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From: THE PRIVATE SECRETARY

CC/BG (letter only).

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SWIH 9AT

8 December 1987

This "record" is short though & contradiction not

Prime Minister 4
Paragraphs 3-15 and paragraph 32 are worth a glance. You might also like to look at Mr Renton's covering minute.
DRN 11/12

Dear Dennis,

THE BROADCASTING SCENE IN ~~THE~~ USA AND CANADA

Mr Renton visited the United States and Canada in October to get an impression at first hand of the broadcasting scene there and to establish if there were any lessons we could learn. The visit was very useful.

The Home Secretary believes that Lord Young and other members of MISC 128 might be interested to see the enclosed record of the visit. In thinking about the lessons for us it is important to bear in mind the major differences - in geography, regulation, market size and public attitudes - between the television system here and those on the other side of the Atlantic. To take an obvious example, the conditions which favoured the rapid growth of cable in the USA and Canada may not be present to the same extent here. The Home Secretary would therefore want to stress the need for caution in making comparisons.

I am copying this letter and its enclosures to the Private Secretaries to ~~the~~ other members of MISC 128 and to Sir Robert Armstrong.

A copy also goes to Richard Culshaw at the Foreign and Commonwealth Office, who may wish to send it, with the Home Secretary's and Mr Renton's thanks for the organisation of the visit, to the Posts concerned.

Yours ever,

Colin

C R MILLER

Dr T Walker

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I have reordered

cc: Mr Patten
Lord Caithness
Mr Hogg
Mr Hyde
Mr Thomas
Mr Grant
Mr Wright

Secretary of State

VISIT TO NORTH AMERICA

1. I spent four days last week in the USA and Canada accompanied by Eliot Grant and David Ackland, visiting some of the Federal and State bodies involved with broadcasting and a number of TV, radio and cable stations. I am very grateful to our Ambassador in Washington, our Deputy High Commissioner in Ottawa and our Consuls-General in New York and Toronto for their hospitality and for organising our programmes.

2. I enclose a comprehensive note from Eliot Grant summarising our main impressions and conclusions. I add a few personal thoughts that are relevant to the future in the UK.

A. It would be a tragedy if we - Government, broadcasting industry and consumer - spend a great deal of time, effort and money over the coming years just to end up with a system that offers only such a wide choice of banalities as the USA. The American public regard their broadcasting system as, by and large, as interesting as the wallpaper: part of the furniture and fittings, and generally only commented on when it needs fixing.

I agree with this! PBS in the US is not satisfactory.

B. An exception to this is the Public Broadcasting System, but this only receives $200 million per annum of Federal support. A band of enthusiasts woos State Governments, companies and individuals for more money. This cannot be an example for us to follow.

C. Canada and the USA have made their technological choice for the next ten years. 60% of Canadian and 50% of US homes are cabled, and they will be ~~progressively offered more free and pay-channels.~~ I cannot see us following the same route, primarily because dishes are just over the horizon and because of the high cost of cabling in the United Kingdom. However, as paragraph 20 of the note points out, in North America, as here, the major challenge will eventually come from the telephone companies wishing to carry video and audio down fibre optic line, as well as interactive data and information.

D. The Canadian example of financial bonds (paragraph 30) and of public hearings before the granting or removal of licences (paragraph 31) is worth studying in greater depth. I understand that the IBA went through some public hearings before the last franchise-round and did not find them productive. But the Canadian public appear to welcome the opportunity to make their views known about their local station: licences of four radio stations were not renewed in the last two years, and the Canadian Radio and Television Commission - the regulatory body - is developing a stick-and-carrot approach to all franchise-holders, including the CBC.

2. Some North Americans regard United Kingdom television as boring because we have only four channels; others think of it as an exemplar they wish they had followed more closely. There must be some sort of lesson in this for us!

Tim Renton

(TIM RENTON)

26 October 1987

VISIT TO USA AND CANADA: MAIN IMPRESSIONS AND CONCLUSIONS

Multiplicity of choice

1. The transatlantic viewer has a huge choice of channels. The average US household without cable has access to 8 channels. The average US household with cable has access to 35, watches half an hour a day more television and is more likely to have a VCR. Although most people only make use of 6 or 7 channels, of course not everyone's preferences wholly overlap; and it is clear that the more television is available the more it is used.

2. The growth in choice has been relatively recent. In the USA there have been 250 new off-air stations since 1980, and over this period the number of cable subscribers has increased from 15m to 43m (nearly 50% penetration of TV households. The penetration in Canada is still higher).

3. Although the choice of channels is very great, the variety of programmes is not. The staple fare comprises - as it always has - entertainment, news and sport. Most of the new channels simply recycle old material (cinema films and television programmes). The size of the domestic market is large enough to support such channels where the programming is cheap (old network programmes) or where a high premium can be charged (new cinema films on pay cable). There does not appear to be much of a market for more demanding and expensive new material.

4. In general there is not enough product to satisfy the technical capacity of the system. This is partly because the costs of programme production are so high (despite the dominance of the independent sector) and partly because, in an already fragmented audience, everyone is trying to hold on to audience share through programmes of mass appeal.

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5. Peacock saw the way through this problem as pay-per-view. But in the USA this has worked only in the case of exceptional sporting events, in the face of consumer resistance. In Canada it is prohibited, though some cable operators see real growth potential.

6. It is easy to see why Peacock was not impressed by the results of commercial laissez-faire in the USA. There are one or two pay cable channels with aspirations to quality programming in specialised areas (mostly imported). But the overall picture is one of bland entertainment dependent on and spoiled by intrusive advertising.

Can you spoil 'bland' entertainment.

Programme standards

7. Much of the development in the USA is explainable in terms of the First Amendment to the Constitution (endorsed by Peacock): freedom of expression implies the maximum multiplication of outlets and the minimum interference in what they can show. But there is a high degree of self-regulation in the portrayal of sex. This is the one area in which the law does give the Federal Communications Commission (the regulatory body) a lever, and in which that lever does not need to be used. Broadcasters are highly sensitive to complaints from audiences and the readiness of advertisers to pull out from programmes with which they do not want to be associated. We are regarded as too permissive; Brideshead Revisited had to be cut to be acceptable in the USA. There is obviously more doubtful material on cable, but not to an extent making this a major public issue.

8. Violence is not seen as a matter of concern. In general the attitude in the USA, coloured by the First Amendment background, is one of relaxation on sex and violence.

9. In Canada too there is an expectation of self-regulation which is largely fulfilled. The broadcasters have been drawing up codes of practice which will be discussed in public hearings, and may then be incorporated in their licence conditions. Because the portrayal of sex is so restrained the Canadians took our questions about the regulation of sex to refer to sexual stereotyping, which is a live issue and which the broadcasters are required to eschew in their programming.

10. Because the Canadian broadcasting scene is overwhelmingly dependent on the USA for product (despite decades of effort to support indigenous production) there is no serious attempt to do more than express some concern about violence in US programmes.

Public service broadcasting

11. We were warned against using either the USA or Canada as a model for the provision of public service broadcasting. In the USA public service broadcasting is confined to TV and radio stations dependent on government support. There is Federal funding of over $200m a year, distributed to local stations on the basis of $1 for each $2 raised from other sources. In spite of the Administration's cut-back on public expenditure and hostility to subsidy, there is support in Congress for public broadcasting and the budget looks secure for the next two years. But stations are heavily dependent on State government support. And although there is excellent support in the form of voluntary contributions from viewers (about 4m subscribers across the USA) station managers cannot afford much original programming; constantly have to make programming compromises to prevent audience levels falling too low; and spend most of the time on fund-raising rather than on broadcasting.

12. In Canada the national broadcasting corporation (CBC) is funded 80% by government grant and 20% by advertising. The grant

is not keeping pace with inflation; and CBC is now up to 11 minutes of advertising an hour at peak times. It has to broadcast US programmes to maintain audience share (now 22%) to justify its grant; but the government is questioning this in view of the wide availability of other outlets, especially cable. In the long term, given the costs of terrestrial transmission, CBC may become simply a programme-provider.

13. It suits commercial broadcasters to have a separate public service operation: this relieves them of any obligation to provide more demanding programmes.

14. It is of interest that in both the USA and Canada there are requirements on cable operators to provide access for community groups. At the main cable station in Ottawa we saw a well-equipped studio provided - free of charge - to any bona fide users. At the time of our visit there was an Arabic transmission for the local Lebanese community. Everything is left to the good sense of those concerned to avoid abuse.

15. In other respects public service broadcasting remains an off-air phenomenon.

Cable

16. Cable has fully established itself in the USA and Canada. Its success is attributed to circumstances which do not exist here:

a) in the USA cable originally provided a means of getting good quality reception away from the city centres - the last places to be cabled;

b) in Canada cable took off as a means of relaying [illegible] off-air broadcasts with good picture quality;

c) cable was cheap to install, and could be hung on poles. The cost of hooking up a subscriber is 10% of that here. In Canada it is economic to operate systems of 75 subscribers;

d) broadcast television was dependent on intrusive advertising.

17. In the USA cable came through, for these reasons, despite all efforts by the FCC (prompted by the broadcasting lobby) to kill it, and despite price regulation until earlier this year.

18. Canadian cable operators have looked many times at the prospects here, but have always backed off because of the cost.

19. The strategy of cable operators, having achieved high levels of penetration, is now to expand by providing more pay services. This market is, however, rather flat, and some programme providers are in difficulties.

20. Cable is used in the USA and Canada wholly for the delivery of entertainment services. There is no interest in interactivity except in the entertainment context. There is general satisfaction with co-axial tree-and-branch systems, and scepticism about fibre-optic cable. Cable operators believe that high-definition television can successfully be provided on co-axial cable. Fibre-optic is seen as the Trojan Horse of the telephone companies; and it is recognised that in due course there will be a momentous political battle about whether the telephone companies should be allowed to carry television.

Independent producers

21. In the USA the bulk of entertainment programming has always been made by independent producers: the networks historically

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concentrated on news and sport as in-house activities. To that extent the "consent decrees" (held up as a model by IPPA and restricting the amount of in-house production) took away an under-used right. Even now the networks make less than the consent decrees permit.

