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350 Sparks Street,
Ottawa, Ontario
K1R 7S8
(613) 236-5867
Fax: 236-9241

ASSESSMENT OF PERFORMANCE INCENTIVE PROGRAM FOR STIMULATING PRIME-TIME CANADIAN
PROGRAMMING BY PRIVATE TV BROADCASTERS

PREPARED BY NORDICITY GROUP LTD.,
FOR THE DEPARTMENT OF COMMUNICATIONS

FEBRUARY 1988

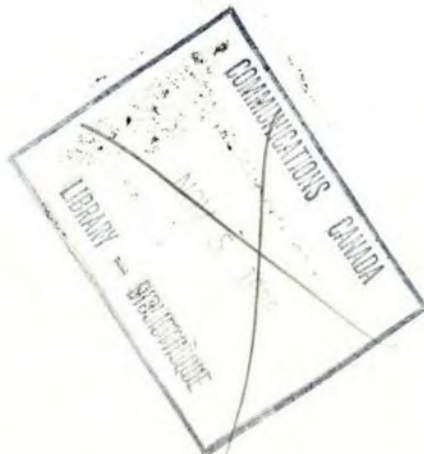
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PREFACE BY THE DEPARTMENT OF COMMUNICATIONS

THE PROBLEM OF THE AVAILABILITY OF COMPETITIVE DOMESTIC ENTERTAINMENT PROGRAMMING, PARTICULARLY IN ENGLISH, IS A CONTINUING OBJECTIVE FOR PRIVATE BROADCASTING.

THE ECONOMICS OF TELEVISION ARE SUCH THAT THERE IS LITTLE INCENTIVE TO EMBARK ON THE HIGH-RISK BUSINESS OF DEVELOPING AND PRODUCING DOMESTIC PROGRAMS WHEN POPULAR, HIGH PRODUCTION VALUE AMERICAN PROGRAMMING IS AVAILABLE AT A FRACTION OF ITS PRODUCTION COST.

TO DATE, THE REGULATORY FRAMEWORK HAS BEEN AND IS QUANTITATIVE:

- NO LESS THAN 60% CANADIAN CONTENT BETWEEN 6 A.M. AND MIDNIGHT
- AND IN ADDITION, NO LESS THAN 50% CANADIAN CONTENT BETWEEN 6 P.M. AND MIDNIGHT.

IN ADDITION, THE REGULATOR INCREASINGLY REQUIRES BY WAY OF CONDITIONS OF LICENCE SPECIFIC HOURS OF CERTAIN KINDS OF CANADIAN PROGRAMMING, WITH CERTAIN MINIMUM EXPENDITURES.

TO REDRESS THIS LACK OF DOMESTIC PRODUCTION, THE CAPLAN-SAUVAGEAU TASK FORCE AND THE STANDING COMMITTEE ON COMMUNICATIONS AND CULTURE RECOMMENDED INCREASING THE ACTIVITIES OF THE REGULATOR. THESE INCLUDED:

- USE OF GENERALLY APPLICABLE REGULATION, AUGMENTED BY CONDITIONS APPLIED TO EACH LICENSEE, INCLUDING OBLIGATIONS TO SPEND SPECIFIED AMOUNTS FOR SPECIFIED PURPOSES;
- BROADER POWERS TO ENFORCE CONDITIONS OF LICENCE;
- REQUIRING NEW LICENCING APPLICATIONS WHERE THE INCUMBENT LICENCE-HOLDER HAS A HISTORY OF NON-COMPLIANCE;

PREFACE BY THE DEPARTMENT OF COMMUNICATIONS
CONTINUED

- MAKING FAILURE TO COMPLY WITH A CONDITION OF LICENCE AN OFFENSE WITH A HIGH ENOUGH FINE TO CONSTITUTE A TRUE ECONOMIC PENALTY.

THE MINISTER OF COMMUNICATIONS, BEFORE CONSIDERING THESE RECOMMENDATIONS, REQUESTED A THOROUGH EXAMINATION OF ALTERNATIVES TO THIS TOUGHER, MORE INTRUSTIVE REGULATION. IN PARTICULAR, SHE WONDERED WHETHER THERE ARE MECHANISMS TO REGULATE THAT MAKES IT MORE VIABLE FOR THOSE WHO ARE ACTUALLY INTERESTED IN PRODUCING CANADIAN PROGRAMS TO DO SO, WHILE PERMITTING THOSE WHO PREFER NOT TO PARTICIPATE SOME FLEXIBILITY IN HOW THEY MEET THEIR PROGRAMMING OBLIGATIONS, WITHIN A TRANSPARENT AND PREDICTABLE SYSTEM OF REGULATION.

IN ORDER TO CONSIDER THE VIRTUES AND LIMITATIONS OF SUCH AN ALTERNATIVE REGULATORY APPROACH, THIS PAPER DEVELOPS A CONCEPTUAL MODEL AND TESTS IT. OF COURSE, THIS IS BUT ONE MODEL; OTHER APPROACHES OR VARIANTS MAY ALSO BE DEVELOPED.

1.0 INTRODUCTION

1.1	THE ASSIGNMENT	2
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1.3	SPECIFIC FORMULA FOR THE PERFORMANCE INCENTIVES PROGRAM	4
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1.0 INTRODUCTION

1.1 THE ASSIGNMENT

THE PURPOSE OF THIS REPORT IS TO EXAMINE A PRIME-TIME CANADIAN PROGRAMMING INCENTIVE SYSTEM FOR PRIVATE TV BROADCASTERS, AS BEING EXAMINED BY THE DEPARTMENT OF COMMUNICATIONS.

AS TERMS OF REFERENCE, NORDICITY GROUP LTD. WAS COMMISSIONED TO:

- I) PROPOSE VARIOUS OPTIONS FOR IMPLEMENTING THE CONCEPT;
- II) ASSESS THE IMPLICATIONS OF THESE OPTIONS;
- III) CONSIDER POSSIBLE IMPLEMENTATION MECHANISMS.

1.2 THE PERFORMANCE INCENTIVE CONCEPT

THE BASIC FEATURES OF THE PERFORMANCE INCENTIVE CONCEPT ARE:

- MINIMUM CANADIAN CONTENT REQUIREMENTS REMAIN AS QUANTITATIVE CONDITIONS FOR TV BROADCASTERS;
- PRIVATE TV BROADCASTERS BECOME LIABLE FOR PAYMENT OF A NEW FEE TO THE CRTC AS AN OBLIGATION UNDER THE TERMS OF THEIR LICENCE;
- PRIVATE TV BROADCASTERS ARE THEN RELIEVED FROM ALL OR PART OF THESE LIABILITIES IF THEY EXHIBIT TARGETTED CANADIAN PROGRAMMING IN THE EVENING HOURS.

THE INTENDED RESULT IS TO PROVIDE BROADCASTERS WITH AN OPTION; EITHER ATTEMPT TO MEET PERFORMANCE TARGETS AND DISPENSE WITH THE PERFORMANCE FEE LIABILITY; OR PAY THE FEE AND MEET ONLY THE MINIMUM CANADIAN CONTENT REQUIREMENTS. THE RESULT COULD BE TO MOVE RESOURCES AROUND WITHIN THE COMMERCIAL BROADCASTING SECTOR TO THOSE WHO WANT TO EMPHASIZE CANADIAN PROGRAMMING IN PRIME-TIME.

- THE PERFORMANCE INCENTIVE PROGRAM REPLACES POTENTIALLY INTRUSIVE CONDITIONS OF LICENCE REQUIRING STIPULATED HOURS AND EXPENDITURES FOR CERTAIN CLASSES OF LICENSES.
- IT IS INTENDED TO BE APPLICABLE AND CLOSED TO PRIVATE TELEVISION BROADCASTERS. THERE IS TO BE NO CROSS-SUBSIDY TO ANY OTHER PARTY; NOT TO EXISTING PROGRAMS, NOR TO PUBLICLY-FUNDED BROADCASTERS.
- FURTHER, IT RECOGNIZES THAT ENGLISH-LANGUAGE AND FRENCH-LANGUAGE BROADCASTERS HAVE DIFFERENT MARKETS, PERFORMANCE STANDARDS AND NEEDS. FRENCH-LANGUAGE STATIONS DO NO CROSS-SUBSIDIZE ENGLISH-LANGUAGE, AND VICE-VERSA.

1.3 SPECIFIC FORMULA FOR THE PERFORMANCE INCENTIVES PROGRAM

THE GENERAL CONCEPT HAS BEEN REFINED THROUGH DISCUSSIONS WITH THE DEPARTMENT. IT IS NOW A SPECIFIC INCENTIVE FORMULA FOR PERFORMANCE, WHEREBY:

- A PAYMENTS SCHEDULE WOULD BE ESTABLISHED ON PROGRESSIVE AND POSSIBLY ON A STEPPED BASIS AS WELL:
 - THESE NEW PERFORMANCE FEES WOULD BE PAYABLE AT THE CONCLUSION OF THE BROADCASTING YEAR END, OR QUARTERLY;
 - IT DOES NOT REMOVE DOLLARS AT THE BEGINNING OF THE PERIOD; THUS, THERE IS NO IMPACT ON BROADCASTERS' CASH FLOW;
- RELIEF FROM THESE PAYMENT LIABILITIES, IN WHOLE OR IN PART, MAY BE EARNED BY THE BROADCASTER BASED ON THE PERFORMANCE:
 - THE PERFORMANCE FEES PAID BY THE BROADCASTER WOULD EQUAL THE PERFORMANCE FEE IMPOSED, LESS THE AMOUNT EARNED BACK THROUGH MEETING PERFORMANCE CRITERIA;
- PERFORMANCE TARGETS WOULD BE EXPRESSED QUANTITATIVELY TO COVER SPECIFIED PROGRAMMING CATEGORIES AND EXHIBITION SCHEDULE TIMES;
 - THIS MEANS A BROADCASTER COULD PLAN TO MEET THE PERFORMANCE TARGETS, AND THEREFORE NEVER HAVE TO PAY THE PERFORMANCE FEE IF THE TARGETS ARE MET;
- THE NET AMOUNT OF FEES COLLECTED FROM BROADCASTERS NOT PERFORMING UP TO THE TARGETS ESTABLISHED WOULD BE REDISTRIBUTED TO COMMERCIAL BROADCASTERS:
 - THUS, BROADCASTERS WHO EXCEEDED TARGETS COULD EARN INCREMENTAL REVENUE INDIRECTLY FROM THOSE UNDER-PERFORMERS.

1.4 ALTERNATIVE FORMULAE TO BE EXAMINED

THREE ALTERNATIVE FORMULAE FOR IMPLEMENTING THE PERFORMANCE INCENTIVE PROGRAM WERE PROPOSED BY DOC FOR FURTHER CONSIDERATION:

1. HOURS OF EXHIBITION: RELIEF FROM THE PERFORMANCE FEE LIABILITY EARNED FOR EACH HOUR (OR HALF HOUR) OF ELIGIBLE CANADIAN PROGRAM EXHIBITED IN ELIGIBLE TIME PERIODS.

2. DOLLARS INVESTED: RELIEF FORMULA BASED ON THE AMOUNT OF PROGRAMMING EXPENDITURES IN THE TARGETTED CATEGORIES AS A PROPORTION OF TOTAL PROGRAMMING EXPENDITURES.

3. POINTS SYSTEM: RELIEF FORMULA BASED ON A POINTS SYSTEM FOR VARYING THE VALUE OF ELIGIBLE PROGRAMMING, EG. DEGREE OF CANADIAN CONTENT, HOURS OF EXHIBITION, PROGRAM CATEGORY, AND DOLLARS INVESTED.

FOR ANY OF THESE ALTERNATIVES, A COMMON FEATURE IS THE PERFORMANCE FEE LIABILITY. THE NEXT SECTION TRACES THROUGH THE FINANCIAL IMPLICATIONS OF IMPOSING PERFORMANCE FEES FOR CANADIAN PRIVATE TV BROADCASTERS.

2.0 IMPOSING THE BROADCASTER PERFORMANCE FEE

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2.0 IMPOSING THE BROADCASTER PERFORMANCE FEE

2.1 CRITERIA FOR ESTABLISHING THE APPROPRIATE FORMULA

THE CRITERIA FOR DETERMINING THE APPROPRIATE PERFORMANCE FEE FORMULA FOR BROADCASTERS ARE:

- THE FORMULA SHOULD MOTIVATE BROADCASTERS TO REDUCE OR ELIMINATE THEIR LIABILITY THROUGH INCREASED EXHIBITION OF TARGETTED CANADIAN PROGRAMMING;
- IT SHOULD TAKE INTO ACCOUNT THE ECONOMIC REALITIES OF THE PRIVATE BROADCASTING SYSTEM IN TERMS OF ITS ABILITY TO GENERATE REVENUES AND EARN PROFITS;
- IT SHOULD BE PROGRESSIVE, GIVEN THE ECONOMIES OF SCALE IN BROADCASTING, SO THAT LARGER BROADCASTERS HAVE A PROPORTIONATELY HIGHER POTENTIAL FEE LIABILITY THAN SMALLER BROADCASTERS;
- IT SHOULD BE SUFFICIENT TO MAKE A POSITIVE IMPACT ON CANADIAN PROGRAM PRODUCTION AIMED FOR PRIME-TIME EXHIBITION.

AS THESE CRITERIA INDICATE, THERE IS A FINE BALANCE TO BE STRUCK IN TERMS OF FAIRNESS, MOTIVATION, AND EXPECTED IMPACT. IT IS RECOGNIZED THAT THE BALANCE WILL NEVER BE PERFECT GIVEN THAT A PROFIT OPTIMIZATION STRATEGY FOR ONE BROADCASTER COULD BE QUITE DIFFERENT FOR ANOTHER.

WE PROPOSE FOR CONSIDERATION A PERFORMANCE FEE FORMULA THAT TAKES THESE CRITERIA INTO CONSIDERATION. HOWEVER, WE STRONGLY RECOMMEND THAT THE FORMULA BE FINE TUNED THROUGH FURTHER ANALYSIS IN ORDER TO ACHIEVE THE PROGRAMMING OBJECTIVES.

2.2 PROJECTED FINANCIAL PERFORMANCE OF PRIVATE BROADCASTERS

ONE OF THE BASIC PRINCIPLES OF THE INCENTIVE SYSTEM IS THAT THE LEVEL OF THE PERFORMANCE FEE SHOULD BE WITHIN THE FINANCIAL CAPACITY OF THE PRIVATE BROADCASTING INDUSTRY.

