 |
| Other Revenue | 18.3 | 15.3 | 5.3 | 32.5 | 21.7 |
| TOTAL | 45.7 | 44.7 | 41.3 | 42.5 | 37.1 |

*Source: Statistics Canada—87F0010XPE.*

Overall, the foreign control of distribution was 43.3% in 1994-95, down from 57% in 1990-91. In fact there appears to be an overall trend to less foreign control in theatrical, home entertainment, and non-theatrical distribution. As for wholesaling, foreign control was 32.2%, almost unchanged from 1990-91.

In terms of profitability, foreign distribution and wholesaling firms remain more profitable, with 15.1% profitability in 1994-95 versus 12.8% profitability for Canadian-controlled firms (see Exhibit AI-20).

**Exhibit AI-20**
**Film and video distribution and videocassettes wholesaling, profitability by financial control 1990-91 to 1994-95**

| **Profit Margin (% of Total Revenue)** | **1990-91** | **1991-92** | **1992-93** | **1993-94** | **1994-95** |
|---|---|---|---|---|---|
| Canadian Control | 4.3 | 2.9 | 11.0 | 11.6 | 12.8 |
| Foreign Control | 16.8 | 23.0 | 11.5 | 21.3 | 15.1 |

*Source: Statistics Canada—87F0010XPE.*

The following two main players hold almost two-thirds of the theatrical film exhibition market: *Famous Players* (controlled by Viacom, the U.S. entertainment firm) and *Cineplex Odeon* (50% owned by MCA, and also owned by Canadian investors such as Nat Taylor and Garth Drabinsky).

Exhibit AI-21 provides details of motion picture theatre financials, including number of theatres, admissions, ticket price, revenues, expenses, salaries and benefits, and profit margin. Perhaps the most notable trend is the overall decline in revenue, ticket prices, and profit margins from 1990-91 to 1994-95, due to increased VCR usage for rental films. Still, profits were a solid 11% in 1994-95.

There has been a noticeable shift in the theatres toward more and smaller screens, in order to accommodate greater choice and fragmentation in the film market.

Approximately 95%-97% of all Canadian theatre screen times are devoted to showing non-Canadian films.

**Exhibit AI-21**
**Canadian motion picture theatres profile, 1990-91 to 1994-95**

| | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 |
|---|---|---|---|---|---|
| Number of Theatres | 633 | 620 | 598 | 581 | 582 |
| Paid Admission ($millions) | 76.2 | 69.2 | 71.7 | 76.5 | 81.1 |
| Average Ticket Price ($) | 5.94 | 5.64 | 5.35 | 5.30 | 5.29 |
| Number of Screens | 1,565 | 1,611 | 1,613 | 1,601 | 1,682 |
| Revenue ($millions) | | | | | |
| Admission receipts | 425.3 | 367.3 | 365.0 | 387.9 | 409.6 |
| Concessions & other | 135.7 | 124.4 | 129.5 | 144.9 | 158.7 |
| Total Revenue | 560.9 | 491.8 | 494.4 | 532.8 | 568.2 |
| Expenses —Total ($millions) | 483.1 | 433.7 | 431.5 | 475.6 | 505.6 |
| Salaries & Benefits ($millions) | 86.5 | 84.2 | 85.2 | 86.4 | 96.0 |
| Profit Margin | 13.9 | 11.8 | 12.7 | 10.7 | 11.0 |

*Source: Statistics Canada—87F0009XPE.*

### 3. Public policy and support

Public sector support for film and video production amounts to 20-25%, though it can reach levels as high as 50%-75% for feature films. In 1994-95 total government expenditure on film and video amounted to $317 million, $241 million from federal sources and $76 million from the provinces. The focus of most support is on production.

The *Canadian Film Development Corporation* (CFDC—now Telefilm) was set up in 1968 by the federal government with a fund of $10 million meant to be self-financing. It was a commercial agency which would support profitable feature film ventures. A second allotment of $10 million was approved in 1971. Despite some prominent successes such as *Goin' Down the Road* and *Love in a Four Letter World,* CFDC struggled to demonstrate success. Even after the Capital Cost Allowance was altered to allow 100% write-offs in 1974, leading to an explosion in the number of CFDC-financed films in the late 1970s, it became clear that commercial directions of CFDC were not viable and did not adequately serve the needs of French-Canadian producers.

Film production financing has been assisted since 1996 through a refundable tax credit, *Canadian Film or Video Production Tax Credit,* for eligible films and videos produced and owned by Canadian controlled corporations. This replaced the Capital Cost Allowance which was offered since 1974 to promote financing from Canadian or foreign-controlled sources for films meeting Canadian production quotas. The new refundable tax credit is designed to encourage a more stable financing environment and long-term corporate development for production companies. The credit is available to Canadian owned and controlled production entities only, at a rate of 25% of labour costs directly attributable to production. The eligible labour costs are reduced by any other labour-related assistance. The eligible labour costs qualifying for the new credit may not exceed 48% of production costs as certified by CAVCO[1] and the Minister of Canadian Heritage. The new credit, therefore, provides assistance of up to 12% of total production costs. The eligibility requirements are based largely on the abolished CCA for certified productions and maintain the same cost requirements (minimum 75% of services expended on Canadians and 75% of post-production costs in Canada) and key creative point requirements (minimum of six of 10 points for key creative positions).

The government of Quebec established its own tax credit in 1990. The Quebec tax credit is available at a rate of 40% of labour costs directly attributable to a Quebec film or video production produced and owned by a Quebec-controlled corporation. The eligible labour costs may not exceed 45% of production costs. Therefore the tax credit provides assistance of up to 18% of total production costs. In 1996 Quebec also created a tax credit for multimedia producers that provides a credit worth up to 30% of production costs.

The government of Ontario announced the introduction of a similar tax credit in 1996, which is expected to return $25 million to the province's producers. The Ontario tax credit returns 15% of eligible labour costs (30% on the first $240,000 if the production company is a new one), not to exceed 48% of production costs. The tax credit can therefore provide assistance of up to 7.2% of the total production costs.

Nova Scotia and New Brunswick also offer tax credits for film and video production.

The Federal government, through and with several agencies, provides direct support and assistance to the film and video industry. Financial (loans, investments and grants) support is provided by *Telefilm Canada*[2], a Crown Corporation, for the production, promotion and distribution of entertainment motion pictures. In 1995-96 *Telefilm Canada* contributed $21 million to the *Feature Film Fund* for film production by private Canadian entities. Priority is granted to projects with strong Canadian point of view and creative participation. *Telefilm Canada* also operates the $18.1 million *Feature Film Distribution Fund*, established in 1988 as a mechanism for helping domestic distribution firms acquire the rights to Canadian film product, as well as the $15.6 million

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[1] *The Canadian Audio-Visual Certification Office (CAVCO) certifies Canadian films for Canadian content[1] to qualify for special tax support. A 100% CCA was first announced in 1974, later reduced to 30% in 1988. While the CCA stimulated the film industry, it also may have had deleterious side-effects such as the promotion of financial scams[1].*

[2] *The Canadian Broadcast Program Development Fund was set up through CFDC in 1983 with a focus on television programming for broadcast audiences. CFDC was renamed Telefilm Canada in 1984 to reflect this new direction. Notably, there was no expectation for self-financing for Telefilm Canada. Reflecting this Telefilm change in focus away from film and toward television broadcasting production, the government established the Feature Film Fund* in 1986—*allowing Telefilm to partner up to 49% in various film productions. In 1993-94 Telefilm Canada provided almost 40% of* Canadian feature film funding—*with other governments providing 28%, distributors 12%, the private sector 10%, foreign partners 8%, and broadcasters just over 1%..*

*Commercial Production Fund,* targeted at projects with high potential returns over a short period of time. *Telefilm* supports film through a variety of other means such as participation in international markets and festivals, grants to Canadian festivals, closed captioning for the hearing impaired, and the new pilot program—the *Multimedia Production and Publishing Assistance*.