22. The broadcasters are nevertheless very unhappy about the production process. Production is concentrated in major West Coast studios and their offshoots. The broadcasters are tied to them because they offer star names. The broadcasters need star names to compete for audience. The costs are enormous, but the broadcasters cannot afford not to pay them (in fact they pay less than the full cost, because the programmes earn the true profit on the post-network syndication and export market). The networks have tried to stimulate smaller-scale independent competitors, so far without success.

23. Canada has a policy of encouraging independent production, principally in the interests of maintaining an indigenous film industry. There are a good number of small independent producers. CBC has nearly reached its target of contracting out 50% of original entertainment programmes (although on average it pays only 20% of the cost of a programme. The rest comes from commercial sponsors and the equivalent of the British Film Finance Corporation, funded by an 8% impost on cable operators). The financing arrangements are a source of difficulty, but in general the policy is regarded as desirable and worthwhile - even though only 3% of all entertainment programmes shown on Canadian TV are made in Canada.

Radio

24. In both the USA and Canada there are a very large number of small, independent stations. Most try to carve out a narrow market niche. The result is a diversity of choice which does not

exist to the same extent in TV. Most stations serve very small areas (a population of 5,000 gives a viable audience) are cheap to run, cheap to advertise on and yet in total amount to a major industry. In the USA 1,000 stations a year change hands for a total of $3bn.

MMDS and satellite

25. Cable is now too well- entrenched for MMDS to make much headway. There are some operators who believe that it could be attractive to viewers who only want premium pay services, and could deliver them more cheaply. But the operators are finding it hard to get products, and are litigating over cable operators' ultimatum to programme providers: supply us or them but not both. It is of note that the FCC effectively blocked MMDS during the growth of cable.

26. Satellites are extensively used for relaying programmes to cable operators, but there is only a tiny market for services aimed direct at the home. There are 1.8m home dishes, put up by people aiming to intercept, free of charge, programmes delivered to cable operators. These were then scrambled to block up this revenue leakage, and only a quarter of dish-owners have descramblers.

27. It is thought that the future for satellite and MMDS services lies principally in far-flung areas which are unlikely to be worthwhile cabling.

Licensing

28. In both the USA and Canada in effect TV and radio stations which have acquired a licence can keep it. There are provisions for stations to be de-licensed on proof of non-performance but they are a dead letter in the USA and used sparingly in Canada

(and then in the case of radio rather than TV). The result is that there is an active market in stations.

29. The Canadians are nevertheless anxious to improve the scrutiny and enforcement of performance, and in particular performance of promises to deliver indigenous programming. Licence renewals (there is not enough spectrum left for new licences) involve public hearings in which the broadcasters are put under the spotlight. This also provides an opportunity for the public to put complaints direct. The renewal of licences for only short periods is now being contemplated as a stick and carrot.

30. The Canadian government is thinking about requiring TV operators to deposit a financial bond at the beginning of a new licence period. This would be forfeited if indigenous programmes were not made. Stations could earn the bond back by producing such programmes. The regulatory authority would assess their performance on a points scale, with eg drama earning more points than quiz shows.

31. The Canadian concept of public involvement through a system of hearings has some appeal, although it would not fit easily with the idea of awarding contracts through competitive tender. It is nevertheless an alternative way of securing our aim of making the whole process more transparent and of emphasising consumer sovereignty. If we pursue the approach of competitive tendering there may be scope for adapting the bond idea to reinforce the yellow and red cards which the IBA would show to unsatisfactory contractors.

<u>General</u>

32. The US and Canadian broadcasting systems are very different from our own. The networks are different; the economics are

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different (the US home market is so large that it can support a fragmented audience); the system of regulation is different; the position of cable is hugely different; and the preoccupations are different. As we enter an era of greater consumer choice and seek to promote competition, perhaps the most important lesson that we can learn from the USA and Canada is that we shall need to take very great care that our own public service broadcasting, whose strengths Peacock praised, is not emasculated into a fringe activity supported by an unstable combination of public funds and voluntary donations. Even in a society as heavily cabled as Canada, public service broadcasting has not yet made a successful transition to subscription financing.

??!

E A GRANT
23 October 1987

T2 Division

<ak>nt/visit/n/am/23/10

USA

Commercial broadcast television

1. The basic television system in the USA is provided off-air (on VHF and UHF) by three major networks (CBS, NBC and ABC - supplemented since April by Rupert Murdoch's Fox Broadcasting network) and an array of local independent stations, all financed by advertising for which there is ruthless competition. The result is programme schedules which are dominated by the need to attract mass audiences. Formats dominate. But the system is localised and historically signals were provided only where there was a viable market.

2. The networks traditionally dominated the system. In the late 1970s they had between them over 90% audience share. This is now down to 70% and falling. There are 637 network affiliates (getting over 60% of their programming from the network feed). The network pays the affiliate for time cleared for transmission of network programmes. These incorporate national advertising the revenue from which accrues to the network. The affiliate sells other airtime direct. There are complex FCC rules governing the relationship between networks and affiliates (eg regulation of conditions of payment and limits on the length of affiliation contracts) all of which have been subject to increasing criticism over recent years, though the FCC has no immediate plans to change them.

3. There are in addition 278 independent stations. A handful of these are "superstations": local stations trying to produce attractive programme schedules which can be distributed to cable operators nationwide as they stand. But most independent stations do little more than recycle old network programmes for which there is a continuing appetite.

4. This year total broadcast television advertising revenue will be $23 billion. There is a trend of healthy growth. The size of this domestic market permits the operation of stations each with an audience share which would be insufficient to sustain a UK broadcaster.

5. There is a brisk trade in television stations, especially independent stations. For all practical purposes the only way to gain access to the television market is to take over an existing station.

Programme production

6. There is a clear division between the functions of programme production and distribution. Historically many programmes were supplied to the network ready-made, by corporate sponsors; and much television production has always been a branch of the film industry. The networks produce essentially only news and sports programmes. The FCC promoted action through the courts to restrict the networks to these areas, to prevent the exploitation of their market power in the interests of competition which the FCC is bound by law to promote. This process culminated in the "consent decrees" which UK independent producers have held as a model.

7. Most production is still done by companies in Hollywood, in spin-offs from the film industry. The networks finance this production but pay the studios typically two-thirds of the total cost. The studios retain foreign and domestic syndication rights (there is an FCC rule prohibiting the networks from buying them) and that is where the real profit is ($1bn a year foreign turnover) as long as the programme stays alive on the network long enough to accumulate enough episodes to be saleable in the off network syndication market. The tension between the economic interests of the networks and the studios has been the subject of

a long running regulatory drama in Washington. The consent decrees start to lose force after 1990, and the FCC has no plans to seek to prevent the networks from entering or re-entering the production business.

Cable television

8. Cable television began in 1949 as a way of delivering programmes to rural areas not reached by off-air signals. Cable now passes 80% of TV homes, and is taken by 48%. There are 7500 cable systems, and a number of cable networks. Cable franchises are awarded by local authorities, although the operation of cable is subject to FCC jurisdiction.

9. The typical cable viewer gets a basic tier of channels for a monthly subscription of $12-$15, and access to pay channels by additional subscription of about $10 each.

10. Much of the rapid growth of cable (taken by only 20% of US homes in 1980) is due to the deregulation of cable in recent years; the introduction of low-power satellites enabling cable systems to receive programmes supplied from afar; and of course the local natural monopolies enjoyed by cable operators.

11. The steady growth in pay cable flattened off last year. This may be something to do with the rising popularity of VCRs.

12. Although many cable systems are now scrambled (a response to the surge in home satellite dishes which enabled people to get cable services free) there is very little pay-per-view (ie pay-per-programme). $27m a year is raised this way. The major obstacle is cost (additional equipment and more complicated billing).

13. SMATV (private cable) operators deliver multichannel services to apartment buildings and hotels from big roof dishes. They compete effectively with cable because the wiring is done when the building is put up. There are 0.5m subscribers, paying £56m a year.

Satellite services

14. An attempt was made to mount a DBS service a couple of years ago. It was a costly flop (because of the high penetration of cable). But new applicants are coming forward, spurred by a recent FCC decision to allow data services on DBS.

15. There are, however, an estimated 1.7m home satellite dishes in the US. Most belong to people in rural and suburban areas who simply bought them in order to get free access to the programme services being relayed by low-powered satellite from programme providers to cable operators. Because this was fast becoming a major problem for cable operators scrambling was introduced, and dish owners invited to subscribe via decoders for the services they were previously getting free. There are 3 pay services marketed to dish owners. Subscribers are charged £66 deposit for the decoder, £40 access fee and up to £4 a film.

MMDS

16. Until now the FCC allowed only single channel microwave services which were subject to a number of regulatory constraints. They have failed. In 1982 there were 99 systems serving 0.5m subscribers; now there are only 0.2m. The FCC has now agreed to license multi-channel services under a freer regime. But there are considerable doubts about whether cable is not already too entrenched to be displaced by MMDS (which has also experienced problems in obtaining product).

Commercial radio

17. There are about 5,000 commercial radio stations (and the same number again of education, college campus and other very local services). 75% of the audience listens on VHF. Typically stations have narrowly-focussed programming formats. There are only three networks of any significance.

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Public broadcasting

In 1967 there was Federal legislation to provide funds to upgrade a series of local educational stations into a network. The requirement was to promote programming of a "cultural, informational and educational nature". Funding (now about $214m a year) is channelled through the Corporation for Public Broadcasting, which is supposed to insulate public broadcasting from political influence. There are 322 television stations (grouped together as the Public Broadcasting System (PBS)) and 295 radio stations (grouped as National Public Radio (NPR)).

2. The PBS stations are poorly funded in comparison with the commercial networks. Only five of the PBS stations go in for any substantial programme-making, apart from low-cost local educational output. None makes any drama or light entertainment. Everything carried by PBS in those categories is purchased - much of it from the UK.

3. Overall, the PBS stations average 17% of their revenue from Federal funds (through CPB), 27% from State and local governments (some of the highest contributions being in Southern States where education needs extra support), 20% from voluntary subscription by individuals, 14% from business sponsorship, 10% from universities and the remainder from other sources. Stations are not allowed to advertise, but can carry sponsored programmes.

4. PBS has at best a 5% share of total viewing, although about 75% of the TV audience tune in at least once a month. Its existence excuses the networks from any need to concern themselves with minority programmes.