THE FINANCIAL PERFORMANCE OF THE 83 LICENSED PRIVATE BROADCASTERS WAS COMPUTED USING 1986 STATS CAN FIGURES FOR THE FOLLOWING REVENUE CATEGORIES:

<u>LEVEL OF OPERATING REVENUES</u>	<u>NUMBER OF LICENSED BROADCASTERS</u>
\$0-5 MILLION	48 STATIONS
\$5-20 MILLION	19 STATIONS
\$20-50 MILLION	11 STATIONS
\$50+ MILLION	<u>5 STATIONS</u>
TOTAL	83 STATIONS

<u>LANGUAGE OF BROADCASTER</u>	
FRENCH	16 STATIONS
ENGLISH	<u>67 STATIONS</u>
TOTAL	83 STATIONS

THE 1986 FINANCIALS WERE PROJECTED BY NORDICITY GROUP LTD. TO 1988 BASED ON THE FOLLOWING ASSUMPTIONS:

ENGLISH LANGUAGE

- TOTAL REVENUES AND EXPENSES ARE PROJECTED ON THE BASIS OF AN INFLATION RATE OF 4.3% IN 1987 AND 5.2% IN 1988, BASED ON FORECASTS BY THE ECONOMIC COUNCIL OF CANADA,
- REVENUES AND COSTS GENERATED BY THE CTV NETWORK ARE ALLOCATED TO MEMBER STATIONS,
- IT DOES NOT EXPLICITLY TAKE INTO ACCOUNT THE INTRODUCTION OF NEW INDEPENDENTS IN SASKATCHEWAN, MANITOBA, NEW BRUNSWICK/NOVA SCOTIA,

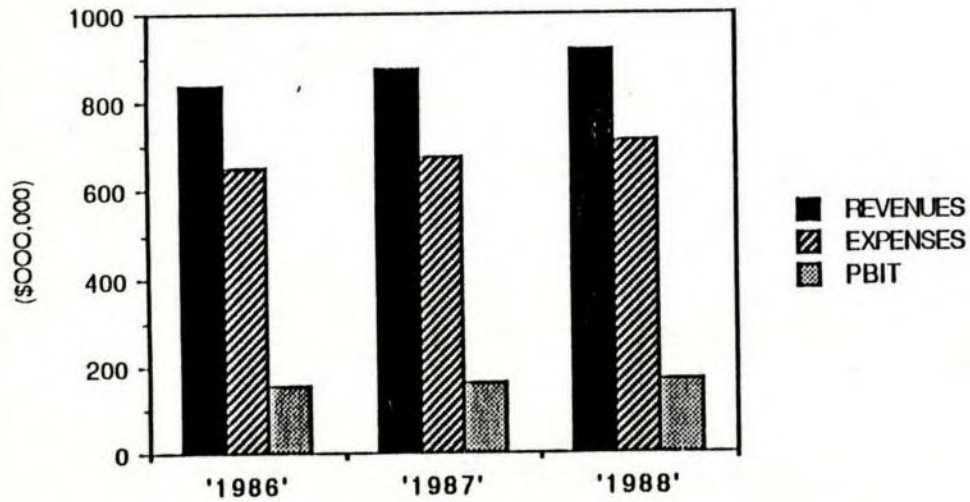
2.2 CONTINUED...

FRENCH LANGUAGE

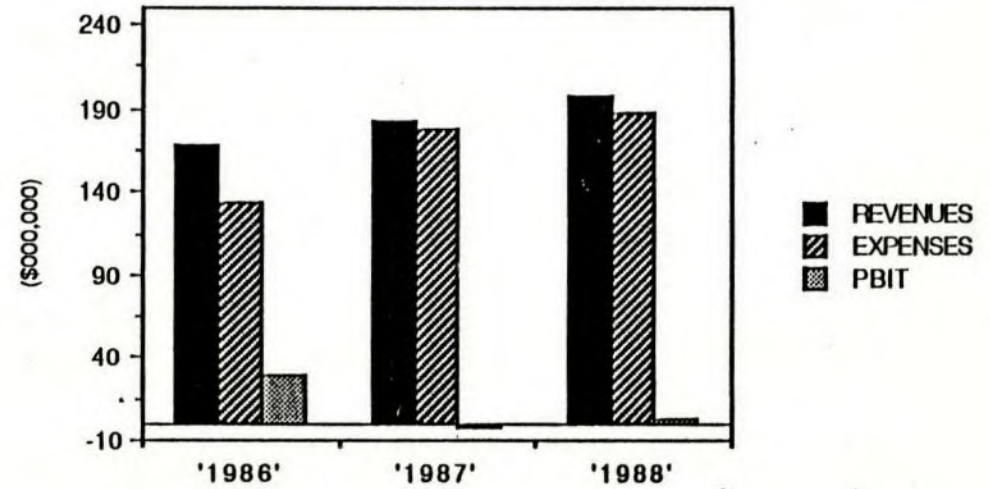
- THE REVENUES AND EXPENSES OF TVA AND SRC ARE PROJECTED ON THE SAME BASIS AS FOR ENGLISH LANGUAGE BROADCASTERS;
- IT IS ASSUMED THAT ROUGHLY HALF OF QUATRE SAISONS ADVERTISING REVENUES ARE SIPHONED AWAY FROM TVA IN 1987 AND ONE-QUARTER IN 1988.
- QUATRE SAISONS' FINANCIAL POSITION IS BASED ON REPORTED RESULTS OF THE FIRST NINE MONTHS OF FISCAL 1987 AND ON ITS FINANCIAL PROJECTIONS FOR 1988 MADE AT THE TIME OF ITS APPLICATION. OBVIOUSLY, THIS CAN BE CONSIDERED A SHORT TERM ABERRATION, BUT IT DOES TAKE INTO ACCOUNT THE MAJOR STRUCTURAL CHANGES IN FRENCH LANGUAGE BROADCASTING.

2-2 CONTINUED...

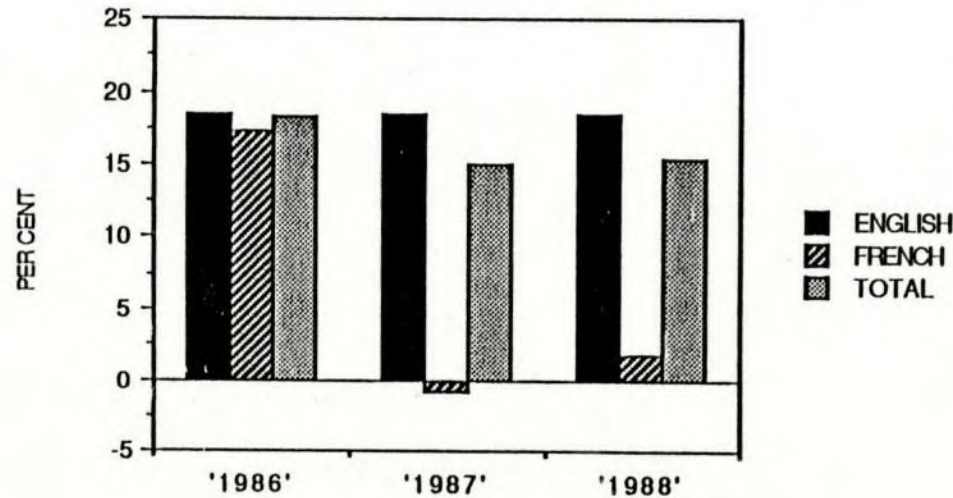
Financial Performance of Private English Broadcasters: 1986-1988



Financial Performance of Private French Broadcasters: 1986-1988



Profit Margins of Private Broadcasters: 1986-1988



2.3 PROPOSED PERFORMANCE FEE LEVEL

THE CRTIC ALREADY IMPOSES A LICENCE FEE WHICH CAN BE EXAMINED AS A REFERENCE POINT IN THE DESIGN OF THE PROPOSED PERFORMANCE INCENTIVE PROGRAM.

CURRENT FEE STRUCTURE

- 1.8% OF TOTAL REVENUES OF EACH BROADCASTER; THIS EQUALS ABOUT 2% OF TOTAL ADVERTISING REVENUES;
- APPLIES ONLY TO TOTAL REVENUES ABOVE \$1.5 MILLION PER STATION;
- SHOULD GENERATE ABOUT \$17.7 MILLION IN 1988 FROM COMMERCIAL TV STATIONS (AS PROJECTED IN THIS REPORT).

PERFORMANCE FEE FORMULA PROPOSED

- TO BE APPLIED TO TOTAL ADVERTISING REVENUES ONLY, AS OPPOSED TO TOTAL REVENUES (IN ORDER TO AVOID PENALIZING TV STATIONS FOR SUCCESS IN PROGRAM SALES);
- PROPOSED LEVEL:

<u>ADVERTISING REVENUE LEVEL</u>	<u>PERFORMANCE FEE %</u>
FIRST \$0 TO 1.5 MILLION	0%
NEXT \$1.5 TO 5 MILLION	2%
NEXT \$5 TO 20 MILLION	5%
NEXT \$20 TO 50 MILLION	7%
OVER \$50 MILLION	9%

WE CAUTION THAT THIS SPECIFIC PERFORMANCE FEE SCHEDULE IS ARBITRARY AND FOR DISCUSSION PURPOSES ONLY. WHILE THE SCHEDULE BROADLY MEETS THE CRITERIA IN SECTION 2.1, IT NEEDS TO BE FINE-TUNED. FOR EXAMPLE, FEES ARE SET ON AN ASCENDING SCALE TO CORRESPOND TO THE ASCENDING SCALE OF BROADCASTER REVENUE GROUPS. HOWEVER, FINANCIAL PERFORMANCE, MEASURED IN TERMS OF PROFIT MARGIN, MAY NOT BE SCALED IN AN ASCENDING ORDER.

2.4 BROADCASTER SPECIFIC CONSEQUENCES

FOR CLARITY, WE SHOW BELOW WHAT BROADCASTERS IN VARIOUS REVENUE CATEGORIES WOULD PAY, AND COMPARE IT TO THE EXISTING CRTC LICENCE FEES.

LICENCE FEE SCHEDULE (\$000,000)		RANGE OF TV STATION SIZES					
		STATION A: \$7 MILL. LICENCE FEE (\$000)		STATION B: \$25 MILL. EXISTING LIC. FEE (\$000)		STATION C: \$75 MILL. EXISTING LIC. FEE (\$000)	
FROM	TO	PROPOSED PERF. FEE (\$000)	EXISTING LIC. FEE (\$000)	PROPOSED PERF. FEE (\$000)	EXISTING LIC. FEE (\$000)	PROPOSED PERF. FEE (\$000)	EXISTING LIC. FEE (\$000)
\$0	\$1.5	0	0	0	0	0	0
\$1.5	\$5	\$70	\$70	\$70	\$70	\$70	\$70
\$5	\$20	\$40	\$100	\$300	\$750	\$300	\$750
\$20	\$50	-	-	\$100	\$350	\$600	\$2100
\$50	ABOVE	-	-	-	-	\$500	\$2250
TOTAL		\$110	\$170	\$470	\$1170	\$1470	\$5170

THIS SAMPLE CALCULATION INDICATES THAT A STATION WITH \$7 MILLION IN REVENUES WOULD PAY ONLY \$170,000 IN PERFORMANCE FEES, AS OPPOSED TO THE EXISTING CRTC LICENCE FEE OF \$110,000, AND THAT A STATION WITH \$75 MILLION IN ADVERTISING REVENUES WOULD PAY \$5,170,000 ON TOP OF THE \$1,470,000 IT PAYS IN LICENCE FEES.

2.5 IMPACTS ON PROFIT MARGINS

THE TOTAL PERFORMANCE FEE PAYABLE IN 1988 WOULD BE ALMOST \$50 MILLION AND THE NET REVENUE IMPACT ON PROFIT MARGIN REACHES OVER 5 PERCENTAGE POINTS FOR LARGE BROADCASTERS.

BROADCASTER REVENUE GROUPINGS (000,000)	EXISTING LICENCE FEE (000,000)	PROPOSED PERFORMANCE FEE %	TOTAL PROPOSED PERFORMANCE FEE (000,000)	PROFIT MARGIN IMPACT		
				PROJECTED STATUS QUO	AFTER PROPOSED PERFORMANCE FEE	DIFFERENCE**
\$0-5	\$0.7	2%	\$0.6*	14.5%	14.1%	-0.4%
\$5-20	\$2.9	5%	\$5.4	19.9%	17.7%	-0.2%
\$20-50	\$6.7	7%	\$17.8	10.7%	6.5%	-4.2%
\$50+	<u>\$7.3</u>	9%	<u>\$25.6</u>	<u>18.1%</u>	<u>12.7%</u>	<u>-5.4%</u>
TOTAL	\$17.7		\$49.4	15.5%	11.6%	-3.9%

THE IMPACT IS SUBSTANTIAL, PARTICULARLY FOR LARGER BROADCASTERS. HOWEVER, IT WOULD BE MITIGATED BY THE EXPECTED REBATE FOR EXISTING BROADCASTER PERFORMANCE, DISCUSSED IN THE NEXT SECTION.

* SINCE THE PERFORMANCE FEE IS ASSESSED ON A PROGRESSIVE BASIS, THE REVENUES CURRENTLY DERIVED FROM PRIVATE BROADCASTERS IN GROUP 1 WITH A FLAT 1.8% ON TOTAL REVENUES ABOVE \$1.5 MILLION WOULD BE GREATER BY ROUGHLY \$100,000 THAN A 2% FEE ASSESSED AGAINST ADVERTISING REVENUES.

**THE IMPACT ON PROFIT MARGINS CAN BE EXPRESSED AS A PERCENTAGE, I.E. A DECLINE IN PROFIT MARGINS FOR ALL PRIVATE BROADCASTERS FROM 15.5% TO 11.6% REPRESENTS A 25% DROP; A DECLINE FROM 10.7% TO 6.5% FOR GROUP 3 BROADCASTERS REPRESENTS ALMOST A 40% DROP IN PROFIT MARGINS; AND A DECLINE FROM 18.1% TO 12.7% FOR GROUP 4 BROADCASTERS REPRESENTS A 30% DROP.

