

"Pay Television Must Develop Canadian Production"

The Honourable Jeanne Sauv e,
Minister of Communications

First let me say that I am very pleased to be with you today. The last time I was in Toronto, I was able to visit the CN Tower and experienced a surprise that, I suppose, was predictable. From the top of the tower, I was able to see all of Toronto, down the Queen Elizabeth Highway to Hamilton, across Lake Ontario to St. Catharines and Niagara Falls, but in place of Buffalo was a large sign reading "Deleted by Toronto Cable Operators".

One of the very rewarding aspects of this new job of mine has been the challenge of becoming familiar again with the complexities of Canada's broadcasting system and in particular to learn more about the various components of the cable television industry. With familiarity have come both a great respect for the industry's growth in past years, and a recognition that the industry is a vital and essential element of Canada's broadcasting system. Any proposed changes or innovations in the cable industry are, therefore, of special concern to me and relate to one of my principal duties: ensuring that Canada has a strong broadcasting system, predominantly Canadian in content and character.

In April I had the opportunity to meet with the Canadian Association of Broadcasters. At that time I re-emphasized the importance I attach to the crucial problems confronting broadcasters in Canada - extension of service and distinctive Canadian programming. I hope today to address these problems once again, but from a different perspective - that of new services and developments, particularly the one commonly known as "pay television".

My responsibilities for the structural development of the Canadian broadcasting system have led me to follow very closely the major new developments in your industry. I have been most impressed by some of the innovative services that cable operators have been developing. These include a children's program channel; programs by and for the elderly; and multicultural programs. The new service which I have found most exciting, because of its potential to improve programming and real program choice, is pay television. I am firmly convinced that the introduction of this new service will be a watershed in the development of broadcasting, with major structural implications for the entire system.

Inevitable

The establishment of pay television service on a large scale is inevitable. But inevitability need not mean disruption of the system. On the contrary, we must take care that pay television is introduced in an orderly and controlled fashion. We must ensure that it brings maximum benefit on a national plane to all the groups interested in broadcasting - private and public broadcasters, cable operators, program producers, actors, writers, and most of all, the Canadian public. I would assume that, as in the United States, you the cable operators will want to play a major role in delivering this service to the home. But more on your role later.

In considering the introduction of any new service, we must examine its potential advantages and disadvantages. For example, could not pay television make a contribution to solving the most crucial problem in Canadian broadcasting, that is the underdeveloped state of the Canadian program production industry?

As you are undoubtedly aware, pay television will probably generate substantial revenues; our estimates of the potential revenues involve the following simple arithmetic: there are about 2,700,000 cable television subscribers in Canada. If only 15% of these subscribers elect to take pay television at \$8.00 per month - the average charge in the United States - gross revenues would amount to some 39 million dollars per year. You will recall that the CRTC and a representative group of cablecasters have suggested that 15% of gross pay TV revenues could be devoted to Canadian program production. On that basis, close to \$6 million would accrue per year.

In actual fact, pay television penetration rates of 35% are probably attainable, resulting in funds for programming of about \$13½ million annually. When one considers that the CTV network last year spent only about \$13 million on Canadian programs including news, sports series, and variety shows, it becomes obvious that pay television revenues could have an enormously positive impact on Canadian program production.

There are other possible advantages. Pay television could help create wider viewing opportunities for Canadian programs, especially feature films. Canadian-pro-

duced programming could be exported to United States pay television systems which are unquestionably looking for more material, and programs produced initially for pay television could subsequently be released on conventional over-the-air television. This would benefit non-pay television subscribers by increasing Canadian programming choices in the broadcasting system, especially in those remote and rural areas of Canada that may have lost, or have never had, a movie theatre.

The negative impact

The benefits of pay television can be great but its introduction could also have a negative impact. Concern about these negative aspects has led in the past to the conclusion that the introduction of pay TV was premature. Even now, there would be little reason to permit the introduction of pay TV if it were left to develop in the same manner as the motion picture industry in Canada. Foreign interests have acquired a virtual monopoly over exhibition and distribution, thus gaining control over the financial resources needed for production. Canadian producers still find it difficult to obtain exhibition opportunities in Canadian moviehouses. Pay television must not be allowed to follow this course.