Regulation

5. Broadcasting is regulated by the Federal Communications Commission (FCC). The FCC was established under the 1934 Communication Act to regulate "interstate and foreign commerce by wire or radio". Its remit therefore covers telephone and all other forms of non-broadcast telecommunications. It regulates broadcasting in 3 ways: by allocating frequencies for broadcasting use; by assigning broadcasting frequencies to individual stations; and by licensing stations and supervising their compliance with licence conditions. It also has certain regulatory responsibilities in respect of cable, although individual cable franchises are awarded by local authorities.

6. The 1934 Act incorporates a strong competitive presumption: organisations are debarred from owning or acquiring any station "if the purpose is and/or the effect thereof may be to substantially lessen competition or to restrain commerce". The FCC therefore has rules on maximum station ownership (currently 12) and has in the past promulgated a very extensive and complex set of restrictions of various kinds concerning the structure of the industry. Some restrictions were devised to protect both programme suppliers and individual television stations from the exercise of market power by the networks. The FCC therefore took the lead both in requiring the networks to contract out most programme production, and set restrictions on the ability of the networks to own television stations, tie affiliates to exclusive contracts, regulate terms on which networks pay affiliates to broadcast network programmes etc. Other sorts of FCC intervention were prompted precisely by a wish to protect the networks against new competition, especially cable. In 1966 an extensive and complex set of rules was introduced intended to limit the ability of cable operators to import distant signals in the major markets and restricting cable's ability to carry pay TV channels etc. A little later MMDS was weighed down with rules in order to prevent it from making headway.

7. Over the years these various rules have been cut down, partly by court decisions to the effect that the FCC had exceeded its powers, partly by the recognition that the FCC's efforts had not been particularly effective in achieving their objectives, and most recently by a conscious change of policy direction under the Reagan administration to deregulate broadcasting. This drive was spearheaded by the previous Chairman of the FCC, Mark Fowler, who once famously described television as simply a toaster with pictures.

8. The FCC has in the past also attempted in various ways to regulate programme content. There is a basic prohibition in the 1934 Act on obscene, indecent or profane material. Although the FCC has never tried to restrict or censor other kinds of material, it did over past years evolve various kinds of additional rules, including eg limits on the time permitted for advertising; requirements on the inclusion in programme schedules of minimum percentages of news and current affairs; and the "prime time access rule" (which requires the 30 most successful network affiliates to provide at least one hour of non-network programming in prime time). Many of these rules (but not the prime time access rule) have been abandoned in the past few years, in the same way as those going to the structure of the industry. The FCC has most recently renounced, as unconstitutional, the "fairness doctrine" (which requires broadcasters "to afford reasonable opportunity for the discussion of conflicting views"). This renunciation has excited substantial opposition in Congress, in which there is a strong body of opinion that the FCC's withdrawal from regulation has gone too far.

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CANADA

The public sector

The Canadian equivalent of the BBC is the CBC, established in 1936. It has two television networks, one English, one French, and two radio networks (ditto). About 30% of the CBC television audience is delivered by private television stations affiliated to the network on the same kind of commercial basis as in the USA.

2. The CBC total budget is $1.1bn. About 80% is contributed by the Federal Government. CBC is responsible for raising the balance principally by the sale of advertising time. The balance between the two sources of funding has been an obvious source of difficulty over the years. There have been complaints that reliance on advertising is affecting CBC programming (a relatively recent example was the cutting of "Jewel in the Crown" in order to provide more advertising slots).

3. CBC also provides a service, provided free to all cable systems, dedicated to the broadcasting of Parliamentary business.

4. In addition to CBC services, there are various provincial broadcasting services provided and financed by the provincial Governments. These are supposed to be restricted to educational cultural and regional programmes. But, particularly in Quebec, there have been attempts to interpret this role very broadly.

Private sector

5. There are two commercial television networks, one in English, one in French. The English network CTV has 29 affiliates, the French 10. There are in addition 10 wholly independent local stations, all broadcasting in English. There are also 32 stations affiliated to CBC which take the balance of their programming from

the private sector. The total revenues of commercial stations totals about $900m a year.

6. The great bulk of programmes are bought in. The networks essentially produce themselves quiz, game and talk programmes, together with sports coverage.

7. There are approaching 500 commercial radio stations, most targetted on particular audiences in the same way as in the USA.

Cable

8. Canada is the second most heavily cabled country in the world after Belgium. 67% of all households subscribe (there is an average fee of $10 a month). Industry turnover is £763m a year from basic services (yielding a pretax profit of $71m) and $170m from pay services.

Canadian programming

9. The main preoccupation of Government policy over many years has been to encourage the provision of indigenous programming. At present between half and three-quarters of programmes broadcast are brought in, the lower end of the range in the public sector and the higher in the private. In order to promote indigenous programming the Government set up in 1983 a broadcasting fund regionally administered by Telefilm Canada (the equivalent of the British Film Finance Corporation). The Government committed up to $80m a year to the fund, with the expectation that it would be matched by $160m from the CBC and the private sector. The future of the fund (which commissions about 500 hours a year of independent production) is now under debate.

<ak>nt/Canada/23/11

ANNEX

FEDERAL COMMUNICATIONS COMMISSION

Background

1. The FCC regulates broadcast and telecommunications services and manages the radio spectrum.

Discussion

2. The FCC confirmed to us that it no longer saw itself as needing to do much to intervene in the way in which broadcasting was carried out. This reflected its view that the need for regulation withered as the number of broadcasting outlets proliferated.

3. The FCC was not troubled by the portrayal of sex or violence on television. It had not exercised its powers to suspend television licences or fine licensees since 1978 (although it had earlier this year acted against a handful of radio stations which were deliberately aiming to cause public offence through racialist programming). The FCC received about 20,000 complaints of indecency a year. These received pro forma replies. The FCC had conducted no research in this area. It believed that the broadcasters were exercising a substantial measure of self-regulation, and were putting on less strong material than the public would in fact accept.

4. The FCC confirmed that it no longer played an active role in the licensing of television or radio stations. Nearly all useful broadcasting spectrum had already been assigned, and the only practical way for a newcomer to enter the market was to buy out an existing licensee. Licences were valid for 5 years, but in practice were renewed automatically. There was provision for non-renewal in the event of non-performance, but this was widely regarded as theory rather than practice. The FCC acknowledged

that its recent decision to increase the number of television stations which a single individual or company could own from 7 to 12 (and the ceiling on audience reach from 21% in each market to 25%) had accelerated the rate of changes in station ownership and pushed up the prices for which stations changed hands.

5. The FCC was not, in its present non-interventionist mode, particularly wedded to most of its remaining rules eg the prime time access rule or the rules preventing the networks from acquiring off-network syndication rights. The FCC had in fact tried to drop these rules but had been thwarted by lobbying of the President by his old Hollywood associates. So far as the consent decrees were concerned, the networks were in any event not producing as much as they were entitled to. There were no comparable rules restricting the involvement of cable operators in programme production. The consent decrees would run down after 1990 and the FCC had no plans to stop the networks from producing then as much or as little as they wanted.

6. The FCC saw an interesting prospect ahead of competition between <u>cable</u> and the telephone companies, who were at present forbidden to carry entertainment services. There was no reciprocal FCC prohibition on the carriage of data services by cable operators, but there was little commercial interest in this.

7. The FCC used to apply a must-carry rule to all cable operators. This was struck down, and the present rule is that 25% of a cable system's capacity must be reserved for off-air services. The FCC regarded this rule as pretty meaningless, because systems were now being constructed with a much greater carriage capacity than could be used. There was a general shortage of product.

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DEPARTMENT OF COMMERCE (NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION)

The Department is the Executive Branch's broadcasting policy-making arm. (Although the members of the FCC are appointed by the President, it reports to Congress.)

<u>Discussion</u>

2. The Department told us that its stated policy was to encourage the proliferation of broadcasting outlets, with a view to assimilating the medium as far as possible to that of print. At the same time the Department saw the real issues as concerning not delivery mechanisms but the product they were delivering. The failure of DBS and MMDS was attributed to a lack of product differentiation. The main problem affecting broadcasting was that everyone was chasing the same successful programme formulas.

3. The Department thought that the rapid growth in cable would now level off. There would be only slow progress in getting cable to the 20% of homes currently unpassed. This was the natural market for satellite-to-home services. Although only a quarter of the 1.8m dish-owners had descrambling equipment, there were a number of unscrambled services (eg the Disney channel and Christian broadcasting) which were likely to remain so.

4. The Department, like the FCC, saw the makings of a titanic conflict between cable and telephone operators. At present this was not an issue: cable wires could not take data and telephone wires could not take vision. The development of fibre-optic cable would change all that. But there was no guarantee that the conflict to come would have a clear winner. The courts had already ruled that the first Amendment prevented the granting of exclusive cable franchises.

<ak>nt/dept/commerce/4/11

NATIONAL ASSOCIATION OF BROADCASTERS

The Association represents the interests of commercial off-air television and radio broadcasters. There are currently 915 television stations (637 affiliated to the networks and 278 independents). There are about 12,000 radio stations (some affiliated to 3 networks).

Discussion

2. The NAB saw the radio scene as increasingly competitive. The FCC was planning to release more VHF spectrum for radio broadcasting at a time when every station was trying hard to carve out a distinctive niche. The AM stations were the main victim. Their share of listening hours had been falling steadily over many years, and was now down to 25%.

3. Radio was, however, cheap. The minimum viable service area had a population of only 5,000. A 30 second advertising spot could be bought for as little as $5. Stations were of course not liable to pay record companies for the right to play their records. Whereas a UK ILR station might pay 12% of its advertising in copyright fees, the comparable percentage in the USA would be 2%.

4. Radio advertising revenue was growing healthily. Radio's share of total US advertising expenditure had been stable at 7% for 15 years. A number of large advertisers were, however, thinking about going into the market on their own account. For example, Safeway Stores, which used to rebroadcast off-air services in its supermarkets as "in-store entertainment", now distributed its own service (via satellite) with only its own advertisements.

5. The NAB was clearly defensive about the impact of cable, and was keen to stress what a good buy off-air television remained for the advertiser. Although the networks' audience share had been eroded to 70%, an advertiser could still get his message to a huge number of people with one buy. The NAB claimed that the cost per 1,000 was still cheaper off-air than for cable.

