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—
Chair

Mr. Gary Schellenberger

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•(0900)

[English]

The Chair (Mr. Gary Schellenberger (Perth—Wellington, CPC)): Good morning, everyone.

I'd like to welcome everyone here today to the 36th meeting of the Standing Committee on Canadian Heritage. We are here pursuant to Standing Order 108(2), a study on the future of the Canadian Television Fund.

This morning we have three sets of witnesses. I will be keeping our time for questions and answers to five minutes for each person.

At the bottom of the agenda you will notice that we have a couple of notices of motion. I suggest we deal with them on Thursday. At Thursday's meeting we have only one witness, and we will make sure we look into those notices of motion.

Our first witnesses today are from Shaw Communications Inc. We have until 9:45; at 9:45 the questioning will end so that we can get ready for our next witnesses.

I welcome Mr. Jim Shaw and Mr. Ken Stein. Thank you, gentlemen, for coming this morning.

Please go ahead, Mr. Shaw.

Mr. Jim Shaw (Chief Executive Officer, Shaw Communications Inc.): Good morning. Thank you for bringing me and Ken Stein to the proceeding here today. I am CEO and Ken is our senior vice-president of regulatory and corporate affairs.

Shaw's invitation to appear at this committee's examination of the Canadian Television Fund marks the first time this committee has asked us, one of the major funders of the Canadian programming fund, to comment.

Prior to our announcement to withhold CTF funding, few decision-makers cared to hear our views. Our reason for withholding funds has been clear and consistent: the CTF has not delivered on its mandate to support and expand the development of quality television programs that reflect Canada's unique and special nature.

We are here because the issue is important to us and we want to participate in the process of finding a better way to bring more quality to Canadian television in the future. You may disagree with the methods we used to get attention, but I hope you won't disagree with our goal. The Canadian Radio-television and Telecommunications Commission and the government have expressed their desire to deal with this lack of performance of the CTF, and both have engaged in consultation with us and others in the industry.

We are all committed to developing a program funding system that can meet the challenges of competition in the new digital world. At Shaw, our desire for reform rests on three basic principles: performance, accountability, and fairness.

The CTF has not created a strong, self-sustaining, self-financing production industry. The production industry cannot remain completely dependent on the CTF and the CTF cannot forever be dependent on taxing Canadians.

The CTF has not increased viewership for Canadian programming. The CTF has spent \$2.3 billion, resulting in only what we will call a few success stories. Can we say this investment has produced positive results?

•(0905)

Mr. Ken Stein (Senior Vice-President, Corporate and Regulatory Affairs, Shaw Communications Inc.): Finally, CTF funding was intended to provide leverage to increase private sector spending on Canadian programming. In fact, private broadcasters are now spending more on non-Canadian programming and less on Canadian. For example, in 2005 alone, private broadcasters saw CTF funding increases of \$20 million, while their own spending on Canadian programming decreased by \$21 million. CTF funding has been used by broadcasters to replace, not expand, their own required funding for Canadian programming. Cable and satellite subscribers are being taxed to support the broadcasters, while they use their own money to purchase more non-Canadian programming.

Let me also speak to CTF accountability. The CTF was created as a public-private partnership, but the CTF is not our partner and it has never been accountable. If we were an equal partner in the process, we would participate in the decisions about how our subscribers' money is spent.

Finally, we would like to see some fairness introduced into the system. We have said repeatedly that we want a funding mechanism that is independent, accountable to those who provide the funding, and responsible for achieving measurable results.

Shaw has met its part of the bargain. We have built a successful enterprise serving millions of cable and satellite subscribers. Shaw's capital expenditures have built a world-class system with a capacity to distribute the greatest number and variety of Canadian and non-Canadian services; increase the penetration and profitability of all Canadian broadcasting and programming services; build a digital capacity to launch numerous and profitable Canadian digital specialty services; provide delivery of high-definition content; and offer unprecedented choice in service to customers no matter where they live throughout Canada, whether in urban, rural, or remote communities. We have 3.1 million customers, and in a short time we have grown from 1,000 employees to 9,000 employees. We have North America's highest Internet penetration and we have launched competition in digital telephony.

Mr. Jim Shaw: From the beginning of this process we have wanted to see a plan for increasing the quality of Canadian television programming through our investment. We asked for a plan for reform that is based on the three principles we have discussed—performance, accountability, and fairness.

The sincere and cooperative consultations that we have had over the last few weeks and months have reassured us that our message has been heard. We are confident that there is real and growing consensus to thoroughly review and restructure the way we produce and fund quality Canadian television programs. We believe there has been some acceptance of these principles that we have put forward to guide this review.

We were part of the initiation of the original programming fund development mechanism and the Canadian production fund. We have been financial supporters of the fund since some eleven years ago. We do not wish to destabilize the development of programming or throw the production industry into disarray. We are currently sufficiently assured and confident there will be a process and a schedule that will meet the suggestions for reform. We wish to assure the committee that today we will restore our payments to the CTF.

Mr. Chairman, that concludes our remarks.

The Chair: Thank you.

Mr. Scott.

Hon. Andy Scott (Fredericton, Lib.): Thank you very much to both Mr. Shaw and Mr. Stein for being here.

Could you repeat your last two sentences, please?

Mr. Jim Shaw: Did you get a copy?

Hon. Andy Scott: No. Did you announce that you're restoring the money?

Mr. Jim Shaw: It says here that we are sufficiently assured and confident that there will be a process and a schedule that will meet the suggestions we have made for reform. We wish to assure the committee that we do not want to destabilize the programming companies in Canada, and we will restore our payments with some form of assurance that down the road there will be some reform to a system that we feel is fatally flawed.

Hon. Andy Scott: There seems to be a little bit of a contradiction. Are you saying that you're announcing you're going to restore it because you are reassured, or are you saying that if you could be reassured, you would restore it? Which is it?

● (0910)

Mr. Jim Shaw: No, we're saying we will restore payments so that we do not destabilize the Canadian production industry. We are confidently assured, hopefully, by the committee meeting here today, by other government bodies, and by other people that a process will be put in place to make sure our money is spent wisely. That's all we're asking; we're not saying we won't pay.

Hon. Andy Scott: When you met with the minister earlier this year, I understand at least from media reports that you felt the fund was dead. What gave you that impression?

Mr. Jim Shaw: It was that there was a lack of change in the whole process. We have for quite a long time not had any reception from anyone, and until we said we wouldn't pay, we had no reception.

We would want to talk to various parties. A good example is that although we're the largest private contributor, our board member would have to leave the meeting when people voted on where the money went. We said, "Well, okay."

We're only one of 20. I mean, it's not like we could outvote you. It's cloak and dagger stuff. If our results are only reflective of the three or four or five names that we can come up with, then we've done a pretty poor job, and I'm saying we have also.

Hon. Andy Scott: We've received testimony here, and I think you repeated it this morning, that you were part of the original proposal that came as a result of the licensing renewal. The amounts of fees that you were seeking after having done some capital improvements were no longer justified on that basis, so rather than seeing the fees lowered, you'd keep the fees and divide the money between the company and the fund at about 50-50. Is that correct? Is that what happened?

Mr. Jim Shaw: No, that would not be correct.

Mr. Ken Stein: What happened was that in 1993 there was an arrangement through the structural decision of the CRTC to allow systems to decide voluntarily whether to contribute back to a fund or to return funds to subscribers.

People have described that regime. It ended in 1996, 10 years ago. That regime was ended.

Capex was eliminated; the provisions for further capex increases were eliminated. What happened at that point was that the responsibilities for the fund were transferred from the CRTC and their regulatory supervision over to the Department of Canadian Heritage. It then became taken over by the Department of Canadian Heritage. It's quite clearly laid out in the decisions of the commission in 1996-97. It involved funding from the government into that fund, and that was when there was a step taken to make it a partnership.

At that time there was the imposition of a 5% charge allocation on satellites, satellite services, and DTH, and on the cable side a 5% allocation. The community channel was to get 2%, and the rest—the 3%—was to go to the Canadian programming fund or its successors and to individual private funds such as the Shaw Rocket Fund. That was a decision made in 1996.

When people talk about what's happened over the last 13 years, they're describing the first three years, not the last decade.

Hon. Andy Scott: You spoke of the need to be reassured by us. What assurances can you give us?

Given your announcement this morning of restoring the funds because you're confident that some things will happen with the CTF along the lines that you desire, what assurances can you give us that you won't simply repeat the behaviour of the last couple of months if it doesn't go your way? Ultimately, you've established a precedent here of the strategy that would be employed, so our committee would be very interested in having reassurance from you that if we go back to the table, you'll go back to the table to have those discussions, and that this won't be held over the fund as another so-called remedy for your agenda.

Mr. Jim Shaw: Let me respond in two ways.

The first is to ask you what assurances you can give me that you will fix this for Canadians.

We serve 3.1 million homes; a total of 8 or 9 million Canadian people live in those homes. What assurances can we give them that this money will be used wisely?

I don't get the money; it doesn't go to me. It's just a tax. Do you want us to disclose this tax to Canadians, and then put it on the committee and ultimately the government and everybody else that there is an issue here, and no one seems to deal with it?

I, in good faith, put it back on the table. I expect you, in good faith, to come back and do something to help us with what I call a Canadian problem.

