The Financial Impacts Of Section 19.1 of the Income Tax Act (Bill C-58) and Simultaneous Substitution

An Examination
by
ARTHUR DONNER, Ph.D

This study was commissioned by
English Language Broadcasting Policy Division
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Executive Summary

Introduction

The main objective of this study is to provide an updated assessment of the financial impacts of Bill C-58 and of simultaneous substitution (or simulcasting) policies on Canadian television advertising revenues. Both measures were introduced to support the attainment of Canadian cultural objectives. Though quite different in design, these policies work together to encourage Canadian advertisers to use Canadian TV stations to reach viewing audiences in Canada.

Bill C-58 is a 1975 amendment to the Income Tax Act. It disallows the deduction of advertising expenditures directed at Canadians, but placed either with a foreign periodical or broadcasting station. Simultaneous substitution (or simulcasting) is a CRTC requirement. Cable companies with more than 6,000 subscribers must accede to the request of Canadian broadcasters to substitute a local signal for a distant signal when both are carrying an identical TV program. A Canadian station benefitting from simulcasting can sell advertising based on the combined Canadian audience viewing the program on the distant and the local channel.

Both measures support the rationale of the local broadcast license. Through these measures, Canadian stations maximize their audiences and revenues to support the specific programming obligations as required under the Broadcasting Act.

Canadian Advertising Revenues Flowing To US Border Stations

Despite the obviously higher costs involved in placing Canadian advertisements on US border television stations to reach Canadian audiences, some of this still goes on. This study estimates that US border stations attracted $31.3 million of net Canadian advertising revenue in 1988. These US stations primarily serve Canadian viewing audiences in Toronto, Montreal and Vancouver, though their signals blanket most parts of Southern Canada:

In terms of major markets, the US border stations attract about $7 million into the Buffalo stations, $2.8 million into the stations in Burlington/Plattsburg, and about $20 million into KVOS in Bellingham. The $31.3 million figure for US placed net revenues in 1988 is more than double the level estimated for 1982.

On the basis of relative shares of the Canadian television net revenues, the US stations accounted for about 7.1% of the Canadian market back in 1975, before the tax amendment came into effect, and before Canadian broadcasters used simulcasting on a large scale. By 1982, the US share had shrunk to about 2.2% of Canadian net revenues, and that ratio rose slightly to about 2.8% by 1988.

KVOS in Bellingham was the only major US market area to regain a substantial share of its Canadian market between 1982 and 1988. By 1982 the Bellingham share of Vancouver net revenues had declined to 14.9% of the market from an estimated 36.2% share in 1975. Bellingham's share of the Vancouver market for net television advertising revenues rose back to 22.8% in 1988.

US stations continue to attract Canadian advertisements because they have adjusted their costs downward to compensate for the extra tax costs facing Canadian advertisers. Indeed, this writer has seen a letter from a Canadian advertising agency to a Canadian client explaining how a US station would reduce its rates by 46% to the client - which was precisely the amount then required to compensate a Canadian advertiser for the loss of the tax deduction. The discounted funds would be added to the media budget, but set aside as a tax reserve to pay the extra tax on the Canadian side.

Lack of time availability in the crowded and expensive large urban Canadian markets, as well as the efficiency of reaching certain audiences in Canada, are other reasons often cited to explain why Canadian advertising still flows to US border stations. Finally, with the decline of Canadian advertising, the US stations have also been able to a great extent to fill their schedules with local US advertisements.

The accompanying tables 12 and 15, reproduced again in this summary section, show that the US border television share of Canadian net television advertising revenues has been sharply reduced because of the Canadian policy initiatives.

Financial Benefits Of Bill C-58 And Simulcasting

This study has relied on the introduction of some new information:

1. MediaStats has provided us with a direct measure of the value of simulcasting to the Canadian stations for the fiscal year 1989-90.

2. Several groups, including the Canadian Association of Broadcast Representatives, have provided estimates of the amount of advertising revenue which still flows to the US border stations.

3. The Canadian Association of Broadcasters has also provided data from a survey of their members relating to the importance of Bill C-58 and of simulcasting.

The figures in table 12 summarize our estimates of the amount of Canadian advertising still flowing to the US stations compared with actual revenues earned by private Canadian stations.

In arriving at the final set of estimates, it was important to determine what the potential US revenues would have been in 1988 had these two Canadian initiatives not been introduced. What complicates matters is that BBM data on Canadian audience viewing tends to underestimate the US presence because of simulcasting. Indeed, a rough estimate is that the US share of Canadian viewing was underestimated by about 2.8% in the fall of 1989. This suggests that the 'true' US audience share in Canada has probably risen through the 1980s. This also implies that the US revenue share of the Canadian revenues would have risen above the share which existed back in 1975.

The projections relating to the 1988 potential US revenues in the absence of these programs depend very heavily on the particular assumptions adopted. (Recall that we estimate that the US stations attracted about $31 million in net revenues in 1988.)

This study estimates that **potential** US net television revenues for 1988 ranged between $93.4 million and $112.3 million. The lower potential revenue figure assumes that US based Canadian revenues would have increased since 1975 at the same rate as private TV advertising revenues in Canada. The higher assumption assumes that the US stations' share of Canadian revenues would have increased to 10% of the Canadian market from 7.1% back in 1975. **These estimates imply that the Canadian policies benefitted Canadian stations in 1988 by assuring that between $62.1 million and $81 million of net Canadian television revenues remained in Canada, and were available for local television stations.**

Local Canadian stations managed to earn between $48.6 million and $67.5 million in 1988 as a result of Bill C-58. The simulcasting of US programs provided Canadian broadcasters with an extra $67.3 million in net revenues in 1988. These policies together generated between $115.9 million and $134.8 million in net advertising revenues for the Canadian broadcasters.

Our high range estimates for both policies are remarkably close to the adjusted estimates based on the CAB member survey. When the CAB survey figures are scaled back to a 1988 base, and are placed on a net rather than a gross revenue basis, US simulcasting provides these Canadian broadcasters with about $81.3 million in net revenues. Since Bill C-58 provides an additional $62.6 million, the combined effect is $136.5 million. This compares closely to the $115.9-$134.8 millions our own analysis has come up with. In fact, we believe that our high estimates are closer to the true policy impacts. Note that the CAB member survey **presumably** does not include impact estimates of the Bill C-58 and simulcasting for CBC owned and operated stations.

In summary, this report estimates that simulcasting revenues in 1988 amounted to about 45.9% of private pre-tax profits, 6.2% of private station net revenues, and 4.9% of total net advertising revenues, including CBC revenues.

Bill C-58 revenues are nearly as substantial, and range between 33% and 46% of pre-tax profits in 1988, and from 3.5% to 4.9% of total net advertising revenues in Canada.

It is clear that these two policies working together have contributed substantially to the cash flow and profits of the Canadian broadcasters. What is interesting in all this is how important Bill C-58 remains, despite an increased incidence of simulcasting in the 1980s.

Concluding Comments

These two policy initiatives were introduced to strengthen Canadian TV broadcasting revenues in order to support increased Canadian content in the programming schedule. This latter objective also enhances the vitality of Canada's cultural community.

While the estimates of the importance of these two policies are fairly rough, nevertheless it is clear that these policies have sharply redirected the revenues of Canadian television advertisers in the direction of Canadian stations. Bill C-58 may or may not be quite as important as simulcasting in terms of generating extra revenues for Canadian broadcasters, but even accepting the low estimate for 1988 ($48.6 million), the tax amendment remains a very powerful force in redirecting advertising revenues to the Canadian stations.

One has far more confidence in the quality of the simulcasting estimate. It is estimated that its impact on Canadian net advertising revenues was about $67.3 million in 1988.

In view of the significant Canadian advertising revenues which can be traced to these measures, one has to conclude that the two policies are very important both to public and private broadcasters, and accordingly provide a major support to the Federal Government's cultural policies.