2.6 IMPACT BY SIZE CATEGORY OF ENGLISH-LANGUAGE BROADCASTERS

IN VIEW OF THE QUATRE SAISONS FACTOR IN THE PROJECTED DATA ON PROFITABILITY, AN ENGLISH LANGUAGE BREAKDOWN ONLY IS SHOWN. THIS PROVIDES A MORE REALISTIC ASSESSMENT OF IMPACT FOR EACH ENGLISH-LANGUAGE BROADCASTER REVENUE GROUPING.

BROADCASTING REVENUE GROUPINGS (\$000,000)	PROPOSED PERFORMANCE FEE %	ENGLISH-LANGUAGE BROADCASTERS			
		TOTAL PROPOSED PERFORMANCE FEE (\$000,000)	PROFIT MARGIN STATUS QUO	PROFIT MARGIN AFTER PERFORMANCE FEE	PROFIT MARGIN DIFFERENCE
\$0-5	2	\$0.3	14.6%	14.2%	-0.2%
5-20	5	\$4.8	21.4%	19.2%	-2.2%
20-50	7	\$15.4	16.8%	12.8%	-4.0%
50+	9	\$20.5	20.3%	15 %	-5.3%
TOTAL		\$41	18.4%	14.6%	-3.8%

IT SHOULD BE NOTED THAT UNDER THE STATUS QUO, THE PROFIT MARGIN OF ENGLISH-LANGUAGE BROADCASTERS IN THE \$5-20 MILLION GROUP IS HIGHER THAN THE PROFIT MARGIN OF THOSE IN THE \$20-50 MILLION GROUP. TO REFLECT THIS DIFFERENCE PERFORMANCE FEES COULD BE SCALED HIGHER FOR BROADCASTERS IN THE \$5-20 MILLION GROUP AND LOWER FOR THOSE IN THE \$20-50 MILLION, RATHER THAN STRICTLY ORDERED ON AN ASCENDING SCALE.

3.0 ALTERNATIVE #1: EXHIBITION HOURS FORMULA

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3.0 ALTERNATIVE #1: EXHIBITION HOURS FORMULA

3.1 OBJECTIVES AND OPERATIONAL PRINCIPLES

AS STATED ABOVE, THE PERFORMANCE INCENTIVE PROGRAM CONTEMPLATES RELIEF TO BROADCASTERS FOR MEETING PERFORMANCE TARGETS.

THE FIRST ALTERNATIVE INCENTIVE FORMULA TO BE REVIEWED IS RELIEF BASED ON EXHIBITION HOURS.

THE PROGRAMMING PERFORMANCE OBJECTIVES WOULD BE AS FOLLOWS:

SCHEDULING:

- EXHIBITION AT PEAK VIEWING TIMES, (NOTE - PEAK VIEWING TIME DIFFERS FOR CHILDREN'S PROGRAMMING); FOR THE PURPOSES OF THIS MODEL, 7 - 11 PM HAS BEEN USED.

PROGRAM CATEGORIES:

- AIM FOR NON-SPORTS ENTERTAINMENT PROGRAMMING, I.E. DRAMA AND VARIETY, IN VIEW OF ITS DEARTH ON CANADIAN TV; IT COULD INCLUDE OTHER "CULTURAL" PROGRAMS (INCLUDING SOME PUBLIC AFFAIRS PROGRAMMING), BUT FOR THE PURPOSE OF THIS MODEL, CONSIDERATION WAS LIMITED TO DRAMA AND VARIETY.

PROGRAMMING QUALITY:

- WOULD BE ENSURED PRESUMABLY BY MARKET RATIONALE, IE, BROADCASTERS NEED TO EXHIBIT ATTRACTIVE PROGRAMMING AT PEAK VIEWING TIMES TO RETAIN THEIR AUDIENCES.

3.1 CONTINUED...

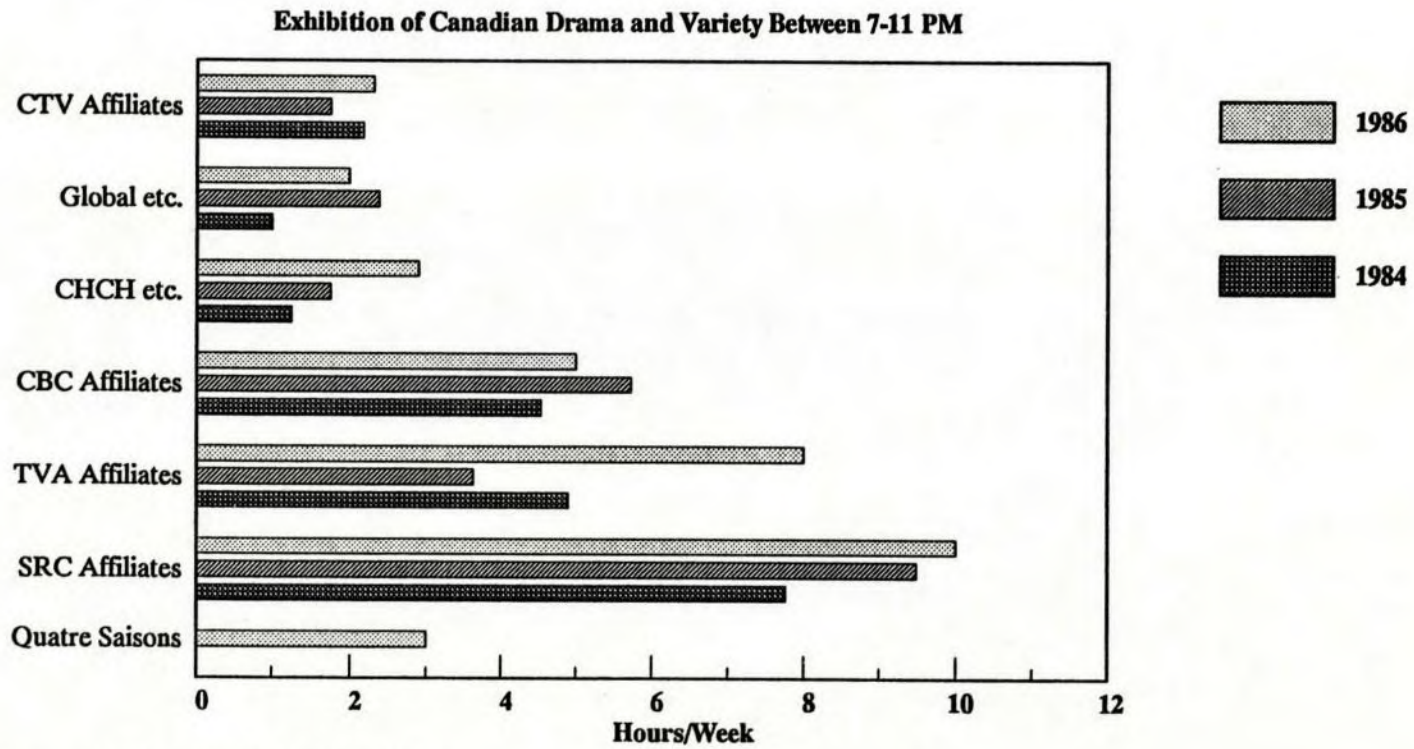
THE OPERATIONAL PRINCIPLES PROPOSED ARE AS FOLLOWS:

- THE REGULATOR WOULD ENSURE CANADIAN CONTENT QUANTITATIVE CRITERIA ARE MET; IT WOULD CEASE TO STIPULATE SPECIFIC CANADIAN PROGRAMMING EXPENDITURE COMMITMENTS OR HOURS OF PROGRAMMING FOR A SPECIFIC PROGRAMMING CATEGORY;
- THE BROADCASTER WOULD OBTAIN RELIEF FROM ITS OWN PERFORMANCE FEE, BASED ON HOURS OF TARGET PROGRAMMING EXHIBITED AT PEAK VIEWING TIMES;
- A TARGET NUMBER OF HOURS PER WEEK WOULD BE SET FOR ALL COMMERCIAL BROADCASTERS IN ADVANCE.
- THE TARGET COULD BE REVIEWED ANNUALLY OR AS REQUIRED BASED ON ANALYSIS OF THE OVERALL PRIVATE BROADCASTER PERFORMANCE TO DATE IN EXHIBITING TARGETTED CANADIAN PROGRAMMING.

3.2 EXISTING BROADCASTING PERFORMANCE

SETTING THE SPECIFIC TARGET IN HOURS OF PROGRAMMING EXHIBITED PER WEEK REQUIRES AN EXAMINATION OF EXISTING BROADCASTER PERFORMANCE IN RELEVANT PROGRAMMING CATEGORIES.

THE DRAMA AND VARIETY HOURS EXHIBITED AT THE 7-11 PM VIEWING TIMES VARY CONSIDERABLY AMONG DIFFERENT CLASSES OF BROADCASTERS. THE RECORD FOR THE PAST 3 YEARS IS SHOWN BELOW, BASED ON THE FALL BRM AUDIENCE RATINGS.



GLOBAL, ETC. = GLOBAL, CKND-TV, CKVU-TV, CITY
CHCH ETC. = CHCH-TV, ATV SATELLITE, CFAC-TV, CITY-TV

3.3 ESTABLISHING EXHIBITION TARGETS

THE RANGE OF CURRENT PERFORMANCE RAISES THE ISSUE OF HOW TO SET TARGETS. THERE ARE TWO ALTERNATIVES:

A. SET TARGETS AT X HOURS/WEEK ABOVE HISTORICAL LEVEL OF INDIVIDUAL BROADCASTER

- THIS APPROACH COULD BE CONSIDERED UNFAIR IN THAT IT WOULD TREAT BROADCASTERS THE SAME, EVEN IF SOME OF THEM CURRENTLY EXHIBIT FAR MORE PRIME-TIME CANADIAN DRAMA/VARIETY PROGRAMMING THAN OTHERS.

B. SET A STANDARD HOURS/WEEK TARGET FOR ALL BROADCASTERS TO ACHIEVE

- THIS APPROACH WOULD RECOGNIZE THE PERFORMANCE TO DATE OF SOME BROADCASTERS, I.E. THE HIGHER PERFORMING ONES WOULD AUTOMATICALLY OBTAIN A GREATER REBATE THAN BROADCASTERS WITH FEWER TARGETTED PROGRAMMING HOURS EXHIBITED.

WE SUGGEST THAT ALTERNATIVE B IS MORE FAIR. WHILE IT DOES NOT TAKE ACCOUNT OF THE DIFFERENCES IN A STATION'S HISTORIC DEVELOPMENT AND PROGRAMMING STRATEGY, IT DOES SIGNAL A POLICY OBJECTIVE THAT OVER TIME ANY TV STATION WILL HAVE TO MEET CERTAIN TARGETS TO EARN RELIEF FROM ALL OR MOST OF ITS PERFORMANCE FEE LIABILITY.

3.3 CONTINUED...

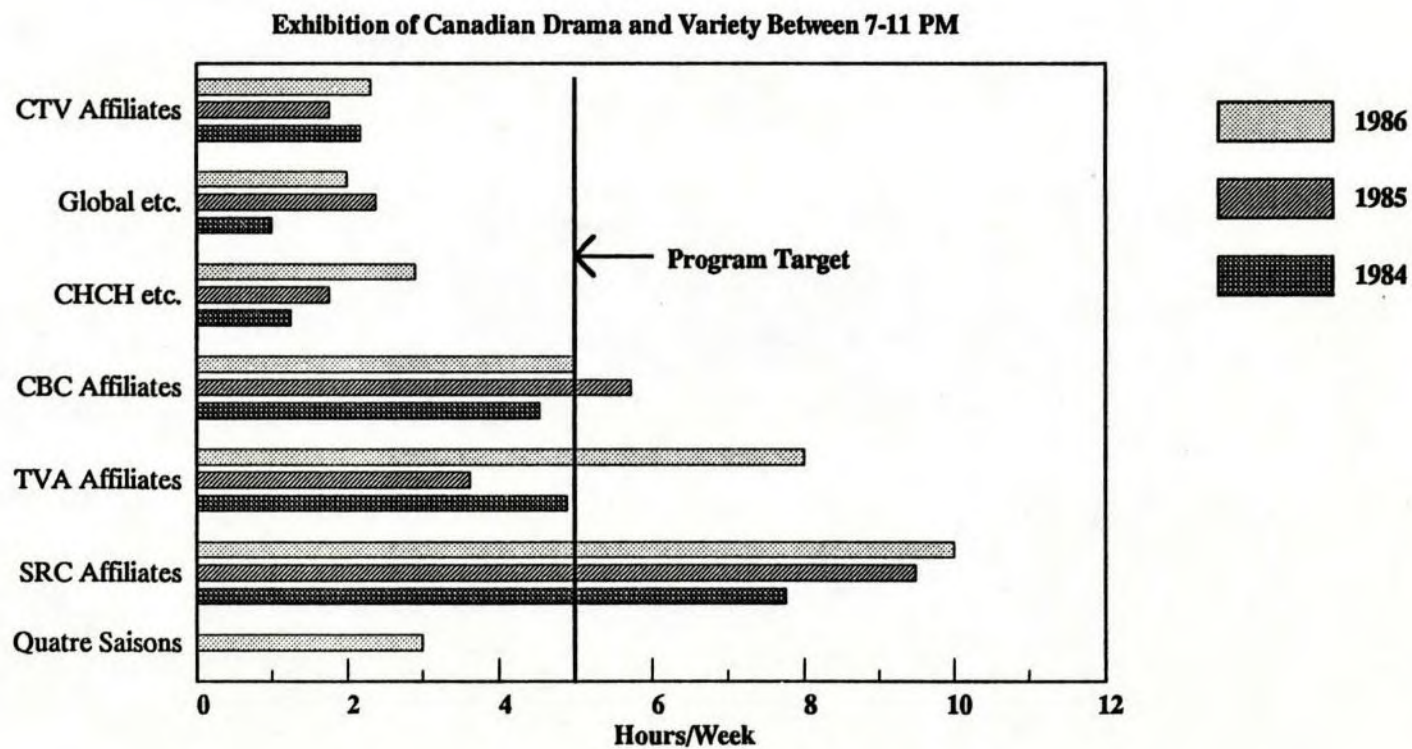
MORE EXAMINATION OF THE TRENDS IN SCHEDULING OF CANADIAN DRAMA/VARIETY PROGRAMMING AT PEAK VIEWING HOURS IS REQUIRED TO FINE-TUNE APPROPRIATE PERFORMANCE TARGETS.