• (0915)

Hon. Andy Scott: Compliance with regulations is not an act of generosity; it's an act of compliance with regulations.

The Chair: Mr. Scott, I said five minutes. You have already gone six.

Mr. Kotto.

[*Translation*]

Mr. Maka Kotto: Thank you, Mr. Chairman.

Welcome Mr. Shaw and Mr. Stein.

There is something that I would like to ask you. As you know, we, the Bloc Québécois, are sovereignists. Do you think that, if I were the Premier of Quebec, for example, I could legally withhold the taxes that I owe the federal government because I am unhappy with the pseudo-confederal yolk in which my nation finds itself trapped?

[*English*]

Mr. Ken Stein: First, I'd like to make it clear that we have not broken any rules in doing what we did. What we have is a regulation in place that, as is clearly agreed by everyone, requires us to pay within the broadcast years. That gives us to the end of August to make the payments. If this is not a tax, in your sense of that—If it is a tax, then our view would be it would have to be dealt with as a tax.

It's a procedure set out by a circular by the CRTC as to how to deal with the payments to the fund. Since we do not believe that the procedures set out by the fund are—We think the procedures are questionable to begin with. We felt in the circumstances that we were being responsible by asking questions about what was happening

with the funds that we were allocating from our subscribers going to the fund. We felt we weren't getting an accounting for those funds, and that's why we did it. We were not breaking any rules.

[*Translation*]

Mr. Maka Kotto: But the message that you are conveying through the stance that you are taking leaves us to believe that you could potentially be in the wrong. That's what I was trying to say. In our system, is the State not entitled to respect?

[*English*]

Mr. Jim Shaw: We are not in violation of any rule anywhere. I'm sure you were advised of that. We are totally within every right we have. We have until August to pay, if that's so required. We decided now to pay earlier to stabilize the industry. I'm just saying we have not broken any rule or any law, and Shaw is not in violation of any code of anything in Canada.

I can tell you that I probably have more rules than you. Let's just go through them—Sarbanes-Oxley, corporate governance, reporting to the New York Stock Exchange, reporting to the Toronto Stock Exchange, reporting to shareholders, disclosing everything. Every 90 days I sign off on committed funds of what's happening. My responsibility has to be to do something. I haven't done anything wrong. I have only asked for some attention.

[*Translation*]

Mr. Maka Kotto: I'm not accusing you of anything, I am simply asking questions.

And what I would also like to know is why you did not make the members of the House of Commons aware of your demands which, according to our information, are long standing, instead of deciding to flex your muscles.

• (0920)

[*English*]

Mr. Jim Shaw: First, I would say that we are governed by certain bodies and certain bodies have control over these units. Let's take the commission, for example. A natural way to go would be for us to complain to the commission, as we did in—Ken, was it October?

Mr. Ken Stein: Yes.

Mr. Jim Shaw: October. We said we are getting really close to the end, we don't think it's performing right, and we should do that. Whether we could go to a big committee like this or to every parliamentarian in Canada, I don't think so.

The Chair: Madame Bourgeois.

[*Translation*]

Ms. Diane Bourgeois (Terrebonne—Blainville, BQ): Good morning gentlemen.

The way I see this situation is that you resorted to radical means so that you would be heard and understood. For my benefit, since I am a newcomer on this committee and because I want to understand where you are coming from, would it be possible to provide us with the demands for the arguments that you are raising as they relate to both the CRTC and the Canadian Television Fund so that the committee will be in a better position to make the right decisions? That is my first question.

Secondly, were you not concerned that, by withholding the amounts that you owe, you may be jeopardizing the 16,000 jobs that are generated by the Canadian Television Fund?

[English]

Mr. Jim Shaw: In answer to the first question, we still stand by our principles of fairness, accountability, and performance. As a corporate member of corporate Canada, and running—I don't know how big our company is; it's in the top 100 anyway. We're accountable, and all we're asking them is to be accountable.

We're not asking to mandate how they run the production fund; we're not asking anything like that. But we can tell from the system that it is definitely flawed. I think it's a system that the existing government inherited, and it's something we would like to have something done with. We find it to be a large waste of money. It was just an employment vehicle, and if half the money goes, or 37% goes, to CBC, shouldn't the government fund that directly, not indirectly?

The Chair: Thank you.

Mr. Angus.

Mr. Charlie Angus (Timmins—James Bay, NDP): Thank you, Mr. Shaw and Mr. Stein, for coming.

I have cable. My daughters got it after I was elected. I personally couldn't see the need, but I sometimes sit and watch cable with them. You talk about the lack of quality programming that's come out of Canada. Well, when I turn on the TV, I don't like watching *Fear Factor*; I don't like *Cops*; I don't like *Springer*. I feel like Bruce Springsteen: there are 57 channels and nothing on.

If I decided to withhold my payments to you because basically I think there's a lot of crappy television on and said maybe I'll pay it at the end of the year, would you sit down and meet with me? Would you listen to my concerns, or would you send the collection agency and just cut me off? I don't see why you expect anything different from the Government of Canada.

Mr. Jim Shaw: Let me ask, does any of your family watch any of those shows?

Mr. Charlie Angus: Fortunately, they don't.

Mr. Jim Shaw: You have many options. You can take a basic cable option, which will afford you your basic channels across the board. You don't have to take those channels: we have the new digital technology; we're going to be able to delete, and you can “parental” those channels, if you want to do that.

Mr. Charlie Angus: My question is, if I say to you I'm holding my payments for a year because I expect better service and better quality programming, are you going to continue to provide me service, or are you going to cut me off?

Mr. Jim Shaw: I think probably down the road you'd get cut off.

Mr. Charlie Angus: Okay.

I'd like to go back to this issue of—

Mr. Jim Shaw: These are channels that you don't watch, right?

Mr. Charlie Angus: It's the overall programming.

Mr. Jim Shaw: Or that you watch?

Mr. Charlie Angus: I'm saying if I decide to hold my payment for a year, you're going to cut me off.

Mr. Jim Shaw: Do you want all Canadian channels, and then it won't be an issue?

Mr. Charlie Angus: No, if I want any programming—

Mr. Jim Shaw: Oh, any programming. So—

Mr. Charlie Angus: —I would like it to improve. My question is, if I decide to withhold my payments until the end of the year, are you going to cut me off?

● (0925)

Mr. Ken Stein: The first thing that would happen is, if you indicated that you're concerned with the programming, we would want to have one of our service reps have a discussion with you first. That would be the first step.

Mr. Charlie Angus: Yes.

Mr. Ken Stein: Then we would want to make sure we understood what your concerns were. That would be a first.

Mr. Charlie Angus: I will see, if my family will go along with my little experiment to see what happens, whether we get one of these calls from our customer service rep to see whether they can improve the programming. So we'll see.

Mr. Jim Shaw: What territory are you in, so that I know?

Mr. Charlie Angus: I'm going into my second line of questioning, because my tough chair is going to cut me off momentarily.

I would like to go back to the original arrangement—this 50-50 that was the original cable television fund, and I recognize that it has changed since the early 1990s.

Mr. Stein, you were part of that original group that recommended that this was something that was a good deal, because the cable companies got to keep half the bump-up in fees, and the other half went into what was then the cable television fund. As far as I know, that bump-up has never been returned to subscribers, so it seems—There have been numbers put around that subscribers are owed maybe up to \$900. I would think you've done pretty well from this arrangement.

You call this an unfair tax, yet you charge subscribers a fee for signals you get for free; you're protected from foreign competition from, say, DirecTv; you have a market value of over \$9 billion; you have a seat on the CTF fund; you've been protected and pampered in the market by the CRTC. Now you come before this committee and ask what assurances we, as members of Parliament, are going to give you in order for you to feel that you should bother having to pay your share of what has been part of your licence. I simply don't understand any other business that can dictate terms like that.

Mr. Jim Shaw: First off, to tell you the truth, that probably was a bad deal, okay? And since then, I think Shaw has spent \$4.4 billion building a network, carrying 13 mandated language channels, which we have to carry. Sometimes we don't have any subscribers for these 13 French channels. We have had to do more to promote digital, to promote Canadian access, than anyone. The burden on BDUs in Canada is just laborious, and that is why we're in front of the committee today to say you just can't load it up any more. I mean, it's just getting over the top.

So to think that we took advantage—I would go back and say, you know what? We could charge more. I mean, maybe we should charge more, because we have paid our fair share of the load and done our fair share of supporting everything, and all we're asking for is the production fund to do theirs.

Mr. Charlie Angus: Thank you.

The Chair: Mr. Fast.

Mr. Ed Fast (Abbotsford, CPC): Thank you, Mr. Chair.

Thank you for coming, and I also appreciate the announcement you made that you're going to be restoring the funding. I just want to confirm that the funding you're restoring will be in accordance with the circular, so it's going to be on a monthly basis. Is that correct?

Mr. Jim Shaw: Correct.

Mr. Ed Fast: Thank you.

Secondly, I think what we need to do as a committee is focus in on the concerns you have, rather than what's happened historically.

You've raised one issue, and this was that the CTF has really failed to deliver quality TV programs reflecting Canada's unique nature. I think that was paraphrasing what you said. Somewhere along the line I believe it was also communicated to the public as well as to this committee that you had a concern about some of the CTF funding going to the CBC. Could you expand on that?