*The National Film Board of Canada* (NFB) was created in 1939 by the federal government to produce, distribute and promote Canadian films, specializing in documentaries and experimental animation. The *National Film Board* administers three small funds for co-productions with the independent sector, with an emphasis placed on feature films with high cultural value. The NFB produces and distributes audio-visual works, and is not a funding agency *per se*. It uses staff filmmakers and freelancers, sometimes in partnership with private producers. Its mandate by the 1980s came to include a focus on contemporary sociocultural concerns. In 1995-96, NFB produced 54 films of its own and co-produced 56 others. NFB typically produces or co-produces 80-100 films per year. In 1996-97, the NFB received $65 million as its parliamentary appropriation. This will decline to $56 million in 1997-98.

The *Cultural Industries Development Fund,* sponsored by the Department of Canadian Heritage, finances loans to businesses in film as well as other many cultural industries. Film accounted for $3.8 million or 39% of CIDF loans in 1994-95 (up from 29% in 1993-94).

Many other federal agencies and organizations support film and video in Canada, including: the *Canada Council* (created 1957), which supports initiatives of film and video artist individuals and co-ops. The Department of Foreign Affairs and International Trade, through the self-financing *Export Development Corporation,* provides financial solutions for Canadian exporters of all types, including cultural industries. The *Non-Theatrical Film and Video Corporation* administers the *Canadian Independent Film and Video Fund* to support Canadian production geared to educational institutions, libraries, community and social groups, and business.

The *Canada Television and Cable Production Fund* (CTCPF), started in 1996, amounts to $200 million per year. It is a government-industry partnership: the federal government will provide $150 million ($50 million from the former *Canadian Broadcast Program Development Fund*) and about $50 million will be derived from licence fees relating to the former *Cable Production Fund.* CTCPF serves to enhance Canadian production, viewership, and program variety, and is open to any Canadian-controlled production entity.

The CRTC, on the other hand, determines Canadian content for purposes of broadcasting quotas. Generally, Canadian television stations must broadcast at least 60% Canadian content overall. Television production is seen as the prime source of expansion for the film and video industry.

There exist restrictions on foreign ownership in the distribution business. New foreign-owned operations can only distribute their own films, and takeovers must be accompanied by a promise to earmark funds to domestic film producers (this is disputed in the recent report by Wall Communications Inc. which states that no level of reinvestment or time period is formally defined[1]).

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[1] *(1996, November).* ***The Canadian Independent Film and video Industry: Economic Features and Foreign Investment Related to the Distribution Sector.***

Note that some have disputed the contention that foreign distributors would have an economic bias against marketing Canadian films in Canada[1], or that the relationship between distribution and marketing is necessarily distorted in a vertically integrated scenario[2].

The CBC is a major exhibitor of Canadian films, and often the sole viewing opportunity for Canadians outside large urban centres. The CBC shows about 30 Canadian films per year, often through its late-night *Cinema Canada.* Distribution of films and video is a key function linking producers with exhibition sites. In Canada, most distribution revenues are generated by foreign productions. A consulting study by NGL concluded that the best market for Canadian Feature films is TV such as the CBC. The Canadian content policies and avenues such as the CBC and provincial outlets have helped anchor the Canadian film and video industry.

As well, many provincial governments have supported film and television production. For example, the *Ontario Film Development Corporation*, begun 1986, provided almost $4 million to feature film production in 1992-93, and also operated the *Ontario Film Investment Program* which provided cash rebates for film and television productions with Canadian content which spent 75% or more of their budgets in Ontario[3]. The budget for *Ontario Film Development Corporation* was cut 95% in 1996.

The Canada/U.S. exchange rate, as well as relative fragmentation of the TV audiences due to increased channel offerings, has made Canada an attractive site and/or partner for film production in the eyes of foreign film and video interests. Many well-financed Canadian production companies (e.g. *Alliance, Atlantis and Paragon*) have become partners for American firms. *Alliance*, for example, produced *Due South,* the first Canadian series broadcast on U.S. network prime time. Still, *Alliance* depends very much on public support: in FY ending March, 1993, 22% of *Alliance's* TV program production was financed by government. In 1996, *Alliance* partnered with broadcasters and cable networks such as *ABC, CBS, Fox, USA Network, Family Channel* and *MTV. Atlantis* sold about half of its television production to the U.S., and about a quarter each to Canadian and European markets. Companies such as *Alliance* and *Atlantis* focus on television production, though they do undertake film production (e.g., *Black Robe* by *Alliance* in partnership with Australian interests).

**4. The impact of technology**

Canadian companies have been successful in the production of special effects and interactive media. For example *Alias Research* of Toronto (purchased by Silicon Graphics in March 1995) creates animation and special effects for movies, TV, video games, and theme-park rides. Almost 40% of Alias's sales are outside North America. Also, *Industrial Light and Magic,* the largest computer

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[1] *See Globerman, S. (date unknown) "Foreign ownership of feature film distribution and the Canadian film industry,"* ***Canadian Journal of Communication.***

[2] *See Globerman, S. and Vining, A. (1987).* ***Foreign Ownership and Canada's Feature Film Distribution Sector: An Economic Analysis.*** *The Fraser Institute, 1987.*

[3] *OFIP was replaced in July 1997 by the Ontario Film and Television Tax Credit.*

animation house in North America, has as its chief animator Steve Williams—a Toronto native and graduate of Sheridan College's computer animation program.

Revenues in the high-technology film laboratory, production and post-production sector amounted to $360 million in 1994-95. This is 36% higher than in 1990-91. Profit margins increased from 10.2% to 15.4% over this period.

New technologies such as direct-to-home satellite and pay-per-view TV have the potential to enhance the demand for entertainment in general and increase the share of specialty cultural products such as Canadian film which are not necessarily "mass market" in nature.

Theatre companies will not divulge the exact % Canadian content offerings for their screens. Statistics Canada estimates it at between 3% and 5%. But a *Take One* magazine survey pegged it at about 1.75 % for the Greater Toronto Area. *Alex Film Inc.,* which releases data for Quebec, estimates it as about 3.36% for that province. In Australia the percentage domestic film screening stands at about 7%.

