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Chair

The Honourable Michael Chong

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● (1530)

[*Translation*]

The Chair (Hon. Michael Chong (Wellington—Halton Hills, CPC)): Welcome to the 32nd meeting of the Standing Committee on Canadian Heritage, this Thursday, November 25, 2010. Pursuant to Standing Order 108(2), today we are studying the impacts of private television ownership changes and the move towards new viewing platforms.

We have with us Mr. Sparkes, from CTV Inc., and Mr. Bibic, from Bell Canada.

[*English*]

We will begin with an opening statement from Mr. Sparkes.

Mr. Paul Sparkes (Executive Vice-President, Corporate Affairs, CTV Inc.): Thank you, Mr. Chairman and members of the committee. My name is Paul Sparkes, and I am executive vice-president of corporate affairs for CTV.

As Canada's largest broadcaster, we are pleased to be here today to comment on the implications of vertical integration for the broadcasting industry. At the outset, I should point out that while we are appearing together here today, CTV and Bell are not one company yet. The BCE and CTV transaction still has to be approved by regulators.

At CTV, we are proud of our legacy as Canada's number one private broadcaster. We are passionate about what we do and believe in the enhancement of our national identity through high-quality Canadian programming. Our track record in this regard speaks for itself.

We have created many popular Canadian shows that provide a shared experience for Canadians from coast to coast, programssuch as *Degrassi, Corner Gas, Dan for Mayor, Flashpoint, Canadian Idol, eTalk, So You Think You Can Dance Canada* , and many, many more, including coverage of some of our greatest awards celebrations, such as the MuchMusic video awards, the Junos, and the Gillers. All distinctly Canadian, these programs have provided an opportunity for us to celebrate who we are and to unite our viewers in a common shared experience.

Our Canadian programming is not restricted to our own airwaves. Many of our shows, including *Degrassi* and *Flashpoint*, are currently putting Canadian talent on the global stage.

We are also proud to be the home of Canada's number one national newscast, *CTV National News*, with Lloyd Robertson. Our local newscasts are also number one in all but one market. Our 24-hour all-news network, CTV News Channel, provides information on breaking news, current events, and politics with *Power Play*, all of which draw on our news organization, CTV News, to deliver breaking news the second it happens from communities across this country and around the world. In addition, CP24 remains an integral part of the Greater Toronto area as a premier source of news and information.

Sports is also a major component of the programming we offer, both on conventional television and through our specialty properties, including TSN and RDS. One of our foremost achievements, and one that we are very proud of, was being the official broadcaster of the 2010 Vancouver Winter Olympic Games. Our commitment was to tell the stories and make Canada's athletes household names in both official languages. I think you will agree with us that we succeeded on all these fronts.

With Bell buying CTV, we will be able to continue and even improve on this legacy. The reason we have remained a leader in our business for so long is that we have successfully stayed ahead of our competitors and the changes in our industry. As you are aware, the communications sector is being reshaped by technological change. Unregulated media and over-the-top services like Netflix, YouTube, and AppleTV are changing traditional business models.

In response, cable companies and telcos are acquiring content providers to help them differentiate their product offerings. For CTV to survive, we must be part of this change. Cable companies and telcos owning broadcasters is not a new phenomenon. The CRTC has allowed them to own conventional television since the mid-1990s, and specialty and pay services since 2001. Virtually all of our traditional competitors are now vertically integrated, including Rogers, Shaw, and Quebecor. But this is not solely a Canadian phenomenon.

Vertical integration is the new norm internationally as well, particularly in the U.S. But why is all this occurring now? It is a response to changes in the competitive environment and consumer behaviour. Whereas broadcasters could once rely on "appointment viewing", the same content is now available across multiple platforms from numerous sources, regulated and not. This is causing audience fragmentation and revenue erosion. And while CTV is trying to compete by making its programming as widely available as possible, without access to distribution infrastructure we are at a significant disadvantage.

In light of all of this, the best path for CTV to remain a leader is to align ourselves with a company that has a strong presence in broadcast distribution and telecommunications. Companies that both create the content and distribute it will be able to maximize the consumer experience and remain relevant in the media landscape moving forward.

This brings me to Bell's proposed acquisition of CTV. Without doubt, this is the right move for CTV, our viewers, consumers, and the Canadian broadcasting system. Why? Because it allows us to continue to do what we do best.

● (1535)

Without this transaction, we would most likely have been broken up and sold piecemeal to our competitors. This would not only have been bad for the Canadian production community, consumers, and viewers, but it would also have negatively impacted the diversity of voices that Canadians have access to today.

Most importantly, this represents a tremendous opportunity for us at CTV. It will allow us to showcase our content on more platforms, providing an even greater experience for our viewers.

And why Bell, you might ask. Because they know us, and we know them. They have been a shareholder of CTV for a decade. We have a history together. We most recently partnered with them during the Vancouver Winter Olympic Games, where Bell provided mobile video streaming. This included coverage of both the men's and women's hockey games, as well as recaps and highlights of numerous sporting events. Through this partnership with Bell, we had great success building audiences on alternative platforms.

This transaction will provide us with the stability and the confidence to compete with both our regulated and non-regulated competitors, and it provides us with the knowledge that we will be able to continue to bring great Canadian stories to the screen.

Thank you very much for the opportunity to appear, and I'm happy to take your questions.

The Chair: Thank you, Mr. Sparkes.

Mr. Bibic.

Mr. Mirko Bibic (Senior Vice-President, Regulatory and Government Affairs, Bell Canada): Thank you, Mr. Chair, and good afternoon, members of the committee. My name is Mirko Bibic, and I'm senior vice-president of regulatory and government affairs at BCE.

First, thank you for providing this opportunity to present our perspective on the important changes taking place in broadcasting. By looking closely at the profound and fast-paced changes under way, we're confident you will see the tremendous benefits for Canadians. More specifically, we're sure you will recognize that our resumption of a controlling interest in CTV, building as it does on a long-standing relationship between BCE and Canada's number one media company, will benefit consumers and add huge value to the broadcasting system in terms of investment and innovation.

The communications landscape has changed dramatically over the last five years. Even over the last 24 months we've witnessed unprecedented developments. Consumers today are able to receive digital content on multiple screens from multiple suppliers through multiple networks.

A seemingly infinite number of choices with respect to content are now available, whether it's for a TV, a laptop, a smartphone, or a tablet. As a result, consumers now have the ability to easily program what might best be described as their own perfect media mix. Our world is changing, posing huge challenges, but at the same time presenting big opportunities for communications and broadcasting companies.

For Bell, video has been an important part of our business for well over a decade, and it remains a key imperative for us today. Since 1997 we have brought tremendous value to the Canadian broadcasting system. Our Bell satellite TV business opened up the 500-channel universe to thousands of rural communities across the country and introduced competition to a sector still largely dominated by cable companies.

Today, video accounts for approximately 40% of Bell's residential wireline revenues, more than our home phone service, quite a story in itself when you think of this company's long history and roots. Just as we led the way there by propelling competition and innovation with the introduction of satellite TV, including the shift to digital, high definition, and personal video recorders, as well as by contributing over $100 million each year to the production of Canadian content, we continue to see ourselves as a leader when it comes to enabling consumers to create their own perfect media mix.

We are achieving this by continuing to invest billions in network infrastructure and by continuing to be a national leader in R and D spending. Over the last two years alone, we have invested over $6 billion. We are continually enhancing our national Bell satellite TV service, we continue to upgrade our world-class wireless high-speed broadband network, and we are well on our way toward connecting more than five million homes using an advanced fibre-based Internet network capable of supporting our recently launched IPTV service, Bell Fibe TV.

As a direct result of the ever-advancing state of our infrastructure, Canadian consumers are truly at the centre of the new dynamic that is emerging. It was reported earlier this year that each month more than 30% of Canadians are choosing to watch a 30- to 60-minute TV show on a website, and more than 20% of Canadians with cellphones or smartphones watch a video clip. The direction is plain to see.

For Bell and CTV, as Paul mentioned, the 2010 Winter Olympics experience demonstrated beyond a shadow of a doubt that by working closely together Canadian distributors and broadcasters can achieve amazing results. But a major question we have to ask is how do Canadians continue to distinguish themselves and be a part of the shifting media mix every day?

The challenge is particularly acute for Canadian broadcasters, especially because of the massive disparities in scale between themselves and similar companies in the U.S., where consolidation is well entrenched. Disney and ABC, Universal and NBC, Sony and Columbia, Viacom and CBS, Fox and News Corp., each of these companies produces popular content and makes it available around the world.

At the same time, a spate of companies, some massive and some relatively small but all unregulated, are entering the Canadian video space. Netflix and Apple TV, the latter part of a $280-billion company, are stockpiling huge catalogues of TV programs and movies and making that content available online via streamed video.

Canada's leading cable companies and Bell's main competitors are also acquiring content. Vidéotron has owned TVA for years, Rogers purchased Citytv in 2007, and Shaw of course recently purchased Canwest.

● (1540)

The key point is that our transaction will enable Bell and CTV to achieve a measure of scale and scope that will support further network investment and innovation. It will also help to ensure the production of more and even better Canadian content. Producing high-quality, popular content can be expensive. The more screens on which that content is available, the more chances you have of attracting the largest possible audience. And the greater the audience, the larger the advertising revenue.

[*Translation*]

As this unfolds, consumers continue to be in control. They can watch their favourite show at the scheduled time on TV or record it for viewing later. They can subscribe to video-on-demand. They can stream the show on a laptop or tablet when they want to watch it, or they can watch it via a mobile phone.

There are even more options, such as downloading shows from iTunes or buying an entire season at a local retailer. The fact that so many choices exist indicates that today's marketplace is clearly working. And it will remain a dynamic marketplace.

In such an environment, innovative niche content and applications could well be what consumers rely on to differentiate one company from another. And service differentiation has many proven benefits—it enhances competition across the board, forces all players to innovate and provides better choices for consumers.

