Then . . .

Now

PRIVATE RADIO'S CHANGING REALITIES

Submission
Canadian Association of Broadcasters

CAB | ACR

Broadcasting Notice of Public Hearing CRTC 2006-1
Review of the Commercial Radio Policy

A Submission to the

Canadian Radio-Television and
Telecommunications Commission with Respect to

Public Notice CRTC 2006 – 1
Call for Comments –
Review of the Commercial Radio Policy

Prepared by

CAB | ACR

Canadian Association of Broadcasters
L'Association canadienne des radiodiffuseurs

March 15, 2006

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Canadian Association of Broadcasters

L'Association canadienne des radiodiffuseurs

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Then... Now

PRIVATE RADIO'S CHANGING REALITIES

March 15th, 2006
Ms. Diane Rhéaume
Secretary General
Canadian Radio-television and
Telecommunications Commission
Ottawa, Ontario
K1A 0N2

VIA EMAIL

Dear Ms. Rhéaume:

Re: Broadcasting Notice of Public Hearing CRTC 2006-1
Review of the Commercial Radio Policy

The Canadian Association of Broadcasters (CAB), the national voice of Canada's private broadcasters, representing the vast majority of Canadian programming services, including private radio and television stations, networks and specialty, pay and pay-per-view services, is pleased to respond to the above-referenced notice of public hearing.

A copy of the CAB's submission is attached.

The CAB will provide a fully translated text of its submission, in both English and French, within the next few days.

Sincerely,

Glenn O'Farrell
President & CEO

Radio/Television/Specialty and Pay • Radio/Télévision/Services de télévision spécialisée et payante
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Then... Now

PRIVATE RADIO'S
CHANGING REALITIES

Broadcasting Notice of Public Hearing
CRTC 2006-1 Review of the Commercial Radio Policy

CAB Submission – March 15th, 2006

Executive Summary

I. That was then…. this is now.

II. The old economy of radio, a system of services built on regulation and controlled market entry, has been abruptly replaced by the new economy of radio where radio competes with an open and growing field of media and entertainment services featuring the newest in audio content creation.

III. The world in which radio operates has changed radically since the most recent Radio Review of 1997 – not even a decade ago. As we enter this critical policy hearing to review the Commercial Radio Policy, it is clear that the radio industry of today has reached an historic rendezvous with its past – and its future.

IV. Never before in the history of public policy review has there been a proceeding about regulating an industry where the assumptions that in the past worked to drive and create those regulations no longer apply in the present day, and cannot apply in the future.

V. We no longer have one single and regulated system of radio services delivered over the public airwaves and free of charge to Canadians. Instead, we have both a regulated system of the past and a largely unregulated, parallel system of new delivery platforms for audio content.

VI. Radio has historically operated on the basis of certain incontrovertible regulatory assumptions. At the very core of this regulation has been the reality that radio broadcasters have always lived with: entry into the radio marketplace was always carefully controlled, limited and protected. This is true of most, if not all, jurisdictions that have regulated private radio.

VII. Today these assumptions are no longer valid.

VIII. For the very first time in its history, Canadian private radio is confronted with an unheard-of array of competition for listeners and for revenues. While radio once competed in the marketplace with other radio stations and/or other forms of local media such as newspapers and television, radio now competes with an entirely new system comprised of competitors that have themselves been borne out of technological advances and programming innovation.

IX. In turn, radio's listeners – Canadian consumers – have more choice and more control over that choice than ever before. The audio experience is no longer the passive, one-way transmission and reception of broadcast signals through a radio receiver. The consumer is in effect leveraging technology and content to redefine the audio experience, and personalizing this experience for her or himself.

X. But although the assumptions that created radio's regulatory framework have been thrown into disarray, the public policy objectives to be supported by regulation have remained relatively stable over time. Given this, the key question of this policy review must be: how can regulation continue to support the growth and competitive sustainability of commercial radio in this new era of parallel and competing systems of audio services?

XI. Certainly, it does not mean that more regulation is required, but rather that smarter and more effective regulation needs to be designed. Any course of action pursued in this historic review of the Commercial Radio Policy must recognize that the old assumptions of regulation have fallen by the wayside. In their place are unwritten and fluid marketplace assumptions shaping a new sector of unregulated competition.

XII. Radio is an indispensable form of local media, and is deeply tied to local communities in cities and towns of all sizes across Canada. Through its presence in the community, charitable initiatives and fundraising, remote broadcasts, Public Service Announcement campaigns, educational activities and other endeavours such as emergency alerts to the public, radio plays an integral role in connecting listeners with the community around them and in improving communities for Canadians.

XIII. To strengthen and grow this connection to communities and Canadians, the new policy framework for commercial radio must find its relevance in the reality of radio's 'new economy'. Private radio faces a growing fragmentation and more competition in the media universe, driven by new technologies and brought to markets in a range of audio platforms that give consumers far more choice and for more control in their audio decisions, including Internet radio, digital radio, satellite/subscription radio services, cell phone radio, podcasting, and peer-to-peer file sharing, among others.

XIV. Music downloading – both legal and illegal – has become a force as digital music services take root in the marketplace. The Internet has become a major vehicle for the promotion and marketing of music, and consequently in the competition for listeners, with the rise of member-based social networking services. Personal music devices and CD burners have made major inroads among Canadian consumers, with some 80 percent of 15 to 20 year olds able to access technology for creating their own music compilations – another indicator that consumers are deriving more control over content.

XV. In assessing radio's overall economic performance and its prospects for future growth and profitability against new competitive services, a number of trends become clear.

XVI. First, when analyzed over a lengthier period of time, the history of radio's economic performance demonstrates that it is clearly cyclical, and that an economic downturn is probable in the near term.

XVII. Second, while a key measure of profitability – Profit Before Interest and Taxes or PBIT – has increased, it has not progressed much beyond 20 percent and may not be sufficiently high to attract future major investment in the industry. In addition, PBIT improvements between 2003 and 2005 are largely due to the movement of AM out of its overall loss position to just over break even. Profit levels for FM have been relatively flat since 1999.

XVIII. Third, although radio's profitability has improved in the period following the Commission's 1998 Review of the Commercial Radio Policy, the evidence indicates that (i) the growth rate for profitability in the four years up to and including 1998 outpaced the growth rate for profitability in the four year period between 1999 and 2002 and (ii) business cycles and market size are key factors in assessing radio's overall economic performance. Some segments of the radio industry, such as French-language small market radio stations, show minimal profitability.

XIX. Fourth, the licensing trend since 1999 has had a clear financial impact on private radio. Average per unit revenues of all FM stations (1999-2004) is more than 5 percent lower than it was in 1999 and average per unit PBIT is 6 percent lower than in 1999.

XX. Fifth, the radio industry currently faces considerable uncertainty in its economic outlook as a result of the prospective nature and level of copyright payments in the years ahead. In recent years, much higher than anticipated copyright obligations have presented a major expenditure to the commercial radio industry.

XXI. Using the rates applied by the Copyright Board of Canada prior to its October 2005 SOCAN/NRCC Tariff 1.A decision, total payments would have more than doubled from under $25 million in 1995 to more than $55 million in 2005. But, when applying the rates of the Board's October 2005 decision, total payments would have *more than tripled* in the 1995 to 2005 timeframe, to almost $70 million.

XXII. Radio's overall profitability has been generally linked to a recent period of consolidation in the industry. However, our analysis of the evidence reveals that PBIT does not directly track with consolidation, but does track directly with market size; the smaller the market, the lower the profitability. In fact, profitability in the radio industry is much more likely related to business cycles, growth in GDP and market size.

XXIII. With respect to market size, more than two-thirds of Canada's private radio stations are located in small markets (defined as a market of less than 250,000 population). Less than one-third of radio stations are located in Census Metropolitan Areas (CMAs) of 500,000 population or higher. Yet the nine largest CMAs account for nearly 60 percent of radio revenues.

XXIV. With respect to language, the profitability of French-language radio stations has historically tracked lower than that of English-language stations, reaching 11.6 percent compared with 23 percent for English-language stations in 2005.

XXV. With respect to the likely impact of unregulated audio services, our analysis indicates that two stages may be involved: an initial reduction of the radio audience, followed by an impact on radio revenues as new technologies and services reach thresholds that make them more viable and competitive.

XXVI. While the short term impacts of the parallel system of new audio services may be modest, our analysis indicates that radio's ability to compensate for reductions in tuning may not be sufficient to override a projected loss of listeners that will continue into the next decade. Our estimates reveal that potential tuning losses may range between 4.9 percent and 8.5 percent by 2010. Had the impact of those audience losses been applied to the actual data for 2005 they would have resulted in revenue losses of between $13 and $39 million. The projections for subsequent years indicate the potential for significantly increased losses.

XXVII. This impact may also be experienced more dramatically or unevenly in certain segments of the industry. For example, the impact of satellite/subscription radio services may be experienced more acutely in small radio markets that already have significant business challenges.

XXVIII. Radio's new economy bears extremely important competitive implications for the business of radio and its ability to successfully fulfill its core mandate of service to listeners. The new economy of radio is radio's new reality, and the commercial radio industry requires an accommodating policy framework.

XXIX. There are other forces in the broadcasting system that continue to pressure the competitive strength of the private radio industry.

XXX. Low power radio stations often present another layer of competition for private radio broadcasters. The impact of low power FM in small markets can be severe, but commercial low power FM can also have significant impact in larger markets, given their potentially extensive coverage areas. Any attempt by a low power radio station to acquire full power protected status must be treated by the Commission as a new application, subject to market entry criteria and call for application procedures.

XXXI. Private radio broadcasters are also increasingly concerned about overlicensing that is occurring or has the potential to take place in a range of markets, small and large; the abundance of licences issued by the Commission over the past several years has lead to a crowding effect that has spread revenues too thinly and rendered diversity of voice difficult to achieve.

XXXII. In the radio industry as a whole, we believe there should be stricter guidelines on market entry by all regulated forms of radio, in order to prevent overlicensing in markets. We are calling on the Commission to introduce a Market Entry Test in a manner that fully addresses the modern realities of private radio's current business environment. In doing so, we believe the Commission will be establishing policy provisions in support of a central public policy objective: to promote a financially sound commercial radio sector.

XXXIII. Given the particular vulnerability of single owners in markets and the independent radio sector as a whole, special consideration should be afforded these stations in the proposed Market Entry Test.

XXXIV. The CAB further supports the on-going availability of Local Sales Agreements between licensees of radio stations serving the same market and commits to maintaining distinct and separate programming services/news voices in those markets.

XXXV. With respect to initiatives that private radio can undertake to strengthen its competitive positioning, we present to the Commission our plan to advance diversity in the industry. Private radio is very proud of its activities and initiatives respecting diversity, and our plan recognizes the inherent business advantages supported by a diverse industry while outlining a number of specific best practices designed to advance diversity in the radio sector. We believe that developing additional diversity initiatives will facilitate radio's efforts at competing with new and unregulated services in the marketplace.

XXXVI. Radio stations also recognize they must have tools at their disposal that will enable them to assess progress on cultural diversity in their programming and within their stations. The CAB therefore has developed a reporting template for radio stations, to annually assess their progress in advancing diversity within their station.

XXXVII. The new economy of radio represents the emergence of new delivery platforms that are capable of providing portable audio to consumers that will cause significant, increased fragmentation among listening audiences. Addressing this issue will require the development of a long term strategy for the transition to Digital Radio Broadcasting, or DRB.

XXXVIII. We believe the Commission must adopt a flexible approach to DRB regulation in order to encourage its development in the marketplace. The concept of DRB as 'replacement technology' should be abandoned; while existing AM/FM broadcasters should have preferred access to the required spectrum, the industry must develop separate DRB programming to attract listeners to these services.

Radio and Music

XXXIX. Radio plays an important role in exposing, promoting and supporting Canadian music and Canadian artists through airplay, the contribution of significant funding to FACTOR, MusicAction, Radio Starmaker Fund and Fonds RadioStar among other vehicles, and the payment of various copyright fees which typically increase with radio's revenue growth.

XL. Questions underlying the current and future relationship between private radio and the Canadian music industry are really questions about how this relationship can become more effective, and how the policy framework guiding music exhibition and Canadian Talent Development can also become more effective.

XLI. The Canadian music industry has undergone a transformation in its infrastructure over the past 15 years. Music sales in Canada have declined by 28 percent between 1999 and 2003, from $1.3 billion to $964.4 million, as part of an international downturn in music sales linked in part to the widespread growth of music downloading.

XLII. Digital technology, new methods of music distribution and the shifting revenue base of the music industry are enabling artists to act as their own 'infrastructures' in career development. Artists can now record masters inexpensively, distribute them independently, book and play live performances in domestic or international venues, create websites for promotion and hire/dismiss management teams as required. The artist has become the centre of the music universe.

XLIII. From the perspective of private radio, this shift in the dynamics of the music industry must necessarily change the focus of the private radio industry in how it fulfils its primary role in the radio/music relationship, as a major promoter of Canadian artists and music.

XLIV. While radio was once a key driver for the sale of music – sales of Canadian music have essentially remained flat since the late 1990's – the industry is now a key driver for the promotion of music.

XLV. Artist exposure has become the essential ingredient for success, which can no longer be measured by the sale of records alone. Radio now combines with many other factors – such as the exposure of music in other media, the extent of touring, the depth of marketing campaigns tied to a record, the presence of the artist on the Internet – as part of a larger promotional infrastructure that provides critical exposure for artists to audiences.

XLVI. The central feature of radio's promotional value for artists remains the exhibition of music through airplay. In this way, radio is able to benefit the whole artist economy and not just record sales alone.

XLVII. The factors that enter into programming decisions about what to play are highly complex, guided by interactions between the radio and music industries, in-depth audience research and testing, and the demands of individual formats. Music that is finally selected for airplay is chosen with extreme care.

XLVIII. Just as a station's format is the essential guideline for building a playlist, format also represents the singular greatest challenge in meeting a station's music exhibition requirements. Some formats such as Modern Rock have a far greater availability of Canadian music than other formats in the rock genre, such as Classic Rock. Much of the distinction between and within formats and genres of music rests on how much new music is available on a regular basis that 'fits' a station's format and identity, and is 'radio-ready' for airplay.

XLIX. Those stations that face a constant challenge with the supply and/or quality of Canadian music will often go beyond their format's boundaries to play Canadian music that may work for a station's texture but is not in the format category per se – i.e. 'crossover' music. These decisions can impact on a station's listening audience.

L. In addition to crossover concerns, lack of supply and/or quality of available selections drives one of the most critical problems facing music format radio: artist burn, when a song and/or an artist has received too much airplay, effectively alienating listeners.

LI. One method of addressing the issues of supply, quality and artist burn is to expand stations playlists to include more emerging Canadian artists. But the majority of the commercial radio industry agrees that bringing emerging artists to air is an inherently risky venture in the radio business, for several reasons.

LII. First, programming a playlist is guided by what listeners want to hear, and listeners tune into their favourite music format station because that station will predictably deliver the kind of music they want by the artists they like at the time of day they turn on their radios.

LIII. Departing from the tried and true formula of playlist programming by adding more artists that are essentially unknown to the listening public and to a station's own listening audience carries the risk of tune-out.

LIV. Second, stations will have varying degrees of risk tolerance in playing new artists depending on their format. Some stations with a Modern Rock or Alternative Rock format will make a point of playing new artists. Other stations will simply find it impossible to play anything that departs from a standard playlist of songs for fear of sending their audiences to the competition.

LV. Third, if radio's greatest risk in bringing new artists and their music to the airwaves is the loss of audience and the consequent loss of revenue, the current environment of opportunity for artists coupled with the evolving new economy of radio and parallel systems of audio delivery multiplies this risk by a significant factor.

LVI. The private radio industry finds itself at a crossroads. Music artists and our partners in the music industry as well as music retailers find themselves in much the same situation. In bringing more emerging Canadian artists and new Canadian song selections to air, all players in the radio/music relationship must engage in this effort collectively, and collectively assume some risk in doing so.

LVII. The reality for the radio/music relationship and emerging Canadian artists is that the system of music exhibition quotas for Canadian content and French Vocal Music must be made more effective. We believe it is time for the Commission to consider a remodeling of the current music exhibition system by introducing measures that will actively encourage the airplay of new music by emerging Canadian artists.

LVIII. Leveraging its role as a key promoter of Canadian music, radio can look to expand the roster of artists that receive airplay, by programming more music by new artists on its playlists across a number of formats. In light of the risks this presents for private radio, the CAB submits that a balance lies in our remodeling proposal, through the implementation of a bonus system to apply against the airplay of Emerging Canadian Artists in the English and French-language markets.

LIX. A continuing, major concern with the current system is that it promotes a single approach to all popular music formats, e.g. for stations playing oldies (currently defined as musical selections released prior to 1980). To ensure an adequate selection of music is available to stations that are programming oldies as all or part of their format, we propose that Cancon levels be reduced to 25 percent for musical selections released prior to 1985.

LX. Given the changing economic realities of private radio, the Canadian music industry, and particularly the Canadian artist, and the inordinate amount of Canadian Talent Development funding from private radio that has flowed into the system since 1998, the CAB also submits that it is appropriate to assess the effectiveness of this funding and how it can be better leveraged to ensure the future health and success of Canadian radio and its music stars.

LXI. To achieve these goals, the CAB proposes measures to ensure stable and predictable financial support for emerging Canadian artists to produce a consistent supply of quality Canadian music for the marketplace. To ensure the on-going effectiveness and supply of radio-playable music for the bonus system, private radio is proposing to consolidate its CTD funding into commercial funds for both the English and French-language markets namely, Radio Starmaker Fund (RSM) and Fonds Radiostar (FRS).

LXII. The CAB believes this approach represents the most effective use of these funds which will stimulate the marketing and promotion of Canadian artists both domestically and on the world stage. Furthermore, the CAB believes this approach will make a major contribution to the dynamic relationship between commercial radio and commercial music.

LXIII. Specifically, the CAB proposes that all contributions from the CAB CTD Plan that are currently allocated to funding agencies be directed to RSM or FRS. Remaining contributions that are targeted by individual stations to local music initiatives, such as music education, would remain intact.

LXIV. We further propose that the current allocation of funds flowing from the significant benefits policy (3 percent to Radio Starmaker/Fonds RadioStar, 2 percent to FACTOR/MusicAction and 1 percent discretionary) be repurposed such that 5 percent of funds would be consolidated in the commercial funds and 1 percent would remain discretionary.

LXV. Under this proposal, both RSM and FRS would be responsible for directing the distribution of all such consolidated CTD contributions to their own or other funding agencies' programs (FACTOR/MusicAction) to ensure the most efficient and effective use of funds and results.

LXVI. This consolidated funding model, if approved, would streamline CTD accountability and reporting functions for the Commission as well as radio and music industry stakeholders. It would also provide effective leveraging by expanding the promotional role of radio in promoting the careers of Canadian artists by focusing its programs on key elements such as domestic and international touring and other marketing activities.

<u>The French-language Private Radio Market</u>

LXVII. In this section of the submission the CAB outlines the overall situation and some specific characteristics of French-language radio, specifically its lower level of profitability and the rigid regulatory regime under which it operates that limits its ability to adapt its programming to the changing tastes and expectations of the new media environment.

LXVIII. The CAB provides an overview of French-language radio's significant contributions to the promotion of Canadian music and French-vocal music. French-language music stations dedicate over 55% of their weekly schedules to airing category 2 music selections by Canadian artists which is well in excess of their regulatory requirements.

LXIX. The CAB then focuses on the need to ensure funding agencies adopt a more "artist-centered" approach that places less emphasis on funding mechanisms that support music industry infrastructure e.g. the consolidation of Canadian controlled independent music labels. The CAB also outlines how the contributions to French-language funding agencies, Fonds RadioStar and MusicAction, have increased considerably between 1998 and 2005 to a magnitude well beyond the industry's expectations.

LXX. Furthermore, the CAB demonstrates how radio's annual contributions to Canadian talent development (CTD) represent a larger burden for French-language radio stations than for English-language stations given their lower level of profitability. The same can be said for the music tariffs set by the Copyright Board.

LXXI. The CAB urges the Commission to recognize the specific situation and unique characteristics of French-language radio in its review of the 1998 Commercial Radio Policy and provide the sector with the flexibility and incentives needed to compete with the multitude of platforms that are available for the delivery of musical content.

LXXII. Finally, the CAB will attempt to respond to the Commission's specific questions and suggest several concrete proposals to facilitate the attainment of the objectives identified in the notice of public hearing, while at the same time creating an environment that permits French-language commercial radio to face the unprecedented growth of alternative platforms for accessing musical content and radio.

Profitability of French-language Radio

LXXIII. In its Notice of Public Hearing, the Commission asks for possible explanations for the decrease in profitability of French-language radio.

LXXIV. The CAB identifies three factors that could contribute to this decrease in profitability of French-language commercial stations: a) sharing audiences with local English-language radio stations in bilingual markets, b) the obligation to incur higher programming expenses to stand out, and c) long-standing uncertainty regarding ownership and orientation of the only prominent French-language radio network.

LXXV. The last factor should be curtailed over time. However, the other two factors will continue to negatively impact the profitability of French-language radio, particularly with regard to programming expenses. Given the increased tuning to English-language stations by francophone listeners, and the multitude of platforms available for accessing musical content, the need to invest in exclusive content through spoken word programming will certainly increase.

French Vocal Music

LXXVI. The CAB reminds the Commission the principle of requiring French-language radio stations to broadcast weekly minimum quotas of French-language popular music selections (category 2) was first instituted more than thirty years ago in 1973. The imposition of this key requirement reflects the Commission's conviction that French-language commercial radio must play a significant role in safeguarding and enriching francophone cultural expression.

LXXVII. However, the CAB respectfully submits that the quota proposed at the time was not based on scientific information or any specific analysis of the relationship between this arbitrarily established percentage and the availability of FVM content, or the impact that this quota could have on the various musical formats within French-language radio

LXXVIII. The CAB also demonstrates through numerous supporting statistics that even today, it is impossible to establish a clear correlation between the required broadcast quotas imposed on commercial radio for Canadian or French-language music and the volume of production or sales of audio recordings by Canadian or French-language artists in Canada.

LXXIX. The CAB concludes that although it supports the principle that calls for private commercial radio to ensure that it makes a place for Cancon and that French-language radio makes a place for FVM, it rejects the perception that increases or decreases in the Cancon or FVM quotas will translate into proportional adjustments of either increases or decreases of the number of Canadian or French-language record productions or sales. The facts confirm that such a perception is inaccurate.

LXXX. The CAB also outlines the negative effects – albeit involuntary but nonetheless real and tangible – that the present FVM requirements have on the diversity of music formats and music selections for French-language radio stations and the ability of individual stations to air and promote the work of new and emerging French-language artists.

LXXXI. In conclusion, the CAB does not question the principle of FVM quotas for French-language radio stations, including the current 65% requirement, and minimum 55% between 6 a.m. and 6 p.m. weekdays. The CAB also submits that the current rules regarding integrated production and broadcasting of music selections are appropriate and do not need to be changed. However, the CAB proposes a number of mechanisms and incentive measures that, working within these parameters, will help reduce the undue negative impact of applying these requirements to the range of musical formats in French-language radio and increase the diversity music from new francophone artists that is given airplay.

<u>New Music and Emerging Artists (French Market)</u>

LXXXII. To mitigate the negative impact that the requirement to broadcast at least 65% FVM has and will have on achieving objective C of the notice of public hearing, i.e. A commercial radio sector that provides listeners with a greater diversity of musical genres, and airplay for a greater variety of Canadian artists in both official languages, CAB proposes the creation of a bonus system that would attribute a FVM value of 150% to a "new work" by an "emerging francophone artist."

LXXXIII. The introduction of a bonus system would result in greater diversity of francophone music and artists on French-language radio; place more importance on new music from emerging artists; allow French-language radio stations to be able to set themselves apart from others in terms of musical content; and enable French-language radio to better resist competition from English-language radio stations and alternative platforms for music and radio content, thus increasing profitability.

LXXXIV. The CAB submits that the bonus system would provide a direct incentive to air a greater number of musical selections from emerging francophone artists who traditionally comprise a small percentage of the category 2 music aired by French-language stations on a weekly basis.

LXXXV. Such a bonus system would also permit the Commission to simultaneously meet two of its objectives: to ensure that French-language radio continues to play an important role in the enrichment of francophone cultural expression and will positively affect the growth and presence of new music from new francophone artists on the airwaves.

Contributions to Canadian Talent Development

LXXXVI. Given everything that has been discussed elsewhere in this submission on the new economic reality for radio and the new competitive environment, the CAB questions the relevance and the need to increase the annual mandated contributions to talent development that private radio stations must pay annually, particularly in the case of French language radio.

LXXXVII. After reviewing the arguments in favor of maintaining the current levels of contributions established by the Commission in 1995 and those in favor of increasing them, the CAB is of the view that the arguments in favor of keeping the minimum CTD payment requirement as is outweigh any rationale for increasing them. Accordingly, the CAB is recommending that the Commission maintain the CTD financial requirements at their current level.

LXXXVIII. The CAB notes that the combined financial contributions made by private radio, the Federal government and the Quebec government increased by more than 300% from 1998 to 2005. By comparison, during the same period, private radio total revenues increased by 41%, while total revenues of private French-language radio grew by a mere 34%.

LXXXIX. However, should the Commission see fit to increase the level of the annual CTD contribution requirements for private radio, French private radio submits the adjustment should be based on a formula that would adjust the amount per station per market set in 1995 to the consumer price index (CPI) established by Statistic Canada. Once again, should there be any increase of the CTD contribution requirements, based on the 1995-2006 growth in the CPI, private radio in the French market should be allowed to direct a significant portion of these contributions to non-music related initiatives to help develop "la relève radiophonique" in the French market.

XC. With respect to recipients of these annual CTD contributions, and CTD funding derived from transfer of ownership benefits, the CAB proposes that it all be funneled into a single commercial fund per market, English and French: in other words, in the French market, these CTD contributions would be directed towards an improved Fonds RadioStar whose mission would be focused on two main objectives: be artist-centered and ensure that financial support to be provided serves the needs of private radio.

Promotion of Local Artists and Cultural Diversity

XCI. Commission's notice of public hearing seeks to discover if there is a need to establish provisions to encourage the promotion of regional Canadian artists when granting or renewing a radio station's licence, and to learn what mechanisms could eventually be deployed to ensure that Canadian radio is more representative of Canadian cultural diversity and the special place of Aboriginal peoples.

XCII. CAB would like to propose an incentive designed to achieve both of these goals within the specific context of French-language radio. This incentive would allow an increase in airplay for local Canadian artists working in a language other than French (Aboriginal artists, artists from other linguistic groups, and Anglophone artists from Quebec) and thus more accurately reflect the cultural diversity of Quebec and Canada.

Introduction

1. The Canadian Association of Broadcasters (CAB) is pleased to present its submission to the Canadian Radio-television and Telecommunications Commission (CRTC) respecting Broadcast Notice of Public Hearing CRTC 2006-1, *Review of the Commercial Radio Policy* (the Radio Review).

2. The CAB represents the vast majority of commercial radio stations across Canada, broadcasting in the English, French and third languages in a wide range of music genres and talk formats reaching 93 percent of Canadians within markets of all sizes. As the oldest of broadcasting technologies and with a storied Canadian history that includes what is believed to be the world's first radio program broadcast from Montreal in May 1920, radio and the entire communications infrastructure have developed in ways few would have envisioned over 85 years ago.

3. It is no surprise that private radio resides in a world that is much different than that of the 1920's. For example, a Marconi Model 'C' Radio Receiver was priced at $195 in 1922 – the equivalent of *$2,300* today, which could potentially purchase a radio, a television set, a computer with a CD and DVD burner *and* a portable listening device. This illustrates the inexorable march of technology that has dramatically altered both the world of regulated broadcasting and the world of the audio consumers – the listener.

4. But the world in which radio lives and works has changed even more radically since the most recent Radio Review of 1997 – not even a decade ago. As we enter this *new policy hearing*, it is clear that the radio industry of today has reached an historic rendezvous with its past – and its future.

5. And it is a defining moment of this historic rendezvous that never before in the history of public policy review has there been a proceeding about regulating an industry, where the assumptions that in the past worked to drive and create those regulations no longer apply in the present day, and cannot apply in the future.

6. This is because the system that these assumptions and ensuing regulations were applied to has changed forever: we no longer have one, single and regulated system of radio services delivered over the public airwaves and free of charge to Canadians.

7. Instead, we have two systems: the regulated system of the past has come into direct competition – some would say collision – with an unregulated, parallel system of new delivery platforms for audio content.

8. Radio has historically operated on the basis of certain incontrovertible regulatory assumptions. And at the very core of this regulation has been the reality that radio broadcasters have always lived with: entry into the radio marketplace was always carefully controlled, limited and protected. This is true of most, if not all, jurisdictions that have regulated radio.

9. This was due in part to factors of technology: the radio spectrum available to AM and FM broadcasters has always been limited, and interference from adjacent stations on your radio dial was always a major concern. In order to maximize the integrity of radio signals and the actual availability of service to listeners, access to the marketplace was controlled out of technical necessity.

10. At the same time, entry to the radio market was carefully guided by the regulator to ensure that, in using the public airwaves to provide programming content for Canadians, radio broadcasters were making a contribution to the Canadian broadcasting system at large, as well as to 'national identity and cultural sovereignty' (to quote the *Broadcasting Act*).

11. The use of the public airwaves in combination with technical limitations on that use created a set of regulatory assumptions upon which private radio broadcasters built their businesses.

12. Today these assumptions are no longer valid.

13. For the very first time in its history, radio is confronted with an unheard of array of competition for listeners and for revenues. While radio once competed in the marketplace with other radio stations and/or other forms of local media such as newspapers and television, radio now competes with an entirely new system comprised of competitors that have themselves been borne out of technological advances and programming innovation.

14. The irony is that these new competitors have effectively bypassed the regulatory system upon which private radio itself was built. These new, unregulated audio services have in fact been granted virtually unfettered and unlimited entry into the Canadian marketplace.

15. In turn, radio's listeners – Canadian consumers – have more choice and more control over that choice than ever before. The audio experience is no longer the passive, one-way transmission and reception of broadcast signals through a radio receiver. The audio experience can be created by consumers through downloading, podcasting, CD burning. It can be created in the home and brought to the bus, subway, school or office, and experienced on a cell phone or other personal device capable of capturing and playing audio content.

16. The consumer is, in effect leveraging technology and content to redefine the audio experience, as a personalized experience for her or himself.

17. And so the groundwork for this historic rendezvous has been laid. This new landscape of audio competition – the parallel systems of the regulated and the unregulated – has and will continue to have a major impact on the very foundation upon which the private radio industry was built.

18. But the reality is that, although the assumptions that created radio's regulatory framework have been thrown into disarray, the public policy objectives to be supported by regulation have remained relatively stable over time.

19. For example, as noted in Broadcast Notice of Public Hearing 2006-1, the Commission remains interested in creating conditions for "A strong, well-financed commercial radio sector in both official languages capable of contributing to the fulfillment of the policy objectives set out in the (Broadcasting) Act."

20. Given the on-going requirement to meet essential public policy objectives through an appropriately balanced regulatory framework, the question facing the private radio industry, our stakeholders and the Commission is pivotal to the industry's future: how can regulation continue to support the growth and competitive sustainability of commercial radio in this new era of parallel and competing systems of audio services?

21. This new era of parallel and competing systems of audio delivery means that the regulatory tools that once served the industry and broadcasting industry so well have had their scope of influence altered and/or reduced – because those tools can no longer be applied evenly across the audio landscape.

22. This new era of parallel and competing systems has also transformed the consumer from passive/entertained listener to the consumer in control/the consumer as creator of their own content. This has been largely driven by major advances in technology and the spread of that technology to consumers, and bears profound implications for the health and success of private radio going forward.

23. And this new era finds radio in a place that requires a new kind of regulatory framework. While regulation of the past largely supported commercial radio development while attaining the key objectives of broadcasting policy, the regulation of the future must now seek to balance the new environment of competition with unregulated services with the old environment of service to Canadians and to the broadcasting system as a whole.

24. This means that we have the collective opportunity to recraft the tools of regulation in a manner that will support the continuing discipline of the traditionally regulated sector while recognizing the growing power and influence of the new, unregulated sector.

25. Certainly, it does not mean that *more* regulation is required, but rather that *smarter and more effective* regulation must be designed. It is not dissimilar to the changes underway in the U.S. telecommunications industry: changing technologies, new systems of content and service delivery, and much broader consumer choice and control are driving that marketplace to the point where existing regulations are no longer working as they were intended to work. Change is in order.

26. We have arrived at a similar 'tipping point' of history for private radio. Any course of action pursued in this historic *policy hearing* must recognize that the old assumptions of regulation have fallen by the wayside. In their place are unwritten and fluid marketplace assumptions shaping a new sector of unregulated competition.

The Commission's Approach to the Review

27. In setting out its basic approach to the Radio Review, the Commission has comprehensively identified its objective to …*develop policies that assist in creating conditions for:*

a) A strong, well-financed commercial radio sector in both official languages capable of contributing to the fulfillment of the policy objectives set out in the (Broadcasting) Act.

b) A commercial radio sector that makes effective contributions to Canadian artists through airplay of Canadian music, French-language vocal music, and contributions to Canadian Talent Development that are commensurate with the financial health of the sector.

c) A commercial radio sector that provides listeners with a greater diversity of musical genres, and airplay for a greater variety of Canadian artists in both official languages.

d) A commercial radio sector that reflects the multicultural and multiracial nature of Canadian society and the special place of Aboriginal peoples within society.

e) A commercial radio sector that provides listeners with an appropriate amount of regularly scheduled, locally produced news and information.

f) A commercial radio sector capable of making the transition to digital transmission, and of exploiting new and emerging distribution platforms in a manner that furthers the objectives of the Act."[1]

28. In Notice of Public Hearing 2006-1, the Commission has provided a comprehensive overview of the radio industry, its current status, outcomes of the 1997 *Commercial Radio Policy* Review, and important underlying questions associated with each of the above areas of discussion.

Outline of the CAB Submission

29. In considering the Commission's objectives for the Radio Review and the supporting questions posed in Notice of Public Hearing 2006-1, the CAB has organized its submission in the following manner:

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[1] Broadcasting Notice of Public Hearing CRTC 2006-1, paragraph 8.

Part I: The New Economy of Radio

A – Radio and the Community

- We outline the on-going, significant role played by private radio within local communities.

B – A Financial Overview of the Commercial Radio Industry

- We provide a financial snapshot of commercial radio with projections for economic performance going forward.

C – The New Economy of Radio

- We present a detailed analysis of radio's new competitive economy and the impact of new and emerging audio platforms on commercial radio.

D – Local Programming

- We discuss the high levels of diverse local programming offered by AM and FM stations in markets across the country.

E – Market and Licensing Issues

- We discuss key issues relating to small markets, low power radio, independent radio, LMAs/LSAs and infomercials.

F – Cultural Diversity

- We present a discussion of how radio is currently addressing cultural diversity, and propose a number of initiatives to advance diversity in the radio sector.

G – The Digital Transition

- We examine options for the digital transition with a focus on content and investment requirements.

Part II – Radio and Music

A – The Artist-centered Universe

- We present a discussion of music industry economics, and the manner in which the *artist* needs to be repositioned as the focal point of the radio/music relationship.

B – The Role of Radio in Promoting Canadian Artists and Music

- We provide an assessment of radio's central role in promoting Canadian artists and music, describe the manner in which Canadian music receives airplay, and identify challenges to this role going forward.

C – Proposal for Effective Canadian Content and French Vocal Music

- We present our perspectives on the current music exhibition system and offer a new, creative proposal for bring more Emerging Canadian Artists and New Canadian Selections to air.