Mr. Jim Shaw: Let me start, and I'm sure Ken has a bit of a point on this too. We think that diverting the funding through an indirect method to the CBC is the wrong way to approach that funding, and that the government or the committee or whoever decides to fund it should do it directly so that it's transparent across the board.

When we look at things, we see things such as there's never been an audited program from the group at the production fund; there's no auditing accountability; there's no ability for anyone to judge. My father was always big on saying that you can only judge what you can measure. You have to be able to measure something, and you have to be able to measure whether it's a success or it's not a success. Not everyone's going to say "great", but I know other people have funds that return almost all of the money—now they maybe don't make a lot—but we don't return any of the money. If you're a producer and you get a program approved by the fund, you get a 20% kick. Well, I'd like to get a 20% kick too on everything Shaw does, but I don't. I just think there are some fundamental rules we have to get in place.

I also question the size of the board. When you have a board of 20 people, you'll have a hard time getting anything done. And what are the qualifications of that board? Have they delivered? If they haven't...as I said the other day, even I would get fired by my father.

● (0930)

Mr. Ed Fast: To follow up on that, when did you first make these concerns known to either the CRTC or to the CTF or the minister?

Mr. Ken Stein: It's been a process that I would describe as, "Yes, we know about your concerns and we're going to take care of them". That process has been going on for quite a period of time.

Mr. Ed Fast: Over what period of time, approximately?

Mr. Ken Stein: I would say over the past five years.

Mr. Ed Fast: And have these concerns been noted not only verbally but in writing?

Mr. Ken Stein: I think Mr. Barrett indicated at the hearing when he appeared that he knew the BDUs had been unhappy for 10 years. I would say that's been the nature of our concern.

There have been various issues. We were concerned about audits, and then we were told the Auditor General was going to do a review, which the Auditor General did—a good review. We've been told that the issues identified by the Auditor General have been corrected, but we don't know how that's been done, or we don't know what the Auditor General's comments are.

Besides, the Auditor General is looking at it from a government point of view, not from a private sector partner point of view. The government has a right to a contribution agreement. We have no such agreement. The government had the right to do an audit. We have no such right. So we're contributing a fair portion into the fund, but it's not a public-private partnership when the government has all the rights and we don't.

Star Choice pays as much into the fund as Shaw Cable does, and over the past number of years—going back to 2004, I think—we've argued that DTH should have two seats on the board.

The board of the CTF—and I don't know what rights the board has to make their own decisions about who is on the board—made the decision that there would only be one DTH representative. Then I was told that they would prefer to have Bell on the board rather than Star Choice, because Shaw was already on the board.

We said Shaw isn't on the board, because our member has been told he can't represent Shaw; he represents the CCTA.

So over the past number of years there has been an ongoing variety of concerns going on, and none of them has been addressed.

Mr. Ed Fast: None at all?

Mr. Ken Stein: None.

The Chair: Ms. Keeper.

Ms. Tina Keeper (Churchill, Lib.): I'd like to thank you for being here today as well.

I have a question about the timing, I guess, of the decision. Mr. Stein, you said it has been a number of years that the CRTC is aware of your concerns. Could you tell us what attempts Shaw has made to deal with these issues and why it was mid-year, out of the blue, that we had this announcement from your company?

Mr. Jim Shaw: It would not be out of the blue. We appeared at a hearing, I think in—

Mr. Ken Stein: October.

Mr. Jim Shaw: Was it October? Some time in October. We expressed our supreme dissatisfaction with this. We had had before that absolutely no attention from anyone on this issue.

We say this is a terrible waste of a Canadian asset, and that's why we took the action we did. We felt it is such a terrible waste of a Canadian asset. That's why.

Mr. Ken Stein: I'll make two points. One is that we did address those issues at the CRTC hearing, and then when the CTF appeared we did not feel those issues were addressed. But we had made points in our interventions beforehand that were on the record about our concerns about the CTF.

As well, I think one of the significant issues was when our supposed board member was asked to remove himself from the discussions because we had acquired a cable system serving Kenora. We're very proud of the fact that we serve small communities. We may not serve Timmins, but we are very proud of the fact that we serve a number of small communities.

As part of that acquisition, we ended up owning a television station in Kenora, which offers a valuable service in that area. It's not a major station; it's a small broadcast station. It was just part of the acquisition of the cable company in that area.

Our member was then told he could not participate in the discussions because now we were a broadcaster. We owned one little station in Kenora, and we had to leave the room with CTV and Global and TVA. That's ridiculous.

• (0935)

Mr. Jim Shaw: To put it in context, we just finished the budget for that station, and it's going to earn all of \$20,000 this year. We're hoping to expand it into Canada's first superstation, but it's not looking like it.

It's just that the stuff that comes out is crazy.

Ms. Tina Keeper: If I understand correctly, the CRTC regulatory framework allows you to do your business, has allowed you to be as successful as you are, and there is a contribution under that framework that you are to make.

Essentially, the problem seems to be, from what I'm hearing, that you do not have enough control in determining what productions are being made through that and where they're being utilized.

Mr. Jim Shaw: Our concern is not paying the money. Our concern is that we are not taking advantage of anything and it hasn't produced nearly enough. That's all we're saying. We think it's flawed and it's broken, and either it has to be fixed or it will not go anywhere.

Ms. Tina Keeper: So what you're seeking is a process in which to have your voice heard and to address this situation.

Mr. Jim Shaw: Yes, all we're asking is to address the situation that's in front of us. I think Canada has lots of smart people. We just can't give our money away and not have anything to show for it at the end.

Ms. Tina Keeper: But you're also aware that we have a very fragile television production industry, and that the steps you took have put that industry at risk.

Mr. Jim Shaw: I don't agree with that. I think the steps we took will make the industry stronger.

You know what? As we said to the commission, you can license a lot of channels and not all of them will make it, not all will survive, but the good ones and the ones that Canadians want will.

We were talking last night that CBC takes one show and puts it on at 10 o'clock against *Hockey Night in Canada*, and so does Global. People are using the system to their advantage, taking the money, and producing no Canadian—

Ms. Tina Keeper: Well, I think there'd be many people who would disagree with that statement. In fact, we have found that the Canadian television content has been quite successful in terms of its Canadian audience.

I'd like to go back to another statement you made in your news release. You said that you're being taxed to pay for the activities of the Canadian Television Fund. This is understood as a contribution, not a tax. Could you explain the wording of that, please?

Mr. Jim Shaw: We say that this is a tax on Canadians.

Ms. Tina Keeper: A tax on Canadians.

The Chair: Okay, thank you. Your time is up.

Mr. Kotto.

[*Translation*]

Mr. Maka Kotto: Thank you, Mr. Chairman.

Can you honestly say that the CTF funded programs all miss the mark?

[*English*]

Mr. Jim Shaw: I'll get Ken to go over the numbers. We have them here. When I look at the numbers that are delivered and the number of Canadians who watch, it is pretty low versus the dollars we spend. So we're just asking to take it to a higher level, and maybe that means not all producers might not make it, but many, many will. Let them adapt.

Why would we give 20% of the fund away just because you organize how to get in the fund? I think that's crazy. Can't we make it efficient? Where are the leaders in programming in Canada to drive the fund further? That's all we're asking.

[*Translation*]

Mr. Maka Kotto: Does that comment apply to both English Canada and to Quebec?

[*English*]

Mr. Jim Shaw: I can't comment on Quebec, but Ken will give the numbers on English Canada.

[*Translation*]

Mr. Maka Kotto: If I understand correctly, your criticism is directed at English programming.

[*English*]

Mr. Jim Shaw: Yes, you will have to ask someone else to comment on the French programming, because I have to have the translator.

[Translation]

Mr. Maka Kotto: What criteria do you use to gauge the success of a CTF funded-program? What are you aiming for?

● (0940)

[English]

Mr. Jim Shaw: Ken.

Mr. Ken Stein: In terms of the two markets, let me first deal with the English language market, because you do have that information in front of you from the CBC. The CBC showed a chart, which is quite interesting. It shows a number of shows they've produced through CTF funding, and they had one from CTV shown on Saturday night at 10 o'clock, I think, and one on Global at 10 o'clock. Both of those shows have very low audiences.

We have a list of the top 200 programs in English language programming, and these programs rank 140 and 163 out of 200. Most of the top-rated programs are American programs and *Hockey Night in Canada*.

We're not making any judgments on the programming, but we just think that if we have spent \$2.3 billion, two things should have happened. One is we should have a strong production industry. With that investment and those kinds of payments by Canadians there should be a strong industry. The second thing is there should be an accountability in terms of viewership.

The CTF has only produced one viewer report that we can find over the past five years. They presented some of that to this committee. There is no evidence that the funding they have put into the system has resulted in shows that have been successful with Canadian viewers, and we think that's a problem. That's what we're trying to say.

[Translation]

Ms. Diane Bourgeois: Thank you, Mr. Chairman.

If I understand correctly, gentlemen—and I would like you to give me a straight answer—Canadian programs aren't as good or as interesting as American ones. Is that it?