TABLE 12

CANADIAN NET TV ADVERTISING REVENUES - ALL MARKETS: 1988
ACTUAL/ESTIMATED 1975, 1982, 1988

	Millions of Canadian Dollars					
Private Stations	1975		1982		1988	
Buffalo	7.10	14.0%	4.70	3.0%	7.00	2.6%
Toronto/Hamilton	43.70	86.0%	152.60	97.0%	260.30	97.4%
Total	50.80		157.30		267.30	
Burlington/Plattsburg		6.5%		2.1%		1.8%
Montreal		93.5%		97.9%		98.2%
Total						
Bellingham		36.2%		14.9%		22.8%
Vancouver		63.8%		85.1%		77.2%
Total						
U.S. Rev-3 Mkts	14.30	14.5%	13.80	4.7%	29.80	5.9%
Cdn. Rev-3 Mkts	84.20	85.5%	280.40	95.3%	476.90	94.1%
Total Priv Rev-3 Mkts	98.50		294.20		506.70	
Other Mkts-U.S.	2.20	1.7%	1.40	0.4%	1.50	0.2%
Other Mkts-Cda	130.20	98.3%	390.40	99.6%	615.20	99.8%
Total Priv-Other Mkts	132.40		391.80		616.70	
Total U.S. Adv. Rev.	16.50	7.1%	15.20	2.2%	31.30	2.8%
Total Cdn Adv. Rev.	214.40	92.9%	670.80	97.8%	1092.10	97.2%
Total-U.S. & Cda	230.90		686.00		1123.40	
Other						
English CBC	48.50		87.00		197.10	
French CBC	15.8		42.50		87.20	
Total CBC-TV	64.3		129.40		284.30	

Sources: Private Net TV Revenues - Department of Communications.
CBC Revenues came from The Corporation.
1975 and 1982 U.S. figures were taken from Arthur Donner (1986).
1988 U.S. figures were taken from Broadcast Representative Estimates.

TABLE 15

NEW ESTIMATES OF THE IMPACT OF SIMULCASTING AND BILL C-58 ON CANADIAN NET TV ADVERTISING REVENUES (Millions)

	------------------Policy Impacts	-------------------		
	1982 (Donner & Kliman) 1985 Report	1984 (Donner 1986)	1988	
Simulcast Revenues	$21	52.7	67.3	(81.3)
Bill C-58 Revenues	28.2 - 32.7	35.8 - 41.8	48.6 - 67.5	(62.6)
Combined Policies	49.2 - 53.5	88.5 - 94.5	115.9 - 134.8	(136.5)

Note: The figures in brackets are adjusted estimates provided by the CAB, based on a March 1990 member survey for the 1989-90 broadcast year. The CAB converted their figures to make them compatible with the 1987-88 broadcast year. The CAB adjustment used airtime revenues growth based on the August 31, 1988 - February 28, 1990 results reported by the Television Bureau of Canada for Canadian markets excluding the Atlantic region.

The Financial Impacts Of Section 19.1 of the Income Tax Act (Bill C-58) and Simultaneous Substitution

1. Introduction

Objective Of This Study

This report provides an updated assessment of the financial impacts of Bill C-58 (an amendment to the Income Tax Act) and of simulcasting policies on Canadian television advertising revenues.

Though quite different in design, both of these policies work together to encourage Canadian advertisers to use Canadian TV stations to reach local viewing audiences in Canada. To the extent that these policies are successful, they divert back to local Canadian broadcasters some Canadian advertising revenues which would otherwise flow to the distant stations. This study provides an estimate of the amount of advertising revenue which has been repatriated back to Canada as a result of these two programs.

Section 19.1 of the Income Tax Act (or Bill C-58) was passed by Parliament in 1975. The income tax amendment was introduced to discourage Canadian advertisers from using US border television stations, radio stations or media to reach audiences in Canada. The tax amendment disallowed using advertising expenditures as a legitimate deductible business expense if the advertising, which was directed primarily to Canadian audiences, was placed with a foreign broadcaster. When the maximum corporate tax rate was 46%, the impact of this amendment, at the margin, was to effectively double the price paid for Canadian advertisements on US stations.

Because they are not located in Canada, the programming costs of the US border stations are calculated only on their local US audience. The US programming purchase costs were and continue to be significantly lower than comparable Canadian costs. In Buffalo, for example, acquisition costs for programming are about one-third that of a Canadian station in Toronto. As a result, the US border stations were able to charge a significantly lower advertising rate to retailers than any Canadian station could charge -- typically, less than half the Canadian rate -- and significant Canadian advertising expenditures flowed to the US border stations in the early 1970s. In other words, Section 19.1 sought to restore the competitive viability of Canadian television stations. In 1976, they were facing US border stations selling commercial time at lower rates to Canadian retail and national advertisers. While Bill C-58 addressed Canadian advertising flowing to US broadcasters, stations or media, it was nevertheless implemented for Canadian cultural purposes.

The other important measure which affects the flow of local Canadian TV revenues is simultaneous substitution. The CRTC requires cable companies with more than 6000 subscribers to accede to the request of Canadian broadcasters to substitute a local signal for a distant (Canadian or US) signal when both are carrying an identical TV program. The Canadian broadcaster which simulcasts a program can sell advertising based on the combined audience watching the two stations. Simultaneous substitution was introduced before Bill C-58, but the intensity of its use increased sharply in the 1980s.

The Rationale For Bill C-58 And Simulcasting

The need for Canadian public policy to intervene in the cross-border flow of Canadian advertising expenditures has its origins in geographic proximity and the growth of the cable television industry. There are a large number of US television stations near the Canadian-US border which were originally set up to serve sparsely populated areas in the Northern US States. As already noted, their program acquisition costs are based on the smaller US audiences. These stations do not pay for the Canadian audiences in Canada's large urban markets such as Vancouver, Toronto and Montreal. The Windsor-Detroit relationship stands out as the one strong contradiction to this situation.

It should also be noted that the US has introduced measures similar to these Canadian policies. In 1984, Congress passed the *Trade and Traffic Act*, which essentially copied the provisions of the Canadian Bill for American advertisers buying time on Canadian stations to reach US audiences. This has had implications for Canadian border stations, particularly in Windsor. Moreover, Article 2005 of the Canada-US Free Trade Agreement provides a specific exemption for cultural industries (which includes broadcasting) from its provisions. Finally, with the reintroduction of Syndex cable rules in 1990 in the United States, the Americans have introduced a form of substitution for precisely the same reason - to support the rationale of the local licence.

As a result of this geographic proximity, and the rapid expansion of Canadian cable systems in the 1980s, Canadian advertisers can, and still do, place advertisements on US border TV stations. Licensees in Buffalo, Plattsburg, or in Bellingham continue to reach television viewing audiences in Toronto, Montreal or Vancouver. The US stations which still attract Canadian advertisements have adjusted their costs to compensate for the extra tax-induced costs on Canadian firms. They have also been able to fill their schedules with local US commercials. Lack of time availability in the crowded and expensive three large Canadian markets, as well as the efficiency of reaching certain audiences in Canada, are often cited as the prime reason that Canadian advertising still flows to US border stations.

These two public policy initiatives also reflect the reality that Canada's advertising sector is relatively smaller than its US counterpart. It is not only because of geographic proximity, but also because similar firms operate on both sides of the border. That is, aside from the specifics of the cross-border flow of Canadian advertising spending, there is also a spillover of US advertising messages via US network programs into Canada. This reduces the quantity of advertising that is required in Canada to support Canadian economic activity. Arthur Donner reviewed the importance of the advertising spillover issue in his 1986 report for the Caplan-Savaugeau Task Force On Broadcasting.

In sum, these two measures are justified by Canadian cultural objectives in that they support the objectives of providing Canadian audiences with a wide range of programming. Simultaneous substitution protects the value of local programming rights of Canadian stations. Bill C-58 enhances the advertising revenues base in Canada which also supports Canadian broadcasters and Canadian programming. Both programs seek to maximize the local station's ability to earn revenues for the programming it broadcasts. Consequently, without this intervention, a larger share of Canadian advertising expenditures would flow away from local Canadian stations, which would weaken the station's ability to contribute to Canadian cultural broadcasting objectives.

The Parties Directly Affected

A number of different groups have a direct interest in Bill C-58 and the simulcasting initiative. These include the Canadian firms and the other groups which advertise, the advertising agencies which play an intermediary role between the broadcasters and their advertiser clients (and in the process earn an agency fee), and the national sales representatives, who are the sales' agents for one or more specified Canadian and US TV stations.

The strongest supporters of Bill C-58 and simulcasting in Canada are the private Canadian TV broadcasters. They find their TV advertising revenues, profits, and in-house programming capability strongly enhanced as a result of these two Government initiatives. The parties which strenuously oppose these programs are the US border TV stations whose signals reach into the Canadian market. The US border stations are obviously earning lower revenues (both through quantity and price effects) because Canadian advertising spending has been diverted back to Canadian broadcasters.