D – Proposals for Canadian Talent Development

- In reviewing existing plans for Canadian Talent Development, we present our proposal for stable and effective funding support for Canadian artists, focusing on the extension of promotional and marketing activities in an artist-centered model.

Part III: The French-language Private Radio Market

A – Current Status and Characteristics of French-language Radio

- We provide a financial snapshot of French-language commercial radio and analyze those economic pressures that are unique to French-language radio markets.

B – Contribution to the Development of Canadian Talent

- We present a discussion of the contribution made by French-language radio to Canadian Talent Development, and include some comparisons of talent support by international radio industries.

C – Proposals and Responses to Specific Questions

- We present additional analysis on the status of French-language radio market as a basis for our proposals to the Commission on the promotion of local talent, French-language Vocal Music, incentives for airplay of emerging artists and cultural diversity among other areas.

Conclusion

- In our concluding note to the submission, we present a summary of the CAB's recommendations for the *Commercial Radio Policy*.

Then . . .

Now

PART I

THE NEW ECONOMY OF RADIO

CAB | ACR

Part I – The New Economy of Radio

30. In Part I of our submission, we present a detailed examination of a wide range of issues that impact radio's *business*, framed in an analysis of the *new economy* of radio.

31. By new economy, we mean that the business of radio and the economics of the industry have evolved to the point where radio broadcasters are no longer competing solely among themselves for listeners and revenues, but are competing with a vast continuum of media and entertainment services. This includes traditional media such as newspapers and television, and new media that deliver audio to Canadians on recently developed platforms such as the Internet, cell phones and satellite/subscription services and portable audio devices.

32. It is also part of the new economy of radio that many new and emerging audio delivery platforms that compete directly for listeners abide by very different (or in some cases, no) regulatory requirements than those set out for private radio broadcasters.

33. This bears extremely important competitive implications for the private radio business, and for the on-going ability of radio to successfully fulfill its core mandate of service to listeners. The new economy of radio is radio's new reality, and the commercial radio industry requires a balanced policy framework that effectively enables radio to strengthen its business as it continues to fulfill its mandate within the broadcasting system and to attract listeners to its programming services.

A – Radio and the Community

34. Radio is a vital and indispensable form of local media, deeply tied to local communities in cities and towns of all sizes across Canada. Through its presence in the community, charitable initiatives and fundraising, remote broadcasts, educational activities and other endeavours, radio plays an integral role in connecting listeners with the community around them and in improving communities for Canadians.

35. Radio's characteristic community connections are a distinguishing feature that sets radio apart from other local media and other audio-based services. Most Canadians will have noticed station banners and call signs at local community events of all sizes. Radio broadcasters take their community responsibilities seriously, and take great pride in their service to their communities, much of which goes unheralded but certainly not unnoticed by those it affects most profoundly.

36. Radio stations across Canada engage in a remarkable number of Public Service Announcement (PSA) campaigns, charitable and fundraising initiatives, and educational outreach that range from local community-based events to international disaster relief

efforts. In addition, radio stations play an invaluable role in alerting communities to emergencies relating to weather and other events.

37. Based on information from a member survey the CAB conducted, private radio made over $35 million in voluntary contributions in 2005 – over and above regulated contributions to CTD. In that same year, private radio gave over $72 million in air time to the broadcasting of public service announcements. On top of these impressive contributions, private radio, using its local presence and close connections to its communities, raised over $113 million in pledges from listeners in support of fundraising efforts.

38. What follows is only a small sample of the dozens of events that take place every year.

Charitable and Fundraising Events

39. CHUM Radio stations across Canada came together for the National Tsunami Relief Benefit Radiothon, with funds raised going to the Canadian Red Cross. The full day radio event in January 2005 raised an astounding $4.5M in relief aid – kicked off by a $100,000 corporate donation by CHUM Limited. The event was followed up with a major Public Service Announcement campaign.

40. CHDR-FM, CHBZ-FM and CJDR-FM (Jim Pattison Broadcast Group) join forces annually to participate, raise funds and generate major community support for the Canadian Cancer Society's Relay for Life. The 2005 event delivered over $30,000 in air time to promote three local relay events that combined to raise over $150,000 for cancer research in a single day.

41. Newcap Radio stations in Newfoundland and Labrador participate in many fundraising events supporting a range of groups and institutions with a focus on hospitals and agencies serving the needs of children and youth. Initiatives in 2005 raised almost $1.3M, through live to air events such as the Annual Happy Tree Christmas appeal, Garden of Hope for the Cancer Foundation; the Shriners Burn Hospital; Kiwanis Music Festival, and many other initiatives.

42. CJAD and CHOM-FM (Standard Broadcasting Co. Ltd.) broadcast the Caring for Kids Radiothon on location from the Montreal Children's Hospital cafeteria over a three-day period (Wednesday to Friday) from 5:30 am to 7:00 pm each day. All shows were broadcast directly from the hospital, and included live interviews with children, current patients, parents, nurses, doctors, and many others who have been helped by the Montreal Children's Hospital. By the conclusion of the initiative, the Radiothon had raised $1.7 million. Standard's Montreal stations combined to provide 1,115 volunteer hours to the community over the course of the year.

43. CHED (Corus Entertainment) marked its 50th Annual 630 CHED Santa's Anonymous Campaign in December 2005, devoted delivering the "spirit of Christmas" to less fortunate

children in Edmonton. Some 25,000 toys were delivered in the most recent campaign; everything from taking the toys to the main warehouse, to wrapping and bagging, to delivering the toys is taken care of by volunteers. Throughout November and December, this initiative is supported by a major Public Service Announcement campaign. The program is further supported and promoted throughout the year with other fundraisers, such as the Gary Draeger Memorial Golf Tournament in May, and Santa's Anonymous Night with the Edmonton Eskimos in October.

44. CKLF Star FM (Riding Mountain Broadcasting Ltd.) holds an annual 36-hour Radiothon, 'Pennies by the Pound' in support of the Brandon and District United Way. The station's on-air morning team broadcast live from a local shopping mall, encouraging individuals and businesses to drop off the pennies they have collected over the past year. The October event is promoted with PSAs and mail-outs to businesses from the summer period on; the 2005 event raised $5,000.

45. CIEL FM (Radio CJFP 1986 Ltd.) was a driving force in a local initiative to raise $1 million for the construction of a second hockey arena in Rivière-du-Loup – a very small market with a population of just 18,000. The station also organized a benefit game between two major junior 'A' hockey teams, raising $25,000 to be split between a palliative care facility and a local minor league hockey club.

46. Morning on-air personalities from CFEQ FM (Kesitah Inc.) spent 72 hours living in a mobile home, accepting donations of cash, food, clothes and toys from local residents that were then donated to the Christmas Cheer Board. In addition to this initiative, listeners were invited to share stories of local residents facing difficult times; with the support of local businesses, the station sponsored three families touched by tragedy to provide them with some living necessities.

Education Outreach

47. 'Artists against Bullies' is a campaign by CKBT FM The BEAT (CanWest MediaWorks Inc.) that brings artists to local schools, to distribute 'BEAT Anti-bullying Bands' and to work with anti-bullying speakers and attend presentations on this issue.

48. CKGL (Rogers Broadcasting) worked in collaboration with the Waterloo Regional Police on The RIDE Program to educate the public on the perils of drinking and driving. Officers staffing the roadside checkpoints handed out 570 NEWS ballots to drivers who were stopped but had not been drinking. Drivers completed the ballots, mailed them in, and were entered in a grand prize draw for a shopping spree at Canestoga Mall in Waterloo. Locally, charges relating to impaired driving were significantly lower.

49. CKBI/CFMM/CHQX (Rawlco Radio Ltd.) developed and launched 'Battleground Crystal Meth', a public service campaign focused on educating and empowering parents and guardians who believe their child is using drugs. The campaign, undertaken in collaboration with 40 other organizations is now being used by the Province of Saskatchewan as a strategy to address drug addiction.

Public Alerting (e.g. Weather, Emergencies, Amber)

50. There is little doubt that one of the major contributions made by private radio – and to the broadcasting system as a whole – is the medium's ability to reach large segments of listening audiences for public alerting in times of emergency.

51. Thanks to its very unique transmission capabilities, radio is able to broadcast to local residents when other media are unable to as a result of power outages. There are countless examples of how radio has served its local communities in this regard, but none so powerful as the Eastern Canada ice storm of January 1998, the Kelowna forest fires in the summer of 2003 and the major power blackout throughout Ontario in August 2003.

52. Throughout all of these emergencies – at times when the very safety and well-being of local residents was at stake – radio stations throughout affected communities dropped their regular programming to become a vehicle of true public service. At those times, and in many other instances, radio became the essential conduit enabling citizens to stay connected to events.

53. The private radio industry across Canada is also working with law enforcement agencies to participate in the broadcasting of Amber Alerts, which are issued by police forces as a means of informing local communities when a child has gone missing – usually as the result of an abduction. Emergency press releases are issued to local stations and broadcast at regular intervals to ensure the broadest possible distribution of information. The Amber Alert program has been credited with the safe return of over 150 abducted children across the United States and Canada since first launched in 1997.

54. Private radio is committed to maintaining an unwavering effort in its local communities, through fundraising, education outreach, Public Service Announcement campaigns and other activities that help make the places where we do business, better places to live.

B – Financial Overview of Commercial Radio Industry

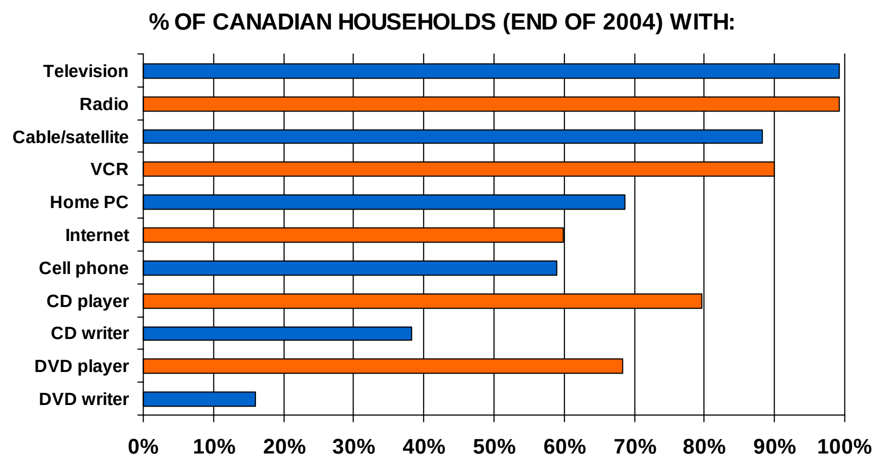
An Increasingly Fragmented Media Universe

55. To understand radio's current financial picture and its economic prospects for the future, it is important to first outline the increasingly fragmented media universe and parallel systems of regulated and unregulated audio services within which the radio industry exists. As noted

above, radio now competes more widely than ever with both traditional and new media for revenues and listeners. As new technologies continue to develop, borders become porous and new services and platforms take root.[2]

Figure 1

Canadians have more consumer communications technology than at any time in history:



56. For example, Canadians are among the world leaders in the adoption of the Internet, and in using hi-speed or broadband Internet access.[3]

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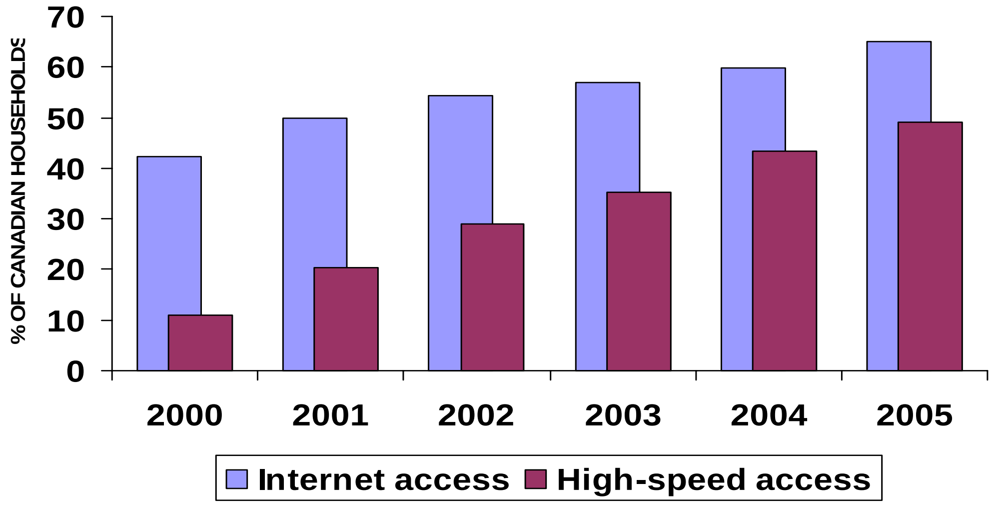
[2] Communications Management Inc. (CMI) 2006, *Forecast for Radio; Sunny, with Storm Clouds on the Horizon,* p.4

[3] CMI 2006, p. 4

Figure 2

Growth in the percentage of Canadian households accessing the Internet … and in broadband/high speed access:



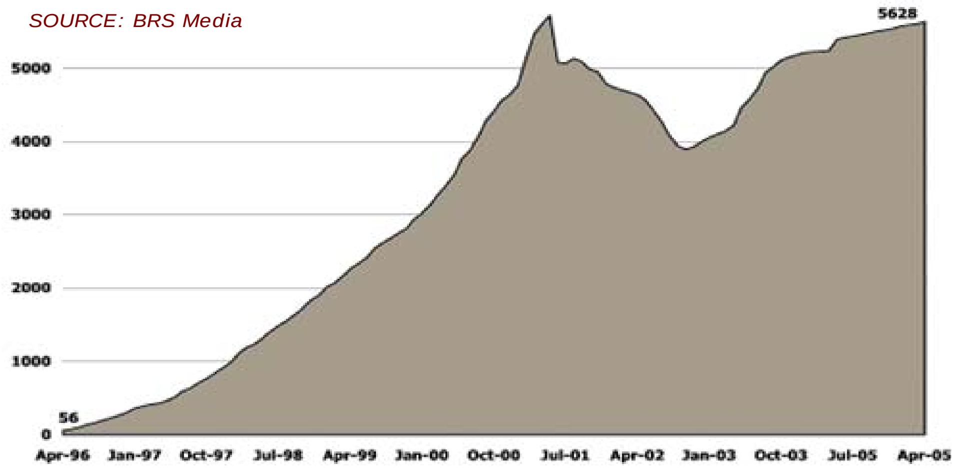
57. In addition to our status as early and eager adopters of new technologies, Canadians use the Internet for a number of media-related activities and purposes, such as downloading music, getting the latest news and listening to the radio – effectively controlling their own content from a broader range of choice.

58. Typifying the development of media services on the Internet, there are now more than 5,000 radio stations, worldwide, broadcasting on the Web.[4]

[4] CMI, 2006, p. 5

Figure 3

Number of radio stations worldwide broadcasting on the Web:



59. It is clear that radio faces a growing fragmentation in the media universe, driven by new technologies and brought to markets in a range of audio platforms that give consumers far more choice and for more control in their audio decisions:

- Internet radio (streaming, including streaming over wireless broadband)
- Digital radio
- Satellite/subscription radio
- iPods and personal media devices
- Cell phone radio
- Peer-to-peer file sharing
- Podcasting
- Commercial Internet music services
- Advertiser-supported music services

60. And it has taken only 15 years for the audio continuum to evolve in dramatic fashion.[5]

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[5] CMI 2006, pp. 6-7

Figure 4

The basic audio continuum – 1990:

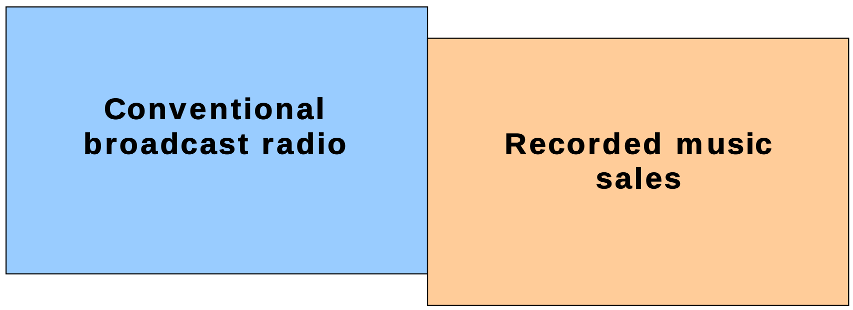
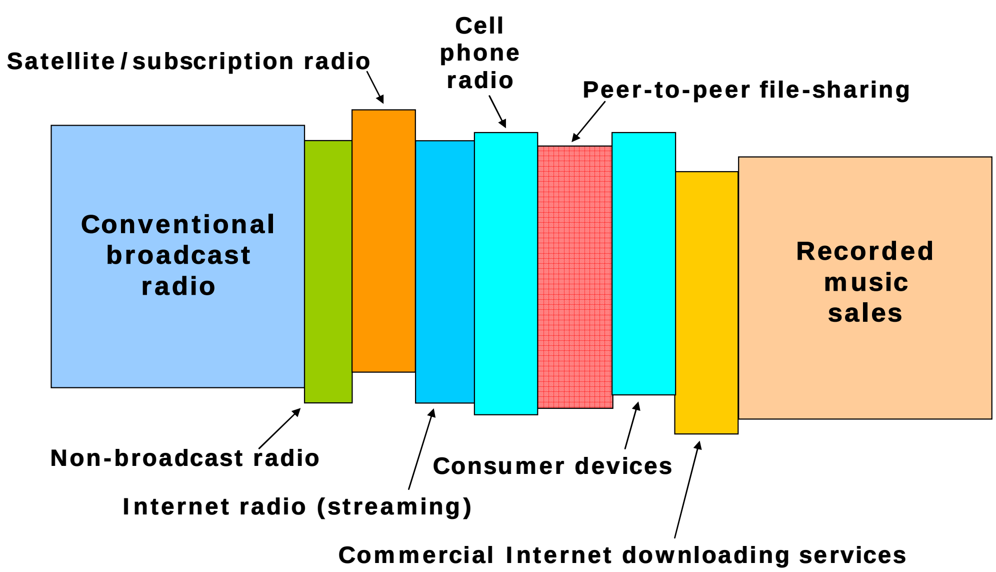


Figure 5

The evolving audio continuum – 2005-2010:



61. In addition, radio's role in the audio continuum value chain has changed as the value chain itself has become far more complex.[6]

[6] CMI 2006, p. 8

Figure 6

Radio and the audio continuum value chain 1990:

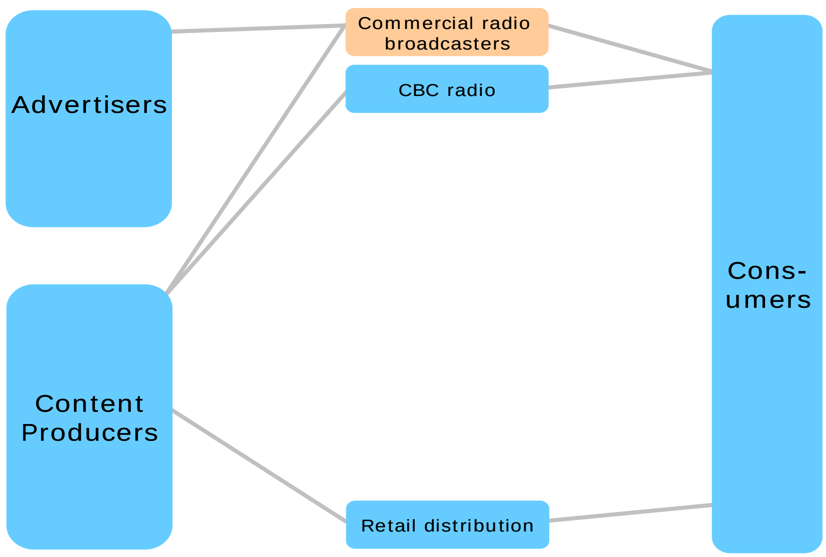
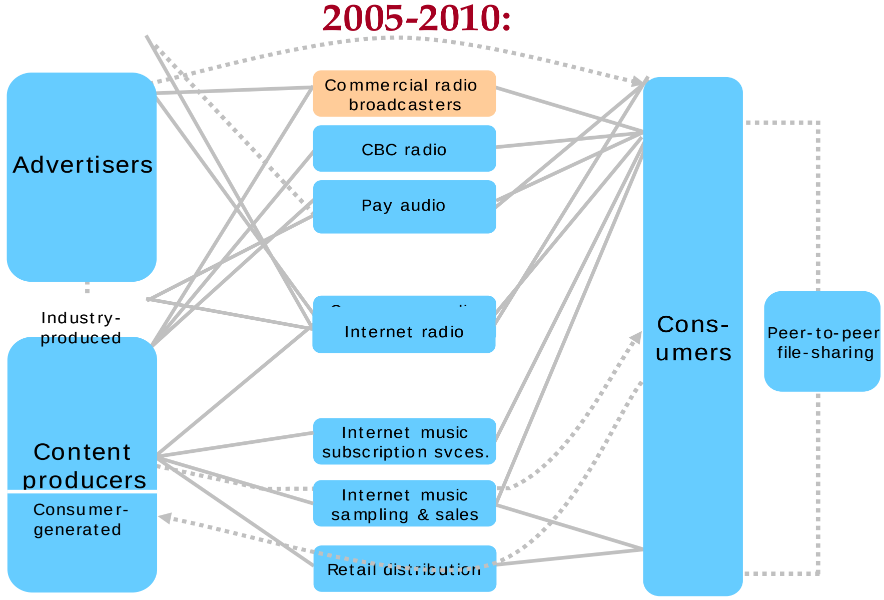


Figure 7

Radio and the audio continuum value chain, 2005-2010:



62. In the competition for revenue and listeners, the short term impact of these new technologies and services may be modest. However, as they begin to draw listeners away from conventional radio – as has happened with younger audiences in recent years – their combined impact may grow.

63. However, this impact may not occur in a linear fashion; two stages may be involved. First, we would see an initial reduction of the radio audience. Then, as the impact increases, and new technologies and services reach thresholds that make them more viable and competitive, impact on radio revenue would follow.[7]

64. The impact of new technologies and new services may also be experienced more dramatically or unevenly in certain segments of the industry. For example, the impact of satellite/subscription radio services may be experienced more acutely in small radio markets that already have significant business challenges.[8]

65. The estimated financial impact of new technologies and services, based on the above assumptions, is discussed later in this section of our submission.

Radio's Current Financial Status and Key Trends

66. When analyzed as an entire industry, commercial radio shows year over year growth in total revenues and is currently profitable overall. In assessing radio's overall economic performance, and its prospects for future growth and profitability, a number of trends become clear.

67. First, when analyzed over a lengthier period of time, the history of radio's economic performance demonstrates that it is clearly cyclical, and that an economic downturn is probable in the near term.

68. Second, while a key measure of profitability – Profit Before Interest and Taxes or PBIT – has increased it has not progressed much beyond 20 percent and may not be sufficiently high to attract future major investment in the industry.

69. Third, although radio's profitability has improved in the period following 1998 and the Commission's most recent Review of the *Commercial Radio Policy*, the evidence indicates that (i) the growth rate for profitability in the four years up to and including 1998 outpaced the growth rate for profitability in the four year period between 1999 and 2002 and (ii) business cycles and market size are key factors in assessing radio's overall economic performance. Some segments of the radio industry, such as French-language small market radio stations, show minimal profitability.

[7] CMI 2006, pp.32-33
[8] J. Osborne, 2006 *Evaluation of the Canadian Radio Advertising Model*, p. 32

70. Fourth, the impact of copyright royalty payments on the private radio has dramatically increased between 1995 and 2005. We believe the Commission must fully account for this impact when assessing radio's new competitive world.

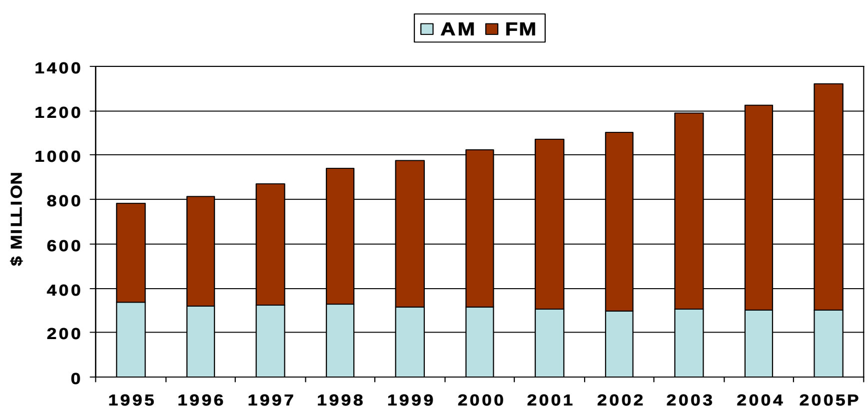
Radio's Economic Performance 1995 - 2005

71. We note that this part of our discussion on radio's economic performance includes preliminary data ('2005P') for 2005 released by the Commission in February 2006.

72. Overall, radio revenues have shown an upward trend in growth in the 10-year period between 1995 when revenues were just under $800 million and 2005 when revenues were approximately $1.3 billion.[9]

Figure 8

Growth in total revenue for private radio in Canada, 1995-2005:



73. When tracked against national economic indicators such as GDP or retail trade, that data indicate that radio's revenue growth has been – at best – stable in relation to these indicators, but the indicators are also lower now than they were in the 1990's.[10]

[9] CMI 2006, p. 9
[10] CMI 2006, pp. 10

Figure 9

Private radio ad revenues as % of GDP, Canada, 1991-2005:

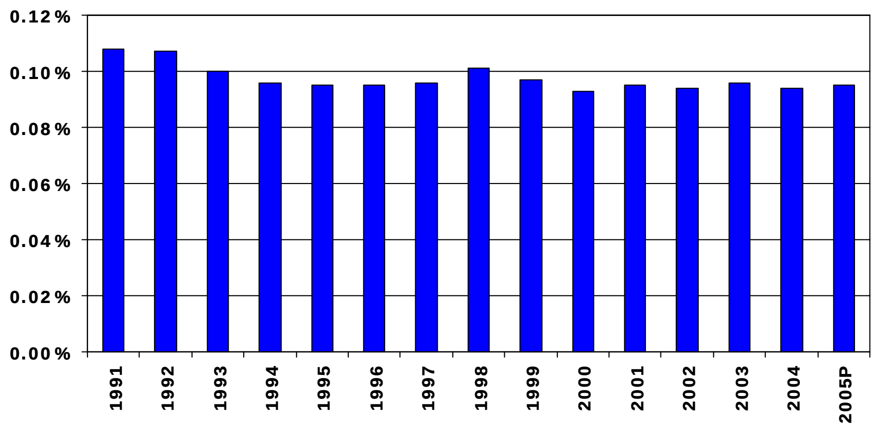
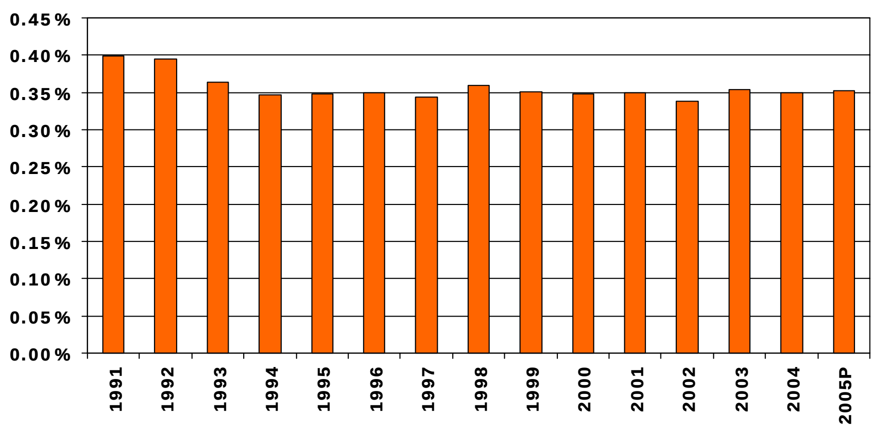


Figure 10

Private radio ad revenues as % of retail trade, Canada, 1991-2005:

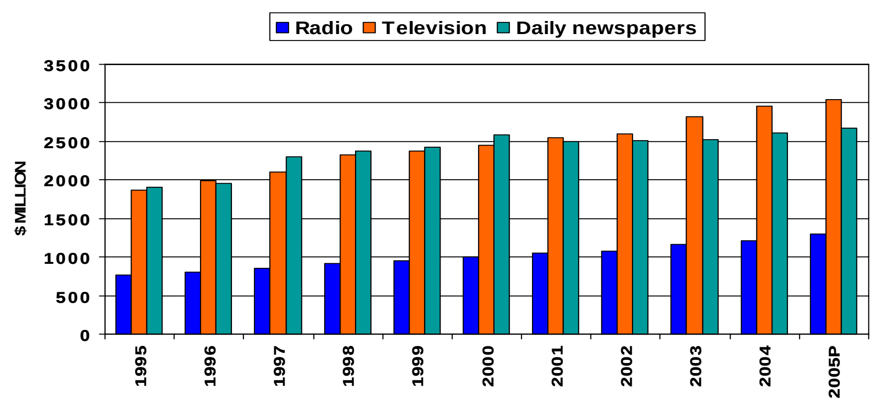


74. It should be noted that radio's ad revenue performance is highly sensitive to changes in retail sales overall; current predictions are for a decline in retail sales growth.[11]

75. When measured against other media such as television and newspapers, the data indicate that radio advertising revenues have grown slightly faster than television, and both radio and television advertising have grown faster than newspapers.[12] Radio's share of revenue across existing media (television, newspapers, magazines, out-of-home, etc.) has remained stable at 15 percent between 1995 and 2005.[13]

Figure 11

Advertising revenue trends for radio, television, and daily newspapers, Canada, 1995-2005:



76. With respect to profitability, PBIT as a percentage of total operating revenue is higher now than was the case in the mid-1990's. Figure 12 below further indicates that PBIT growth between 1995 and 1998 was more rapid than the period between 1999 and 2002.[14]

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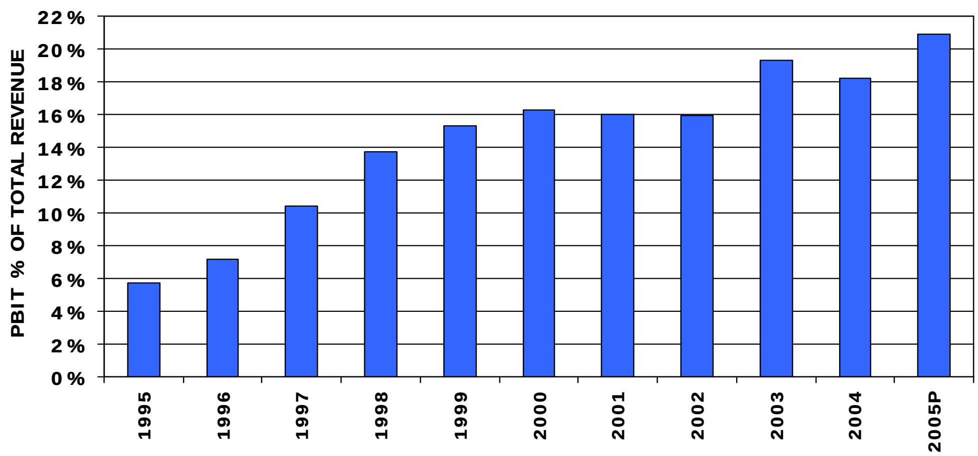
[11] Osborne 2006, p. 4
[12] CMI 2006, p. 12
[13] Osborne 2006, p. 7
[14] CMI 2006, p. 15

Figure 12

Private radio profitability, Canada (PBIT % of total revenue), 1995-2005:



77. In addition, PBIT improvements between 2003 and 2005 are largely due to the movement of AM out of its overall loss position to just over breakeven. Profit levels for FM have been relatively flat since 1999.[15]

78. By comparing radio revenue trends in Canada to trends in the U.S., it can be illustrated that revenue growth trends can be cyclical in nature. As indicated in Figure 12a below, after 1990, radio ad revenues in the U.S. began their growth earlier – and grew faster – than was the case in Canada. After a period of growth, however, the U.S. radio growth curve flattened, indicating a cyclical pattern – which may also occur in Canada.[16]

[15] CMI 2006, p. 14
[16] CMI 2006, p. 11

Figure 13

Growth in radio advertising revenues, Canada and U.S.A., 1990-2005, Index basis (1990=100):

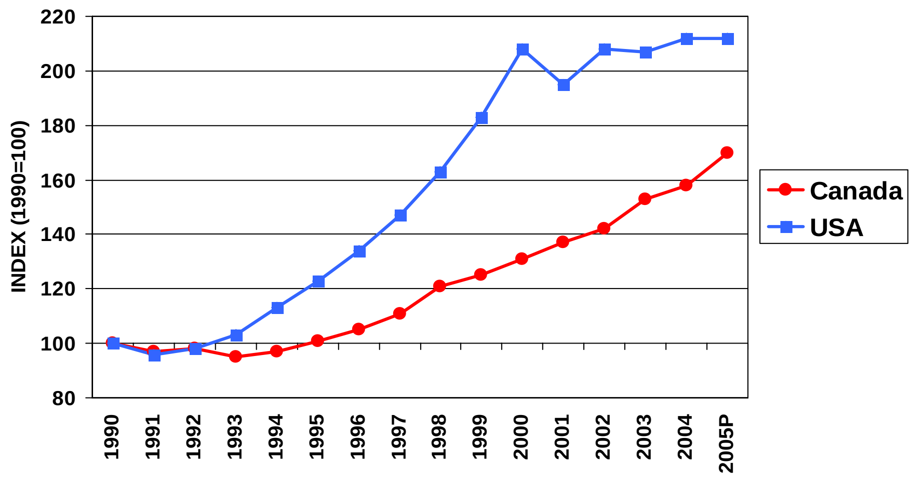
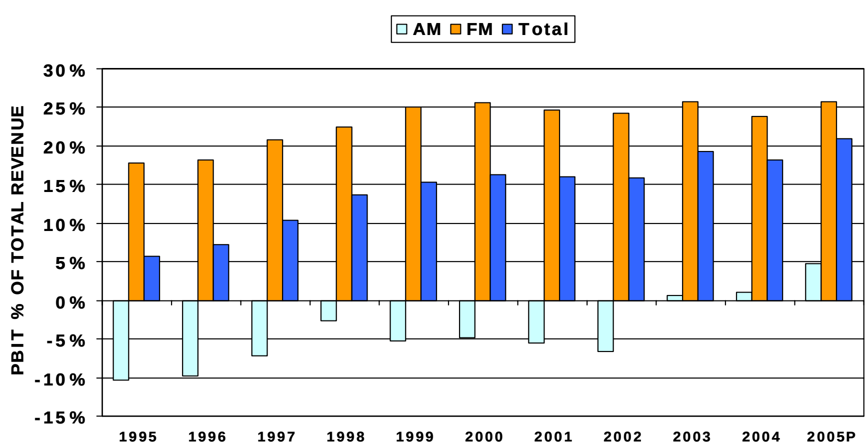


Figure 14

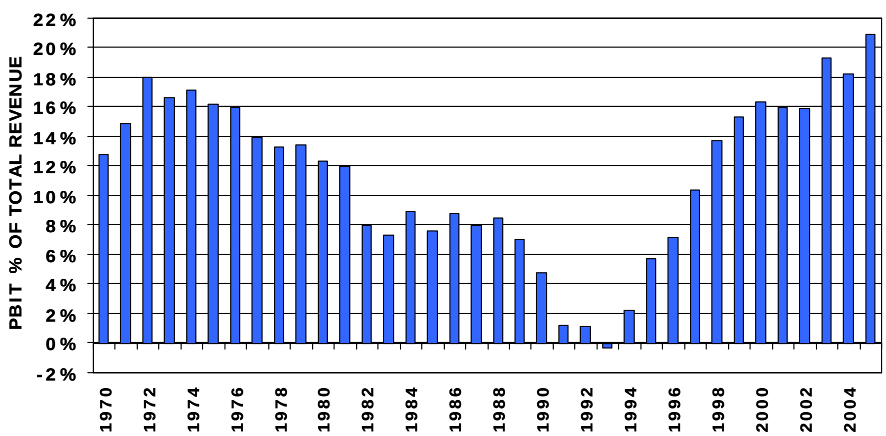
Private radio profitability, Canada (PBIT % of total revenue), 1995-2005:



79. A more historical view of radio's profitability illustrates that the industry's economic performance has a clearly cyclical nature, as noted by 'the wave' in evidence from 1970 to 2005. Given the cyclical nature of radio's profitability, there is little reason to expect that at least some cyclical movement will not take place in the near future.[17]

Figure 15

Private radio profitability, Canada (PBIT % of total revenue), 1970-2005:



Radio's Economic Performance – Market Size

80. We note that our discussion of radio's economic performance in relation to market size is based on data available up to and including 2004 only.