[English]

Mr. Jim Shaw: Let's take a small commercial example. Alliance Atlantis was able to come and partner with CBS, and they created a show that is now worth over a billion dollars, out of probably \$100 million in investment. Yet we've been able to go the other way, take \$2.3 billion and work it down basically to very little. Why is that? This tells us that the system is flawed.

[Translation]

Ms. Diane Bourgeois: Earlier, I asked you a question about your demands and the Canadian Television Fund. You spoke of performance, accountability and fairness.

Can you give us concrete proof that the Canadian Television Fund has not satisfied the performance and accountability criteria? You are saying this here today, but what evidence do you have to back up your claims? I want proof.

[English]

Mr. Jim Shaw: Okay. We have the proof, and we'll file it with the committee.

The Chair: Mr. Warkentin, you have two minutes left for one very short question.

Mr. Chris Warkentin (Peace River, CPC): I'll try to keep it short.

Thank you very much for coming. We do appreciate your testimony. We appreciate the fact that you've taken the time and that you've made the announcement that you're going to renew the funding.

It may not be short, but certainly we want to get into this discussion at some point about the existence of this fragile production industry in Canada. We want to move it to become a strong production industry, there's no question.

This is something you have identified as being an important thing as we move forward, especially when we consider the new technologies that will compete for market share. This is very important, if as Canadians we want any type of strong production industry.

What are the top number of things that moving forward would ensure that we have a strong production industry in Canada—even outside the CTF?

Mr. Jim Shaw: The first thing is we have to be successful, and you know it looks like we have the money. So if the money continues to flow in, the challenge is to the industry to be successful, and that's what we have to do. You can't be successful if you don't produce anything that Canadians want to watch.

Then I would question whether we have the right board members. Is the structure right? How do we fund it? What do we produce? Does it need more entrepreneurs on it? I don't know the complete makeup of the board, but are there too many people who are only there to get money out of the fund? Where is the responsibility and accountability? They should be on a structure. You guys are all on a structure. You have to report back to your constituents. Every 90 days I have to produce financial results.

So I think there has to be some level of accountability from all things.

● (0945)

The Chair: Thank you very much.

Again, I thank our witnesses for being here this morning.

We are going to take a five-minute recess. In exactly five minutes I'll be calling the next witnesses.

●

_____ (Pause) _____

●

● (0950)

The Chair: I welcome our second set of witnesses here this morning, Mr. Péladeau and Mr. Lavoie.

Please start your presentation.

[Translation]

Mr. Pierre Karl Péladeau (President and Chief Executive Officer, Québecor inc.): Thank you, Mr. Chairman.

Ladies and gentlemen members of Parliament, Mr. Chairman, thank you for welcoming us here today.

For two years, Quebecor Media has been trying by every means at its disposal to alert all those concerned, whether they be politicians, public servants, regulatory authorities or television industry stakeholders, to the consequences of the radical changes that the digital revolution is causing to the Canadian audiovisual landscape.

Faced with inertia and a lack of reaction, we decided to increase the pressure by suspending our monthly payment to the Canadian Television Fund for 21 days. I am pleased to see that one of the consequences of our action was to convince the Standing Committee on Canadian Heritage to hold special hearings in order to discuss the issue, because I sincerely believe that if we do not react quickly, the Canadian audiovisual production industry is running very serious risks that could result in its suffocation.

First allow me to make a clarification. I'm astonished that this seems necessary, but having read statements that have been reported in the press and the testimony that has been delivered here, I feel obliged to do so.

The monopoly in the cable television sector is no more. It has been replaced, as the legislator wanted during the 1990s, by a highly competitive market in which compete the older cable companies, new players in the sector, satellite operators, telephone companies now operating the service through new technologies, and above all, the Internet, which is becoming the universal means of communication.

In case you are not aware, there are 2.8 million Canadian homes that subscribe to some kind of cable service. The legislator was right to impose deregulation, even though it is far less comprehensive than it should be. In fact, the cable companies are still subject to overzealous regulations which limit their ability to offer better service to consumers and to compete on a levelled-playing field with new stakeholders in the cable sector.

This is why we have publicly encouraged the various authorities concerned on many occasions to carry out to its logical conclusion the thinking that guided the Industry Minister, Mr. Maxime Bernier, and his decision to accelerate the deregulation of the residential telephone sector and to deregulate the cable television sector as completely as possible.

Nevertheless, it must be recognized that the deregulation that has already taken place has served consumers well. Services have been vastly improved, prices are lower and the cable operators are now using their very costly infrastructure to offer new services to consumers and to the population. This is how, for the first time in the history of Canada, Videotron and other cable companies were able to participate in the residential telephone market which allowed for a very substantial decrease in prices.

Another myth I would like to dispel is that by which people believe that the right to broadcast television programs is a privilege, because the airwaves are public property. Do you believe that YouTube.com which has just signed a deal with a major content distributor to broadcast programs in their entirety, or that tetsaclaques.com, a true phenomenon in Quebec, asked anyone to

give them the privilege to occupy more and more space in the audiovisual landscape?

Protectionist measures are only possible if the boundaries can be controlled. This is no longer the case. The massive audiences that we could impose a schedule on are no longer there. They are dispersed over the hundreds of new windows. Mainstream broadcasters, like the TVA network, who depend entirely on advertising revenues, are at risk. Audiences are decreasing substantially and ad revenues are following that downward curve. If we do not wake up, these mainstream broadcasters who offer the flagship news shows and public affairs programming will no longer be able to offer these services.

In Quebec, we have the good fortune of the protection of language, which has allowed us to draw significant audiences for homemade productions. Unfortunately, we cannot be fooled into thinking that Quebec is forever protected from this global reality.

● (0955)

The model according to which independent producers do not invest one cent; take absolutely no risk; are totally subsidized by a combination of the Canadian Television Fund, private fund and tax credits; pay 20% of the total production costs; sell single broadcast licences while continuing to hold the broadcast rights through other outlets where we find the audience that we need in order to ensure the survival of an all-purpose broadcaster, that type of model can no longer work. In order to justify the investments that are required to broadcast high-quality programming, a group like Quebecor Media must hold the rights to the products that it airs. We must be able to fully exploit the economic potential of the various types of programming by moving them from video on demand to the generalist network, to a digital network, a downloading site and, finally, to retail DVD sales. That is now the only way to ensure that good quality programming will be economically viable.

With that in mind, the integration of Quebecor Media is no different from what is being done by other large international groups in the entertainment and communications industry. The Canadian Television Fund, which, in the past, did play a constructive role, has not kept up with the digital revolution that has increased the number of broadcasting channels and has broken down barriers.

During the last quarter, advertising revenue at TVA dropped 3.7%. For a single quarter, that is huge. As responsible managers, we must take the necessary steps to adjust our spending to this new reality. I would remind you that Quebecor Media, whose subsidiary, TVA, already spends \$109 million annually to produce and acquire Canadian content, intends to hold the line on spending for the coming years. Moreover, Quebecor Media, through its subsidiary Vidéotron, intends to considerably increase its contribution to Canadian programming.

Vidéotron currently contributes \$19 million to the Canadian Television Fund and to a CRTC privately regulated fund for the production of Canadian programming.

We intend to increase that amount to \$109 million for the next three years. We will meet this commitment to the CRTC by allowing the Commission to sit on the fund's board, which will manage the investment and produce an annual public report.

Before answering your questions, I am appealing to your sense of realism. Our industry is at a turning point. I know that you are clever enough to realize this. If there is one thing that I would ask you to keep in mind, it is that the pace of this change is accelerating, and we no longer have time to discuss it for months or even years. The time has come to act.

Thank you very much for your attention.

[English]

The Chair: Ms. Fry.

Hon. Hedy Fry (Vancouver Centre, Lib.): I think you've heard from quite a few people around this table that we agree with you that in fact, with new media, etc., it's getting very difficult to reach audiences, and that protectionism, as you call it, has a difficult time working. But I think it's a pity that you see the idea of Canadian programming and Canadian content as protectionism, because when you look at very viable countries of the world that are seeking to maintain their own culture in this mass communications world—If you look at England and the BBC, if you look at the work that's being done out of England, the work that's being done out of Australia, you'll find that they're maintaining a very strong business.

The question isn't really whether we should be protecting ourselves. The question is how we put money into a fund that will ensure that Canadian content, Canadian culture, maintains its own sense of viability and its own strength in this multi-mass-communications era.

That's a big question. We've heard people say what went on, etc., and now we're putting the money back into the fund.

We heard earlier on from Shaw that they felt they had some problems. They needed an audit. Well, obviously the Auditor General's audit doesn't seem to cut it.

The big question here is this. I would like to hear some really positive solutions, because I think the idea that we're going to do away with the Canadian Television Fund and that we're all going to float ourselves out into the ether isn't going to happen. We all want a strong sense of Canadian culture, Canadian programming.

Of course, language is important. Quebec has the ability to keep its head above water because of its language. We're probably the only people in this hemisphere who can maintain good, strong, French language programming. However, the point is that we need to be able to ensure, because we live so close to the U.S., that we have a strong program.

I want to hear some positive solutions showing that you are committed to maintaining a strong CTF and a way of ensuring that we're producing quality product. If you can give me some of those answers, I'd like to hear them.

• (1000)

Mr. Pierre Karl Péladeau: I'll do it with pleasure, Madame.