6. The NAB saw MMDS as a viable competitor to cable in certain circumstances, provided that: a) the service offered multi-channel capacity, and b) operators could get product from programme providers who were already dealing with cable companies. The NAB thought that MMDS might be attractive to viewers who wanted only premium programming and therefore did not like paying a basic cable subscription as a condition of gaining entry to higher-price programme tiers.

7. The NAB detected a wish on the part of telephone companies to nibble away at the edges of broadcasting. They saw the proposal that all companies should provide "electronic yellow pages" for screen display as the thin end of a large wedge.

<ak>nt/nat/assn/bd/4/ll

CORPORATION FOR PUBLIC BROADCASTING

The CPB was set up in 1967 as a private non-profit making corporation to promote radio and TV programming of a "cultural, informational and educational nature" and to disburse Federal funds to stations accordingly. About 300 TV stations and 275 radio stations qualify for CPB support (though CPB provides less than 20% of total funding). In addition to funding stations CPB operates a programme fund on which independent producers can draw.
... Key graphs and tables are attached.

Discussion

2. CPB's Federal grant for current year is $214m. This is paid in one instalment so CPB gets the interest benefits. In spite of earlier alarms funding looks reasonably secure: the Executive Branch is lukewarm but Congress is supportive. Unusually funds are appropriated on a 2 year basis, so that CPB knows that its 1988-89 grant will be $228m. The following year $240m is expected.

3. CPB cannot fund stations unless they can raise at least $2 for every Federal dollar. The largest subscribers are state governments. 13 states run their own PBS television. But 4m individuals also subscribe, with a yearly renewal rate of 85% (radio) and 70% (TV). PBS stations are allowed to obtain commercial sponsorship in return for a modest on-screen credit, but may not advertise. The CPB attaches no strings to its own grants.

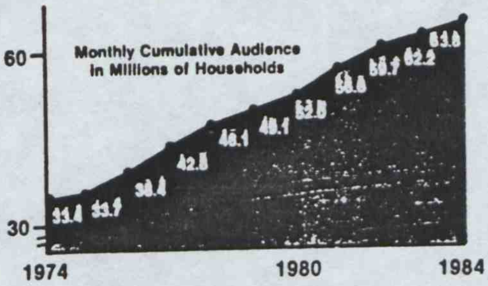
4. When the CPB programme fund commissions work from independent producers it obtains the copyright and provides the networking of programmes wherever possible at nil cost to PBS stations. CPB withdraws support from series it originated but which can stand on their own commercial feet (eg "Sesame Street"). The programme fund takes 13% of the CPB budget.

5. CPB noted that cable households watched more PBS than non-cable households. At least 75% of the public watch PBS at least once a month.

<ak>nt/corp/pub/bd/5/11

TV AUDIENCE

Growth In Public Television Viewership: 1974-1984



Source: Nielsen Television Index, 1984

Who Watches Public Television?

	Watch PTV	U.S.
By Household Income		
More than $30,000	38%	33%
$20,000-$30,000	22%	21%
$10,000-$20,000	23%	25%
Less than $10,000	18%	22%
By Education of Household Head		
4 Years + College	23%	21%
Some College	17%	16%
High School Graduate	35%	35%
Not High School Graduate	25%	28%

Who Watches Public Television? (continued)

	Watch PTV	U.S.
By Occupation of Household Head		
Not in Labor Force	25%	29%
Blue Collar	35%	34%
White Collar	13%	12%
Professional, Owner, Manager	28%	25%
By Race of Household Head		
White	87%	85%
Nonwhite	13%	15%
By Urbanization		
Live Outside Large SMSA	27%	29%
Live In Large SMSA	73%	71%
By Children in the Household		
None Under 18	55%	61%
Any Under 18	45%	39%

Source: Nielsen Television Index, 1984

RADIO AUDIENCE

Growth In Public Radio Listenership: 1974-1984

Source: Arbitron, 1984

Who Listens to Public Radio?

	Listen to Public Radio (18 + Years Old)	U.S. (18 + Years Old)
By Household Income		
More than $30,000	32%	25%
$20,000-$30,000	29%	26%
$10,000-$20,000	26%	27%
Less than $10,000	13%	22%
By Education		
4 Years + College	32%	18%
Some College	28%	21%
High School Graduate	29%	38%
Not High School Graduate	12%	23%

TV STATIONS

Public Television Stations and Grantees: January 1985

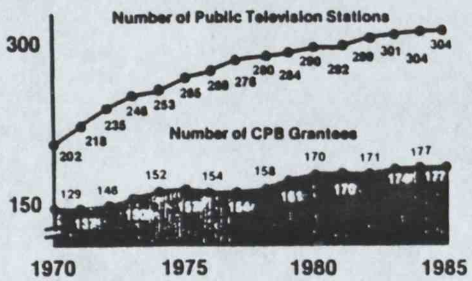
Licensee Type	Number of Stations*	Percent of Total Stations	Number of Grantees**	Percent of Total Grantees
Community	92	30.3%	78	44.1%
University	74	24.3	55	31.1
Local Authority	15	4.9	14	7.9
State/Outlying	123	40.5	30	16.9
Total	304	100.0%	177	100.0%

Source: CPB, 1984

*A public television station is the unit that transmits a single noncommercial educational signal on a single channel. Each station has its own transmitter, channel number and call letters. There were 120 VHF and 184 UHF stations in January 1985.

**A CPB grantee refers to an on-the-air station operating under a noncommercial educational license granted by the FCC that owns and operates one or more educational television station(s), and meets the criteria set by CPB concerning funds, staff size, minimum broadcast hours, autonomy of station operations, facilities, and type and quality of programming. CPB grantees are qualified to receive CPB financial support.

The Growth of Public Television Service: 1970-1985*



*At the end of each year except for 1985, which represents counts as of January 1985.

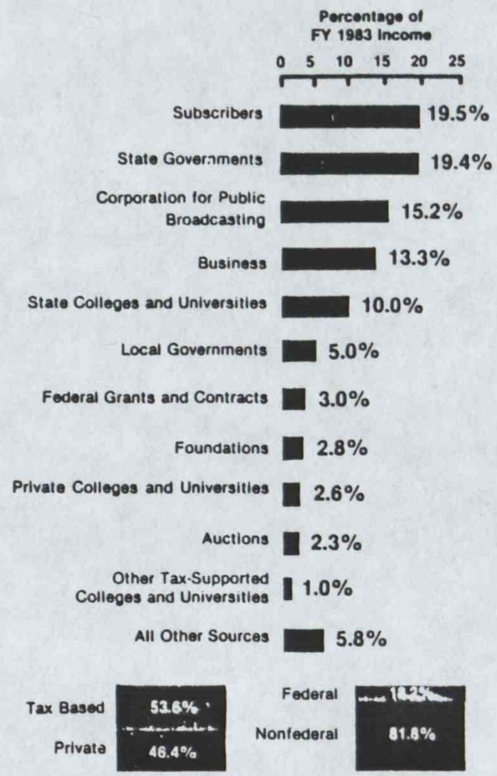
Source: CPB, 1984

11

FINANCE

Where Public Broadcasting Got Its Funds: FY 1983

(Total Income: $899.2 Million)



Source: CPB, 1985

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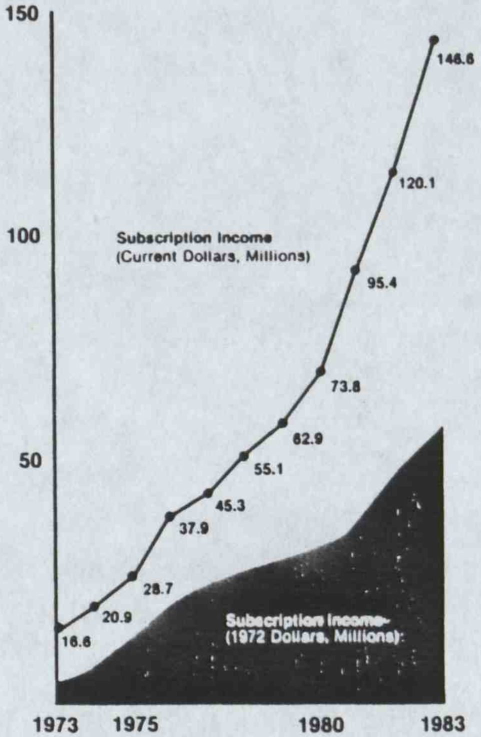
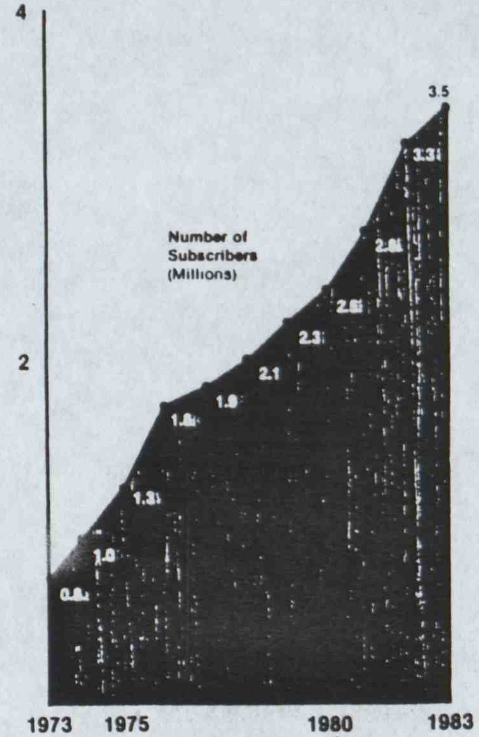
How Subscriber Support For Public Television Has Grown: 1973-1983





Source: CPB, 1985

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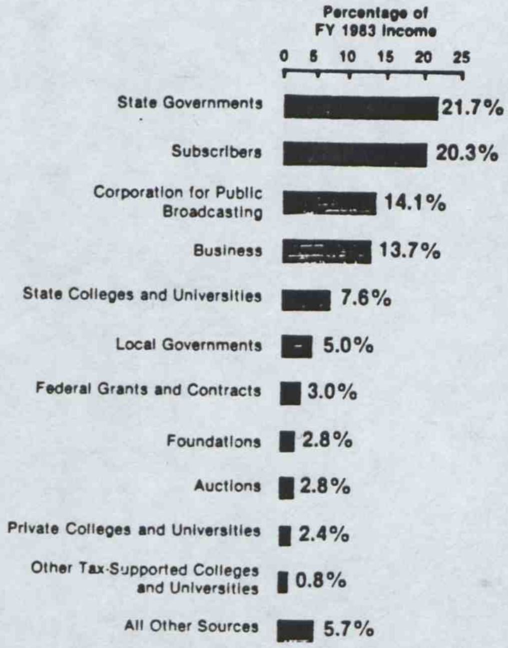
Public Television Gets Its Funds From a Variety of Sources