As an example, Bell is offering customers who are Montreal Canadiens fans access to a half-hour reality show about the players. Starting this weekend, the show will first be available to Bell customers on all three screens—mobile, online and TV—before it is more widely broadcast on TV networks in January. This enhances the viewer experience, gives them more choice and stimulates competition in the online and wireless markets.

It is good for fans, as well as the producers of the show and all those who work behind the scenes.

Another example is a new partnership Bell has with Radio-Canada to offer leading French-language content on Bell Mobility smartphones, Bell Fibe TV On Demand and the Sympatio.ca Internet portal. It is a commercial arrangement that offers clear benefits, especially for consumers.

By combining assets and expertise from two distinct areas of business, Canadian broadcasters and distributors can continue to do more of these things, experimenting with initiatives that help Canadian companies stand out in a world of near-infinite content.

The changes to the broadcasting landscape are therefore certainly positive and should be encouraged. And if any regulatory or competitive issues were to arise, the CRTC retains all the power it needs to respond as required.

● (1545)

[*English*]

In conclusion, committee members and Mr. Chair, broadcasting today stands in stark contrast to the days when Canadians were limited to a few channels delivered to a finite set of receivers, televisions, and radios. Consumers are driving the content bus, stopping at the destinations they choose. But how far that bus travels within Canada and how large the map will be with respect to Canadian points of interest depends on whether or not Canadian broadcasters and distributors have the flexibility and scale to build the destinations Canadians want to visit.

The Chair: Thank you, Mr. Bibic.

Mr. Simms.

Mr. Scott Simms (Bonavista—Gander—Grand Falls—Windsor, Lib.): Thank you, Mr. Chair, and my thanks to our guests.

Earlier, Ms. Crombie probably brought out the most relevant question to every politician: who's hosting *Power Play*?

Mr. Mirko Bibic: You are.

Mr. Scott Simms: With a moustache like this, I can. That's nice to know.

When I was in the industry, I remember going to the conventions, CCTA and CAB. The room was big. There were people, all from different places, different backgrounds, and that room was a lot smaller. As a matter of fact, we could all fit in this one room at one convention.

You mentioned that there is an array of choice for the consumer. There's no doubt about it. I appreciate the investments that you're making across all the platforms for Canadian content. If I'm a producer, if I'm a small television station, if I'm somewhere out there but not part of this large movement towards vertical integration, I have to be worried.

Can you tell us what you are doing to increase the amount of Canadian content and to allow these smaller producers to make a living, so that we can keep all these people employed and doing what they want to do?

Mr. Mirko Bibic: Let me start with a couple of comments, and then I'll turn it over to Paul.

First, when it comes to this particular transaction, there is no level of media concentration at all. People say that quite quickly, but in this case it's not the case at all. Bell has had an ownership position in CTV for the last ten years. It so happens that we're going from 15% ownership today back to 100%, where it was ten years ago. In the meantime, we don't own any other content assets, so it's not as though we're horizontally merging two broadcasting companies and reducing them to one. It's not reducing that diversity of voices. There are actually a lot of players in the marketplace, large and small.

And I'll give you my distributor perspective, because we operate Bell Satellite TV. We want to carry as much content as we possibly can, given the capacity that we have up in the sky through our satellites. We have hundreds of Canadian services from both large and small producers, and we want to deliver what consumers really want. By marrying this content and content from others with our world-leading networks, we're going to put Canadian content at the forefront.

I have one last point before I turn it over to Paul, which is that this is the reason in our opening statement we pointed out our deal with Radio-Canada. We're obviously not going to have an ownership position at Radio-Canada, but we want their content on our platforms because consumers want to watch it.

The Chair: Mr. Sparkes.

Mr. Paul Sparkes: I agree with Mirko. The current media landscape is staying intact with the Shaw transaction, the Bell transaction. So there will be lots of opportunities for independent producers.

In terms of the smaller independent broadcasters that are in all parts of the country, they serve their markets very well. The consumers—their viewers—rely on them for local news, and I can't imagine they would go elsewhere. I think they're very important to their communities.

Mr. Scott Simms: Just the other day my colleague Mr. Del Mastro said that fee-for-carriage is dead, and that value-for-signal is dead. We went through several months, if not years, of this. Is it now dead?

● (1550)

Mr. Mirko Bibic: Shall I start? We're here shoulder to shoulder. We're friends, not enemy agents here.

Mr. Scott Simms: I know you're engaged and not married.

Mr. Mirko Bibic: Obviously, fee-for-carriage, value-for-signal—call it what you will—was a pretty hotly contested issue, and we had our respective positions, and they were diametrically opposed. But the fact is, right now the fate of fee-for-carriage rests with the courts. And we'll be guided by what the courts say. It would be premature to try to determine what the courts are going to do. Whether it's dead or not will depend on what the courts say.

Mr. Scott Simms: Okay.

Mr. Sparkes.

Mr. Paul Sparkes: My position, CTV's position, has been pretty clear throughout the whole debate. And we were quite pleased when the CRTC made its decision on value-for-signal.

As Mirko said, its fate now rests with the courts. For us, as a broadcaster, we've always said that we need value-for-signal to be able to have the stability in the industry that we need to continue to do the things we do. We're going to be, in the Bell world, a business unit on conventional television. We'll have to stand on our own, and we want to be able to contribute to the success of the Bell family. And hopefully value-for-signal, if it is implemented, will allow us to do that.

The Chair: Thank you very much, Mr. Sparkes.

Thank you, Mr. Simms.

Madame Lavallée.

[*Translation*]

Mrs. Carole Lavallée (Saint-Bruno—Saint-Hubert, BQ): Thank you very much.

It is interesting to meet with two companies that are teaming up with one another, as you mention so eloquently in your brief. An example of convergence.

You showed—and please tell me if you disagree—what an important role general-interest TV plays. We can really see that broadcasting distribution undertakings, such as Bell, need cultural content. BDUs without cultural content do not hold much value for consumers. Between us, that becomes clear pretty quickly, but it is still hard to get people to admit that, when it comes to certain issues. That also underscores the role of general-interest television, which serves as a springboard for most of the other platforms. No matter how much focus there is on the Internet, on mobile television, once again we are reminded that production originates with general-interest television.

Do my comments resonate with you? Did that idea not lead to your engagement and soon-to-be-celebrated marriage?

Mr. Mirko Bibic: Thank you for your question, Ms. Lavallée.

We decided to buy the number one media company in Canada, and we want to keep it at number one. The fact that it was a general-interest TV company was a major consideration for us. We intend to support general-interest TV. We will also be able to expand distribution of CTV's products, whether of general-interest or specialty content, by distributing them to our subscribers with mobile phones and tablet PCs, such as this one. That opens up a lot more opportunities for the company, with more TV viewers and more revenue. We are thoroughly excited about this opportunity.

Mrs. Carole Lavallée: I have a question for Mr. Sparkes.

If fee for carriage had come to fruition, as was suggested last year —certainly a very hot topic—would you have talked to Bell about teaming up?

[*English*]

Mr. Paul Sparkes: Absolutely. Our shareholders were looking to exit, and Bell wanted to come in and increase their ownership with us to what it was back in 2000. We were very happy with that. So regardless of that debate, we would still have those conversations. But that debate happened.

● (1555)

[*Translation*]

Mrs. Carole Lavallée: Why were your shareholders looking to exit?

[*English*]

Mr. Paul Sparkes: It's not that they wanted to abandon us; they didn't see us as strategic in their vision. We had a number of shareholders. Bell was one of them. Bell had the opportunity to purchase us because they were at the table—this is all public information—so the timing was right.

[*Translation*]

Mrs. Carole Lavallée: Mr. Bibic, the day before yesterday, Claire Samson, from the Association des producteurs de films et de télévision du Québec, told the committee that broadcasters that had partnered with BDUs and that were broadcasting convergent content were making unreasonable demands in terms of production.

Did you hear what she said?

Mr. Mirko Bibic: No.

Mrs. Carole Lavallée: I will try to repeat it for you, so I hope I get it right. Basically, she said that when a distributor would pitch a production idea, they were asked not to pitch the idea to another broadcaster within 18 months.

I am sure you can appreciate that they would see that demand as unreasonable. She used an expression—I am not sure if my colleague remembers it. She said something to the effect that it was akin to asking for someone's DNA. I do not recall her exact words. She said that the conditions being imposed on producers were clearly unreasonable, that the balance of power was against them, that broadcasters had all the control, and that from now on, producers would have to bow down to the broadcasters because of the size of their market share and the challenges producers would face if they did not do business with those broadcasters.

Now that you are going to be in that boat, do you intend to take advantage of producers, as well?

The Chair: Thank you, Ms. Lavallée.

A brief response, please, Mr. Bibic.

Mr. Mirko Bibic: I do not have any experience with that kind of situation, since we have not put on our broadcaster's hat yet. But our door will always be open.

The Chair: Very well, thank you.

Mr. Angus.

[*English*]

Mr. Charlie Angus (Timmins—James Bay, NDP): Gentlemen, I am very pleased to have you here.

I can say that the one upside of merging is that we're going to cut down our meetings from two in a session to one, hopefully. It will be more efficient on that level.

I found the talk very interesting, but I have to admit that I don't really understand why anybody would watch television on a phone. Maybe I'm old school. Then I thought that back in the 1980s—I was only about ten years old then—this guy kept coming up to me wanting to take articles I had been writing and put them on a bulletin board. I asked what the heck a bulletin board was. He told me that people were going on them. I asked him what they were doing. He told me that there wasn't much. They needed content. I asked why the heck they were going on these bulletin boards if there wasn't much there. Of course, that became the Internet, so I missed out on that. That's why I had to get a job as a politician.

I raise this because we are being asked to lay down ground rules for a market that is very much in its infancy, and things are going to change dramatically in the next ten years in terms of delivery of content. For our generation that grew up on black and white TV, then colour TV, and then cable TV, we're still thinking in that paradigm. I'm sure that you guys are already well beyond that, and other people are as well.