Canadian advertisers, which in some cases are US-owned firms operating in Canada, are sensitive to the wishes of the Canadian Government. There is little doubt that the branch operations of US companies feel that it makes good corporate sense to direct their Canadian advertising through Canadian broadcasters.

The tax cost of buying US station time to air Canadian commercials are included in the advertiser's budget estimates, but not necessarily in the expenditures which flow through the advertising agency. Therefore, one should expect the advertising agencies operating in Canada to prefer to place their business with Canadian media outlets. In general, however, the agencies deny this incentive. Instead they argue that their sole raison d'etre is to facilitate an efficient buy for their clients.

The station representatives earn their fees based on the amount of advertising time they sell for their broadcaster clients. The private representative firms often represent US and

Canadian broadcasters, and the large advertising agencies are often international as well. So interest in Bill C-58 and simulcasting is often diffused and hard to pin down in a simple way because of the cross-border operations of various organizations.

The affected US broadcasters view these Canadian programs as out and out commercial protection, akin to imposing tariffs or quotas on imports entering into Canada from the US.

In conclusion, while the Canadian Government acknowledges that Bill C-58 and simulcasting affect revenue flows both within Canada, and between Canada and the USA, the view is that this intervention is justified on cultural grounds. By strengthening the revenue base of the private broadcasters, these measures also provide these same stations with the ability to support their somewhat costly Canadian programming obligations. At the same time, the programs indirectly help the arts and cultural industries in Canada.

Despite a rationale which seems soundly based, some affected parties continue to advocate their removal. The justification often cited is that they are contrary to the spirit of the *Canada-US Free Trade Agreement*, although Article 2005 of the Agreement provides a specific exemption for cultural industries (including broadcasting) from its provisions.

Topics Discussed In The Report

The remainder of this section describes the background topics which are covered in the study.

Section 2 characterizes the structure of the television industry in Canada. The discussion focuses on the number and geographic location of television stations in Canada, as well as their revenue and spending patterns. Section 3 concerns audience viewing patterns in Canada, and the importance of the cable system in introducing distant US signals and distant Canadian signals into major Canadian markets.

Sections 2 and 3 together suggest some basic rationales for protecting Canadian broadcasting. Specifically discussed are Canada's high viewer acceptance of US programming, and the differences in program costs between Canada and the US. Consequently, in the absence of this intervention, a larger share of Canadian advertising expenditures would flow to US broadcasters, which would weaken Canadian content objectives.

Section 4 discusses a series of earlier studies on the empirical impacts of these two programs. Section 5 discusses estimating the value of simulcasting to Canadian broadcasters using a method based on audience transfers. Five possible biases in this method are pointed out, and it is concluded that, if anything, these calculations understate the true value of simulcasting to Canadian broadcasters.

Sections 6 and 7 review advertising price trends and the growth in Canadian revenues in the private sector stations as well as in the CBC.

Section 8 discusses a CAB proposal that simultaneous substitution be extended into other areas where the Canadian station owns the program rights - such as strip programming and other non-simultaneous programming options.

Section 9 reviews a CAB survey of its members relating to the impact of Bill C-58 and simulcasting. The survey also provided estimates of the potential revenue gains to these private broadcasters of introducing non-simultaneous program substitution.

Section 10 discusses the adjustments made to a 1989-90 simulcast estimate to place the figures on a net revenue basis for 1988. Finally, section 11 discusses the updated estimates of the impact of Bill C-58 and simulcasting.

2. The Structure Of Television Broadcasting In Canada

According to Statistics Canada, there were 123 television stations operating in Canada in 1987. Thirty stations were owned and operated by the Canadian Broadcasting Corporation (17 in English, 12 in French, 1 in a combination of English and French); there were four provincial education stations operating. Of the 89 privately-operated stations, 28 were affiliated with the CBC, 5 with Radio Canada, 30 with CTV, 10 with TVA and 6 with Quatre Saisons; 10 were independent.

The largest number of television stations are found, in descending order, in Ontario (29), Quebec (24), Saskatchewan (13), Alberta (10) and BC (9).

Private broadcasters earned just over $1 billion from (net) air time sales in 1988, whereas the CBC earnings amounted to about $247 million. The CBC's share of total air time sales was 18.4% in 1988. Local TV revenues account for about 24.4% of air time sales for the total system (CBC and private broadcasters) in 1988, while network sales accounted for 21.6%. The bulk of private revenues, or 54%, were generated out of national sales.

Canadian TV broadcasters purchase a large proportion of their programming from abroad, primarily from US producer organizations. As a result the payments which flow out from Canadian broadcasters (including royalties) to purchase program rights are extensive, amounting to $38.9 million in 1988. The bulk of these program expenditures ($31.1 million) flowed to US program producers. Canadian TV broadcasters also sell Canadian-produced programs, generating a revenue flow of about $6.9 million in 1988.

3. The Importance Of Viewing US Signals In Canada

Despite all the attention and public and private funds directed towards encouraging greater viewing of Canadian-produced programming, the progress made in this direction has to be considered as rather discouraging. In part this is a natural reaction to the phenomenal expansion in cross country telecommunications. Canada is already a heavily "wired" country - a fact which makes it very difficult to achieve Canadian content and other Canadian broadcasting policy objectives.

For example, as the figures in table 1 illustrate, 99% of Canada's 9.5 million households in 1989 owned television sets, 71% of them subscribed to cable television services, and 59% of the households had TV converters. Cable penetration is the highest in British Columbia, where 84% of households subscribe. It is lowest in P.E.I., where less than half of the households subscribe to cable.

TABLE 1

CANADIAN HOUSEHOLDS WITH TELEVISION, CABLE AND CONVERTERS
(Canada and Provinces, as of May, 1989)

Province	Households	Television Households	Color TV Households*	Households With Cable	Households With Converters
	000s	%	%	%	%
Newfoundland	167	99	92	74	60
P.E.I.	44	98	91	45	50
Nova Scotia	309	99	93	72	62
New Brunswick	242	99	95	67	57
Quebec	2,511	99	95	63	54
Ontario	3,408	99	96	76	62
Manitoba	383	98	94	66	57
Saskatchewan	358	99	95	48	53
Alberta	865	98	95	70	64
British Columbia	1,189	97	94	84	57
Canada*	9,477	99	95	71	59

Source: Statistics Canada, May, 1989
* = Statistics Canada Colour TV figures as of May, 1988

Canada's extensive cable network both improves the quality of the signals and increases viewer choice by introducing a large number of additional stations. BBM data indicate that the signals of some 38 US TV stations reach into the Canadian marketplace, though not all of them carry commercials intended specifically for the Canadian market.

TABLE 2

NUMBER OF CANADIAN AND U.S. TV STATIONS AVAILABLE IN THREE MAJOR CANADIAN MARKETS *

(Fall 1988) Cities	Canadian (English)	Canadian (French)	U.S.	Multilingual and Foreign	Total
Montreal	10	15	8	2	35
Toronto	24	5	19	2	50
Vancouver	16	1	15	2	34

* To households with cable, converters and pay-TV.

Note: Stations for which BBM published some viewing data. Excludes community, CBC North and Parliamentary channels. TV5 included in Canadian French.

Source: The CBC Fact Book, 1989

The three large urban centres in Canada are heavily saturated with TV signals originating in the US. For example, the figures in table 2 indicate that the signals from eight different US stations reach viewers in Montreal, 19 reach into Toronto, and 15 into Vancouver. Not all of these stations carry Canadian advertisements designed to reach Canadian audiences. Some of the US stations are non-profit, others are associated with cable networks, and so on.

Furthermore, access to cable has fragmented the market by also introducing distant signals from other Canadian stations into Montreal, Toronto, and Vancouver. For example, Toronto had access to 24 separate Canadian English language stations in 1989, and Vancouver had access to 16 stations. This latter reality has prompted a significant amount of simulcasting of distant Canadian station signals. The main point is that the penetration of US signals into the larger urban markets in Canada makes it difficult to achieve the objective of Canadians viewing programming which is produced in Canada.

TABLE 3

HISTORICAL TREND IN STATION GROUP SHARES OF TV AUDIENCES IN CANADA

Monday to Sunday (6:00 a.m. - 2:00 a.m.)