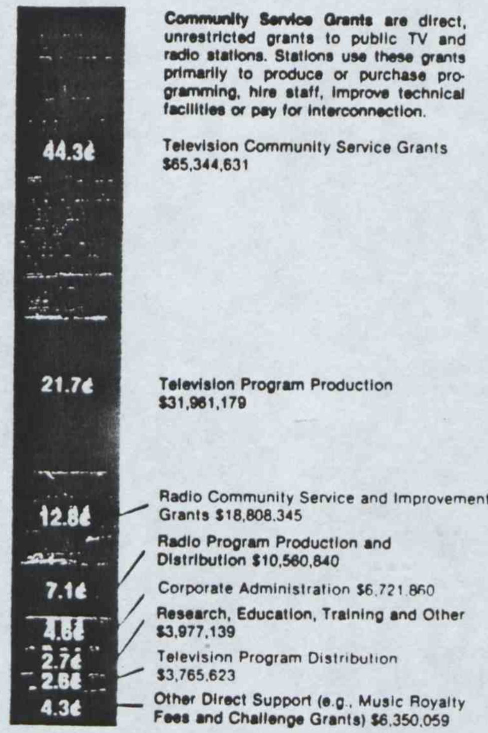
(Total Income: $720.4 Million)



Source: CPB, 1985

Where the CPB Dollar Went: FY 1984

(Total Amount: 147,489,676)*



*Amounts include restricted funds, i.e., Annenberg/CPB Project.

Source: CPB, 1985

RADIO STATIONS

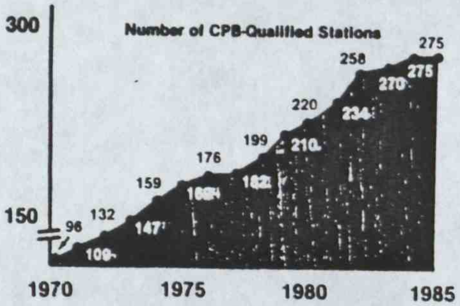
CPB-Qualified Public Radio Stations: January 1985

Licensee Type	Number of Qualified Stations*	Percent of Total
Community	80	29.1%
University	164	59.6
Local Authority	20	7.3
State/Outlying	11	4.0
Total	275	100.0%

Source: CPB, 1985

*CPB-qualified stations (often used to identify the majority of "public radio" stations) are noncommercial educational radio stations that meet CPB-designated criteria to qualify for CPB financial support. The criteria cover facilities, funds, staff, type and quality of programming, time station has been on the air, etc. In addition to stations authorized by noncommercial FM licenses, these CPB-qualified stations include some AM stations licensed to similar types of organizations and transmitting similar types of programming (28 AM stations in 1985).

The Growth of Public Radio Service: 1970-1985*



*At the end of each year except for 1985, which represents counts as of January 1985.

Source: CPB, 1985

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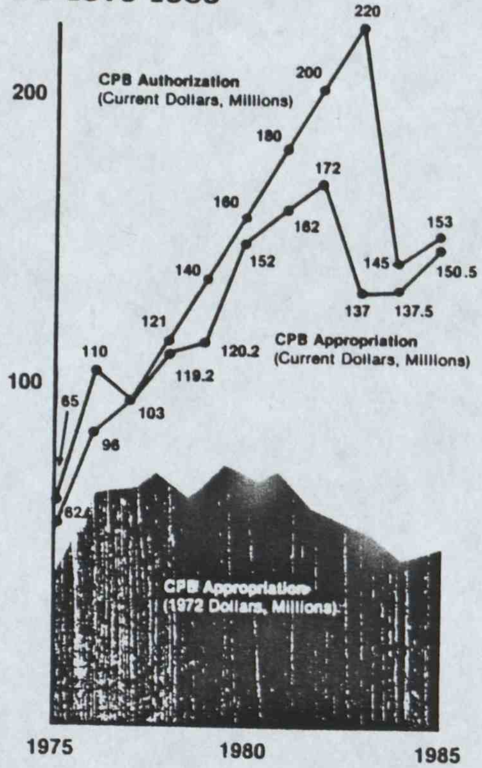
FINANCE

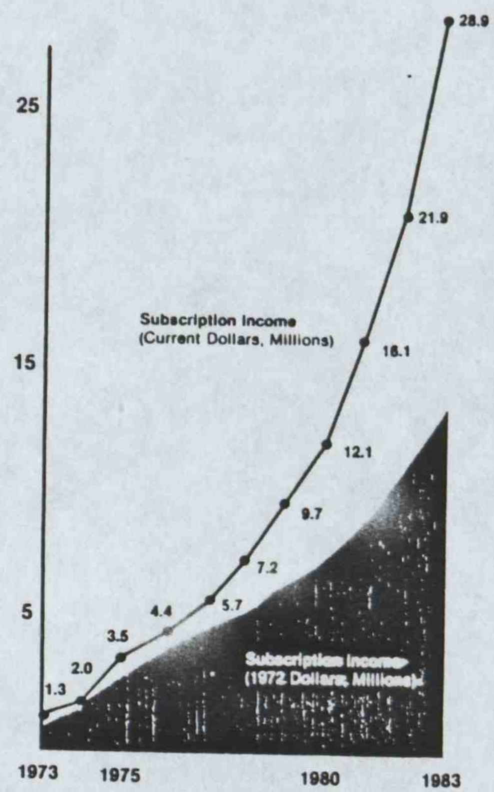
CPB Appropriations: FY 1975-1985



Source: CPB, 1985

18

How Subscriber Support For Public Radio Has Grown: 1973-1983



Source: CPB, 1985

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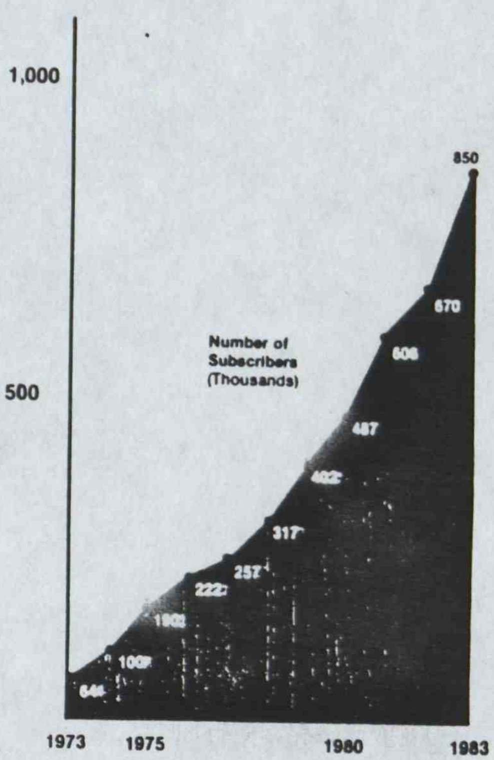

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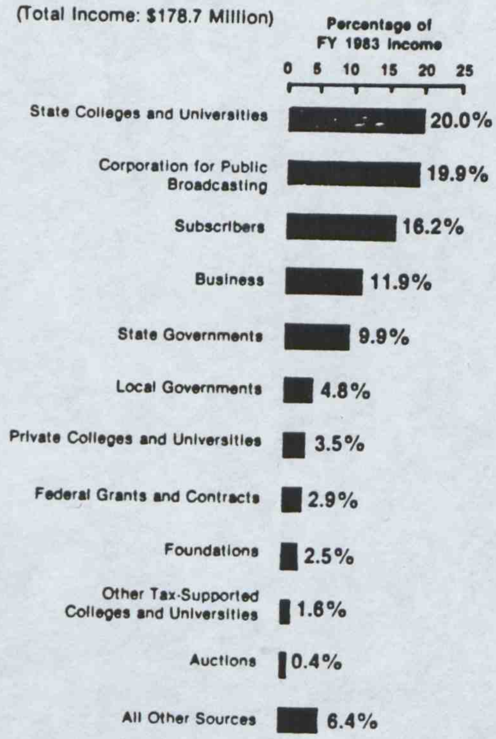
[redacted]

Public Radio Gets Its Funds from a Variety of Sources

(Total Income: $178.7 Million)



Source: CPB, 1985

DISCUSSIONS WITH VARIOUS INDUSTRY REPRESENTATIVES IN NEW YORK

The following points were made in discussion:

1. Additional channels mean movies. Movies mean sex and violence. The dilemma of wanting tighter programme standards as well as additional delivery mechanisms is a practical and not simply a doctrinal one. The US Government's previous attempts to influence broadcasters to tone down violence by nudge and wink were undermined by the proliferation of outlets and the cost pressures which this applied to broadcasters.

2. The proliferation of new outlets did not itself produce either a reduction or improvement in overall quality, since the main fare consisted of programmes already shown on the old outlets. It was an open question whether the market would in fact be able to generate new product to match new channel capacity. In this context it would be wrong to talk about good or bad quality: audiences found their own level and in the USA there was a strong view that one group of people should not decide what another group could or could not watch. The UK Government might not like the result of opening up the Pandora's box of additional channels, but the public might. Whatever rubbish was put on the screen (eg the shopping channels) would find somebody to watch it.

3. A key difference between the US and the UK was that in the former there was a huge off-network syndication market which is where programmes earned their profits. It would be wrong to believe that the UK could support additional channels to the extent of the US by looking to export to the US market. In spite of the undersupply of new product, foreign programmes had generally failed in the US commercial (as against PBS) market. For example, Lorimar would not

consider coproducing anything with a foreign company without a pre-sale to a US network. The only example of such a pre-sale involves violence: Jack the Ripper (coproduced with Thames). There was some prospect of growth in international coproductions, but US companies found it easier to co-operate with Italian and Spanish companies. This was because they did not (unlike UK companies) have any problems about conceding editorial control to their US partners.