- THE FALL BBM'S DO NOT NECESSARILY REFLECT THE FULL YEAR'S EXHIBITION RECORD BECAUSE IT IS THE PERIOD IN WHICH BROADCASTERS PRESENT THEIR HIGHEST AUDIENCE APPEAL PROGRAMMING;
- HOWEVER, THE SWEEP PERIODS MAY BE PRECISELY THE TEST OF WHETHER CANADIAN DRAMA AND VARIETY PROGRAMMING IS BEING EXHIBITED FREQUENTLY ENOUGH.

BASED ON THE EXISTING SCHEDULING INFORMATION, AN APPROPRIATE EXHIBITION TARGET COULD BE FIVE HOURS PER WEEK OF CANADIAN DRAMA/VARIETY PROGRAMMING AT 7-11 PM;

- THIS WOULD MEAN THAT CBC AFFILIATES AND ALL FRENCH LANGUAGE BROADCASTERS EXCEPT QUATRE SAISONS WOULD OBTAIN FULL RELIEF (SEE NEXT PAGE);
- OTHER STATIONS WOULD GET VARYING AMOUNTS OF THEIR PERFORMANCE FEE LIABILITY REMOVED (SEE NEXT PAGE).

3.3 CONTINUED...



3.4 FORMULA FOR PERFORMANCE TARGET RELIEF

THERE ARE TWO WAYS TO SET THE PERFORMANCE FEE RELIEF SCHEDULE:

- STRAIGHT-LINE BASIS, SAY 10% PER HALF HOUR ABOVE ZERO, THIS MEANS THAT ACHIEVING 5 HOURS PER WEEK TRIGGERS FULL RELIEF;
- ACCELERATED BASIS, WHEREBY, SAY, THE LAST 2.5 HOURS WOULD TRIGGER 75% OF THE RELIEF ON AN ACCELERATED SCALE, AS SHOWN BELOW.

PERFORMANCE FEE RELIEF SCHEDULE BASED ON A 5 HOUR/WEEK PROGRAM TARGET

HOURS /WEEK	FIRST 2.5 HOURS						SECOND 2.5 HOURS					
	0	0.5	1.0	1.5	2.0	2.5	3.0	3.5	4.0	4.5	5.0	
% OF FEE RELIEF	0%	5%	10%	15%	20%	25%	40%	55%	70%	85%	100%	

WHETHER TO ADOPT A STRAIGHT-LINE OR ACCELERATED RELIEF SCHEDULE (OR EVEN A DE-ACCELERATED ONE) DEPENDS ON WHETHER IT IS PERCEIVED TO BE MORE DESIRABLE TO PROVIDE GREATER MOTIVATION TO HIGHER OR LOWER PERFORMING BROADCASTERS. HOWEVER, THE REMAINDER OF THIS SECTION WILL EMPLOY THE ACCELERATED SCALE, UNLESS OTHERWISE STATED.

5.4 CONTINUED...

IF BROADCASTERS CARRIED ON CURRENT PROGRAMMING PRACTICES, THEY WOULD REALIZE RELIEF FROM PERFORMANCE FEES ACCORDING TO THE SCHEDULE BELOW.

<u>CLASS OF BROADCASTER</u>	<u>CANADIAN DRAMA/VARIETY HOURS/WEEK (FALL 1986)*</u>	<u>AMOUNT RELIEVED (\$000,000)</u>	<u>% OF PERFORMANCE FEE RELIEVED ON AN ACCELERATED BASIS</u>
<u>ENGLISH</u>			
CTV AFFILIATES	2.5	\$6.2	25%
GLOBAL ETC.	2.0	\$1.9	20%
CHCH ETC.	2.9	\$2.1	40%
CBC AFFILIATES	5.0	\$1.3	100%
<u>FRENCH</u>			
TVA AFFILIATES	8.0	\$6.8	100%
QUATRE SAISONS	3.0	\$1.2	100%**
SRC AFFILIATES	10.0	\$0.3	100%

AT THIS POINT, CTV AFFILIATES (ARGUABLY THE STRONGER PART OF THE COMMERCIAL BROADCASTERS) WOULD BE MORE AMPLY REWARDED FOR EACH INCREMENTAL HOUR THAN CHCH ETC. - UNDER THE ACCELERATED FORMULA. WHETHER THIS IS DESIRABLE IS A SUBJECT FOR FURTHER ANALYSIS AND ULTIMATE DECISION IN SETTING THE PERFORMANCE FEE RELIEF SCHEDULE.

* MEASUREMENTS OF CANADIAN PROGRAM PERFORMANCE IN 1986 IS NOT STRICTLY TRANSFERABLE TO 1988 SINCE VARIOUS BROADCASTERS WILL BE PERFORMING ABOVE THEIR 1986 LEVELS TO FULFILL NEW CANADIAN CONTENT REQUIREMENTS, NOTABLY CTV. IT DOES, HOWEVER, PROVIDE COMPARABLE DATA ON WHICH TO ESTIMATE IMPACTS BETWEEN VARIOUS CLASSES OF BROADCASTERS.

** WHILE QUATRE SAISONS, IN 1986, DOES NOT MEET THE 5 HOUR/WEEK PROGRAM TARGET IT IS ASSUMED FOR DISCUSSION PURPOSES THAT IT WOULD RESCHEDULE ITS DAILY 6:30 PM TELE-ROMAN TO FIT WITHIN THE 7-11 PM TIME SLOT TO REACH THE 5 HOUR/WEEK TARGET AND QUALITY FOR THE 100% REBATE.

3.4 CONTINUED...

AS THE DETAILS BELOW SHOW, ALL OF THE FRENCH-LANGUAGE BROADCASTERS' PERFORMANCE FEES WOULD BE RELIEVED WHILE LESS THAN A QUARTER OF THE ENGLISH-LANGUAGE BROADCASTERS' FEES LIABILITY WOULD BE SUBJECT TO RELIEF IN AN ACCELERATED RELIEF SCHEDULE.

PERFORMANCE FEES ASSESSED ON ADVERTISING REVENUES
AND RELIEVED ON EXISTING TARGETTED PROGRAMMING
(\$000,000)

	<u>ENGLISH</u>	<u>FRENCH</u>	<u>TOTAL</u>
PERFORMANCE FEE	\$41	\$8.3	\$49.3
AMOUNT OF LIABILITY RELIEVED	<u>\$11.5</u>	<u>\$8.3</u>	<u>\$18.0</u>
AMOUNT STILL LIABLE FOR PAYMENT UNLESS BROADCASTER PERFORMANCE IMPROVES	\$29.5	-	\$31.3

3-5 IMPACT ON PROFIT MARGINS

IF BROADCASTERS DID NOT RESPOND TO THE PERFORMANCE INCENTIVE SYSTEM, PROFIT MARGINS WILL BE AFFECTED:

- THE PROFIT MARGIN FOR ENGLISH-LANGUAGE BROADCASTERS WOULD NOT IMPROVE MUCH AFTER RELIEF FROM THE PERFORMANCE INCENTIVE LIABILITY;
- THE PROFIT MARGIN FOR FRENCH-LANGUAGE BROADCASTERS WOULD MOVE BACK TO A POSITION EQUIVALENT TO THE STATUS QUO AFTER RELIEF.

FISCAL 1988 PROJECTED
FINANCIAL IMPACT OF A PERFORMANCE FEE AND RELIEF FOR EXISTING TARGETTED PROGRAMMING

	<u>ENGLISH</u>	<u>FRENCH</u>	<u>TOTAL</u>
<u>PROFIT MARGINS</u>			
STATUS QUO	18.4%	1.8%	15.5%
AFTER PROPOSED PERFORMANCE FEE LIABILITY	14.6%	-2.5%	11.6%
AFTER PERFORMANCE FEE LIABLE ONCE RELIEF TAKEN INTO ACCOUNT	15.8%	1.8%	13.2%
<u>PROFIT BEFORE INCOME TAXES (\$000,000)</u>			
STATUS QUO	\$170.0	\$3.6	\$173.6
AFTER PROPOSED PERFORMANCE FEE LIABILITY	\$129.1	(\$4.8)	\$124.3
PERFORMANCE FEE LIABLE ONCE RELIEF TAKEN INTO ACCOUNT	\$140.6	\$3.6	\$144.2

3.6 IMPACT BY CLASS OF BROADCASTER

THERE STILL REMAINS THE PROBLEM THAT THE PROPOSED PERFORMANCE FEE INCENTIVE SYSTEM, BASED ON THE EXHIBITION HOURS FORMULA FOR SETTING TARGETS, AFFECTS DIFFERENT CLASSES OF BROADCASTERS QUITE DIFFERENTLY VIZ:

- THE SMALLEST STATIONS (BELOW \$1.5 MILLION) WOULD ESCAPE FROM THE PERFORMANCE FEES; SMALL STATIONS (\$1.5-5 MILLION) WOULD NOT PAY MUCH:
 - IT WOULD THUS NOT ADD TO THE BURDEN OF SMALL STATIONS, SOME OF WHOM ARE STRUGGLING FOR SURVIVAL;
 - AS WELL, IT WOULD NOT HINDER THE FIRST YEAR (OR YEARS) OF START-UPS OF NEW STATIONS.

- MOST OF THE FRENCH LANGUAGE BROADCASTERS AND CBC AFFILIATES WOULD BE RELIEVED FROM PERFORMANCE FEE:
 - THE EXCEPTION IS QUATRE SAISONS, WHICH WOULD HAVE TO CONSIDER MOVING ITS CURRENT ½ HOUR DAILY TÉLÉROMAN (2½ HOURS PER WEEK) FROM 6:30 PM TO AN ELIGIBLE TIME SLOT, IF 7-11 PM WAS SELECTED. (THIS CERTAINLY WOULD BE PERCEIVED BY QUATRE SAISONS AS A SIGNIFICANT INCURSION INTO ITS SCHEDULING STRATEGY, AS IT WOULD CONTEST THE ARBITRARY DESIGNATION OF THE 7-11 PM TIME SLOT).

- DEPENDING ON THE REDISTRIBUTION FORMULA, MANY OF THESE STATIONS MIGHT EARN SOME OF THE PERFORMANCE FEES PAID BY THE BROADCASTERS WHO HAVE DECIDED NOT TO MEET PERFORMANCE CRITERIA.

3.6 CONTINUED...

SOME OF THE INDEPENDENT STATIONS WOULD HAVE TO CHANGE SUBSTANTIALLY THEIR PRIME-TIME PROGRAMMING TO OBTAIN RELIEF:

- ° GLOBAL, ITS AFFILIATES, AND CITV ARE RELATIVELY CLOSE TO THE POSITION OF CTV AFFILIATES;
- ° CHCH ET AL ARE SLIGHTLY BETTER THAN THE POSITION OF CTV AFFILIATES;
- ° ALL ENGLISH LANGUAGE INDEPENDENTS WOULD BE MOTIVATED TO CONSIDER MORE POOLING OF THEIR RESOURCES FOR CANADIAN PROGRAM PRODUCTION AND ACQUISITION.

AS A GROUP, THE ENGLISH LANGUAGE INDEPENDENT STATIONS' PROFIT MARGIN IS ROUGHLY EQUIVALENT TO THE CTV AFFILIATES. WHILE THE INDEPENDENT STATIONS AS A GROUP ARE ECONOMICALLY "MATURE" ENOUGH TO MEET PERFORMANCE TARGETS, THERE WOULD BE TWO BASIC INEQUITIES:

- ° THE LEAST PROFITABLE ONES MAY BE THE ONES WITH THE STIFFEST PERFORMANCE FEE (LIABILITY);
- ° INDEPENDENT STATIONS, BY DEFINITION, ARE NOT ORGANIZED AS CONVENIENTLY AS CTV AFFILIATES TO POOL RESOURCES FOR TARGETTED CANADIAN PROGRAMMING.

UBVIOUSLY THESE STATIONS HAVE STARTED AND SUSTAINED OPERATIONS ON THE BASIS OF ONE SET OF RULES. IF THERE WERE TO BE A SUBSTANTIAL CHANGE IN RULES - SUCH AS THE INTRODUCTION OF PIP - THEY WOULD LIKELY BE PHASED IN OVER A 3-5 YEAR PERIOD TO PERMIT ADJUSTMENTS TO TAKE PLACE.

SUCH ADJUSTMENTS WOULD INEVITABLY MOTIVATE MORE POOLING OF FUNDS TO DEVELOP, PRODUCE, AND ACQUIRE CANADIAN PROGRAMMING. THIS CONSEQUENCE IS ARGUABLY A PRIMARY OBJECTIVE OF THE PIP.

3.7 POSSIBLE SCHEDULING DECISIONS BY BROADCASTERS

BROADCASTERS CAN TRY TO OBTAIN RELIEF FROM THE PAYMENT LIABILITY IN ESSENTIALLY THREE WAYS, (ORDERED IN TERMS OF THEIR VALUE FROM A PUBLIC POLICY PERSPECTIVE):

1. BROADCASTERS COULD MOVE EXISTING TARGETTED PROGRAMMING NOW IN OTHER TIME PERIODS INTO THE DESIGNATED PRIME-TIME SLOT AND DISPLACE NON-ELIGIBLE CANADIAN PROGRAMMING...THE LEAST SATISFACTORY FROM A POLICY PERSPECTIVE
 - FOR EXAMPLE, CTV MIGHT ELIMINATE ALL BUT ITS W-5 PUBLIC AFFAIRS FLAGSHIP FROM PRIME-TIME (VIZ "LIVE IT UP"), TO BE REPLACED BY NEW ELIGIBLE CANADIAN PROGRAMMING.
 - IN ANOTHER EXAMPLE, THE INDEPENDENTS MIGHT CONSIDER EXHIBITING LESS NHL HOCKEY IN FAVOUR OF ELIGIBLE PROGRAMMING;
2. CANADIAN PROGRAMMING IN PRIME-TIME THAT IS NOT ELIGIBLE (VIZ NEWS/INFO AND SPORTS) COULD BE DISPLACED BY NEW ELIGIBLE PROGRAMMING...RELATIVELY MORE SATISFACTORY:
 - FOR EXAMPLE, CHCH MIGHT MOVE A VARIETY PROGRAM ("SMITH AND SMITH") TO THE 7-11 PM TIME SLOT ON SATURDAY NIGHT;
3. FOREIGN PROGRAMMING COULD BE DISPLACED BY NEW ELIGIBLE PROGRAMMING...THE MOST SATISFACTORY:
 - WHILE EXAMPLES ARE LEGION, THE FOREIGN PROGRAMMING THAT IS THE MOST EXPENDABLE IS THAT WHICH IS NOT SIMULCAST WITH BORDER STATIONS.