When you talk about innovative niche content being what differentiates one company from another, I get that. Rogers gets FIFA. You guys get the Grey Cup. It raises the prices. There's going to be a lot of bidding on those top-notch events. You're always going to want to have things you can offer on your apps and your phones.

I'm interested in what's paid for by the Canada Media Fund. The Canada Media Fund is the Canadian partner at the table. We're paying for content. We want to be able to access content.

Would you have a problem with the Canada Media Fund being directed to have any programs they fund on behalf of the Canadian taxpayer not limited to an exclusive phone deal? If it's available on next-generation platforms, then it's available on next-generation platforms. Would that be a problem for Bell?

● (1600)

Mr. Mirko Bibic: Thanks for the question.

I think earlier this week another intervener sitting here in this place raised that idea. I found it to be an interesting idea that deserves further thought.

I have to confess that right now, I don't have a formal Bell view on it. But it's certainly something that should get more study. I'm sure that the CRTC will look at it when they have their hearings next year.

I find that it is at least an interesting proposal in the sense that it's targeted and deals with a particular issue. From the standpoint of principle, Canadians have paid into or contributed to these funds indirectly through their BDUs, so shouldn't they have access across all platforms? It at least seems to have the viewer at heart.

I think it's way better than some of the heavy-handed prescriptions some of our competitors are going to come forward and propose, such as a ban on all exclusive arrangements. I think that would stifle innovation dead in its tracks.

You mentioned an infant industry. The worst thing we could do to an industry or a sector of the economy in its infancy is to slap on it heavy-handed rules.

I think it deserves some study, but I'm not quite sure where I stand on it officially yet. But it's interesting, and I think it merits study.

Mr. Charlie Angus: I mean, CTV, as a broadcaster, is not going to say that they will pay for this content and it's going to go on Global. There's an exclusivity deal there. Bell, as a distributor, is going to have to say that it wants all kinds of content, otherwise nobody is going to take its satellite. You have two different elements there. I'm interested in the production of content.

At this point, we're still thinking TV. We're still thinking cable satellite. But we're actually going to be talking about a whole next generation. You guys can bid on the World Cup or the Grey Cup. That's your turf. Carve it up however you want, because you're paying a lot money. We, as the Canadian people, are paying a fair amount of money for our content. We just want to know, if we're on Rogers, Telus, or anywhere, that we can watch that content. That's the question. Would you have a problem with the Canada Media Fund making that a direction?

Mr. Mirko Bibic: The reason I'm not giving you a clear and definitive answer beyond that it's definitely an idea worth studying is the following: If a show that has been partially CMF funded is available only on this phone from Bell Mobility, it doesn't mean that Canadians would be denied access on alternative platforms. There's another device. It's a tablet. It could be a Telus device, a Rogers device, or a Bell device. You can hook up to WiFi in a hotspot, get on the Internet, go on CTV.ca, and watch that show. You may not be able to watch it on a phone like this one if you're a Rogers Wireless customer, but you'd be able to watch it on a tablet through CTV.ca.

The point I'm trying to make is that there would be a lot of ways consumers could get access to CMF-funded programs. That's why I'm saying that we have to think through all the dynamics and impacts on the customer.

The Chair: Thank you very much, Mr. Angus, for those questions.

Thank you, Mr. Bibic.

Mr. Del Mastro.

Mr. Dean Del Mastro (Peterborough, CPC): Okay. First, we need some clarity. I sense skating, and I don't like skating, unless we're playing hockey on the Rideau.

Rogers owns Citytv. It is officially against fee-for-carriage in any form, including value-for-signal. Shaw owns Canwest, and they also have a controlling interest through some kind of ownership agreement in Corus. They're officially against value-for-signal, fee-for-carriage, or whatever you want to call it. Bell wants to buy CTV. It wants assets.

Mr. Bibic, officially fill in the blank.

Mr. Mirko Bibic: Okay.

Here's what needs to happen. First, we need to take ownership of CTV; that's not yet done. Then we need to see what the court says. If the courts say the CRTC has no jurisdiction, the issue is dead. If the courts say that the CRTC has jurisdiction, then obviously as a business this is what we have to do: we have to bridge the gap between the CTV business unit, which wants it, and the Bell TV business unit, which doesn't. We're going to have to balance those two considerations as an executive team and come up with the best answer for both business units, and for viewers, and consumers, and of course our shareholders. I don't have the answer today.

Mr. Dean Del Mastro: Okay. Well, when Konrad von Finckenstein was here, I made it pretty clear to him. I said Bell now owns them, their position was clear, and you can drop the court case. We don't need to go through this; we don't need to continue down.... Because my concern has always been on the side of Canadian consumers, and I've made that clear. I think Canadian consumers are frankly very frustrated. They're very concerned with the amount of money that's leaving their household; they're concerned about bills, debt loads, and all these sorts of things. I'm sensitive to those things.

Just last week we had a whole number of independent broadcasters here who were talking about how we need to open up 9(1)(h) licences. That's a solution for independent broadcasters. I said to them, personally I see where the future's going, and that's not the future. This was really important in 1990, might have been really important in 2000, and in 2010 it might be important until 2012— because the future is going wireless. Everything that CTV plays, I will be able to watch. In fact, when TSN has a great hockey game on, I hope to be able to watch it wherever I am, on a device like the one you have with you, over my wireless network, and it will be streaming in HD. That's the future, and it's not that far away.

So what I need to understand, and this is my position, is that we need an environment in which we're protecting consumers. I think this is what Bell's position was. I hope it's the prevailing position, and I would hope that Bell would indicate to Mr. von Finckenstein that its position hasn't changed, because I thought it was a position of principle.

That's my position on it.

● (1605)

Mr. Paul Sparkes: Mr. Del Mastro, your position is loud and clear on that, for sure.

Our position is quite clearly that our troubles don't go away just because Bell bought us. They don't. We have a healthy specialty business, which obviously is very attractive to Bell. We have a fragile conventional TV business that needs help, and if you're a businessman and look at the business you just bought and at how they're performing, you're going to want to see on the bottom line that they're going to make money.

From our perspective, we need to have that extra revenue source to be able to continue. The fact that Bell's buying us allows us to get in out of the rain for a short period of time doesn't fix the overall problem for conventional television. And all of the streaming that comes on these devices, or 90-odd-percent of it, comes from television. The majority of people are still watching it.

Mr. Dean Del Mastro: I understand what you're saying, Paul, but I'm Joe Consumer at home and I'm faced with my monthly bills. This purchase of CTV is going to come before the CRTC, and what I'm understanding at home is that ultimately, large corporate titans are going to decide how much money is going to change hands between Rogers and Bell and Shaw for the rights to air Global, CTV, and City, and I'm thinking that nobody's thinking about me. That's a problem, and I think it's incumbent upon Canadians....

Listen, I understand the value of local TV. I think CTV does a fantastic job, especially with its A Channel brand, covering local television. We need to look at that and need to be absolutely supportive of it. I'm just concerned about Canadian consumers.

The Chair: Thank you, Mr. Del Mastro.

Mr. Bibic.

Mr. Mirko Bibic: Mr. Del Mastro, CTV's position on this is loud and clear, and it has been consistent. You know what Bell's position is. When we own CTV, all I can tell you is that as an executive team, obviously we're going to have to find a way to bridge the gap between the two business units. We're business people; we're going to have to. And we'll keep the consumer top of mind.

The Chair: Thank you, Mr. Bibic.

Madam Crombie.

Mrs. Bonnie Crombie (Mississauga—Streetsville, Lib.): Thank you, Mr. Chairman.

I think I'll change the channel, if I can.

I want to go back to the whole issue of concentration in the industry and to whether or not you believe, as many of us do, that it's going to lead to less viewer choice and further erosion of revenue. And will it possibly lead to further mergers?

Mr. Mirko Bibic: Certainly the last couple of transactions, which probably precipitated hearings like this, have not resulted in concentration of media.

Canwest was in bankruptcy protection; Shaw stepped in and ensured that it would remain as an independent voice. You've already heard my answer on the CTV transaction. BC doesn't own any content, so we're not concentrating broadcasting assets; we're simply going up from 15% to 100%.

I think transactions like this—I believe my colleague from Corus mentioned this yesterday or Tuesday—give us the scope and scale, as I mentioned in our opening statement, to really do phenomenal things for Canadian content: invest more in Canadian production and showcase it around the world on devices like the one I'm holding, through the Internet. Now it's the entire world that's available to Canadian content in terms of eyeballs. We're really excited to make that happen.

● (1610)

Mrs. Bonnie Crombie: Mr. Sparkes.

Mr. Paul Sparkes: From our perspective, we're obviously very excited. There are more ownership groups today than there were seven years ago. I think today we have 63 ownership groups in the media space. If you go back 10 or 15 years, that certainly wasn't the case.

What's happening is that our diversity is being protected in this transaction, in the same way as with the Shaw transaction, just to echo Mirko's comments. They were on the verge of going dark, and now they have a thriving partner with them.

Mrs. Bonnie Crombie: As a consumer, should I be more concerned about the increased concentration in the industry or the vertical integration?

Mr. Paul Sparkes: Let me be a consumer for a moment—which I am. I have an iPad, like everyone else, and I watch stuff on it. No, I think they should be excited about it. There are so many opportunities now.

Mrs. Bonnie Crombie: I'm concerned that it's going to lead to less choice.

Mr. Paul Sparkes: I think it will be more choice; I think there will be lots more choice.

Mr. Mirko Bibic: There definitely will be more choice. It will be a different choice in terms of the viewing platforms. Clearly there's more choice with all the networks we have. I think there will be more choice of content to watch on those platforms, if we invest more in that content, which we plan to do. There could be all kinds of choice in terms of niche add-ons.

A very simple example is that now, if you're a Bell Mobility subscriber, you can vote for the three stars at the end of the game on your Bell mobile phone. It's a neat little add-on to our ownership position in the Montreal Canadiens. That adds choice. It's fun for a Montreal Canadiens fan. It's not going to tip the scales one way or another, but these are the kinds of things we can experiment with, and we can do even more of it.