I think we fully agree with all the members and the chairman here that we're proud of this country and proud of this industry. Since we are involved on a day-to-day basis, we produce—I mentioned in my presentation that it's more than \$109 million that we're spending, some in news, some in what we call in French *séries lourdes*—dramas, documentaries, public affairs. We're committed to that, and the objective of the law is to make sure that the industry—

Hon. Hedy Fry: I'd like the recommendations, Mr. Péladeau.

Mr. Pierre Karl Péladeau: We had one. We've been proposing a solution.

Since the objective of the law is to contribute to the Canadian programming industry, I don't think there is an obligation to contribute to a fund; the obligation is to contribute to the Canadian programming, or the Canadian broadcasting system.

That's why we're proposing that on top of what we are actually contributing to the Canadian fund, we'll add to it, for a \$30 million contribution per year, and we're ready to make a commitment for three years of over \$100 million. I think this is a real solution.

In fact, we will contribute better to the industry and at the same time we will not contribute to a bureaucratic structure that is saying, "Well, this is a weekend." We have a bunch of people who say, "We can fund this through CTF and this we can't fund." Who are they to be able to get what is good for Canadians?

Hon. Hedy Fry: We're not going to go over that, Mr. Péladeau. What I'm going to say is that we've heard very clearly that you were given a licence in return for the ability to get the infrastructure and charge an amount of money, and you'd have this fund. So let's not walk away from the fund.

You are suggesting that the only solution is to give you the money and you would produce better programming. What proof do we have that you will do that? I don't understand, if great minds that are sitting around here in Canada, who all want to keep Canadian content alive under a fund cannot do it, that you can do it. That's not a solution, to me.

You have critiqued the fund. I'd like to hear from you some positive solutions on how the fund could work well and how we can produce Canadian programming under the current structure. I'd like to get those recommendations, and giving the money to you to do your own thing is not a solution, as far as I'm concerned.

Mr. Pierre Karl Péladeau: What the fund is all about is not what has been said in the law. The law is to contribute to the Canadian broadcasting system. We believe as an organization that we're contributing more than any other broadcaster—any other private broadcasters—in terms of contribution. So—

Hon. Hedy Fry: So you have no recommendation. Thank you.

Mr. Luc Lavoie (Executive Vice-President, Corporate Affairs, Quebecor Inc.): No. We do have recommendations.

Mr. Pierre Karl Péladeau: Absolutely. We just mentioned that we were ready to contribute more than our actual contribution to the Canadian Television Fund.

The Chair: Thank you for that.

We go to Mr. Kotto.

[Translation]

Mr. Maka Kotto: Welcome Mr. Péladeau and Mr. Lavoie.

After listening to you, I have a feeling that the debate will go far beyond the Canadian Television Fund itself, with the arrival of new technologies. You spoke of deregulation. Have you considered the impacts of such a process? We were dealing with telecommunications, but the same could apply to radio and television broadcasting. Have you assessed the impact of cultural sovereignty in Quebec and in Canada, in view of the fact that, as Ms. Fry said, we are located so close to the United States?

Because of its identity and its language, Quebec is relatively sheltered—and I say relatively sheltered—but anglophones in Canada could see their culture threatened, could even be culturally assimilated, if that were to come to pass.

I would like to hear what you have to say about that.

• (1005)

Mr. Pierre Karl Péladeau: Thank you, Mr. Kotto.

What we are suggesting is to improve and increase the financial contributions to Canada's broadcasting system and, more particularly, as you may suspect, to the Quebec French-language space where most of our activities occur. You said earlier that 16,000 jobs were in jeopardy. We have no intention of jeopardizing these jobs, on the contrary. With the additional funding that we intend to inject in the industry, there might even be an increase in the number of jobs.

We want to ensure that the francophone side of Canada's broadcasting system is solid. We are aiming to occupy all of the audiovisual environment, which is no longer limited to television alone. There were previously two large entertainment and information media: newspapers and conventional television. That was the environment in which the Canadian Television Fund was created. That environment has exploded.

Because of today's distribution channels, audiences that once watched only conventional television have moved, and our advertising revenue has followed them.

Do you think we were happy about cancelling the heavy series called *Vice caché*? Along with my associates and my family members, I watched the series and thought that it was very well done. Unfortunately, we were not able to fund it because the audience, which started out at 2 million, dropped to under 1 million.

The program is as good as any American one. We could compare it to *Desperate Housewives* that the CBC has bought to air on its network. Unfortunately, we no longer have the financial means to produce *Vice caché* because the audience has moved to other channels. Rest assured that we intend to maintain a high level of funding for Canadian programming.

Mr. Luc Lavoie: In your preamble you spoke about protecting Canadian culture, something that is quite noble and beyond reproach. The problem is that it no longer works.

How are you going to prevent YouTube and its ilk from entering Canada? I don't see how you can prevent these new and very powerful universal communication tools from entering Canada.

My colleagues at Shaw did not want to venture too far in their analysis of the francophone market. As someone who has spent a lot of time in English Canada and who has a great deal of affection for the country, let me say this. Jim Shaw referred to *CSI*. Last week, someone told me that at least half, and maybe more of the production crew who work on *24*, one of the most popular programs in the United States, was Canadian.

That also reminds me that in 1992, the CRTC decided that the song *Everything I Do*, by Brian Adams, was not Canadian. However, the composer was Canadian, the lyricist was Canadian and the singer was Canadian as well. Everything about it was Canadian, but according to some technocratic grid that was devised by who knows who, it was decided that one of the best-selling records in the history of music was not Canadian.

I find that very hard to deal with. It speaks of an attitude whereby we must protect ourselves because we are not good enough. I think that English-speaking Canadians are just as good as the Americans. Moreover, when given an opportunity, they produce exceptionally high-quality programming. Programs such as *24* and *CSI* are prime examples.

Look at how many Canadians are in Hollywood and New York. I wonder if it isn't the system itself that forces Canadians to go elsewhere in order to produce their programs.

• (1010)

[English]

The Chair: Thank you very much.

Mr. Angus.

[Translation]

Mr. Charlie Angus: Mr. Péladeau, you say that Vidéotron and Quebecor must subsidize Radio-Canada. You contribute \$15 million to the Canadian Television Fund, but TVA received \$18 million from the fund.

Is it not true, then, that the fund subsidized Quebecor?

[English]

Mr. Pierre Karl Péladeau: If we were to take what the CEO of Radio-Canada is saying, TVA doesn't receive any money, as Radio-Canada doesn't receive any money. It's received by the independent producer.

That's the system as it works today. What we're looking for is to change it, because at the end of the day, we think it's not positive and constructive for the Canadian industry. This is what we're saying.

Mr. Luc Lavoie: Mr. Angus, may I please add something that Pierre Karl may have forgotten when he presented our proposal a moment ago? I would like to underline and insist on the fact—because I don't think you hear corporations saying this very often in front of elected officials—that we are renouncing the \$100 million that comes from the government.

If our proposal is accepted, we will be putting more money into the system. We're going to do more television production, and we're saying to the government, thank you very much for the \$100 million, but we don't need it anymore.

Mr. Pierre Karl Péladeau: If the government wants to continue contributing to the Canadian fund, obviously it's the government's decision to do so.

Mr. Charlie Angus: Yes, but I think we have to be very clear about what is happening here.

There is a great difference between your position and Shaw's position, because you have a very large share in your market, and your number one competitor is Radio-Canada. There's no other market in the country where a cable company or a broadcaster has to go up head to head against Radio-Canada.

So I would suggest that this noble offer you've just made is actually part of a squeeze play. You do not want to have to pay into the fund, and you doubt that the \$100 million will go to Radio-Canada. At the end of the day, you're looking to bulk up your own market against your number one competitor, which is Radio-Canada.

Mr. Pierre Karl Péladeau: Mr. Member of Parliament, I disagree with you, because you have a weakness in the way you perceive the marketplace. Our competitor is not Radio-Canada. Our competitor is this difficult revolution, the way in which we are using different channels for the distribution of content. It comes from the Internet, from VOD.

Radio-Canada is only one piece of it, on top of which you forgot to mention that all the specialties now have a market share close to what we have as conventional broadcasters.

Mr. Luc Lavoie: It's actually much bigger.

Mr. Pierre Karl Péladeau: I can't agree with the fact that Radio-Canada is our competitor. It is one of our competitors.

Mr. Luc Lavoie: To be more specific, at the moment, the latest numbers show that TVA's market share is 29, while the specialty channels put together are 39.

So the real competition is not Radio-Canada; it's the specialty channels and all of the other means of communication.

Mr. Charlie Angus: I would suggest—

Mr. Pierre Karl Péladeau: Mr. Angus, I invite you to look at the amount of Canadian content on specialty channels, especially the one in French. There's not so much.

Mr. Charlie Angus: Quebecor is a vertically integrated corporation, with newspapers, television, and cable. Now you are looking to move into new markets—video on demand and the Internet—which in terms of a business plan is the perfect direction to go, and I commend you for going there.

I would suggest, though, that this \$30 million fund, which you're offering to set up, is something you would have done anyway because you're looking to move into that market.