ONLY FURTHER ANALYSIS OF POOLING POTENTIAL AT THE LEVEL OF THE INDIVIDUAL BROADCASTER WOULD ESTIMATE WHAT THE INCENTIVE WOULD LIKELY PRODUCE IN PROGRAMMING AND SCHEDULING DECISIONS.

IT MIGHT BE NECESSARY TO STIPULATE AS PART OF THE ELIGIBILITY CRITERIA THAT SCHEDULING DECISIONS LIKE #1 AND #2 ABOVE ARE NOT PERMITTED. THIS WOULD MEAN NEW CANADIAN PROGRAMMING WOULD HAVE TO DISPLACE EXISTING FOREIGN PROGRAMMING IN THE PRIME-TIME SCHEDULE TO QUALIFY FOR RELIEF FROM THE PERFORMANCE FEE LIABILITY.

3.8 THE VALUE OF PERFORMANCE FEE RELIEF FOR THE BROADCASTER

THE MAJOR QUESTION ABOUT THE PERFORMANCE FEE/HOURS OF EXHIBITION INCENTIVE FORMULA IS WHETHER BROADCASTERS WILL BE MOTIVATED TO EARN IT BACK. LET'S EXAMINE THE INCENTIVE AT THE LEVEL OF INDIVIDUAL BROADCASTERS.

VALUE OF PERFORMANCE FEE RELIEF: VARIOUS BROADCASTER SIZES

	<u>BROADCASTER A</u>	<u>BROADCASTER B</u>	<u>BROADCASTER C</u>
ADVERTISING SALES LEVEL (\$000,000)	\$7	\$25	\$75
PERFORMANCE FEE (\$000,000)	\$0.17	\$1.17	\$5.17
RELIEF PER HALF HOUR/WEEK (10% OF LICENCE FEE IE, STRAIGHT LINE BASIS)	\$17,000	\$117,000	\$517,000
RELIEF/HALF HOUR OF ORIGINAL PROGRAMMING* (STRAIGHT LINE BASIS)	\$700	\$4,875	\$21,500

THESE EXAMPLES SHOW THAT THE RELIEF OF LIABILITY FORMULA WOULD NOT BE SUFFICIENT PER SE TO PROVIDE EVEN THE LARGEST BROADCASTERS WITH AN INCENTIVE TO PRODUCE PRIME-TIME PROGRAMMING.

* IT IS RECALLED THAT IF FEES WOULD BE RELIEVED ON AN ACCELERATED RATHER THAN STRAIGHT LINE BASIS, BROADCASTERS WOULD REALIZE RELIEF ON THE PERFORMANCE FEE OF ONLY 5% PER HALF HOUR FOR THE FIRST 2.5 HOURS/WEEK OF TARGETTED PROGRAMMING AND 15% PER HALF HOUR FOR THE SECOND 2.5 HOURS/WEEK. THEREFORE, BROADCASTER A WOULD REALIZE RELIEF OF \$350 PER HALF HOUR OF ORIGINAL PROGRAMMING IN THE FIRST 2.5 HOURS AND \$1,000 PER HALF HOUR IN THE SECOND 2.5 HOURS; BROADCASTER B WOULD REALIZE \$2,400 ON THE FIRST AND \$7,300 ON THE SECOND; AND BROADCASTER C WOULD OBTAIN RELIEF OF \$10,800 ON THE FIRST 2.5 HOURS AND \$32,300 IN THE SECOND 2.5 HOURS. THE CALCULATION OF THE RELIEF PER ORIGINAL HALF HOUR IS BASED ON 1/24 OF RELIEF AMOUNT, ASSUMING 24 HALF HOURS EQUALS 1/2 HOUR/WEEK/YEAR

3.9 POOLING OPPORTUNITIES AMONG DIFFERENT CLASSES OF ENGLISH LANGUAGE BROADCASTERS

NATURALLY, ONE WOULD ASSUME THAT INDIVIDUAL BROADCASTERS WOULD NOT GO ALONE IN ACQUIRING/PRODUCING ELIGIBLE PROGRAMMING AMONG DIFFERENT CLASSES OF ENGLISH LANGUAGE BROADCASTERS. WHILE A CO-OPERATIVE APPROACH TO TARGETTED PROGRAMMING WOULD BE EXPECTED, THE TOTAL AMOUNT AVAILABLE FOR ELIGIBLE PROGRAMMING VARIES ENORMOUSLY AMONG DIFFERENT CLASSES OF BROADCASTERS.

SAMPLE POOLING OF ENGLISH-LANGUAGE BROADCASTERS: 1988

	<u>TOTAL CTV AFFILIATES</u>	<u>GLOBAL (PLUS WESTERN AFFILIATES)</u>	<u>CHCH (PLUS ALBERTA INDEPENDENTS, CITY, ATV)</u>
ADVERTISING SALES LEVEL (\$000,000)	\$523.3	\$171.1	\$117.7
PERFORMANCE FEE (\$000,000)	\$26.9	\$8.8	\$6.1
PERFORMANCE RELIEF PER HALF HR/WK (10% OF PERFORMANCE FEE)	\$2,700,000	\$883,000	\$605,000
RELIEF PER HALF HR OF ORIGINAL PROGRAMMING* (STRAIGHT LINE BASIS)	\$112,000	\$37,000	\$25,000

* THUS, EACH INCREMENTAL ORIGINAL HALF HOUR FROM 2.5 TO 5 HOUR/WEEK FOR CTV WOULD PRODUCE RELIEF OF \$168,000. GLOBAL, ETC., WOULD OBTAIN RELIEF OF \$18,000 ON THE FIRST INCREMENTAL HALF HOUR TO TAKE THEM UP TO 2.5 HOURS/WEEK. ADDITIONAL HALF HOURS WOULD REALIZE \$55,000. CHCH ETC., WOULD OBTAIN RELIEF OF \$13,000 ON THE FIRST HALF HOUR. ONCE PAST 2.5 HOURS/WEEK, IT WOULD REALIZE \$38,000 PER HALF HOUR ON AN ACCELERATED RELIEF FORMULA.

3.9 CONTINUED...

THE CTV AFFILIATES ARE CONSIDERED TO BE IN A MUCH BETTER POSITION TO POOL FUNDS AS A NETWORK. THESE FIGURES SHOW THAT THE PERFORMANCE INCENTIVE PROGRAM COULD GALVANIZE POOLING ARRANGEMENTS AMONG OTHER BROADCASTERS.

POOLING ALREADY OCCURS AMONG INDEPENDENTS TO SOME DEGREE. FOR EXAMPLE, THE "GLOBAL ET AL" GROUP IDENTIFIED EARLIER EFFECTIVELY POOLS THROUGH GLOBAL'S SYNDICATION OF SOME OF ITS CANADIAN PRODUCTIONS TO INDEPENDENT STATIONS OUTSIDE ONTARIO. THE PERFORMANCE INCENTIVE COULD PROVIDE ADDITIONAL IMPETUS FOR THESE ARRANGEMENTS AND FOR OTHER INDEPENDENTS TO INCREASE THEIR ACTIVITIES IN THIS REGARD AS WELL.

3.10 FINANCIAL CONSEQUENCES OF POOLING

EVEN POOLING PROGRAMMING EXPENDITURES FOR OBTAINING RELIEF FROM PERFORMANCE FEE LIABILITIES DOES NOT GENERATE ENOUGH FUNDING FOR DRAMA PROGRAMMING. HOWEVER, BROADCASTERS COULD LEVERAGE THEIR PROGRAMMING BUDGET TO ACQUIRE CANADIAN PROGRAMMING REQUIREMENT.

PRODUCTION COSTS FOR PRIME-TIME DRAMA PROGRAMMING VARY ENORMOUSLY, BUT IT IS GENERALLY BELIEVED THAT COMPETITIVE PROGRAMMING BUDGETS FOR ENGLISH LANGUAGE EVENING TV HAVE TO BE AT LEAST \$150,000 PER HALF HOUR (OR \$300,000 PER HOUR):

- THE CTV AFFILIATES COULD EASILY LEVERAGE THEIR COMBINED RELIEF FROM THE PERFORMANCE INCENTIVE (I.E. \$112,000/HALF HOUR OF MONEY OTHERWISE LOST TO THEIR PERFORMANCE FEE LIABILITY)*
 - TO ACQUIRE PROGRAMMING FROM INDEPENDENT PRODUCERS;
 - OR CTV COULD DO ITS OWN PRODUCTION AND SELL RIGHTS TO INTERNATIONAL MARKETS OR CO-PRODUCTION PARTNERS
- IN FACT, IF CTV PAID ITS TYPICAL 20% OF PRODUCTION COSTS FROM INDEPENDENT PRODUCERS ACCESSING TELEFILM CANADA, THE NETWORK WOULD:
 - EITHER ACQUIRE VERY HIGH PRODUCTION VALUE PROGRAMMING;
 - OR BE ABLE TO SAVE FOR OTHER PURPOSES;
- THE POOLING BY INDEPENDENTS WOULD HAVE TO AIM FOR "TIER 2" DRAMA (REGIONAL/LOCAL), VARIETY, OR COMBINATIONS THEREOF, BECAUSE THEY WOULD HAVE ONLY \$25-37,000/HALF HOUR TO UTILIZE:**
 - THEY COULD BE LARGELY SHUT OUT OF HIGH PRODUCTION VALUE DRAMA, UNLESS THEY USED MONEY BEYOND THE PERFORMANCE FEES SAVED.

* IF ON AN ACCELERATED BASIS, CTV AFFILIATES COULD COLLECTIVELY EARN \$168,000 PER ORIGINAL HALF HOUR.

** AGAIN, THIS WOULD CHANGE IF THE RELIEF WERE CALCULATED ON AN ACCELERATED BASIS.

3.10 CONTINUED...

IN ALL THESE CASES BROADCASTERS WOULD HAVE TO EXAMINE ALL FACTORS TO DETERMINE THE FULL ECONOMIC CONSEQUENCES FROM DECISIONS TO MEET ELIGIBLE PROGRAMMING TARGETS OR FOREGO THE PERFORMANCE INCENTIVE RELIEF AND SIMPLY MEET CANADIAN CONTENT REQUIREMENTS. THE TOTAL FINANCIAL EVALUATION WOULD COMPRISE:

- COST SAVING FROM DROPPING PROGRAMMING REPLACED BY NEW PROGRAMMING;
- NET GAIN (OR LOSS) OF ADVERTISING REVENUE AS A RESULT OF PLACING NEW CANADIAN PROGRAMMING IN THE BROADCASTERS' SCHEDULE;
- AVAILABILITY OF OTHER PARTIES (EG. OTHER CANADIAN BROADCASTERS, FOREIGN BROADCASTERS, TELEFILM, ETC) WHO COULD OFFSET THE COST OF PROGRAMMING.

THE PERFORMANCE INCENTIVE PROGRAM COULD BE ADJUSTED TO PROVIDE INCENTIVES APPROPRIATE TO THE CONDITIONS OF GROUPS OF SMALLER SIZED BROADCASTERS. FOR EXAMPLE, AN "ACCELERATED" RELIEF SCHEDULE FOR PROGRAMMING NOT EXHIBITED ON THE CTV NETWORK COULD BE ESTABLISHED.

- THIS STARTS TO RAISE A PROBLEM, THOUGH, IN THAT THE "FORMULA" WOULD NO LONGER BE APPLIED UNIFORMLY ACROSS ENGLISH LANGUAGE BROADCASTERS;
- HOWEVER, THE FORMULA COULD ALSO BE GOVERNED BY A STIPULATION THAT IF X% OF THE CANADIAN MARKET IS COVERED BY EXHIBITION COMMITMENTS, SOME FORM OF SUPER-INCENTIVE COULD APPLY.

FURTHER EXAMINATION IS REQUIRED TO SET RULES THAT TAKE THE DIFFERENCES IN RESOURCES AMONG DIFFERENT BROADCASTERS IN THE SAME REGIONS. HOWEVER, IT SHOULD BE POSSIBLE TO DESIGN APPROPRIATE CRITERIA THAT DO NOT BREAK DOWN TO A NEED TO TAILOR FORMULA TO EACH SPECIFIC MARKET SITUATION.

3.11 POOLING OPPORTUNITIES FOR FRENCH-LANGUAGE BROADCASTERS

WHILE FRENCH-LANGUAGE BROADCASTERS SHOULD NOT HAVE A PROBLEM IN MEETING PERFORMANCE TARGETS, IT IS USEFUL TO EXAMINE THE IMPLICATIONS FOR FRENCH-LANGUAGE BROADCASTERS, IF THEY DO NOT MEET TARGETS.

SINCE FRENCH-LANGUAGE BROADCASTERS ONLY GENERATE AN ESTIMATED 17% OF TOTAL CANADIAN PRIVATE TV ADVERTISING REVENUES, THE POOLING OPPORTUNITIES ARE MUCH MORE LIMITED.

SAMPLE POOLING OF FRENCH-LANGUAGE BROADCASTERS: 1988

	<u>TVA AFFILIATES</u>	<u>QUATRE SAISONS AFFILIATES</u>	<u>RADIO-CANADA AFFILIATES</u>
ADVERTISING SALES LEVEL (\$000,000)	\$133	\$26*	\$18.8
PERFORMANCE INCENTIVE FEE (\$000,000)	\$6.8	\$1.2	\$0.3
LIABILITY RELIEF ON THE BASIS OF 10% OF PERFORMANCE FEE FOR ½ HR/WEEK - STRAIGHT LINE	\$680,000	\$120,000	\$30,000
DERIVED RELIEF PER ½ HR OF ORIGINAL PROGRAMMING**	\$28,000	\$5,000	\$1,250

* BASED ON PUBLISHED FIGURES PROJECTED TO 1988.