Mrs. Bonnie Crombie: On Tuesday we had Corus here. I think you monitored the hearings. They were telling us they needed to be bigger and better to be more competitive globally. We heard the same thing from the banking sector years ago when they proposed mergers as well. We felt it could be anti-competitive and would lead to less consumer choice. What do you have to say?

Mr. Mirko Bibic: One huge difference is that if you're merging Bank One with Bank Two, you're left with one bank. Here, it's vertical integration: you have a distributor with a content provider; there's no reduction in the number of content providers. So it's a completely different situation.

Mr. Paul Sparkes: You're still going to have the 500-channel universe.

Mrs. Bonnie Crombie: I want to go back to the small broadcasters again.

Who is left? And aren't they in jeopardy of being gobbled up as well? What will be their role going forward?

Mr. Mirko Bibic: We did a quick count before appearing here of the number of separate ownership groups in Canada. In a rough count, and I'm sure I didn't catch them all, there were more than 60 of them. So there is a vibrant, independent production community that adds significant value, and there's a bright future available to all of them, given the number of opportunities that exist through mobile viewing, Internet viewing, traditional viewing, satellite viewing. There's lots of choice.

Mrs. Bonnie Crombie: The same thing happened when the book companies all merged. It squeezed the small independents.

Mr. Paul Sparkes: As I said earlier, small independent broadcasters serve their communities, where we are not. They play an important role. In Mr. Del Mastro's community, for instance, they have a local TV station. We would not normally go to that market. But it's served through the Corus family, and they do a good job. As Mr. Del Mastro can attest, the community wants to watch local news every night. It's important to them.

Mrs. Bonnie Crombie: My final question is on the role of the CRTC. In light of the increasing vertical integration and changes, should their role be changed or broadened in any way?

Mr. Paul Sparkes: They can only do what the act tells them to do. They have done a good job dealing with a lot of the issues that have come before them, particularly in our case, on conventional television. If you're going to look at the CRTC, I think you need to look at the act first, before you go there.

The Chair: Thank you very much, Mr. Sparkes. Thank you, Madam Crombie.

[*Translation*]

Your turn, Ms. Lavallée.

Mrs. Carole Lavallée: No, no, no.

The Chair: Mr. Pomerleau, over to you.

Mr. Roger Pomerleau (Drummond, BQ): Thank you, Mr. Chair.

Thank you for meeting with us.

It is hard to believe that all the mergers we are seeing right now will not lead to an entire industry made up solely of large conglomerates, with very little else.

Can you give me some reassurance? People will disappear, people with whom you are negotiating, who will not be able to join your organization, who will not have the ability to produce or show their products. You do not think that consolidation will inevitably lead to fewer players in the field?

● (1615)

Mr. Mirko Bibic: Again, our transaction....

Mr. Roger Pomerleau: It is not a bad thing.

Mr. Mirko Bibic: No, it has to do with vertical integration, not mergers. It is not a matter of Canwest, CTV, Corus and so forth merging. CTV will stay CTV, but it will belong to BCE.

As for independent content producers, no matter what opportunities they have, we intend to continue distributing the services of independent broadcasters and producers. There is so much distribution today. If the customer, the subscriber, wants their services, then we will distribute them, because we have to. That is how we will attract more customers and make money.

Mr. Roger Pomerleau: A number of the small companies that have appeared before the committee, as madam pointed out earlier, bemoaned the fact that, when negotiating with other companies—and I do not mean you, because you are not in talks with them—it is a David versus Goliath scenario. At the end of the day, their position falls on deaf ears.

[*English*]

Mr. Paul Sparkes: You're talking about negotiating with independent producers—

Mr. Roger Pomerleau: Yes, exactly.

Mr. Paul Sparkes: Okay, yes.

If you watch CTV and our other channels, we have a lot of Canadian content, which we're required to put on. So we do a lot of business with independent producers, and we're going to continue to do that.

With this proposed purchase by Bell, if I were an independent producer, I'd be pretty excited about the other opportunities that are going to present to them.

We deal with them every day. Some have great, fantastic shows that come to us, as you can tell, and we're even partnered with them and selling them to the U.S. distributor. That's going to continue.

[*Translation*]

Mr. Mirko Bibic: I will give you an example. The Quebec market is extremely important to Bell Canada, for obvious reasons. We have a formidable rival or competitor in Quebec. That is one of the reasons why we signed a deal with Radio-Canada to distribute more than 250 hours of its programming to our subscribers.

And why would we not? It is in our best interests to sit down with independent French-language broadcasters to do a better job of offering more choice to our Quebec customers, so we can compete with our main competitor there. Our door will always be open.

Mr. Roger Pomerleau: We believe you.

Mrs. Carole Lavallée: I would add, if I may, that there is still one cable distributor in Quebec offering many specialty channels as well as its own programming. When new specialty channels get their licence, they have a very tough time establishing a place for themselves on cable. In fact, there is nothing stopping the company in question, ADR, from applying to the CRTC for its own licence.

Mr. Mirko Bibic: Our goal is to distribute as many services as possible so we can be competitive.

Mrs. Carole Lavallée: Do you have any specialty channels?

Mr. Mirko Bibic: Absolutely, we have hundreds of them.

Mrs. Carole Lavallée: So when....

Mr. Mirko Bibic: Are you asking whether we have our own?

Mrs. Carole Lavallée: Yes.

Mr. Mirko Bibic: No, we distribute them, but, as a broadcaster, we do not own any specialty services.

Mrs. Carole Lavallée: You wouldn't by any chance be planning to do that in the future, in other words, acquire or establish new specialty channels, would you?

Mr. Mirko Bibic: We are getting CTV....

Mrs. Carole Lavallée: A general-interest network.

Mr. Mirko Bibic: CTV has a number of specialty channels, including RDS. We will continue to distribute those specialty services.

Mrs. Carole Lavallée: So you will own RDS.

Mr. Mirko Bibic: We will own it.

Mrs. Carole Lavallée: Down the road, if another specialty sports channel wants to be distributed by Bell, what will you do? Will you say no because you already have one?

● (1620)

Mr. Mirko Bibic: No, you should not....

Mrs. Carole Lavallée: If a new specialty channel comes to you with a good idea, for example, to target young 14-year-old girls with acne, will you say thanks but come back in 6 months, and then go ahead and create the channel yourselves? That is the problem with convergence.

Mr. Mirko Bibic: No, Ms. Lavallée, you should not look....

The Chair: Thank you, Ms. Lavallée.

Mr. Bibic.

Mr. Mirko Bibic: Really, you should not look at this in a negative light. First of all, if consumers, our subscribers, want the channel, we will distribute it. Second of all, if we turn it down to give ourselves an undue advantage, then the CRTC can intervene to rectify the situation. It does it every day.

The Chair: Thank you.

Mr. Brown.

[*English*]

Mr. Patrick Brown (Barrie, CPC): Thank you, Mr. Chair.

It's a very interesting panel today. I have taken a great interest in this transaction with CTV and Bell.

I come from the community of Barrie, Ontario, where—

Mr. Dean Del Mastro: A great town.

Mr. Patrick Brown: Thank you, Dean, it is a great town.

We have the great pleasure of having an A channel. There was a lot of concern in recent years about its long-term sustainability. The community really took it to heart: I saw a petition of 5,000 individuals. I saw a gathering on our waterfront where thousands came out to express their support for our local TV, because that is where people get their news. That is where people get their information on local proceedings and charitable events. It really is part of the core structure of the community.

What confidence do you have in the long-term strength of community stations like the A Channel? When Bell looked at this transaction, did you evaluate whether it was a working model?

I know it's appreciated, I know it's watched, but for some reason I keep hearing stories that they're challenged financially. How can something that's tremendously appreciated and watched be...? Does Bell believe it's something that we can make work?

Mr. Mirko Bibic: I'll speak first for Bell and then I'll turn it over to Paul, because Paul certainly has more direct experience with the A Channel.

We're buying this asset. As I mentioned earlier to Madame Lavallée, it's the number one media asset in the country, and we're buying it with the full intention that it remain there.

We understand the importance of local TV. We understand that a significant part of what we're buying is local TV. We're going to do everything possible to make sure it succeeds.

As for the A Channel specifically, obviously they're in some financial difficulty, as I understand it. I can't speak now for Bell as to what will happen to the A Channel, but, generally speaking, every business unit has to stand on its own two feet.

With that, I'll turn it over to Paul. He has more direct experience with it.

Mr. Paul Sparkes: Mr. Brown, you've been a big supporter of your local television station and we certainly appreciate your support on that front.

The A channels, as we know, do struggle. It's not a state secret. They lose money, significant money. We need to find solutions to fix that. One is hopefully value for signal, which could be implemented. We have a benefits proposal that we have to make to the CRTC, where Bell has to spend some money on public benefits. We're hoping that maybe we could direct some of that money into the A channels to help them out in terms of HD production and trying to offset some of the significant losses.

So we have to get creative, with the help of the commission, and internally as well. But the fact remains, they are certainly a troubled asset that we need to find a way to fix sooner rather than later.

Mr. Patrick Brown: I actually got excited when I heard about the transaction, hearing about BCE with profits of $17.7 billion in 2009. Having a successful corporate citizen like that behind local TV is certainly a powerful ally.

Are there things we can do with local TV? I realize that one of the challenges we have with local TV is that we do have some expensive U.S. programming on it. Are there ways we can shape local TV to reduce some of the more expensive aspects of that business model, to make it something we could have greater confidence in?

When we talk about thinking creatively, what parts could we change to make it something stable in Canada?

Mr. Paul Sparkes: We're still an advertising-based business. Our revenue is 100% advertising, and it's based on viewership. When people watch your channel, the advertisers come. We try to fill our schedule with programs that your viewers and your community want to watch. News, of course, is the main anchor for a lot of viewers, but it's not the only thing that can keep a channel going. We must have revenue based on all parts of the schedule.