	Fall					
Station Groups	1979 %	1981 %	1983 %	1985 %	1987 %	1988 %
English TV						
CBC (O & O plus network time on affiliates)	20	18	17	17	17	15
CBC (affiliates in own time)	6	5	4	5	4	3
CTV	32	30	33	29	27	26
All U.S.	29	32	31	30	30	29
Others	13	15	15	19	22	26
Total	100	100	100	100	100	100
French TV						
SRC (O & O plus network time on affiliates)	43	*34	40	41	32	29
SRC (affiliates in own time)	4	3	4	3	1	1
TVA	51	60	51	49	43	43
Quatre Saisons	-	-	-	-	16	16
Others	1	3	4	8	9	9
Total	100	100	100	100	100	100

* CBC journalists strike affected programming.

Note: Share of audience is the % of total television audience that is tuned to a specific station group during these viewing hours.

Source: The CBC Fact Book, 1989

The figures set out in table 3 illustrate the historical trends in viewing audiences in Canada by major station groups. According to BBM figures, the importation of signals from the US, and the introduction of pay TV services in Canada, has helped shrink the viewing of the two major Canadian networks on English language TV.

The CBC share of TV audience fell from 26% in 1979 to 18% by 1988. The CTV share had fallen from 32% to 26% over the same time period. The viewing audience for US TV signals in Canada has been relatively static around the 29% range. The significant change in viewing shares in recent months has been due to the introduction of other channels - Canadian independent stations and Canadian pay TV and specialty channels.

CBC and TVA have also experienced declining audience coverage in the French language area, while Quatre Saisons' coverage reached 16% in 1988. The US TV stations do not broadcast in French. Therefore, the Canadian leakage of advertising to US border stations is less of an issue for French language television in Canada.

TABLE 4

AUDIENCE SHARE OF TV STATION GROUPS BY CITY

Monday to Sunday (6:00 a.m. - 2:00 a.m.)
Fall 1987

All English Television

Cities	CBC %	CTV %	U.S. %	Other Canadian %	Total %
Charlottetown	40	36	16	7	100
Corner Brook	30	36	22	12	100
St. John's	26	38	27	9	100
Regina	20	37	20	24	100
Saskatoon	22	35	19	25	100
Ottawa	26	29	22	23	100
Sydney/Glace Bay	24	43	25	8	100
Halifax	22	34	32	12	100
Winnipeg	21	26	24	29	100
Edmonton	18	28	24	30	100
Calgary	15	27	25	33	100
Toronto	17	19	23	41	100
Vancouver	15	27	40	18	100
Montreal	18	37	42	3	100
Windsor	13	1	79	7	100

Source: The CBC Fact Book, 1989

Geographic proximity to the US border affects viewing habits, as shown in table 4. Not surprisingly, Canada's viewing of US signals is extremely high in Windsor, which is right across the border from Detroit. All of the other viewing shares of US stations varies, but in 1987 the US stations had an English audience share of 42% in Montreal, 40% in Vancouver, and 23% in Toronto.

It should be pointed out that the audience viewing statistics tend to bias downward the US station audience share because of simulcasting of US signals. MediaStats provided this writer with a rough estimate relating to the amount of Canadian viewing of US signals which are not accounted for in the BBM sweep because of the simulcasting.

According to the BBM's Fall 1989 three-week survey, 16.9 million viewing hours were transferred each week to Canadian stations via simulcasting. This transfer represents about 2.8% of total viewing time in Canada (or 2.8% of 595.6 million weekly viewing hours). In other words, the US TV station share of Canadian audiences is approximately 2.8% higher than the figures cited in these tables. This implies that the US station share of Canadian viewing has increased by a similar percentage since the late 1970s, when simulcasting was hardly a factor.

4. A Series Of Earlier Studies On Bill C-58 And Simulcasting

Donner & Lazar Research Associates (1979)

This was the first of several studies relating to the financial impacts of Bill C-58.

Donner and Lazar concluded that Bill C-58 was an essential component of Canada's cultural policies in the late 1970s. The tax amendment achieved a major redirection of advertising expenditures from US border broadcasters to Canadian broadcasters, partly by creating revenue opportunities for newly licensed stations. Moreover, the 1979 study argued that the survival of several Canadian broadcasters depended upon the continuation of Bill C-58.

The 1979 study noted that a series of other policies were also in place which affected the allocation of Canadian television advertising between Canadian broadcasters and US broadcasters. The other policies which were discussed in the report included commercial deletion, simulcasting, alternating the sources of US signals available on Canadian cable systems (i.e. leapfrogging of cable signals), and the licensing of several new television stations in Canada.

The US border stations which were critical of Bill C-58 argued that the Bill was imposed on an already tight TV availability market in Canada. That is, instead of creating more employment in Canada, the tax change simply escalated the price of advertising time in Canada. This caused, they argued, national advertisers to spend less in smaller Canadian markets than they might have otherwise. The tax amendment also prompted an unnecessarily costly bidding war for US syndicated shows. That is, some of the gains of Bill C-58 that were repatriated from US border stations went to the Hollywood producers of syndicated shows.

Donner and Lazar concluded that Bill C-58 increased Canadian gross TV advertising sales by approximately $16.2 million in 1977 and $23.2 million in 1978. In summary, Section 19.1 was responsible for about 20% of the flow of pre-tax profits to the Canadian television broadcasters in the late 1970s.

Arthur Donner and Mel Kliman (1983)

This report was completed in 1983, and a somewhat different version was published in the Canadian Tax Journal in November-December of 1984. Donner and Kliman developed a theoretical framework to explain the impacts of the two initiatives on the television broadcasters on both sides of the border.

Using a micro economic supply and demand approach, the authors indicated the kind of economic and financial adjustments which should have occurred as a result of the tax amendment spurring an increased cost of advertising on US border stations. The predictions based on the theory have largely been born out in practice.

The theory implied the following kinds of adjustments to occur:

1. US border stations would reduce their television advertising rates, but not necessarily by the full amount of the Canadian tax rate (then at 46%);

2. Some Canadian advertising would continue to flow to US border stations;

3. Some advertising expenditures would flow back to Canadian broadcasters;

4. The price of Canadian advertising time would increase; and finally

5. Simulcasting would increase the demand for advertising on Canadian stations, and would reinforce all of these effects.

In other words, because of the growing importance of simulcasting in the 1980s, US border stations would decrease their advertising rates even further. This would cause advertising prices to rise even further in Canada. The theory also suggested that the newly established stations and the well established Canadian stations would both experience improved revenues as a result of these policies. The newer stations would benefit through repatriated sales and higher advertising prices, while the established stations would benefit primarily via higher prices.

The study concluded that the advertising market had changed substantially since the earlier assessment by Donner and Lazar in 1979. The big difference in the environment was the growing use of simulcasting by Canadian broadcasters. The 1983 study concluded that both policies together (Bill C-58 and simulcasting) increased Canadian net TV revenues by $49.2

to $53.7 million in 1982. Bill C-58 accounted for revenue gains ranging between $28.2 and $32.7 million, while simulcasting generated net revenues for the Canadian stations of about $21 million in 1982.

Arthur Donner (1986)

This report, which was sponsored by the Caplan-Savageau Task Force On Broadcasting, was primarily concerned with the importance of US television advertising spillover into Canada. It also examined the potential impact which spillover exerts on the Canadian broadcasters by reducing advertising spending in Canada.

Bill C-58 and simulcasting were not the main focus of the research work. Indeed, there was no attempt to obtain any new estimates of the actual flow of Canadian advertising revenues to the US border stations. Instead the estimates from 1982 were simply extrapolated forward in time.

Nevertheless a separate simulcast-audience transfer study was commissioned to help determine the importance of these two programs. The 1986 report indicated that simulcasting policies added $52.7 million to net TV Canadian advertising revenues in 1984, and Bill C-58 generated a further $35.8 million to $41.8 million. The combined impacts of both policies in 1984 ranged between $88.5 million and $94.5 million.

5. Estimating The Value Of Simulcasting: The Audience Diversion Calculations

Introduction

Simultaneous substitution or simulcasting is certainly profitable for those Canadian broadcasters who are able to alter their programming schedules to take advantage of this opportunity. A simulcast program will generate significantly higher revenues to the local Canadian broadcaster. The broadcaster, which owns the programming rights, requests the cable company to delete the signal of the distant station and substitute its local presentation of both the program and the local commercials. In effect, the advertising rate charged for a 30 second spot will be higher. This is because the expanded audience viewing the same program on both the local and distant cable is now credited to the local station.

Without the opportunity for simulcasting, a Canadian buyer of a program usually has another option. It often can negotiate the right to pre-release the program in the local market as a means of increasing the audience.