81. Market size is an extremely important determinant of a radio station's economic performance. On that basis, we can see that more than half of all radio stations are located in markets of less than 100,000. The CAB also notes that more than two-thirds of Canada's private radio stations are located in markets with a population of less than 250,000. Yet the nine largest CMAs account for nearly 60 percent of radio revenues.[18] Based on the indicators for PBIT, the CAB submits that it is useful to consider markets with populations of less than 250,000 to be the dividing line between small markets and large markets.

[17] CMI 2006, p. 14
[18] CMI 2006, p.18-19

Figure 16

Number of private radio stations in market size groups, Canada, 2004:

More than two-thirds of private radio stations are in small markets

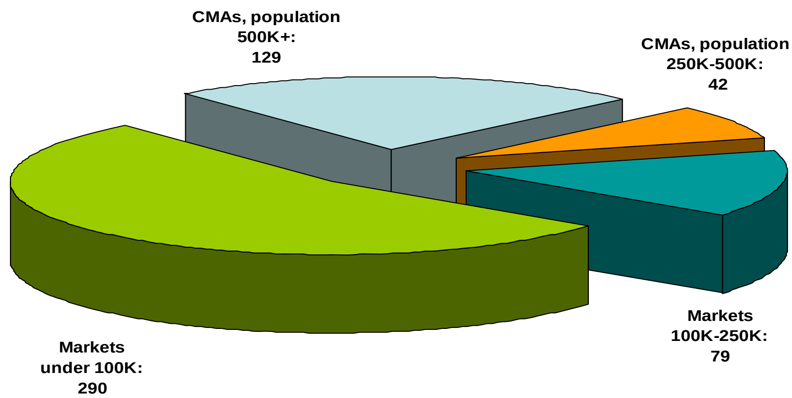
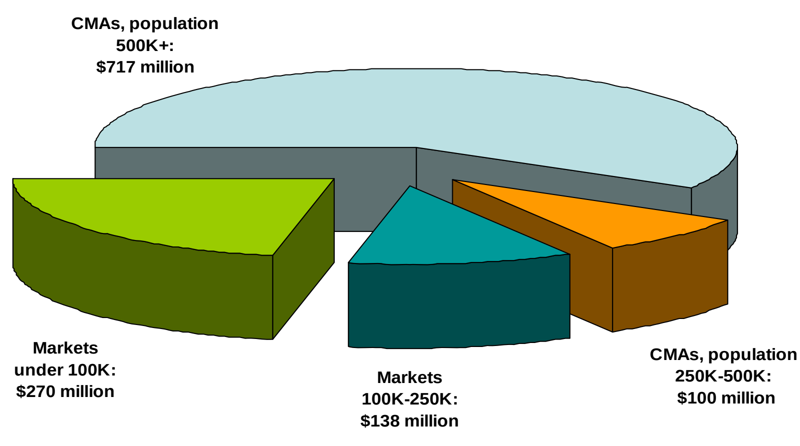


Figure 17

Private radio station revenues by market size groups, Canada, 2004:

The 9 largest CMAs account for almost 60% of radio revenues



82. At the same time, small market radio stations have the lowest average revenue per stations as well as the lowest level of profitability. Figures 18 and 19 below indicate that PBIT tracks downward as market size decreases. [19]

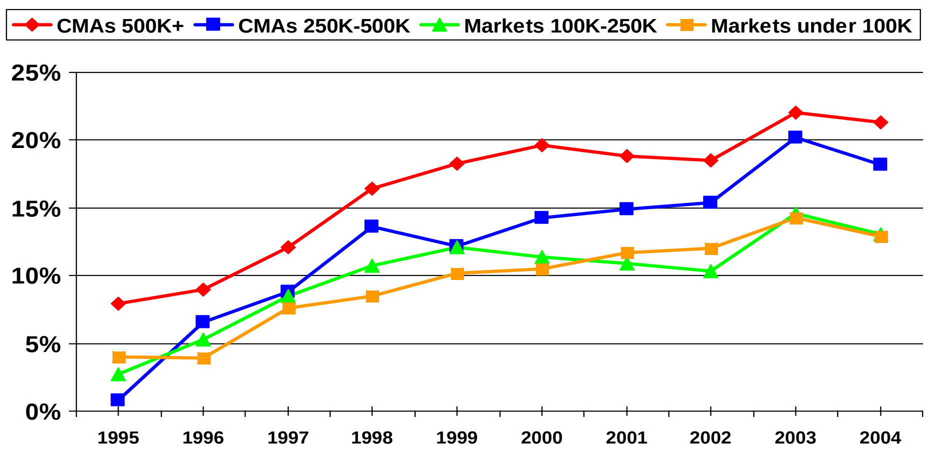
Figure 18

Operating indicators for Canadian private radio stations, 2004, by market size:

	2004			
	500K+	250K-500K	100K-250K	Under 100K
Average revenue per station	$5.35 million	$2.37 million	$1.74 million	$0.93 million
Revenue (%):				
Local	75.3%	71.0%	81.1%	79.2%
National	23.8%	26.5%	17.6%	18.7%
Expenses (% of revenue):				
Program	27.6%	26.4%	27.8%	26.1%
Technical	2.6%	3.5%	3.6%	4.1%
Sales/promo	25.7%	27.8%	26.8%	25.3%
Admin/general	20.0%	20.7%	25.0%	27.6%
PBIT (%)	21.3%	18.2%	13.1%	12.9%

Figure 19

PBIT as % of total revenue, private radio, Canada, by market size, 1995-2004:



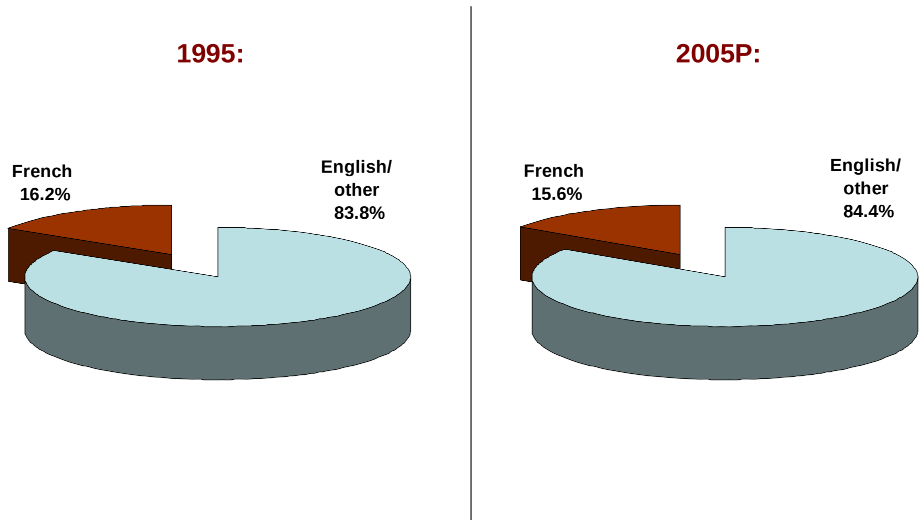
[19] CMI 2006, p. 20

Radio's Economic Performance – Language

83. While the data up to and including preliminary figures for 2005 indicate that the split of radio revenues by language has remained constant over time, French-language stations appear to be receiving a lower share of revenue than would be expected, based on population.[20]

Figure 20

Private radio revenue shares, by language, Canada, 1995 and 2005:

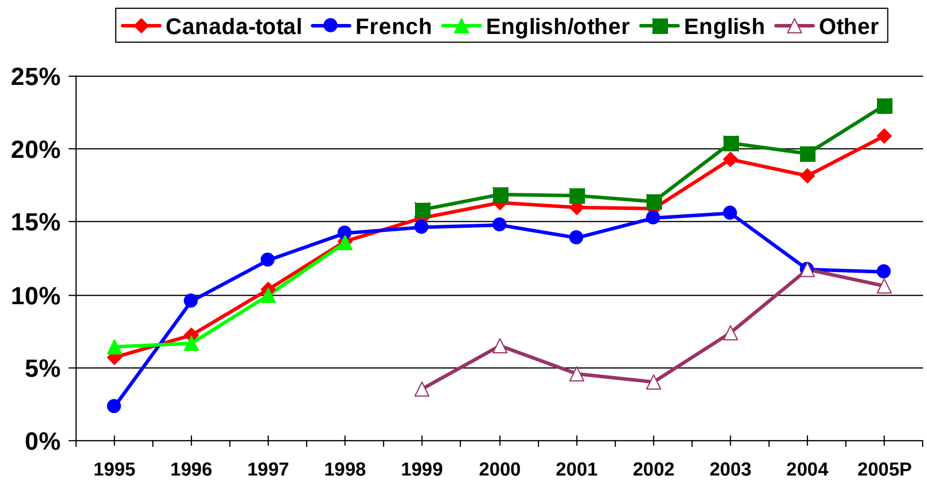


84. The profitability of French-language radio stations is now tracking lower than that of English-language stations, reaching 11.6 percent compared with 23 percent for English-language stations in 2005.[21]

[20] CMI 2006, p. 13, 16; Osborne 2006, p. 30
[21] CMI 2006, pp. 15-16

Figure 21

PBIT as % of total revenue, private radio, Canada, by language, 1995-2005:



85. This is even more true of small market French-language stations (which comprise about 60 percent of all French-language stations), where profitability (at 6.4 percent PBIT in 2004) tracks well behind that of English/Other small market stations (at 13.8 percent PBIT in 2004).[22]

86. Additional discussion of the French-language commercial radio market is presented in Part III of our submission.

Impacts on Radio's Economic Performance

87. Outlining radio's current and prospective economic performance raises a number of considerations concerning those factors that most prominently impact the radio industry's bottom line. These include the impact of (i) consolidation, (ii) radio's advertising model, (iii) copyright fees and (iv) new technologies and new services.

The Impact of Consolidation

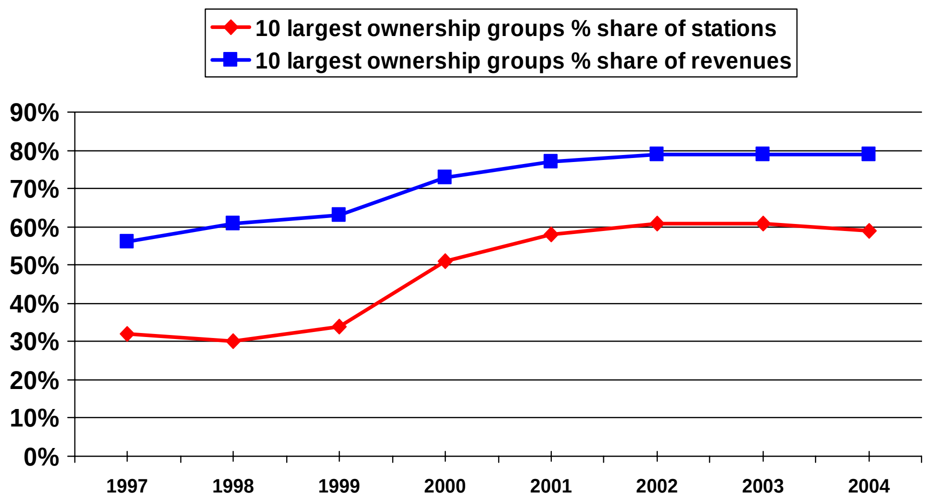
88. As noted above, improvements in radio's profitability were underway prior to the Commission's 1998 *Commercial Radio Policy* that introduced the *Multiple Licence Ownership (MLO) Policy* to the industry. As a result of the *MLO Policy* permitting radio groups to own

[22] CMI 2006a, *Radio Economic Trends by Market Size 1995-2004*

more stations in single markets, a period of consolidation took place in the industry between 1999 and 2002 but appears to have leveled off since then.[23]

Figure 22

Consolidation in Canadian private radio increased from 1999 to 2002, but appears to have leveled since 2002:



89. Radio's recent profitability has been generally linked to this period of consolidation in the industry. However, there may be less of a correlation with consolidated ownership than might have been expected. The data presented in Figure 22 below compares PBIT levels with the percentage of stations owned by the 'Top 10' ownership groups in a range of market sizes.[24]

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23 CMI 2006, p. 21

24 CMI 2006, p. 22; 'Top 10' ownership groups are defined by the Commission; see *Broadcasting Policy Monitoring Report 2005* CRTC, www.crtc.gc.ca

Figure 23

Is there a relationship between consolidated ownership and PBIT?

Market group	% of stations in market group owned by top 10 owners, 2004	PBIT as % of revenue, 2004
500K+	70%	21.3%
250K-500K	71%	18.2%
100K-250K	67%	13.1%
Under 100K	50%	12.9%

NOTE: The percentage of stations owned by one of the "top 10" owners is used as an indicator of the degree to which that form of industry organization is present in the market group.

90. To interpret the data presented above, 70 percent of stations in the largest market size (500K+) are owned by the Top 10 radio groups. The Top 10 ownership groups also own 71 percent of stations in the 250K – 500K market size; 67 percent of stations in the 100K – 250K market size; and 50 percent of stations in the under 100K (small market) size.

91. The PBIT data presented does not directly track with consolidation, but does trend directly with market size; as noted above, the smaller the market, the lower the profitability.

92. Given the PBIT trends in the period prior to consolidation and current consolidation data, profitability in the radio industry is much more likely related to (i) business cycles, (ii) retail sales, and (iii) market size. There is also evidence that radio broadcasters have contributed to industry profitability by effectively managing revenues and expenses.

The Impact of Radio's Advertising Model

93. The impact of radio's applied advertising model on the economic performance of the industry is decidedly mixed.

94. On the one hand, radio advertising revenues have held up in competition with other traditional media, especially with respect to television. However, television is viewed by advertising specialists as declining in its effectiveness as an advertising medium, for several reasons that include (i) increasing costs to advertise on television, (ii) increasing audience

fragmentation due to expansion of television services and (iii) technologies enabling consumers to avoid commercials.[25]

95. However, perceived limitations or weaknesses of television as an advertising vehicle have not translated into an automatic advertising boon for radio.

96. On the contrary, advertising decision-makers and specialists tend to be less supportive of radio as a primary advertising medium, viewing radio as less effective than other media at branding products (while television is viewed as powerful branding tool, notwithstanding the above noted issues). This is due in part to the carry over of negative perceptions of radio held by the advertising industry in the U.S.; Canadian subsidiaries of advertising companies tend to carry the same attitudes about radio as their counterparts.

97. At the same time, media agency planners do not tend to hold radio in high regard as an advertising medium, and may not recommend a radio buy to a client. The perceived 'secondary' position of radio as an effective or desirable vehicle for advertising is exacerbated by the perception that radio ads suffer from low creativity and/or can be difficult to write although inexpensive to produce.[26]

98. Consequently, the radio segment of advertising spending tends to run the greatest risk of being dropped when advertising budgets are slashed. These perspectives function in turn as inhibitors to radio's revenue growth.[27]

99. In addition, media planners agree that radio ad budgets (for national advertising) are being more heavily concentrated in large markets at the expense of small markets. Local advertising in small markets appears to be offsetting this trend, for now. Spending by advertisers tends to be fixed in small markets, so rate increases do not help small market radio stations to drive revenue.[28]

100. Finally, too many licences in a given market can cause media buyers to negotiate advertising rates downward, in order to offset smaller more fragmented audiences.[29] While the issue of overlicensing is discussed in greater detail later in our submission, there is a general concern in the industry about the impact that overlicensing has on the bottom line of radio stations.

[25] Osborne 2006, p. 13
[26] Osborne 2006, pp. 15-17
[27] Osborne 2006, p. 4, 22
[28] Osborne 2006, pp. 31-32
[29] Osborne 2006, p. 33

The Impact of Copyright Fees

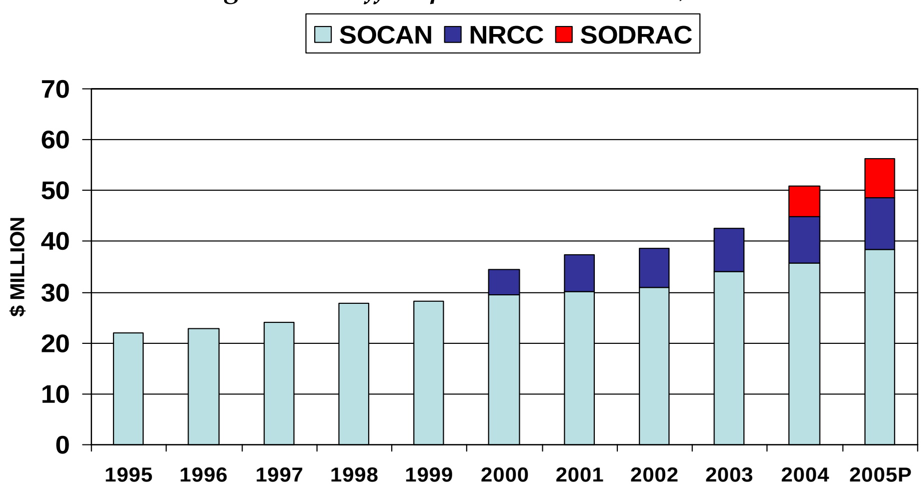
101. The radio industry currently faces considerable uncertainty in its economic outlook as a result of the prospective nature and level of copyright payments in the years ahead. In recent years, much higher than anticipated copyright obligations have presented a major expenditure to the commercial radio industry; using the rates applied by the Copyright Board of Canada prior to its October 2005 SOCAN/NRCC Tariff 1.A decision, total payments would have more than doubled from under $25 million in 1995 to more than $55 million in 2005.[30]

102. But, when applying the rates of the Board's October 2005 decision, total payments would have *more than tripled* in the 1995 to 2005 timeframe, to almost $70 million.

Figure 24

Growth of copyright fees paid by private radio, Canada, 1995-2005:

(Using rates in effect prior to October 14, 2005)

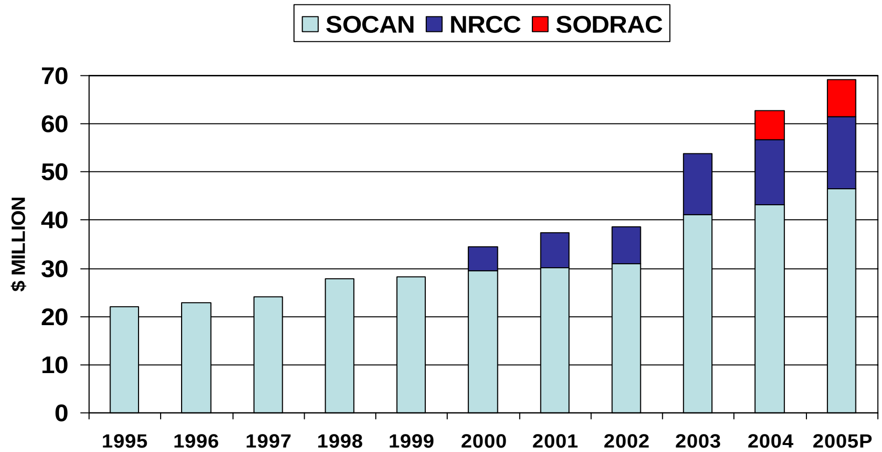


[30] CMI, 2006, p. 27-28

Figure 25

Growth of copyright fees paid by private radio, Canada, 1995-2005:

(Using rates in Copyright Board decision of October 14, 2005)

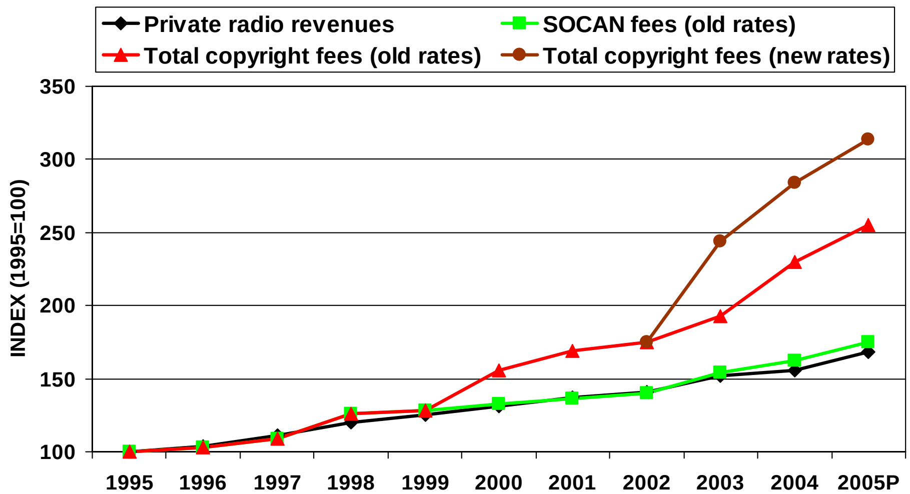


103. Increases in copyright fees also track at a rate of growth far higher than radio revenues or other expenditures.[31]

[31] CMI 2006, p. 28

Figure 26

Growth of private radio revenues, SOCAN fees, and total copyright fees, 1995-2005, Index basis (1995=100):



The Impact of New Technologies and New Services

104. As noted above, the radio industry exists within and must compete with the effects of an increasingly fragmented media universe. While the short term impacts of the parallel system of new audio services such as the Internet, cell phone and satellite/subscription radio may be modest, their combined effect may result in (i) a reduction in tuning levels among listeners, followed by (ii) loss of revenue once certain thresholds are met.

105. It is important to note that estimating the impact of any competitive services going forward is highly dependent on the assumptions that are made. Taking into account a range of fragmenting factors, the combined impact of competitive services can be assessed on an order-of-magnitude basis by applying the following model.

106. Two estimates have been developed for the likely impact of new technologies on tuning levels to conventional radio – a 'low impact scenario' and a 'high impact scenario', with underlying assumptions noted in Figure 27 below:[32]

[32] CMI 2006, p. 31

Figure 27

Assumed annual percentage change in tuning levels, by location of tuning:	Low impact scenario	High impact scenario
Tuning at home	-0.5%	-1.0%
Tuning in vehicles	-2.0%	-3.0%
Tuning at work	-1.0%	-2.0%
Tuning in all other locations	-0.5%	-1.0%

107. Please note that these assumptions are compounded over a 10 year period. Based on those assumptions for tuning by location, the resulting impacts on overall tuning levels are indicated below, for each of the two scenarios. The estimated decline in overall tuning levels, expressed as a percentage reduction in the tuning levels that would otherwise have been achieved is as follows:

Figure 28

Year	1	2	3	4	5	6	7	8	9	10
	2006	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
Low impact	-1.0	-2.0	-3.0	-4.0	-4.9	-5.9	-6.8	-7.7	-8.7	-9.6
High impact	-1.8	-3.5	-5.2	-6.8	-8.5	-10.1	-11.6	-13.1	-14.6	-16.1

108. This model relates estimated declines in total hours tuned to estimated declines in advertising revenues. Based on this model, revenue impact lags tuning impact in the short term, at

relatively low levels of tuning impact, but then begins to approach the same levels at higher levels of tuning impact.

109. To illustrate, Figures 27 and 28 above highlight two points in time of this new competitive environment, Year 5 and Year 10. The relationship between tuning and revenue is estimated as follows:

110. With respect to the 'low impact scenario' in Year 5 above, a 4.9 percent reduction in overall tuning would lead to a 1 percent reduction in ad revenues. In Year 10 above, a 9.6 reduction in overall tuning would lead to a 4.8 percent reduction in ad revenues.

111. With respect to the 'high impact scenario' in Year 5 above, an 8.5 percent reduction in overall tuning would lead to a 3 percent reduction in ad revenue. In Year 10 above, a 16.1 percent reduction in overall tuning would lead to a 14.5 reduction in ad revenues.[33]

112. In other words, competitive and fragmenting services will become robust enough over time to attract advertising revenue. Private radio – faced with more competition and fewer listeners – will be unable to override the decline in overall tuning through price increases.

113. To further estimate the revenue impact of new competitive services over the next decade, we can apply the above metrics to the actual data for radio advertising revenues in 2005. The question is, 'If 2005 had been either Year 5 or Year 10 in one of the above impact scenarios, what impact would that have had on advertising revenues?'

114. In the **low impact scenario**:

- If 2005 had been **Year 5** in the low impact scenario, radio ad revenues would have been **$13 million less** than they actually were.

- If 2005 had been **Year 10** in the low impact scenario, radio ad revenues would have been **$62.4 million less** than they actually were.

115. In the **high impact scenario**:

- If 2005 had been **Year 5** in the high impact scenario, radio ad revenues would have been **$39 million less** than they actually were.

- If 2005 had been **Year 10** in the high impact scenario, radio ad revenues would have been **$188.5 million less** than they actually were.

116. The estimated results as outlined above are illustrated in Figures 29 and 30 below.[34]

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[33] CMI 2006, p. 31-32

Figure 29

Estimated impact if Year 5 or Year 10 of "low impact scenario" had been in 2005:

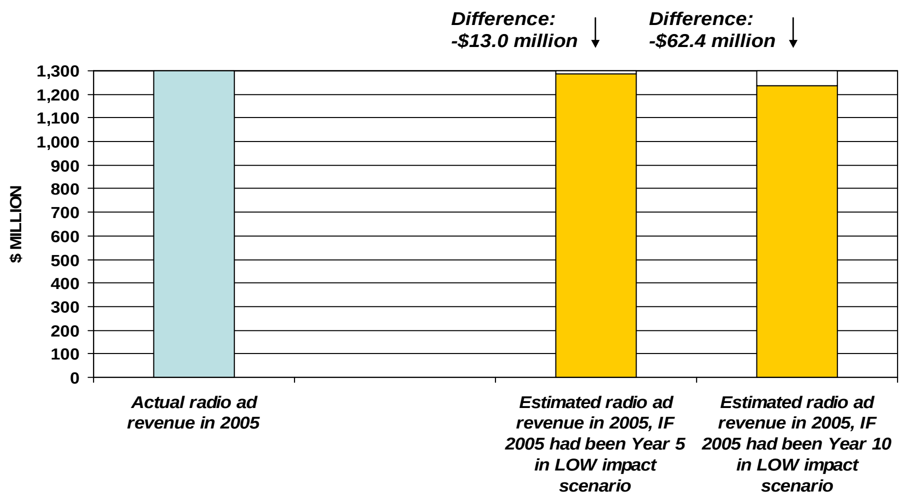
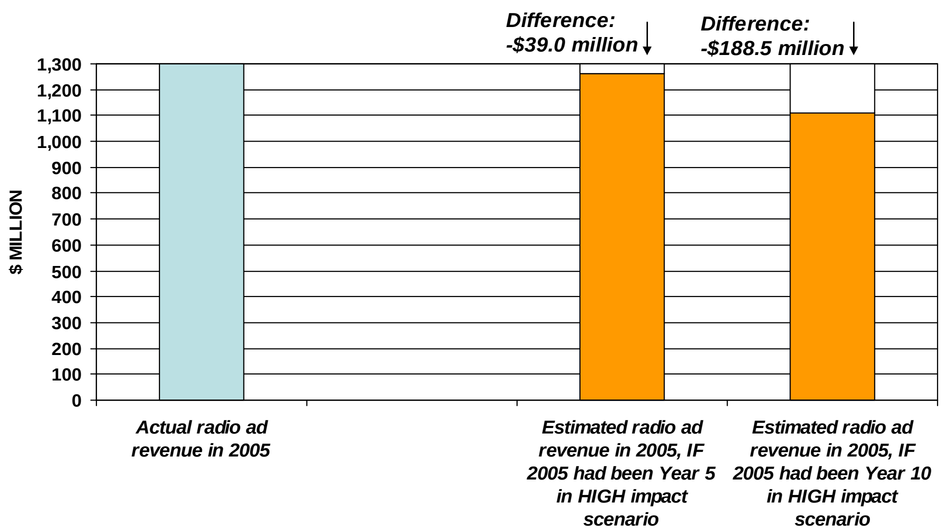


Figure 30

Estimated impact if Year 5 or Year 10 of "high impact scenario" had been in 2005:



[34] CMI 2006, p. 32-34

117. As noted earlier in our submission, the impact of competitive audio services on radio revenues would not be felt equally across the system. Given the source and target markets of new services that are fragmenting audiences, it is likely that their impact will be felt more strongly in English-language private radio services.

118. Small markets would also experience the impact more acutely, for several reasons:

- Fragmenting services will offer greater choice than is economically possible in smaller markets;

- Fragmenting services will add many more available audio networks to smaller markets, reducing the effectiveness of 'networked programming' as a way of containing costs; and

- To the extent that more local programming is seen as a response by radio, this will add to program costs for small market stations.

119. A number of factors could alter the above assumptions, the resulting impact estimates and their timing.

- While music channels on satellite radio services are currently commercial-free, limited commercials may be introduced once higher subscriber levels are reached;
- It remains to be seen how the rollout of digital radio will proceed and progress; new services will have the potential to create 'digital confusion' in the minds of consumers.

- New non-local services may seek to add local programming components in the future.

Summary – Radio's Economic Performance

120. The radio industry's economic outlook can be characterized as *uncertain*, for a number of reasons.

121. First, pressure on radio's profitability will increase and margins will decline as new competitive platforms operating in a largely unregulated, parallel system take hold in the market and draw listeners away. While the impact will be non-linear, radio's ability to compensate for tuning losses to competitive services will eventually be compromised.

122. Second, the radio industry's profitability is more a function of business cycles, growth in GDP and market size than a function of consolidated ownership. Given the cyclical nature of the industry, there is no reason that a downturn will not take place in the near future.

123. Third, the level and nature of copyright payments is not clear going forward. The radio industry has experienced a considerable spike in copyright payments in recent years, resulting

in higher than anticipated expenditures that could continue to rise, resulting in an increased burden on the industry.

C – The New Economy of Radio

124. As noted in the introduction to our submission, radio has historically operated on the basis of certain incontrovertible regulatory assumptions, including the central tenet of regulation that entry into the radio marketplace was always carefully controlled, limited and protected.

125. Given limited spectrum and content commitments required by broadcasters, private radio broadcasters built their businesses on a broad set of regulatory realities.

126. But with major advances in technology that have substantially broadened available audio content offerings, the very assumptions upon which broadcasters built their businesses have been called into serious question. This is because radio competitive landscape is now comprised of many more players who have largely bypassed the regulatory system upon which private radio was built. As a result, the marketplace is no longer controlled as it once was, and radio is facing much greater and unregulated competition from those new entrants.

127. These include services driven by the Internet – wired and wireless – such as legal and illegal music downloading, as well as services that reside on new consumer-oriented platforms for content such as iPods, cell phones and other personal media devices that making major inroads to the marketplace.

128. And while not completely unregulated, satellite/subscription radio services do operate within a very different regulatory space while directly competing for radio listeners.

129. We are clearly finished with the *old economy* of radio, that system of services built on regulation and controlled market entry, having shifted to the *new economy* of radio where radio now competes with a vast and ever-growing continuum of media and entertainment services, whether traditional local media or the newest in audio content creation.

130. It is worth repeating that the dynamics of radio's new economy bear extremely important competitive implications for the private radio business, and for the on-going ability of radio to successfully fulfill its core mandate of service to listeners. The new economy of radio is radio's new reality, and the commercial radio industry requires a balanced policy framework that effectively enables as strengthening of the industry as it continues to fulfill its mandate within the broadcasting system and to attract listeners to its programming services.

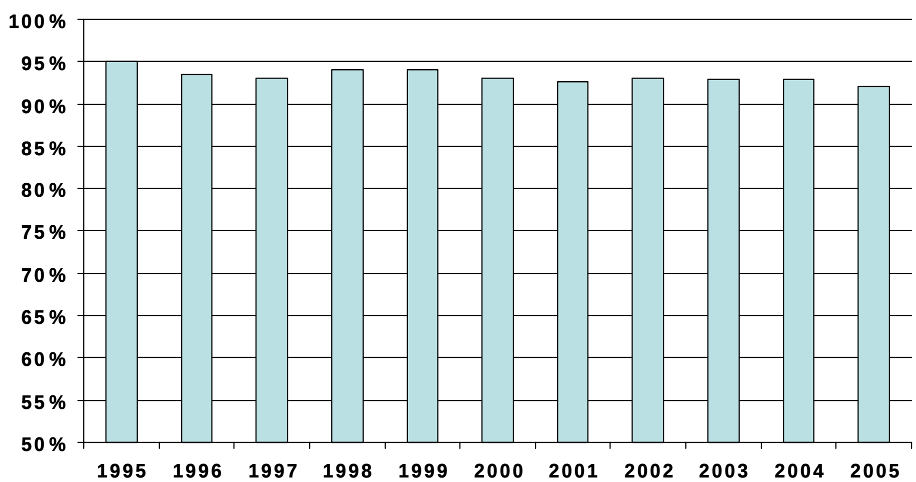
The Radio Audience

131. It is helpful to understand and assess the new economy of radio – radio's new reality – by first establishing the context in which these developments are taking place. Of primary importance is examining the current audience for radio: who listens to radio, who does not listen to radio, and why. Understanding radio's economics and radio's audience enable a more precise understanding of the impact that the new economy of radio will have on conventional radio broadcasters.

132. It is clear that, over the past decade the percentage of Canadians listening to the radio has declined overall. In addition, the decline is particularly acute among the 12 to 17 age group.[35]

Figure 31

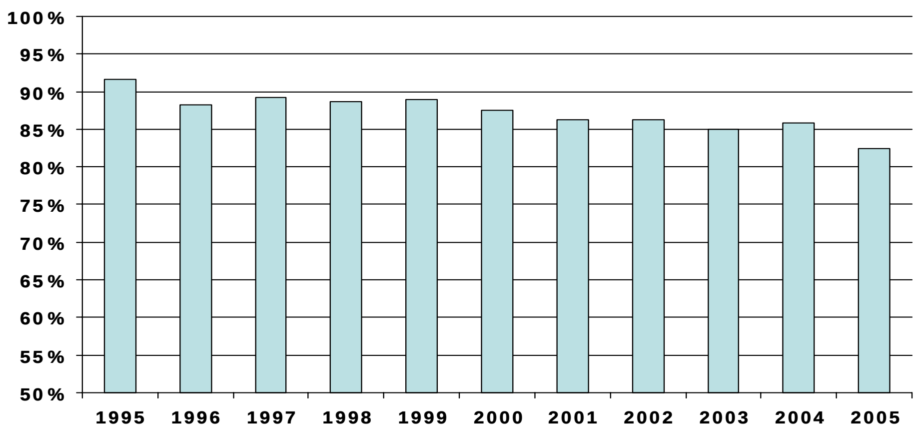
% of potential audience tuning to radio, Canada, 1995-2005 – all persons 12+:



35 BBM, Statistics Canada

Figure 32

% of potential audience tuning to radio, Canada, 1995-2005 – teens 12-17:



133. The erosion of radio's younger audience has a number of profound implications for the future of the industry.

134. For example, advertising for the 12 – 17 age group has been largely abandoned by advertisers, media planners and broadcasters. Since there is little revenue available from teens, there is little financial rationale for developing and launching a programming strategy targeting teens.