Hopefully, we get another revenue source. Hopefully, the commission allows us to use some of our public benefits money to help the A channels. I think that would be a good solution as well.

● (1625)

Mr. Mirko Bibic: This is conceptual, but think of all the potential of marrying local programming with the technology. Suppose you want to watch your local programming, but you're travelling. You're not home to watch it, yet here it is; it is being streamed live or you can access it whenever you want on something like this. The eyeballs stay at home, even though you're so far away.

These are all opportunities we have that we'd love to explore, and fully intend to, if we're lucky enough that the regulators approve and we take ownership of the asset.

Mr. Patrick Brown: Certainly that sounds like an exciting possibility. For example, a local MP who's stuck up in Ottawa all week could watch his A channel news here in Ottawa.

One thing I don't think you got a chance to expand upon was more on the consumer choice. I know a few people sort of rumble that it would reduce consumer choice, but my inclination is that this transaction is going to enhance consumer choice. Maybe you would take some more time to comment on how that's going to help Canadian consumers.

Mr. Mirko Bibic: There are a couple of aspects. With ownership of CTV, we'll be able to, as I mentioned a few times, take the content and distribute it over the various platforms, sometimes with some niche content. I gave the example in the opening statement of the Montreal Canadiens' reality show just to Bell Mobility subscribers. What does that do? That actually gives more choice to the customer. If there is a consumer who's on the fence deciding "Do I want to choose Bell Mobility or another wireless provider?", and this is what tips them in our favour, that's great for us.

What does it do? It forces the other competitor to say "I have to do the same thing, so maybe I'll do a reality show with the Calgary Flames", or whatever the idea is, and all of that kind of feeds upon itself in a very creative way. Yet at the end of the day—and this is the key point, Mr. Angus—that hockey game that you want to watch is available on every single platform to everybody, regardless of your wireless provider, and there's nothing wrong with exploring niche content on the margins.

The Chair: Thank you very much, Mr. Bibic and Mr. Sparkes. We appreciate your testimony.

We'll suspend the meeting for five minutes to allow our next panel to appear.

●

(Pause)

●

● (1630)

The Chair: I welcome our second panel to the 32nd meeting of the Standing Committee on Canadian Heritage. We have in front of us today representatives from two organizations: Mr. Engelhart, representing Rogers Communications Inc., and Mr. Hennessy, representing Telus Communications.

We invited Mr. Sasseville, who is the representative of Quebecor Média Inc., and we understood he was to appear, but he is not present, so we'll begin with our two representatives, beginning with Mr. Engelhart.

Mr. Kenneth Engelhart (Senior Vice-President, Regulatory, Rogers Communications Inc.): Thank you, Mr. Chair.

Good afternoon to you and members of the committee. My name is Ken Engelhart, senior vice-president, regulatory, for Rogers Communications Inc. I am pleased to appear before you today to discuss issues related to private television ownership and new viewing platforms in the Canadian broadcasting and communications sector.

My remarks will focus on Rogers' strategy of vertical integration and content delivery, implications of recent broadcasting acquisitions by Shaw Communications and Bell Canada, and on diversity in the Canadian broadcasting system and the accessibility of content.

Rogers was one of the first communications companies in Canada to pursue a vertical integration strategy to leverage its cable and wireless distribution networks and broadcasting content. For years Rogers was prohibited by CRTC regulation from directly owning analog specialty services, which impacted its ability to fully pursue a vertical integration strategy until the late 1990s. Nonetheless, Rogers has always seen the value in integrating content and distribution services to provide the best products and services to our customers.

Rogers' goal is bringing our customers communications and entertainment services into a simple integrated and personal experience that is easily accessible on any device, wherever and whenever they need it. This requires significant investment in wireless and broadband infrastructure, and access to a wide range of content.

Over the years Rogers has been a leader in making these investments and has partnered with a number of content providers to offer new content delivery platforms, such as Rogers' video-on-demand service and its online portal, Rogers On Demand On-line. We believe this strategy has resulted in new innovative products and platforms for consumers, and has helped position Canadian companies to compete against a variety of unregulated media providers that contribute nothing to the cultural objectives of the Broadcasting Act.

Our vision at Rogers Cable is that our customers pay one price for their preferred linear television package, but can then receive all their programming at no extra charge, on demand, online, and on their mobile phones. We are already well advanced in this service offering. Today's viewers want their content anywhere, anytime, and we must satisfy this requirement.

Canadian broadcasting and distribution companies face more and more competition from unregulated over-the-top service providers like YouTube, Apple TV, Hulu, and Netflix, and various illegal black market services. These companies pose a serious threat to broadcasting and cable companies, as they compete with Canadian media companies for scarce advertising and subscription dollars and encourage consumers to cut the cord on the regulated system by offering niche low-cost or free on-demand content.

Of course these competitors have no Canadian content obligations. The integration of broadcast and distribution companies is a natural response to this type of competition and is already well advanced in other jurisdictions, including the U.S. and Europe.

Contrary to those who believe that increased vertical integration will result in less diversity in the system, we believe it can provide significant benefits in terms of innovation, greater consumer choice and value, and continued support for cultural objectives, such as the development, promotion, and exploitation of Canadian programming.

Given the relatively small size of the Canadian media industry, Canadian broadcast and distribution companies must be well financed and structured to respond to increased competition from unregulated global players. Otherwise, key cultural and financial contributions to the system could be lost or severely diminished, including funding mechanisms such as the Canada Media Fund and the local programming improvement fund, both of which are supported by contributions from cable and satellite companies.

The Canadian broadcasting industry is no stranger to consolidation. Over the years we have witnessed a series of acquisitions, mergers, and divestitures of various media properties, some of which have been tremendously successful, and others less so. This is a healthy evolution of what has proven to be a strong and dynamic broadcasting sector. Throughout this evolution, the CRTC has continued to implement and enforce measures that ensure diversity in the system.

Key measures include limits on the number of local radio and television stations that can be commonly owned in a market; caps on the level of total television audience share that can be controlled by one company; specific requirements for the use of independent production on discretionary and conventional television; funding mechanisms to support the provision of local news programming in French and English markets; and regulations regarding undue preference on linear, online, and wireless platforms.

● (1635)

Recently concerns have been raised about the potential of vertically integrated companies to adopt practices that will undermine competition and limit broad access to content by offering exclusively over their own networks, whether TV, broadband, or wireless. The CRTC has announced its plans to address these concerns and other issues related to vertical integration during a public hearing that is scheduled to be held in May. This will provide an opportunity for all interested parties to provide their views on the issue of content exclusivity and establish clear rules for certain business practices.

For our part, Rogers remains focused on optimizing our customers' experience by offering them a rich array of content on the platform of their choice. To succeed, we must have fair access to content from a variety of different sources. We understand and recognize the value of exclusive content offerings, but do not see it becoming a dominant business model or practice.

We believe the CRTC's upcoming proceeding is timely, in that it will allow the commission to establish clear and transparent policies regarding use of content on multiple platforms, which will provide vertically integrated players with a predictable regulatory framework from which to operate. We look forward to participating in that proceeding.

This concludes my remarks, and I would be pleased to answer the committee's questions.

The Chair: Thank you, Mr. Engelhart.

Mr. Hennessy.

Mr. Michael Hennessy (Senior Vice-President, Regulatory and Government Affairs, TELUS Communications): Good afternoon, Mr. Chair and members of the committee.

When I presented to you a few weeks ago on the topic of the future of the digital media, I made the point that without clear and effective safeguards, unprecedented vertical integration could constitute the biggest threat to access, diversity, and choice in broadcasting. This is true not only for the public but for independent producers, broadcasters, and even distributors like Telus, which has itself invested over $2 billion in our new Optik IPTV service to compete with the cable industry. So I'm pleased that this committee and the CRTC are taking a closer look at this.

In our view, the Canadian broadcasting system has been successful in providing a diversity of programming because it has provided both foreign and domestic content. In large part, that's due to measures that ensure that foreign programming helps to contribute to fund Canadian content. That's an important point when we talk about exclusivity. The system has also been successful in providing choices of platforms, like cable and satellite, now Optik TV, and in the future Internet and mobile platforms. We think this competition has created unprecedented choice and has helped to keep prices lower than they would otherwise be.

We believe it's of fundamental importance that consumers continue to have access to the content they want on whatever platform they choose, without restriction. While the media concentration and vertical integration of content and its distribution may bring some benefits to the system, it also has the potential, absent of safeguards, to cause significant harm if measures aren't taken to guard against abuses of market power, to counter the decisions of vertically integrated companies to promote their carriage business through exclusive content, or unduly preferential arrangements at the expense of their content operations, thereby reducing revenues flowing to the Canadian broadcasting system.

So we're calling on clear rules upfront to prohibit such discriminatory practices. First, as we suggested last time, exclusive content arrangements must continue to be prohibited on all distribution platforms. We think the easiest way to do that is to begin by categorically stating that exclusive carriage of foreign or Canadian broadcast content is prohibited over the Internet and wireless delivery, just as it is today over broadcast and video-on-demand.

We think the prohibition on content exclusivity must apply to both foreign and Canadian content, because revenues from the most popular content, both foreign and domestic, create the resources to support the system overall. If revenues for high-value content are reduced by exclusive arrangements to help sell more cellphones, then the pool of moneys used to support Canadian content is equally reduced.

Second, we believe that broadcast content now held by a vertically integrated company must be made available to other distributors and carriers on fair and reasonable terms. Undue discrimination, we believe, on pricing, quality, access, and other terms has to be clearly prohibited to promote competition and to lower prices. What constitutes such undue discrimination and how complaints will be resolved must be made clear in advance of such complaints.

For example, on pricing, we suggest a vertically integrated provider might agree to make content available on a non-exclusive basis, but only at prohibitively expensive and thus anti-competitive prices. So we suggest the CRTC should set out in advance how it will determine pricing issues in such a way as to discourage attempts to overprice competitors. The commission should establish that disputes would be resolved through timely and binding arbitration, where the arbitrator would refer to data concerning historical prices to see if things have changed in a vertically integrated environment.