**1/24TH OF REBATE ASSUMING 24 HALF HOURS EQUALS ½ HOUR/WEEK/YEAR.

3.12 AN INCENTIVE FORMULA VERSIONED FOR FRENCH-LANGUAGE BROADCASTERS

THE FORMULA FOR FRENCH-LANGUAGE BROADCASTING COULD WELL BE QUITE SEPARATE FROM THAT USED BY ENGLISH LANGUAGE BROADCASTING. IF THE TARGETS WERE HIGHER, A "SUPER-ACCELERATED" RELIEF FORMULA COULD BE ESTABLISHED (ALTERNATIVELY, SEPARATE PROGRAM FUNDING COULD BE USED INSTEAD OF THE PERFORMANCE INCENTIVE FEE) EG.:

- 10% PER ONE HOUR OF ORIGINAL PROGRAMMING, INSTEAD OF ½ HOUR PER WEEK AS PROPOSED IN THE FORMULA OUTLINED EARLIER;
- IT WOULD REPLACE THE 10%/½/WEEK RELIEF AND THUS BE 12 TIMES AS POWERFUL AN INCENTIVE AS CONTEMPLATED IN THE STANDARD FORMULA (BECAUSE THERE ARE 24 HOURS OF ORIGINAL PROGRAMMING TO FILL OUT A SINGLE HOUR PER WEEK THROUGHOUT THE YEAR);
- A \$2-3 MILLION FUND COULD THEN BE LEVERAGED FOR EXAMPLE, INTO 2 MINI SERIES OF SOME 10-20 HOURS OF ORIGINAL PRODUCTION;
- A STIPULATION THAT THE RELIEF ONLY APPLIES IF FRENCH-LANGUAGE STATIONS POOL RESOURCES WITH COMMITTED EXHIBITION COVERING AT LEAST 80% OF THE FRENCH-LANGUAGE POPULATION IN QUEBEC.

THE SPECIFICS OF THIS CONCEPT COULD OBVIOUSLY BE VARIED (EG. THE PERCENTAGE OF PERFORMANCE FEE RELIEF, THE NUMBER OF HOURS EARNING THE RELIEF). HOWEVER, IT ILLUSTRATES THE POTENTIAL OF TAILORING AN INCENTIVE FORMULA TO FRENCH-LANGUAGE BROADCASTING JUST AS NOTED FOR THE POOLING OF PROGRAMMING FUNDING AMONG A CRITICAL MASS OF INDEPENDENT ENGLISH-LANGUAGE STATIONS.

3.13 PROBLEMS IN HOURS OF EXHIBITION INCENTIVE SYSTEM

AS A CONCLUSION TO THIS REVIEW OF ALTERNATIVE #1 UNDER EXAMINATION, IT SHOULD BE STRESSED THAT A PERFORMANCE INCENTIVE PROGRAM BASED ON HOURS OF EXHIBITION STILL FACES IMPLEMENTATION DIFFICULTIES.

FIRST, IT MAY NOT WORK BECAUSE THE INCENTIVE DOES NOT ACHIEVE THE RIGHT BALANCE.

- BROADCASTERS MAY NOT BE INDUCED TO PARTICIPATE BECAUSE THE PERFORMANCE FEE IS TOO LOW;
- THE PERFORMANCE FEE MAY NOT MEET THE FAIRNESS TEST BECAUSE IT COULD HAVE QUITE DIFFERENT CONSEQUENCES FOR BROADCASTERS IN DIFFERENT CIRCUMSTANCES;

SECOND, IT MAY LEAD TO UNDESIRABLE CONSEQUENCES.

- BROADCASTERS MAY "DUMP" LOW QUALITY CANADIAN PROGRAMMING ON SPOTS IN THE SCHEDULE WHERE IT EXPECTS TO TAKE A RATINGS BEATING IN ANY CASE (EG. AGAINST THE "COSBY" SHOW);
- BROADCASTERS COULD SHIFT PROGRAMMING INTO PRIME-TIME, RECYCLE OLD PROGRAMMING, GENERATE A SPATE OF LOW-BUDGET VARIETY PROGRAMMING OR OTHERWISE MEET THEIR PERFORMANCE TARGETS IN WAYS NOT ORIGINALLY THE OBJECTIVE OF PUBLIC POLICY.

THIRD, THE ALLOCATION OF PERFORMANCE FEES PAID BY NON PERFORMING BROADCASTERS RAISES COMPLEX IMPLEMENTATION QUESTIONS: EG.

- GOVERNMENT APPROVAL OF A SYSTEM THAT DISBURSES THE RESIDUAL;
- SETTING AN EQUITABLE BASIS FOR ALLOCATION AMONG BROADCASTERS;
- INSTITUTING A DELAY IN BROADCASTERS RECEIVING ADDITIONAL FUNDS IF THEY ARE ALLOCATED ONLY AFTER THE AMOUNT OF THE RESIDUAL BECOMES KNOWN.

3.13 CONTINUED...

DESPITE THESE IMPLEMENTATION DIFFICULTIES THERE ARE ALWAYS ADMINISTRATIVE PROCEDURES, CONSTRAINTS, AND REGULAR REVIEWS THAT COULD OVERCOME PROBLEMS. THE ULTIMATE JUDGEMENT IS WHETHER THE PERFORMANCE INCENTIVE PROGRAM IS SUPERIOR TO THE CURRENT (OR ALTERNATIVE) SYSTEM.

SOME DIFFICULTIES WITH THE EXISTING SYSTEM INCLUDE:

- CANADIAN CONTENT CRITERIA ARE MET IN QUANTITATIVE BUT NOT QUALITATIVE TERMS;
- THE CRTC IS DRIVEN TO METE OUT SPECIFIC PROGRAMMING AND EXPENDITURE REQUIREMENTS ON A LICENCE BY LICENCE BASIS;
- THERE IS NO EFFECTIVE WAY THE CRTC CAN OBLIGE BROADCASTERS TO LIVE UP TO THEIR PROMISES OF PERFORMANCE (EXCEPT BY REWARDING THEM WITH NEW LICENSES).

THE PERFORMANCE INCENTIVE APPROACH IS A SERIOUS ALTERNATIVE THAT - DESPITE POTENTIAL PROBLEMS OF ITS OWN - MERITS POLICY EXAMINATION.

4.0 ALTERNATIVE #2: DOLLARS EXPENDED FORMULA

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4.0 ALTERNATIVE #2: DOLLARS EXPENDED FORMULA

4.1 OPERATIONAL PRINCIPLES OF FORMULA BASED ON DOLLARS INVESTED

AN ALTERNATIVE TO HOURS OF EXHIBITION AS A PERFORMANCE TARGET IS ONE BASED ON EXPENDITURES ON ELIGIBLE CANADIAN PROGRAMMING (I.E. DRAMA/VARIETY ON 7-11 PM).

OPERATIONAL PRINCIPLES

- ESTABLISH TARGET AS A RATIO OF EXPENDITURES ON ELIGIBLE PROGRAMMING TO TOTAL PROGRAMMING EXPENDITURES:
 - THIS TARGET, LIKE THE 5 HOURS EXHIBITION FORMULA, WOULD BE BASED ON A REVIEW OF PAST EXPERIENCE AND INDUSTRY PERFORMANCE.

- ON A QUARTERLY (OR ANNUAL) BASIS, DETERMINE EACH STATIONS' PERFORMANCE RELATIVE TO THE TARGET, AND PROVIDE RELIEF FROM THE PERFORMANCE FEE ACCORDINGLY:
 - A PROGRESSIVE RELIEF SCHEDULE COULD BE USED TO ENCOURAGE GREATER PARTICIPATION BY BROADCASTERS.
 - FORMULA VARIATIONS COULD BE ESTABLISHED BY LANGUAGE AND CLASS OF BROADCASTER.

4.2 ANTICIPATED BENEFITS

THE MAJOR ADVANTAGE OVER THE HOURS OF EXHIBITION APPROACH IS THAT THE FORMULA RECOGNIZES THAT A BROADCASTER MIGHT INVEST MORE SUBSTANTIALLY IN SELECTED PROJECTS, RATHER THAN BE MOTIVATED ON A "TONNAGE" BASIS ALONE.

- IT COULD MOVE BROADCASTERS AWAY FROM THE CONCEPT OF CHEAP CANADIAN PROGRAMMING AND TOWARD COMPETITIVE PROGRAMMING FOR CANADIAN (AND FOREIGN) AUDIENCES;
- THE BROADCASTER STILL HAS TO MEET 50% CANADIAN CONTENT REQUIREMENTS FOR PRIME-TIME, SO THE DOLLARS INVESTED FORMULA COULD NOT BE CARRIED TO EXTREMES (EG. LARGE INVESTMENTS IN HIGH BUDGET FEATURE FILMS).

4.3 SETTING THE INCENTIVE TARGET

A REVIEW OF EXISTING PRACTICE SUGGESTS SETTING THE TARGET AT 20%, I.E. THE EXPENDITURES ON ELIGIBLE PROGRAMMING AS A PERCENTAGE OF TOTAL PROGRAMMING EXPENDITURES.

- AS SHOWN BELOW, THIS IS SOMEWHAT ABOVE CTV AND CONSIDERABLY GREATER THAN OTHER COMMERCIAL BROADCASTERS; IT IS MUCH LOWER THAN EXISTING FRENCH LANGUAGE BROADCASTERS;
- A PROBLEM IS CBC AFFILIATES, WHO OF COURSE DERIVE MUCH OF THEIR EXISTING TARGETTED PROGRAMMING FROM THE CBC FEED, BUT DO NOT PAY ANYTHING FOR IT.

RELIEF SCHEDULE BASED ON A TARGET OF 20% OF TOTAL PROGRAM EXPENDITURES

% PROGRAM EXPENDITURES	0%	2%	4%	6%	8%	10%	12%	14%	16%	18%	20%
% OF FEE RELIEF	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%

<u>CLASS OF BROADCASTER</u>	<u>% OF TOTAL CANADIAN PROGRAM EXPENDITURE ON ENTERTAINMENT PROGRAMMING*</u>	<u>% OF PERFORMANCE FEE REBATED</u>
CTV AFFILIATES	12.7%	60%
OTHER COMMERCIAL STATIONS**	7.6%	40%
CBC AFFILIATES	2.5%	10%
TVA AFFILIATES	44.5%	100%
QUATRE SAISONS***	NA	100%
R-C AFFILIATES	36.4%	100%

* BASED ON THE SPECIAL REPORT FROM STATS CAN FOR THE PERIOD 1984-85 FOR THE TASK FORCE ON BROADCASTING POLICY.

** THE STATS CAN SURVEY RESULTS GROUP GLOBAL WITH INDEPENDENTS.

***FOR THE PURPOSE OF THIS ANALYSIS IT IS ASSUMED THAT QUATRE SAISONS' EXPENDITURES ON CANADIAN ENTERTAINMENT PROGRAMMING ARE ABOVE 20% OF TOTAL PROGRAM EXPENDITURES, THUS QUALIFYING IT FOR A 100% REBATE.

4.4 THE CASE OF THE ENGLISH LANGUAGE CBC AFFILIATES

AS INDICATED, THE % OF TOTAL EXPENDITURES FORMULA PUTS CBC AFFILIATES INTO A POSITION OF HAVING TO MAKE MAJOR COMMITMENTS TO EARN RELIEF FROM PERFORMANCE-FEE LIABILITY.

	<u>GROUP 1</u> <u>\$0-5M</u>	<u>GROUP 2</u> <u>\$5-20M</u>	<u>TOTAL</u>
NUMBER OF STATIONS	23	5	28
ESTIMATED ADVERTISING REVENUES IN 1988 (\$000,000)	\$47.3	\$39.4	\$86.7
TOTAL FEE ASSESSED	\$257,000	\$1,070,000	\$1,328,000
FEE RELIEVED	\$26,000	\$107,000	\$133,000
FEE <u>NOT</u> RELIEVED (\$000,000)	\$231,000	\$963,000	\$1,195,000
AVERAGE PER STATION	\$10,000	\$193,000	\$42,700

THUS, WHILE MOST CBC AFFILIATES ARE SMALL, AFFILIATES WITHIN THE SECOND REVENUE GROUP, ON AVERAGE, WOULD HAVE TO COMMIT SIGNIFICANT RESOURCES TO TARGETTED CANADIAN PROGRAMMING IN COMPARISON TO THOSE IN THE FIRST GROUP, \$193,000 PER STATION COMPARED TO \$10,000 PER STATION.

4.4 CONTINUED...

THIS COULD ENCOURAGE INCREASED POOLING AMONG AFFILIATES, BETWEEN AFFILIATES AND COMMERCIAL BROADCASTERS IN OTHER MARKETS, OR INDEED EVEN CBC AFFILIATES CONTRIBUTING TO CBC PROGRAMMING.

THE PROBLEM IS THAT THERE IS A LARGE GAP TO OVERCOME TO TRIGGER THE RELIEF:

	(\$000)		
	<u>SMALL GROUP 1</u>	<u>LARGER GROUP 2</u>	<u>TOTAL</u>
ESTIMATED PROGRAMMING EXPENDITURES 1988	\$24,300	\$39,400	\$41,200
ESTIMATED ELIGIBLE PROGRAMMING EXPENDITURES	\$486	\$788	\$1,274
GAP TO TRIGGER FULL RELIEF	\$4,374	\$7,092	\$11,466
<hr/>			
AVERAGE PER STATION NEEDED TO TRIGGER RELIEF	\$190	\$1,418	\$410

THIS MEANS THAT AN AVERAGE STATION BETWEEN \$5 AND \$20 MILLION WOULD HAVE TO SPEND \$1.4 MILLION TO EARN THE FULL \$193,000 RELIEF - A PROSPECT THAT MIGHT DEFLATE MOTIVATION. AGAIN, THIS SHOWS THE NEED TO FINE-TUNE WHATEVER FORMULA IS ESTABLISHED.

4.5 PROPOSED RELIEF FROM PERFORMANCE FEE LIABILITY - DOLLARS EXPENDED ALTERNATIVE

RELIEF FROM EXISTING BROADCASTING PERFORMANCE FEES CAN BE CALCULATED GENERALLY, BASED ON ESTABLISHING A 20% TARGET; RELIEF WOULD BE 10% OF LICENCE FEES FOR EVERY 2 PERCENTAGE POINTS OF ELIGIBLE CANADIAN PROGRAMMING EXPENDITURES AS A % OF TOTAL PROGRAMMING EXPENDITURES.