135. It is generally agreed that teens have abandoned conventional radio in favour of other audio platforms, including peer-to-peer file sharing, music downloading and iPods (as illustrated in Figures 33 and 34 below)[36]. Satellite radio may also prove to be popular with teens. The key question this raises is whether today's teens can ever be repatriated to conventional radio.

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[36] CMI 2006, pp. 25-26, based on a report prepared for the Department of Canadian Heritage

Figure 33

Access to technologies that allow production/reproduction of CDs and DVDs, Canada, 2005, by selected age groups:

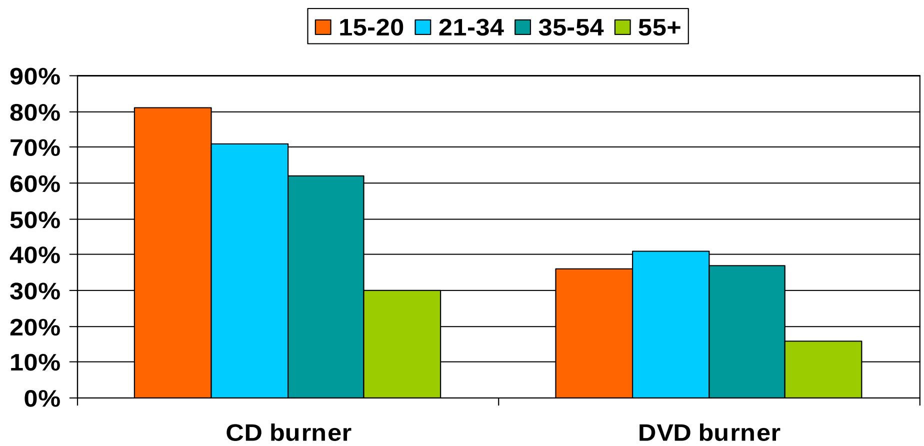
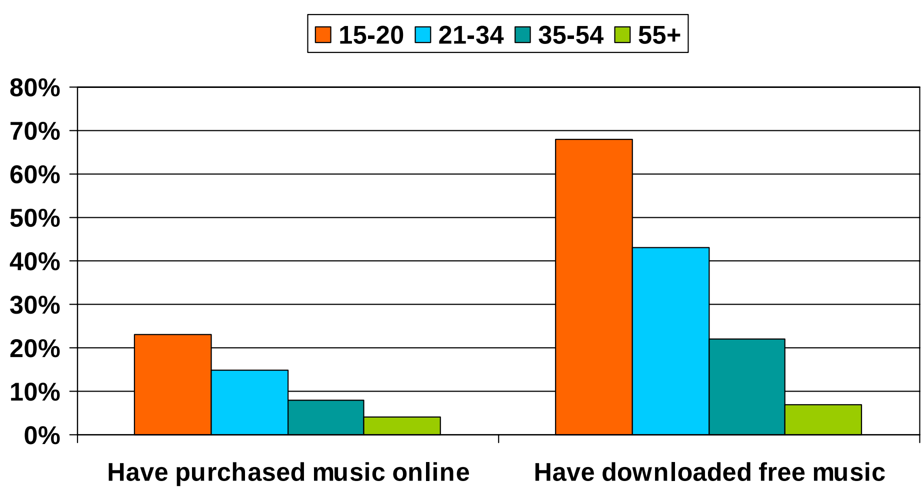


Figure 34

Purchasing and downloading free music from the Internet (in past year), Canada, 2005, by selected age groups:



136. While one school of thought suggests that today's teens will return to radio as adults, especially as a result of in-car tuning, another argues that a return to radio is unlikely once competitive audio choices are entrenched.[37]

New and Emerging Competitive Audio Platforms

137. As the above evidence on tuning and audio alternatives suggests, radio is no longer a stand alone audio-based media. Moreover, from the standpoint of competition, radio no longer competes with only other radio stations in their market for audience share and for advertising revenues. Radio now competes with that parallel system of audio platforms that have entered the market with little or no regulatory oversight, including wired and wireless Internet, cell phones and other personal devices capable of downloading music, iPods and satellite/subscription radio.

138. Moreover, the audio services borne out of this unregulated parallel system are providing much broader choice and control for consumers, who are no longer passive recipients of audio programming but increasingly capable of creating their own audio content.

139. Music downloading – both legal and illegal – has become a force as digital music services take root in the marketplace. Sales of legally downloaded music tracks have increased to over $1 billion (U.S.) in 2005 from $380 million (U.S.) in 2004, and consumers downloaded some 420 million single tracks in 2005 – some twenty times more than two years prior. At the same time, it is anticipated that digital music sales will continue to increase, driven by continuing growth in high-speed (wired and wireless) broadband Internet services, portable digital music devices and download capable cell phones. [38]

140. The Internet has also become a major vehicle for the promotion and marketing of music and consequently in the competition for listeners, with the rise of member-based social networking services such as MySpace and TagWorld that target younger (16-34 year-old) listeners and provide tools for blogging and 'listening parties' for upcoming album releases that have increased membership worldwide.

141. As noted above, personal music devices and CD burners have made major inroads among Canadian consumers, with some 80 percent of 15 to 20 year olds able to access technology for creating their own music compilations – another indicator that consumers are deriving more control over content.

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[37] Osborne 2006, p. 30
[38] IFPI 2006 *Digital Music Report*, Internet

142. In addition, satellite/subscription radio services have just entered the Canadian marketplace and are actively promoting their advertising-free music services to draw listeners away from conventional radio.

143. While the list of new and largely unregulated entrants to the Canadian audio distribution marketplace seems to keep growing, the critical issue from the vantage point of private radio is the competitive impact this agglomeration of services will have on our industry going forward.

D – Local Programming

144. Private radio provides listeners with high levels of local programming, including news and information programming, with very little foreign and/or syndicated programming overall. According to recent research on private radio programming conducted and released by the Commission as part of the Radio Review, fully 89 percent of programming on surveyed AM and FM stations falls within the definition of local programming (either originates from the station or is produced specifically for broadcast by a station).

145. AM stations surveyed broadcast approximately 83 percent local programming, while FM stations surveyed broadcast nearly 93 percent local programming. Not surprisingly, AM stations surveyed broadcast more news and surveillance (weather and traffic) at 14.5 percent of local programming compared with 2.5 percent for FM stations surveyed.[39]

146. Locally produced programming remains a critical factor in our listeners' audio decision-making. For example, 78 percent of commercial radio listeners tune into a local radio station for news and information programming. A further 73 percent of Canadians rated the commercial radio stations they listen to as "excellent" or "good" in terms of the local news and information they provide.[40] As noted earlier in our submission, radio remains a critical link in the local information chain, in its ability to provide local news, weather and traffic to listeners in their cars, at home or at work.

147. It is further testimony to the continuing vitality of locally produced programming that the private radio sector's employment levels have remained stable or shown growth since 1998. In 2005, radio achieved its highest levels of employment in several years, increasing by approximately 7 percent over 2004 levels. More reliance on syndicated or network programming would likely have resulted in a more downward trend; the strength of radio's commitment to local programming is therefore an important factor in providing and maintaining employment in the sector.

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[39] CRTC 2006, *Local Programming* http://www.crtc.gc.ca/eng/publications/reports/music/local.htm
[40] Decima Research 2006 – unpublished survey conducted for CAB

148. As noted in Broadcast NPH 2006-1, concerns about the diversity of news voices in a more consolidated industry were raised during the 1997 *Commercial Radio Review* proceeding. Private radio takes great pride in the different formats, textures and sounds of its local stations, and strives to maintain distinct news and programming voices even in consolidated operations.

149. Consequently, we believe that industry consolidation has delivered benefits to the broadcasting system and to the status of local programming, and that consolidation has not brought about more syndicated or network programming.

150. While news programming on FM stations is measured at approximately 2.5 percent of programming overall, it is clear that listeners tune to FM stations for either music programming, particular programs and/or particular on-air talent. We do not believe that mandating minimum levels of news programming on FM radio would serve the needs of our listeners. Furthermore, the CAB submits that mandating any level of spoken word content would be a regressive approach to regulation.

151. As noted recently in an official response to the Standing Committee on Canadian Heritage from the Department of Canadian Heritage, 'Canadians have made it clear that local and regional content is important to them'.[41] The private radio industry also recognizes the inherent value of local programming and news programming for our listening audience, and intends to maintain its commitment to local communities with a continuing emphasis on locally produced content.

E – Market/Licensing Issues

152. In this part of our submission, we present background and discussion on a number of market and licensing issues raised in Notice of Public Hearing 2006-1. In our view, it is vital that the Commission develop policies in each of (i) multiple licensing and the market entry test, (ii) commercial low power FM radio/ community radio services and (iii) Local Sales Agreement (LSA) issues that will enable private radio at large to continue to strengthen its role and contribution within the Canadian broadcasting system.

153. Of particular concern is the manner in which these issues affect small market radios stations.

Small Market Radio

154. Small market radio – that is, private radio stations operating in markets with populations of 250,000 or less – is a critical part of Canada's broadcasting system. Over two-thirds of all private radio stations (369 in all) operate in small markets, from Deer Lake, Newfoundland

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[41] Department of Canadian Heritage 2005, *Reinforcing Cultural Sovereignty: Setting Priorities for the Canadian Broadcasting System* p. 10, Internet

to Fort St. John, British Columbia bringing local programming, information and entertainment to their local listeners.

155. As noted in our discussion of Radio and the Community above, small market radio stations are extremely active in their local communities and engaged in all manner of initiatives.

156. Although small market radio is a vital and vibrant part of our broadcasting system, these stations are highly vulnerable to shifts in the economy, competition from new and emerging audio distribution platforms, and competition from other categories of licensed radio such as commercial low power radio stations.

157. As noted in our discussion of Radio's Economic Performance above, economic performance in the private radio business is most strongly influenced by (i) business cycles and (ii) market size. It is very clear from the evidence presented that small market radio stations are far less profitable than any other market category. Based on the evidence, there is a very close proximity of economic performance between markets under 100,000 and those between 100,000 and 250,000. Given this, the CAB recommends that the definition of small markets for purposes of the *Commercial Radio Policy* and related policy frameworks should be those markets with a population of 250,000 or less.

158. French-language stations operating in small markets of less than 100,000 population fared much worse than French-language stations in large markets.[42] (Additional discussion on French-language radio markets can be found in Part III of our submission.)

159. Similarly, English-language stations in small markets also fared worse than English-language stations in large markets.[43]

160. Small market radio stations are particularly vulnerable to the impact of competition, whether that competition emanates from within their markets through newly licensed radio stations, out-of-market through new audio platforms within the parallel audio system such as satellite/subscription radio, or any other commercially available media. The average small market station simply does not have the same resources as larger market broadcasters might have to absorb the impact of competition.

161. The challenges experienced by small market radio will escalate over the next several years as new and emerging competitive audio distribution platforms become more widely available. In our view, 'one-size-fits-all' regulation is not conducive to the new economy of radio, and the special considerations required by small market radio operators can be in part fulfilled through regulatory flexibility that will enable them to compete on a more level playing field going forward.

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[42] CMI 2006a, *Radio Economic Trends by Market Size, 1995-2004, p. 34*

[43] CMI 2006a, p. 36

162. Specifically, we recommend that small market radio operators acquire flexibility in their:

- Regulatory reporting requirements;
- Licence renewal procedures;
- Local sales operations; and
- Transition to digital radio.

163. While regulatory flexibility will assist small market radio broadcasters in their day-to-day business operations, there are two other critical issues that are evident in challenged (and other) markets that require action from this proceeding: the presence of more commercially-oriented low power radio stations and, related to this, overlicensing in markets.

Low Power Radio

164. There are approximately 188 low power and very low power radio stations in operation in Canada, including a number of private community stations (21) and private commercial stations (15) operating in the English- or French languages. Per the Commission's *Policy Framework for Community-based Media* (PN CRTC 2002-61), licensing of low power radio stations should fulfill the following policy objectives, where these operation ensure:

- The contribution of an additional, diverse voice to the markets served;
- The presentation of programming that complements that of existing licensees in the market; and
- The fulfillment of demonstrated community needs.[44]

165. The Commission has also identified the criteria to be considered when determining those circumstances where a call for applications might potentially be triggered by a low power radio licence application:

- Whether or not low power frequencies are scarce in a market;
- Whether the original application is for a re-broadcaster of an existing station; and
- Whether the application seeks to change a station's operating class to one with protected status.

166. The Commission further acknowledges in its Low Power Policy that certain markets have scarce low power frequencies, including Vancouver/Victoria and the lower British Columbia mainland; Southern Ontario including the Greater Toronto Area; Greater Montreal and the surrounding area; and any other market where there are no more than three low power FM frequencies available.[45]

[44] Public Notice CRTC 2002-61, *Policy Framework for Community-based Media* (Appendix)
[45] PN CRTC 2002-61 (Appendix)

167. While the policy framework currently in place for low power radio places a priority on the principle of *complementary* services, the reality is that low power radio often represents another layer of *competition* for private radio broadcasters. The impact of low power FM in small markets can be severe, as frequencies may be less scarce and applications are more likely to offer commercial competition due to extensive coverage areas despite their low effective radiated power.

168. But commercial low power FM can also have significant impact in larger markets, given their potentially extensive coverage areas. For example, a low power FM previously operating in Thunder Bay, Ontario had coverage reaching some 80 percent of the population. Given this, low power FM stations can offer direct commercial competition well beyond that of any niche-oriented service.

169. In previous submissions to the Commission, the CAB has indicated a concern about applicants potentially using low power radio as an opportunity to enter the broadcasting system through "the back door", with few of the regulatory obligations carried by private commercial radio operators. Especially troubling are efforts by low power services to change their operating class to one of protected status merely through an application for a technical amendment – effectively, these are attempts to introduce full power commercial competition to markets without appropriate regulatory process.[46]

170. Low power FM stations must not be allowed to morph into full power protected competitors to commercial radio. In our view, *any* attempt by a low power radio station to acquire full power protected status must be treated by the Commission as a new application, subject to market entry criteria and call for application procedures.

171. In addition, low power radio stations should be subjected to the same content rules and regulations as those applying to full power radio stations, including local programming requirements. For example, niche-oriented services should be required to maintain their niche formats between 6:00 a.m. and 6:00 p.m. each broadcast day. These provisions would help to support the true, complementary role of low power radio in the broadcasting system. Similar provisions should apply to other niche-oriented radio services, such as ethnic radio and *radio-communautaire* in Quebec, in order to maintain their complementary role to full power commercial radio.

172. Beyond the potential presence of low power radio as a new, unnecessary layer of competition for private radio lies another critical issue: the potential of low power radio stations to contribute to *overlicensing* in markets.

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[46] Canadian Association of Broadcasters, Submission re *Call for Comments Public Notice CRTC 2001-19, Call for Comments, Review of Community Channel Policy and Low Power Radio Policy;* Submission re Public Notice CRTC 2001-129, *Proposed Policy Framework for Community-based media* www.cab-acr.ca

Overlicensing and the Need for a Modern Market Entry Test

173. By overlicensing, we refer to a situation where an excessive number of radio licences work to limit true diversity of voice in a market, and increases pressure on (especially, but not exclusively) small market radio stations by escalating the competition for a limited pool of revenues. This can also occur through the licensing of commercial and non-commercial low power radio stations that undertake various fundraising initiatives and other activities to generate operating revenue.

174. Clearly, small market radio is the most vulnerable to overlicensing and its negative impacts, given their more sensitive business environments. Radio broadcasters are also increasingly concerned about overlicensing that is occurring or has the potential to take place in many other markets.

175. As noted in Notice of Public Hearing 2006-1, paragraph 125, "The large number of calls for radio applications issued since July 1999 and specifically the competitive processes resulting from these calls, has contributed significantly to delays in the consideration of licence applications."

176. Beyond our concern over delays in the licensing process, private radio broadcasters believe that there have been too many licences issued by the Commission over the past several years, leading to a crowding effect that has spread revenues too thinly and rendered diversity of voice too difficult to achieve.

177. The evidence indicates that major increases in FM licences across Canada between 1999 and 2004 are having a major impact on private radio revenues and profitability.

178. Between 1999 and 2004, the number of FM stations licensed to operate across Canada increased by more than 50 percent, from 237 in 1999 to 363 in 2004. The increase was even higher for English-language stations, with an increase of 60 percent (from 172 in 1999 to 279 in 2004).

179. This licensing trend has had a clear financial impact on private radio. Average per unit revenues of all FM stations (over the 1999 to 2004 period) is 5 percent lower than it was in 1999. Average per unit PBIT is more than 6 percent lower than in 1999. Specifically, average per unit PBIT was consistently lower than the average per unit PBIT for 1999 for four years between 2001 and 2004.

Commercial Private Radio Financial Analysis 1998-2004: FM Radio Stations (Average Per Unit Performance)

All Language Radio Stations

	1998	1999	2000	2001	2002	2003	2004	Avg. '99-'04	% of Growth Avg.'99-'04
Number of Units	222	***237***	257	293	319	331	363	300	39.8 %
Total Revenues	2,751	***2,798***	**2,764**	**2,604**	**2,527**	**2,671**	**2,545**	**2,652**	**(-5.2 %)**
Total Expenses	2,058	***2,024***	1,978	1,878	1,835	1,899	1,857	1,912	(-5.5 %)
Total expenses as % of revenues	74.8%	***72.3%***	71.6%	72.1 %	72.6%	71.1%	73.0%	72.1 %	(-2.8 %)
Prog. Expenses	650	***654***	658	613	594	620	602	624	(-4.6 %)
Prog. Expenses as a % of revenues	23.6%	***23.4%***	23.8%	23.5%	23.5%	23.2%	23.6%	23.5%	0.4 %
PBIT	620	***702***	708	**642**	**612**	**687**	**607**	**660**	**(-6.0 %)**
PBIT Margin	22.5%	***25.1%***	25.6%	24.6%	24.2%	25.7%	23.8%	24.9%	(-0.8 %)

Sources: CRTC, Commercial Radio, Statistical and financial reports, 1998-2002, 1999-2003 and 2000-2004, calculations by CAB

180. For English-language radio stations, the average revenue per unit (1999-2004) is 8 percent lower than in 1999; that is, revenues per unit averaged $2.8 million between 1999 and 2004, compared to more than $3 million in 1999.[47] Average per unit PBIT is close to 8 percent lower than in 1999.

181. Moreover, the same can be said for English FM radio stations between 2001 and 2004, that is that the average per unit PBIT was consistently lower than the average per unit PBIT for 1999 from 2001 to 2004.

[47] CMI 2006a, *Radio Economic Trends by Market Size* p.10

Commercial Private Radio Financial Analysis 1998-2004: FM Radio Stations (Average per Unit Performance)

English-Language Radio Stations

	1998	1999	2000	2001	2002	2003	2004	Avg. '99-'04	% of Growth Avg.'99-'04
Number of Units	167*	***172***	190	221	243	256	279	227	32.0 %
Total Revenues	2,929*	***3,044***	**2,965**	**2,747**	**2,641**	**2,740**	**2,655**	**2,799**	(-8.0 %)
Total Expenses	2,161*	***2,158***	2,068	1,928	1,870	1,895	1,883	1,967	(-8.8 %)
Total expenses as % of revenues	73.8%*	***71.2 %***	69.7%	70.1%	70.8%	69.2%	70.9%	70.3%	(-1.3 %)
Prog. Expenses	673*	***682***	666	600	590	611	603	625	(-8.4 %)
Prog. Expenses as a % of revenues	23.0%*	***22.5%***	22.5%	21.8%	22.3%	22.3%	22.7%	22.3%	(-0.8 %)
PBIT	688*	***809***	810	**734**	**684**	**755**	**689**	**747**	**(-7.7 %)**
PBIT Margin	23.5%*	***26.2%***	27.3%	26.8%	**25.9%**	27.6%	**26.0%**	26.7%	1.9 %

Sources: CRTC, Commercial Radio, Statistical and financial reports, 1998-2002, 1999-2003 and 2000-2004
** Note: Up until 1998, financial results for ethnic and aboriginal radio stations were combined with those of English-language radio stations.*

182. In the radio industry as a whole, we believe there should be stricter guidelines on market entry by all forms of radio, in order to prevent overlicensing. Therefore, with respect to the Commission's licensing policy within a new framework for *Commercial Radio Policy*, we are calling on the Commission to introduce a *Market Entry Test* in a manner that fully addresses the modern realities of private radio's current business environment. In doing so, we believe the Commission will be establishing policy provisions in support of a central public policy objective: to promote a financially sound commercial radio sector.

183. Following its most recent review of *Commercial Radio Policy* in 1998, the Commission decided it would no longer apply the original *Radio Market Policy* set out in Public Notice CRTC 1991-74. This was largely due to "…the new common ownership policy (that) should allow

existing radio station owners to improve their existing financial situation and their ability to compete effectively with new entrants." [48]

184. The *Radio Market Policy* had previously focused on a market's ability to sustain a new radio station in a manner that would still enable existing commercial AM and FM stations to "discharge their programming responsibilities", while applying specific financial tests to individual markets that included analysis of (i) group profitability, (ii) individual profitability and (iii) revenue growth in that market over a five-year period. The Commission also undertook independent market studies to determine the capacity of specific markets to support additional radio stations.[49]

185. In no longer applying the *Radio Market Policy*, the Commission recognized the usefulness of market information for potential applicants, and stated its intention to make aggregate information on medium and large markets available on an annual basis.

186. We believe the Commission should in fact begin the process of making aggregate information on small, medium and large markets available to private radio each year in order to provide the benchmarking required to determine market stability, trending and overall health.

187. Given our concerns about overlicensing and the need for a more formal and organized licensing process, the introduction of a *Market Entry Test* will ensure the implementation of checks and balances on licensing through fixed tests measuring individual markets over specific periods of time.

188. This is especially critical at this juncture, as an improved licensing process – including the licensing of low power radio applications – will better enable private radio to compete with new and emerging audio distribution services in various markets.

189. As for the specifics of a new *Market Entry Test*, the CAB recommends the following provisions:

- The Commission should release aggregate data on small, medium and large markets on an annual basis, to provide the industry with current and meaningful data on individual radio market health.

- Where small market tests of profitability can be problematic for reasons of confidentiality, the Commission and the private radio industry should work together to determine a market entry testing procedure suitable for small markets.

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[48] Public Notice CRTC 1998-41, *Commercial Radio Policy*, paragraphs 77-78.
[49] Public Notice CRTC 1991-74, *Radio Market Policy*

- Profitability trends through measures of PBIT should be identified within individual markets. While measures of profitability covered five-year periods under the original *Radio Market Policy*, the new *Market Entry Test* should track profitability over a three-year period.

- The Commission should carry out the required work to provide the commercial radio industry with profitability measures in medium and large markets for the 2002-2005 period as soon as possible and provide this aggregate data to the private radio industry.

- Following the issuing of a licence or licences in any given market, there should be a formalized three-year pause in licensing in that market.

Single Station Owner in Markets

190. A single station owner in a market faces the same types of growing competitive pressures as operators in other markets, from new audio distribution services as well as from other forms of traditional media.

191. The CAB encourages the Commission to systematically apply its current policy that any new application from the incumbent single owner to add a second or third station should not trigger a call for applications. This provision will afford a single owner in a market an opportunity to grow while bringing additional diversity of voice to the system, and enable these stations to compete more effectively with new, unregulated services.

Independent Radio

192. Independent radio is a vital component of the Canadian radio broadcasting system that brings additional diversity of voice to many markets – large and small – across Canada. Consequently, the CAB believes that the Commission should be open to consideration of any regulatory measures that might serve to strengthen the position of independent radio stations in their respective markets.

193. The CAB believes that the Commission's current policy with respect to a single owner in a market – that any new application from an incumbent single owner to add a second or third station should not trigger a call for applications – will potentially benefit many independent stations that are operating in non-competitive markets as well.

Local Sales Agreements

194. As noted throughout our submission, the CAB is extremely concerned about the growth of new, unregulated audio distribution services and the impact these services will have on licensed commercial radio services.

195. At the same time, the CAB notes that private radio stations compete widely in the marketplace for advertising revenues, with all forms of other media including newspapers and television. The additional layer of new, unregulated audio services means that radio's competitive landscape is growing in size, scope and impact.

196. Moreover, radio's more traditional competition – newspapers and television – tend to present their competitive strength from their own consolidated positioning in the marketplace. This contrasts to the competitive positioning of radio, which is much more fragmented.

197. Given these competitive factors confronting commercial radio, the CAB supports the on-going availability of Local Sales Agreements between licensees of radio stations serving the same market, upon the Commission's approval of applications by licensees to enter into an LSA.

198. The CAB has noted the Commission's concerns respecting competitive advantage, diversity of news voices and diversity of programming within markets where LSAs may become present.[50] We again emphasize that the purpose of LSAs from the vantage point of commercial radio, is to improve the ability of certain radio stations to compete with other media, including the growing presence of new, unregulated audio distribution services.

199. Private radio therefore commits to the Commission that in markets where LSAs are approved, participant stations will:
- Apply the LSA for purposes of local advertising sales only;
- Maintain distinct and separate programming services;
- Maintain distinct and separate news voices; and
- Will otherwise maintain distinct station operations.

Infomercials

200. The CAB notes that the Commission has posed the question of whether a new policy regarding the use of infomercials on radio is required.

201. The CAB submits that no formal policy is required with respect to the nature, length or content of radio infomercials, and that as per current practice, radio broadcasters should be afforded maximum flexibility with respect to radio infomercials. The CAB agrees that radio infomercials should be identified with a prominent announcement that the programming in question constitutes paid commercial programming.

[50] Public Notice CRTC 2005-10, *The Commission's Policy on Local Management Agreements (LMAs)*

F – Cultural Diversity

202. Private radio is very proud of its activities and initiatives respecting diversity, including those focused on ethnocultural groups, Aboriginal peoples and persons with disabilities. Many private radio operators, at both the station and corporate levels, have brought forward innovative approaches to engaging diversity in the workplace and on the air. Those private radio stations and corporate groups that fall within existing Employment Equity legislation are in full compliance with those laws and regulations.

203. But the private radio industry believes that it can do more in advancing diversity in the workplace and on the air. Through this proceeding, private radio will put forward a comprehensive approach that will serve to better represent, reflect and portray the diversity of Canadian society.

204. The section of our submission therefore presents private radio's cultural diversity plan and identifies specific measures on how radio intends to address these concerns along the follow areas of approach:

- Corporate accountability
- On-air reflection
- Original/Produced Programming
- Acquired/Commissioned Programming
- Diverse Workforce
- Community/industry outreach
- Internal communication

The Business Case for Diversity on Radio

205. Changes to the demographics of Canada's population are at the root of the business case for diversity on radio.

206. In a major change from its predominantly Western European origins of a generation ago, Canada's diversity has grown dramatically. From the perspective of ethnic and cultural diversity, six million Canadians have a mother tongue other than English or French; the proportion of Canada's population born outside the country has reached its highest level in 70 years. The presence of visible minorities in the Canadian population is 13.4 percent, and at its present rate of growth is expected to reach as high as 23 percent by 2017.[51]

207. Canada's Aboriginal peoples (North American Indian groups, Métis and Inuit) now represent 1.06 million or 3.4 percent of the total population. The Aboriginal population is growing at a

[51] Statistics Canada, *The Daily* March 22, 2005

faster rate than the remainder of the Canadian population and is anticipated to reach over 1.4 million by 2017.[52]

208. Canada's diversity extends beyond ethnocultural diversity. The population of persons with disabilities is also growing; to the point where 3.6 million Canadians are now living with a disability – and 2.8 million more are caregivers to family members or friends with a disability, multiple disabilities or a long-term health condition.[53]

209. Many businesses within the Canadian economy – from financial institutions to high tech companies to private broadcasters – are keenly aware of these demographic realities, and recognize that major transformations in the population inevitably drives change in the economy as a whole. Consumer patterns of behaviour change, workforce compositions are altered and the base of human capital driving a knowledge-based economy broadens.

210. The business community is also aware that a more diverse customer base means they must change, adapt and create in order to stay competitive with the products and services they offer. In other words, within many of Canada's economic sectors there is a broad recognition that diversity can mean strong business opportunity and business success. Companies that do not recognize the relationship between growing diversity and business success run the risk of losing out on potentially lucrative markets.

211. The combined spending power of the Chinese, Portuguese and South Asian communities in the Greater Toronto Area – Canada's most diverse Census Metropolitan Area – is estimated to be in the order of $25 billion annually.[54]

212. The private broadcasting industry is very much aware of the opportunity and success that harnessing diversity can represent, having recently completed two comprehensive research and best practices initiatives on diversity in the Canadian television industry.[55]

213. For their part, commercial radio broadcasters have been engaged in a range of diversity initiatives on-air, behind the scenes and in the community. For example, Corus Entertainment has extended its corporate diversity plan to its radio division and has launched an Assistant Program Director training program to open this key position up to members of culturally diverse groups. The position serves as a stepping stone to more senior programming positions in radio, and the program will soon be extended to include news/talk stations.

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[52] Statistics Canada, *The Daily* June 28, 2005

[53] Social Development Canada: *2001 Participation and Activity Limitation Survey*; to be updated following the 2006 national census.

[54] *Canadian Business* March 29, 2004, Internet

[55] *Reflecting Canadians: Best Practices for Cultural Diversity in Private Television* Report of the Task Force for Cultural Diversity on Television July 2004; *The Presence, Portrayal and Participation of Persons with Disabilities in Television Programming* CAB, September 2005

214. CHUM Radio is developing programs that focus on recruiting talent by targeting ethnically diverse schools. At the same time, CHUM Radio Ottawa offers an eight-week internship for a person from a culturally diverse background in a partnership with Algonquin College. CHUM Radio has also hired a person with a disability as a radio producer.

215. In addition, a number of radio broadcasters have demonstrated leadership in the area of Aboriginal programming and recruitment/employment. For example, Rawlco Radio produces a number of programs focusing on aboriginal issues such as "Meeting Ground" a one hour weekly current affairs program which runs in Regina, Saskatoon, Prince Albert and Meadow Lake, Saskatchewan and is produced by aboriginal reporters and anchors.

216. "Cree Ways" is a weekly one hour program featuring aboriginal artists and musicians produced and broadcast by CJNB, North Battleford and "Seeds of Success" is a long running series on Rawlco Radio in Saskatchewan. Each vignette highlights the achievements of an aboriginal person in the province and is researched, written and produced by one of Rawlco's senior First Nations employees, Saskatoon Bureau Chief.

217. Standard Radio has also developed a number of initiatives aimed at advancing diversity in their programming and workforces including the development of a talent bank of announce staff from diverse backgrounds, and creation of scholarships aimed at members of the four designated groups. Of particular note, is Standard Radio's partnership with Indigenous Culture Media Innovations (ICMI), a non-profit organization based on Six Nations of the Grand River Territory, in the development of an Aboriginal Apprenticeship Program that involves a 6 week awareness and student recruitment campaign, a 16 week radio broadcasting course at Humber College and a 4 week internship at a Standard Radio station. Upon completion of the program, efforts are made to locate employment opportunities for those candidates who have successfully completed the program.

218. For its part, the CAB will be launching two new Gold Ribbon Award Radio categories this year: Aboriginal Programming and Diversity Programming. These awards, private broadcasting's most prestigious awards recognizing excellence in programming and promotions, will celebrate the work undertaken by CAB members in recognizing the special place of Aboriginal Peoples and cultural groups in our society.

219. There is a very strong business rationale that underlies the case for diversity on private radio; the creation more dynamic diverse programming and the development of diverse workforces can attract larger listening audiences, enhanced relationships with local communities and additional or new advertising revenue. Radio is also in a position to extend its support for Canadian Talent Development to more diversity initiatives at the community level (discussed in more detail in Part II of our submission).

220. For individual radio stations, building and pursuing a business case for diversity will be largely dependent on and driven by the level of diversity present with their local markets. With a wide variation across markets throughout Canada, individual radio companies and/or stations will need to determine those strategies that will best suit both business and community relevance.

221. This need for flexibility is reflected in the development of the Best Practices for Diversity in Private Radio, outlined below.

Best Practices for Diversity in Private Radio

222. The CAB's approach to diversity in private radio is based on the development and implementation of a wide range of best practices designed to improve private radio's representation, reflection and portrayal of ethnocultural groups, Aboriginal peoples and persons with disabilities.

223. With respect to programming, radio broadcasters are committed to achieving high standards for their broadcasts and were among the founding members of the Canadian Broadcast Standards Council (CBSC). As members of the CBSC, radio broadcasters adhere to a number of industry content codes relating to programming and advertising material and regularly review these codes to ensure they meet evolving community standards and expectations for programming.

224. For example, radio broadcasters have been active participants in the CAB's review of its industry content codes to ensure the fair and accurate portrayal of ethnocultural and Aboriginal groups and persons with disabilities. This process has resulted in a proposal to replace the CAB's current Sex-Role Portrayal Code with a new Portrayal Code to which all radio, television and specialty licensees would adhere. The implementation of this code will ensure radio licensees continue to offer programming that fairly and accurately reflects the audiences and communities in the markets they serve.

225. In addition to this work, there is recognition that radio stations must also have tools at their disposal that will enable them to assess progress on cultural diversity in their programming and within their stations. We will therefore develop a template for radio stations to use in order to annually assess their progress in advancing diversity within their station. This reporting template will allow the Commission to monitor radio's progress in advancing diversity while at the same time provide station operators with a flexible and streamlined reporting mechanism.

226. The template will be easy to use, and flexible in its design in order to account for the commercial realities and differences among stations, according to market, format, language, and other factors. Annual reports on radio's diversity initiatives will be filed with the

Commission. Private radio wishes to retain the flexibility of filing either on a per station basis or as corporate groups.

227. The template's design will also be flexible enough to capture differences between French- and English-language markets. That is, there is a far greater reliance on network programming in French-language radio than there is in English-language radio, so there is consequently less opportunity for stations to be programmed on an individual basis. This market reality would be reflected through the template itself.

228. Our proposed best practices for diversity in private radio and the above noted template are attached to our submission as Appendix D and Appendix E respectively.

G – The Digital Transition

229. The Commission has raised a number of issues relating to the development of policy provisions that will foster the commercial radio sector's successful 'transition to digital transmission'.

230. In this part of our submission, we address a number of key issues and provide a comprehensive set of recommendations that we believe will pave the way for the radio industry's long-term transition to digital delivery of its services.

231. We have also attached two Appendices concerning the digital transition to our submission: *General Observation and Comments on the Digital Transition* (Appendix F) and *Digital Audio Broadcasting around the World* (Appendix G) in order to provide the Commission with a broad international overview of Digital Radio Broadcasting.

Policy Considerations and Recommendations

232. The CAB is encouraged by the Commission's stated willingness to adopt policies and regulations that will foster the implementation of DRB services by AM and FM broadcasters.

233. First and foremost, we believe there is a need for a long term digital strategy in order to ensure that Canadians continue to receive radio services that will:

- Provide free of charge programming to anyone equipped with a suitable receiver;
- Deliver programming content that is national, regional and especially local in nature; and
- Reliably deliver programming content to fixed, portable and mobile receivers within their authorized service areas.

234. Consistent with past practice in Canada, those digital services that meet all three of the above criteria are commonly referred to as Digital Radio Broadcasting (DRB) services.[56] At the present time, there is considerable urgency to develop a comprehensive and long-term DRB delivery solution for Canada, for several reasons.