When simultaneous substitution is requested for a distant US station, it is also important to recognise that the loss of advertising revenues to the US border broadcasters from simulcasting is less than the revenue gains to the Canadian broadcasters, since the local US broadcaster can only insert its own commercials in one to one and a half minutes of the approximately 11 minutes of US commercial time in each simulcast hour. The balance of the commercial time is filled by the US network.

Thus simulcasting not only diverts some Canadian television advertising, it also reduces some of the US network commercial spillover as well.

Problems Associated With The Audience Transfer Calculations

Estimating the increase in net Canadian TV advertising revenues as a result of simulcasting and the audience transfer isn't a simple task. On the surface all that seems to be necessary is to estimate the amount of audience actually transferred to Canadian stations due to simulcasting, and then calculate the revenue impact by multiplying the extra audience by a representative advertising price.

There are at least five separate sources of potential error in such calculations.

1. Canadian broadcaster's prime time schedule is heavily driven by US network scheduling when it engages in simulcasting. That is, the Canadian broadcaster loses some flexibility concerning its own scheduling of programs. For example, when a station decides to use simulcast to maximize revenues, it gives up the opportunity to pre-release or post-release the program. This factor tends to overstate the value of the simulcast advantage.

2. When viewers are asked by BBM to indicate which channel (American or Canadian) they are watching a particular show on, the viewer response can be wrong. Some viewers probably answer that they are watching a Canadian channel when in fact the signals might be originating from a US station. BBM takes steps to minimize this error, which understates the true amount of the audience transfer.

3. The three weeks chosen for the simulcast test might not truly reflect annual simulcasting patterns. For example, the US network program *60 Minutes* is often simulcast by Global. But during a recent three week period, one episode was fully simulcast, one episode was partially simulcast, and Global was unable to simulcast one episode. So during that three week period only about 40% simulcasting of this program would have been captured in the statistics. A different three week period might have captured 100% coverage of simulcasting.

4. There is the added complication that audience transfer calculations do not capture the reality that most programs are sold by the broadcasters as part of a package. Accordingly, the Canadian programs which are part of the package sold with simulcast US shows also command potentially higher advertising revenues. In effect, there is not only a direct audience shift factor at work, but because of the tied buying there is an extra advertising revenue leverage for other non-simulcast programs. These other shows which are sold as a package might be less commercially attractive Canadian-produced programs, or other imported programs from the US. This kind of error understates the value of simulcasting.

5. Finally, there is the serious difficulty in knowing what advertising spot price should be applied to the estimated audience transfer. In earlier simulcasting studies, MediaStats was able to use the spot advertising rates published by the various stations in the rate cards. But rate cards have far less meaning in the 1990s than they did even five years ago.

Despite all the above misgivings, the audience transfer kind of calculations seem a fairly reliable gauge of the importance of simulcasting to the Canadian broadcasters. Most Canadian broadcasters and Government agencies seem to accept the MediaStats audience transfer type of calculations.

On balance, this writer tends to share the view which was expressed in the 1985 Donner and Kliman report. "If there is a bias in this type of revenue estimate, it is likely to be downwards, because it does not take into account the interactions of simulcast programs and programs that are not simulcast."

Two Kinds of Simulcasting

Simultaneous substitution generates two different kinds of additional advertising revenues for local broadcasters who own specific program rights. There is increased audience and hence revenues due to the simulcasting by a Canadian station of a distant signal originating from within Canada. There is also the increased audience and revenues flowing to local broadcasters from simulcasting distant US signals. Only the latter (the simulcasting of US signals) represents a true revenue benefit to the total Canadian broadcasting system. The former version of simulcasting (Canadian against Canadian), represents a transfer of revenues among Canadian stations.

The MediaStats 1989-90 Simulcasting Calculations

The latest audience transfer and simulcasting calculations provided by MediaStats are more comprehensive than similar calculations made in the past. The current estimates distinguish between two different types of audience transfers: Canadian broadcasters simulcasting US stations and Canadian broadcasters simulcasting other Canadian stations. Both kinds of simulcasting generate additional revenues for the Canadian broadcasters, though the US simulcasting portion is by far the more important of the two versions.

Using BBM data as a source for the audience transfer calculations, MediaStats concludes that approximately $93.5 million in gross advertising revenues were earned by the Canadian broadcasters from simulcasting in 1989-90. A further $12.5 million was transferred to Canadian broadcasters from other Canadian stations. This represents about 9.4% of the yearly dollar value of all TV advertising on Canadian stations (including the CBC) which request substitution.

However, the true gain to the Canada's total broadcasting system is only the US substituted portion of the picture, or about $93.5 million. Nevertheless, the other intra-country audience transfers represent a significant flow of revenue within the Canadian system.

Radio Canada and TVA stations impose significant amounts of simulcasting on other Canadian stations, generating respective revenues of $3.2 million and $3.8 million in the fall 1989 survey. These funds do not really reflect a gain, as the simulcasting was against other stations affiliated with the same network.

As in other studies by MediaStats, the private stations turn out to be the big winners from simulcasting US shows. The CTV network and its affiliates, for example, earn about $30.8 million of gross new revenues because of the simulcast of US signals. The independent broadcasters taken together generate some $52.5 million via simulcasting, representing about 13.6% of their gross advertising revenues.

These figures suggest that CBC owned-and-operated stations generate about 7% of their revenues from simulcasting US signals, approximately in the same range as the CTV network and its affiliates. CBC affiliates, which are private stations often located in smaller urban communities, hardly rely at all on simulcasting.

6. Advertising Price Changes In The 1980s

One of the more difficult items to get a handle on is the price of advertising time. Unfortunately, Statistics Canada does not gather price data on television advertising time. From a data gathering and analytical perspective, difficulties arise because television advertising is sold under various kinds of contracts (that is, spot, local and network). As well, station rate cards do not have the same meaning now that they did in the past. The posted rating prices can be very different from the actual prices which are finally negotiated and paid.

There is considerable gamesmanship and strategy involved when a broadcaster sells advertising time. Much like airline last-minute "seat-sales," the same commercial spot will vary in price depending upon how close it is until the unsold commercial spot will be aired. That is, prices seem to change as discrete threshold points are passed in the negotiating process.

One rather widely quoted source for advertising prices is the Parkes Report, which has recently begun to publish statistics on spot advertising costs in Canada for the various media.

TABLE 5

ESTIMATES OF CANADIAN SPOT TV ADVERTISING COST INCREASES, ANNUAL, 1982-1990

National Trend (8 Years)	83 vs 82 %	84 vs 83 %	85 vs 84 %	86 vs 85 %	87 vs 86 %	88 vs 87 %	89 vs 88 %	90 vs 89 %
Rates	+4	+9	+14	+7	-4	-9	+3	+18
Audience	+6	-2	+0	+1	-4	-2	-1	+0
Cost Per Thou.	-2	+12	+14	+6	+1	-7	+4	+18

Source: Parkes Report on Media, January 1990

According to the January 1990 Parkes Report, a typical 30-second spot increased by 31.9% between 1982 and 1990 on a CPM basis. The Canadian consumer price index increased between the average 1982 level and January 1990 (seasonally adjusted) by 40.1%. So on the surface advertising price hikes have been restrained relative to the cost of living index in Canada. Advertising prices tend to be very volatile, and in general Parkes' price data suggests that the advertising market was fairly weak between 1987 and 1989.

TABLE 6

REGIONAL ESTIMATES OF 1990 TV ADVERTISING COST INCREASES
(compared with 1989)

	Prime Time Rates %	Adult 18 Audiences %	CPM %
British Columbia	+0	-2	+3
Alberta	+19	+5	+14
Saskatchewan	+8	-8	+17
Manitoba	+9	-3	+13
Ontario	+30	+3	+26
Quebec	+17	+0	+21
Maritimes	-2	-12	+12
National	+18	-0	+18

Source: Parkes Report on Media, January 1990.

The Parkes Report on media advertising costs indicates that the market has tightened sharply this year. Spot prices on television will average out to a rise of some 18% across the country this year. The variation is quite extensive between regions, with Ontario accounting for the highest price gains (26%) and British Columbia for the lowest (3%). Parkes indicates that spot television prices have been weak in Canada over the past several years, which partly explains the large rise in 1990. (See tables 5 and 6).

7. TV Advertising Revenue Growth In Canada

Before one begins to estimate the true value of Bill C-58 and simulcasting, it is important to review some recent developments in the advertising revenue market in Canada. The Canadian advertising industry is quite large, though as discussed in the Donner (1986) study, it is relatively under-developed compared with its US counterpart because of advertising spillover. In 1988 Canadian advertisers earmarked about $7.5 billion in expenditures to the various Canadian media. Television expenditures alone amounted to $1.2 billion in 1988.