Third, we think timely compliance with the rules is essential. Neither of the first two rules makes much practical sense if enforcement is delayed to the point at which access or content loses its relevance. For example, getting access to streaming hockey games on mobile phones once the baseball season has started is not going to help consumers on another cellphone plan, or competition in general.

● (1640)

Accordingly, the CRTC must have the ability to act quickly to resolve disputes, and some form of interim relief must be ensured. We think that if binding commercial arbitration with clear timelines is used, there needn't be a delay in getting access on an interim basis to that content.

Fourth and finally, vertical integration requires special firewall measures to ensure the confidentiality of information between the content and distribution sides. This is required because negotiations for content acquisition require significant sharing of competitively sensitive information. For example, when Telus's television distribution service, Optik, negotiates for the carriage of a specialty television service, it is often required to provide details of its plans to distribute the service—in what package, with what marketing incentives, etc.

Prior to vertical integration, all this competitively sensitive information was guarded by non-disclosure agreements. Now, with vertical integration, the CRTC must step in to enforce some form of structural separation that will ensure that the information we provide to Global or CTV, or to TVA, is not immediately shared with our carriage competitors, Shaw, Bell, or Vidéotron.

Mr. Chair, committee members, let me conclude by suggesting that what we are proposing is not radical; it builds on the rules that already exist. Many of these rules are already explicit or implicit in the CRTC regulations. But what non-integrated players and consumers need in terms of access is greater clarity and timeliness to limit disputes. We think that's a very small price for the vertically integrated carriers to pay for such unprecedented consolidation.

That finishes my comments, and I would be happy to answer any of your questions. Thank you.

● (1645)

The Chair: Thank you, Mr. Hennessy.

We'll have 45 minutes of questions and comments, beginning with Madam Crombie.

Mrs. Bonnie Crombie: Thank you, Mr. Chairman.

And thank you, Mr. Hennessy. It's nice to see you again.

Mr. Engelhart, it's nice to see you as well.

Given what you heard earlier from my colleague on the other side of the table, tell us how you feel about fee for carriage.

Mr. Michael Hennessy: We feel no different from the way we have felt in the past couple of years. We think it's wrong, and I think it would be moving towards the absurd at this point, to create a process wherein independent players particularly, and their consumers—and all consumers—are expected to help underwrite some of this vertical integration through fee for carriage.

Mr. Kenneth Engelhart: I would agree with that.

One of the things we were arguing about during that whole period was that the broadcast networks were saying: we have no business, we're going bankrupt, these networks are worthless. Now that Shaw has paid $2 billion for Global, and Bell paid more than that for CTV, it appears that we were right; that these networks still had some value. It was the broadcast networks and the specialty networks that were sold together. Still, these were very valuable networks, and obviously the new owners intend to keep operating them.

Mrs. Bonnie Crombie: Thank you.

How can these large, vertically integrated conglomerates ensure diversity of content?

Mr. Michael Hennessy: I don't think you can guarantee that. I've always been of the opinion that there is increased diversity outside the system. Within the system, the money and the funding for Canadian content and the shows that people tend to watch still all reside within the regulated system. No matter what anybody says, over the last five years we've seen substantial consolidation of the most significant programming, first through the acquisition of the Alliance Atlantis properties by Global and the acquisition of Citytv initially by CTV, later spun out.

We have seen a shrinkage of ownership in the programming that counts the most. Clearly there's a lot more diversity online, but the audiences are still generally attracted to core TV programming, and that core TV programming today is really in the hands of four very large, vertically integrated entities, or will be when the CRTC approves the CTV transaction next year.

Mr. Kenneth Engelhart: The competition between the regulated system and the unregulated system is getting to be quite important. We've seen in the U.S. recently, in the last quarter, about a quarter of a million fewer broadcast television subscriptions. That's not because cable has moved to satellite or cable has moved to IPTV; the whole system has seen a decrease.

That's not because people are throwing their TVs away. They're watching their television on the Internet. You can buy TVs now that hook right up to the Internet. You're not watching it on your laptop; you're watching on your TV. There are companies like Hulu, Apple, and Netflicks that are doing it perfectly legally; they're paying for that content.

This is a big problem for cable TV companies. It's one reason that we have to give our customers the greatest possible diversity of choice, or they'll abandon the regulated system.

The second point I'd like to make is that the vertical integration can help with the delivery of new platforms. You have a sort of chicken-and-egg problem with a new platform: you come out with a new platform and nobody wants to put their programming on it, because there are no eyeballs attached to it; and the eyeballs don't want to watch it, because there's no programming on it.

We offered an innovative service called Rogers On Demand Online. This lets people watch their TV shows from the computer at the airport, or on their laptop wherever they are. They can watch the program they've paid for on cable TV free of charge.

Of course, none of the broadcast networks wanted to put their programming on it, but Citytv did, because we owned them. Once Citytv put their programming on, the other networks thought they had better do it too, or Citytv was going to get an advantage over us.

So having that vertical integration can actually increase the choices consumers have.

● (1650)

The Chair: Thank you very much, Mr. Engelhart.

Thank you, Madam Crombie. That was your time.

Madame Lavallée.

[*Translation*]

Mrs. Carole Lavallée: Thank you very much.

First of all, welcome to our committee. It is too bad that Quebecor is not here; I think you would have made quite the trio. There is a question I would have liked to ask Quebecor, as well, but I will still put it to each of you.

A phenomenon we are seeing more and more in the marketplace—and previous witnesses have talked about this, but regardless, you don't really need to be a classical expert to understand it—is the use of wireless devices and the Internet as broadcasting tools. Furthermore, those broadcasting devices are not subject to the Broadcasting Act, but to the Telecommunications Act.

Mr. Hennessy, you said that the regulations needed a bit of a cleanup, and you suggested some new rules. Against the current backdrop of convergence, where each of your broadcasters has their own wireless services, I wonder whether it would not be easier, more effective and more realistic to combine the two pieces of legislation, the Telecommunications Act and the Broadcasting Act, as the CRTC chairman has already called for publicly.

[*English*]

Mr. Michael Hennessy: I don't actually believe that. I think what you would end up with is one act that has two sections, because one is culturally driven and one is economically driven in its main priorities; one promotes open competition and the other promotes limited competition to ensure the achievement of cultural objectives. Put the two acts together and you really have two competing things in one page.

To be clear, if somebody provides a television service on a wireless device, that service itself is subject to the jurisdiction of the CRTC under the Broadcasting Act. They have simply, to date, decided to forebear from regulation. They could regulate it. I don't think it's necessary at this point, but the jurisdiction does exist.

What they don't regulate is the totality of the business of the wireless carrier, and that's probably a good thing. At the end of the day, I don't think the issue is whether you actually regulate in detail the broadcaster, but whether the consumer has access to the content and independent producers have the ability to provide their content and have it displayed on all platforms.

I think that's where we want to get to: to that form of openness, so that Canadians and Canadian producers can use the system, whether it's by the Internet, wireless, or the traditional platforms, to reach out to the world, and by reaching out to the world I think we start to create more financially viable models that aren't reliant on subsidy.

● (1655)

[*Translation*]

Mrs. Carole Lavallée: I have a few reservations about what you just said, including that telecommunications is economically driven while broadcasting is culturally driven. I have some reservations about that because we have audiovisual content being produced mainly for mobile phones and other content being produced mainly for the Internet. There have been webisodes that were so popular that they were turned into general-interest TV shows. Take *Têtes à claques*, for instance. And now we are seeing shows being made primarily for people to watch on their mobile phones. I am not sure what those are called.

So wireless companies, such as yours, are involved in broadcasting. I am not interested in a dialogue on the issue. I want to hear Mr. Engelhart's opinion in response to my question. What is your take on a combined telecommunications and broadcasting act?

[*English*]

Mr. Kenneth Engelhart: I agree with Michael that when someone broadcasts a webisode over a mobile phone, there is a broadcaster. If there's a website that's sending that program out, there's a broadcaster, and if someone collects those shows together and makes a decision whether to buy them and send them down the pipe, that person is a distributor. That's today, under the Canadian Broadcasting Act.

When the Canadian Broadcasting Act was written, it was deliberately written to be technology neutral. Now, as Michael said, the CRTC has decided to de-regulate, if you will. They have passed something called the new media exemption order that says they're not going to regulate that. But interestingly, when they looked at it last time, they said they're now going to add a caveat that there can be no undue discrimination. I think it's so they would have the leverage to deal with the concerns you're raising.

The Chair: Thank you very much, Mr. Engelhart.

Merci, Madame Lavallée.

Mr. Del Mastro.

Mr. Dean Del Mastro: Thank you very much, and thank you to the witnesses.

I was somewhat disturbed during the first panel. I appreciate that Madam Crombie asked the opening question on the matter that had disturbed me. I'm curious, what do you think has changed since the last time? I understand that they're contemplating a purchase, that Bell in fact wants to proceed with purchasing CTV. I think it makes sense. I believe that in markets like this, we're seeing vertical integration around the world. This isn't a Canadian phenomenon. I agree with Telus that whatever the rules are, we should establish them.

I think it's working. I think Rogers is demonstrating that it's working. As I said earlier, we've seen Shaw buy Canwest and they've taken over the Global TV assets and their specialty assets. Rogers has been consistent with their position, even though they own Citytv and Citytv was admittedly, through the recession, in the tank on revenues versus expenses but took a position against fee-for-carriage in any of its forms.

Mr. Hennessy, you've said it's ridiculous, it's almost perverse, the idea that essentially you'd have all the broadcasters owned by BDUs and then figure out how much they should pay each other for the signals they've got out, especially when the two largest BDUs in the country are opposed to it.

What do you think has changed? Why are we hearing what we heard today?

Mr. Michael Hennessy: Maybe I'm being cynical—I've been accused of that before—but Bell is not short on accountants, so I would assume somebody there ran the numbers and decided that if you own the largest and most extensive broadcaster in the country, perhaps you can have a fee-for-carriage regime that returns net profit to shareholders.