235. First, as noted earlier in our submission, the decline of conventional radio listening among younger audience threatens a permanent change of habits which will damage radio in the medium term.

236. Second, as noted throughout our submission, the new economy of radio represents the emergence of new delivery platforms that are capable of providing portable audio to consumers and cause significant, increased fragmentation among listening audiences.

237. Finally, new and unregulated audio distribution services are all offering digital convenience, choice and quality that analog commercial radio services cannot presently provide.

238. For all of these compelling reasons, a comprehensive digital response is required from commercial radio.

239. Commercial radio broadcasters have an obvious need to find ways of ensuring that they can retain existing listeners who develop a preference for obtaining their audio services through digital receiving devices. Moreover, the sheer number of 'niche' programming services now being produced and delivered by non-traditional means may necessarily push broadcasters to find ways of providing new programming content of their own.

240. All this suggests that conventional radio broadcasters will need to make significant new investments in both programming and digital delivery systems in order to remain competitive in the coming years. These necessary investments have the potential to affect the financial ability of licensees, especially in smaller markets, to meet their basic licensing commitments. Included among the elements that could be affected are local programming (especially news and information), Canadian Talent Development and other significant benefits that have long been associated with local radio broadcasting. While significant investments in digital technology and new programming may be required of radio broadcasters, their ability to earn additional revenues from these investments will be reduced in the early years because it will take some time for consumers to acquire the digital receivers and develop listening habits that can be marketed to advertisers.

241. ***We therefore recommend that in order to accomplish the successful transition of conventional AM/FM local services to DRB, and the introduction of competitive new***

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56 Broadcasters have now adopted this same terminology with respect to free, over-the-air digital radio services.

programming services available on DRB platforms, the Commission should only apply a light regulatory hand, adopting the principle of 'flexible regulation'.

242. This principle of 'flexible regulation' should be applied to the area of common station ownership.

243. Ownership concentration issues tend to become a public policy concern when a given media has acquired a meaningful ability to communicate directly with the general public in large numbers. This is not the case for DRB, which requires individual consumers to acquire new equipment before the service can even be accessed. It also is not the case for new programming services that only appeal to very small niche markets. Therefore, at least in the early years, neither the Commission nor the public should be concerned if a broadcaster were to operate several DRB programming services in a market where it is already licensed for the maximum permissible number of AM and FM services.

244. ***We therefore recommend that in the six largest markets (Montreal, Ottawa, Toronto, Calgary, Edmonton and Vancouver) where there is already considerable local AM/FM competition and where it can reasonably be expected that a number of local broadcasters would apply to implement new DRB services, the issue of common ownership should be set aside, at least in the first seven years of the digital roll-out. In smaller markets, DRB applicants should be asked to address whether sufficient spectrum is allocated to also allow other local broadcasters to offer multiple services at a later time.***

245. With respect to the content of new DRB programming services, it is clearly not necessary to discuss situations where the digital service is a 100 percent simulcast of a local AM or FM station. However, in cases where a new DRB service has been authorized that provides either partial or entirely new programming, there is an obvious question about the level of Canadian content that any music-based service should be required to carry. Again, taking a flexible regulatory approach would encourage programming innovation and provide broadcasters with an opportunity to experiment with formats not currently available on Canadian radio stations. As with the case of common ownership, any initial policy on content can always be adjusted in future years, depending upon the popularity of the service and the audience it actually achieves.

246. ***We therefore recommend that until DRB listening approaches a meaningful percent of all hours tuned in a given market, it would be premature to consider whether a specific percentage of Canadian music content on non-simulcast music-based DRB programming services should be established.***

247. If it can be concluded that a flexible regulatory regime is required in order to foster the development of new DRB services in Canada, then it is reasonable to expect that these

processes should be applied equally to any existing radio licensees authorized to provide such services.

248. ***We therefore recommend that identical regulatory measures and policies should apply to licensees of existing AM and FM stations who are authorized to operate new DRB facilities, as is the case with the existing policy.***

The Question of DAB as a Replacement Technology

249. As detailed above, experience world-wide has demonstrated that a DRB transition policy that provides little new programming has limited appeal to consumers. In the absence of a comprehensive national strategy for the replacement of all analog services with digital – enforced by strict regulations requiring consumers to buy new digital equipment or lose their services – large numbers of consumers cannot generally be convinced to purchase the necessary receivers.

250. Amending the 'replacement technology' policy would enable broadcasters to develop innovative program concepts that will encourage listeners to seek out these new DRB program sources, investing in new technology to do so. Providing new programs exclusively on DRB platforms will also foster partnerships between broadcasters (for content) and various communications carriers (for delivery) that will enable the sale of multi-use portable and mobile personal receiving devices (e.g. a cell phone that includes a DRB receiver).

251. ***We therefore recommend that the Commission's policy on DRB be amended to remove the requirement that it be considered primarily as a 'replacement technology' for existing AM/FM services.***

252. While new programming may be a primary driver for a future re-launch of DRB in Canada, a policy amendment permitting this to happen should not go so far as to prohibit simulcasting altogether. Licensees in smaller radio markets, or those providing ethnic, community and campus radio services, may not be able to move aggressively into the provision of entirely new DRB programming services. At the same time, larger stations may find that it is not cost-effective to program a DRB service 24/7 with all new content.

253. In addition, hybrid IBOC DRB is based on the principle that a major part of the station's digital multiplex will be used for 100 percent simulcast content. This ensures that listeners' receivers will not go completely silent when the digital portion of the signal fails.

254. It is also worth recalling that in the 1950's and 1960's when FM receiver penetration was low – and radio broadcasters who invested in this technology were viewed as 'courageous' – the federal regulator (Bureau of Broadcast Governors at the time) applied a light hand to this new delivery technology. Many AM stations initially simulcast their entire program schedule (both day and night) on their sister FM stations. In the 1960's, some stations began to

separately program peak-listening day-parts. Gradually, the amount of separate programming increased, partly due to pressure from regulators, but also because of the listening audience's growing demand for stereophonic programming.

255. All this suggests that a regulatory approach on simulcasting similar to that adopted in the early days of FM radio, should be seriously considered for those L-band DRB stations that have been licensed under the interim policy, as well as for any existing stations taking up DRB allotments over the next seven years.

256. ***We therefore recommend that the Commission continue to give existing AM/FM broadcasters preferred access to the L-Band allotments that have been set aside for them, but further include an increasing commitment to separate programming (e.g. separate programming in peak daytime listening periods, gradually evolving to full separate programming from 06:00-midnight).***

The Question of New Entrants

257. The recommendations stated above are based on the premise that to continue as viable businesses, existing AM/FM broadcasters must:

- Become aggressive about providing new DRB services that will compete with the ever-increasing competition from other unregulated digital audio sources; and

- Be granted flexible regulatory treatment in order to make it possible for the necessary capital and operating investments in DRB to be justified.

258. The CAB believes that existing AM/FM broadcasters are best equipped to move ahead with new DRB programming services because they can take considerable advantage of the economies of scale that are possible given the infrastructure that they already have in place. As noted above, internal cross-subsidization of FM services by profitable sister AM stations was the norm in the early days of FM radio. There is no reason to believe that the analog-to-digital transition will be any easier to finance or take any less time than was required for the industry-wide transition of predominance from AM to FM.

259. ***We therefore recommend that the Transitional Digital Radio Policy should permit the use of DRB by new entrants, but licensing preference should continue to be shown for the implementation of DRB by existing AM/FM licensees.***

260. The current DRB Allotment Plan was designed to accommodate the 'replacement technology' principle of the Commission's transitional licensing policy. Every AM and FM station was allocated a "slot" within the multiplex of an L-Band channel allotted to their market. Stations were nominally 'assigned' to specific classes of DRB channel, so as to ensure

that their digital coverage capabilities were consistent with the protected service area of the analog station. At least five programming services were expected to share the digital multiplex transmitted on a single DRB channel, using the Eureka/147 transmission standard which is based upon MPEG-2 source coding.

261. Under a new DRB policy that moves away from the 'replacement' principle, the question naturally arises about capacity in the L-Band allotment plan to accommodate both existing and new players.

262. For the most part, any scarcity of L-band DRB capacity that exists within the current allotment plan is confined to the major markets. Many of the channel allotments in smaller markets have a considerable spare capacity because they would only be partially used, even if every AM/FM station in the market were to implement an L-Band DRB service. Moreover, it is only in the area from Windsor, Ontario to the New Brunswick border where all 23 L-band DRB channels (the full 1452-1492 MHz) band have been allotted. Outside this area, allotments have only been made in Channels 1-18, leaving channels 19-23 virtually untapped.[57]

263. Even in larger markets such as Toronto, Montreal and Vancouver, a great deal of additional capacity can be tapped within the existing allotted channels by utilizing the digital multiplex in a much more efficient manner. The current CRTC policy requires that at least 5 programming services must share each DRB multiplex. This provides a very generous data rate for each service, approximating 256 kbits/sec. In the U.K., DRB channels carrying Eureka/147 signals are routinely programmed with many more than 5 audio services. It is therefore not inconceivable that as many as 12 services could actually be carried on each existing DRB multiplex, each using as data rate of 96 kbits/sec.[58]

264. The above noted efficiency improvements can be achieved without modifying the Eureka 147 standard. However, audio quality can be improved even more at these relatively low data rates by utilizing audio source coding that is more efficient that MPEG-2, such as Advanced Audio Coding (AAC). While such changes to the standard could obsolete the (very few) L-band receivers currently owned by Canadian consumers, it could serve as a method of adding even more programming streams to a single DRB channel. All this would assume that a

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[57] The Canada-US co-ordination agreement on the 1452-1492 MHz band provides protection to Canada's DRB services from US (non-broadcasting) services everywhere on Canadian soil on Channels 1-18. Channels 19-23 are protected only from Windsor ON to the QC/NB border. In practice, however, the probability of receiving interference to DRB from US services in Channels 19-23 is low.

[58] This is the standard DRB data throughput achieved in the FM band using hybrid HD Radio™ technology. This 96 kbit/sec multiplex is further subdivided when IBOC stations wish to provide additional "multicasting" programs on their digital transmitters.

technical change to the audio coding portions of the Eureka/147 standard would be implemented prior to any extensive DRB re-launch in Canada.[59]

265. In summary, we believe that the Commission should not be too concerned about any shortage of L-Band DRB capacity, even in the major markets. Compromises in the *quality* of the DRB audio that is delivered to DRB receivers can be implemented as a trade-off against the *quantity* of programming services that it is possible to transmit on each DRB channel. Generally speaking, making these trade-offs has not proven problematic with consumers in any digital audio service that has moved in this direction (such as Eureka/147 DRB in the UK, DARS service in Canada and the U.S., and HD Radio™ multicasting in the U.S.).

266. ***We therefore recommend that the need to achieve any increase in the number of effective digital programming service 'slots' in each market be met by allowing more efficient use of the digital multiplex on each allotted DRB channel.***

267. As a final word on the issue of new entrants, it should be noted that perhaps not all L-Band DRB 'slots' that are earmarked in the Allotment Plan for use by a specific AM or FM stations will actually be activated. Some broadcasters may decide against implementing DRB services at all, such as campus/community/ethnic stations with limited financial resources. Others may be satisfied with whatever non-L-Band digital transmission alternatives prove feasible in the coming years (e.g. Internet streaming. WiFi/WiMax, hybrid IBOC, DRM) and will ultimately not require the 'slot' provided for them in the national channel allotment plan.

268. A new DRB policy might address this with a provision that programming 'slots' on L-band channels allotments that are not taken up within seven years by existing AM/FM stations would be made available to new entrants and/or to existing broadcasters seeking additional DRB delivery capacity.

The Question of IBOC

269. Previous comments and recommendations in this submission point out the importance of allowing broadcasters a greater degree of flexibility in choosing what DRB content they will deliver to listeners, and how they will technically accomplish this. It does seem clear that broadcasters will necessarily embrace a variety of delivery technologies, of which IBOC is one.

270. The term 'IBOC' or 'in-band on-channel' itself requires some clarification.

271. Generically, it means the transmission of digital radio programming services in the existing medium-frequency (AM), shortwave or VHF (FM) broadcasting bands (i.e. in-band) and on a

[59] This is already being contemplated by Australia, as it rolls out its own L-Band DRB services.

currently-assigned frequency (on-channel). IBOC transmissions can occur in either the presence or absence of the analog broadcasting signal that currently occupies the frequency. When the analog service continues to operate in the same channel concurrently with the digital signal, the operation is considered to be a 'hybrid IBOC' service. If only the digital signal is transmitted, the service is considered 'full-digital' IBOC.

272. U.S.-based broadcasters are currently promoting the domestic adoption of a voluntary IBOC digital transmission standard that will initially be a hybrid. This is known as HD Radio™ service and contains two similar technologies – one for the AM band and one for the FM band. Both components can be later converted to a 'full-digital' service, once a very large percentage of the listening public has acquired IBOC digital receivers. Another service that can be considered to be IBOC is the full-digital Digital Radio Mondiale (DRM) system, which is currently designed only for shortwave and AM band operation.

273. Many broadcast engineers believe the hybrid version of HD Radio™ to be technically inferior to other DRB transmission systems, primarily because of the compromises required to ensure that the piggy-backed digital signal does not spill out of the channel in which it operates, causing interference to other stations. There is also the concern that the relatively low data capacity permissible within the analog channel will not allow HD Radio™ to become sufficiently robust to compete effectively with other digital audio services, especially in a mobile receiving environment. On the other hand, IBOC presents better possibilities for duplicating large analog service areas than does L-Band DRB, due to the greater reach of single transmitters operating in the lower frequency bands.

274. One further complication with respect to the use of HD Radio™ by broadcasters is the fact that it remains a proprietary system,[60] as opposed to the "open standards" that apply to virtually all other broadcasting services, whether FM stereo, DRM, Eureka/147 or the NTSC and ATSC DTV systems. Some broadcasters are concerned about the issue of royalty payments that may be demanded for the use of this proprietary system, especially if future multicasting efforts become profitable.[61]

275. It is important to recognize that a heavily promoted technology – even if inferior to other technologies – can sometimes gain a significant or even dominant position in the marketplace. This would especially be the case for HD Radio™ if receiver manufacturers, particularly those supplying the automotive market, were to strongly support this technology. Anticipating that this could happen, and that HD Radio™ will be adopted by the FCC as a voluntary transmission standard in the U.S., Canadian broadcasters will need to evaluate whether some or all their objectives for DRB could be met by implementing this system on their current AM/FM frequencies.

[60] Proprietary rights are held by iBiquity Digital Corporation.
[61] The CAB has been advised by iBiquity that it will not impose royalty payments on non-U.S. users with respect to the use of the technology to deliver simulcast programming. The issue of such payments for future multicast programs is less clear.

276. In addition, given that many technical experts believe that hybrid IBOC services are likely to be found impractical in the AM band, it can be anticipated that Canadian AM broadcasters will want to evaluate alternative digital approaches for full-digital operation. These alternatives would likely include the full-digital version of HD Radio™ as well as the non-proprietary DRM system.

277. Based on the assumptions that,

- The U.S. officially adopts one or more IBOC systems as voluntary standards;
- Canada's technical evaluations of IBOC technology demonstrate that the compromises necessary to implement this technology are acceptable to the regulators and the industry; and
- Industry Canada adopts similar voluntary transmission standards in Canada.

278. ***We therefore recommend that the Commission allow unfettered implementation by existing broadcasters of AM and FM IBOC services that are 100 percent simulcast and that broadcasters be permitted to determine when such implementation should occur.***

279. A further issue that will arise if the FM version of HD Radio™ is authorized for use in Canada is whether to regulate any multicasting programming services that may be added to the multiplex.

280. ***We recommend that the regulatory treatment of ancillary DRB services should be similar to the provisions pertaining to audio programming services delivered via FM subcarriers (SCMO).***

281. That is, the Commission will allow this capacity to be used by the licensee or its lessees, subject to certain specific provisions applicable only to services that compete with existing programming sources in the same market (e.g. ethnic radio services).

The Question of Other Standards

282. As noted, DRM is an IBOC technology and our views on this standard are outlined above.

283. We have also previously discussed a number of the issues associated with the implementation of digital audio programming via Digital Multimedia Broadcasting (DMB) and DVB-H transmissions. Broadcasters will want to explore both of these technologies as additional (or alternative) ways of implementing digital versions of existing programming, as well as new digital-only programs.

284. The principal advantage associated with these technologies is the fact that other communications services, especially the wireless telephone industry, are beginning to express interest in developing hand-held and mobile consumer devices that combine the 2-way features of cell phones with the point-to-multipoint, one-way, high-capacity delivery capabilities of DMB and DVB-H. This suggests a strong possibility of partnerships between broadcasters and wireless service providers.

285. In turn, this presents an opportunity to achieve a rapid, appreciable penetration of DMB/DVB-H receivers because of the high turnover rate for cell phones and the fact that the extra costs associated with incorporated broadcast receivers can be cross-subsidized through subscriber revenues.

286. The key issue with respect to both these technologies is the lack of specific allocated spectrum within which such services could be implemented. DMB transmissions, which are Eureka-like, might be implemented using drop-in L-Band channels in markets where spectrum congestion is not severe. In other markets, more efficient utilization of existing allotments as noted above might liberate channels for DMB use.

287. Since its bandwidth requirements are TV-like, DVB-H would have to operate in spectrum that is well above the current AM/FM/DRB radio bands. Ideally, it should operate in the VHF-TV bands (Channels 2-13) for maximum service range; however, little if any spectrum in these bands is likely to become available even after the transition to DTV. A more probable spectrum home for future DVB-H services would be UHF-TV spectrum, especially in the channel range 52-59, that will not be required for broadcast television in the post-analog TV era.

288. ***We therefore recommend that the Commission remain open to a wide range of broadcaster experiments, and perhaps even field trials that will evaluate the ability of DMB and DVB-H to meet the objectives for new DRB services; however, the licensing of permanent services should await further proceedings that would identify suitable bands for such transmissions.***

Alternative Use of the DAB Spectrum

289. In outlining our views on the above issues, the CAB has indicated that the L-Band spectrum allocated for DRB services continues to be vital to the implementation of new DRB programming that will attract listeners and therefore encourage consumer transition from analog to digital services. The current designation by Industry Canada of this spectrum as 'Co-primary Broadcasting' is sufficiently flexible to allow variations in the use of the spectrum (e.g. for DMB transmissions), while still remaining within the intent of the allocation.

290. ***We therefore recommend that no changes be made in the "Broadcasting Co-Primary" allocation in the 1452-1492 MHz band and that Industry Canada's spectrum use policy for this band (terrestrial sound broadcasting) be retained.***

DRB Services and Diverse Communities

291. The DRB policy revisions that the CAB has recommended envisage that attractive new DRB-only services will be created and delivered by a variety of different technologies. Implicit here is that through over-the-air DRB transmission, underserved cultural and ethnic communities would be able to gain better access to the broadcasting system.

292. At present, many underserved groups are not able to receive broadcasting services in the conventional radio bands due to lack of available spectrum (FM) and/or the high implementation costs (AM). A DRB policy that encourages the creation of a variety of new delivery platforms substantially increases the number of ways that producers of ethnocultural programming can reach their audience targets. Since both L-Band and IBOC DRB transmitters are capable of multicasting, the operators of these services will likely find it attractive to lease transmission capacity to broadcasters that specifically serve ethnocultural communities. This will provide additional revenue streams for the facilities operators, while reducing the capital outlays that minority broadcasters would otherwise have to commit.

293. If another key objective of the new DRB policy is to promote the purchase of digital radio receivers by listeners, this will also benefit broadcasters programming for culturally diverse audiences, since at present they are often obliged to acquire and sell special receivers that allow their audiences to access their services, such as SCMO receivers.[62]

Summary – The Digital Transition

294. We summarize our key recommendations for a comprehensive DRB policy as follows:

- The concept of DRB as a purely AM/FM 'replacement technology' should be abandoned and policy measures be put in place that will encourage broadcasters to develop innovative programming services that are delivered to the listening public solely by digital means.

- The Commission needs to adopt a flexible approach to DRB regulations, at least in the early years, in order to encourage innovation and minimize operating costs at a time when listening levels are low.

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[62] It will also benefit mainstream broadcasters, in that the new DRB receivers purchased by listeners from diverse backgrounds – in order to listen to services that are targeting them – will also be able to tune to new DRB services created by others.

- Existing AM/FM broadcasters should continue to have preferred access to L-Band DRB spectrum but this privilege should be balanced against a long-term but steadily-increasing commitment to separate programming on the DRB facility.

- Programming 'slots' on L-Band allotments that are not taken up within seven years by existing AM/FM stations should be opened up to new market entrants and to existing DRB broadcasters seeking additional transmission capacity.

- Assuming suitable technical standards are set by Industry Canada, the Commission should permit unfettered implementation by existing broadcasters of AM-band and FM-band IBOC services that are 100 percent simulcast, but the timing of implementation should be left to the broadcaster.

- The Commission should adopt rules for the use of the ancillary (multicast) programming capacity for both L-Band and IBOC that are essentially similar to those already in place for FM SCMO.

Then . . . Now

PART II

RADIO AND MUSIC

CAB | ACR

Part II – Radio and Music

295. In this part of our submission, we examine the relationship between private radio, the music industry and Canadian artists through two separate but related streams of analysis: (i) the airplay and promotion of Canadian content (Cancon) and French Vocal Music (FVM), i.e. exhibition quota issues and (ii) Canadian Talent Development (CTD) and other forms of music/artists support by private radio.

296. Radio plays an important role in exposing, promoting and supporting Canadian music and Canadian artists, through airplay, the contribution of significant funding to FACTOR, MusicAction, Radio Starmaker and Fonds RadioStar among other vehicles, and the payment of copyright fees which have typically increased with radio's revenue growth.

297. At the same time, music remains an important part of the programming mix for music-based private radio stations, and an on-going sufficient supply of quality Canadian music for a range of formats remains critical for the private radio industry. However, broadcasters and the music industry alike are supportive of an approach that would see more new and emerging artists – and consequently more new music – promoted to listeners through radio airplay. At the same time, we note the challenges posed by over-exposing artists (or creating 'burn') to listeners, which is both a disservice to the artist and the audience alike.

298. Questions underlying the current and future relationship between private radio and the Canadian music industry are really questions about how this relationship can become more effective, and how the policy framework guiding music exhibition and Canadian Talent Development can also become more effective.

299. Therefore, this part of our submission focuses largely on the changes that private radio broadcasters believe are needed to both the current system for Canadian content and the CTD infrastructure that will ultimately benefit both the private radio and Canadian music industries, but will primarily benefit those who matter most in the radio/music relationship: Canadian music artists.

A – An Artist-centered Approach

300. Similar to the technological changes that have influenced radio's new competitive environment, the Canadian music industry too has undergone a transformation in its infrastructure over the past 15 years, to the point where the artist is now located at the centre of the industry. There are a number of reasons for this transformation, many of which support private radio's reasons for adopting an artist-centered approach in its proposals to the Commission on Canadian music exhibition and Canadian Talent Development.

301. In the period prior to 1990 it was difficult for major Canadian labels to allocate investment for purely Canadian signings, and highly unusual to have profitable artists that had not yet had any impact on the U.S. market. However, the success of acts such as Tom Cochrane, Tragically Hip, The Tea Party and Jann Arden – to name but a few – shifted this perspective and investment dollars began flowing from multinational labels toward signing and developing talent for the Canadian market alone. This investment – in the hundreds of millions of dollars over the past decade – plus a significant presence of Canadian talent in both retail availability and radio airplay combined to create an environment of opportunity for Canadian artists to reach greater levels of success.

302. With the continued success of Canadian artists throughout the 1990's, three factors combined to mitigate this environment of opportunity, while at the same time working to place the artist at the centre of the music industry infrastructure.

303. First, an overall business emphasis by labels to sign artists to 'Canada-only' agreements left artists to push into international markets on their own initiative, tailoring their careers and developing relationships with record companies outside of Canada on an individual basis.

304. Second, music sales in Canada declined by a total of 28 percent between 1999 and 2003, from $1.3 billion to $964.4 million,[63] as part of an international downturn in music sales linked in part to the widespread growth of music downloading (especially prominent in Canada given the significant penetration of high-speed Internet into the market).

305. The widespread availability of file sharing has resulted in more illegal downloading of music, and has clearly been a major factor in the attrition of both record sales and commercial radio audiences. From the perspective of the artist in the music business, such a decrease in record sales has translated into less overall revenue available to record companies that would enable continued investment in artists.

306. Finally, advancements in digital technology have significantly reduced the costs of music production and broken down other barriers to the industry for artists, such as access to recording studios. Personal recording software (such as Pro-tools) is enabling artists to bypass the recording studio altogether. While the costs of more traditional methods of distribution (e.g. shipping, processing and warehousing product)[64] have increased significantly, alternative method of exploiting albums have become more widely available to artists through 'pressing and distribution' agreements and 'licensing' agreements with labels, as well as through independent distributors in international markets. (For more information on changes in the Canadian music distribution sector see Appendix H *The Music Industry in Canada 2006*, February 2006)

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[63] Department of Canadian Heritage, *Canadian Music Industry: 2004 Economic Profile* pp. 16-17
[64] Larry Leblanc, *The Music Industry in Canada 2006* Canadian Association of Broadcasters, February 2006, p. 11-12

307. It is also important to note that the combination of lower music sales and higher traditional distribution costs have had an impact on the business model for selling music at the retail level. Major music retail chains now exercise 'extreme caution' with their initial and follow up buys – and inventory cutbacks are offering fewer opportunities to market and sell music. This downward shift in focus is also resulting in less interest in new artists at the retail level.[65]

308. Digital technology and the shifting infrastructure of the music industry are thus enabling artists to act as their own 'infrastructures' in career development. They can record masters inexpensively, distribute them independently, play live performances in venues booked on their own domestically or internationally, create websites for promotion and hire/dismiss management teams as required.

309. The shifting of the artist to the centre of the music industry infrastructure has resulted in a different role for music labels. The influence of independent labels in artist career development has declined, in the same way as investment in artists by major labels has declined. From the perspective of private radio, this shift in the dynamics of the music industry underscores the importance of focusing radio's financial contributions on the *development of Canadian talent* rather than industrial support for the Canadian music industry. This refocus will ensure private radio fulfils its primary role in the radio/music relationship: as a major promoter of Canadian artists and music.

B – The Role of Radio in Promoting Canadian Artists and Music

310. Radio's role in the radio/music relationship has in fact shifted to a sharper focus as broader changes have swept through both industries: radio's role has effectively moved from what was previously a key driver for the *sale* of music to what is now a key driver for the *promotion* of music. This is an extremely important consideration in assessing the current and future status of the radio/music relationship.

311. Clearly, a number of factors have intervened in the past several years to bring about declining music sales, such as illegal downloading, changes in the structure of retail music and lack of A&R support from record companies. Sales of Canadian music have essentially remained flat since the late 1990's, achieving 17 percent of total sales in 1998, 16 percent of sales in 2000, and 16 percent of total sales in 2003.[66]

312. To compensate for those influences that have impacted music sales in an artist-centered universe, the promotion and marketing of artists is now much more than just another element in a broader mix of factors that push artists to the marketplace. Artist exposure has become the essential ingredient for success, which can no longer be measured by the sale of

[65] Leblanc 2006, p. 11
[66] Statistics Canada, Sound Recording Data, http://www40.statcan.ca/l01/cst01/arts27.htm

records alone. Radio now combines with many other factors – such as the exposure of music in other media, the extent of touring, the depth of marketing campaigns tied to a record, the presence of the artist on the Internet – as part of a larger promotional infrastructure that provides critical exposure for artists to audiences.[67]

313. While radio engages in a range of activities that promote Canadian artists and music, the central feature of radio's promotional value for artists remains the exhibition of music through *airplay*. In this way, radio is able to benefit the *whole* artist economy and not record sales alone. While record sales have declined, live touring revenues remain strong and vital. This does not necessarily benefit the record industry infrastructure that does not share in these revenues, but provides a substantial boost to the viability of Canadian talent – the central concern of radio.

Getting Canadian Music to Air

314. Bringing artists and music to air may appear to be a relatively straightforward process to the average listener of music format radio; rock stations play rock music, jazz stations play jazz, and so on. If a song fits a certain format and pleases a certain ear, the music may be played on radio.

315. In fact, the process of getting music to air – from how radio station programmers become aware of artists, to the factors that enter into programming decisions about what to play – is highly complex, guided by interactions between the radio and music industries, in-depth audience research and testing, and the demands of individual formats. Music that is finally selected for airplay is chosen with extreme care.

316. As outlined in detail in Appendix I *The Making of a Commercial Music Radio Playlist: A Primer,* building a playlist is highly dependent on a station's format, the texture and feel of the station's identity and branding, and the availability (i.e. supply) of music for that format. It is a fundamental reality of a station's playlist that to be successful, the music must connect with the audience. As noted by one radio programmer, "Our job is not to educate listeners. It's to play what they want to hear."[68]

317. How quickly a playlist ages, how quickly songs must be replenished and the risk of 'burning' – or overplaying – artists is highly dependent on a station's format. In determining the selection of available songs for a station, programmers will listen to dozens of new songs each week, assessing the potential connection of songs with listeners and balancing the risk of bringing new music to air with the necessity of keeping the station's sound fresh and appealing.

[67] Leblanc 2006, p. 16
[68] David Gollob, 2006 *The Making of a Commercial Radio Playlist: A Primer* p. 4; see Appendix I

318. Beyond regular discussions with music label representatives and in-station listening, playlist selections are also guided by the findings derived from a wide range of applied research. For example, station programming staff will review relevant music charts, playlists from other stations in the market, new songs promoted by labels and the station's current playlist selections. In addition to this, stations will review SoundScan data that provides information on the sales of music and music video products across Canada and the United States.[69]

319. Audience research and testing of songs is often carried out after a new song goes to air, although the scope of audience research is highly dependent on station resources and the size of the market in question. For example, some specialty format stations or smaller market stations will carry out on-line surveys only. But audience testing is a fundamental element in determining which songs will remain on the air and those that will no longer be included on the playlist.

Airplay of Canadian Content and French Vocal Music

320. Through the playlist selection process, stations must tailor song selection to meet basic Canadian content (Cancon) and French Vocal Music (FVM) quotas. Quotas for Canadian content currently reside at 35 percent for popular English-language music; the *Radio Regulations* require that music selections broadcast between 6:00 a.m. and 6:00 p.m. Monday to Friday must be 35 percent Canadian. Quotas for French Vocal Music are at 65 percent for popular music, with a minimum of 55 percent of selections to be broadcast between 6:00 a.m. and 6:00 p.m. in the French language.

321. Just as a station's format is the essential guideline for building a playlist, format also represents the singular greatest challenge in meeting a station's music exhibition requirements. Some formats such as Modern Rock have a far greater availability of Canadian music than other formats in the rock genre, such as Classic Rock. Much of the distinction between and within formats and genres of music rests on how much new music is available on a regular basis that 'fits' a station's format and identity, and is 'radio-ready' for airplay.

322. Those stations that face a constant challenge with the supply and/or quality of Canadian music – and this is the case for many formats in both English and French – will often go beyond their format's boundaries to play Canadian music that may work for a station's texture but is not in the format category *per se* – i.e. 'crossover' music.[70] Programmers are always cognizant that these types of crossover efforts run the risk of alienating listeners.

323. Similarly, stations are often placed in a position of playing Canadian music that does not test well with audiences, once again due to short supply of available songs in a given format. And

[69] Gollob 2006, p. 5
[70] Gollob 2006, p. 6

once again the airplay of Canadian songs that do not resonate well with audiences runs the risk of alienating listeners.

324. The crossover effect is particularly strong for French-language radio stations that face a finite supply of new francophone music. While the quality of new songs may be consistently high, their supply is low and songs often receive airplay across multiple formats, leading listeners to complain that French language music stations 'all sound the same'.

325. Lack of supply and/or quality of Canadian content, and a small but highly used pool of new songs available for French Vocal Music playlists leads directly to one of the most critical problems facing music format radio in both languages: artist burn.

326. Artist burn is the outcome of playing songs and/or an artist too often. This typically occurs when the availability of Cancon or FVM in a given format is limited, leading to over-rotation of songs in order to achieve quotas. The result of artist burn is that listeners will begin to tune out; even superstar artists such as Shania Twain are burned, and despite her popularity and the high quality of the music, radio audiences tire of hearing the same artists and the same songs day in and day out. [71]

327. Artist burn is a particularly difficult problem for French-language stations to manage, as the same artists are played across a variety of formats given the low supply of new music. Such reliance on the same artists can also affect sales of their music, and create the additional necessity for an artist to penetrate international markets to advance their careers given that "artists peak very quickly in Quebec."[72]

328. On top of this concern, French-language stations in larger markets such as Montreal must also share audiences with English-language stations that attract a large percentage of francophone listeners. Given this additional layer of competition, French-language stations are particularly vulnerable to pursuing any programming initiatives that might contribute to the additional loss of listeners. They will stick to playing the same artists that keep their listeners tuning in; in other words, the competitive environment works as a disincentive to the airplay of *new, home-grown artists* since such playlist departures may increase a station's vulnerability to its listeners tuning out.

329. Additional discussion of the French-language radio market is presented in Part III of our submission.

[71] Gollob 2006, p. 7
[72] Gollob 2006, p. 8

Getting New Artists and New Music to Air

330. The perspective from French-language radio that bringing new artists to air elevates a station's vulnerability and is inherently risky is shared across the majority of the commercial radio spectrum.

331. There are several reasons for this concern, primarily revolving around the current and future status of commercial radio audiences.

332. First, residing at the very heart of the commercial radio business model is *the listener*. Audiences and their tuning levels drive advertising rates and hence drive radio revenues. Programming a playlist is fundamentally conditioned by what listeners want to hear, and listeners tune into their favourite music format station because that station will predictably deliver the kind of music they want by the artists they like at the time of day they turn on their radios.

333. Departing from the tried and true formula of playlist programming by adding more new artists – that is, artists that are essentially unknown to the listening public and to your own listening audience – carries the risk of alienating listeners and turning audiences away from your station.

334. Second, stations will have varying degrees of risk tolerance in playing new artists depending on their format. Some stations with a Modern Rock or Alternative Rock format will make a point of playing new artists while otherwise engaging in other activities such as sponsorship of CD release parties to promote their music and support their development. Other stations will simply find it impossible to play anything that departs from a standard playlist of songs for fear of sending their audiences to the competition.

335. Indeed, playing new artists on radio poses much the same dilemma for the industry as that created by the current exhibition system for Canadian content and French Vocal Music: a singular 'one size fits all' approach will not adequately serve the interests of all stations, all formats or all listeners.

336. Third, if radio's greatest risk in bringing new artists and their music to the airwaves is the loss of audience and the consequent loss of revenue, the current environment of opportunity for artists coupled with the evolving new economy of radio multiplies this risk by a significant factor.

337. While radio was once afforded the luxury of its role as the only audio distribution service available to listeners, this is no longer the case. Today, we find ourselves operating in a dual system, where an unregulated system of audio services poses tremendous challenges for the traditional, regulated system of commercial radio broadcasting. A given station with a given

format in a given market now competes with a host of new audio services, as well as with other radio stations and other traditional media.

338. Given the wide range of competitive services to which listeners can now turn, to risk losing listeners is to run an even greater risk: those listeners might not come back to your service.

339. Measures to encourage the airplay of emerging artists on radio will fundamentally alter the historical programming and business practices of radio that have been decades in the making. The risk to radio of implementing such measures is extremely high in that they may well result in further and permanent attrition of the radio audience.

340. Any business model that engages added risk will also seek to compensate for that risk in order to balance its potentially negative effects. It is common practice within regulated industries to balance risk and incentive, such as balancing the expansion of broadband networks with the reward of higher rates a telecommunications company can potentially charge for those services.