Note that the definition of advertising revenues found in table 7 refer to the actual "net" revenues received by the different media groups.

Advertising expenditures (that is, the budgets of the companies or other groups which actually advertise) are somewhat higher than the figures which show up in table 7. This is because the advertising expenditures include the costs of creating the actual commercials, as well as the commissions and fees paid to the advertising agencies.

TABLE 7

COMPONENTS OF CANADIAN
NET ADVERTISING REVENUES BY MEDIUM: 1988
(in Thousands of Dollars)

	1988	%
Radio	680,900	9.1
Television	1,248,100	16.7
Dailies (1)	1,412,000	18.9
Weekend Supplements	26,700	.4
Weeklies, semi, tri, etc, incl. controlled distribution	620,200	8.3
Magazines, General	272,600	3.6
Business Papers	176,900	2.4
Farm Papers	21,200	.3
Directories, Phone, City	474,000	6.3
Religious, School & Other	78,100	1.0
Other Print	1,811,400	24.2
Outdoor (2)	658,800	8.8
Total All Media	7,480,900	100.0

Note:

(1) Excludes Classified Advertising. (2) Outdoor includes factory shipments or advertising signs and displays (Stat/Can Catalogue 47-209) as well as firms in other outdoor advertising business (renting space, putting up billboards, or other displays, placing advertising matter on streetcars, buses and other transit systems and advertising revenue of other sign producers, show card writers, sign painters, etc.)

Source: Maclean Hunter Research Bureau, as reported in the Canadian Media Directors' Council Media Digest, 1989/90.

The figures in table 8 highlight that Canadian net TV advertising revenues increased by 44% between 1983 and 1988, about in line with the actual growth of Canada's nominal GDP. Radio, television and newspaper advertising revenues have increased at about the same pace over the past five years, as these markets are clearly related to each other.

In absolute terms, advertising revenues are closely related to the size of a community, and of course to the affluence of the community. Consequently, the three largest TV revenue markets in Canada are, in descending order, Toronto, Montreal and Vancouver. National advertisers provide the bulk of their advertising revenues received by the Canadian TV broadcasters. Local advertising accounts for the second largest segment.

The importance of local advertising varies considerably by market size. The densely populated Toronto-Hamilton market area generates relatively small local revenues compared to other smaller urban markets such as Regina, Quebec City or Halifax.

Across the 12 largest urban markets in Canada, local advertising revenues contributed 27.4% of total private net television revenues in 1988. This ratio is slightly higher than the 24.3% contribution back in 1982, and a bit lower than the 28.2% ratio which existed in 1975 -

TABLE 8

GROWTH OF CANADIAN
NET ADVERTISING REVENUES BY MEDIUM: 1983 - 1988
(Index)

	1983	1984	1985	1986	1987	1988
Radio	100	113	118	127	135	142
Television	100	112	121	127	136	144
Dailies (1)	100	109	117	126	135	148
Weekend Supplements	100	128	120	110	102	94
Weeklies, Semi, Tri, etc,	100	117	138	159	187	214
Magazines, General	100	112	94	99	103	119
Business Papers	100	120	97	115	124	129
Farm Papers	100	102	109	93	89	94
Directories, Phone, City	100	98	110	114	122	129
Religious, School & Other	100	154	211	330	517	595
Other Print	100	120	131	147	158	168
Outdoor (2)	100	127	153	177	198	214
Total All Media	100	114	123	134	145	157

Source: The Canadian Media Directors' Council Media Digest, 1989/90.

before the introduction of Bill C-58. It is noteworthy that local advertising has been able to maintain its share of total revenues over this somewhat turbulent period of time. Note that the declining reliance on local television as compared to national television was one of the predictions made by the early critics of Bill C-58.

Average annual revenue growth for the private broadcasters slowed down after 1983 compared to the heady expansion which was experienced between 1975 and 1982. However, the underlying rate of inflation also decelerated sharply in the 1980s compared to the 1975-82 period, so the revenue growth rate slowdowns are a bit misleading.

Profit ratios, as reflected in the ratio of operating income to total revenues, have continuously been higher for the stations in the 12 major market areas than for stations in the smaller, less urban markets. Back in 1975, stations in these twelve broadcasting regions posted profit ratios 32% higher than those earned by stations in the remaining markets of Canada. The ratio is not static, and in the 1980s varied from a spread of only 2% in 1988 to a high of 43% in 1985.

Finally, the figures in table 9 indicate the relative growth rates of the total advertising revenue base for the TV broadcasters in Canada. In 1975 CBC advertising revenues accounted for 23% of the flow of advertising dollars. In 1988 the CBC ratio was 20.6%, although it has been rising in recent years. CBC television advertising revenues remain relatively slim compared to those generated by the private stations in Canada.

TABLE 9

TOTAL NET TV ADVERTISING REVENUES IN CANADA: 1975-88
(Millions of Dollars)

	Total Private	CBC	Total	% Change
1975	214.8	64.2	279.0	
1976	264.2	72.1	336.3	20.5
1977	310.3	79.3	389.6	15.8
1978	368.4	87.5	455.9	17.0
1978	440.2	100.3	540.5	18.5
1980	510.0	110.6	620.6	14.8
1981	589.8	112.7	702.5	13.2
1982	670.8	129.4	800.2	13.9
1983	740.6	138.9	879.5	9.9
1984	816.6	158.4	975.0	10.9
1985	884.8	171.3	1056.1	8.3
1986	924.2	204.7	1129.1	6.9
1987	980.1	254.3	1234.4	9.3
1988	1092.1	284.3	1376.4	11.5

Source: Communications Canada provided the private revenue figures. The CBC data was provided by The CBC General Accounting Office.

8. The Non-Simultaneous Program Substitution Proposal

The Canadian Association Of Broadcasters (or the CAB) has been urging the Federal Government to reduce costly Canadian programming content requirements for prime time hours, citing a significant drain on profitability. Failing this option, the CAB proposes that the CRTC expand the scope of the simulcasting factor.

To quote from one of their internal memorandums which was made available to this writer:

> "We believe that there is another way to protect the logic of the local marketplace, and that is in the area of syndicated strip programs (i.e., programs which are scheduled four or five days a week in the same time period in the Monday through Friday area).
>
> Since these programs are bought on a syndicated basis or after their US network run, the American station has the ability to program them in any order they want. Hence, if a Canadian station buys the same package of programs and puts it at the same time, it splits the audience with the American station because the Canadian licensee cannot demand simulcast."

The CAB argument is that the expansion of simulcasting to include strip programs would generate extra revenues. These could be applied to enhance Canadian programming expenditures. At the same time, such a practice would not be as resisted by the Canadian viewing public since particular episodes are not listed in the various TV guides.

9. The CAB Member Response To Questions Relating To Bill C-58 And Simulcasting

The CAB agreed to provide some background help relating to its members' own assessments of the financial implications of Bill C-58 and simulcasting. The Association contacted its member stations on our behalf, and sent them a questionnaire which in some ways went beyond the specific interests of this study.

The survey focused on four general topic areas. The first group of questions related to the impact of Bill C-58 on their advertising revenues. The second group of questions considered the impact of simulcasting on station revenues. The third set combined the influence of both measures, and a final set of questions centred on the potential gains to the Canadian broadcasters from introducing non-simultaneous program substitution.

The highlights of the CAB questionnaire are summarized in table 10. The CAB members believe that the US border broadcasters are now attracting about $41.5 million in gross TV revenues from Canadian advertisers, which converts into about $35.3 million in net advertising revenues. This figure is rather close to the $31.1 million (net) figure supplied to us by the Canadian Association of Broadcast Representatives. (See table 11)

If Bill C-58 was eliminated, and nothing else changed, these private broadcasters predict there would be a reduction in gross revenues of about $89.8, or $76.3 million on a net basis.

The CAB members engage heavily in simulcasting, with the typical station averaging about 25½ hours per week. The CAB survey indicates that simulcast programs currently earn $538.4 million. However, if simulcast were removed, the losses to the stations would amount to about $116.7 million.

If both Bill C-58 and simulcasting were removed together, the combined 1989-90 losses to the CAB stations would amount to about $195.9 million ($166.5 million on a net basis). Note that the broadcasters' response suggests that simulcasting is more important than Bill C-58. CAB members estimate that the removal of Bill C-58 would result in gross revenue declines of $89.8 million as compared to a loss of $116.7 million from the removal of simulcasting.