## E. Radio

Like television broadcasting, radio broadcasting in Canada involves a hybrid system with a public service (the CBC) and a host of private radio stations. According to the radio marketing bureau (1993), radio reaches 95% of all Canadians, who weekly spend an average of 22 hours listening to radio, an increase of 10% over the late 1980s. Radio listening far exceeds the time Canadians spend reading books, newspapers, and periodicals[1]. Almost every household in Canada owns at least one radio set and close to 50% have three or more. Virtually all passenger vehicles are equipped with radio.

It is important to note that automobile usage is very important for the radio medium. Radio is at its peak in the mornings, when listeners are preparing for and commuting to work. Between 7:00 a.m. and 9:00 a.m., about 25% of the population tunes in, but this figure declines shortly thereafter; between noon and 4:00 p.m. radio reaches approximately 10% of the population; after that time, radio listenership varies between 7 and 9 %.

Radio listenership has been moving from the AM band to the FM band where reception is better. Exhibits AI-22 and AI-23 present information on the number of radio stations on both AM and FM bands.

[1] *Ekos Research Associates, 1991.*

**Exhibit AI-22**
**Number of originating AM radio stations in Canada, 1988 versus 1994**

| Type of Stations | 1988 | 1994 | change |
|---|---|---|---|
| CBC-owned and operated | 73 | 29 | -44 |
| CBC-affiliated | 18 | 11 | -7 |
| Private independent | 307 | 301 | -6 |
| Campus | 10 | 9 | -1 |
| Educational | 1 | 0 | -1 |
| Community and native | 5 | 5 | nil |
| Ethnic | 6 | 6 | nil |
| TOTAL | 361 | 420 | -59 |

*Source: CRTC, 1988, Annual Report; CRTC, 1994, Originating Station.*

**Exhibit AI-23**
**Number of originating FM radio stations in Canada, 1988 versus 1994**

| Type of Stations | 1988 | 1994 | change |
|---|---|---|---|
| CBC-owned and operated | 28 | 35 | +7 |
| CBC-affiliated | 6 | 9 | +3 |
| Private independent | 151 | 185 | +34 |
| Campus | 23 | 26 | +3 |
| Educational | 2 | 2 | nil |
| Community and native | 81 | 176 | +95 |
| Ethnic | 2 | 2 | nil |
| Total | 296 | 432 | +136 |

*Source: CRTC, 1988, Annual Report; CRTC, 1994, Originating Stations.*

## 1. The economics of radio

Given the public and private nature of Canada's radio system, the commercial and public networks need to be examined separately.

Private radio is essentially a commercial undertaking to serve local markets. It is encouraged by broadcasting legislation to participate in national objectives. The 1991 *Broadcasting Act* declares that private networks and programming undertakings should, to an extent consistent with financial and other resources available, contribute significantly to the creation and presentation of Canadian programming.

Private stations account for 70% of radio stations and 83% of audience share. While no recent data is available on the level of concentration or cross-ownership, private radio appears to be fragmented and composed of small businesses which often operate in small communities. Among the 155 companies which operated radio stations in 1992, 66% operated in a single or two stations, only 10 companies owned 10 or more stations, no one broadcast group owned more than 5% of all radio stations in the country.

Most private stations are independent even though a number are owned by or affiliated with large groups where networking is possible.

In 1994 there were 484 private radio stations operating in Canada. Total operating revenues for AM and FM stations were $766 million in 1994, up 3% from the previous year, but down from a high of $780 million in 1990 (see Exhibit AI-24). In 1994, almost 97% of revenues came from the sale of air time. Operating expenses in 1994 were the lowest since 1989, but not enough to reap a profit. Private radio stations reported an aggregate loss for the fifth year in a row, $28 million for 1994. However, FM stations as a subset were quite profitable.

Radio plays a significant economic role in Canada. Radio stations are producers as well as purchasers of programs, and many performing organizations benefit from royalty payments based on radio play.

The number of employees in private radio has dropped steadily in recent years, from a high of 10,734 in 1989 to 9,251 in 1994. Total salaries increased steadily until 1992, but have dropped off slightly since.

**Exhibit AI-24**
**Private radio ($ millions)**

| | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| Sales of air time | 764 | 741 | 749 | 721 | 741 |
| Revenue | 780 | 756 | 768 | 741 | 766 |
| Expenses | 811 | 816 | 813 | 785 | 776 |
| Net profits before taxes | -30 | -34 | -32 | -50 | -28 |
| Salaries and other staff benefits | 375 | 387 | 391 | 383 | 386 |
| Number of employees (weekly average) | 10,41 | 10,21 | 9,80 | 9,59 | 9,25 |

*Source: Statistics Canada,* ***Radio and Television Broadcasting Annual Returns.***

AM radio stations today are perceived as being talk-oriented whereas FM stations offer less news, less talk, but specialized music programming. Audiences, particularly young adult audiences, are targeted by FM with greater precision, an interesting prospect for advertisers.

Public radio in Canada falls within the domain of the CBC. Provincial governments are absent in the sector, unlike public television. And, unlike its CBC television associate, CBC radio is commercial free. While CBC has stations across the country, none of its networks or stations dominates the market. However, CBC radio has held its audience share for several years. The English network accounted for 7.8% of radio listening in spring of 1995, with the combined share of English radio and stereo networks representing 11.4% of listening. This was up slightly from 10.5% in the fall of 1984. The Mandate Review Committee studying the CBC and telefilm in 1996 regarded these results as a strong performance, especially given the trend away from AM.

Within the French language market, the CBC Radio Network accounted for 6.7% of radio listening in the spring of 1995, compared with 6.1% in 1984. The combined share of listening accounted for by the two French-language radio services among francophones in the spring of 1995 was 9.5%.

## 2. Public policy and support

Unlike the United States where regulation has been driven by spectrum scarcity, in Canada, the rationale for regulation has been the promotion of Canadian identity and culture[1]. All stations and networks are controlled and owned by Canadian interests. Section 19 of the *Income Tax Act* ensures that foreign radio broadcasters cannot compete for Canadian radio advertising revenues.

In 1968, Canadian musical selections accounted only 4% to 7% of all music played on AM stations. In 1970, regulations were introduced to impose a 30% minimum of Canadian content, which remains to this day. The latest redefinition of Canadian musical content. These regulations are in effect today.

Since 1991, FM stations must, like AM, play a minimum 30% Canadian selections, scheduled in a reasonable manner through each broadcast day.

The content regulations are intended to expose Canadian musical performers to Canadian audiences and to strengthen the Canadian industry. Cultural and industrial objectives are closely interrelated too. In addition, stations licensed to operate in French, either on the AM or FM bands, must devote at least 65% of their weekly vocal selections to French.

Apart from music regulation, there is also talk or spoken-word regulation. A spoken-word program contains no music other than background music and musical themes. Starting in 1991, FM

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[1] *According to Paul Audley and Associates Ltd., (February 24, 1997)* ***Issues Paper: IHAC Steering Committee on Canadian Content and Cultural Identity****, prepared for the Information Highway Advisory Council Secretariat, Industry Canada.*

commercial radio stations were required by policy to devote a minimum of 15% of their broadcast week to oral Canadian content. In 1993, this requirement was replaced with a requirement that FM stations devote a third of their broadcast week to local programming.

Public support in terms of funding is directed to native Canadians, community radio, and the CBC.