Mr. Dean Del Mastro: Ken.

Mr. Kenneth Engelhart: I think Michael's right. I assume it's a matter of the arithmetic.

Mr. Dean Del Mastro: I want to come back and ask a couple of questions specifically on vertical integration. As I said, I think it's very powerful. I do believe there's a wireless future.

I've been to Ericsson and I've seen some of the things they're doing for G technology, the efficiency they're finding in bandwidth. I think it's incredible, the technology that is literally....They're testing it now, meaning it's not far down the road, and if we're going to compete, if we're going to have that kind of wireless network that can fuel the productivity that Canada needs, we need this kind of strength in the system where we have large players that can bring it all together and make it happen.

How has vertical integration assisted Rogers in being that stronger company that can expand things out?

Secondly, I'd ask Mr. Hennessy, is Telus concerned about being kind of locked out of some of those benefits?

● (1700)

Mr. Kenneth Engelhart: I guess my favourite example is when we started broadcasting Blue Jay games on the cellphone and no one else in North America was doing it. We were asked, “Why are you the first company in North America doing it?” We said, “Well, if you own the team, the stadium, the broadcaster, and the cellphone company, it's not that hard.” With vertical integration, every stage along the way there are transaction costs. If you can eliminate those transaction costs, you can kick-start that business. Of course, once it's kick-started and customers start to like it, then it takes off. So I do think there's some power to vertical integration.

Mr. Dean Del Mastro: Thank you.

Mr. Michael Hennessy: I agree with that. I think we sometimes underestimate the innovation we see created in Canada. Canada has had a lot of firsts in that area. We are a small country. We've come here. We're not opposed to vertical integration. It's a business strategy. Clearly, it's not a business strategy that we pursue. But as we say, as long as there are clear principles on access and non-discrimination, I think it's a business strategy that is worth pursuing if it brings stability to the system.

We have tended to focus more on the network, because that's what we're good at. What we want to try to do is enable the best customer experience for watching whatever type of content they want, on whatever platform, whether it's the Internet, whether it's our cable TV service that is an Internet technology-based service, or whether it's our new wireless networks that Rogers has built and is now recognized as world-leading.

Our whole goal is a belief that this is all built around the consumers. We're going where they're going, and they believe in open platforms.

The Chair: Thank you very much, Mr. Hennessy.

Mr. Angus.

Mr. Charlie Angus: Thank you.

This has been a fascinating study for us. I'm glad to have you gentlemen here. I know my colleagues over there think we New Democrats feel the market is evil. We actually think the market's great, but we simply believe there need to be certain rules to keep a market competitive.

For example, look at the grocery business. You know, it used to be all those little corner grocery stores, then they consolidated and got bigger and bigger. Now there are all kinds of choices, but in a lot of these grocery stores small operators don't get shelf space. That's the way it is. If you want to compete in the milk business and you're a small milk company, go into another line of business, because it's set up, it's anti-competitive. They're not going to allow it.

It's the same in cattle. You have two cattle players and if they see a small operation get up and running, they'll drop the price of cattle a few cents and they can put you out of business. They're not doing it to give the consumer a break; they're doing it because they don't want competition. That's their business model and that's what they do.

Our question is, when we look at vertical integration here, what do we need to do, if anything, to ensure we don't have anti-competitive practices?

Mr. Hennessy, you're giving us a very different picture of the potential for this market from some of the other players. You talk about making content available but only at prohibitively expensive prices, or not allowing access in a timely manner. Why is it that you think the potential of vertical integration can be offset by troubling issues of anti-competitive behaviour toward smaller third-party players?

Mr. Michael Hennessy: Well, I guess, Mr. Angus, it's not that I maybe think it can be offset as much as it's here. It's a reality. It's a given. We recognize, by the fact that we're not vertically integrated, that we face the biggest threat because our four largest competitors, adding the wireless, Internet, TV, and telephone business, are Shaw, Vidéotron, Bell, and Quebecor. So we know very well and already have experienced certain issues where we've had very great difficulty getting content. It's unfortunate our colleague from Quebecor isn't here, because we have substantial issues with them in front of the CRTC right now.

I do have very serious concerns. I don't want to understate that. I think it will probably be an ugly row to hoe for the next year or so, unless we do get the rules straightened out. It's also, given the size of this country, perhaps something that is inevitable.

I do look back and think we have lost a significant amount in many of the small and local businesses in communications that have disappeared over the last ten years.

● (1705)

Mr. Charlie Angus: Mr. Englehart, Mr. Hennessy raised the issue of needing to put firewalls in place because of some conflicts of interest in a vertically integrated company and getting the sensitive information they're going to need. Do you support that, or does Rogers have a policy in place in terms of firewall protection?

Mr. Kenneth Engelhart: Mr. Hennessy used the term “structural separation”, which is not a concept that I endorse, because that implies that you set up two separate companies and stuff like that. It is very common in commercial agreements to have clauses in the contract that govern where that information can go, who can look at it, and what it can be used for. We have lots of contracts like that, and I believe those contracts and those clauses can provide the protection Mr. Hennessy is looking for.

Mr. Michael Hennessy: That really is what we're looking for. I agree with Mr. Englehart, the use of the words “structural separation” may imply too much. We want marketing barriers between—

Mr. Charlie Angus: Marketing barriers, yes.

Mr. Michael Hennessy: —their carrier business and their content business, and I think Ken agreed to that, which is great.

Mr. Charlie Angus: You raised the issue of timely compliance. Certainly someone might agree to give you content but they could drag it out where the content actually becomes fairly useless, unless you want to watch reruns. Do you think the CRTC needs to have more teeth—for example, administrative monetary penalties?

Mr. Michael Hennessy: Somebody asked me that question the other day. I think there has to be more compliance, but my first response to that was there's no point in giving somebody the power to fine if they're not willing to find anybody guilty in the first place.

Let me give you an example. We have had a dispute with Quebecor to get TVR content on our video-on-demand. The rules explicitly state that they have to provide that content. That goes back to June. We still haven't seen it.

We've had disputes with Shaw over access on the other side of the business that go back to May. In that period, Shaw has been able to put an offer in for Canwest Global, take the application to the CRTC, go through the hearing process. CRTC renders a decision. They get it. They get their licence renewed. We're still waiting for resolution of the complaint, either for or against.

Unless you're willing to act and make things timely, I find the issue of whether the penalties are strong enough becomes quite irrelevant. It's not helpful.

Mr. Charlie Angus: You talk about the issue of greater clarity. Is that greater clarity at the CRTC? Is that greater clarity when we write the agreements for the Canada Media Fund? What do we need in terms of clarity to ensure that consumers are not being denied access to content?

Mr. Michael Hennessy: In the case of the CRTC, you want explicit rules. The rules are explicit in video-on-demand, so you have to have action. That's number one.

Let me take your earlier example on the Canada Media Fund. I agree, it has public funding. Table stakes that everything it produces should be available on a non-exclusive basis. Same with CBC. But I would also say that it is also foreign programming or sports or big media stuff that really funds the system in the first place, and it requires us to make contributions to things like the Canada Media Fund, or to the system as a whole. So if we're denied access on one platform, that limits our ability and it limits money flowing through to the system.

Mr. Bibic's point that you can get it on CTV is showing you something he's about to buy and saying that today it's available on an independent platform, but he didn't guarantee you it's going to still be available on that independent platform when they buy CTV, because it's not independent any more.

● (1710)

The Chair: Thank you very much, Mr. Hennessy.

Thank you, Mr. Angus.

Madam Crombie.

Mrs. Bonnie Crombie: Mr. Chairman, I think you heard me say earlier that I'm not sure which I'm more concerned about as a consumer, the increased concentration in the industry and the oligopolistic marketplace that we're creating, or the vertical integration.

I have to tell you that one of you play a very, very large role in my life and in my chequebook. You are my cable provider. I have five phones and data plans, BlackBerrys and iPhones, Internet provider, and now long distance.

I wonder if you think there might be consumer push-back to all that monopolistic control.

Mr. Michael Hennessy: We can certainly try to help you out with your wireless plan.

Voices: Oh, oh!

Mr. Michael Hennessy: You know, I think there is clearly a consumer push-back, and at the end of the day, the more disputes you see in the industry, the more negative I think the push-back becomes. At the end of the day, I don't think that's good for any of us. I can't give a better example than, ultimately, how silly we all looked with those commercials going constantly on television about “Save local TV” versus “Stop the TV tax”. I don't think I had a friend anywhere in the country who would talk to me, because they were so burnt out about being bombarded by corporate rhetoric over an issue like that when they knew that at the end of the day the money was going to come out of their pocket one way or another.

So it is a problem, and I think it's incumbent for us to address as Canadian corporations, before there aren't any Canadian corporations left.

Mrs. Bonnie Crombie: I'm really looking forward to Mr. Engelhart's reaction.

Mr. Kenneth Engelhart: Thank you.

One of the things we see is that a lot of bundling such as you've described increases the level of customer service that customers get, because if you were a poor service provider and you lost someone's telephone account, that was of course terrible, but now, if you annoy a customer, you can lose their wireline phone, their Internet, their cellphone, their video service.

Mr. Royal Galipeau (Ottawa—Orléans, CPC): At $2,000 a month.

Mr. Kenneth Engelhart: So it's important for companies to provide better service. I think you see the level of customer service at our company. We're investing more and more in it all the time.

The other thing I'd like to say is just as historical context. Mr. Angus went back to the beginnings of the Internet. When I was a kid growing up in London, Ontario, we got one CBC, there was a CTV from Kitchener—and it was pretty fuzzy—there were two radio stations, and the newspaper owned one of the radio stations and the TV station. A kid growing up in London, Ontario, today has hundreds of channels; the Internet has an incredible variety of information and choice that we couldn't even dream of back then.

Mrs. Bonnie Crombie: I have to tell you as well that a couple of people I've spoken to have received a letter saying they had been the recipients of overdiscounting, and the company was looking for their money back.

