

Then... Now

PRIVATE RADIO'S
CHANGING REALITIES

D'hier... à aujourd'hui

RADIOS PRIVÉES
PAYSAGE EN MUTATION

CRTC Review of the Commercial Radio Policy

CAB Presentation to the Public Hearing

May 15, 2006



Check against delivery

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[Glenn O'Farrell]

Good Morning, Mr. Chairman and members of the Commission. My name is Glenn O'Farrell, President and CEO of the Canadian Association of Broadcasters. The CAB is pleased to appear before you today to talk about the future of radio broadcasting and the regulatory conditions to ensure its continued vitality and significant role in local communities across Canada.

I have the privilege of appearing before you today with a group consisting of some of the most talented and capable radio executives and programmers in Canada. This group of radio broadcasters is representative of the women and men who work in the 600 and more private radio stations across the country - operating in small, mid-size and large markets - all of whom are dedicated and passionate about the work they do every day and the future of local private radio in Canada. On behalf of Canada's private radio broadcasters, we appreciate the opportunity to be the first to appear before you as you commence the important work of this proceeding.

CAB ORAL PRESENTATION

First, I would like to introduce the members of our panel:

In the first row from my left:

- **Rob Braide** – Chair, CAB Board of Directors, Vice-President & General Manager CJAD/Mix96/CHOM-FM (Standard Radio)
- **Rael Merson** – Chair, CAB Radio Board, President & CEO, Rogers Broadcasting Limited
- **Jacques Parisien** – Président du Comité de stratégie radio, marché francophone de l'ACR, et Président d'Astral Média Radio
- **Lilianne Randall** – Membre du comité des questions musicales de l'ACR et Directrice musicale, Réseau Rythme FM, Cogeco

In the second row, from the left:

- **Sarah Crawford** – Chair, CAB Diversity in Radio Working Group, and Vice-President Public Affairs, CHUM Limited
- **Elmer Hildebrand** – Radio Strategy Committee member and President & CEO Golden West Broadcasting
- **Mark Maheu** – Member of the CAB Radio Board and Executive Vice-President & COO, NewCap Radio
- **Pierre-Louis Smith** – Vice-President, Radio, CAB
- **Susan Wheeler** – Senior Director, Policy & Regulatory Affairs, CAB

CAB ORAL PRESENTATION

In the third row, we have our panel of experts

- **Ken Goldstein** – President, Communications Management Inc. is the CAB's Economic Trend Expert
- **Pat Grierson** – President, Canadian Broadcast Sales and an expert in Advertising Trends
- **Wayne Stacey** – President, Wayne Stacey & Associates Ltd., the CAB's Technical Advisor and a leading expert on digital radio

We will keep our opening remarks brief and focus on three areas of discussion:

- 1) The need to adopt the closed market regulatory model to an open market model;
- 2) The CAB's transitional regulatory proposals regarding music exhibition and Canadian Talent Development focused on emerging Canadian artists; and
- 3) The CAB's recommendation to measure the impact of its proposals and monitor the first phase of the transition.

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1. Closed to Open

First, we must preface our comments by suggesting that to move forward we need to share a common assumption: The radio market is now an open system.

The written brief we submitted on March 15th is entitled “Then... Now”. The title was inspired by a very clear sense of the starting point for this discussion. As is demonstrated in the slide, digital technology has changed everything: for content creators, distributors, consumers and regulators. There’s no turning back. And as a result, we no longer have a single and regulated system of radio services, delivered over the public airwaves and free of charge to Canadians.

Instead, we have both a regulated system developed over the past 80 years, and a largely unregulated, parallel system of new delivery options for audio content. The key point in all of this is that CRTC licensing and regulation no longer serve as the single and exclusive point of control of market entry for content providers seeking to offer service to Canadians in the audio space once occupied only by licensed radio services. That was “Then” and this is “Now”.

CAB ORAL PRESENTATION

So where do we go from here? The way forward is one that will require managing a transition – a transition to be largely defined by even more change than we have already seen. As a case in point, two years ago how many of us here today were users, or better yet, had even heard about the iPod? Yet within approximately 24 months, the iPod has become the dominant force in the consumer electronics audio space. Who among us here today can predict what will dominate that same consumer audio space 24 months from now? How will all the new digital technologies impact Canadian private radio? These are not easy questions. Yet, radio broadcasters represented by the CAB, while concerned by the transition challenges that lie ahead, are equally passionate about the future of private radio in Canada, and have demonstrated they are committed to making the necessary investments in technology, marketing and talent to keep re-inventing their businesses.