### 3. The impact of technology

With the AM band in decline and available FM frequencies fully allocated in many markets, digital radio is seen as a tool for the radio industry to remain technologically competitive. Digital radio surpasses services offered by conventional analogue AM and FM radio and offers CD-quality transmission. Furthermore, it can provide data transmission if properly developed.

Satellite radio presents a new challenge because Canadian content restrictions are not as strict in this area.

## F. Television

### 1. Introduction

Television has existed as a form of mass entertainment and information for only about half a century. It has enveloped our society and provides the environment by which a large majority of Canadians access information and entertainment. TV defines a large part of the Canadian social and cultural systems.

While the TV broadcasting industry is by all accounts mature, technological forces and globalization are combining to alter it in ways almost as dramatic as the transformation from radio to television in the 1950s.

### 2. Television in Canada

Canadian Television began in Canada in September 1952 when the Canadian Broadcasting Corporation (CBC) broadcast from Toronto and Montreal. By 1956, 27 private and CBC-owned stations had sprung up across the country; all carrying CBC-affiliated programming. There existed more than 50 hours of TV programming a week, almost half of which was Canadian. The CBC has as one of its prime responsibilities the broadcast of television in both official languages.

Over time, some stations abandoned their CBC affiliation to become independent. These stations became responsible for their own programming and had no share in the CBC network revenues. However, this arrangement allowed them to purchase American programming, the supply of which was larger and cheaper since more stations shared in the production costs. By 1961, there were 55 private television stations in Canada. That year, almost a decade after television had come to Canada, a new network was created—called the *CTV Television Network*. It began as a co-operative effort among stations that had given up CBC affiliation and new licensees. CTV did not—and still does not—own any stations, but operates through a system of affiliated stations carrying a certain amount of common programming and sharing in profits.

In the late 1960s, the *TVA Television Network* was created, a private French-language network, operating in a manner similar to the CTV. In the mid-1980s, *Television Quatre Saisons* (TQS) was inaugurated to operated along similar lines. Smaller networks were also created.

By 1994, there were 101 private commercial TV stations in Canada, 31 of which were affiliated with the CBC (26 English and 5 French-language Radio Canada). CTV had 18 full and 15 supplementary affiliates, TVA 10 affiliates, TQS 8, and there were many other independents.

### a) Other developments

In the 1960s, cable television was introduced, providing access to many more TV stations. No longer were large roof antennae required to receive station signals. Moreover, viewers could minimize interference on the screen and access more distant signals. Canadian viewers now had quality access to American channels which, until that time, had been available only to homes near the border.

Broadcasters now had more competition, and this competition for the viewing public involved extended advertising and tax measures. Canadian advertisers were placing advertisements on American border stations to reach these viewers, and broadcasters were losing substantial revenue to American television stations. In response, the CRTC had cable operators substitute Canadian signals when programs were shown simultaneously on Canadian and American stations. Legislation was also passed to prevent Canadian companies from claiming expenses for advertising on American television.

There were in excess of 500 cable companies operating in Canada in 1994, most of them small and serving local communities. Fourteen large companies operating in major urban centres accounted for two-thirds of the market.

In 1983, pay-TV and specialty services were introduced. These systems were unique in that they did not operate over the air, but were available only via cable. Most could not sell commercials (i.e., movie channels) and were available for a premium. Licensed with the pay-TV services were two specialty services channels, *MuchMusic* and *The Sports Network*. These also received money from cable subscribers, but could sell advertising. In 1989, more specialty services were introduced, reflecting a move towards "narrowcasting."

Since that time the CRTC has issued several other licences to specialty channels, giving Canadians further and more specialized choice in television viewing.

## 3. Private TV broadcasting

Given the size of the Canadian English and French TV markets and easy cross-border reception of U.S. station private sector broadcasters, Canada has traditionally imported large quantities of U.S. programming. Many observers believe that the success of English-language broadcasters has been based on providing audiences for imported US shows, not by producing or purchasing shows of comparable quality in Canada or by promoting domestic talent.

Cable operators obtain much of their revenues from importing and selling clearer reception of domestic and foreign signals. The CRTC has set minimum Canadian content requirements for Canada's private broadcasters.

In 1994, there were 101 operating private television stations in Canada, with total operating revenues of nearly $1.5 billion. Most revenue was based on the sale of air time. A gradual decline in profits over the 1980s culminated in a noticeable $70 million loss for the industry in 1991. Since then, the industry has recovered by rationalizing and restructuring, and managed pre-tax profits of $82 million in 1994 (see Exhibit AI-25).

**Exhibit AI-25**
**Canadian private television financial profile, 1990 to 1994**

| | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| Sales of air time | 1,24 | 1,26 | 1,34 | 1,33 | 1,37 |
| Revenue | 1,36 | 1,37 | 1,46 | 1,46 | 1,49 |
| Expenses | 1,37 | 1,39 | 1,40 | 1,38 | 1,41 |
| Net profits before taxes | 14 | -70 | 57 | 90 | 82 |
| Salaries & staff benefits | 406 | 421 | 425 | 428 | 444 |
| Number of employees (weekly average) | 8,67 | 8,52 | 8,29 | 9,59 | 8,27 |

*Source: Statistics Canada,* ***Radio and Television Broadcasting Annual Returns.***

Employment in television stations has fallen in recent years. In 1994, TV stations provided, on average, 8,273 jobs, down from 8,673 in 1990. Salaries and benefits grew from $365 million in 1989 to $444 million in 1994.

## 4. Public broadcasting

The Canadian Broadcasting Corporation (CBC) is a public institution providing both radio and television services. It is funded primarily by the federal government.

In 1994, the CBC received federal support to cover net costs of $1.1 billion. This funding supplemented operating revenues of $350 million, including $292 million in sales of air time (see Exhibit AI-26). Similar to private broadcasting, total CBC salaries and benefits rose from 1990 to 1994, from $683 million to $783 million. Although operating revenues have increased in recent years, they have not kept pace with rising costs. Government support to the CBC has been declining—it will be funded $820 million in 1998-89, down from $1.2 billion five years ago.

**Exhibit AI-26**
**Canadian Broadcasting Corporation Financial Profile, 1990 to 1994**

| | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| Sales of air time | 291 | 283 | 309 | 282 | 292 |
| Revenue | 318 | 322 | 346 | 332 | 350 |
| Expenses | 1,33 | 1,34 | 1,37 | 1,42 | 1,49 |
| Net profits before taxes | 989 | 1,00 | 1,00 | 1,06 | 1,12 |
| Salaries and other staff benefits | 683 | 720 | 711 | 713 | 783 |
| Number of employees (weekly average) | 10,73 | 9,81 | 9,29 | 9,20 | 12,29 |

*Source: Statistics Canada,* ***Radio and Television Broadcasting Annual Returns.***