I think the situation that was created with Mr. Shaw has simply provided an excuse for your company to blame the CTF for something that's really inconsequential to the larger picture, which is that you as a business—a very large, vertically integrated business—were going to move into those other sectors anyway. So you've used the excuse of the so-called crisis in the CTF to say, we don't want to pay into that fund anymore, which might in some way provide programming to one of our competitors; we want the money

ourselves, so it'll be run by our own fund, and we can beef up our market share.

• (1015)

Mr. Luc Lavoie: I am totally sorry. With all due respect, sir, I totally disagree with your narrative.

First, we're not moving into this new business. We're right in the middle of it. Last year alone, with less than 700,000 subscribers to our digital service, we had 20 million orders on our video-on-demand service. We're one of the largest Internet operators in the country—

Mr. Charlie Angus: And you will continue to grow in that market.

Mr. Luc Lavoie: We will to continue to grow in that market.

The problem is not the way you describe it; the problem is that the Canadian Television Fund tells me, for instance, that video on demand is not a legitimate broadcaster, which should in itself trigger the funding for a program.

I'm saying—

Mr. Charlie Angus: It's completely separate from what you do with the Canadian Television Fund.

Mr. Luc Lavoie: I'm sorry, but if I may finish my point, the reality is that if the public broadcaster is to be strong, and we've expressed the wish quite openly and quite often that it remain strong.... We tell the Government of Canada, why don't you take the \$100 million, put it where it belongs, and leave us to decide where we're going with our money? We're going to put it into a production, and we're going to allow the CRTC to be part of the board of the fund that we're proposing. So you'll be able to monitor what we're doing, but we're going to take into account the reality of the digital revolution that makes video on demand a reality, that makes Internet television a reality.

We're not going to be dictated by a technocratic structure that obviously denies today's reality.

Mr. Charlie Angus: Thank you.

The Chair: Thank you.

Mr. Abbott.

Mr. Jim Abbott (Kootenay—Columbia, CPC): Recognizing that we are talking about two significantly different market realities and certainly two different corporations with two different corporate imperatives, nonetheless there is some commonality between you and Shaw Communications.

I wrote down your phrase, that you were dealing with a total inertia and an absence of reaction to your concerns over the CTF. What period of time would you say this first became an issue? When did it start, and how long are we talking about?

Mr. Pierre Karl Péladeau: I mentioned in my presentation, Mr. Abbott, that we started ringing the issue many years ago. More specifically, we did it in writing to the CTF by a letter from our representative, Mr. Pierre Lampron. I think it was dated—

Mr. Luc Lavoie: May 2005.

Mr. Pierre Karl Péladeau: —May 2005. We have been seeing inertia all over, since the inception of this. I had the chance to be part of many public presentations from the industry. I had the chance to meet with CRTC officials, as I mentioned. It's not something that we raised yesterday morning, because we are concerned about our industry and we want to make sure that it will remain strong and viable in the future.

The point is we are all of a certain age. I am 45. There are not so many people who are 20 years old. Look how 20-year-old people watch entertainment, watch news. They're not reading newspapers anymore and they are not watching television as we've been watching it. They go on the Internet, to YouTube, MySpace. This is what their environment is all about, and if we are not able as Canadians to propose something that is based in Canada to provide those new channels, at the end of the day the industry will be killed

Mr. Jim Abbott: But you are —

Mr. Pierre Karl Péladeau: —with the exception of public money that will fund Radio-Canada or CBC, and those will be the only capabilities to withhold and build our Canadian industry.

Mr. Jim Abbott: We are probably talking about the same thing Shaw Communications was talking about this morning—at least a five-year period when there was virtually inertia and an absence of reaction over the CTF.

I want to underscore the fact that to Minister Oda's credit, she sat down and listened, and we have now arrived, as of this morning, at an interim solution. When people are prepared to blame the minister, maybe they should also be prepared to praise the minister that we have reached a conclusion to something that started five years ago, well before our regime.

I'd like to take a look at the solution, because it's an interim solution. My concern is that when you talk about the total inertia and absence of reaction, what we really need—and perhaps this is what Ms. Fry was eluding to—is to get from you a sense of how we move forward. We've arrived at this interim solution. It's obviously fragile. In your judgment, where do we go from here? How do we open up the communication, and how do we create a situation where there can be good interaction and positive reaction?

• (1020)

Mr. Pierre Karl Péladeau: I think we have been loud and clear. We are committed to Canadian production. We're committed to this industry. We are ready to be under the microscope of the CRTC for the amount of money that we are committing to put in the system. This is, I think, our real solution. At the end of the day, we believe that because we are accountable to our shareholders, our auditors, and the population in general, we will be in a good position to talk and think about providing a decent solution for Canadians.

Mr. Luc Lavoie: If I may add, sir, you mentioned Minister Oda. She took a lot of beating for something that she did not deserve, because she obviously was open-minded about what was going on. She was obviously willing to listen. For once, someone was listening. The new chairman of the CRTC, when he issued a statement last week, also made it clear that it was time those issues were listened to. The board of the Canadian Television Fund is a

board that's inefficient. It's a board that's not accountable, and I would go even so far as to say it's a board that may be conflicted in terms of conflict of interest.

Now that the minister has said what she has said and the chairman of the CRTC has said what he has said, we are going to wait and see what they think should be the next move, but in very good faith, we do believe that something is finally going to happen. It's about time, because if something does not happen, it's the whole Canadian broadcasting system that is in danger.

The Chair: Thank you, and your time is up.

We have time for three questions.

You can have one short question, Mr. Scott.

Hon. Andy Scott: I think there's an ideological question here. There are those of us who would feel the public interest would be better served by a public entity. If you think the public entity is conflicted, as you give them a certain amount of money and they make decisions you question, then if you keep that money, I would suggest you're just as conflicted by investing it along with your own. That's welcomed and a good thing, but the bottom line here is whether there is any way you can imagine having an entity that is both public and private that would serve a public interest that is independent of your private interest. At the end of the day, that's who you are answerable to: not the Canadian public, like us, but your company. Consequently, is there no way you can see the coexistence of those two interests?

Mr. Pierre Karl Péladeau: This is what we've said. We are providing a solution, but where the CTF will end up, again, is not our decision, nor do we have the capacity to figure that out. It's a government issue.

I'd like to mention something. It's not because we're private that we are not servicing the public. We are delivering programming to our customers, to our auditors, to Canadians that is very successful and also that is making this industry very strong. This does not conflict with public policies—not at all.

Mr. Luc Lavoie: If I may add something, sir, there is a coexistence of private and public interests, and that's between the public broadcaster and the private broadcasters. Why is it that the private broadcasters, or the private entities like ours, should put their money into a pot so that it becomes part of some kind of a socialist approach to the way we fund programming? I don't think it's ideological. I think it's fundamentally a strange way of running a business.

The Chair: Thank you.

Madame Bourgeois.

[Translation]

Ms. Diane Bourgeois: Good morning, gentlemen.

Would all of the \$109 million that you would like to invest go to programming for the Quebecor Media group? Is that correct? That is my first question.

If that money were for the sole use of Quebecor Media, would that not give you a monopoly?

If you have a monopoly, then how would you bring together all of the producers in Quebec?

• (1025)

Mr. Pierre Karl Péladeau: I'll start by answering the first question. What was the purpose of the legislation? What was the legislator seeking to do by creating obligations for the cable distributor which was, at the time, a monopoly? Well, this monopoly has completely disappeared. As you know full well, Canadians benefit from a communications system that is this effective because billions of dollars were invested in it. Mr. Shaw referred to that.

The same applies to us. We invested \$750 million in Videotron. We will also be investing \$1 billion over the next three years to ensure, once again, that Canadians may enjoy the most recent technologies, a competitive environment and telecommunication services at the most competitive prices.

Originally, the objective of the legislation was to contribute to Canadian programming or to what was referred to as the Canadian broadcasting system. Well, that's exactly what we want. We want to do so more effectively than the bureaucratic structure which is in place currently does, but because of the persnickety rules in place, it has been more of a hindrance than anything else.

My colleague Mr. Lavoie mentioned it earlier. It's been a while now that we have been raising the issue of new platforms.

Why isn't the Canadian Television Fund able to think further ahead than this? For a very simple reason: independent producers are not interested in it. They are not interested in ensuring that new distribution channels are strong—for the Canadian industry as a whole and over the medium and long term.

Why would an independent producer, receiving 20% of production costs, and therefore having no real financial incentive to create quality products at the best possible cost be interested in changing the system? There is no incentive in it for him.

You need to know that what triggers the CTF contribution is the general-interest channel, only if it holds a broadcasting distribution licence on the general-interest channel. Any other distribution licence would only hold up the triggering of the CTF contribution. These are technical details, but they are extremely important. Unfortunately, that is where the problem lies.

Mr. Luc Lavoie: May I add one thing with respect to the monopoly you just mentioned?

Currently, TVA has approximately 28% of the Quebec market share. I didn't do the calculations, but if you add all specialty channels to the mix, representing perhaps 5%, it amounts to 33%. So this is far from a monopoly. If you look at the nine other specialty channels, which have a 39% market share, Radio-Canada—I haven't seen the most recent figures—whose market share is approximately 18% to 20%, the proliferation of Internet channels, like tetsacla-

ques.tv or YouTube, you can't say there's a monopoly. On the contrary. It is total market atomization, Madam.