(\$000,000)

<u>CLASS OF BROADCASTER</u>	<u>PROPOSED PERFORMANCE FEE</u>	<u>% RELIEF</u>	<u>RELIEF FROM PERFORMANCE FEE</u>	<u>NET PERFORMANCE FEE</u>
CTV AFFILIATES	\$24.9	60%	\$15.1	\$ 9.8
GLOBAL ETC.	\$ 9.4	40%	\$ 3.8	\$ 5.6
CHCH ETC.	\$ 5.3	40%	\$ 2.1	\$ 3.2
CBC AFFILIATES	\$ 1.3	10%	\$ 0.1	\$ 1.2
TVA AFFILIATES	\$ 6.8	100%	\$ 6.8	\$ -
QUATRE SAISONS	\$ 1.2	100%	\$ 1.2	\$ -
R-C AFFILITES	\$ 0.3	100%	\$ 0.3	\$ -
TOTAL	\$49.2		\$29.4	\$19.8

4.6 IMPACT OF RELIEF ON BROADCASTER MOTIVATION

THE IMPACT OF THE CANADIAN PROGRAMMING EXPENDITURES RATIO FORMULA FOR RELIEF FROM THE PERFORMANCE INCENTIVE PROGRAM WOULD BE THE FOLLOWING:

ENGLISH LANGUAGE

- CTV AFFILIATES WOULD LOSE ROUGHLY \$10 MILLION BY DOING NOTHING. HOWEVER, FOR EVERY 2% INCREMENTAL INCREASE IN ITS PERCENTAGE OF PROGRAM EXPENDITURES DEVOTED TO TARGETTED CANADIAN PROGRAMMING (TO A TARGET LEVEL OF 20%), THEY WOULD BE RELIEVED SOME \$2.5 MILLION;
- GLOBAL ETC., WOULD LOSE SOME \$5.6 MILLION BY MAINTAINING ITS LEVEL OF EXPENDITURE ON TARGETTED CANADIAN PROGRAMMING. HOWEVER, FOR EVERY 2% INCREASE IT WOULD BE RELIEVED SOME \$940,000.
- CHCH ETC., WOULD LOSE \$3.2 MILLION BY DOING NOTHING. HOWEVER, IT WOULD BE RELIEVED SOME \$530,000 FOR EVERY 2% INCREMENTAL INCREASE IN ITS PERCENTAGE OF PROGRAM EXPENDITURES TO TARGETTED CANADIAN PROGRAMMING.
- CBC AFFILIATES WOULD HAVE THE MOST TO LOSE, ONLY REALIZING A 10% RELIEF ON ITS PERFORMANCE FEE, AND ONLY OBTAINING RELIEF OF \$130,000 FOR EVERY INCREMENTAL INCREASE. AS A RESULT, THEY COULD LIKELY BE MOTIVATED TO CONTRIBUTE FUNDING TO CBC PROGRAM PRODUCTION.

FRENCH LANGUAGE

- TVA AND SRC AFFILIATES CAN EARN THE FULL REBATE BY DOING NOTHING; THIS SUGGESTS AN ALTERNATIVE FORMULA AS DESCRIBED FOR ALTERNATIVE #1 (SECTION 3);
- THE INCENTIVE IS MUCH SMALLER FOR QUATRE SAISONS AND SRC AFFILIATES, BUT STILL IMPORTANT IN PROPORTION TO ITS REVENUES.

GENERAL CONCLUSION

- THE % OF PROGRAMMING EXPENDITURES FORMULA PERMITS GREATER CONCENTRATION OF FUNDS INTO FEWER HOURS OF PRODUCTION, AS COMPARED TO THE HOURS OF EXHIBITION FORMULA:
 - THIS MAY BE JUDGED BETTER, BECAUSE IT IS MORE FLEXIBLE FOR THE BROADCASTER;
 - BUT IT DOES NOT ENCOURAGE INTER-STATION (OR NETWORK) POOLING AS MUCH AS DOES THE HOURS OF EXHIBITION FORMULA.

4.7 ANTICIPATED SIMILAR DIFFICULTIES BETWEEN INCENTIVE ALTERNATIVE #1 AND #2

THIS FORMULA ENCOUNTERS MANY OF THE SAME DIFFICULTIES ENVISAGED FOR THE HOURS OF EXHIBITION FORMULA.

TARGETS SETTING

- AS FOR THE HOURS OF EXHIBITION FORMULA, IT IS NOT CLEAR EXACTLY WHAT TARGETS SHOULD BE SET TO MOTIVATE THE BROADCASTERS INTO INCREASED EXPENDITURES ON TARGETTED PROGRAMMING;
- THIS FORMULA SUFFERS AN ADDED DISADVANTAGE IN THAT EVEN THE CURRENT PERFORMANCE WOULD NOT BE KNOWN UNTIL BROADCASTERS ORGANIZE THEIR ANNUAL RETURNS TO ISOLATE EXPENDITURES ON ELIGIBLE PROGRAMMING.

EQUITY AMONG BROADCASTERS

- THERE IS THE SAME PROBLEM OF DIFFERENT CLASSES OF BROADCASTERS AT DIFFERENT STARTING POINTS.

THE CANADIAN PROGRAMMING EXPENDITURES FORMULA HAS ROUGHLY THE SAME IMPACT AS THE HOURS OF EXHIBITION FORMULA, GIVEN COMPARABLE PERFORMANCE TARGETS:

- FRENCH LANGUAGE BROADCASTERS EARN FULL RELIEF;
- CTV AFFILIATES EARN MOST OF IT;
- ENGLISH LANGUAGE COMMERCIAL BROADCASTERS OTHER THAN CTV EARN MUCH LESS OF IT;
- ONLY ENGLISH LANGUAGE CBC AFFILIATES ARE AFFECTED DIFFERENTLY AS EXPLAINED ABOVE.

4.8 ANTICIPATED DIFFICULTIES PARTICULAR TO EXPENDITURES INCENTIVE FORMULA

AS INDICATED EARLIER, THE HOURS OF EXHIBITION FORMULA CARRIES THE RISK OF BROADCASTERS NOT MAKING THE PROGRAMMING AND SCHEDULING DECISIONS CONSIDERED DESIRABLE FROM A POLICY PERSPECTIVE. THE MAIN KIND OF NEW DIFFICULTY IN ALTERNATIVE #2 IS AN ACCOUNTING ONE:

- BROADCASTERS WOULD BE MOTIVATED TO PRACTICE "CREATIVE ACCOUNTING" TO SHIFT AS MANY EXPENDITURES INTO THE ELIGIBLE PROGRAMMING CATEGORY:
 - EVEN IF ONLY DIRECT COSTS WERE CONSIDERED, AND STANDARD PROCEDURES REQUIRED, THE VERIFICATION ON A BROADCASTER BY BROADCASTER BASIS WOULD INTENSIFY THE MONITORING ACTIVITY;

- A SECOND CONCERN IS THE "TRANSFER PRICING" PROBLEM FOR BROADCASTERS WITH WHOLLY OWNED PRODUCTION COMPANIES:
 - A BROADCASTER COULD TAKE A HEALTHY PROFIT AT THE LEVEL OF THE PRODUCTION COMPANY BY CHARGING HIGH PRICES, AND THUS BOOST THE ELIGIBLE EXPENDITURES INSIDE THE LICENSED BROADCASTING ENTITY;
 - A FAIRNESS PROBLEM IS RAISED BY THIS FLEXIBILITY, SINCE ONLY MAJOR BROADCASTERS HAVE THE PRODUCTION CAPABILITY TO PRODUCE ELIGIBLE PROGRAMMING.

THE CRTIC HAS ALREADY SET EXPENDITURE CONDITIONS FOR CTV AND GLOBAL. THUS, WHILE A LEGITIMATE ALTERNATIVE TO THE HOURS OF EXHIBITION APPROACH, THE CANADIAN PROGRAMMING EXPENDITURES APPROACH FACES A DIFFERENT SET BUT LIKELY MORE FORMIDABLE IMPLEMENTATION AND OPERATIONAL PROBLEMS.

5.0 ALTERNATIVE #3: POINTS SYSTEM ALTERNATIVE FORMULA

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5.0 ALTERNATIVE #3: POINTS SYSTEM FORMULA

5.1 OPERATIONAL PRINCIPLES

AN ADDED SOPHISTICATION TO EITHER THE HOURS OF EXHIBITION OR CANADIAN EXPENDITURES ALTERNATIVE FORMULAE IS TO ADD A "POINTS" FEATURE. THIS IS ESSENTIALLY A WEIGHTING SYSTEM FOR CALCULATING THE ELIGIBLE PERFORMANCE FEE RELIEF FOR EXHIBITION OF TARGET PROGRAMMING.

OPERATIONAL PRINCIPLES

- A RATING SCALE WOULD BE DETERMINED TO CALCULATE THE NUMBER OF POINTS THAT A SPECIFIC PROGRAM WOULD OBTAIN, INCLUDING SUCH FACTORS AS:
 - TYPE OF PROGRAM OR PROGRAMMING CATEGORY;
 - WHEN EXHIBITED;
 - DEGREE OF CANADIAN CONTENT;
 - COST OF PRODUCTION.

- AS PER THE OTHER TWO FORMULAE, RELIEF COULD BE BASED ON THE BROADCASTERS' PERFORMANCE ACCORDING TO A POINTS TARGET TO BE ESTABLISHED.

5.2 SIMPLIFYING THE POINTS PROCEDURE

ONE PROBLEM ARISING FROM THE POINTS SYSTEM FLEXIBILITY IS THE COMPLEXITY THAT COULD ENSUE. AN EXAMPLE SYSTEM INVOLVING POINTS FOR SEVERAL FACTORS IS AS FOLLOWS:

<u>TYPE OF PROGRAMMING</u>	<u>SCHEDULE OF EXHIBITION</u>	<u>POINTS AWARDED PER HOUR OF PROGRAMMING EXHIBITED</u>
"10 POINT" MINI-SERIES	8 - 10 P.M.	100
"6 POINT" CANADIAN SERIES	7 - 11 P.M.	65
DRAMA SERIES (SOAP)	6 A.M. - 6 P.M.	40
VARIETY - LOW COST	7 - 11 P.M.	15
- HIGH COST	7 - 11 P.M.	25

ESTABLISHING THE APPROPRIATE TARGETS COULD BE A NIGHTMARE OF ARBITRARY JUDGEMENT. FOR THE PURPOSE OF SIMPLIFYING THE SYSTEM, WE SUGGEST RESTRICTING POINTS TO DEGREE OF CANADIAN CONTENT IN DRAMA PROGRAMMING, BECAUSE:

- A DISTINCTION CAN BE MADE BETWEEN "10 POINTERS", AND LESS THAN 10 POINTERS, WHICH THE CRTC AND TELEFILM CANADA NOW USE FOR DETERMINING VARIOUS ELIGIBILITY CONSIDERATIONS;
- DEGREE OF CANADIAN CONTENT GETS AT THE HEART OF A PRINCIPAL CULTURAL OBJECTIVE IN CANADIAN ENTERTAINMENT PROGRAMMING.
- ANY COMPARATIVE VALUE WITH OTHER PROGRAMMING CATEGORIES WOULD BE ARBITRARY AND COULD LEAD TO UNDESIRABLE RESULTS (EG, "MOUNT ROYAL" COULD EARN LESS THAN A QUIZ PROGRAM IN SOME COMPARATIVE RATING SCHEMES).

5.3 ASSESSMENT OF POINTS SYSTEM

A POINTS SYSTEM HAS THE ADVANTAGE AND DISADVANTAGE OF ADDING A FURTHER CONSTRAINT TO THE OPERATION OF A REBATE SYSTEM:

- IT CAN ASSIST FINE-TUNING EITHER SYSTEM, AND THUS HELP AVOID CERTAIN BROADCASTING END RUNS AROUND OVERALL CULTURAL OBJECTIVES;

- HOWEVER, THE FINE-TUNING ADDITION OF POINTS FOR, SAY, DEGREE OF CANADIAN CONTENT IN DRAMA PROGRAMMING, DOES ADD ANOTHER FEATURE TO AN ALREADY COMPLEX SYSTEM;

- ADDS FURTHER SUBJECTIVITY AND ADMINISTRATION TO SCHEME.

INDEED, A POINTS SYSTEM MAY BE NECESSARY TO ACHIEVE PROGRAMMING OBJECTIVES, IF A PERFORMANCE INCENTIVE PROGRAM IS TO BE INTRODUCED. HOWEVER, ITS NECESSITY ALSO ILLUSTRATES THE DETAILED GOVERNMENT OVERSIGHT REQUIRED IN ANY PERFORMANCE INCENTIVE PROGRAM.

6.0 REDISTRIBUTION OF PERFORMANCE FEES

6.1 PRINCIPLE OF REDISTRIBUTION 54

6.2 METHODS FOR ALLOCATION OF PERFORMANCE FEES 55

6.0 REDISTRIBUTION OF PERFORMANCE FEES

6.1 PRINCIPLE OF REDISTRIBUTION

THE PRIMARY BROADCASTING POLICY OBJECTIVE IN THE IMPLEMENTATION OF A PIP WOULD BE TO ENSURE:

- THAT THE BROADCASTERS ALWAYS HAVE A CHOICE TO MEET THE TARGET AND OBTAIN RELIEF OR PAY THE PERFORMANCE INCENTIVE;
- THAT THE PERFORMANCE FEES COLLECTED REMAIN IN PRIVATE BROADCASTING TO SUPPORT CANADIAN PROGRAM PRODUCTION.

IF THE PIP IS IMPLEMENTED, IT IS INTENDED THAT FEES COLLECTED WOULD BE REDISTRIBUTED TO PRIVATE BROADCASTERS. HOW THIS IS TO BE ACCOMPLISHED NEEDS TO BE ADDRESSED NO MATTER WHICH OF THE THREE ALTERNATIVE FORMULA FOR CALCULATING THE PERFORMANCE INCENTIVE AMOUNT IS EMPLOYED.