341. In the case of the risk to be undertaken by private radio in the expanded airplay of emerging Canadian artists and more new Canadian songs, the balance we seek lies in our proposed method of remodeling the existing music exhibition requirements, through the implementation of a *bonus system* based on current music exhibition quotas that applies against the airplay of *emerging* Canadian artists.

A Proposed Solution

342. The private radio industry finds itself at a crossroads. Music artists and our partners in the music industry find themselves in much the same situation. It is testimony to the complexity of the radio/music relationship that Canadian music retailers recognize the important but inherently limited impact of airplay on music sales, noting it is confined to the genres of pop, country and specific rock acts.[73] And as noted above, given major changes in the economy of the music industry worldwide, labels and retailers are far less inclined to sign or promote new Canadian talent.

343. Radio is one of music's greatest promoters, and certain formats continue to need and use music as a centerpiece of programming. However, radio continues to experience difficulties in reaching Cancon and FVM quotas in many formats, given on-going issues with the supply and/or quality of available Canadian music, and the on-going problem of artist burn.

344. The music industry is also faced with a number of challenges, including declining sales and consequent reductions in investments to sign artists. These factors have in turn had a

[73] Leblanc 2006, p. 17

negative impact on the development of the higher risk end of the artist spectrum, where music labels are more reluctant to sign new talent.

345. At the same time, retailers are more reluctant than ever to showcase new artists given the altered economics of the music retailing business; the shelf life of a record by a relatively unknown artist can be a matter of weeks.[74]

346. The artists at the centre of the music industry infrastructure also face numerous risks and challenges in building and advancing their careers. Digital technology and self-promotion – while growing in their importance for career development – are not enough to guarantee artistic success; with the artist at the centre of the music industry infrastructure, partners in the value chain of the music business must accept some the risk in supporting the continued development of Canadian artists in order to grow their businesses.

347. Radio is facing tremendous uncertainty in its future, given the new competitive landscape comprised of so many unregulated audio services drawing listeners – and revenues – away from the industry. In the new economy of radio, maintaining 35 percent levels for Canadian content is increasingly difficult and any solution to improving the supply of radio-playable Canadian music must have existing music exhibition quotas as a starting point.

348. Given the reality of radio's new economy and the uncertainty posed by this new competitive environment, the CAB believes that any increase to existing quotas for either Canadian content or French Vocal Music is untenable for the industry.

349. In our recent discussions with our music industry partners, there is a basic recognition that all players must share in the risk of bringing emerging artists and new Canadian music to air – including the private radio industry. Leveraging its role as a key promoter of Canadian music, radio must look to expand the roster of artists that receive airplay, in English and in French, by programming more music by new artists on its playlists across a number of formats.

350. The reality for the radio/music relationship and emerging Canadian artists is that the system of quotas for Canadian content and French Vocal Music must be made more *effective*. We believe it is time for the Commission to consider a remodeling of the current music exhibition system by introducing measures that will encourage the airplay of *both* emerging Canadian artists and new Canadian song selections on radio.

351. We further believe that introducing such measures *must be accompanied by an integrated initiative to financially support emerging Canadian artists*. As noted above, through the promotional airplay of artists, radio benefits the entire artist economy. But the artist economy also requires

[74] Leblanc 2006, p. 14

significant structural support, through measures that ensure stable and predictable funding for artists going forward.

352. Through this proceeding, radio hopes to create a cycle of success in Canadian music that will see more airplay of emerging Canadian artists supported by funding that will create opportunity for artists and more quality songs for the radio.

353. We believe the benefits from our proposed measures for *more effective Canadian content and more effective funding for Canadian artists* will be substantial, for all players.

354. From the perspective of Canadian artists, these measures will enable greater reach of their voices and their music to Canadians and to the world. For example, our proposal for effective and stable funding would benefit the *whole* economy of the artist (recording, touring, publishing and merchandising) and not merely recording industry infrastructure. It will also allow artists to marshal their resources on a global scale and support them and their management teams in accessing global markets in the manner deemed most appropriate by them.

355. From the music industry's perspective, our proposals will encourage bold steps to sign and promote new Canadian talent.

356. From the perspective of private radio, these measures will enable the industry to substantially expand its ability to promote Canadian music while focusing more effort on emerging Canadian artists and avoiding artist burn.

357. And from the perspective of the Commission, such changes to the *Commercial Radio Policy* will bring more *effective* support to artists and additional diversity to the broadcasting system in keeping with the objectives of the *Broadcasting Act.*

C – Proposal for Effective Canadian Content and French Vocal Music

CAB Proposal for a New Bonus System – English Market

358. Our approach to the bonus system is not unlike the incentive-based approach that the Commission has applied in other areas, such as the availability of additional advertising minutes to Canadian television broadcasters who engage additional risk in audience retention through the airing of more original Canadian dramatic programming.

359. Our proposal for a new bonus system is based the application of a credit for the airplay of music from 'emerging Canadian artists': while songs would still qualify as Canadian when meeting two out of four MAPL (Music, Artist, Production, Lyrics) categories, an additional 25 percent credit would be applied to the airplay of an *'Emerging Canadian Artist'*.

360. A Canadian artist would be considered an *Emerging Canadian Artist* up until 12 months from the date they reach the Top 40 in spins on BDS or Mediabase all format charts or become gold certified for the first time.[75]

361. The CAB strongly believes that this incentive system will encourage music programmers to take risks by playing more emerging artists and to move off tracks sooner, thereby reducing burn on Canadian artists.

362. We further propose that the maximum floor for Canadian content would be 30 percent, so that any station playing more Emerging Artists would not move beyond this point.

363. The concept and elements of this bonus system were discussed at length with a number of representatives from the music industry who we believe are supportive of an incentive-based system to encourage more play of emerging Canadian artists. The CAB will continue to work with representatives from the music industry to discuss how its proposed bonus system could be adjusted to address concerns from specific segments of the industry.

CAB Proposal for a New Bonus System – French-language Market

364. The CAB is also advocating for the introduction of a bonus system to encourage more airplay of new music by emerging artists in the French-language market. Part III of the CAB's submission provides detailed information on the principles and structure of the CAB's bonus system for the French-language market.

Library Formats

365. As noted above, one of the major concerns with the current music exhibition system is that it promotes a single approach to all popular music formats, e.g. for stations playing oldies (currently defined as musical selections released prior to 1980).

366. Strictly speaking, library formats such as "Oldies" or "Classic Rock" feature music released before 1985 and play little to no current music selections. However, in Canada post 1985 Canadian content is often needed to help library stations meet their 35% Canadian content obligations. Given the limited supply of Canadian music released before 1985 and that the supply of Canadian product being released only started to dramatically increase in the early '80s, the majority of Canadian music has been recorded by artists who are not part of the

[75] This definition includes duos, trios and groups operating under an established identity. If an artist who is a member of a duo, trio, or group with an established identity launches a solo career or creates, in company with others, a new duo, trio, or group with a new identity, this solo artist or new duo, trio, or group will be considered a *new artist* for the first four years (48 months) following the date its selection under the new identity is listed on the Hit Parade.

older formats' core familiarity. As discussed in Appendix I, *The Making of a Commercial Music Radio Playlist: A Primer*, this puts stations offering library formats at a competitive disadvantage because they are not able to focus as heavily on their core music offering compared to station formats that offer music from more current eras.

367. In order to illustrate this competitive disadvantage, the CAB retained the services of Bohn and Associates to undertake a comparative analysis of English Canadian radio stations operating library formats under a 35% Cancon regime and competitive radio services that are not subject to this content exhibition requirement namely, satellite subscription radio, U.S. border stations and the Internet. A copy of the analysis is attached as Appendix J to this submission[76]. The main findings of this study are that:

- Of the songs comprising the pre-1985 music played by Classic Rock stations, English Canadian titles account for 16% of the songs and generate 22% of the spins and are repeated 54% more often than foreign titles.

- Of the songs comprising the post-1985 music played by Classic Rock stations, English Canadian titles account for 11% of the songs and generate 14% of the spins and are repeated 33% more often than foreign songs from the same era.

- English Canadian titles in this study repeat at an average of 3.9 plays per week, 45% more often than non-Canadian songs.

- In the U.S., 53% of the spins on Classic Rock stations are from the 1970s compared to English Canada it's 44% of spins. The U.S. stations, thus, have 20% more focus on the 1970s which is the core decade for this audience.

368. What these findings demonstrate is that current Cancon regulations skew the era structure of library formats by creating a reliance on out-of-format music. This, in turn, creates duplication and limits diversity. Library formats have a finite universe from which to draw and the Canadian portion has been mined deeply. No new product is being created for these stations therefore requiring a minimum 35% Canadian content is a difficult and somewhat anti-competitive hurdle to overcome.

369. Library formats attract listeners because they bring back memories of another place in time. This is accomplished by showcasing the songs, most evocative of that era. When the station is forced to play music from other periods, the format suffers. Lowering the level of Canadian content will permit Library formats to better target core eras and reduce these stations' reliance on out-of-format material.

[76] Bohn and Associates Media, March 8, 2006

370. Accordingly, in order to ensure an adequate selection of music is available to stations that are programming oldies as all or part of their format, the CAB proposes that Canadian content levels for English and French-language markets be reduced to 25 percent for musical selections released prior to 1985.

371. For example, a station programming 'all-oldies' would be required to broadcast a minimum of 25 percent Canadian selections.

372. A station programming a blend of pre- and post-1985 release would be required to broadcast a minimum of 25 percent Canadian selections for pre-1985 musical selections and 35 percent for post-1985 musical selections.

373. For those stations with a blended format of older and newer musical selections, the calculation of Canadian content would vary with the proportions played – but would allow stations the flexibility to diversify their play lists. The following table outlines some possible approaches for stations playing some level of oldies music.

	Pre-1985		**Post-1985**		
Of 100 spins…	**Cancon at 25%**	**Foreign**	**Cancon at 35%**	**Foreign**	**Blended Cancon**
35% rule 'base case'	25	65	10	0	35%
35/25 rule Option A	25	75	0	0	25%
35/25 rule Option B	20	60	7	13	27%
35/25 rule Option C	10	30	21	39	31%
35/25 rule Option D	0	0	35	65	35%

D – Proposals for Canadian Talent Development

374. As described above, radio plays a major role in promoting Canadian artists and music. Our proposal for a bonus system will expand radio's existing promotional role, making it more effective through added exposure of Emerging Canadian Artists.

375. While airplay for Emerging Canadian Artists is a key part of our proposals, airplay alone can not guarantee a consistent supply of quality Canadian music going forward. To ensure the effectiveness of the bonus system, private radio is proposing to consolidate the portion of its CTD contributions currently directed to national funding agencies into commercial funds for both the English and French-language markets namely, Radio Starmaker Fund and Fonds Radiostar.

376. Under the CAB's proposal, both Radio Starmaker Fund and Fonds RadioStar would be responsible for directing the distribution of all such consolidated CTD contributions to their own or other funding agencies' programs (FACTOR and MusicAction) to ensure the most efficient and effective use of funds and results. Specific terms of this proposal that relate to the French language market are laid out in detail in paragraphs 564 to 570.

377. This consolidated funding model, if approved, would streamline CTD accountability and reporting functions for the Commission as well as radio and music industry stakeholders. It would also provide effective leveraging by expanding the role of radio in promoting the careers of Canadian artists by focusing its programs on key elements such as domestic and international touring and other marketing activities.

378. This going-forward CTD proposal is designed to respond to Radio Starmaker Fund historic levels of demand for funding, as evidenced by recent data, and the actual funding available to satisfy such demand. As for Fonds RadioStar, the CAB's proposal would ensure the average level of funding is maintained. We suggest the following context to better assess its merits.

379. Part of radio's long history of support for Canadian music has come in the form of funding and other in-kind support for Canadian talent such as on-air interviews and concert promotions, including extensive initiatives at the community level. Radio's role in funding Canadian talent is but one part of a larger mix of public and private monies flowing to the Canadian music industry, supporting a range of initiatives and largely targeting music infrastructure.

380. The dynamics of funding Canadian music talent have shifted considerably since the most recent review of the Commercial Radio Policy, centered on two key catalysts.

381. First, as an outcome of the 1998 review, the implementation of the Radio Starmaker Fund and Fonds RadioStar resulted in Canada's first purely commercial funding initiatives that were specifically designed to promote and increase the visibility of emerging Canadian artists.

With the guiding participation and on-going Board of Directors presence of representatives from private radio, the Canadian Recording Industry Association (CRIA), Canadian Independent Record Producers Association (CIRPA), and l'Association québecoise du disque et du spectacle (ADISQ), Radio Starmaker Fund and Fonds RadioStar have enabled access to funding by independent and major label artists.

382. Second, the introduction of the Music Entrepreneur Component (MEC) of the Canada Music Fund by the Department of Canadian Heritage in September 2005 altered the manner in which the recording industry can access available funding. Prior to the launch of the MEC, the primary source of funding for independent record labels was the Foundation for Canadian Talent on Radio (FACTOR) and MusicAction.

383. The MEC will now alleviate some of the pressure on FACTOR and MusicAction by funding the larger, more established independent labels with proven track records in production and/or distribution. Because a large part of FACTOR and MusicAction's funding was directed to the large independent labels that are now moving over to the MEC, and will therefore no longer be eligible for funding from FACTOR and MusicAction, more funding will be available for smaller labels and artists involved in under-represented genres.

384. FACTOR and MusicAction have received funding from both the radio industry and the federal government. Over the past years, the private radio sector has provided significant funding to both agencies through the CAB Canadian Talent Development Plan, as well as through CTD commitments from radio licensing processes and from profitable ownership transactions in the private radio sector.

385. Between 1999 and 2005, FACTOR received just over $21 million in funding from private radio. In addition, between 1998-99 and 2004-05, FACTOR received approximately $45.6 million in funding from the federal government.

386. Between 1999 and 2005, MusicAction received just over $7.4 million in funding from private radio. In addition, between 1998-99 and 2004-05, MusicAction received approximately $29.4 million in funding from the federal government.

387. In fact, since the Commission's Commercial Radio Policy has come into effect (1999), private radio has committed over $168 million to new CTD initiatives of which over $100 million or 60% has been directed towards music funds in the French and English markets.

Private Radio Commitments and Contributions to CTD (1999 – 2005)

	Overall	Music Funds
Licence renewal since '99-'04	$17,298,153	$6,931,442
New Licences	$55,877,026	$11,940,866 ($1,705,838/year)
Significant Benefits	$95,269,002	$81,953,845
Total 1999 - 2005	**$168,444,181**	**$100,826,153 (59.8%)**

Source: For licence renewal; CRTC monitoring report, 2001, 2002, 2003, 2004 and 2005; for significant benefits, CAB calculation based on CRTC decisions; for new licences; CRTC monitoring report, 2005 and CRTC decisions on new services approved from May 1st, 2005 to December 31st, 2005.

388. These total CTD contributions are unprecedented in scope and scale. There is simply no reasonable basis of comparison available in the entire history of broadcasting in Canada to properly qualify the significance of these contributions. Nonetheless, if the actual commitments as per the above chart are compared to contributions as required under the Commission approved 1995 CAB CTD Plan for the same period, the former exceed the latter by over 800%.

389. The changing dynamics in the music industry and current funding structures combined with the enormous influx of funding from private radio over the past several years has exposed the necessity and value of a 'three-legged stool' funding model, i.e. three critical tiers of funding supporting the breadth of Canadian artists and artistic development in a highly effective manner:

- *An infrastructure fund* targeting substantial support for major independent labels in a comprehensive fashion, carried out through the Music Entrepreneur Component of the Canada Music Fund;

- *A grassroots fund* supported by Canadian Heritage, ensuring the support of entry-level artists with an emphasis on regional diversity and the inclusion of broad genres of music. This funding does and could continue to include the activities of music industry associations. Overall, such a grassroots fund is largely and could continue to be carried out through FACTOR and MusicAction; and

- *A commercial fund* that is distinctly artist-centered, and designed with a primary objective of supporting those artists who have found a place in the commercial music industry. This is the primary role of RSF and FRS, which are privately funded and structured commercial funds that support Canadian artists regardless of their business structure.

In other words, Canadian artists are eligible for support whether they own their own label or are signed or licensed to major and/or independent labels in Canada.

390. This vision of effective funding already has much of the baseline program development and financing in place. Given that Radio Starmaker Fund and Fonds RadioStar are funded primarily by benefits accruing from ownership transactions in the private radio industry and are set to "wind down" in the next couple of years unless more transactions occur, private radio's desire to consolidate its CTD contributions into these two funds will have the effect of stabilizing their funding going forward thereby offering a greater degree of predictable funding available to Canadian artists.

391. The CAB's proposal to consolidate radio's CTD funding into the commercial funds is fully integrated with our proposal to implement a bonus system for the airplay of Emerging Canadian Artists, in that these funds target for support those artists that can produce radio-playable music.

A Private Radio Proposal for Consolidating CTD Contributions into Commercial Funds

392. In the context of the Commission's last review of the Commercial Radio Policy the CAB outlined a radio industry strategy which included an objective to develop a strong supply of commercially playable Canadian music. As part of this strategy, the CAB proposed, among other things, that the Commission's existing benefits test for transfer of ownership transactions be replaced with a contribution to FACTOR, MusicAction, and a new Canadian music marketing and promotion fund.

393. In 1999, with the collaboration of the Canadian Recording Industry Association (CRIA) and the Canadian Independent Record Production Association (CIRPA), the CAB filed a detailed proposal with the Commission for the creation of the Radio Starmaker Fund. A detailed description of Fonds RadioStar is provided in paragraphs 566 to 567.

394. In June 2000 the Commission approved the creation of the Radio Starmaker Fund as a "comprehensive and focused initiative to support Canadian musical talent" which it "wholeheartedly" endorsed.

395. The CAB is pleased to submit that since their inception both Radio Starmaker Fund and Fonds RadioStar have delivered considerable success for Canadian artists in just over a few short years of operation.

396. Between 1999 and 2005, the Radio Starmaker Fund received just under $20 million from private radio, and has provided funding for dozens of artists in career development initiatives, including domestic and international touring and a range of other promotion and marketing initiatives (e.g. international showcasing, web design and media-based advertising).

397. In addition, 88 percent of applications to Radio Starmaker Fund have been approved for funding by its Board using objective and market-based criteria – a very high level of funding response to market demand. Critical to the integration of this commercially oriented fund with our proposed bonus system, 83 percent of Radio Starmaker Fund funded projects achieve regular rotation on commercial radio.

398. In addition, Radio Starmaker Fund has also had considerable success in funding grant requests from artists across Canada.

399. Successful applicants to Radio Starmaker Fund require a track record of success, third party investment (normally from their record label) and a quality marketing plan. Given its focus on artists signed to independent labels – which over the past four years represented over 70 percent of allocated grants – Starmaker has become an essential vehicle in achieving more visibility and more airplay for artists as diverse as Broken Social Scene, Kathleen Edwards and k-os.

400. Since its inception in 2001, Fonds RadioStar has received close to $10 million from private radio. The Fund approved 81 % of all its funding requests, allocating $7.6 million in funding to support 175 projects focused on national marketing initiatives, Fonds RadioStar's main objective is to provide marketing and promotional funding to emerging artists. In fact, 73 % of the funding goes to first (54 %) or second (19 %) album projects. Yet, most of the projects funded receive regular rotations on commercial radio. From the beginning, Fonds RadioStar has provided much needed support to artists such as "Les Trois Accords", Marie-Élaine Thibert et Pierre Lapointe to name but a few. Fonds RadioStar has increased the visibility of francophone artists in the early stages of their careers, and helped them become music and radio stars in the French market.

401. As such, Radio Starmaker Fund and Fonds RadioStar are ideally suited to serve as stable commercial funds for artists, radio and the music industry for a number of reasons.

402. First, these commercial funds are fundamentally artist-centered.

403. Second, they focus on the development of diverse, but commercially viable/radio-playable music.

404. Third, the commercial funds are complementary to the CAB's proposal for a new, effective bonus system for Canadian content, in that they support those artists capable of producing radio-playable music.

405. Fourth, the commercial funds effectively leverage and expand the complementary role of radio in promoting the careers of Canadian artists by focusing their programs on key elements such as domestic and international touring and other marketing activities.

406. Fifth, the commercial funds are broadly based, including regional components that will serve as a vehicle for voluntary CTD benefits from regional broadcasters.

407. Sixth, the commercial funds are based on a co-funding model that requires applicants to either match, in the case of major labels, or invest half the level of requested funds, which is the case for independent labels, in order to trigger funding. For example, if an independent label invests $50,000 in an artist they are entitled to seek up to $100,000 from the Radio Starmaker Fund. This encourages responsible, focused and market based investment decisions that ensure the effective direction of funding towards projects that stand the best chance of success.

The CAB Proposal

408. The CAB's plan is aimed at stabilizing the Radio Starmaker Fund and Fonds RadioStar at historic levels by consolidating radio's existing CTD contributions for a three-year period dating from the release of the Commission's decision on the Commercial Radio Policy, e.g. toward the end of 2006. In order to ensure the appropriate amount of funding is allocated to these funds over the course of the new framework for the Commercial Radio Policy, the CAB commits to revisiting and reviewing its funding contributions in the Fall of 2009.

409. The CAB further commits to work with the Department of Canadian Heritage during this three-year period, to discuss a collaborative arrangement between the Radio Starmaker Fund and FACTOR

Proposed Funding Model – English Market

410. For Proposed Funding Model-French Market (see paragraph 483). In order to provide this stability and predictability, the CAB proposes a funding model that would consolidate radio's CTD funding into Radio Starmaker Fund and Fonds RadioStar via a re-direction of funding that is currently directed to FACTOR and MusicAction through significant benefits and voluntary contributions and new licence commitments directed to the music funds. We believe this approach will make a major contribution to the dynamic relationship between commercial radio and commercial music.

411. Under this new proposal, the status quo would be maintained for the first two years of the new term with respect to the CAB CTD Plan that provides the following annual commitments from stations at the time of their licence renewals:

- Major markets: $27,000
- Large market: $8,000
- Medium to large markets: $5,000
- Medium markets: $3,000
- Small markets: $ 400

412. Based on its capital funding model, the Radio Starmaker Fund is able to provide at historic levels $3.5million in funding for each of the first two years of the new policy term (2007-2008 and 2008-2009).

413. In addition, Radio Starmaker Fund would be further capitalized by the repatriation of approximately $2.4 million (forecasted in 2007-2008 and 2008-2009) in private radio's remaining contributions to FACTOR's Radio Marketing Fund that would be redirected upon the Commission's new policy coming into effect.

414. To ensure this repatriation of funding, the CAB requests an amendment to the Commission's current benefits policy (3 percent to Radio Starmaker/Fonds RadioStar, 2 percent to FACTOR/MusicAction and 1 percent discretionary) such that 5 percent of funds would be directed to the commercial funds and 1 percent would remain discretionary.

415. With respect to radio broadcasters' annual voluntary contributions under the CAB's CTD Plan, approximately $820,000 per year that has historically been directed to FACTOR would be redirected to the commercial funds. Radio broadcasters remaining contributions under the CAB CTD Plan targeted by individual stations to local music initiatives, such as music education or other supports, would remain intact.

416. Accordingly, Radio Starmaker funding for each of the first two years of the new term would amount to approximately $5.48 million per annum. This represents an annual allocation that exceeds market demand based on Radio Starmaker Fund's historical funding allocation of $3.5 million per year.

417. Finally, the CAB suggests that discretionary funds could also be leveraged in the advancement of diversity. For example, cultural organizations could become eligible third-party CTD recipients, with monies targeted towards education, mentorship, scholarship, outreach and other initiatives related to the broadcasting system.

418. Given the uncertainty related to both the amount of CTD funding that will be available in the system over the term of the Commission's new policy and the health of the radio sector as competition from unregulated media continues to grow, the CAB would conduct a full review of its CTD contributions and undertake negotiations with the music industry in year two of the Commission's new policy term (2008-2009), in order to assess market conditions and conclude the terms of agreement for CTD contributions in years 3, 4 and 5 of the new policy term.

419. Should these negotiations prove unsuccessful, the Commission would arbitrate and impose a solution no later than three years after the release of the new Commercial Radio Policy. Similar negotiations are commonplace in Australia for establishing music exhibition quotas. These negotiations would be conducted taking into consideration the total amounts actually received from the industry by third parties during the last three years, and relevant financial indicators and market conditions.

Ensuring Effective and Efficient Funding

420. As mentioned earlier, if approved, this proposal would have both RadioStarmaker Fund and Fonds RadioStar holding full responsibility to direct the distribution of all consolidated CTD contributions to their own, or other funding agencies' programs (FACTOR, MusicAction) to ensure the most effective and efficient use of funds and results. In addition, this proposal is designed to provide transparency and accountability for the Commission, radio and music industry stakeholders.

421. The consolidation would include that portion of radio's Canadian Talent Development funding directed towards national funding agencies – significant benefits, voluntary contributions and new licence commitments – into the commercial funds, designed to support commercial music for commercial radio.

422. Based on publicly available information, the CAB was able to identify a number of indicators that supports the effective use of funds through commercial funds:

- Radio Starmaker's "per unit marginal cost" of funding artists aligns with industry parameters for marketing which is assessed at $2 per record on average;
- Radio Starmaker's funding since inception has been evenly distributed between major (21%), independent (35%), quasi-independent (5%) label companies and labels not traditionally affiliated with national music associations (35%) e.g. artist labels;
- 83% of the artists funded by the Radio Starmaker Fund have received significant charted airplay in Canada;
- Radio Starmaker Fund's web-based application system allows it to respond easily and quickly to new program changes that are required to respond to changing needs of artists and the music industry; and
- In the last three years, Radio Starmaker has approved 90% of the qualifying applications submitted for 81% of the money sought which is a reflection of focused programs with clear criteria.

423. These reasons, among others mentioned elsewhere in this submission, clearly support directing radio's CTD contributions to commercial funds and will result in a more effective use of funds aimed at marketing and promoting Canadian artists both domestically and internationally that produce tangible and measurable results.

CAB | ACR

424. The CAB submits that the remaining 'legs of the stool' – infrastructure funding and grassroots funding – remain critical to the success of a comprehensive and complementary approach to Canadian talent development and are best left to the support of government through FACTOR and MusicAction. For this reason, the CAB encourages the Government of Canada to continue its support of FACTOR and MusicAction through the Canada Music Fund as a means of achieving its public policy objectives related to the sound recording industry.

425. Prior to developing our CTD proposal, the CAB undertook a "reconnaissance" with various members of the English-language music industry including representatives from major and independent record labels, booking agents, managers and representatives of music industry associations to assess their funding priorities and therefore develop an approach that would result in the most effective use of funds to meet these priorities. During this "reconnaissance" there was overwhelming support for securing funding for the "three legs of the milk stool" and directing more funding towards marketing and promotion initiatives.

426. Should this proposal to consolidate CTD funding be approved, the CAB would encourage representatives of its member companies who sit as members of the Board of Directors of Radio Starmaker Fund and Fonds RadioStar, respectively, to engage in discussions with representatives of Canadian Heritage, FACTOR and MusicAction, to identify the "Best Practices" available for commercial music funding programs on an on-going basis. There are many accomplishments and success stories to be mined from past and current music funding programs in Canada. Drawing from the annals of MusicAction, Fonds RadioStar, FACTOR and Radio Starmaker Fund, a concerted effort to develop new, innovative approaches is required to lead to more effective and efficient outcomes and higher yields on financial contributions. As an analytical basis or starting point for developing "Best Practices" for commercial music funding programs, we have attached the annual report for each of Radio Starmaker Fund, Fonds RadioStar, FACTOR and MusicAction.

427. We are also attaching a report by PricewaterhouseCoopers which was commissioned to provide information to assist the CAB in performing an analysis of the nature of Radio Starmaker Fund and FACTOR funding initiatives. We appreciate the cooperation offered by Radio Starmaker Fund and FACTOR representatives in providing responses to PricewaterhouseCoopers. However, we have been advised that FACTOR may have certain reservations regarding the manner in which the data is compiled and/or presented.

Then . . . Now

PART III

THE FRENCH-LANGUAGE PRIVATE RADIO MARKET

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Part III: The French-language Private Radio Market

French-language Radio

428. In its broadcasting notice of public hearing CRTC 2006-1, the Commission identifies various issues and raises certain questions specifically related to French-language radio.

429. In this section of its submission, CAB first intends to outline the overall situation and some specific characteristics of French-language radio, and to describe its outstanding contribution to promoting French-language vocal music and French-Canadian talent.

430. Next, we will attempt to respond to the Commission's specific questions and suggest several concrete proposals to facilitate the attainment of the objectives identified in the notice of public hearing, while at the same time creating an environment that permits French-language commercial radio to face the unprecedented growth of alternative platforms for accessing musical content and radio.

A – Current Situation and Specific Characteristics of French-Language Radio

431. We wish to establish from the beginning that in the scope of the current process, we have held formal and informal discussions with the representatives of the Association québécoise du disque et du spectacle (ADISQ), Union des Artistes (UdA) and la Société professionnel des auteurs-compositeurs du Québec (SPACQ), and we intend to pursue these discussions from now until the public hearings begin on May 15.

432. During the past decade, ways of accessing musical content have diversified and multiplied as never before. Downloading and music file swapping and the capacity to store thousands of music files on an increasing number of portable devices (laptops, iPods, cell phones, etc.) have severely affected the recording industry on a global scale and at the same time created direct competition with radio and prompted a new type of music consumer.

433. Along with this – and this will increase considerably over the coming years – is diversification in platforms for radio content: Internet radio (free or by subscription), satellite radio, subscription radio, cell phone broadcasts, etc. As we discuss elsewhere in this submission, it appears that these new technologies will have a negative impact on total audience for traditional commercial radio and result in a decrease in advertising, commercial radio's only current source of income.

434. Certainly this situation will affect all Canadian commercial radio, both French and English. However, in traditional radio's battle to confront this unprecedented growth of competition and a profound change in listeners' consumer practices, French-language radio is beset from the start with a certain number of impediments vis-à-vis English-language radio.

Lower profitability

435. Certainly the first of these impediments is the lower profitability of French-language radio stations. As noted in the notice of public hearing, between 2000 and 2004, the PBIT margin for French-language stations gradually fell by 1.3%. In 2004; it was approximately 60% of that of English-language radio, i.e. 11.8% as opposed to 19.8%.

436. The Commission has since published preliminary data (partial) for 2005 that shows that this discrepancy has increased, since the PBIT margin for French-language radio has decreased to 11.6% while that of English-language radio has risen to 23.1%.[77] Therefore, today the profitability for French-language radio is only 50% of the profitability of English-language radio. It should be pointed out also that since the inception of the current policy (1999-2005), French radio stations PBIT grew by a mere 4.4%, from $22.8M in 1998 to $23.8M in 2005, for an average annual growth of 0.7%.

437. We should add that the French-language radio market features a high percentage (60%) of stations operating in markets of less than 100,000 inhabitants. In other words, stations in these small markets have traditionally had lower profitability, below the Canadian average. French-language stations in small markets are no exception to the rule, since their PBIT margin was 6.4%, compared with 13.8% for English-language stations or others operating in markets of like size (fewer than 100,000 inhabitants).[78]

Figure 35

PBIT Margin for Radio By Language

Global market/Individual markets	2000	2004
Canadian radio (all languages and markets)	16.25%	18.31%
English-language radio (all markets)	16.89%	19.77%
French-language radio (all markets)	14.79%	11.73%
Canada's two largest francophone markets:		
Francophone Montreal	21.51%	19.77%
Quebec City	17.28%	11.62%

Sources: CRTC, Commercial Radio, Statistical and Financial reports, 2000-2004 and financial management database system. Financial Summary 2000-2004 – Radio, Montréal franco et Québec

438. Note, however, that even in major francophone markets across Canada, in francophone Montreal and Quebec, profitability for French-language radio tended to decrease from 2000 to 2004, to the extent that in 2004 it was equal to (francophone Montreal) or below the average (Quebec City) of English-language radio (all market segments together). This

[77] Note that the number of reporting French-language stations in 2005 (85) is lower than in 2004 (93), non-reporting stations are all stations in small markets.

[78] See paragraph 85, page 40.

decreased profitability of French-language radio therefore affects markets of all sizes, from major markets to smaller segments.

439. We will return later to the possible reasons for this lower, and falling, profitability. For the moment, note that this limits French-language commercial radio stations' ability to commit the investments needed now and in the future to adapt to the new technologies, ensure the transition to digital format, and face increased competition from other media offering alternative platforms for musical content and radio.

Increased rigidity

440. Another distinguishing feature of French-language radio is its dual obligation regarding musical programming: one related to Canadian musical content (this is the same for English-language radio), and one related to French-language musical content. This rigidity, which limits French-language commercial radio's ability to adapt its programming to its listeners changing tastes and expectations, may weigh increasingly heavier in an environment where radio and music consumers are offered, and demand quasi-total freedom of choice.

441. When the Commission imposed the first quotas for French-language vocal music (FVM) during the early 1970s, listeners, like television viewers, had rather passive consumer habits and a relatively limited range of choices. Francophone television viewers could select from among three French-language television chains – Radio-Canada, Télé-Métropole, and Télé-Québec. Francophone music listeners had only two choices: buy the records to play on their home stereos or listen to the radio. On the radio, listeners could choose among numerous French-language stations, but they rather willingly accepted that all of these stations offered the same high percentage of FVM since the only alternative was to listen to local English-language radio stations. However, since in Quebec this was a time of national affirmation and aggressive defence of the *fait français,* ambient ideology somewhat tempered the attractiveness of the English-language alternative.

442. Obviously, times have changed, as have the behaviours of television viewers and radio listeners. Today, francophone viewers have access to hundreds of television channels, including some thirty French-language channels, both Canadian and foreign, that they can view on their television sets, computers, and, more recently on their cell phones, save to their personal digital recorders, or download to their iPods or portable music devices. And this is only the beginning of a revolution that has already radically transformed ways to access audio content and the behaviour of music consumers.

443. Music and radio listeners, particularly young people, have already moved past this. They are already, in a far greater proportion than television viewers, active, selective consumers on the constant look-out for new products and platforms. They have no loyalty to a particular station, brand, or technology; they will not allow others to decide for them what specific dose

of musical content they can download to their iPod or cell phone, or which internet radio station they can or cannot listen to. Francophone youth of today are also more diverse in terms of origin, more aware of the world, less preoccupied or insecure regarding the *fait français* and more determined than ever to exercise the maximum freedom of choice that the global music industry has to offer.

444. The commercial music industry has learned some costly lessons. By delaying its reaction and continuing its longstanding defensive attitude, which was designed to protect markets for physical recordings, it raised opposition from consumers, missing opportunities to adapt to new consumer behaviours and exploit the new technologies to its advantage. By the time the music industry responded to consumer demand for music in a digital format, it was already somewhat too late: record sales had dropped significantly around the world, and illegal downloading and peer to peer file sharing were rampant to the point where even today (2004) income from legal digital sales represent only 1.4% of music sales throughout the world[79] and estimates put legal digital sales at only 1% of total digital trade for music files.

445. Subject to a dual legislative requirement (for 35% Canadian musical selections and 65% in the French language) that restricts its ability to adapt and innovate, French-language commercial radio is from the outset at a disadvantage in this world of free choice and custom programming, not only versus local English-language commercial radio stations, but also in relation to new competitive radio formats which have little to no regulation.

446. Moreover, the impact of this imbalance is already visible. The drop in weekly listening hours for traditional French-language radio from 1995 to 2004, in favour of alternative sources of musical or radio content, was sharper than for English-language radio: 7.4% as opposed to 6.2% for all listeners aged 12 years and over.[80]

447. But the significance of this decline in listening hours among young francophone listeners (ages 12 to 17) is especially striking and worrisome: -24.8% (as opposed to -19.2% for young Anglophones). Francophone youth are deserting French-language radio in droves and will continue to do so as long as this remains the only radio format subject to tight restrictions in a world where competing platforms for musical and radio content afford steadily increasing freedom of choice, and custom programming.