[Rael Merson]

The Commercial Private Radio data recently released by the CRTC covering 2001-2005, present an overall positive financial picture of private radio in Canada. In 2005, the private radio industry in Canada achieved healthy financial returns, reporting aggregate increased profitability for the sector. These are significant

CAB ORAL PRESENTATION

results that clearly strengthen the industry's financial position to absorb the economic impact of the unregulated content providers who are entering the market in growing numbers.

However, if you take a closer look and drill down into radio's revenue numbers, you will find that the industry, as a whole, is as the boxing expression goes, "punching above its weight". While the industry has seen year over year revenue increases, since 1998, audience numbers reveal a very disturbing and steady year over year decrease in tuning to radio across all demographic segments. The decrease in tuning is greatest in the youth market.

More recent tuning statistics indicate that the decline in radio usage is both entrenched and accelerating, as the slide demonstrates. The word of caution on point is that overall radio revenue and profitability appear untouched by tuning declines; revenues and profitability on a per station basis are now showing signs of decline.

CAB ORAL PRESENTATION

When taken in isolation, the situation in the French radio market may serve as an advance warning of what might happen across the radio sector as technologies multiply new unregulated audio content choices for the Canadian consumer.

[Jacques Parisien]

From this perspective, the experience of the French-language commercial radio sector could well prove to provide forewarning of the challenges that the radio industry as a whole will face as a result of the technology revolution.

PBIT for French-language stations can be explained in part by the fact that French-language stations operating in the Montreal and Ottawa/Gatineau bilingual markets must share their francophone listening audience with English-language stations.

Within these so-called bilingual markets, which are considered distinct for the purposes of musical content regulations, consumers may listen to radio in either official language.

In other words, the Montreal and Gatineau markets alone account for 50% of the Quebec population. By comparison, it's as if the radio stations of the 10 largest English-language communities in Canada, including for example Toronto,

CAB ORAL PRESENTATION

Vancouver, Calgary, Edmonton, and Winnipeg suddenly found themselves in the same situation as Windsor, where consumers may choose to listen to local stations or to unregulated Detroit stations at will.

In light of this reality, French-language commercial radio has opted increasingly often for strategies calling for the development of exclusive radio content. To ensure the success of this business-differentiation approach over the past few years, unlike its English-language counterparts, French-language commercial radio has had to spend a considerably larger portion of its revenue on programming.

The markedly lower profit margin of the French-language radio sector is characterized in large part by:

- loss of potential revenue from the non cash convertible transfer of a significant proportion of francophone listeners toward English-language music broadcasters; and

CAB ORAL PRESENTATION

- the need to invest greater sums in broadcasts featuring exclusive, predominantly verbal content to set themselves apart and better resist the attractiveness of English-language music stations to a francophone audience.

For the time being, this phenomenon is in large measure limited to the French-language sector of the radio industry. However, we should not be surprised if, as consumers embrace the technology revolution, profoundly altering listening habits, financial performance seen in the French-language sector extends to the Canadian commercial radio industry as a whole.

[Rob Braide]

The bottom line in all of this is that the going forward model for an open market system needs to be focused on a multiple phase transition. In what we consider to be the first phase, we propose to maintain the fundamental principle of regulation with only modest amendments.

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2. Transitional Regulatory Proposals for Music Exhibition and Canadian Talent

Development

Our second point for this morning's comments relates to complementary transitional regulatory proposals for music exhibition and Canadian talent development. In short, these proposals are designed to increase the exposure of emerging Canadian artists through a combination of incentive for airplay and directing radio's CTD contributions to marketing and promotion assistance.

Canadian private radio has a unique relationship with Canadian music in that it has the highest music exhibition quotas in the world, and is required by regulation – unlike any other jurisdiction – to directly subsidize the domestic music industry.