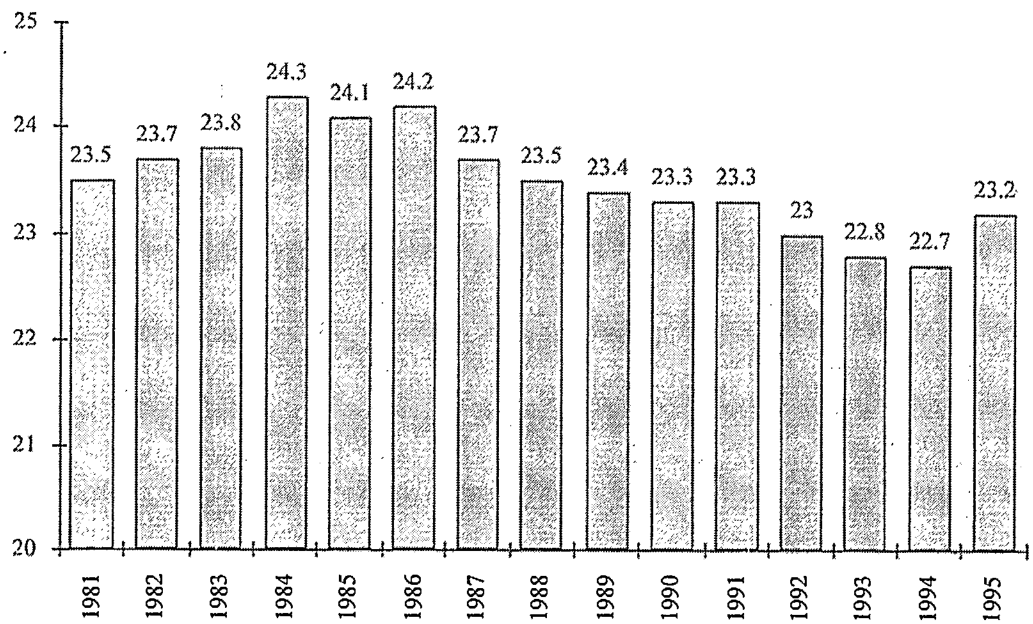
Several provincial public TV operations also exist, such as *TVOntario and Radio-Quebec. TV Ontario* received about $57 million in transfer grants in 1995-96.

# G. Characteristics of the Canadian television market

## 1. Viewing habits

Canadians watched an average of 23.2 hours of TV per week in 1995, interrupting a downward trend of the eight prior years since the 1987 (see Exhibit AI-27).

**Exhibit AI-27**
**Weekly Canadian per capita hours of viewing television, 1980 to 1995**




*Source: Statistics Canada,* ***Survey of Television Viewing.***

According to Statistics Canada almost two-thirds of average weekly television viewing (14.9 hours) is of conventional Canadian stations, and another 17% (3.9 hours) is of American conventional stations. Pay TV and specialty channels account for about 11% of viewing (2.5 hours), and the remaining 5% (1.2 hours) can be attributed to VCR playback.

English and French-speaking Canadians differ in their television program viewing, partly as a result of differences in the supply of available programming in each language (see Exhibits AI-28 and AI-29). Foreign programming is more popular among anglophones, accounting for 74% of viewing. Only 36% of programs viewed by francophones were foreign.

**Exhibit AI-28**

**Percentage distribution of television viewing time, Canadian anglophones 2 Yrs +, by origin and type of program and origin of station: Fall 1995**

| | All Television Stations | | | Foreign Stations | Canadian Stations | | |
|---|---|---|---|---|---|---|---|
| **Programs** | **anadian** | **Foreign** | **Total** | **All** | **All** | **Canadian** | **oreign** |
| News and public affairs | 15.4 | 6.2 | 21.6 | 3.4 | 18.2 | 15.4 | 2.8 |
| Documentary | 0.5 | 3.0 | 3.5 | 1.8 | 1.7 | 0.5 | 1.2 |
| Instruction: Academic | 0.6 | 0.7 | 1.3 | 0.5 | 0.8 | 0.6 | 0.2 |
| Social/recreational | 0.4 | 1.0 | 1.3 | 0.6 | 0.7 | 0.4 | 0.3 |
| Religion | 0.2 | 0.1 | 0.3 | - | 0.3 | 0.2 | 0.1 |
| Sports | 7.0 | 3.2 | 10.1 | 1.8 | 8.4 | 7.0 | 1.4 |
| Variety and games | 1.1 | 6.5 | 7.6 | 1.9 | 5.7 | 1.1 | 4.6 |
| Music and dance | 1.0 | 0.8 | 1.9 | 0.6 | 1.3 | 1.0 | 0.2 |
| Comedy | 0.1 | 15.2 | 15.3 | 4.9 | 10.4 | 0.1 | 10.3 |
| Drama | 2.1 | 25.1 | 27.2 | 9.0 | 18.3 | 2.1 | 16.2 |
| Other | - | 9.8 | 9.8 | 2.4 | 7.4 | - | 7.4 |
| TOTAL | 28.5 | 71.5 | 100.0 | 26.9 | 73.1 | 28.3 | 44.8 |

*Source: Statistics Canada—87F0006XPE.*

**Exhibit AI-29**

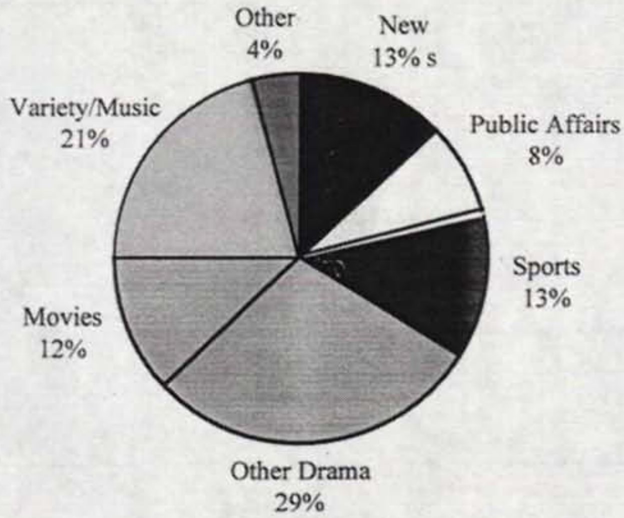
**Canadians' percentage distribution of television viewing time, Canadian Francophones 2 Yrs +, by origin and type of program and origin of station: Fall 1995**

| Programs | All Television Stations | | | Foreign Stations | Canadian Stations | | |
|---|---|---|---|---|---|---|---|
| | Canadian | Foreign | Total | All | All | Canadian | Foreign |
| News and public affairs | 28.1 | 1.3 | 29.4 | 0.6 | 28.8 | 28.1 | 0.7 |
| Documentary | 1.2 | 1.1 | 2.4 | 0.2 | 2.1 | 1.2 | 0.9 |
| Instruction: Academic | 0.9 | 0.2 | 1.1 | 0.1 | 1.0 | 0.9 | 0.1 |
| Social/recreational | 0.4 | 0.2 | 0.6 | 0.1 | 0.5 | 0.4 | 0.1 |
| Religion | 0.3 | - | 0.3 | - | 0.3 | 0.3 | - |
| Sports | 5.2 | 0.9 | 6.1 | 0.5 | 5.6 | 5.2 | 0.4 |
| Variety and games | 15.3 | 1.5 | 16.7 | 0.7 | 16.0 | 15.3 | 0.7 |
| Music and dance | 0.7 | 0.2 | 0.9 | 0.1 | 0.8 | 0.7 | 0.1 |
| Comedy | 2.0 | 6.6 | 8.5 | 0.7 | 7.8 | 2.0 | 5.8 |
| Drama | 12.9 | 14.4 | 27.3 | 1.6 | 25.7 | 12.9 | 12.8 |
| Other | - | 6.8 | 6.8 | 1.0 | 5.8 | - | 5.8 |
| TOTAL | 66.9 | 33.1 | 100.0 | 5.7 | 94.3 | 68.8 | 27 |

*Source: Statistics Canada—87F0006XPE.*

The past decade has brought growth in programming choices, but remarkably little change in types of programming viewed by Canadians. Exhibit AI-30 shows the proportionate amounts of time spent watching news, public affairs, sports, various categories of drama and other entertainment programming in 1993, which is very similar to a decade earlier. Only time spent viewing other drama, excluding movies, has shown decline, though it still occupies 29% of viewing time. VCR rentals are not included in Nielsen ratings, which may mean that movie viewing as a whole has increased.