Ms. Diane Bourgeois: Thank you.

[*English*]

The Chair: The question was a little long and the answer was long. It has taken up the rest of the time, so, Mr. Warkentin, you're not going to have a question. But I thank you for your long answer.

I am now going to take a recess while we get our next witnesses here.

Thank you.

• _____ (Pause) _____
•

The Chair: Welcome back, everyone.

To our new witnesses, welcome. Mr. O'Farrell, if you'd like to start your presentation, please do so.

• (1035)

[*Translation*]

Mr. Glenn O'Farrell (President and Chief Executive Officer, Canadian Association of Broadcasters): Thank you very much.

Good morning Mr. Chairman and members of the standing committee. My name is Glenn O'Farrell and I'm the President and CEO of the Canadian Association of Broadcasters. With me today is Susan Wheeler, the CAB's Vice-President, Policy and Regulatory Affairs (television).

We thank the standing committee for inviting us here today to discuss the Canadian Television Fund, the CTF.

[*English*]

Mr. Chairman and committee members, our remarks today address three points: first, the role of the CTF in the regulatory framework for Canadian programming; second, the future direction of funding mechanisms and the importance of keeping pace with changing realities in the broadcast and communications sector; and, third, short-term measures that should be taken to restore stability in the current funding model for Canadian programming and help identify longer-term solutions as well.

The creation of the CTF in 1996 as a private-public partnership was, in our view, a very clear expression of political will to build and support a strong foundation for the creation of distinctively Canadian programming in English, French, and the aboriginal languages. This political will remains strong, as evidenced by the renewal of the government's \$100 million contribution. In fact, we note that in the midst of the current discussion, the Minister of Canadian Heritage demonstrated this government's significant support for the production of Canadian programming by announcing another two-year commitment to the CTF ahead of the regular budget cycle.

Canada's private television broadcasters thank the government for this tangible expression of confidence in the industry's ability to deliver on key cultural and industrial policy goals that are relevant to Canadians and that help foster our regional and national identities.

To fully appreciate the role of the CTF in the broader regulatory context, we think it's important to correct the record on certain issues that have perhaps been misinterpreted or misrepresented in recent weeks. First, private television broadcasters are, without question, the largest investors in Canadian programming and have continued to increase their investments year after year. If you take 2005 alone, Canada's private television broadcasters invested close to \$1.4 billion in Canadian programming, such as drama, comedy, sports, and public affairs content.

Secondly, under current policies, private broadcasters do not receive money directly from the CTF. Yes, the CTF provides funding to independent producers in the form of a licence fee top-up and equity investments after securing a broadcast licence commitment. While audiences to Canadian programming must be a key priority, it is also important to note that the CTF investments in Canadian programming support the entire creative industry and cannot be measured in audience numbers alone, albeit they are important. As the CTF stated in its appearance before you last week, for every \$1 spent by the CTF, another \$3.50 in production spending is triggered.

Jumping to third, the CTF does indeed fund programs Canadians want to watch. Let there be no doubt that the pooling of public and private resources in the Canadian Television Fund has yielded impressive results by any standard of measurement in the form of quality Canadian programming that speaks to audiences of all ages from all regions of the country.

We should be very proud of this public-private partnership and its success in helping the industry advance the nation's cultural policy goals. We think it truly is an example of cooperation other jurisdictions should and can learn from. Although there is no question that building audiences for Canadian dramatic programming in English Canada remains a significant challenge, CTF-funded programs in both official languages are among some of the most watched and loved programs private broadcasters have to offer. Don't take my word for it. Let me give you some factual examples.

If you look at CTV's movie of the week, *One Dead Indian* attracted over one million viewers, and its documentary, *Ice Storms: Scandal at Salt Lake*, garnered 1.2 million viewers. Its regular series, *DeGrassi*, is Canada's most watched English language drama series and is sold in 150 countries worldwide. On Showcase, the cult hit *Trailer Park Boys*—we've all heard of it—attracts total audiences of 1.5 million viewers. This is a truly successful story. Not only is *Trailer Park Boys* carried internationally, demonstrating its resonance both with Canadian and foreign audiences, but the series also led to the spinoff of one of the top grossing Canadian feature films ever, with a total box office in Canada of \$4 million. CHUM's *Godiva's* and *Charlie Jade* are other examples. Global's new dramatic series, *Falcon Beach*, launched to a national audience of 575,000 people. Of course, Canada continues to be a leader in the production of children's programming, with popular kid shows, such as Tree House's *Daniel Cook* and YTV's *Jacob Two Two*, both ranking regularly among the top ten programs for their demographic and producing a number of spinoff initiatives, including a children's book series and DVDs.

● (1040)

It's not just the larger stations that have been able to find significant audience for their CTF-supported programs. Many other specialty channels, including services like the Aboriginal Peoples Television Network and religious broadcaster VisionTV have had success in building audiences in Canadian programming.

[Translation]

French-language broadcasters have enjoyed remarkable success with Canadian programs which are normally among the top 25 most watched programs in Quebec.

The CAB also noticed that 10 out of the top 25 most watched programs in Quebec were funded by the CTF. And this success is across all genres of programming. 50% of viewing to children and youth programming in the French market is through CTF-funded programs and CTF-funded programs capture 37% of all viewing to drama programming in prime time and 59% of all viewing to variety and performance arts programming. Here are some numbers.

TVA's CTF-supported drama such as *Nos Étés* and *Laura Cadieux* which are the most popular in Quebec, consistently attract average audiences of 1.2 to 1.3 million viewers each week.

TQS has also had tremendous success with its CTF-supported sitcom *450, Chemin du Golf* and *Bob Graton, ma vie, my life* which attract average audiences of 600,000 and 1.4 million viewers respectively. French-language specialty services have also been successful in attracting audiences to their CTF-supported programming.

Canal D's documentary programs *Un tueur si proche* and *Danger dans les airs* attracted average audiences of 358,000 and 272,000 respectively while TV's youth programs *Une grenade avec ça?* and *Dans une galaxie près de chez vous* attracted average audiences of 448,000 and 481,000 respectively.

Impressive numbers for a market of only 6 million. It is also important to note that in today's French-language market, audiences to Quebec-based productions far surpass those to foreign programs. In order to remain competitive broadcasters will need the ability to provide content across all distribution platforms and the flexibility to pursue various programming strategies that reflect their operational environment and business needs.

[English]

Ms. Susan Wheeler (Vice-President, Policy and Regulatory Affairs (Television), Canadian Association of Broadcasters):
Thank you.

Our second point is that funding mechanisms must keep pace with changing market realities. All licensed broadcasting undertakings have a responsibility to support Canadian programming as part of their regulatory covenant, a stated objective of the Broadcasting Act. This includes DTH and cable undertakings, which have benefited greatly from the regulation of the sector.

No one player can decide to unilaterally withhold payments when it no longer suits their purpose. Broadcasters make commitments to Canadian programming based on a larger regulatory framework in place for the industry as a whole, including available funding mechanisms such as the CTF. Clearly, a regulated system, in order to operate in an orderly manner, requires all players to play by the rules. The minister made this point when she appeared before you, and it was reinforced by the chair of the CRTC in his public statement last week.

Having said this, the CAB certainly sees merit in having a public discussion that evaluates the use and effectiveness of contributions from government, distributors, broadcasters, and of course producers of Canadian programming.

We note that the chairman of the CRTC has already indicated that this is an issue worth further study. However, the CAB suggests that such a discussion should not be limited to the regulated environment, but widened to include a broader dialogue on how all players in the system, regulated and unregulated, can contribute to furthering Canada's cultural and industrial policy objectives.

We live in an extremely fast-changing media environment that experiences new content and distribution choices being made available to consumers every day, an environment in which regulated and unregulated media compete head to head, all vying for Canadians' time and attention. To put this into perspective, the attached charts that we provided to you today provide a snapshot of the regulated environment to 1996. We've provided the breakout in the English and French language markets. We've also provided a snapshot of the media landscape today, in 2005-06. Clearly, these charts testify to the radical change and fragmentation in the media landscape.

Now consider the plethora of unregulated media also available to Canadian consumers and operating in the same space, including services like MySpace and YouTube, which we've heard so much about lately.

The first step the CAB recommends in evaluating the public-private partnership in this new reality should include a comprehensive and inclusive review of how funding mechanisms can keep pace with changing market conditions, so that they will assist the industry in remaining competitive, not only at a domestic level but also globally. Without question, the first principle of this review must be the creation of great Canadian programming that attracts audiences on all platforms.

Glenn.

• (1045)

Mr. Glenn O'Farrell: The CAB is pleased with Quebecor's recent announcement that it will reinstate funding to the CTF until there is an opportunity for the CRTC to consider the Quebecor proposal for a new fund.

You discussed it with them at some length this morning.

The CAB is also pleased to hear Shaw's testimony this morning, announcing that it was reinstating its payments to the CTF.

As stated earlier, the CAB agrees that ongoing evaluation and consideration should be given to production funding mechanisms to

ensure they are keeping pace with the changing realities of the broadcasting and communications sectors.

From a public policy perspective, however, the CAB believes it would be more constructive to broaden the discussion to include the role of all television production funding mechanisms and not just those proposed by individual licensees. To this end, the CAB believes there are two specific measures that should be taken to address the uncertainty caused by recent events and provide a framework for a longer-term solution.