As you see, since 1998 private radio has committed over \$168 million to Canadian talent development initiatives of which 60% is directed towards national funding agencies in the French and English markets. Specifically, private radio's contribution to national funding agencies went from \$1.4M in 1998 to \$16.1M in 2005. This represents a staggering increase of 1170%.

CAB ORAL PRESENTATION

Put another way, if you combine the copyright payments mentioned earlier and CTD funding, private radio's contributions to the music industry went from \$24M in 1995 to more than \$85M in 2005.

It is clear that the Commission's 1998 policy yielded many positive results for both the radio and music industries including historic contributions to CTD.

The Commission's 1998 policy also called for the creation of a Canadian music marketing and promotion fund to support co-operative activities by broadcasters and the music industry in marketing and promoting Canadian music which by all accounts has produced tremendous success. There is no doubt that in a very short period of time, both the Radio Starmaker Fund and Fond Radiostar have had a significant impact on the careers of Canadian artists. These commercial funds have cemented a place in the larger funding environment by providing touring and marketing assistance of critical importance at key stages in artist development.

However, the Commission's decision in 1998 to increase Canadian content levels from 30 to 35% and require 55% of French Vocal music in day parts may not have produced some of the desired outcomes. For instance, we did not see any marked

CAB ORAL PRESENTATION

increase in Canadian music sales, which have remained stable at 16% since 1998, and that's unfortunate.

Radio's ability to respond to listeners' demands has never been more important given its new reality of unprecedented competition from a variety of audio content platforms. The CAB's bonus system is aimed at increasing the exposure of emerging Canadian artists who, according to the Commission's analysis, do not materially benefit under a traditional quota system.

We propose to do this by providing programmers with an incentive to play new and unfamiliar tracks by emerging artists, both in day and evening parts, which we believe will significantly increase the exposure of these artists to a greater number of listeners. Unlike the quota system, programmers will be engaged in actively seeking out and fostering new talent in a manner that responds to the demands of their listeners and is conducive to their market and the supply of Canadian music available for their format.

CAB ORAL PRESENTATION

[Lilianne Randall]

French-language Music

In this period of transition what is needed to achieve the Commission's policy objectives is more *effective* regulation.

Our proposal for Canadian content and French Vocal music reflects first and foremost radio's commitment to maintaining exhibition quotas at current levels while also recognizing the reality that we are in direct competition with a number of other audio platforms that have no such requirements.

In this context, we have to take into account the increased freedom of choice for consumers.

Over the years, French language private radio has greatly increased Quebec and Canadian music on air. Today, Quebec music represents over 80% of French language music broadcast on private French-language radio and almost all new releases (95%) broadcast.

CAB ORAL PRESENTATION

However, Quebec consumers also tell us that when given the choice of listening to either French-language or English-language music, they clearly prefer listening to English-language rather than French-language music. This was confirmed by a survey conducted in July 2005 by Decima for Canadian Heritage.

Results of Decima survey showed that 36% chose French-language music, 45% English-language music, 13% instrumental and only 7% chose music in foreign language.

In essence, French-vocal music requirements are basically double the level of interest of Quebec consumer for French-language music.

In this context, the CAB's proposed bonus system is aimed at increasing the level of airplay for emerging Canadian artists by offering programmers an incentive to offset the risks involved in playing unfamiliar or untested music.

In the French-language market, the bonus system would:

- Place more importance on new music from emerging artists;

CAB ORAL PRESENTATION

- Allow French-language radio stations to be able to set themselves apart from others in terms of musical content; and
- Enable French-language radio to better resist competition from English-language radio stations and alternative platforms.

[Rob Braide]

In the English market the CAB believes this incentive system will encourage music programmers to:

- Take risks by playing more emerging artists;
- Move off gold or recurrent tracks sooner thereby reducing artist burn; and
- Increase the effectiveness of exhibition quotas by focusing on quality – who is getting played - over quantity.

Preliminary testing done by select stations of various formats in different markets indicate that a modest application of the bonus system, adding one single every other hour between 6am and 6pm, would result in approximately 6 more spins a day for emerging artists or an additional 30 spins a week.

CAB ORAL PRESENTATION

We believe radio can maximize the impact of its exhibition quotas and CTD requirements by providing increased exposure to emerging artists on air while at the same time focusing funding on marketing and touring initiatives that assist artists in promoting their first or second albums.