Finally, the survey suggests that there is considerable scope for generating extra Canadian revenues by expanding simulcasting to include <u>all</u> US programs where Canadian stations have the program rights.

Strip programming substitution alone would yield an extra $18.1 million in gross revenues. When pre-and post-release substitution possibilities are included as well, this would raise the gross TV revenues from non-simultaneous substitution by an extra $45.3 million.

TABLE 10
HIGHLIGHTS OF THE CAB SURVEY OF MEMBER STATIONS

Flow Of Advertising To Border Stations

1) Broadcaster Estimate of Gross TV Revenues Flowing To U.S. Border Stations. (1c)

Local Advertising	12.9	million
National Sales	28.6	million
Total	41.5	million

Importance Of Bill C-58

2) If Bill C-58 were repealed, Canadian revenues at risk would amount to. (1b)

Local	$ 24.0	million
National	$ 65.8	million
Total	$ 89.8	million

Importance of Simulcasting

3) CAB members simulcast an average of 13.5 hours/week between 6am and 6pm. Simulcasting is made up of 10 hours local and 3.5 hours network programming. (2a)

4) Gross revenues generated on simulcast programs - (CAB members). (2c)

Local	$ 93.9	million
National	$ 253.9	million
Network	$ 190.6	million

5) If simulcast were removed, the losses would be $106.6 million - (2f)

Local	$ 17.1	million
National	$ 87.1	million
Network	$ 12.5	million
Total	$116.7	million

Estimate Of Combined Effect Of Removal Bill C-58 And Simulcasting

6) Gross sales would decline by $191.9 million (3b).

National	$ 105.9	million
Network	$ 6.3	million
Local	$ 83.7	million
Total	$ 195.9	million

Strip Programming And Non-Simulcasting Substitution Revenue Possibilities

7) 17 responding stations reported the following total hours for weekly strip programming which cannot be simulcast. (4a)

6am - 6pm	101.5	hours
6pm - Midnight	6.4	hours
Total	107.9	hours
Average per Station	8.5	hours per week (4a)

8) Survey estimates that this device would generate an additional $18.1 million in gross revenues ($11.6 million for national, $6.5 million for local) (4b).

9) No. of hours of foreign programming not shown at same time in Canada (4c) (ie. pre or post release)

6am - 6pm	272.0 hours
6pm - Midnight	222.5 hours

Potential Value Of Substitution Of All Programming Where Canadian Stations Own Rights

10) The additional revenue possibilities would sum to $45.3 million ($2.7 million network, $29.9 million national, $12.7 million local). (4d)

10. Converting The Simulcasting Estimates To Net Revenue Gains In 1988

It is necessary to adjust the latest MediaStats simulcast estimates to place them on a 1988 basis. It is necessary as well to take into account that the figures are presented on a gross revenue basis, rather than in terms of net revenues. These adjustments are described below.

As already indicated, MediaStats' calculations suggest that the gain to the total system in 1989-90 is approximately $93.5 million in gross revenues. This figure has to be scaled down to place it on a 1988 calender year basis. The Parkes Report indicated that TV spot prices rose by 18% through 1989. This figure is used to reduce the simulcasting revenues back to 1988 prices. This suggests that the value of all simulcasting gross revenues amounted to about $79.2 million in 1988. A further 15% is reduced from this figure to place it on a net advertising revenue basis.

Thus, simultaneous substitution increased net advertising television revenues in Canada by an estimated $67.3 million in 1988.

11. Updated Estimates Of Bill C-58 And Simulcasting Impacts

Introduction

This section of the report describes the process followed in estimating the financial impacts of simultaneous substitution and Bill C-58 on Canadian TV revenues. The methodology is similar, but not exactly the same, as the one which was followed in the two last reports which Arthur Donner prepared on this subject.

Essentially five steps are involved in arriving at the final estimates. These steps are listed below and discussed in this section.

1. Estimate the amount of Canadian advertising still flowing to the US border stations.

2. Estimate the amount of advertising which would have flowed to the border stations in the absence of the two Canadian policies.

3. Massage the MediaStats simulcasting figures so that they can be used in these projections.

4. Calculate a range estimate for Bill C-58 impacts residually, using the simulcast projections in the calculations.

5. Indicate the combined effect of both policies working together.

The first and quite important step in this whole process is updating the estimates of the US dollar revenues actually flowing to the border broadcasters. After some considerable deliberation and discussion, this writer decided to use the 1988 estimates which came via the Canadian Association of Broadcast Representatives. Table 11 sets out these estimates on a major market basis.

TABLE 11

NET CANADIAN TV ADVERTISING REVENUES ON U.S. BORDER STATIONS: 1988

Bellingham (Vancouver)		$ 10,000,000 Local 10,000,000 National
Spokane		750,000
Erie		300,000
Buffalo	WIVB (Toronto)	2,000,000
	WKBW	1,000,000
	WGPZ	1,000,000
	WUTV	3,000,000
Waterloo		300,000
Burlington/Plattsburg (Montreal)		2,750,000
Bangor		250,000
Total		31,350,000

Sources: Canadian Associates Of Broadcast Representatives (Larry Lamb) and Global Television.

Accordingly, it is assumed that about $31.3 million in net Canadian advertising revenues flowed to the US stations in 1988. (Seven million dollars was attracted by the four Buffalo stations, $20 million by KVOS in Bellingham, Washington, and the remaining $4.35 million flowed to the other US stations.) Though the $31.3 million estimate for 1988 is substantially larger than the last set of estimates available for 1982, the current estimate seems to be roughly in line with the growth of the industry on the Canadian side.

The figures in table 12 summarize the estimates of the amount of Canadian advertising still flowing to the US stations compared with actual revenues earned by private Canadian stations. One part of this table focuses on the three major markets in Canada and the US stations whose signals reach into these three Canadian markets. The remaining markets in Canada and the US markets are classified under the "other" category.

According to these estimates, US stations accounted for about 14.5% of total net private television advertising revenues generated in Canada in 1975. Note that the 1975 and the 1982 figures were essentially taken from earlier reports. The only minor change from the earlier studies relate to slightly different figures for the Canadian market.

The US station ratio of net Canadian advertising revenues in major markets declined to about 4.7% in 1982, and has risen slightly to about 5.9% as of 1988. When one includes

TABLE 12

CANADIAN NET TV ADVERTISING REVENUES - ALL MARKETS: 1988
ACTUAL/ESTIMATED 1975, 1982, 1988

Private Stations	Millions of Canadian Dollars 1975		1982		1988	
Buffalo	7.10	14.0%	4.70	3.0%	7.00	2.6%
Toronto/Hamilton	43.70	86.0%	152.60	97.0%	260.30	97.4%
Total	50.80		157.30		267.30	
Burlington/Plattsburg		6.5%		2.1%		1.8%
Montreal		93.5%		97.9%		98.2%
Total						
Bellingham		36.2%		14.9%		22.8%
Vancouver		63.8%		85.1%		77.2%
Total						
U.S. Rev-3 Mkts	14.30	14.5%	13.80	4.7%	29.80	5.9%
Cdn. Rev-3 Mkts	84.20	85.5%	280.40	95.3%	476.90	94.1%
Total Priv Rev-3 Mkts	98.50		294.20		506.70	
Other Mkts-U.S.	2.20	1.7%	1.40	0.4%	1.50	0.2%
Other Mkts-Cda	130.20	98.3%	390.40	99.6%	615.20	99.8%
Total Priv-Other Mkts	132.40		391.80		616.70	
Total U.S. Adv. Rev.	16.50	7.1%	15.20	2.2%	31.30	2.8%
Total Cdn Adv. Rev.	214.40	92.9%	670.80	97.8%	1092.10	97.2%
Total-U.S. & Cda	230.90		686.00		1123.40	
Other						
English CBC	48.50		87.00		197.10	
French CBC	15.80		42.50		87.20	
Total CBC-TV	64.30		129.40		284.30	

Sources: Private Net TV Revenues - Department of Communications.
CBC Revenues came from The Corporation.
1975 and 1982 U.S. figures were taken from Arthur Donner (1986).
1988 U.S. figures were taken from Broadcast Representative Estimates.

the remaining Canadian markets in this kind of analysis, US stations share of total Canadian net TV advertising revenue was 7.1% in 1975, 2.2% in 1982 and 2.8% in 1988.