4. The "consent decrees" took away from the networks a largely unused right. The networks had always depended on the outside supply of product: in the first place from advertisers themselves and subsequently from specialist companies.

5. Competition between cable and telephone companies would eventually be decided on a political level.

6. The scale and degree of competition for audience was worrying and a source of industry instability.

7. There was a growing demand for the FCC to resume a more positive regulatory role, which could well happen under a new President, whatever his party.

8. The potential of cable for educational programming had been badly underexploited; although one of the few areas outside the field of straight entertainment and sports coverage in which cable had done well was in popular science and technology.

9. One answer to the problem of the portrayal of sex lay in technology. At present a considerable number of households did not take cable because they did not want risqué material to come into their homes where their children could one way

or another get access to it. They could rely on the networks and off-air broadcasters to keep a clean act. With the right kind of technology they could be able to get certain channels filtered out by the cable operator.

<ak>nt/disc/ind/rep/ny/6/11

NATIONAL CABLE TELEVISION ASSOCIATION

The NCTA represents the operators of 7,836 cable systems. Cable passes 70m out of 87m TV households. There are 44m cable households ie a penetration rate of about 50%. The penetration of pay to basic cable is 81%. Total subscriber revenue is over $10bn a year, and total advertising revenue is over $1bn. Key graphs ... and tables are annexed.

Discussion

2. The NCTA told us that cabled households watched more television than non-cabled households (8½ v 8 hours) and were more likely to have a VCR. There was even a "VCR Theatre" cable channel. The growth of VCRs had, however, flattened the growth in pay cable. Although cable operators were generally profitable, some exceptionally so, a few programme providers were in difficulty.

3. Cable subscriber rates were now deregulated. Until earlier this year they had been regulated by local authorities, and operators had had to resort to all kinds of tactics to circumvent the controls, which by and large they had.

4. There was no uniform pattern so far as scrambling was concerned. Some operators scrambled everything; others only premium channels; others nothing. There was still an extensive reliance on "trapping" (ie placing devices on cable poles which would filter out pay channels and which would be removed by the cable operator in return for payment).

5. The NCTA thought that HDTV was coming soon, and that it would be a major selling-point for cable. Cable had no problem in accommodating the extra bandwidth needed for off-air HDTV transmission. The cable industry did not in any event regard it

as essential for there to be a single HDTV standard. There were already "smart" television receivers being manufactured in Germany and Japan which could work anywhere in the world (regardless of the electricity supply field rate and of the colour system in use).

6. The NCTA appeared to take a relaxed view of the prospect of telephone company competition. They claimed that the fibre-optic cable being used by the telephone companies could only take 5 TV channels, and that the compression needed to feed TV signals through fibre-optic cable would overwhelm the telephone signal. They regarded coaxial cable (2½ times cheaper) as wholly adequate for their purposes.

<ak>nt/nat/cable/tv/assn/5/11

CURRENT INDUSTRY ESTIMATES

	A. C. NIELSEN COMPANY July 1987	ARBITRON TELEVISION May 1987	PAUL KAGAN ASSOCIATES INC. July 30, 1987 1/
ASIC CABLE HOUSEHOLDS	43,490,700	42,752,300	40.622 million
U. S. TELEVISION HOUSEHOLDS 2/	87,896,350	87,614,900	87.083 million
PENETRATION: BASIC CABLE TO TELEVISION HOUSEHOLDS	49.5%	48.8%	47%
HOMES PASSED BY BASIC			70.042 million
PENETRATION: HOMES PASSED TO TELEVISION HOUSEHOLDS			80%
PENETRATION: BASIC CABLE TO HOMES PASSED			58%
PAY CABLE UNITS			32.921 million
PENETRATION: PAY TO BASIC			81%
EXPANDED BASIC HOUSEHOLDS			5.400 million
HEADENDS 3/	Approximately 10,100		

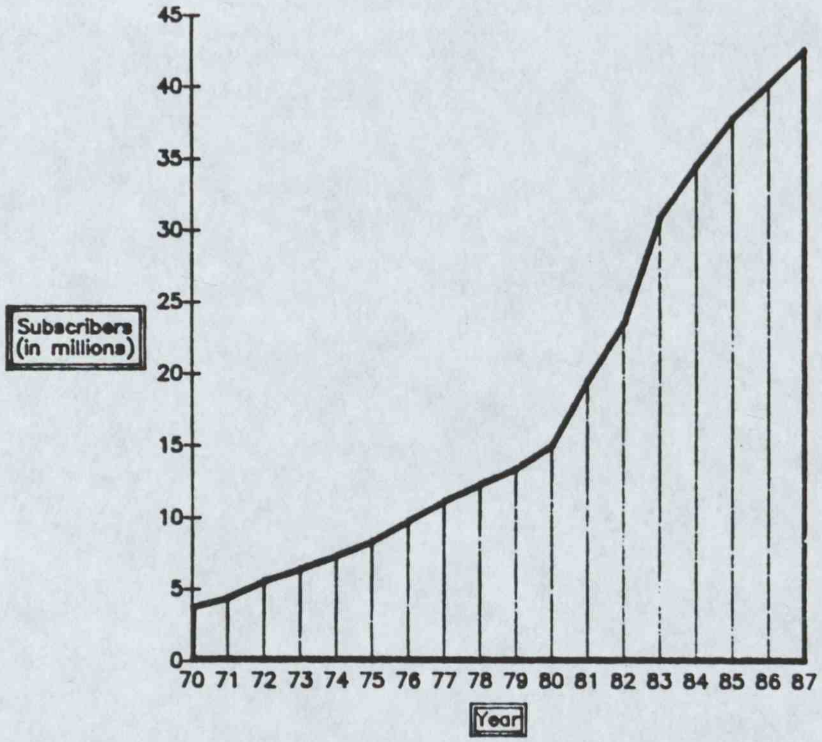
1/Cable TV Programming, July 20, 1987, page 7

2/Es[illegible]tes for 1987; Arbitron estimate for continental U. S. only

3/Nielsen CODE (Cable On-Line Data Exchange) database

2

BASIC CABLE: 1970-1987



DATE	BASIC SUBSCRIBERS	BASIC/ TELEVISION HOUSEHOLDS
2-3/70	3,897,650	6.6%
2-3/71	4,572,840	7.6%
2-3/72	5,748,890	9.2%
2-3/73	6,574,180	10.1%
2-3/74	7,512,410	11.3%
2-3/75	8,529,870	12.4%
2/76	9,935,340	14.2%
2/77	11,307,540	15.8%
2/78	12,489,330	17.1%
2/79	13,581,050	18.2%
2/80	15,198,490	19.8%
2/81	19,727,290	25.3%
2/82	23,726,220	29.0%
2/83	31,124,450	37.2%
2/84	34,740,330	41.2%
2/85	38,018,100	44.6%
2/86	40,389,760	46.8%
2/87	42,820,780	48.7%