[79] SNEP, L'actualité du disque, 2005
[80] CMI Presentation to the CRTC staff, July 13, 2005

Figure 36

Demographic Forecast (Quebec)
by Age Group (2005 – 2013)

Year	**Age 0-24**		**Age 25-44**		**Age 45-64**		**Age 65 +**	
	Number (000)	%	Number (000)	%		Number (000)	%	Number (000)
2005	2 173	29.16%	2 148	28.83%	2 102	28.21%	1 027	13.78%
2009	2 083	27.81%	2 031	27.11%	2 250	30.04%	1 127	15.04%
2013	2 015	26.82%	1 964	26.14%	2 271	30.22%	1 264	16.82%
Growth	**-7%**		**-9%**		**+8%**		**+23%**	

Sources : Statistics Canada. Demographic Projections

448. In light of this reality, which will be exacerbated by a significant decrease in the Quebec youth demographic expected by 2013, French-language radio must react quickly. Further in this section, the CAB will suggest measures designed to better prepare French-language radio for the new musical compositions from emerging artists and increase the flexibility of the currently confining regulatory framework.

B – Contribution of French-Language Radio to the Development of Canadian Talent

449. Despite a drop in profit margins since 1998 and significantly lower profit margins than that of its English-language counterparts, French-language radio has made an outstanding contribution to the development of Canadian talent, in terms of broadcasting as well as promotion and financial investment, since the introduction of the Commercial Radio Policy 1998.

Broadcasting Canadian music and French-language vocal music (FVM)

450. In most countries, private radio stations are not required by regulation to broadcast national music or music in the language of the station, or to make direct financial contributions to the development of national talent. Where some countries deem it appropriate to intervene, the primary – and often only – responsibility entrusted to the commercial radio industry is to broadcast a certain percentage of music by national artists. This is often done through incentives rather than quotas.

451. Thus, for example, in Australia, private radio stations are committed, on a voluntary basis and by agreement with the music industry, to broadcasting between 5% and 25% Australian music, depending on station format.[81] In New Zealand, the Radio Broadcasters Association

[81] See Commercial Radio Australia web site and AMPCOM (Australian Music Performance Committee) reports.

(RBA) also voluntarily agreed in 2002 to achieve the goal of broadcasting on average (all formats combined) 20% New Zealand music within a five-year period.[82]

452. In Canada, private French and English-language commercial radio stations, both AM and FM, are subject to an obligation to broadcast 35% Canadian music per week in the popular music categories. To the CAB's knowledge, this is the highest national content exhibition requirement of its type in the world.

453. In several countries (France and Belgium), private radio is subject to obligations to broadcast vocal music in the station language, which, in all of the cases we surveyed, was French. In France, the linguistic quota varies from 35% to 60% depending upon station format and target audience.[83] In 2005, the broadcast share of francophone music selections was 36% for all stations.[84] In Belgium, French-language radio stations must broadcast a minimum of 30% FVM.[85] In Canada, in the popular music category, the regulatory obligation is 65% for all French-language AM and FM stations, without reference to station format or target audience. Again, to our knowledge, this is also the strictest regulatory obligation in the world.

454. Since approval of the 1998 Commercial Radio Policy, French-language commercial radio, despite its financial difficulties and increasingly dynamic and threatening competitive environment, has complied with, and even exceeded, these various regulatory obligations.

455. With the exception of a very few independent stations, all of the major French-language broadcasting groups (Astral, Cogeco, Corus, Radio-Nord) have scrupulously complied with their obligations to broadcast at least 65% FVM on a weekly basis and at least 55% between 6 a.m. and 6 p.m.

456. All of the French-language stations have also largely exceeded regulatory minimums for Canadian music broadcasts. According to a recent Commission study (2005), nearly 85% of the 65% FVM broadcast weekly by French-language stations are selections by Canadian artists. In other words, nearly 55% of the musical selections broadcast weekly by French-language radio stations are by francophone Canadian artists. This does not include English-language Canadian music, which can be included in the maximum 35% allowed for musical selections in a language other than French.

457. French-language commercial radio therefore makes an exceptional contribution to the broadcasting of Canadian music, especially by French-Canadian artists. The contribution is ever more remarkable considering the scope of the market. In the vast majority of countries having regulatory requirements or incentive measures, this contribution towards airplay of domestic music is the only obligation. Thus, it is worth mentioning and celebrating the fact

82 See the RBA site, the 2004 level reached was 17.8%
83 Conseil supérieur de l'audiovisuel (CSA), Quotas de chansons francophones à la radio
84 SNEP files (Key radio figures for 2005)
85 Belgium, Conseil supérieur de l'audiovisuel

that the level of exposure of French-Canadian artists and music through airplay on French-language commercial radio is already exceptional, compared with other countries and extends far beyond imposed regulatory requirements – already the highest in the world. IT is therefore unfortunate that this performance is too often taken for granted, whereas it should be recognized that to achieve these remarkable results it takes the effort and perseverance from the broadcasters.

Financial contributions to developing Canadian talent

458. In our research into radio industry regulations around the world – research covering some twenty countries, including the leading countries of Europe, North America, and Oceania – we were unable to find any examples of where the commercial radio industry is required by regulation to make direct financial contributions to the commercial music industry.

459. In Canada, the Commission has established a policy that requires commercial radio to make financial contributions to Canadian talent development (CTD) which is very different from providing financial support to the commercial music industry. However, the CAB notes that over the years, associations representing the Canadian music industry have come to interpret the policy in this sense. That is, they have attempted to transform contributions to the development of Canadian talent into programs to support the consolidation and infrastructure of the Canadian commercial music sector in order to increase their market share vis-à-vis foreign-controlled firms operating in Canada.

460. The CAB believes this is a disturbing shift that must be corrected quickly. For this reason, as advocated in earlier parts of its submission, the CAB urges the Commission to reaffirm an "artist-centered" approach to Canadian talent development. The CAB submits that should the Government of Canada deem it in the public interest to encourage the consolidation of the Canadian-controlled commercial music sector and improve the sector's profitability, it should develop specific programs for this purpose outside of commercial radio's regulatory framework.

461. This has already happened to a certain extent with the Department of Canadian Heritage establishing the Music Entrepreneur Program (MEP) in 2003 which was subsequently replaced by the newly created Music Entrepreneur Component (MEC). These programs have or will grant tens of millions of dollars to a limited number of established Canadian independent labels in a concerted attempt at industrial consolidation.

462. The CAB submits that it is not the role of the commercial radio industry, financially or by specific regulatory provisions, to provide for this type of consolidation of Canadian independent music labels, especially since the degree of concentration and consolidation of the Canadian-controlled music industry is already significant.

463. As shown in Figure 37, in 2003, the 26 largest Canadian-controlled sound recording firms (by revenue), which represent only 9% of the total number of Canadian-controlled firms, cornered 81% of the total revenues of Canadian-controlled firms. This level of income concentration has only increased, given the significant resources that have been and will be invested to encourage consolidation of Canadian-controlled firms through the MEP and MEC.

Figure 37

Degree of Concentration of Canadian-Controlled Sector of the Sound Recording Industry

Market share of Canadian-controlled firms with annual revenue over $1 million	**1998**	**2000**	**2003**
Number of firms	24	25	26
% of total number of Canadian-controlled firms	***9.13%***	***7.94%***	***9.06%***
Revenue (in M$)	132.2	152.1	192.1
% of total revenue of Canadian-controlled firm	***77.48%***	***80.53%***	***80.87%***
Number of new recordings by Canadian artists	190	168	242
% of total number of new recordings by Canadian artists through Canadian-controlled firms	***23.14%***	***19.35%***	***30.10%***
Number of new recordings by non Canadian artists	994	1 047	1 048
% of total number of new recordings by non Canadian artists through Canadian-controlled firms	***88.04%***	***88.50%***	***90.19%***

Sources: Statistics Canada, Profile of the Sound Recording Industry, 87F0008XDB
Note: These data assume that the fifteen foreign-controlled firms operating in Canada, which in 2003 registered average income of $7M per firm, realize all individual revenue per firm making more than $1M per year.

464. The CAB notes that, according to Statistics Canada, less than 20% of the new sound recordings marketed in Canada in 2003 by the 26 largest Canadian-controlled firms were by Canadian artists.

465. Figure 38 demonstrates that Canadian-controlled sound recording firms increased their market share (to the detriment of foreign-controlled firms) from 1998 to 2003, increasing from 14% to 22% of total revenues. However, this growth in market share by Canadian-controlled firms is certainly due to an increase in their sales of recordings by non Canadian artists, a figure that grew by 71% between 1998 and 2003 while sales of recordings by Canadians fell by 16% over the same period.

Figure 38
Growth of Market Share for Canadian-Controlled
Sound Recording Firms

	1998	2000	2003	Growth
Total revenue from industry related activities ($000)	160 098	176 759	212 396	33%
Percentage of total industry related revenues	14%	15%	22%	
Revenues from sales of recordings by Canadian artists	78 541	63 932	66 149	(16%)
Revenues from sales of recordings by non Canadian artists	24 907	48 179	42 526	71%

Sources: Statistics Canada: Profile of the Sound Recording Industry, 87F0008X1F

466. While private radio is committed to upholding its responsibility for developing Canadian talent, the CAB strongly submits that there is no need or regulatory justification for commercial radio to financially contribute to the development and growth of the Canadian-controlled independent music sector. To be clear, private radio's obligation is to support the development of Canadian artists regardless of the type of label under which they record.

Figure 39
Percentage of Sales of Audio Recordings by Canadian Artists
by Canadian and Foreign Controlled Firms

	1998	2000	2003
Sales share for audio recordings by Canadian artists as percentage of total audio recording sales	**17.3%**	**16.0%**	**15.6%**
Per Canadian-controlled firm - As % of sales/Canadian artists - As % of total sales	 51.0% 8.8%	 46,3% 7,4%	 59.9% 9.3%
Per foreign-controlled firm - As % of sales/Canadian artists - As % of total sales	 49.0% 8.5%	 53.7% 8.6%	 40.1% 6.2%

Sources: Statistics Canada: Profile of the Sound Recording Industry 87F0008X1F

467. In this regard, keep in mind that 40% of total sales in Canada of sound recordings by Canadian artists in 2003 were by foreign-controlled firms.

468. Having said this, both the Commission's 1995 CTD policy and its transfer of ownership policy, which requires 6% of the value of the transaction to be directed to CTD initiatives,

have resulted in a significant increase in commercial radio's contributions to FACTOR/ MusicAction and Fonds RadioStar/Radio Starmaker, funding agencies aimed at supporting the development of French and English-language music.

Figure 40

Contributions of the Radio Industry to
Musicaction/FACTOR and Radio Starmaker/Fonds Radiostar
(In $000)

	1998	1999	2000	2001	2002	2003	2004	2005	2005 /1998
MusicAction	399	438	572	466	924	1 028	2 213	1 750	339 %
Fonds RadioStar					1 511	2 208	2 286	3 961	-
Total	**399**	**438**	**572**	**466**	**2 435**	**3 236**	**4 498**	**5 711**	**1 331%**

Sources: MusicAction and RadioStarmaker Fund annual reports

	1998	1999	2000	2001	2002	2003	2004	2005	2005 /1998
FACTOR	981	1 237	1 029	1 717	3 041	3 350	5 210	5 376	448%
StarMaker	-	19	1 198	2 276	2 831	4 249	4 314	5 055	-
Total	**981**	**1 256**	**2 227**	**3 992**	**5 872**	**7 598**	**9 524**	**10 431**	**963%**

Sources: MusicAction, FACTOR, Fonds RadioStar and Radio StarMaker funds annual reports

Note: Fonds RadioStar only began operations in 2001-02, therefore the contribution shown for that year represents an accumulation for former years plus interest. The amounts paid by broadcasters to the Radio StarMaker Fund/Fonds RadioStar in terms of concrete benefits are still subject to an 80/20 division depending on the language of the stations involved.

469. As shown in Figure 40, from 1998 to 2005, annual contributions from the commercial radio industry to the French-language funding agencies increased 1331% (or by a multiple of 14) from $400,000 in 1998 to $5.7M in 2005.

470. Of course, the major part of this increase in annual contributions was due to significant benefits transactions, but there is nothing to confirm that the number or value of transactions will decrease in the near future, in a world where broadcasting and telecommunications sectors continue to favour a development strategy based on cross-media and multimedia ownership.

471. Besides, even though annual regulatory contributions to the development of Canadian talent, established for each station by market size, have not increased since the Commission set them in 1995, it is still true that while the profitability of French-language radio stations is

falling, these contributions represent an ever-growing portion of PBIT for French-language radio.

Figure 41

Contributions to MusicAction and FACTOR 2004

French-language radio		Contribution to MusicAction		
Revenue	PBIT	$	% of Revenue	% PBIT
$195.1M	$23.1M	$332,000	0.17%	1.44%
English-language radio		**Contribution to FACTOR**		
Revenue	PBIT	Revenue	PBIT	Revenue
$998.2M	$197.4M	$775,000	0.08%	0.399%

Sources: CRTC Statistics and financial reports (revenue and PBIT), Broadcasting Policy Monitoring Report (CTD annual contributions to MusicAction)

472. As shown in Figure 41, in 2004 :

- The regular contribution by the radio industry to MusicAction represented a percentage of revenue for French-language radio that was twice as high as the contributions to FACTOR in percentage of revenue for English-language radio;

- The regular contribution by the radio industry to MusicAction represented a percentage of PBIT for French-language radio that was four times higher than contributions to FACTOR in percentage of PBIT for English-language radio.

Royalty payments

473. As indicated elsewhere in this submission, royalty payments made by the radio industry more than tripled, growing from a little more than $20 million to close to $70 million between 1995 and 2005, if the recent (October 2005) decisions by the Copyright Board are taken into account.

474. Since these contributions are established as a percentage of revenues for French-language radio in the same manner as they are for English-language radio, it must be taken into account that these payments represent a much greater burden because French-language radio has demonstrated weaker profitability. When one applies these contributions are calculated on a percentage of profit before interest and taxes (PBIT) – which in 2005 will be more than double for French-language stations than for English-language stations – it is clear that they will have a much stronger negative effect on the ability of French-language radio to improve its situation and reach a level of reasonable profitability.

Conclusions

475. Although the regulatory obligations for financial contributions to CTD are identical for both the English and French-language radio sectors, contributions by French-language radio to talent development and to royalty payments represent a greater proportion of PBIT, since the PBIT margin of the French-language radio sector is significantly lower than that of its English-language counterparts. In 2005 (preliminary findings), it was less than half.

476. In an environment where consumer preferences for music and radio content have already changes profoundly and are likely to evolve toward increasing freedom of choice and custom programming, French-language commercial radio is subject to specific regulatory constraints (% of FVM) that limit its ability to adapt to these new realities.

477. The CAB strongly submits that the Commission must consider this specific current situation as it prepares to review the Commercial Radio Policy 1998, so as to allow French-language commercial radio the requisite flexibility and incentives it needs to face competition from the ever-increasing number of alternative platforms for musical content and radio.

C – Proposals and Responses to Specific Questions from the Commission

478. In this section, the CAB will first discuss most of the issues raised by the Commission's notice of public hearing concerning French-language radio. The responses to several items for which members could not reach a consensus will be discussed by individual radio broadcasters in their individual interventions. The CAB will also propose a number of initiatives and concrete measures to help achieve the objectives identified by the Commission in its notice of public hearing.

479. The CAB has grouped its responses under five headings:
- Profitability of French-language radio
- French-language vocal music (FVM)
- New music and emerging artists
- Contribution to Canadian talent development (CTD)
- Promotion of local artists and cultural diversity

Profitability of French-Language Radio

480. Having noted a decrease in profits before interest and taxes (PBIT) for French-language stations of 1.3% between 2000 and 2004, compared to an increase of 8.8% of PBIT for English-language stations during the same period, the Commission is seeking to explain this decrease in profitability of French-language commercial radio.

481. The CAB has identified three factors that could contribute to this decrease in profitability of French-language commercial stations: a) sharing audiences with local English-language radio

stations in bilingual markets, b) the obligation to incur higher programming expenses to stand out, and c) long-standing uncertainty regarding ownership and orientation of the only prominent French-language radio network.

Competition from English-language radio stations

482. Like their English-language counterparts, French-language commercial radio stations have had to face competition from alternative platforms for musical and radio content: legal and illegal downloading and music file sharing, Internet radio, subscription radio (by satellite or Internet-based), mobile broadcasting (cell phones) and other forms of portable broadcasting, etc.

483. However, French-language commercial radio must also share audiences with local English-language commercial stations, particularly in the two markets considered bilingual, i.e. Montreal and Gatineau-Ottawa. It is important to note that the metropolitan areas surveyed in Montreal and Gatineau house more than 50% of the total population of the province of Quebec.[86]

484. Since a significant percentage of francophone listeners (French used in the home) in both these markets listen to local English-language radio stations, French-language stations are forced to share their audiences with English-language stations which impacts their profitability. This is not the case for English-language commercial stations elsewhere in Canada, or even in Quebec, because a very small percent of Anglophone listeners (English used in the home) in the Montreal and Gatineau metropolitan survey areas listen to local French-language stations.[87]

Obligation to incur higher programming expenses to stand out and repatriate listeners from English-language stations

485. The requirement to broadcast at least 65% FVM weekly (including at least 55% of this between 6 a.m. and 6 p.m. weekdays) means that French-language stations cannot offer as wide of a range of musical formats as their English-language counterparts. As a result, they must draw more frequently from a common FVM well, which does not allow them to stand out from the English-language stations in bilingual markets. As we have just mentioned, they must also struggle to avoid the loss of francophone listeners to local English-language stations.

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[86] Sources : Institut de la Statistique du Québec, Population et occupation du territoire, régions métropolitaines de recensement du Québec 2001

[87] French-language stations are, in this regard, in a similar situation to English-language stations in border markets such as Windsor, which must share their English-language audience in their market with "local" American stations.

486. For this reason, spoken-word content is a major factor in competitive differentiation and positioning for French-language radio stations, which devote a very significant proportion of their resources to this type of programming. In fact, the percentage of total revenues allocated to programming expenses is significantly higher for French-language radio than for English-language radio.

487. As shown in Figure 42, from 2000 to 2004, French-language radio stations allocated slightly more than 31% of total revenues to programming expenses, as opposed to 27% for English-language stations, or 15% more on average. This is a significant discrepancy that impacts directly on the profitability of the stations.

Figure 42

Programming Expenses of French and English-Language Radio Stations in Percentage of Total Revenues (Cumulative 2000-2004)

	English-language stations	**French-language stations**
Revenue	$4 557.3 M	$915.1 M
Broadcasting expenses	$1 232.4 M	$285.2 M
Percentage of revenue	**27.04%**	**31.17%**
PBIT	$828.0 M	$127.4 M
PBIT margin	18.17%	13.92%

Sources: CRTC, Commercial radio, Statistical and financial data, 2000-2004

488. Indeed, if the French-language stations were able to control their programming expenses within the same parameters as English-language radio stations (i.e. 27% of revenue), they would have obtained a comparable PBIT margin of 18% (assuming all other factors remained equal). However the specific constraints imposed on them by FVM requirements have forced them to devote significant financial resources to spoken word content, with star announcers and commentators.

489. The CAB also notes that French-language stations in the bilingual Montreal market allocated 34% of total revenues to broadcast expenses over the same period,[88] i.e. 19% more that the average for French-language radio and 26% more than the average for English-language radio.

Long-standing uncertainly regarding ownership and orientation of the only prominent French-language talk network

490. The final factor, more closely related to the economy, is the uncertainty that has long prevailed with respect to the orientation of the leading French-language talk network.

[88] Sources : CRTC, Commercial Radio, Statistical and Financial data 2000-2004, Montreal (Francophone) Market.

491. While a number of significant mergers in the private television and English-language commercial radio sectors (Quebecor media/Vidéotron-TVA, BCE/CTV, Standard/Télémédia, CHUM/Craig, etc.) have all been approved and implemented quickly, a key transaction in the French-language radio sector, the Astral/Télémédia deal, despite receiving authorization from the Commission, was denied by the Competition Bureau. This was followed by a series of subsidiary deals that were denied or aborted and it took nearly four years before a new owner, Corus Entertainment, finally assumed the helm of Radiomédia, the leading French-language talk network. Without a doubt, this lengthy period of uncertainty helped to decrease the overall profitability of French-language radio.

492. This market-related factor should be curtailed over time. However, the two other factors will continue to negatively impact the profitability of French-language radio, particularly with regard to programming expenses. Given the increased tuning to English-language stations by francophone listeners, and the multitude of platforms available for accessing musical content, the need to invest in exclusive content through spoken word programming will certainly increase.

French-Language Vocal Music

493. The principle of requiring French-language radio stations to broadcast weekly minimum quotas of French-language popular music selections (category 2) was first instituted more than thirty years ago in 1973. The imposition of this key requirement reflects the Commission's conviction that French-language commercial radio must play a significant role in safeguarding and enriching francophone cultural expression.

494. However, the CAB respectfully submits that the quota proposed at the time (65% of weekly programming; 75% of that between 6 a.m. and 6 p.m.) was not based on scientific information or any specific analysis of the relationship between this arbitrarily established percentage and the availability of FVM content, or the impact that this quota could have on the various musical formats within French-language radio.

495. In the years following the introduction of the FVM quota, this percentage has been questioned numerous times and been temporarily lowered until it reached its current level in 1990: 65% of FVM broadcast each week for all French-language AM and FM stations, regardless of musical format or target audience (*Public Notice CRTC 1990-21*). In 1992, this percentage was included in the Radio Regulations 1986 (Public Notice CRTC 1992-72), and in 1998, the Commission reviewed the quota and added the requirement to broadcast at least 55% of FVM between the hours of 6 a.m. and 6 p.m. (*Public Notice CRTC 1990-41*).

496. Even today, it is impossible to establish a clear correlation between the required broadcast quotas imposed on commercial radio for Canadian or French-language music and the

volume of production or sales of audio recordings by Canadian or French-language artists in Canada.

497. There are a multitude of creative, economic, cultural, and commercial factors that affect the volume of production or sales of audio recordings by Canadian artists; factors that are impossible to isolate. The theory that an increase or decrease in regulatory requirements for Canadian content or FVM will result in an increase or decrease in the volume of production and sales of Canadian and French-language sound recordings has never been satisfactorily demonstrated and does not stand up to analysis.

498. For example, in 1998 the Commission decided to raise the minimum quota for weekly broadcasts of Canadian popular music selections from 30% to 35%. This measure took effect on 3 January 1999. According to Statistics Canada, this increase has had no positive impact on total sales in Canada of sound recordings by Canadian artists. In fact, sales dropped from $154M in 1998 to $110M in 2003, i.e. a decrease of 29%. The fact that the global and Canadian markets for sound recording sales was declining was certainly part of this, as well as the decision to drop per-unit prices in this environment. However even as a percentage of total sales, sound recordings by Canadian artists in Canada did not increase: rather they fell slightly from 17.3% to 15.6% between 1998 and 2003.[89] It is therefore impossible to establish a clear correlation between an increase in proportion of airplay and an increase in sales of sound recordings.

499. We should also point out in passing that the Canadian music content requirements imposed on radio stations (35%) is more than double the free selection made by Canadians when they buy recordings (16% on average). According to Statistics Canada, French vocal music sales were accounting for 27% of total record sales in Québec in 2003, which represent 2.4 times less than the regulatory requirement imposed on private French-language radio.[90]

500. One oft-heard argument is that the situation would be worse without mandatory broadcast quotas. Once again, it is impossible to demonstrate the accuracy of this statement. In the feature film sector for example, movie theatres are not required by law to show a minimum quota of Canadian films. However, from 1998 to 2003, the market (percentage of total box office sales) for Quebec films in Quebec movie theatres rose from 7.2% to 18.2%, an increase of 153%.

501. We can assume that this increase was due in large part because of the introduction of a new Canadian feature film policy in 1999, which was accompanied by a substantial increase in federal funding contributions for Canadian films. However, the CAB notes that although both French and English language films received a proportional increase in funding,

[89] Data from Statistics Canada, Profile of the Sound Recording Industry, 2003 (October 2005), no 87F0008X1F
[90] Statistics Canada, Special Compilation from the Profile of the Sound Recording Industry, 2003 (October 2005)

Canadian English-language films did not enjoy significant growth in market share during that same period. Once again, creative, cultural and social factors had greater influence.

502. We would also note that the Canadian music industry has also benefited greatly from the considerable increase in contributions by the federal government and Quebec government and the contributions made by private radio to their funding – on top of the increase from 30% to 35% in Canadian content on the radio – without these measures translating into an increase sales of recordings by Canadian artists.

503. The same phenomenon can be observed in terms of production volume. Despite an increase in broadcast requirements for category 2 Canadian popular vocal music, and a significant rise in financial contributions from the commercial radio industry to music funding agencies (some 1170% from 1998 to 2003)[91], the total number of new sound recordings by Canadian pop/rock music artists fell from 379 in 1998 to 300 in 2003, a drop of 21%, while it increased by 18% in the jazz/blues (category 3) sector[92] for which the Commission did not increase requirements in 1998. The Commission even reduced requirements in 2000 when jazz was moved from category 3 (minimum 10% Canadian content) to category 2 (minimum 35% Canadian content).

504. Inversely, we observe that, while the Commission opted in 1998 to maintain the weekly FVM broadcast quota at the 1990 level (65%), the number of French-language sound recordings by Canadian artists increased by 29% from 159 in 1998 to 205 in 2003, according to Statistics Canada. Data published recently by the *Institut de la statistique du Québec* shows that, as a percentage of top record sales in Quebec, the market share for Quebec artists rose from 31.7% to 46.7% between 2002 and 2004.[93] This occurred despite the fact that the regulatory requirements for FVM (65%) had not changed in more than 15 years.

505. **While the CAB supports the need to ensure Canadian expression on commercial radio stations it does not believe that increasing or decreasing minimum broadcast quotas for Canadian music and FVM, will result in a corresponding increase or decrease in the production volume or sales of sound recordings by Canadian or French-language artists. Quite simply, the facts prove otherwise.**

506. In its notice of public hearing CRTC 2006-1, the Commission – without questioning the basic premise of its policy – is asking whether FVM requirements are appropriate mechanisms to guarantee the diversity of French-language artists and music in the francophone market. If not, what mechanisms could remedy the situation?

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[91] See Table 40
[92] Statistics Canada, Profile of the Sound Recording Industry 2003 (October 2005), no 87F0008X1F
[93] Observatoire de la culture et des communications, Statistiques en bref, no 17, February 2006. Note that this is the percentage of sales among the top 350 highest selling titles by month in Quebec, and not percentage of total sales.

507. The CAB submits that current FVM requirements have had a negative impact – albeit unintended – on both the diversity of musical formats for French-language radio and on the diversity of the French-language musical selections and artists broadcast by specific stations.

508. The limited size of the French-language market, and the limited supply of FVM albums of interest to listeners, particularly in the sub-categories of lesser known and new popular music, mean that stations playing primarily French-language music can use only two or three musical formats that are broad enough to comply with the 65% FVM quota and reach enough listeners to ensure the viability of the station. Keep in mind that advertising is the sole source of revenue for commercial radio stations.

509. Thus, for example, in the six (6) main Quebec markets, the 23 non-specialized commercial radio stations (primarily musical) operating in 2005 utilized three main musical formats: adult contemporary (10 stations), contemporary hits – rock (11 stations), oldies – nostalgia (2 station). These stations captured 91% of the total French-language radio audience in these six markets.

Figure 43

Distribution of French-Language Radio Stations in the Six Main Quebec Markets by Musical Format

Market	Adult Contemporary	Hit Parade Contemporary/Rock	Oldies/Nostalgia	Specialized Classical/Jazz
Franco Montreal Reach	CITE, CFGL 14 027 200	CKMF, CKOI 15 612 400	CFAV 502 500	CJPX, CKLX 4 762 700
Quebec City Reach	CITF, CJEC 3 558 400	CHIK, CHOI, CJMF 6 542 700	CFOM 2 530 800	
Gatineau Reach	CIMF 2 075 700	CKTF 1 325 300		CHLX 623 600
Trois-Rivières Reach	CHEY, CJEB 1 863 200	CIGB 941 100		
Saguenay Reach	CFIX 998 000	CJAB, CKYK 1 695 000		
Sherbrooke Reach	CITE, CFGE 2 892 200	CIMO, CIGR 1 451 700		
Total stations %	**10 38%**	**11 42%**	**2 8%**	**3 12%**
Total audience %	**25 414 700 41%**	**27 568 200 45%**	**3 033 300 5%**	**5 386 300 9%**

510. Given the 65% FVM constraints and the fact that advertising revenue is its sole source of income, no French-language commercial radio station can hope to survive with formats such as Hip Hop, Heavy Metal, alternative Rock, Techno, Rap, Reggae, or even Country due to

the insufficient supply of music available in these genres. They must therefore all keep to the centre of the spectrum and use the leading pop music formats.

511. The CAB also notes that when jazz was considered as category 2 popular music and was therefore subject to the 65% FVM requirements, no French-language station offered a jazz format. It was only once the Commission moved jazz from Category 2 to Category 3 (Public Notice CRTC 2000-14), and stations ceased being subject to the FVM quotas, that they began to explore the jazz format.

512. The fact that the number of musical formats commercially available to French-language radio is so limited, and that these stations must inevitably play a significant amount of popular music sub-categories in order to remain competitive, there is little air time for francophone music and artists working in the other pop music sub-categories; this is particularly true for emerging artists.

513. These artists therefore find themselves in a typical chicken and egg situation. Supply of FVM in these sub-categories is currently insufficient to support the needs of profitable commercial radio stations since they are subject to the 65% FVM requirement. However, the absence of commercial radio stations exploiting these pop music sub-categories does not favour an increase in the number of FVM albums in these sub-categories marketed in Canada.

Figure 44

Availability of FVM Albums Distributed in Canada and Comparison of FVM Broadcast Requirements for Radio (2003)
France/Canada (2003)

CANADA		FRANCE	
Number of new commercial FVM albums (including compilations)	312	Number of new commercial FVM albums (excluding compilations)	718
FVM broadcast requirements	65% for all stations	FVM broadcast requirements	Varies according to station format Average: 37%

Sources: Canada: Statistics Canada, Profile of the Sound Recording Industry; France: SNEP, L'actualité du disque, Bilan 2003

514. To assess the extent of the disparity between FVM broadcast requirements and the supply of FVM, we now have a point of comparison with France, since French radio stations are also subject to FVM broadcast requirements. Figure 44 provides a comparison of the situation in Canada and France in this regard.

515. As we can see, in 2003 (the most recent year for which Statistics Canada has published data), the availability of new FVM albums was 2.3 times greater in France (718 albums) than in Canada (312 albums). However, FVM requirements imposed on radio stations were far less stringent in France (37%) than in Canada (65%). As a result, in France the stations had a supply of 19.4 new FVM albums for each percentage point of broadcast requirement, while in Canada French-language stations had 4.8 new FVM albums for each percentage point of broadcast requirement, i.e. one-quarter that of France.

516. It is important to emphasize that the French data excludes compilations, while Canadian data does not. We should also note that the 312 albums with French lyrics marketed in Canada in 2003, includes all music categories and not solely category 2 including traditional and folk music, blues and jazz, world music, classical music (opera and operettas with French lyrics), and albums for children.

517. It is also important to note that not all albums that are available are equally attractive to French-language radio listeners as potential purchases. The Observatoire de la culture et des communications du Québec recently published data for Quebec record sales from 2002-2004. This report indicates that, in December 2004, of the 64,272 titles sold in Quebec, the top 500 titles, i.e. 8% of the total, accounted for 60% of all sales and that the top 100 titles, i.e. 0.2% of the total, accounted for 39% of total sales.[94] This demonstrates the extent to which the number of truly successful titles is limited.

518. This is an extremely important factor that, when ignored, often leads to misunderstanding. Associations representing the music industry often reproach French-language radio stations for broadcasting only a small fraction of the Canadian music and FVM marketed in Canada, counting all selections (number of albums times number of selections per album).

519. Firstly, the CAB wishes to point out the contradiction between the complaints of the music associations and the practices of record producers and record marketing executives who insist that, for a given period of time, radio stations play only the selection they have chosen to promote and feature during a given period. In fact, the music executives are extremely unhappy if stations deviate from this forceful invitation and play other selections besides those targeted in the record company's marketing strategy.

520. In addition, as discussed above, not all marketed albums are of equal interest to both radio listeners and sound recording buyers, that not all of the selections on an album (even the most popular album) are of equal interest or even suited to the musical format of a given station. It is therefore impossible to suggest that commercial radio stations can play all of the new musical selections available in similar proportions. This would be similar to asking large record outlets to sell the same number of copies of each title in the store.

[94] Observatoire de la culture et des communications, Statistiques en bref, no 17, February 2006

521. This is a reality shared by all cultural industries marketing replicatable products (recordings, books, films, etc.): they offer an extremely broad and diversified range of products within which consumers focus their selections on an extremely small number of titles. Thus, in Quebec in 2004, movie theatres screened 730 different feature films, which garnered an audience of 27.6 million; however it is estimated that the 15 most popular films (2% of the total) captured more than 50% of the total audience.[95] In the record sales sector, as we have seen, less than 1% (precisely 0.16%) of the titles available account for nearly 40% (precisely 39.3%) of total sales.

522. Furthermore, when ADISQ reproaches French-language commercial radio for devoting 49.1% of its FVM air time to the top 15 songs on the Top 100,[96] it is merely affirming that radio practices reflect consumer behaviour. This pattern is also evident in the commercial music industry, where the concentration of sales is much higher than the concentration of airplay. Before blaming the radio industry, the commercial music industry must first be able to question its own practices and consider initiatives it could take to encourage greater diversity in recording sales.

523. The music industry must also look at what is happening elsewhere. They will note that French-language radio has established practices regarding average air time for hits with staying power, as opposed to similar practices for North-American radio stations.

[95] Observatoire de la culture et des communications du Québec, Statistiques sur l'industrie du film, 2005 edition
[96] La Presse, Sunday 19 February 2006, Arts and Entertainment section, page 2

Figure 45

Leading North-American Markets, CHR Format

Number of Weekly Broadcasts of Top 10 – Week of February 13 - 20 2006

Stations	# 1	#2	#3	#4	#5	#6	#7	#8	#9	#10	Total
Philadelphia WIOQ	123	120	111	99	96	93	78	75	69	67	**931**
Miami WHYI	113	113	112	111	110	99	97	58	58	50	**921**
Dallas KHKS	121	121	119	117	117	83	58	58	56	54	**904**
Los Angeles KISS	115	115	110	107	77	73	73	59	59	58	**846**
Chicago WKSC	111	111	103	101	99	64	59	56	55	49	**808**
New York WHTZ	112	109	85	75	68	64	60	59	59	59	**750**
Boston WXKS	122	115	77	68	67	61	60	60	57	57	**744**
US Average											***843***
Vancouver CFBT	85	76	74	65	52	46	42	40	39	38	**557**
Ottawa CIHT	65	65	64	57	55	53	53	50	48	46	**556**
Calgary CIBK	61	59	59	58	58	57	45	44	42	42	**525**
Toronto CFXJ	58	56	53	51	47	47	44	38	37	37	**468**
Canadian average ENGLISH											***526***
Franco Montreal – CKMF	**27**	**26**	**26**	**25**	**24**	**24**	**22**	**21**	**21**	**21**	**237**

Source: BDS Canada

524. Figure 45 shows that, if we compare stations using the contemporary hits radio (CHR) format in a dozen major North American markets, the total number of Top 10 broadcasts is considerably higher in the United States (average of 843 weekly broadcasts) than in Canada (average 526 weekly broadcasts). For French-language CHR radio stations in Montreal, the total number of weekly Top 10 broadcasts (237) is less than half that of radio stations using the same format in key Canadian English-language markets and approximately one-quarter that of US stations using the same format.