6.2 METHODS FOR ALLOCATION OF PERFORMANCE FEES

FEES THAT ARE PAID BY BROADCASTERS COULD BE REDISTRIBUTED IN PROPORTION TO THE BROADCASTERS WHO EXCEEDED PERFORMANCE TARGETS. FOR EXAMPLE:

- BY CONTINUATION OF THE RELIEF SCHEDULE SO THAT FOR EVERY $\frac{1}{2}$ HOUR/WEEK THE LICENSEE EXCEED THE 5-HOUR TARGET, 20% OF THE STATION'S PERFORMANCE FEE WOULD BE DISTRIBUTED;
- IN THE CASE OF EXPENDITURES CRITERIA, FOR EVERY 2% EXPENDITURE OVER THE PERFORMANCE TARGET, 10% OF THE STATION'S PERFORMANCE FEE WOULD BE DISTRIBUTED;
- IN THE CASE OF A POINTS SYSTEM, EACH POINT EARNED IN EXCESS OF THE TARGET WOULD QUALIFY FOR DISTRIBUTION OF THE FEE.

SINCE THERE COULD NEVER BE A DISTRIBUTION OF MORE DOLLARS THAN WERE ACTUALLY COLLECTED, SOME PROTECTION MIGHT BE DESIRABLE TO ENSURE THAT ALL STATIONS EXCEEDING THE TARGET RECEIVE AN EQUAL INCENTIVE.

THIS COULD BE ACCOMPLISHED BY PLATEAUX, USING THE HOURS AS AN EXAMPLE:

- THE FIRST HALF-HOUR IS PAID IF FUNDS STILL REMAIN;
- THE 2ND HALF-HOUR OF OVERPERFORMANCE IS PAID AND SO ON UNTIL THE DOLLARS ARE EXPENDED.

7.0 REDUCTION IN CANADIAN CONTENT REQUIREMENTS AS AN ADDITIONAL INCENTIVE

7.1 POTENTIAL SAVINGS FROM REDUCTIONS IN CANADIAN CONTENT

7.2 RATIONALE FOR THIS INCENTIVE

7.3 FINANCIAL IMPACT OF REDUCED CANADIAN CONTENT

7.4 REDUCED CANADIAN CONTENT COMBINED WITH PERFORMANCE FEE INCENTIVE SYSTEM

7.0 REDUCTION IN CANADIAN CONTENT REQUIREMENTS AS AN ADDITIONAL INCENTIVE

7.1 POTENTIAL SAVINGS FROM REDUCTIONS IN CANADIAN CONTENT

IN RECENT TIMES THE CRTC HAS CONSULTED WITH BROADCASTERS ON THE ATTRACTIVENESS OF LOWERING CANADIAN CONTENT REQUIREMENTS.

ALTHOUGH THERE WAS APPARENTLY NO GREAT ENTHUSIASM AMONG PRIVATE BROADCASTERS FOR THE PROPOSAL, PRIVATE TV BROADCASTERS WOULD LIKELY ACHIEVE IMPORTANT SAVINGS THROUGH THE REDUCTION OF DAYTIME CANADIAN CONTENT LEVELS. THE SAVINGS WOULD RESULT FROM TWO SOURCES:

PROGRAMMING SAVINGS

- THROUGH LICENSING FOREIGN PROGRAMMING AT LOWER COST THAN LICENSING OR PRODUCING CANADIAN PROGRAMMING...THE PROGRAMMING SAVINGS COULD BE GREATER FOR FRENCH LANGUAGE BROADCASTERS

INCREASED ADVERTISING REVENUES

- THROUGH HIGHER ANTICIPATED RATINGS FOR THE FOREIGN PRODUCT, MORE ADVERTISING REVENUES WOULD BE GENERATED...THIS WOULD LIKELY BE THE OPPOSITE FOR FRENCH LANGUAGE BROADCASTERS, ALTHOUGH THEIR PROGRAMMING SAVINGS COULD OUTWEIGH ADVERTISING LOSSES.

7.2 RATIONALE FOR THIS INCENTIVE

THE OBJECTIVE OF BETTER CANADIAN PROGRAMMING IN PRIME-TIME MAY BE SERVED IN PART BY FOCUSING BROADCASTERS' EXPENDITURES ON CANADIAN PROGRAMMING:

- IT WOULD CONCENTRATE RESOURCES AND LEAD TO MORE COMPETITIVE CANADIAN PROGRAMMING;
- IT COULD MAKE CANADIAN TV A MORE ATTRACTIVE ADVERTISING VEHICLE AND THUS INCREASE REVENUES TO BROADCASTERS.

AS WELL, SOME REDUCTION IN CANADIAN CONTENT REQUIREMENTS IN DAYTIME PROGRAMMING COULD COMPLEMENT THE PERFORMANCE INCENTIVE PROGRAM'S OBJECTIVE OF BETTER PRIME-TIME PROGRAMMING:

- IT WOULD FREE UP PROGRAMMING EXPENDITURE DOLLARS FOR BEEFING UP PROGRAMMING BUDGETS DESIGNED TO EARN FULL RELIEF;
- IT COULD EASE THE PERCEIVED "BITTER PILL" TO BROADCASTERS BY ENABLING THEM TO RETAIN THEIR PROFIT MARGIN.

THEREFORE, THE CONSIDERATION OF A REDUCTION IN CANADIAN CONTENT REQUIREMENTS IS EXAMINED IN PARALLEL TO THE REVIEW OF THE PERFORMANCE INCENTIVE FORMULA.

7.3 FINANCIAL IMPACT OF REDUCED CANADIAN CONTENT

WE CONSIDER THE FINANCIAL IMPACT FROM TWO LEVELS OF REDUCED DAYTIME CANADIAN CONTENT - 55 AND 50%:

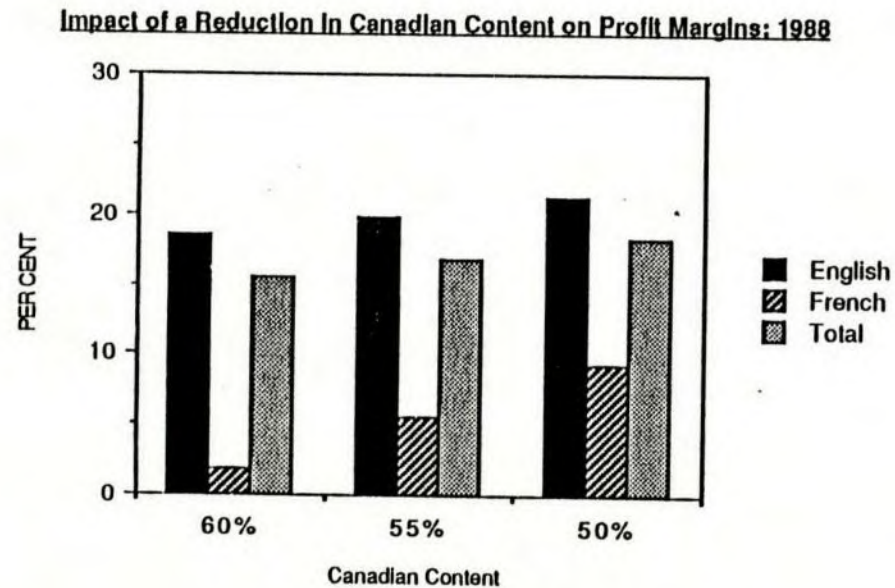
- WE ASSUME PUBLIC POLICY CONSIDERATIONS WOULD PREVENT LOWER LEVELS;
- IN ANY CASE, THE ECONOMIC BENEFIT PROBABLY DROPS SOON AFTER THAT POINT:
 - CANADIAN BROADCASTERS NEED CANADIAN PROGRAMMING TO REMAIN DISTINCTIVE IN LOCAL MARKETS;
 - RISING FOREIGN PROGRAMMING COSTS WITH INCREASED DEMAND IS ALSO AN IMPORTANT FACTOR.

IN FORMULATING ESTIMATES, WE MADE SEVERAL KEY ASSUMPTIONS:

- THE PROPORTIONS BETWEEN CANADIAN AND FOREIGN PROGRAMMING COSTS ARE DERIVED FROM A STATS CAN SURVEY FOR THE PERIOD 1984-85. THE ANALYSIS ASSUMES A 63/37 SPLIT BETWEEN CANADIAN AND FOREIGN PROGRAM COSTS FOR ENGLISH-LANGUAGE BROADCASTERS AND A 88/12 SPLIT FOR FRENCH-LANGUAGE BROADCASTERS;
- THE ANALYSIS ASSUMES THAT THE ADVERTISING REVENUE GENERATED BY CANADIAN AND FOREIGN PROGRAMMING IS SPLIT 40/60 FOR CANADIAN AND FOREIGN PROGRAMMING FOR ENGLISH-LANGUAGE BROADCASTERS AND 60/40 FOR FRENCH-LANGUAGE BROADCASTERS;
- AVERAGE PROGRAMMING COSTS FOR INCREMENTAL FOREIGN PROGRAMMING RISE AS THE % OF CANADIAN CONTENT DECLINES;
- TV'S SHARE OF THE TOTAL ADVERTISING PIE EXPANDS AS FOREIGN CONTENT INCREASES AND CANADIAN CONTENT DECLINES.

7.3 CONTINUED...

PROFIT MARGINS IN 1988 UNDER A STATUS QUO ENVIRONMENT ARE ESTIMATED AT 15.5%. REDUCING DAYTIME CANADIAN CONTENT WOULD INCREASE PROFIT MARGINS TO 16.8% UNDER 55% CANADIAN CONTENT AND 18.2% UNDER 50% CANADIAN CONTENT.



7.4 REDUCE CANADIAN CONTENT COMBINED WITH PERFORMANCE INCENTIVE PROGRAM

A REDUCTION IN DAYTIME CANADIAN CONTENT REQUIREMENTS TO 50% WOULD, ON AVERAGE, MORE THAN OFFSET THE HIGHER PROPOSED PERFORMANCE FEE. THIS WOULD THEN PROVIDE BROADCASTERS WITH A REAL BONUS AFTER FACTORING IN RELIEF FROM PERFORMANCE FEE FOR MEETING TARGETS.

IMPACT OF A FEE/RELIEF AND A REDUCTION IN CANADIAN CONTENT ON PROFIT MARGINS: 1988

<u>STATUS QUO PROFIT MARGIN</u>	<u>PROFIT MARGIN AFTER A PERFORMANCE FEE & RELIEF BASED ON A PROGRAMMING TARGET</u>		<u>PROFIT MARGIN AFTER A PERFORMANCE FEE AND RELIEF BASED ON A EXPENDITURE TARGET</u>	
	<u>60% CDN CONTENT</u>	<u>50% CDN CONTENT</u>	<u>60% CDN CONTENT</u>	<u>50% CDN CONTENT</u>
ENGLISH	18.4%	15.8%	18.6%	16.6%
FRENCH	1.8%	1.8%	9.4%	1.8%
TOTAL	15.5%	13.2%	15.9%	14.0%

8.0 IMPLEMENTATION MECHANISMS

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8.0 IMPLEMENTATION MECHANISMS

8.1 REQUIREMENTS FOR IMPLEMENTATION

SHOULD A PERFORMANCE INCENTIVE PROGRAM BE ADOPTED, THE IMPLEMENTATION REQUIREMENTS ARE:

- AUTHORITY FOR COLLECTION
 - LEGISLATIVE AUTHORITY IN THE BROADCASTING ACT FOR THE REGULATOR TO COLLECT THE PIP
- ESTABLISHMENT OF CRITERIA
 - PUT IN PLACE REGULATIONS GOVERNING THE CRITERIA FOR PERFORMANCE TARGETS
- PROCEDURE TO DISBURSE
 - ESTABLISH A PROGRAM TO DISBURSE ANY RESIDUAL COLLECTED

8.2 PROCEDURE TO COLLECT AND PROVIDE RELIEF FROM THE PERFORMANCE INCENTIVE FEE

IT WOULD BE HIGHLY DESIRABLE FROM A BROADCASTER PERSPECTIVE TO ESTABLISH A PROCEDURE WHEREBY RELIEF IS ACCORDED PRIOR TO THE ACTUAL PAYMENT OF THE PERFORMANCE FEE:

- OTHERWISE, BROADCASTERS EXCEEDING PERFORMANCE TARGETS WOULD HAVE A POINTLESS CASH FLOW DEFICIENCY.

THE SYSTEM AT PRESENT PROVIDES FOR THE PAYMENT OF LICENCE FEES ON NOVEMBER 30TH FOR THE PREVIOUS BROADCAST YEAR THAT ENDED ON AUGUST 31ST:

- THE INCENTIVE FORMULA, IE. THE PERFORMANCE FEE SCHEDULE AND GROUND RULES FOR RELIEF, COULD BE ESTABLISHED BEFORE THE BEGINNING OF THE BROADCAST YEAR
- THEN, EXPECTED RELIEF COULD BE TAKEN INTO ACCOUNT BY THE BROADCASTER BY THE NOVEMBER 30TH DEADLINE, SUBJECT TO SUBSEQUENT AUDIT AT THE OPTION OF GOVERNMENT.

WHILE AN ADMINISTRATIVE PROBLEM IS TO BE RESOLVED, THERE APPEARS TO BE NO MAJOR STUMBLING BLOCK TO RELIEF COINCIDENT WITH PAYING PERFORMANCE FEES.

8.3 TRANSITIONAL ARRANGEMENTS

AS DISCUSSED EARLIER, WE ADVISE CONSIDERING A 5 YEAR TRANSITIONAL PHASE, BECAUSE:

- IT WILL TAKE THAT LONG TO FINE TUNE A RELATIVELY COMPLEX SYSTEM, PARTICULARLY GIVEN REPORTING LAGS;
- IT SMOOTHS THE TRANSITION OF SOME CLASSES OF BROADCASTERS WHOSE ADJUSTMENT WILL BE RELATIVELY GREATER THAN OTHERS.

AT THIS TIME BROADCASTERS ARE OPERATING UNDER A REGULATORY SYSTEM THAT EXAMINES AND SETS PERFORMANCE ON A LICENCE BY LICENCE BASIS. CONSEQUENTLY, THEY ARE AT VARYING STAGES OF 5 YEAR LICENCE PERIODS, WHICH HAVE TO BE CONSIDERED IN SETTING TARGETS, EG.:

- STEPPED UP DRAMA/VARIETY CONDITIONS OF LICENCE (EG. CTV MOVING TO 4.5 HOURS/WEEK OF DRAMA);
- CRTC'S POLICY ON EXPANDED DEFINITION OF LOCAL PROGRAMMING (WHICH ENCOURAGES POOLING).