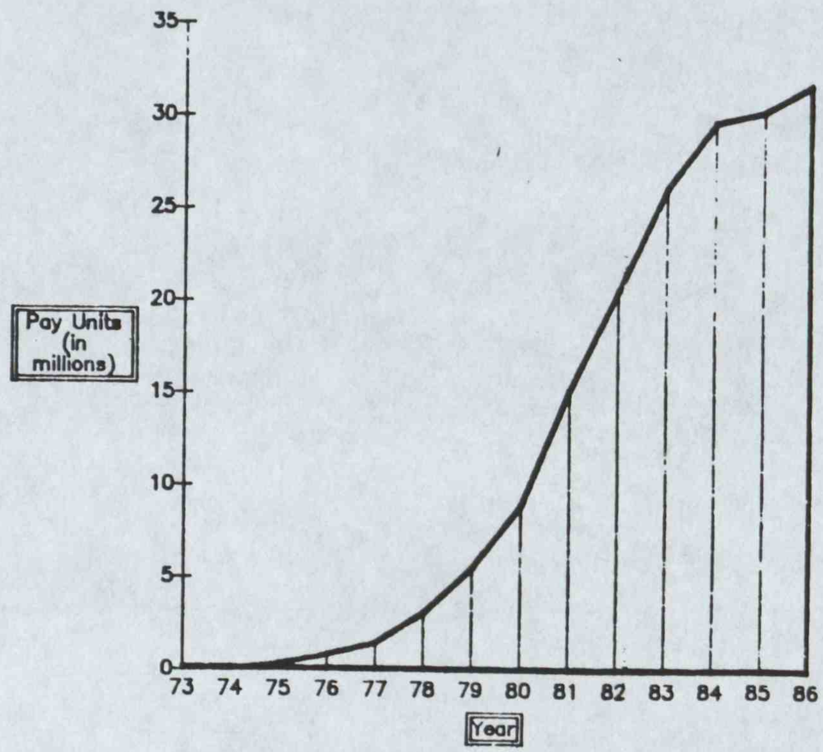
SOURCE: A. C. Nielsen Company

3

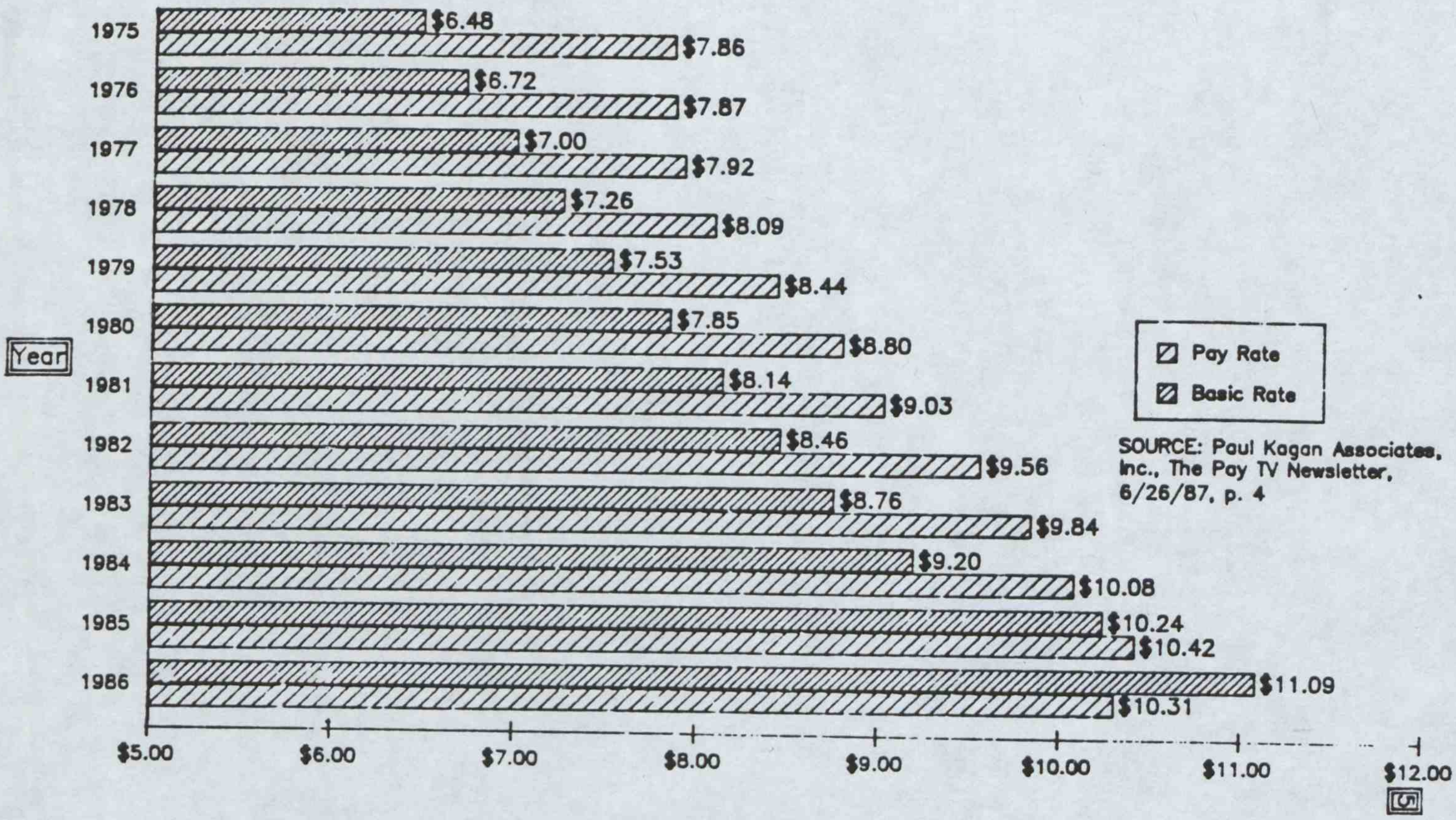
PAY CABLE: 1973-1986

DATE	PAY UNITS (in millions)	SYSTEMS WITH PAY CABLE*	PAY UNITS TO HOMES PASSED	PAY UNITS TO BASIC CABLE
7/15/73	0.035			
12/31/74	0.140			
12/31/75	0.469	170	11.1%	23.6%
12/31/76	0.978	364	10.6%	22.3%
12/31/77	1.642	604	12.2%	25.3%
12/31/78	3.289	1,029	17.9%	35.0%
12/31/79	5.732	1,822	22.3%	41.3%
12/31/80	9.144	3,072	27.9%	50.6%
12/31/81	15.450	3,975	37.6%	68.8%
12/31/82	20.791	4,826	46.2%	84.0%
12/31/83	26.418	5,546	47.3%	84.3%
12/31/84	29.966	5,721	49.5%	87.5%
12/31/85	30.596	6,020	47.3%	83.5%
12/31/86	32.064	6,838	46.2%	80.8%

SOURCE: Paul Kagan Associates, Inc.: "Pay TV Subscriber History", The Kagan Census of Cable and Pay Tv, 1986, (through 1985). 1986 census figures from The Pay Tv Newsletter, 6/26/87.
*From annual census volumes



AVERAGE CABLE RATES: 1975-1986



6

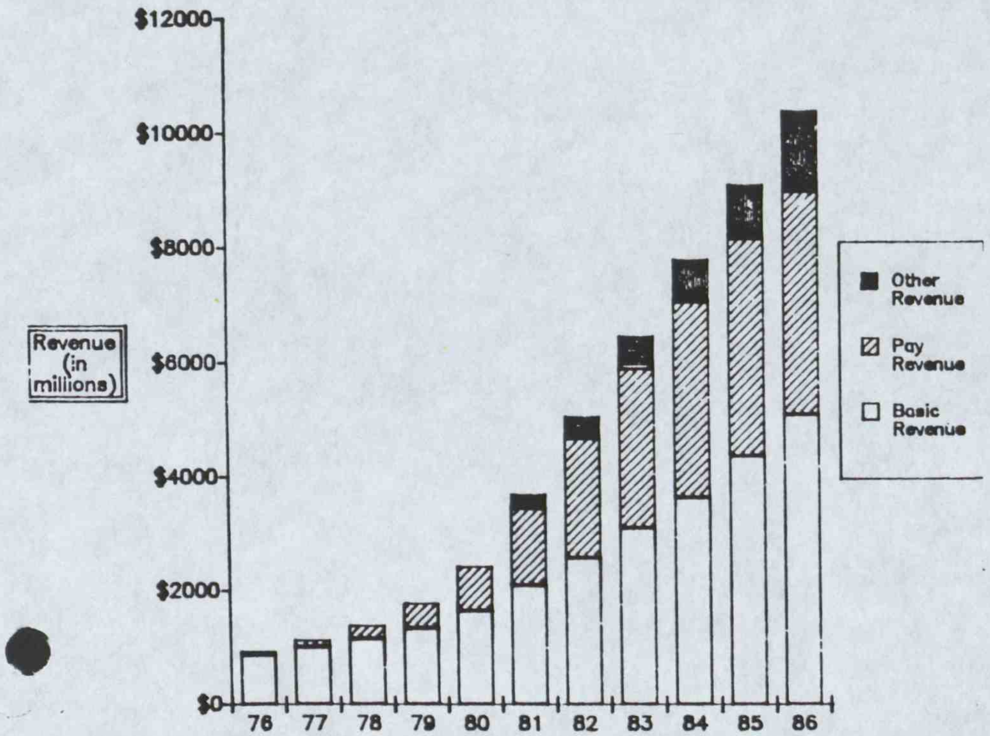
CABLE REVENUES FROM SUBSCRIBER SERVICES: 1976-1986

(Figures in Millions)

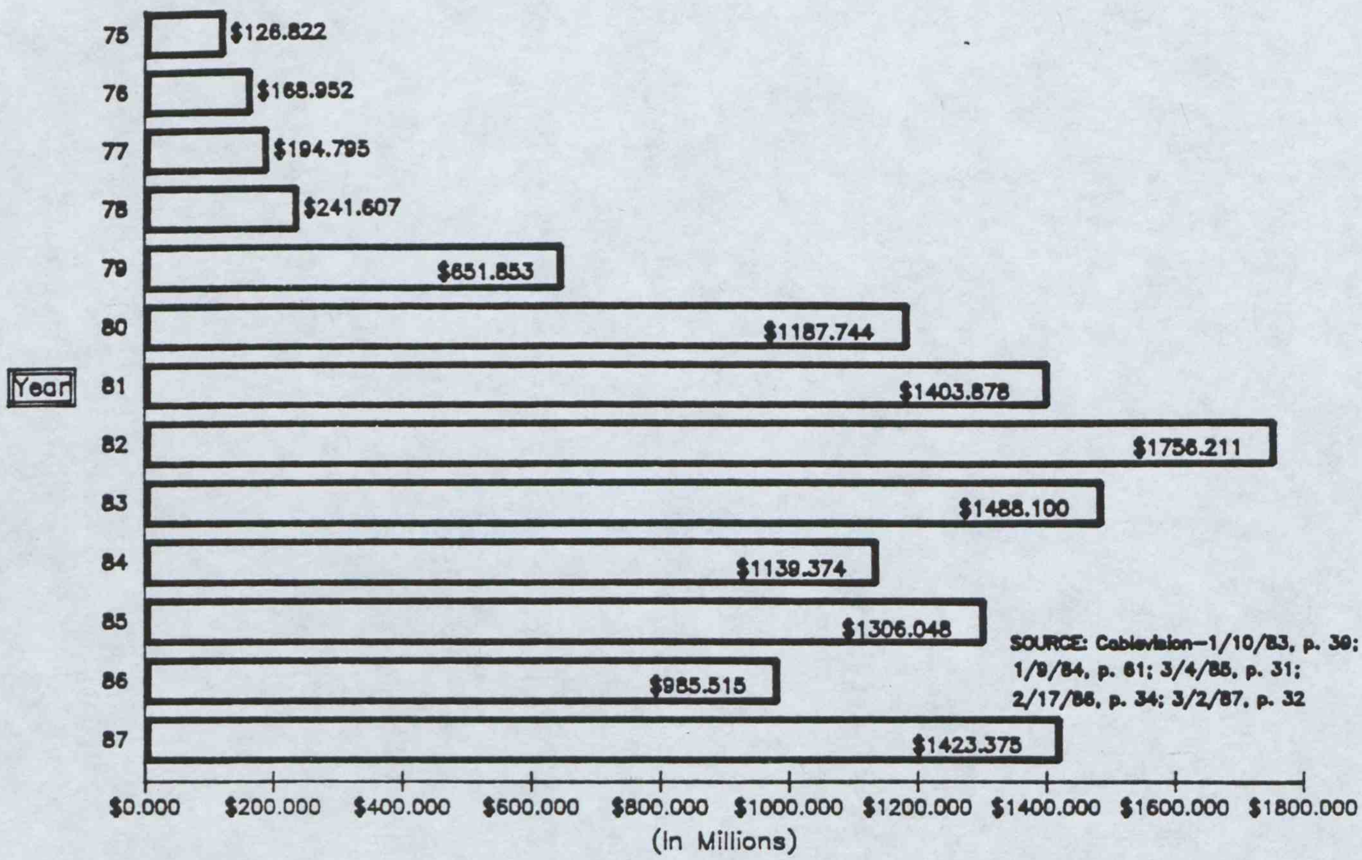
YEAR	BASIC REVENUE	PAY REVENUE	EXPANDED BASIC REVENUE	INSTALLATION REVENUE BASIC	INSTALLATION REVENUE PAY	TOTAL REVENUE*
1976	$ 887	$ 68	-	$ 10	$ 3	$ 968
1977	1,025	125	-	10	4	1,164
1978	1,167	239	-	10	9	1,425
1979	1,355	435	-	12	14	1,816
1980	1,649	785	-	19	20	2,473
1981	2,100	1,336	$ 24	40	27	3,703
1982	2,579	2,081	79	49	41	5,070
1983	3,096	2,787	170	55	52	6,468
1984	3,627	3,410	251	69	65	7,793
1985	4,353	3,787	319	169	38	9,099
1986	5,080	3,876	444	179	40	10,389

*"Revenues for the years 1981-86 in this column are increased 5% to 8% to account for ancillary revenues." [Ancillary revenues therefore are (in millions): 1981, $176; 1982, $241; 1983, $308; 1984, $371; 1985, $433; and 1986, $770.]