First, in pursuit of the longer-term solution that addresses the concerns that we and others have expressed—and you've heard testimony here again this morning and in previous hearings of this committee—production funding mechanisms need to keep pace with market changes, and this is top of mind. We recommend that the government use its power under section 15 of the Broadcasting Act to direct the CRTC to hold a hearing and/or make a report on matters related to production funding mechanisms. This initiative would ensure a more fulsome discussion of the role and impact of funding mechanisms on all players in the system. In other words, what are we going to fund, by whom, and for what purpose?

In the CAB's view, this would also send a clear message that individual licensees alone should not and cannot dictate the future of the regulatory framework. This review should produce clear policies and recommendations for government to consider regarding the future direction of proposed production funding in both the English and French language markets. In particular, given recent discussions, we need to revisit the eligibility of public broadcasters to available production funds, such as the CTF.

In addition, given the degree of fragmentation, which the charts we were pointing out to you earlier clearly demonstrated, the emphasis must squarely be placed on audience, not on who makes the content.

To this end, the proposed review should also discuss the eligibility of affiliated producers to available funding mechanisms. The CAB suggests that if the section 15 approach is adopted, it should be undertaken before the commencement of the next broadcast year, which, as you know, begins in September 2007.

The second initiative that we suggest this committee consider is that under paragraph 10(1)(k) of the Broadcasting Act, which gives the CRTC the power to make regulation in furtherance of the objectives, the CAB strongly urges the commission to take immediate action to amend the broadcast distribution regulations to codify payment schedules by distributors to independent production funds.

This action would clarify the payment schedule and provide further stability to the Canadian television production sector. The CAB's understanding is that these amendments could be affected expeditiously within a 60-day timeframe, taking into account all relevant procedural considerations.

We understand that the commission's new chairman indicated as much last week, or at least gave an indication of his willingness to consider that.

We hope the committee will support us in our call for these two immediate short-term measures.

The CAB thanks the standing committee for the time and the welcome that you've afforded us this morning, and we would be pleased to try to answer any questions you may have.

Thank you very much, Mr. Chairman.

• (1050)

The Chair: Thank you.

Because we have a committee following us, we have to be completed by 11 o'clock, so each party will have one question.

Try not to make it a multi-question, and be specific, so we can get a specific answer back. I apologize for the shortness of time for questioning.

Ms. Keeper.

Ms. Tina Keeper: I'd like to thank you for your presentation, which was excellent in terms of the impacts of the changing media landscape that is before us.

Because of these challenges, the television production industry is in an even more precarious state now.

I'd like to ask how critical do you think it is that we look at your second recommendation? As we heard today, it seems that it's uncertain as to whether we will move ahead without another bump in the road impacting our industry.

Mr. Glenn O'Farrell: Thank you for that.

We think it is critical, because, frankly, the situation we have just experienced over the past number of weeks shows how volatile and how fragile the system is. Having said that, I don't think we can sit back and just assume that all will unfold, as you've indicated, in the most stable of circumstances.

The reason why we suggest that the regulation should be amended is to provide that stability initially. I believe the new chairman has indicated a willingness to do that. A recommendation from this committee would be helpful in taking that further.

The next point, though, and one that is more perhaps critical on one level but equally critical on another, is where we go from here. We stabilize these regulations or we make the payment schedule more clear, but where are we going from here? We think the government has the opportunity, under section 15—it has been done in the past—to ask the commission to consider some questions of implementation of policy or questions regarding the development of policy and to report back.

Most recently, the commission was asked by Minister Oda and government, under the recent order in council, to do a fact-finding mission on the changing realities in the broadcast landscape. Equally important is a precedent that is perhaps more germane to this issue, and that is one that goes back to 1994, when Order in Council P.C. 1994-1689 was issued by the then government. It asked that the commission look at the question of telecom interoperability and the interconnection between telecom networks and cable networks, with a view to implementing more interoperability between the two in order to offer consumers more choice. The commission issued a

report, conducted a process, and reported back to government, and government acted on implementing changes.

We think it's all about where we go from here, fixing the short term by way of the regs, but then, from there, bringing a process together quickly to look at all of these proposals and some of the questions. We need a tangible vehicle, which is why we've made this suggestion.

The Chair: Thank you.

Ms. Bourgeois.

[*Translation*]

Ms. Diane Bourgeois: Hello, Mr. O'Farrell.

Earlier on we heard from a representative of Shaw Communications Inc. What should we say to this gentleman who claims that shows produced or supported by the Canadian Television Fund are not quality programs and do not attract the attention of Canadians?

Mr. Glenn O'Farrell: My response would be positive: the fund's successes have been numerous, the figures speak for themselves, on the Quebec television side as well as on the anglophone TV side. Could there be improvements? Absolutely. Would it be worthwhile to think about creating a production sector which is stronger and better adapted to the new reality? Absolutely. That is why, Madam, we call on the government to support the idea behind the process we suggested this morning. The purpose is precisely to listen to all of these good suggestions, from Shaw Communications Inc. as well as from Vidéotron, Quebecor, producers and all third parties having an interest in English-language Canadian content, French-language Canadian content or in any other language. When it comes to serving Canadians, we believe that a process which brings about performance enhancements is in the interest of all, be it in Mr. Shaw's interest or in the interest of the broadcasters we are here to represent this morning.

• (1055)

Ms. Diane Bourgeois: Thank you.

[*English*]

The Chair: Thank you.

Mr. Angus.

Mr. Charlie Angus: Thank you for your very interesting discussion this morning, and your recommendations as well.

I was pleased to hear the spirited defence of the programs that have been put out by the CTF following the previous attacks that we've heard on it. But even being honest, English television is challenged in this country. The question that we have to address as a committee is what steps we need to take to ensure that we can actually maintain a viable English television market.

Mr. Shaw says the cable companies have done their share. He basically seems to be saying it's the broadcasters who have dropped the ball. When I look at prime time from night to night, I don't see Canadian programming. I'm sorry, but to me, Ben Mulroney interviewing Britney Spears isn't Canadian drama.

So the question is, have broadcasters not been up to the plate here? Have the cable companies carried their share? Is it time for broadcasters to step up to ensure that we maintain a strong and viable industry that can stand on its own feet?

Mr. Glenn O'Farrell: We are spirited defenders of Canadian programming because we have a lot of skin in the game. Broadcasters have the most skin in the game. We said in our presentation that if you look at the contributions made by way of financial measures, broadcasters surpass any other sector by virtue of \$1 billion-plus per year in the last year on record.

Is it attracting all the audiences that we would hope it would, and is it as successful? In an ideal world, of course, one would always say there's room for improvement, and we hope to strive toward attaining those more lofty goals of higher audiences for all program categories. But I would simply go back to one reality to hopefully guide your committee in thinking about these things.

If this committee, just for a moment, spent only five minutes in absorbing what these four charts tell you, the four charts basically are defined to show 1996—at the creation of the fund—and last year. They provide a picture of English language television then and a picture of English language television now. The same is true for the French sector, then and now.

The charts give you a sense to absorb the degree of fragmentation that has developed in the system. I think you would then be capable of moving onto the next step, which is where we do go from here in light of that fragmentation.

I would add one additional comment, Mr. Chair. This is the regulated system only. It takes no account of unregulated services that are equally vying for Canadians' attention in growing numbers.

The Chair: A very short question, Mr. Warkentin.

Mr. Chris Warkentin: Just to follow up on Mr. Angus' point, obviously we know the industry is in jeopardy here in Canada, especially in the English language, because of the fragmentation that you've laid out for us. You have therefore made the recommendation that if there's going to be any change to this structure, it should be very solidly tied to viewership.

Explain this to me. Are you suggesting that we fund successful shows that have strong viewership? What is it exactly that you want to see happen there?

As we become more and more subjected to these other media, that competition is going to increase. We don't want a production industry in Canada solely so that we can have a production industry in Canada. We want a production industry in Canada so that we can espouse Canadian values and so that people in Canada actually watch this stuff.

It's not simply for the sake of saving jobs. We also want people to watch this stuff. So what exactly should be done to follow through with your suggestion that somehow the funding be tied to viewership?

Mr. Glenn O'Farrell: In a word, we have to prioritize. We have to become strategic. We have to recognize that there isn't going to be necessarily enough money even in a public-private partnership that is aggrandized. We would hope that in terms of the funding available at the end of the process that we suggest, there would be more money available.

Even with more money available, we will not be able to cover all the landscape. That will require some strategic decisions and some prioritizing about how we effect and deploy funding.

There are a number of very innovative and interesting ideas that have already been floated about as a result of the discussion that this committee has been in the centre of for the past weeks and months now. It's through a process like the one we are suggesting that we will give the opportunity for people to come forward, allow for the best ideas to bubble up, and allow for us to form recommendations that the commission can then bring back to government, so that government can take forward its initiative.

Funding clearly has to speak to the issue of people watching. If it's not about people watching, what is it about?

• (1100)

Mr. Chris Warkentin: Thank you.

The Chair: Thank you very much.

I thank our witnesses.

I thank our members around the table for your great questions this morning.

The meeting is adjourned.

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