For these reasons we've proposed consolidating radio's CTD funding into commercial funds aimed exclusively at marketing, touring and promotion activities which have proven to be of direct benefit to Canadian artists in establishing and furthering their careers.

It is our hope that when harmonized, radio's commitment to Canadian content, French Vocal music and CTD will foster more music that responds to listener demands and allows radio to leverage its promotional strength in support of Canadian artists.

That leads us to the third point of our presentation; a recommendation to measure the impact of our proposals and monitor the transition to an open market.

CAB ORAL PRESENTATION

[Rael Merson]

3. Measure the Impact of Our Proposals and Monitor Transition to Open Market

Given the rapid pace of change in the audio landscape, the CAB believes it makes more sense to review policies of this significance in cycles that are shorter than seven years. We also believe it no longer makes sense for this responsibility to fall exclusively on the regulator.

As a first step, the CAB commits to filing a report three years from today, May 15th 2009, that measures the impact of its proposals on 1) increasing the amount of airplay dedicated to emerging artists and 2) the effectiveness of its funding in supporting Canadian talent development.

Why three years? We believe that at that time programmers will have had enough experience with the bonus system to consider and evaluate its application in the French and English markets and suggest changes that might be required to increase its effectiveness and impact on emerging Canadian artists.

CAB ORAL PRESENTATION

We believe a report of this nature will also provide an opportunity for all interested stakeholders – CRTC, Canadian Heritage, SODEC, and the music industry – to engage in an open dialogue on the level and effectiveness of radio's CTD commitments. This discussion will be of critical importance since radio and other interested parties will have the benefit of certain facts that at this time can only be left to conjecture including:

- The total level of CTD funding from additional sources including contributions from subscription radio services, new licences, transactional benefits, and federal and provincial funding;
- The health of commercial radio sector; and
- The impact of changes to funding structures resulting from introduction of new programs like the MEC.

Armed with this information, private radio will be in a better position to consider its future commitments to Canadian talent development based on its evaluation of the effectiveness of its funding to date, the demonstrable demand for music initiatives and ensuring its competitive equity with the unregulated sector.

CAB ORAL PRESENTATION

We also note that in order for radio to properly evaluate the effectiveness its CTD funding, it is absolutely imperative that all funding mechanisms provide publicly available, detailed and accurate information on a per project basis that ensures maximum transparency and accountability.

We strongly believe that our proposed reporting exercise would be a positive step to ensuring regulation keeps pace with changing market realities and is consistent with the Commission's intention to regularly monitor and review its policies as provided for in its 3 year work plan under "compliance, research and monitoring".

[Glenn O'Farrell]

Conclusion

There is no doubt that private radio has a good story. However, over the course of its 80 year history, radio has faced many challenges, through both boom and bust economic cycles. In fact, at various times, radio has been written off as an obvious casualty of changing circumstances in the media landscape. Meanwhile, the regulated environment of radio has prospered at certain times and not at others. That was "Then". We respectfully suggest the fundamental difference we "Now" must recognize is that the cornerstone assumption of the environment that brought

CAB ORAL PRESENTATION

us this far – controlled market entry – will no longer regulate the audio services space as it has for all these years. And that changes everything.

However, we cannot state with unassailable certainty how quickly the landscape will change in reflecting the reality of an open market as opposed to a controlled market. What is certain is that it will change, profoundly, and the evidence of impact is mounting, rapidly.

Our position before you today can perhaps be summarized as follows: A financially healthy radio industry, supported by good public policy since the last radio review, is positioned to face these new challenges and continue to serve the cultural and social policy objectives this Commission is entrusted to uphold. We have not proposed wholesale change to radio regulation.

We have instead submitted proposals to maintain the principles of Canadian music exhibition requirements and Canadian Talent Development contributions, in addition to reconfirming the radio sector's commitment to the broad regulatory contract with government, notwithstanding the technological undoing of its cornerstone assumption - controlled market entry. And given the changing

May 15th, 2006

CAB ORAL PRESENTATION

circumstances in the environment, we propose to assess and monitor the impact of our proposals in three years from today, against the backdrop of hopefully, a clearer understanding of the appropriate regulatory directions for private radio.

Mr. Chairman and members of the Commission, this completes our presentation and we welcome your questions.