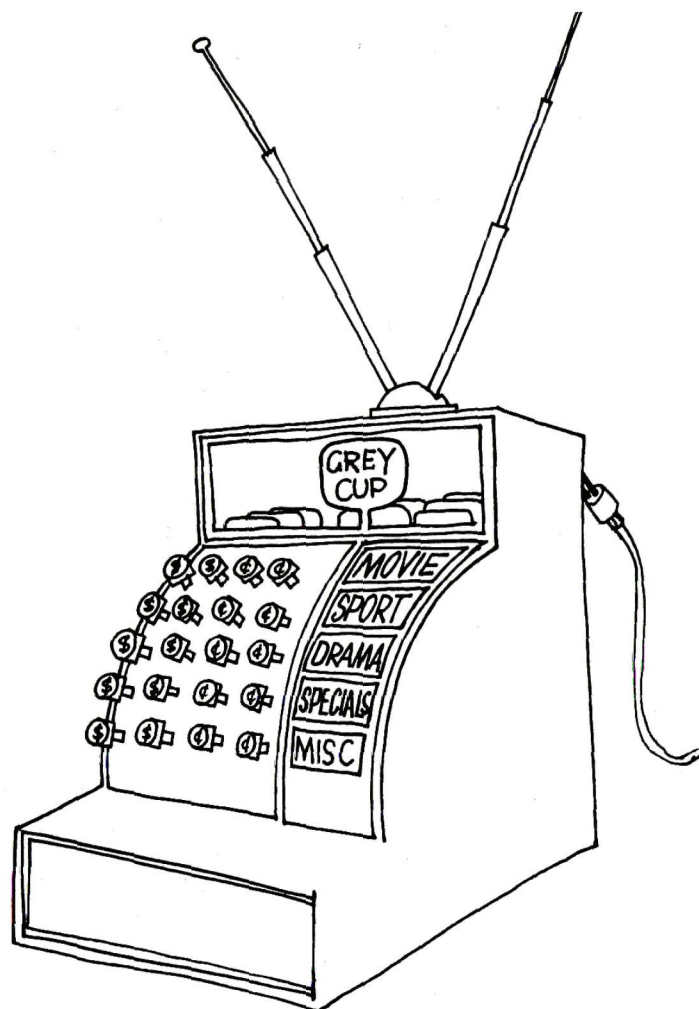
Pay television, if left uncontrolled, could damage conventional broadcasting in several ways. It could lead to siphoning – that is, the draining from conventional television of those programs which are most attractive for pay television service, such as feature motion pictures and sports. If such programming were offered on pay television, programs which the public normally sees without charge on off-air television might be siphoned away to a service which is only available to those able and willing to pay.

Another cause for concern is the threat of further fragmentation of the audience upon which the advertising revenues of Canadian broadcasting now depend. This threat may, in the long run, be serious. In the immediate future, however, pay TV will depend for its revenues largely on frequent presentations of a limited number of feature films. Useful data on the exact effect of fragmentation is difficult to obtain, since, at present, pay television penetration rates and the amount of viewing time per subscriber are not known.

The communications disparity between urban and rural areas is another problem that could be exacerbated by pay television when delivered by cable, since cable is primarily an urban service. The federal government must obviously try its best to work against this danger, perhaps by ensuring that in those areas where pay television is not available, pay TV programs are made available to off-air broadcasters after an appropriate time delay.

Another problem, which is one of my greatest fears about pay television, is that the pay TV operator, like the conventional broadcaster, will tend to cater to the lowest common denominator of the viewing audience. And like his American confrères, he will want to show U.S. feature films and sports events in order to increase his audience as much as possible. This situation would perhaps be more likely to arise in a system where the consumer is billed per channel; in a system of per-program billing, greater variety and even improved quality would be encouraged because programming could be geared to the tastes of minorities willing to pay.

It does appear that initially, the per-channel approach to pay TV will probably be necessary for the generation of sufficient revenues to make the system financially stable. However, a per-program system could perhaps spin off from the profits of the per-channel approach. In any case, the fundamental consideration is to encourage



development of a delivery system which provides new outlets for Canadian programs and wider viewer choice to the Canadian audience.

A major task

In order to accomplish this, a major task ahead will be to devise a structure that will maximize pay TV's potential benefits for our broadcasting system and for viewer choice. This structure will have to accomplish three objectives which are what I want to stress more than anything else I have to say today:

First: It must provide a range of programming which does not duplicate that now offered by broadcasters and must do so without siphoning programs from the broadcasting system. The continued federal regulation of the broadcasting system, including the regulation of pay television, is a crucial factor in the coherent and orderly provision of program services to the entire Canadian viewing public.

Second: It must ensure the production of high-quality Canadian programs that Canadians will watch.

Third: It must ensure that programs are produced in Canada for international sale.