Mr. Kenneth Engelhart: No, no one had to give anything back.

Mrs. Bonnie Crombie: Good.

Mr. Kenneth Engelhart: We did overdiscount some people and underdiscount others. We corrected the overdiscounted going forward, but they got to keep the overdiscount they had received.

Mrs. Bonnie Crombie: Okay, let's just move on.

I want to talk about the future of Canadian content. As broadcasters are becoming larger and want to become players on the global stage, what's going to happen?

Mr. Kenneth Engelhart: As I mentioned in my remarks, you have Netflix, Hulu, Apple TV. These are all sophisticated television operators coming into Canada with no Canadian content requirements whatsoever. One of the things that vertical integration can do is try to keep the regulated Canadian system with its Canadian content obligations robust.

But I think the CRTC has to be a bit temperate in the way they regulate. We pay a 5% tax, if you will—a contribution payment—on our video-on-demand. They propose to raise that to 10%, and people like Netflix are paying nothing. The system has to accommodate these over-the-top competitors.

Mr. Michael Hennessy: I'd say the number one thing is to focus on the Internet as the future for our content entrepreneurs, creators, or public sector content producers, because that gives you access to global markets. If you have access to global markets, you have the ability to start to create businesses that have sufficient audience that they don't need subsidies, all the wealth transfer we have in the current broadcasting system. The number one thing that I think is required there is venture capital for the start-up companies we see on the Internet, rather than regulation.

● (1715)

The Chair: Thank you very much, Madam Crombie.

Thank you, Mr. Hennessy.

[*Translation*]

Mr. Pomerleau, your turn.

Mr. Roger Pomerleau: Thank you very much, Mr. Chair.

I found both of your presentations very interesting. But, on principle, I would have a hard time agreeing to a totally free market, for any reason. History has shown that it always ends up creating a competitive environment that knocks out a number of players who should not necessarily be knocked out.

I am coming to my question. Mr. Hennessy, you recommended four rules that the CRTC should adopt. What are the chances that the CRTC will actually take those recommendations into account and flex its muscle by implementing them?

[*English*]

Mr. Michael Hennessy: I think there's a significant chance that they will take them into account. They took some of this into account when they rendered the Shaw-Canwest decision.

The issue for the CRTC will be that they worry that if they create rules, they will have to enforce the rules, and they don't have the resources or the money. This is why we put on the table the suggestion to use a commercial arbitration process that the parties go to, which would have timely rules around it, rather than the resources of the commission itself. We're fairly confident that by limiting it to four critical things in terms of exclusivity, price, quality, timeliness, we're not asking so much; that given the value to the companies that are being allowed to vertically integrate, it's a pretty fair trade-off.

[*Translation*]

Mr. Roger Pomerleau: Very well.

Mr. Engelhart, if the CRTC were to put those regulations in effect, would you be able to live with that new reality? Is there anything you would not be able to accept, either on principle or for economic reasons?

[*English*]

Mr. Kenneth Engelhart: I'm not very far away, I don't think, from Mr. Hennessy's position. You have to realize that the CRTC has put in a regime of the type he's talking about for linear television. For linear television, we have to offer Sportsnet, which is owned by Rogers, to ExpressVu, to Telus, to Shaw, and if they're not satisfied with the price, until recently they could take it to arbitration. Sports has now been carved out of that regime, but most services they can take to arbitration.

That sort of heavily regulated regime in which there is no exclusive content is the rule today for linear TV. What we're exploring in the hearing in the spring is whether the same rules should apply to mobile phones and Internet.

One of the complications there is what to do about totally unregulated Internet providers. What if FIFA, whom you can't regulate—the soccer people—sell an exclusive to Jump TV or to Hulu Canada? The CRTC has never regulated those people.

You have to worry about a system that regulates the people who are already in the broadcasting system and leaves everyone else unregulated. But conceptually, the idea that all distributors should get access to the content is one we support.

[*Translation*]

Mr. Roger Pomerleau: Mr. Chair, I will end with one last question.

Earlier, Mr. Bibic said something the committee hears a lot. Everything is Internet and new technologies. As we heard, 30% of Canadians watch between 30 minutes and 60 minutes of TV on the Internet, and 20% of Canadians use a cell phone or smartphone to watch video clips.

Is that really the future? Personally, I am old-fashioned, and I still watch TV. Is watching a hockey game on a tiny device where you cannot even see the players' names really the wave of the future?

● (1720)

[*English*]

Mrs. Carole Lavallée: Where's the puck?

Some hon. members: Oh, oh!

[*Translation*]

Mr. Roger Pomerleau: I realize that new devices will be invented, but is watching TV on an ever-shrinking screen really the wave of the future?

[*English*]

Mr. Michael Hennessy: The screens get bigger. A RIM tablet or an iPad starts to become the size of a television. The one thing that nobody is discussing when they say that all this wonderful stuff will happen on the Internet is that, particularly on wireless networks and to an extent on the Internet as well, the laws of physics or laws of capacity say that there's only so much room for it. To the extent that you're paying for capacity on a wireless network, if you start watching multiple movies or hockey games, your bill will become substantial.

The traditional broadcast distribution mass media product is still probably the strongest product for delivering broadcast content television to the consumer, and I think it's going to remain like that. The Internet and mobile are very interesting and they will be a part of the system, no doubt, but one should not underestimate the strength of the core product.

[*Translation*]

The Chair: Thank you, Mr. Hennessy and Mr. Pomerleau.

Mr. Galipeau, it is your turn.

[*English*]

Mr. Royal Galipeau: I had some questions, but I'll ask them personally.

The Chair: Mr. Armstrong.

Mr. Scott Armstrong (Cumberland—Colchester—Musquodoboit Valley, CPC): I almost feel like letting Royal go ahead, because I'm afraid that if I finish asking questions, I may disappear.

This is such a complicated subject. I'm going to focus on a couple of things.

Mr. Engelhart, you talked about the need for more venture capital so that we can access markets outside of Canada. This is the whole industry I'm speaking of. Do you think it would be smart if the government focused on expanding things such as the Canada Media Fund, maybe focused less on supporting distributors or broadcasters and focused on creating the best content, assuming that everyone has fair access to this content? Would supporting that be a direction we should go in as a government?

Mr. Kenneth Engelhart: I don't know if the track record of the Canada Media Fund has necessarily made it the horse we'd want to back. The core of your question is, wouldn't it be better to subsidize Canadian content rather than regulate the system so heavily? That's something I've always thought would be a better model. It's the model that most countries use. Most countries tend actually to give a lot of money to their public broadcaster and then let the private guys basically do what they want. In Canada we have a substantial public broadcaster and we have a bunch of funds and we have a lot of regulations too. It may not be the optimal model in Canada.

Mr. Scott Armstrong: Mr. Hennessy, could you comment on that?

Mr. Michael Hennessy: I would worry a little about that for two reasons. First of all, I don't think you necessarily want to have a fund that was established specifically to create broadcast content, and which now has new media appended to it, funding products that are perhaps being created by a younger generation not constrained by the thinking in the broadcast system.

The other thing is that increasing the funding for something like the CMF becomes problematic, in that it becomes a matter of accounting again. The more vertically integrated you are and the more you own the broadcasters who receive the money from the fund you contributed to in the first place, the more you're really just controlling your own money, with a few of us throwing in extra dollars, and the less money is flowing to independent producers. That may become a problem in itself.

I would say that the real goal is that we need new thinking if we're going to use new technology like the Internet. So when I think of venture capital, I'm thinking much more of the true sense of venture capital than of subsidy programs like the Canada Media Fund. I think that's the wrong direction to stimulate innovation online.

Mr. Scott Armstrong: Okay.

Could you elaborate on a model of venture capital support for production that you see as being—

● (1725)

Mr. Michael Hennessy: Yes, I think the government has been looking at this, as it's been raised in the digital economy strategy. We have much less venture capital in this country for all kinds of things in IT writ large. You really need a system that's built on tax incentives and incentives for investment bankers to set up shop in this country and to put money into Canadian enterprises.

That's the end of the business we have to focus on, not the traditional tools we have within the broadcasting system, because you have to leave your entrepreneurs, your younger people who are actually creating things online, with the ability to grow. That's where things fall apart. They get to a certain scale and the only way they can grow bigger is to get financing from U.S. venture capital, and the ownership quickly disappears into a global economy and away from Canada.

Mr. Scott Armstrong: One of the reasons I'm focusing on this is that we're seeing great expansion in the gaming industry, for example, where there's a lot of innovation and entrepreneurship. Having a very diverse portfolio of abilities to support all of these different new ideas and the innovation of the younger generation is something I'm interested in pushing towards. In the short term, though, it doesn't help your problem.

Do you think the CRTC needs to expand its regulatory profile as we go through this period of vertical integration, to somehow stop these over-the-top people from coming in?

Mr. Michael Hennessy: It's a very interesting question.

You may notice for the first time that the industry as a whole has not said stop it, and let's put up walls. I say this because it's the Internet, and what you're actually seeing is a clash between the traditional broadcasting system and the Internet, which is based on principles of net neutrality and openness. To try to regulate the Internet or to block and attack content and the way consumers are accessing things I don't think can be done. I think the answer ultimately has to come from the ability of rights holders to be able to protect their rights and to monetize those rights. That's really a debate that's happening in another room.

But at the end of the day, the only way you can have a healthy system is if the people who own the rights are assured that those are protected throughout the system, or the system itself falls apart, because the over-the-top people today don't contribute to any part of the system that I'm aware of.

The Chair: Thank you very much, Mr. Armstrong.

[*Translation*]

We will stop there.

I want to thank our witnesses.

I also want to let everyone know that we will have two things on the agenda when we meet next.

[*English*]

Firstly, we have the deputy minister and other departmental officials in front of us to review the supplementary estimates (C); and secondly, we have two motions to consider, one from Madame Lavallée and the second one from Mr. Angus.

Thank you all for your participation.

This meeting is adjourned.

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