**Exhibit AI-30**
**Canadians' viewing of different types of programs on English TV**
**6:00 a.m. - 2:00 a.m., all persons 2 years + (%), 1993**




*Source: CBC Research (A.C. Nielsen).*

The amount of time spent watching Canadian content has remained at about 30% over the past decade (see Exhibit AI-31), despite licensing of Canadian cable specialty channels, the influx of production dollars from Telefilm Canada and other production funds, and increased Canadian programming contributions from CBC and other public broadcasters.

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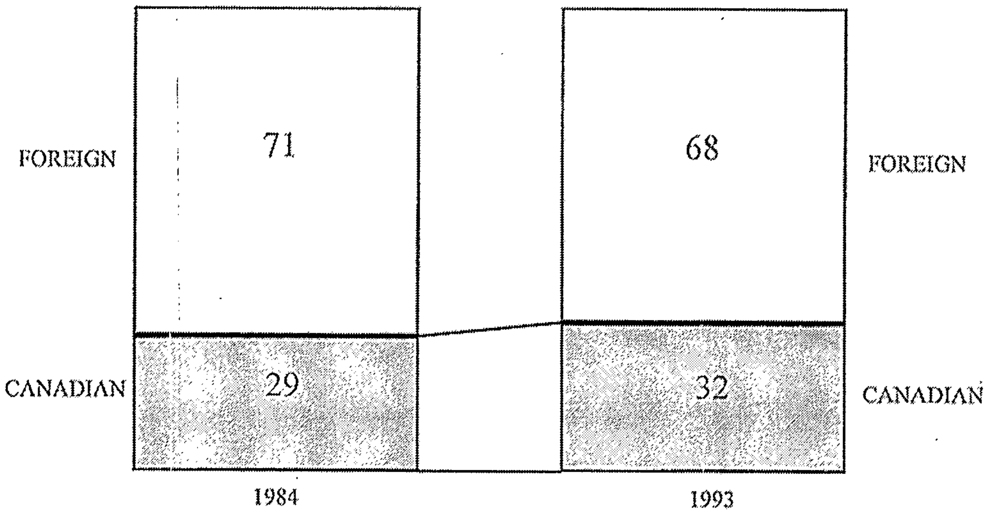
**Exhibit AI-31**

**Canadians' viewing of Canadian and foreign programs on English TV, 6:00 a.m. - 2:00 a.m., persons 2 years+, 1984 calendar year versus 1993 (September/92-August/93) (%)**




*Source: CBC Research (A.C. Nielsen).*

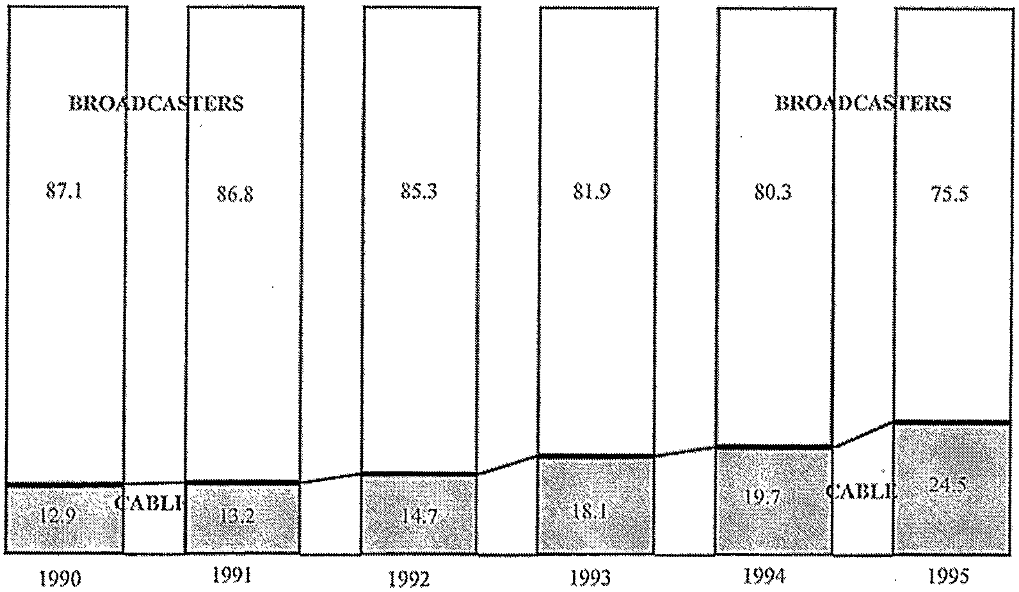
Thus, over the past ten years the amount of time Canadians spend viewing TV, the types of programs watched, the share of Canadian programs, have seen little change. The fact that TV viewing habits have been so stable for the past ten years is a critical factor for those planning to offer new delivery systems or programming services. New delivery technology must compete on either price, quality, or convenience, rather than depending on market growth per se. New programming services must position themselves to capture market share from traditional TV.

## 2. Audience fragmentation

While the number of hours spent watching TV has not changed significantly, TV audiences have changed the way they watch TV, especially in the 1990s when specialty cable channels proliferated.

At the beginning of the decade Canadian and U.S. broadcasters (the latter imported as the main attraction of Canadian cable systems in that industry's early days) captured 87% of the total TV audience. The remaining 12.9% went to cable channels. However, by 1995 cable's share had almost doubled to 24.9% (see Exhibit AI-32).