Whatever pay television system is established, the structure must be designed to achieve these objectives – with which I am sure no one will disagree. In developing the system which would stand the highest probability of achieving the three goals I have outlined, it is probably best to separate delivery of signal to the home from the other two aspects of the process, namely program production and distribution or packaging. The first element of the system, delivery to the home, is relatively simple to handle. Because of the high level of penetration of CATV in Canada, coupled with off-air frequency short-

ages, we must concede the obvious advantages in delivery of pay TV by cable. However, even in Canada many people do not have cable, and the CRTC may decide that in certain circumstances other systems of delivery should merit consideration.

Two crucial questions

In any event, whatever the system of delivery to the home, two crucial questions remain – what are you going to deliver, and who will put it together? In looking at this problem we must again bear in mind the objectives for pay TV that I suggested a few moments ago, as well as the major participants in the broadcasting and production industry. It would seem to me that we have three basic options – first, individual licensees; second, a consortium which could involve various combinations of cable operators, broadcasters and representatives of the government; and third, a pay television network which could be either a public or private corporation.

The first option of individual licensees seems undesirable. The lack of a Canadian program distributor could force the licensees to deal with foreign distributors individually or in small groups. If so, the distribution function would once again fall into non-Canadian hands and it would be foreign organizations that would capture the major profits.

The second option is a consortium of cable and broadcasting operators. This structure would allow all affected parties to benefit financially and is worthy of careful examination. But it might also suffer the disadvantages of being subject to the vested interests of both participating parties. Another possibility would be to expand this consortium to add government participation to the configuration of cable companies and broadcasters.

The third option is the establishment of a pay television distributor or network, owned and operated independently from existing off-air broadcasters or cable interests. This could have the primary advantage of diminishing conflicts between the broadcasting and cable industries.

A pay television network of this kind could provide particular benefits for each component of the industry and could create a Canadian distributor of programs, an entity which does not now exist. Considering the weaknesses of the existing Canadian program production industry and the need for a strong presence to further the production, exhibition and promotion of Canadian programs, I think all of us must acknowledge that this is an important development of national significance. This kind of structure is therefore one which I find attractive and on which I would particularly welcome your views.

Private or public?

The government must also consider whether the network should be a private corporation with extensive monopoly powers, a public corporation or a mixed corporation, involving both private and public participation. The advantages and disadvantages of these options are fairly obvious, and on their own could be the subject of another speech.

No matter which option is chosen, the pay television network would act also as a distributor and would be responsible for the sale of Canadian programs to, and purchase of foreign programs from, non-Canadian program distributors. All licences for home delivery would be granted subject to the condition that programs be obtained from the network. Naturally, special arrangements would be developed for programs of strictly regional interest. And of course the distinctive nature of Canada as a country with two languages will influence any structure chosen.

Public hearing

I realize that this analysis is still incomplete and that I may have overlooked other options. As well, I may have underestimated certain costs and benefits of the various choices I have described. I depend upon your comments to further clarify the situation. As a result, and in order to encourage you and other interest groups to update the submissions you placed before the CRTC last June – and to comment on what I have said today – I have asked the CRTC to call for and receive submissions from the public until September first of this year on the structural development of pay TV.

Second, I am also writing to the provincial ministers responsible for communications to ask for their comments and views on how we can ensure that pay television contributes positively to the development of the Canadian broadcasting system. It is important for the federal government and the provinces to cooperate with a view to resolving the various problems which are bound to arise in connection with the establishment of pay television service, since its impact on Canadian viewer choice will be significant.

The introduction of pay TV represents a fundamental structural change to the Canadian broadcasting system. With this in mind, we will be analyzing your submissions and resolving outstanding questions relating to the structural development of pay television and its integration into the Canadian broadcasting system. I hope that this work can be completed as quickly as possible. Once we have completed this process, I would like to give you an early indication of government policy, after which the CRTC will establish regulatory guidelines and call for licence applications.

An important addition

In conclusion, pay TV is an important addition to the broadcasting system that will help to solve some of the problems that confront the Canadian broadcasting system and the production industry. It will not, by its simple existence, assure increased viewing choice for all Canadians. Nor is pay TV a dire threat to the Canadian broadcasting system. On introduction into Canada pay TV must, however, play its part to ensure the growth and development of the Canadian program production industry and the broadcasting system. That system is under great strain because of the demands placed upon it for extension of service, and underdeveloped in its capability for program production and as a creative outlet.

The introduction of pay TV into Canada must be used to develop a truly Canadian production industry. We cannot lose this opportunity by focussing on new hardware or structures in isolation. We must ensure that an integrated system is encouraged to develop. I therefore call upon you, the broadcasters and the producers, to participate actively with the government in order to ensure the best means of introducing pay television in Canada. □