Projecting Of Potential US Revenues Without Bill C-58 And Simulcasting

The next step in the estimating procedure relates to establishing the hypothetical projection of US revenues had Bill C-58 and simulcasting never been introduced. This part of the process requires making some rather heroic assumptions. One of the complicating factors is that simulcasting has changed the recorded viewing shares in the Canadian market. That is, without simulcasting, US stations viewing in Canada would no doubt be measured as a higher percentage of the Canadian market.

Recall the point raised earlier that because of simulcasting the true measure of audience transfer was underestimated by about 2.8% in the fall of 1989. The US viewing share of the English language viewing in Canada in 1988 was formally calculated at 29% based on BBM surveys. But because of audience transfers to Canadian stations, the US penetration of the Canada's viewing audience was higher than the recorded 29% figure, by at least several percentage points. For that reason, it is likely that the US share of total Canadian television advertising revenues would have expanded above the 7.1% share which was estimated to exist in 1975.

Accordingly, the projections set out in table 13 highlight several potential US revenue figures assuming that Bill C-58 and simulcasting were not in effect. Four separate assumptions were used in this report, though only two of them were adopted in the final estimates. The four cases are set out in table 13.

TABLE 13

CANADIAN NET TV ADVERTISING REVENUE PROJECTIONS
ALTERNATIVE SCENARIOS FOR 1988
(Excluding CBC) - Million of Cdn Dollars

		PROJECTED POTENTIAL			
All Markets	Estimated/ Actual 1988	Assuming 1975 Mkt Share	Revenue Growth Assumption	10% Mkt Share	15% Mkt Share
U.S. Revenues	31.3	80.3	93.4	112.3	168.5
Cdn Revenues	1092.1	1043.1	1030.0	1011.1	954.9
Total	1123.4	1123.4	1123.4	1123.4	1123.4

As already noted, the 1988 estimate for actual Canadian net advertising on US border stations was $31.3 million. The US potential flow would have been much larger depending upon assumptions adopted. The US market would have grown to $80.3 million had the 1975 US market share been restored in 1988. The market would have risen further to $93.4 million in 1988 if US based Canadian revenues had expanded since 1975 at the same rate as private TV advertising revenues in Canada. Alternatively, US revenues would have climbed to $112.3 million if the US stations' share of Canadian revenues rose to 10% of the Canadian market. Finally, US revenues would have climbed to $168.5 million if the US stations increased their share to 15% of Canadian revenues.

The next step in the process was to select the potential revenue assumptions which seemed most plausible. Then one disentangled the separate impacts of Bill C-58 effect from simulcasting on Canadian revenues. In later calculations we utilized a range assumption for potential growth based on the revenue growth assumption for a lower range and the 10% market share assumption for the higher estimate of potential growth.

The Simulcast Estimate And Calculating Bill C-58 Effect Residually

We utilise the MediaStats' calculations to provide the simulcasting figure. The MediaStats US simulcasting figure for 1989-90 ($93.5 million) was reduced by 18% to bring it back to 1988 levels, and by a further 15% to place it on a net revenue basis. Finally, that net figure was further reduced to reflect the fact that US border broadcasters only account for about 20% of the lost simulcasting revenues. The remaining 80% come out of the US network commercials which are deleted. (see table 14)

TABLE 14

CALCULATING THE IMPORTANCE OF BILL C-58 AS A RESIDUAL: 1988
(Millions of Cdn Dollars)

	Potential Net Revenue Losses To U.S. Border Stations Assuming			
	1975 Market Share	Revenue Growth Assumption	10% Market Share	15% Market Share
Total Potential Losses U.S. Stations	49.0	62.1	81.0	137.2
Simulcast Losses to U.S. Border Stations (0.2x actual)	13.5	13.5	13.5	13.5
Residual (Bill C-58)	35.5	48.6	67.5	123.7

Note: It is assumed that only 20% of Canadians simulcast revenue gains are a true loss to U.S. border broadcasters.

Consequently, the difference between the total potential losses to US border stations and the scaled down simulcast figure is the amount which could hypothetically be accounted for by the Bill C-58 tax amendment. According to the rough estimates provided in table 14, the Bill C-58 effect would amount to $35.5 million under 1975 market share assumption, $48.6 million under the revenue growth assumption, $67.5 million under the 10% revenue share assumption, and $123.7 million assuming that the US stations share of the Canadian revenues would have expanded to 15%.

As noted before, we are most comfortable accepting that the plausible range for the Bill C-58 effect lies somewhere between the revenue growth assumption figure of $48.6 million and the 10% ratio assumption figure of $67.5 million.

Bill C-58 And Simulcasting

The figures in tables 15 and 16 provide a general perspective on the impacts of both policies on Canadian broadcasters. In 1988 simulcasting US programs provided Canadian broadcasters with an extra $67.3 million in net revenues. Bill C-58 provided Canadian broadcasters with between $48.6 and $67.5 million in extra net revenues. Both policies together generated between $115.9 million and $134.8 million in net advertising revenues for the Canadian broadcasters.

Even though we have presented a range estimate for both effects, we believe that the high range figures are closer to the true policy impacts. It is interesting to observe that our high estimates are close to the adjusted figures presented by the CAB member survey. The CAB simulcasting estimate is $81.3 million, the Bill C-58 estimate is $62.6 million, and the joint effect is $136.5 million.

The ratio of simulcast to Bill C-58 revenues under the CAB survey turns out to be 1.29. In our own analysis, that same ratio varies from 1.38 in our low scenario to unity in our high case. (See table 15).

TABLE 15

NEW ESTIMATES OF THE IMPACT OF SIMULCASTING AND BILL C-58 ON CANADIAN NET TV ADVERTISING REVENUES (Millions)

	Policy Impacts			
	1982 (Donner & Kliman) 1985 Report	1984 (Donner 1986)	1988	
Simulcast Revenues	$21	52.7	67.3	(81.3)
Bill C-58 Revenues	28.2 - 32.7	35.8 - 41.8	48.6 - 67.5	(62.6)
Combined Policies	49.2 - 53.5	88.5 - 94.5	115.9 - 134.8	(136.5)

Note: The figures in brackets are adjusted estimates provided by the CAB, based on a March 1990 member survey for the 1989-90 broadcast year. The CAB converted their figures to make them compatible with the 1987-88 broadcast year. The CAB adjustment used airtime revenues growth based on the August 31, 1988 - February 28, 1990 results reported by the Television Bureau of Canada for Canadian markets excluding the Atlantic region.

Finally the figures in table 16 present our range estimates for the Bill C-58 effect and for simulcasting in terms of the larger Canadian broadcasting picture. In 1988 simulcast revenues represent about 45.9% of private pre-tax profits, 6.2% of private station net revenues, and 4.9% of total net revenues, including CBC revenues.

The Bill C-58 impacts are presented in a range form. Bill C-58 revenues range between 33% and 46% of pre-tax profits, and from 3.5% to 4.9% of total net advertising revenues in Canada. So, in total, these two policies contribute substantially to the cash flow and profits of the Canadian broadcasters. What is interesting in all of this is how important Bill C-58 remains, despite the heavy incidence of simulcasting.

In view of fairly tight fiscal times in the Federal Government, it is particularly interesting that these two policies turn out to be so important to public and private broadcasters. These policies play an important role in sustaining Canadian television advertising revenues, and accordingly, continue to support Canadian cultural policy objectives.

TABLE 16

ESTIMATED EFFECTS OF SIMULCASTING AND BILL C-58 ON CANADIAN NET TV REVENUES IN 1988
(Millions of Dollars)

Private Net TV Advertising Revenues		$ 1092.1
Total TV Revenues - Including CBC		1376.4 (Inc French Lnge)
Total Profits (Private Stations - Pre Tax)		146.6
Revenue Gains Due To Simulcasting		67.3
Revenue Gains Due To Bill C-58		48.6 - 67.5
Combined Revenue Gains		115.9 - 134.8
Simulcast Revenues As % of:		
	Total Profits - Pre Tax	45.9%
	Net Private Revenues	6.2%
	Total Net Revenues	4.9%
Bill C-58 Revenues As % of:		
	Total Profits - Pre Tax	33.2% - 46.0%
	Net Private Revenues	4.4% - 6.1%
	Total Net Revenues	3.5% - 4.9%
Combined Policies As % of:		
	Total Profits - Pre Tax	79.1% - 92.0%
	Net Private Revenues	10.6% - 12.3%
	Total Net Revenues	8.4% - 9.8%

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