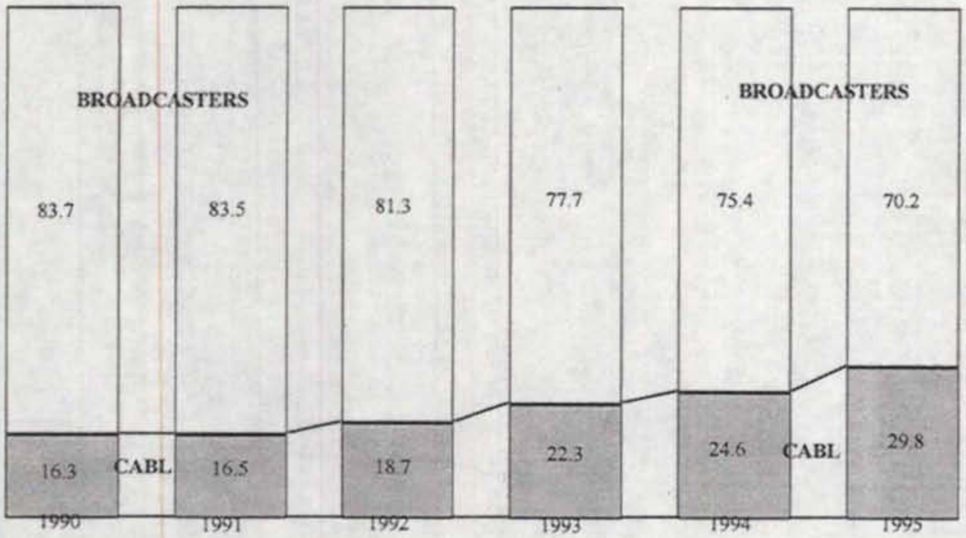
**Exhibit AI-32**
**Audience share of English station groups, cable versus broadcasting, Canadians 2 years+, 1990 to 1995**




*Source: CBC Research (A.C. Nielsen).*

Moreover, among cable TV homes, who now represent three in four English Canadian homes, the share of cable pay and specialty channels had risen to almost 30 % of viewing time (see Exhibit AI-33 ).

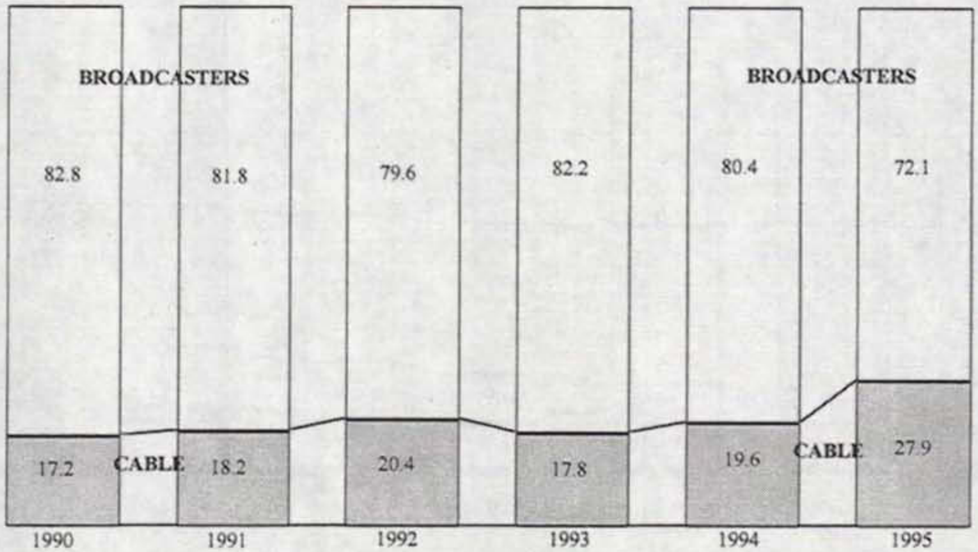
**Exhibit AI-33**
**Audience share of English station groups, cable households, all Canadians 2 years+**




*Source: CBC Research (A.C. Nielsen).*

Interestingly, this trend has occurred not only in English Canadian TV industry but also in French Canadian TV, which is somewhat shielded from the influence of U.S. broadcasting by language and culture. French-language specialty networks, while fewer in number, represent close to 30% of French TV viewing in cable homes (see Exhibit AI-34). Cable is only slightly less popular among Francophone households, with subscription levels of about 70%.

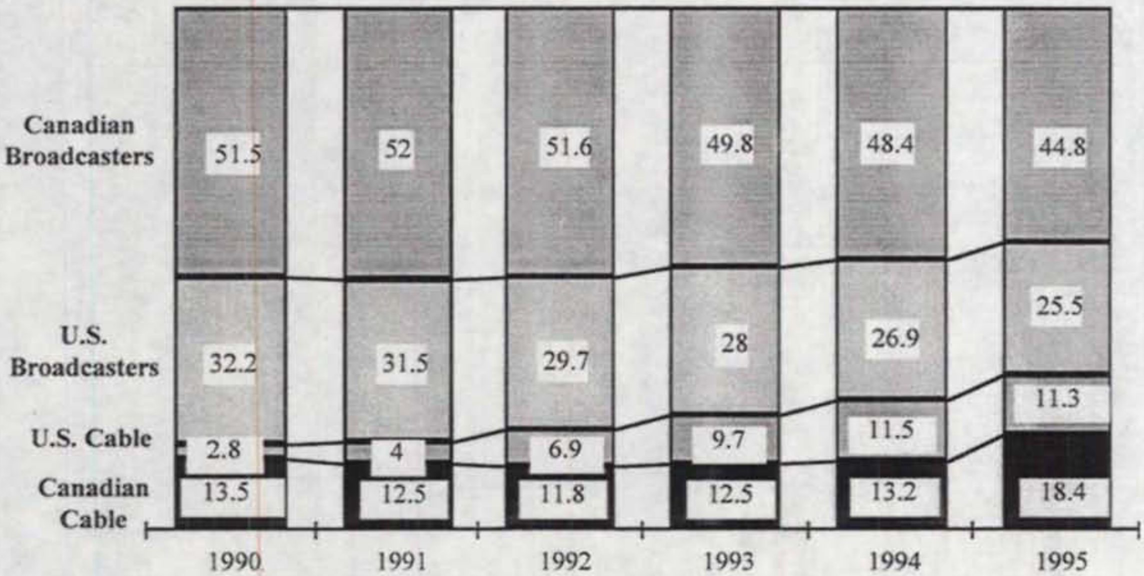
**Exhibit AI-34**
**Audience share of French station groups, cable versus broadcasters, Canadians 2 years+ , cable households**




*Source: CBC Research (A.C. Nielsen).*

In English Canada, U.S. broadcasters represented 26% and U.S. specialty channels 11% of all viewing in cable homes in 1995, or a combined 37% of the total audience, slightly more than at the beginning of the decade (see Exhibit AI-35). Imported U.S. stations have held a substantial audience share in Canada for over two decades.

**Exhibit AI-35**
**Audience share of English station groups, Canadians 2 years+, cable households, 1995**




*Source: CBC Research (A.C. Nielsen).*

### 3. International trade

International trade considerations are relevant to the television market, since programming is both exported and imported. Canada has a deficit in the overall broadcasting trade balance, chiefly due to the deficit in program rights and royalties, which outweighs a surplus in advertising. In fact about 70% of all Canadian international payments relate to program rights and royalties. Almost 85% of these payments are directed to the United States. Exhibit AI-36 presents the trade balance situation.

It should be noted that these data reflect only payments of television stations directly to or received from non-Canadians. Programs bought and sold via Canadian distributors are excluded. Also, receipts and payments for radio versus television are not separated out, though radio accounts for only a small proportion.