525. In fact, French-language radio broadcasts the #1 hit from the Top Ten charts less often on a weekly average basis (27 times) than the #10 hit from the same list in any of the 12 key American and English-language Canadian markets studied (varied from 37 to 67 broadcasts).

526. We were unable to find such detailed per-station data for French radio (in France), but some of the information published by the Observatoire de la musique in its report on musical

diversity in the radio industry, *La diversité musicale dans le paysage radiophonique* (2003 edition) appears to indicate that the practices of French radio stations target a young audience more similar to that of US radio than of Canadian English-language radio, let alone French-language radio. The report shows (on page 10) that a popular selection may be broadcast as many as 125 times per week on "youth" radio, i.e. nearly as often during the day (18 broadcasts) as during the whole week (27 broadcasts) for French-language radio in Canada.

527. **What makes French-language radio unique in Quebec is the infrequency with which it plays the top hits compared to practices in the United States, English Canada, and France. This situation certainly was prompted by the specific regulatory stringency imposed on this industry – which negatively affects profitability.**

528. The CAB notes that there is often a total contradiction between the words of the associations representing the music industry – who complain about too many broadcasts of top hits and so-called programming discrepancies between the various French-language stations with differing formats – and the actions of record producers and marketing executives.

529. Indeed, French-language station music directors tell us that, for all intents and purposes, they never get complaints from a recording house to the effect that one of its recordings is played too often; on the contrary, complaints often note that selections are not broadcast often enough. Furthermore, when a music director tries to explain to a producer that a certain musical selection is appropriate to one station format but not to another and therefore only broadcasts the selection on one station, the producer usually tries to convince him/her that the opposite is true—that "his" or "her" selection is appropriate for all audiences and should be played often on all stations.

530. **Having said this, the CAB does not question the principle of FVM quotas for French-language radio stations, including the current 65% requirement, and minimum 55% between 6 a.m. and 6 p.m. weekdays. The CAB also submits that the current rules regarding integrated production and broadcasting of music selections are appropriate and do not need to be changed. However, in the following sections the CAB proposes mechanisms and incentive measures that, working within these parameters, will help reduce the undue negative impact of applying these requirements to the range of musical formats in French-language radio and increase the diversity music from new francophone artists that is given airplay.**

New Music and Emerging Artists

531. To mitigate the negative impact that the requirement to broadcast at least 65% FVM has and will have on achieving objective C of the notice of public hearing, i.e. A commercial radio sector that provides listeners with a greater diversity of musical genres, and airplay for a

greater variety of Canadian artists in both official languages, CAB proposes the following measure:

532. **CAB proposes the creation of a bonus system designed to encourage airplay for new FVM selections by emerging artists. This incentive would assign an FVM value of 150% to a "new work" interpreted by an "emerging artist."**

533. **To implement this incentive, the following definitions would apply:**

- ***New selection:* A French-language musical selection by an emerging artist will be considered a new work eligible for points (value=150%) during the first 12 months following its listing on "Les Palmarès" trade publication.**
- ***Emerging artist:* a singer will be considered an emerging artist during the first four years (48 months) following listing of his or her first release on the Hit Parade.**

534. **For the purposes of this definition, the notion of artist includes duos, trios and groups operating under an established identity. If an artist who is a member of a duo, trio, or group with an established identity launches a solo career or creates, in company with others, a new duo, trio, or group with a new identity, this solo artist or new duo, trio, or group will be considered an emerging artist for the first four years (48 months) following the date its selection under the new identity is listed on "Les Palmarès" trade publication.**

535. This bonus system is based on a model that the Commission developed many years ago for the television broadcasting sector. Without altering the minimum broadcast requirements for Canadian content listed in the *Television Broadcasting Regulations* (60% during the day and 50% during the evening), the Commission opted, in an effort to encourage the broadcast of more Canadian drama, to award a point value (150% Canadian content) to Canadian dramas meeting certain criteria.

536. We propose the following objectives in relation to this bonus system:

- Increase the range of francophone music and artists on French-language radio;
- Place more importance on new music from emerging artists;
- Allow French-language radio stations to be able to set themselves apart from others in terms of musical content; and
- Enable French-language radio to better resist competition from English-language radio stations and alternative platforms for music and radio content, thus increasing profitability.

537. The advantage of this type of incentive is that it would allow each network or individual station to make personal choices without forcing them into a common mould. Each station could explore on its own, proposing a specific proportion of new francophone music and emerging artists, taking into account the station's musical format, target audience, and the availability of FVM recordings of a given genre. This would increase musical diversity overall and the programming differences among French-language stations and networks, while providing additional airplay for new music from emerging francophone artists. The CAB submits that the introduction of a bonus system would also help broaden the range of musical formats used by French-language radio.

538. This measure would constitute a critical incentive to play a greater number of new music selections by new emerging artists, which for many of them, would not otherwise be played. This is important in an increasingly-competitive landscape. Moreover, given the stations' limited capacities to include international hits in their playlists due to restrictions imposed by the Commission on the number of non-French-language selections they can play, they must rely heavily on FVM selections that have the potential to become Top 10 hits. This in turn means there is very limited time to play new music selections by emerging artists. By providing some flexibility on the percentage of French radio playlists that can be devoted to international hits in languages other than French, the proposed measure creates the necessary space to broadcast more new music selections by new emerging artists on French language private radio.

539. Moreover, the impact of this measure on the overall percentage of French-language category 2 vocal music broadcast weekly will be limited.

540. Since the points would only be awarded to FVM meeting both conditions, i.e. "new" music by an "emerging" artist, there is a "natural limit" on how many musical selections would be eligible for this credit. These "natural limits" relate to supply, the limited number of new albums by emerging francophone artists currently marketed in Canada, and listeners' interest in a given station.

541. The CAB notes that despite our repeated requests, ADISQ has never been able to provide us with precise figures on the number of albums of Category 2 French vocal music produced and/or marketed in Quebec which meet the proposed definitions of new music and new artist. In fact, the music industry – which is so quick to insist that the radio industry provide them with substantial amounts of information on its financial state, the number of and titles of songs broadcast every week, the portion of new releases added to playlists, the percentage of spins for each of them, etc…– is never, for its part, amenable to providing detailed and/or accurate information on the number of French vocal music albums sold by category and by musical genre, which have been produced or marketed each year. This is a deficiency which the Commission should, in our view, attempt to correct at the time the hearing.

542. In the absence of detailed and accurate information from the music industry broken down by category and by genre, we have asked MusicAction to provide us with information on its own activities to fund the production of Canadian French-language albums from 1998 to 2005.

Figure 46

Projects Funded by MusicAction
(1998-2005 Cumulative)

A) Number of Albums Funded by Genre

Category	Number of Albums (%)	Category	Number of Albums (%)
Pop	179	Alternative	26
Pop/Rock	60	Hip Hop	16
Rock	21	Urban	14
Subtotal for Popular and Rock :	***260 (48%)***	***Subtotal for Modern Music:***	***56 (10%)***
Classical	82	Country	10
Instrumental	15	Contemporary Folk	8
Jazz	30	Traditional	23
World Music	31	Youth	23
Subtotal for Specialty Formats:	***158 (29%)***	***Subtotal for Other :***	***64 (12%)***

B) Ratio of First and Second Albums Versus Established Artists

First Albums	Second Albums	Third and +	Total
191	87	245	523
36.52%	**16.63%**	**46.85%**	**100%**

Source: MusicAction. This information could only be verified for 523 of 538 of the albums funded.

543. The CAB notes that for the combined categories of Pop/Rock and Modern Music, MusicAction funded 316 albums of Category 2 popular music over eight years (which, we presume, are all French-language releases), or approximately 40 releases per year. Approximately 53% of 40 releases per year are first and second albums. The CAB therefore estimates that on average, MusicAction supports 21 FVM albums per year from new Canadian French-language artists.

544. Of course, not all new albums from Canadian French-language artists in FVM category 2 are supported by MusicAction, and we must also take into account the availability if FVM albums from non-Canadian artists. Once again, in the absence of detailed and accurate

information from the music industry itself, we are forced to speculate and rely on imprecise data. If we apply the information from Statistics Canada – which indicates that 312 new albums of FVM from all categories and from all countries were distributed in Canada in 2003 (see Figure 44) – the percentage of albums of Category 2 popular music, including the percentage of first and second albums accounted for by MusicAction, we can estimate that the total annual supply of new FVM albums from new artists would be in the order of 46 albums for that year – some popular, others barely noticed. This represents less than 15% of all FVM albums distributed in Canada. This is not a large number, and demonstrates that the supply will impose a natural limit on the use of the 150% bonus.

545. The other natural limit is also related to the commercial nature of the private radio sector, which relies exclusively on advertising revenues; these stations have no interest in eliminating their repertoires or confining themselves to a congruent share of hits, new music and somewhat older hits (13-36 months) by more firmly established popular artists. Rather, the abundant use of these older hits is indispensable to attract and retain listeners, thereby assuring their continued financial viability.

546. Such a bonus system would permit the Commission to simultaneously meet two of its objectives: to ensure that French-language radio continues to play an important role in the enrichment of francophone cultural expression and will positively affect the growth and presence of new music from new francophone artists on the airwaves.

Figure 47
Effect of Applying a 150% Credit to New Music from New Artists on the FVM Quotas

	if 0% new music by new artists	if 5% new music by new artists	if 10% new music by new artists	if 15% new music by new artists	if 20% new music by new artists	if 25% new music by new artists	if 30% new music by new artists
Actual % of FVM	**65%**	**63%**	**60%**	**58%**	**55%**	**53%**	**50%**

Note: Percentages have been rounded up to the next unit

Contributions to Canadian Talent Development

547. In 1995, the Commission approved a new measure involving the mandatory contributions to Canadian talent development (CTD) that individual stations are required to pay annually to eligible third-party agencies dedicated to developing and promoting Canadian music talent.

548. Essentially, an annual fixed rate was set for each station, depending on market size: major markets, $27,000; large markets, $8,000; medium to large markets, $5,000; medium markets, $3,000; small markets, $400. The goal was to ensure maintenance of an overall contribution of at least $1.8M to FACTOR, MusicAction and other eligible third-party agencies.

549. In Figure 48, we see that this goal has not only been reached, but greatly surpassed. Since the CAB Plan was fully implemented, CTD paid to eligible third parties has continuously exceeded $1.8M per year. In addition, the average yearly contributions for 2001-2004 ($2.3M) were 10% higher than average annual CTD for 1997-2000 ($2.1M).

550. It is also important to note that each year, the Commission approves a significant number of new radio licences, and that the holders of those licenses pay on average $8 million per year in CTD contributions, which *are in addition to* the annual contributions already mentioned. This brings the total amount of mandated contributions paid by private radio to more than $10 million per year. This amount exceeds radio's contribution prior to the introduction of the 1995 CTD policy.

Figure 48

Annual Contributions upon Licence Renewal to Promotion of Canadian Artists

Year	FACTOR	MusicAction	Other	Sub-total Eligible third parties	Local initiatives	Total
1997	991 847	354 508	1 121 691	2 468 046	33 500	2 501 456
1998	981 457	358 530	598 714	1 938 701	774 305	2 713 006
1999	965 043	287 800	953 087	2 205 940	614 068	2 820 008
2000	835 974	269 599	730 314	1 844 987	657 487	2 502 474
Average 1997-2000	***943 580***	***317 609***	***850 952***	***2 114 419***	***519 840***	***2 634 236***
2001	894 640	258 000	1 197 272	2 349 912	570 300	2 920 211
2002	891 266	307 900	1 165 115	2 364 281	718 247	3 082 528
2003	748 770	365 450	1 228 337	2 340 557	745 375	3 085 932
2004	775 000	332 000	1 155 000	2 262 000	625 000	2 887 000
Average 2001-04	***827 419***	***315 838***	***1 186 431***	***2 329 188***	***664 731***	***2 883 918***
Growth 2001-04/ 1997-00	(12.31%)	(0.66%)	39.42%	10.16%	27.87%	13.65%

Sources: CRTC, Radio broadcasting monitoring policy reports, 2001, 2002, 2003, 2004 and 2005

551. The CAB notes that the Commission's policy on tangible benefits, adopted in 1998, has also helped increase total annual contributions by the industry to FACTOR and MusicAction from $1.4 million in 1998 to $7.1 million in 2005, an increase of 416%.[97]

552. Given everything that has been discussed elsewhere in this submission on the new economic reality for radio and the new competitive environment, the CAB questions the relevance and the need to increase the annual mandated contributions to talent development that private radio stations must pay annually, particularly in the case of French language radio.

553. The CAB submits that radio's annual contributions to CTD should be maintained given the following facts:

a) The total contributions of private radio to FACTOR, MusicAction, Radio StarMaker Fund and Fonds RadioStar have increased considerably between 1998 and 2005:

   - The contributions to these four organizations have increased twelve-fold, from $1.4 million in 1998 to $16.1 million in 2005. In addition, there is nothing to indicate that the number and value of license transactions will diminish in the future.

Figure 49A

Contributions from the Private Radio Industry to MusicAction, FACTOR, Fonds Radiostar and Radio Starmaker Fund

(In $000s)	1998	2005	2005 /1998
MusicAction	399	1 750	339 %
FACTOR	981	5 376	448 %
RadioStar		3 961	
StarMaker		5 055	
Total	**1 380**	**16 142**	**1,170%**

Sources: Annual Reports of MusicAction, FACTOR, Fonds RadioStar and StarMaker Fund

b) Both federal and provincial governments also increased considerably the amount of funding they give to support the Canadian music industry between 1998 and 2005, and plan to increase their contributions further in 2006.

   - Between 1998 and 2005, the federal government increased its contribution to FACTOR/MusicAction by 68%, from $8.5 million to $14.3 million:

[97] See Figure 40

Figure 49B

Contributions from the Department of Canadian Heritage to MusicAction and FACTOR

(In 000$)	1998	2005	2005 /1998
MusicAction	3 410	5 711	67%
FACTOR	5 115	8 631	69%
Total	**8 525**	**14 342**	**68%**

Sources: Annual Reports of MusicAction and FACTOR

- In 2003, the federal government created the Music Entrepreneur Program (MEP), administrated by Telefilm Canada, which injected $18 million over three years into 13 Canadian businesses in the sound recording sector, and is preparing to launch the Music Entrepreneur Component, which will inject an additional $10 million into the industry.
- Between 1998 and 2005, the government of Quebec increased its contributions to support the record and live performance industry five-fold, from $3.4 million to $16.6 million, of which, a large portion is in the form of refundable tax credits which contribute to the growth of the industry.

Figure 49C

Contributions from the Government of Québec to Support the Recording Industry and the Live Performance Industry

(In $1000s)	1998	2005	2005 /1998
SODEC *	3 439	9 396	173%
CIR	-	7 229	-
Total	**3 439**	**16 625**	**383%**

*Sources : Annual Report SODEC. * Includes PADISQ, subsidies to businesses as well as export aid to the recording and live performance industries.*

c) That certain significant contributions from categories of businesses that did not exist from 1998 to 2005 (satellite radio) will soon become available:

- If their business plans are realized, XM and Sirius will contribute more than $30 million to the promotion of Canadian artists over the course of their initial license period, of which 50% will be allocated to the promotion of Canadian French-language artists.[98]

d) That private radio will be faced with an unprecedented level of competition posed by alternative methods of accessing music and radio content.

554. In total, the contributions of private radio, the federal government and the government of Quebec to support the Canadian music industry have totaled more than $250 million, and on an annual basis, they have increased more than 300% between 1998 and 2005. During this same period, total revenues for private radio in Canada have increased only 41%. In the case of French-language radio, revenues have only increased by 34%.

Figure 50

Summary of the Growth of Funding to the Canadian Music Industry
1998 – 2005

(In $000s)	**1998**	**2005**	**% Growth 2005/1998**
Canadian Music Industry			
- Contributions from the private radio industry to FACTOR, MusicAction, Radio StarMaker Fund, Fonds RadioStar	*1 380*	*16 142*	*1 170%*
- Contributions from the Department of Canadian Heritage to FACTOR and MusicAction	*8 525*	*14 342*	*68%*
- SOCAN	-	*1 000*	-
- MEP (administered by Telefilm Canada)[99]	-	*5 341*	-
- Contributions du gouvernement du Québec en aides financières directes et fiscales	*3 439*	*16 625*	*383%*
Total :	**13 344**	**53 450**	**301%**

[98] In its Broadcasting Public Notice 2005-61, the Commission noted that Canadian Satellite Radio had promised in May of 2004 $19.75 million and, at the hearing, a minimum contribution of 4% of projected revenues and no less than $1.2 million per year. Sirius Canada committed to contribute 5% of the revenues from its service to CTD initiatives, which would represent $21.5 million over 7 years in contributions according to their financial projections. In its decision, the Commission required that each of these new licensees contribute at least 5% of its gross annual revenues to eligible third parties associated with CTD and other artistic talent or other initiatives approved by the Commission. This contribution must be divided equally between the promotion of English and French Canadian artists.

[99] The total amount of $18.4 million committed by the MEP in 2003 was spread over three financial years. The amount stated here is that that which was paid out in 2005. Source: Telefilm Canada

Figure 51

Revenue Growth for the Canadian Private Radio Industry
1998-2005

(In $1000s)	1998	2005	Growth 2005/1998
Canadian Private Radio Industry			
All languages			
Revenue	940 068	1 323 232	41%
French-language radio			
Revenue	153 284	205 910	34%

555. Given this impressive increase in contributions between 1998 and 2005 (more than 1100% in the case of the private radio industry); contributions from other licensed programming undertaking (satellite radio), government programs (Music Entrepreneur Component) that have already been announced for the coming years; the renewal of existing direct funding programs (FACTOR/MusicAction). The CAB fails to see how the Canadian music industry has a pressing need for a greater level of mandated annual funding for CTD from private radio stations over an above what they currently receive.

556. This is particularly true of French-language radio stations, as the Quebec music industry has benefited more than its share from the 300% increase in funding to the to the Canadian music industry as a whole between 1998 and 2005. The Quebec music industry has received a disproportionate benefit in funding since Quebec is, to our knowledge, the only province to financially support its music industry, businesses based in Quebec received more than 70% of the total funding from the MEP and anticipate receiving an equal amount of funding from the MEC, and that 50% of CTD contributions from satellite radio will be channeled towards French-Canadian artists. The CAB notes that over the course of the same time period, the rise of PBIT of the French private radio industry has risen only 9%, less than 1% per year.

557. Also favouring a freeze in the annual mandated CTD payments are the facts that:

- The fixed annual amounts established in 1995 have not been adjusted over the past five years as the Commission had anticipated in its decision, and the present process provides us with the opportunity to proceed with such an adjustment;

- That in the increasingly competitive environment, private commercial radio (particularly French-language radio) will need to reinvest in content, in the creation of exclusive programming to differentiate itself and to halt the erosion of its market.

558. **The CAB's proposal is based on the belief that the arguments in favor of a freeze in CTD contributions to 1995 levels far outweigh those in favor of raising the levels.**

559. At the same time, if the Commission decides otherwise and judges it appropriate to raise the annual mandated contribution from private radio stations in the French-language market, the formula for adjustment suggested by the representatives of the French radio sector is a full and total indexation of the amounts established in 1995. The basis for this indexation will be the rise in the Consumer Price Index (CPI) between 1995 and 2006, as established by Statistics Canada. This increase would come into force over the first broadcast year following the Commission's decision. Between 1995 and 2005, the increase in the CPI was 22%, so we can estimate that between 1995 and 2006, it will be in the order of 25%. In other words, if the Commission were to opt for an increase, the fixed amounts based on the size of the markets will all be raised by 25%. In large markets, these amounts would increase from $27,000 to $33,750, and from $400 to $500 in small markets.

560. If necessary, as we believe it may be in the future, the CAB submits that it will be essential to permit a portion of these contributions to be used for the development of new spoken-word programming.

561. As for the recipients of these mandatory annual contributions and other contributions related to transfer of ownership transactions, the CAB proposes modifying and clarifying the current system by consolidating radio's CTD contributions into its commercial funds in the French and English-language markets: Fonds RadioStar/Radio StarMaker Fund. In the French-market, annual CTD contributions would go entirely to Fonds Radiostar. With respect to significant benefits contributions, 5 of the 6% of the value of the transaction would be directed to Fonds Radiostar, while the remaining 1% would be discretionary.

562. As well, MusicAction would become a public fund, whose mandate would respond exclusively to the public policy objectives set out by the Department of Canadian Heritage. This does not represent a vote of non-confidence in MusicAction. On the contrary, the CAB acknowledges that MusicAction has thus far filled an important, vital and constructive role in promoting the creation of music in the French market. Simply put, the CAB recognizes that with the creation of the MEC, the primary music production companies in Quebec will have access to important financial resources to pursue their further growth and to support their productions. They will not, however, have access to funding from MusicAction. The CAB takes note of the fact that Canadian Heritage is committed to maintaining its funding for MusicAction, as it is for FACTOR, at historic levels until 2010. Taking into account that the largest independent production companies corner the lion's share of the market when it comes to funding for production and marketing from MusicAction, this will mean that there will be more financial resources at MusicAction to ensure the effective support for smaller enterprises working in the francophone market. In this context, the CAB considers it more relevant and more efficient to reallocate private broadcasters' contributions to ensure the

further success of the Fonds RadioStar. The CAB also believes that it is essential that the two funding programs continue to be used in a complimentary fashion, as has been the case since the beginning of the Fonds RadioStar in 2001.

563. Fonds RadioStar would remain a private fund, supported by commercial radio broadcasters, whose mandate to develop Canadian talent would be based on two objectives:

- Focusing on Canadian artists and ensuring that they benefit as directly as possible from broadcasters contributions to Canadian talent development and that they contribute to enhanced creativity and career development as well as to the national and international celebration of their works, all the while respecting the industrial structure of production; and

- Ensuring that their support to the development, funding, and promotion of Canadian sound recordings and shows by Canadian artists satisfies the needs of the commercial radio industry, supports the industry in its quest to provide more airplay for new music and artists, and helps it to compete with other media and alternative platforms for musical and radio content.

564. The mandates of Fonds RadioStar would be reviewed to ensure the achievement of these objectives and see that it relates more closely to the specific environments of the French-language radio industry.

565. French-language radio, as we have seen must devote greater resources to programming expenses and spoken word content to set itself apart and retain listeners' interest. Given this competitive environment where musical content will be accessible simultaneously on a multitude of platforms,, the need to retain listeners' interest will grow even greater, and traditional radio will need to create more exclusive content to compete.

566. **Should the Commission decide to increase the mandatory annual contributions to CTD of French-language radio stations, *we suggest that an amount not greater than 10% of the annual mandatory contribution* to Fonds Radiostar be reserved each year for the development of artists creating vocal works for radio.**

567. This proposal recognizes that, in radio, talent resides not only in the musical selections broadcast, but also among the on-air staff: broadcasters, humorists, journalists, readers, commentators, etc., and the importance of ensuring new talent in these areas, to help develop the Canadian talent that is so integral to an effective, high quality, competitive radio industry.

Promotion of Local Artists and Cultural Diversity

568. The Commission's notice of public hearing seeks to discover if there is a need to establish provisions to encourage the promotion of regional Canadian artists when granting or renewing a radio station's licence, and to learn what mechanisms could eventually be deployed to ensure that Canadian radio is more representative of Canadian cultural diversity and the special place of Aboriginal peoples.

569. CAB would like to propose an incentive designed to reach both of these goals within the specific context of French-language radio.

570. As noted above, French-language radio accords considerable time to French-speaking Canadian artists and largely surpasses the regulatory requirements regarding broadcasting of Canadian music. Since most French-language stations are established in Quebec, and most French-speaking artists are from that province, French-language radio already allows a very significant amount of airplay for local French-language artists (identified as from the province in which the station is located).

571. However, there are a few negative aspects to this situation. Since French-language radio stations on the whole already exceed the Canadian content requirements by broadcasting the musical works of French-language Canadian artists, there is no motivation to broadcast music by Canadian artists working in other languages.

572. French-language radio stations are even less motivated since the 65% quota for broadcasting French-language category 2 vocal music in effect limits the number of other musical selections it can broadcast weekly, not only in English but also in languages other than French, to 35%.

573. In other words, in a global and North American environment dominated by international music in English, particularly among young people, French-language radio stations must allocate as much time as possible within the 35% limit to this music if it hopes to face growing competition from English-language commercial radio, subscription radio (satellite or Internet), web radio, and an ever-increasing number of other broadcast platforms used to broadcast musical and radio content.

574. This environment does not therefore foster the broadcast of music by local Canadian artists (Quebecois) who do not work in French; this includes Aboriginal artists (Montagnais, Innu), artists from other cultural communities (Spanish, Italian, Arabic, etc.), or those working in English in Quebec. These local artists—from Florent Volant to Simple Plan, Lhassa to Gino Vanelli, Claude McKenzie to all of the new groups, of any origin who grace the Montreal music scene—are at a disadvantage, since they have to compete within an limited space (the

35% shared by all vocal music in a language other than French) with English-language hits by international artists.

575. To offset this disadvantage, the CAB proposes that every locally produced selection (i.e. from the province in which the station is located) of Canadian music in a language other than French be assigned a value of 0.5 (rather than 1) for the purposes of calculating the 35% for category 2 vocal music in a language other than French that French-language stations are authorized to broadcast.

576. In other words, with respect to a situation where, of 100 musical selections broadcast, 65 are in French, 30 are international works in English, and 5 are by Canadian artists in a language other than French, this measure would allow the number of works by local Canadian artists working in a language other than French to increase to 10 (10 x 0.5% = 5%), while maintaining the number of selections by international artists (30%) and the quota for FVM (65%).

577. This would allow an increase in airplay for local Canadian artists working in a language other than French (Aboriginal artists, artists from other linguistic groups, and Anglophone artists from Quebec) and thus more accurately reflect the cultural diversity of Quebec and Canada, including the special place accorded to Aboriginal peoples, without decreasing French-language radio's ability to face growing competition from other types of music broadcasts, including English-language commercial radio.

Conclusion

578. Radio is at a turning point in its long and storied history.

579. It is faced with an uncertain economic future and the real possibility of cyclical downturn in its financial status.

580. A parallel system of new, largely unregulated audio distribution services will continue to draw listeners and revenues away from the industry. The old economy of radio is gone forever, replaced by a new and wholly unpredictable economy. And as a result, the regulatory assumptions that guided radio for decades can no longer apply to the present or future of the radio industry.

581. The copyright payments that have more than doubled in just a few years have become a major burden on the sector, and escalate in number and size every year.

582. Canadian content quotas in English-language radio have become far more difficult to achieve across many formats, making artist burn a serious problem for the successful programming of content.

583. Private radio continues to struggle with these challenges, and consequently sees this review of the Commercial Radio Policy as a huge opportunity for the Commission, our industry and our stakeholders to draw together in a collective effort at strengthening the industry, strengthening our position in the marketplace and strengthening what we do best in our communities and for our listeners.

584. To achieve this means that private radio will need regulatory flexibility in certain licensing and marketplace matters. Overlicensing in markets and the spread of commercially competitive low power radio must be seriously dealt with. Of particular importance is the future viability of small market radio, which is especially pressured and impacted by the forces affecting the industry at large.

585. Radio has achieved great success in the promotion and funding of Canadian talent. The contribution of the radio industry to Canadian talent development has truly helped drive the success of our music stars and laid a stronger foundation for the stars of tomorrow.

586. We have again a collective opportunity to make this foundation stronger by providing incentives for airplay and a structure for effective funding that will be centered on the artist, since it is the artist that embodies the future of Canadian music.

587. The decisions we make today and the actions we take tomorrow must be based on the true effort of making our industry a stronger and more effective participant in the Canadian

broadcasting system, ultimately providing our industry with the policy foundation and regulatory tools required to manage the challenges and pursue the opportunities presented to us by the new economy of radio.

588. The Canadian Association of Broadcasters thanks the Commission for the opportunity to present its submission on this critical policy proceeding.

Summary of Recommendations and Proposals

Given the severity of the copyright burden on the private radio industry, we urge the Commission to fully consider this critical aspect of our business in its decision on a new *Commercial Radio Policy*.

Local Programming

We recommend that the Commission refrain from setting minimum levels of news programming for FM stations, as we do not believe this would serve the needs of our listeners.

Small Market Radio

We recommend that for purposes of defining small market radio, the Commission use a cutoff population of 250,000.

We recommend that small market private radio operators acquire regulatory flexibility in their regulatory reporting requirements, licence renewal procedures, local sales operations and transition to digital radio.

Low Power Radio

We recommend that any attempt by a low power radio station to acquire full power protected status be treated by the Commission as a new application subject to market entry criteria and call for applications procedures.

We recommend that low power stations be subject to the same content rules and regulations as those applying to full power radio stations, including local programming requirements in order to appropriately fulfill their niche role in the broadcasting system.

Overlicensing and the Need for a Market Entry Test

Given the serious issue of overlicensing in markets, we recommend that the Commission introduce a new *Market Entry Test* in a manner that fully addresses the new competitive reality of the private radio industry.

We recommend that the Commission release aggregate data on small, medium and large markets on an annual basis, to provide the industry with current and meaningful data on individual radio market health.

We recommend that the Commission and the private radio industry work together to determine a market entry testing procedure suitable for small markets, when small market tests of profitability are potentially problematic for reasons of confidentiality.

We recommend that profitability trends through measures of PBIT be identified within individual markets. While measures of profitability covered five-year periods under the original *Radio Market Policy*, the new *Market Entry Test* should track profitability over a three-year period.

We recommend that the Commission carry out the required work to provide the commercial radio industry with profitability measures in medium and large markets for the 2002-2005 period as soon as possible and provide this aggregate data to the private radio industry.

We recommend that, following the issuing of a licence or licences in any given market, there should be a formalized three-year pause in licensing in that market.

Single Owner Markets

We encourage the Commission to systematically apply its policy that any new licence application from an incumbent single owner in a market to add a second or third station should not trigger a call for applications.

Independent Radio

We recommend that the Commission remain open to consideration of any regulatory measures that might work to strengthen the position of independent radio stations in their respective markets.

Local Sales Agreements

We recommend the on-going availability of Local Sales Agreements between licensees of radio stations serving the same market, upon the Commission's approval of applications to enter into an LSA.

Infomercials

We recommend that no formal policy is required for radio infomercials.

Cultural Diversity

The CAB has developed best practices for the radio sector. We also recommend the adoption of a reporting template for annual reporting on diversity initiatives by private radio.

Digital Radio

We recommend that in order to accomplish the successful transition of conventional AM/FM local services to DRB, and the introduction of competitive new programming services available on DRB platforms, the Commission should only apply a light regulatory hand, adopting the principle of 'flexible regulation'.

We recommend that in markets where there is already considerable local AM/FM competition, and where it can reasonably be expected that a number of local broadcasters would apply to implement new DRB services, the issue of common ownership should be set aside, at least in the first seven years of the digital roll-out. In smaller markets, where there may be less local radio competition, there should be no defined limits on common ownership; however, applicant DRB broadcasters might be asked to address this issue, taking into account the universe of electronic media services already be available in that market.

We recommend that until DRB listening approaches a meaningful percent of all hours tuned in a given market, it would be premature to consider whether a specific percentage of Canadian music content on non-simulcast music-based DRB programming services should be established.

We recommend that identical regulatory measures and policies should apply to licensees of existing AM and FM stations who are authorized to operate new DRB facilities, as is the case with the existing policy.

We recommend that the Commission's policy on DRB be amended to remove the requirement that it be considered primarily as a 'replacement technology' for existing AM/FM services.

We recommend that the Commission continue to give existing AM/FM broadcasters preferred access to the L-Band allotments that have been set aside for them, but further include an increasing commitment to separate programming (e.g. separate programming in peak daytime listening periods, gradually evolving to full separate programming from 06:00-Midnight).

We recommend that the Transitional Digital Radio Policy should permit the use of DRB by new entrants, but licensing preference should continue to be shown for the implementation of DRB by existing AM/FM licensees.

We recommend that the need to achieve any increase in the number of effective digital programming service 'slots' in each market be met by allowing more efficient use of the digital multiplex on each allotted DRB channel.

We recommend that the Commission allow unfettered implementation by existing broadcasters of AM and FM IBOC services that are 100 percent simulcast and that broadcasters be permitted to determine when such implementation should occur.

We recommend that the regulatory treatment of ancillary DRB services should be similar to the provisions pertaining to audio programming services delivered via FM subcarriers (SCMO).

We recommend that the Commission remain open to a wide range of broadcaster experiments, and perhaps even field trials that will evaluate the ability of DMB and DVB-H to meet the objectives for new DRB services; however, the licensing of permanent services should await further proceedings that would identify suitable bands for such transmissions.

We recommend that no changes be made in the “Broadcasting Co-Primary” allocation in the 1452-1492 MHz band and that Industry Canada’s spectrum use policy for this band (terrestrial sound broadcasting) be retained.

Music Exhibition Quotas

We recommend that the Commission maintain current Canadian content and French Vocal Music exhibition quotas across all formats, with the exception of ‘oldies’, or Canadian music produced prior to 1985.

We recommend that Canadian content quotas for music produced prior to 1985 be reduced to 25 percent.

We recommend that the existing qualifying criteria for determining Canadian song selections be maintained as 2 out of 4 categories of MAPL.

We recommend that the Commission introduce a bonus system that will provide private radio stations with an incentive for the airplay of Emerging Canadian Artists. We recommend that a 25 percent credit be applied toward Canadian content when an Emerging Canadian Artist receives airplay.

Canadian Talent Development

In order to supply the bonus system with radio-playable music we recommend the consolidation of radio’s CTD funding into Radio Starmaker Fund and Fonds Radiostar via a re-direction of funding that is currently directed to FACTOR and MusicAction through significant benefits and voluntary contributions and new licence commitments that will ensure a stable, predicable and artist-centered commercial fund.

We recommend that the Commission revise the existing policy on benefits flowing from radio ownership transactions by allocating 5 percent of the transactional value to Radio Starmaker Fund and Fonds Radiostar and 1 percent to discretionary initiatives.

We recommend that the CAB CTD Plan maintain the status quo for the first two years of the new five-year funding term and that a full review of the CTD Plan be undertaken in 2008-2009 in order to assess market conditions and conclude the terms of agreement for Canadian Talent Development contributions in years 3, 4 and 5 of the new term. Negotiations would be undertaken with the music industry in year two of the new policy.

Recommendations Specific to French-language Markets

We recommend the creation of a bonus system for French Vocal Music that would apply a 150 percent value to the airplay of a new work interpreted by a new artist.

We recommend that 10 percent of annual CTD contributions be directed toward the development of emerging music and artists creating vocal works for radio.

We recommend that every locally produced music selection of Canadian music in a language other than French be assigned a value of 0.5 percent for the purpose of calculating 35 percent for category 2 vocal music.

Appendices

A. 2006 Forecast for Radio, Communications Management Inc. (CMI) – March 2006

B. 2006 Evaluation of the Canadian Radio Advertising Model, Jeff Osborne – March 2006

C. Radio Economic Trends by Market Size 1995-2004, CMI 2006a

D. Diversity Best Practices for Private Radio

E. Diversity Reporting Template for Private Radio

F. General Observation and Comments on the Digital Transition

G. Digital Audio Broadcasting around the World

H. The Music Distribution Industry in Canada 2006, Larry Leblanc - February 2006

I. The Making of a Commercial Radio Playlist: A Primer, David Gollob – February, 2006

J. Library format Analysis, Bohn and Associates Media - March 8th, 2006

K. Specified Procedures Report, PricewaterhouseCoopers - March 3, 2006

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