**Exhibit AI-36**
**Balance of trade for radio and television broadcasting, 1994**

| | Program rights and royalties | Advertising | Other | Total |
|---|---|---|---|---|
| Receipts | 855 | 31,140 | 1,726 | 33,721 |
| U.S. | 855 | 30,633 | 1,724 | 33,212 |
| Other | 0 | 507 | 2 | 509 |
| Payments | 61,382 | 895 | 23,960 | 86,237 |
| U.S. | 51,818 | 876 | 17,454 | 70,148 |
| Other | 9,564 | 19 | 6,506 | 16,089 |
| Trade Balance | -60,527 | 30,245 | -22,234 | -52,516 |
| U.S. | -50,963 | 29,757 | -15,730 | -36,936 |
| Other | -9,564 | 488 | -6,504 | -15,580 |

*Source: Statistics Canada—630002XPB No. 6.*

## 4. Public policy and support

Direct public assistance for television is limited to CBC and provincial broadcasting services such as TVOntario and Radio-Quebec, some limited access to the new Canada Television and Cable Production Fund, and certain programming subsidies through Telefilm Canada.

Television regulation is widespread, including: stipulating 60% domestic content (50% during prime time) programming; cable companies must provide more Canadian than foreign channels; foreign-owned channels restricted from directly competing with Canadian operations; cable companies forced to use simultaneous substitution; Section 19 of the *Income Tax Act* which reduces the capacity of U.S. stations to use Canadian advertising; and Canadian direct-to-home satellite and cable systems restricted in offering American pay and specialty channels.

## 5. The impact of technology

Rapid advances in technology are about to transform the television industry much as the Guttenberg Press transformed book publishing. Mark Staarowicz, head of documentaries at CBC, maintains that there are three stages to the television process—recording, processing and transmission. Until now, all were extraordinarily expensive with the result that significant capital and infrastructure were required in order to enter and remain in the television business.

The first and most important technological change appeared just over ten years ago— the handicam. This device, which has evolved into an inexpensive, broadcast quality camera, is serving to eliminate barriers to recording.

Processing equipment is the next instrument of change. Formerly, a $250,000 edit suite (actually still used in many broadcasting environments) was necessary to prepare a show. However, computer software which revolutionized desktop publishing has moved to desktop video. By entering field tapes into a computer memory through a videocassette machine, the computer digitally stores all moving images and allows an individual to edit an entire story or documentary with a mouse. Top of the line systems now run at less than $100,000 and can be set up anywhere. This means that thousands of small companies can proliferate, editing and assembling productions.

The third change involves transmission. When television was first introduced it was seen as a public resource due to limited radio frequency spectrum. With the advent of cable, and now direct broadcast satellite and digital compression technologies, the number of channels potentially expands until choice becomes essentially unlimited.

Distribution technologies could lead to what might be termed the "atomization" of audiences. The 150 channel universe via satellite exists today, with 500 channels just around the corner. According to many observers, the 1000 channel universe, whether it comes through cable or satellite, will undermine much of what we are accustomed to in terms of regulation. If the rationale for regulating broadcasting over the past several decades has been limited spectrum, it will be hard to justify (let alone succeed) with traditional regulation.

Television in Canada seems to have been as compelling to viewers in 1966 as in 1996, despite changes in technology and programming.

The head of the CBC Research believes the future of TV will be determined by a number of factors:

- With sports being the exception, cable is most successful in program areas where the program material has a long shelf life, i.e., it is suitable for recycling, not only over the span of years but even within a weekly schedule. These include some categories of information (especially science, nature, documentary and how to programming), movies, action-adventure series, animation and music videos. Sports is an area where rights may be costly but production costs are low, thus making sports attractive to cable. However, cable sports programming is often restricted to out-of-market games, preliminary rounds of major events or the least interesting sports and, as a result, cable requires volume to achieve market share.

- Broadcasters, meanwhile, are most successful in program categories, such as news, sitcoms, quiz-game shows, mini-series and soap operas, and important live sporting events—all of which respond to viewers' demand for the latest information and entertainment. In these programming areas, which account for the majority of the TV market, broadcasters achieve a much larger market share than cable and this is likely to continue in future years. This seems likely even if TV and the World Wide Web merge in whole or in part, new distribution technologies such as digital cable, DBS and wireless cable become more widespread and the number of niche channels increases.

- For the foreseeable future, some proportion of homes will rely on free over-the-air reception, which devote all of their viewing to broadcasters, and broadcasters will continue to be able to amortize the cost of programming over 100% of homes, not the 75% or 80% that access cable or satellite TV. Broadcasters, able to generate extraordinary advertising revenue, will continue to have an advantage over cable because they have established franchises, regardless of the programs (or "brands") they carry at any one time. Since there is a physical limit (the frequency spectrum) to the number of these franchises available, broadcasters will be able to afford the cost of rights to major sports events and the production budgets for first run made-for-TV movies, mini-series, sitcoms, soaps and other drama. Though cable has assumed an important position in the TV market, it is unlikely that cable, even if new niche services enter the market, can increase its market share much further at the expense of broadcasters. For cable to make further inroads, huge investments in original programming will be required.

The *Report of the Canadian Content and Culture Working Group* examined several issues relating to Canadian content in the Information Society. The Group recognized that as choice expands on the Information Highway, securing "shelf space" for Canadian content is essential. Moreover, it and industry observers we spoke with concurred that Canadian content must also occur on a prominent shelf, "at eye level." For example, today it is generally recognized that television stations/services on lower channels (e.g., channels 2 - 10) have an advantage over channels in the 30s, 40s and higher. In a 500 channel universe, having a Canadian channel prominently displayed will be necessary to ensure the accessibility and viability of Canadian content. Access devices and program menus must be Canada friendly.

This leads to a related issue: that of the shelf space itself. With the vast consumer choice possible in the near future, in our view Canadian culture will only be accessible if Canadian broadcasters have significant space in which to show their products. For example, to have a national broadcaster with two channels out of 500 would be considered by some to be inadequate. Similarly for private sector Canadian broadcasters broadcasting their own product.

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# Appendix III

# Stakeholders Interviewed

- Ed O'Dacre, Canadian Geographic
- John Calvert, Atlantis Films
- Eugene Levy, Actor
- Blair Dimock, TV Ontario
- Kathy Lowinger, Tundra Books
- Catherine Allman, Hawkestone Communications and Public Affairs
- Donna Dasko, Environics Research Group Ltd.
- Robin Smith, Toronto Film Festival (formerly at NFB)
- Gwenlyn Seterfield, Ontario Arts Council
- Paul Hoffert, Cultech
- Max Weissengurber, Apollo Television Features
- Micheline McKay, The Arts Advocate
- Diane Davy, Owl Communications
- Gary Slate, Standard Radio Inc.
- Michel Durand, Statistics Canada.
- Paul Audley, Paul Audley and Associates Ltd.
- Katherine Keatchy, Canadian Magazine Publishers Association
- Ron Hastings, Ron Hastings Communications
- Anna Porter, Key Porter Books
- John Warner, IBM
- Barry Kiefl, CBC
- Mark Starowitz, CBC
- Michael McEwan, CBC
- Perrin Beatty, CBC
- Alain Gourd, Cancom Communications
- Cindy Goldrick, Canadian Magazine Publishers Association
- Jim Carrol, Author
- Randall Craig, Internet Marketing Associates
- Robert Patillo, Alliance Communications Corporation