SOURCE: Paul Kagan Associates, Inc. Cable TV Investor, Data Roundup, July 24, 1987, page 4.

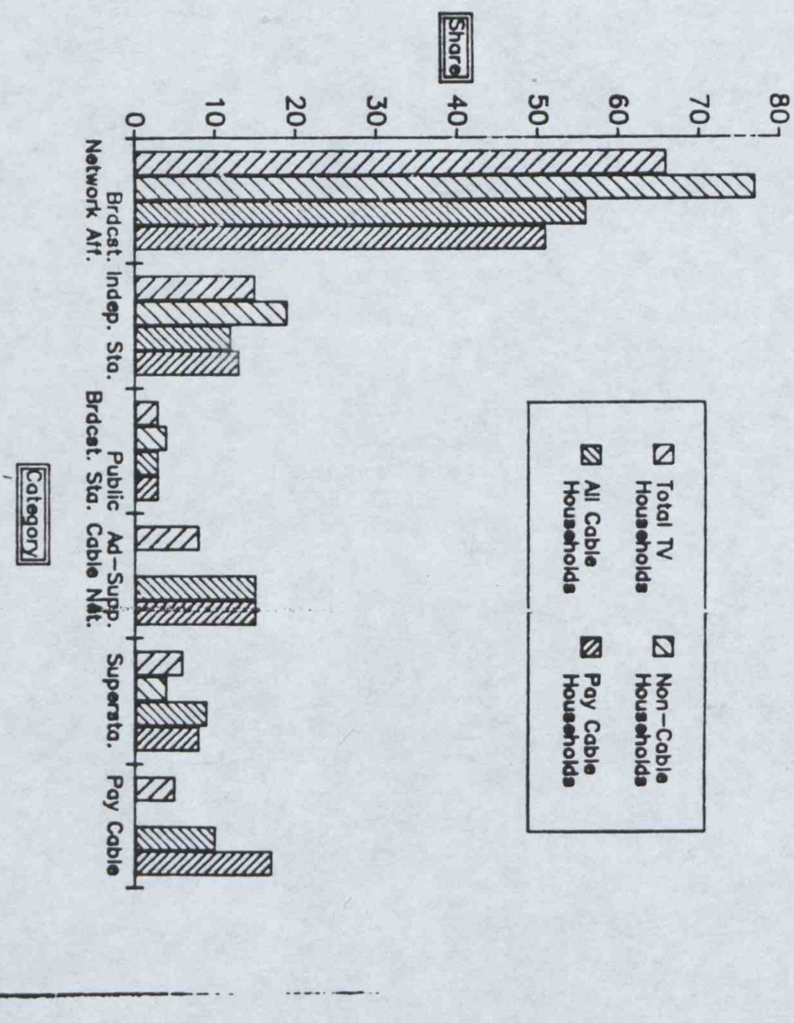


CONSTRUCTION EXPENDITURES: 1975-1987



SOURCE: Cablevision—1/10/83, p. 39; 1/9/84, p. 61; 3/4/85, p. 31; 2/17/86, p. 34; 3/2/87, p. 32

VIEWING SHARES



BROADCAST YEAR 1985-1986 1/
MONDAY - SUNDAY, 24-HOUR SHARES

	Total TV Households	Non-Cable Households	All Cable Households	Pay Cable Households
Broadcast Network Affiliates	66	77	56	51
Independent Stations 2/	15	19	12	13
Public Broadcasting Stations	3	4	3	3
Ad-Supported Cable Satellite Networks	8	-	15	15
Superstations 3/	6	4	9	8
Pay Cable	5	-	10	17

1/From October through September

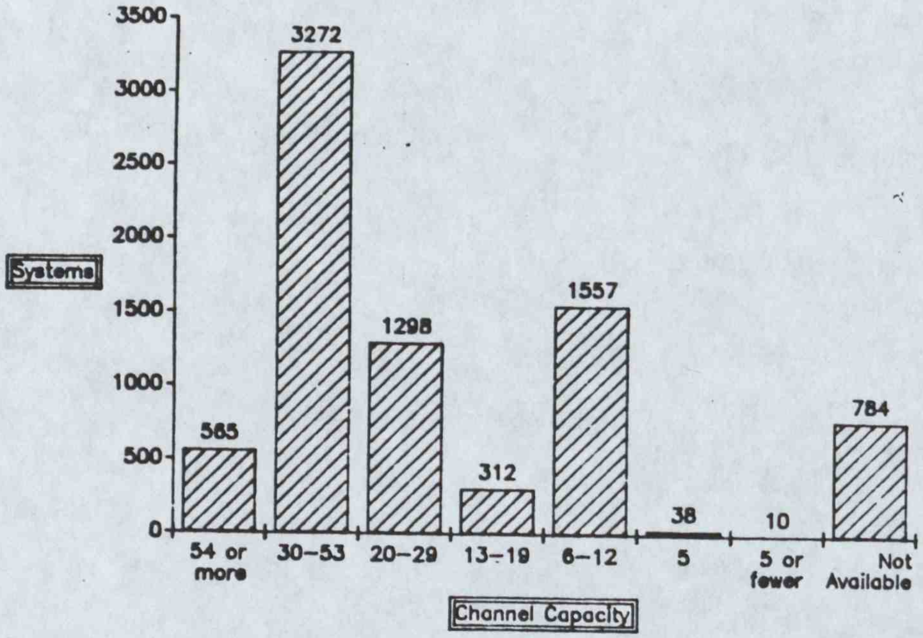
2/See also Superstations

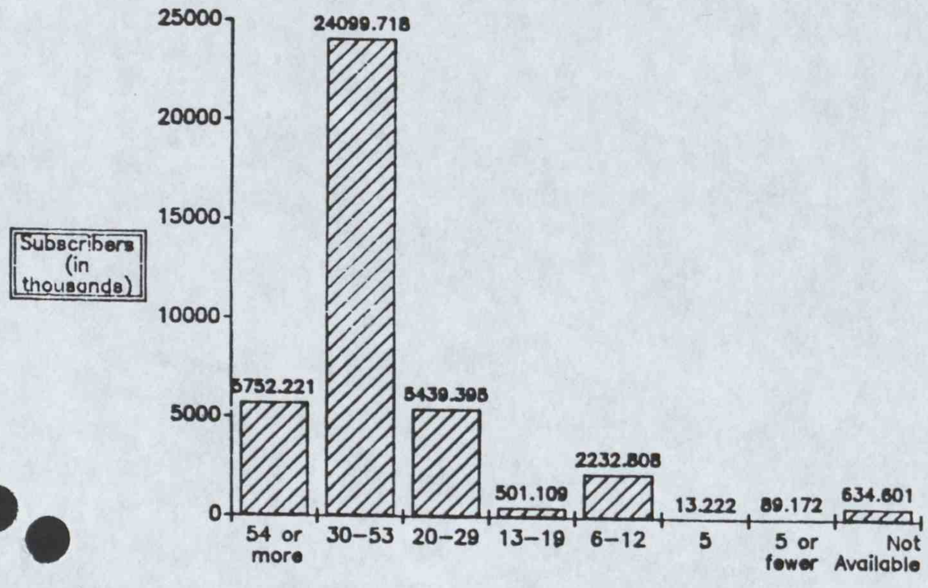
3/Satellite-delivered independent stations such as WTBS, WOR, and WGN

Totals may exceed 100 percent due to rounding and multi-set usage.

SOURCE: A. C. Nielsen NTI Cable TV Status Report data published in Cabletelevision Advertising Bureau's 1987 Cable TV Facts, page 6.

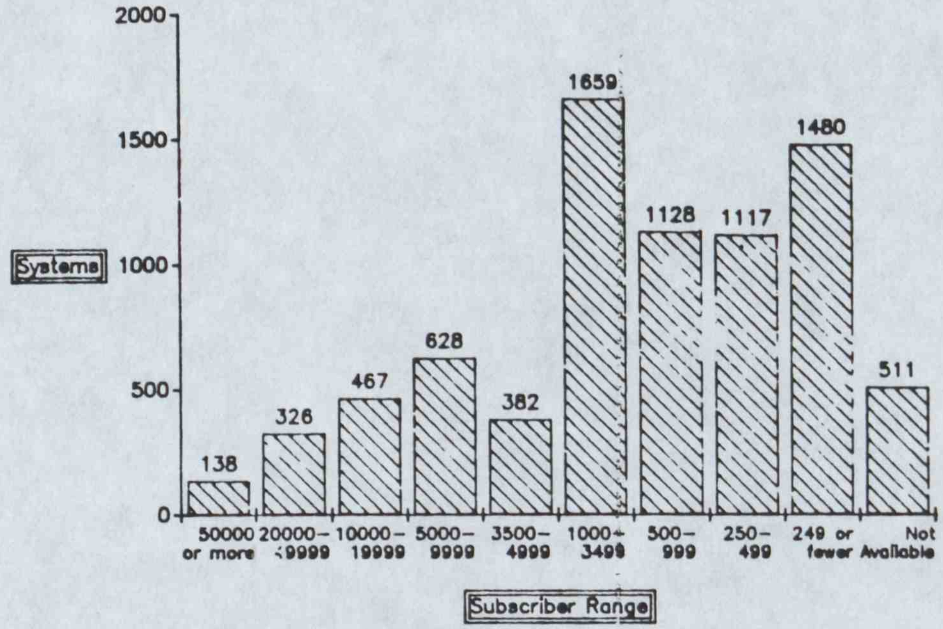
SYSTEMS AND SUBSCRIBERS:
By Channel Capacity

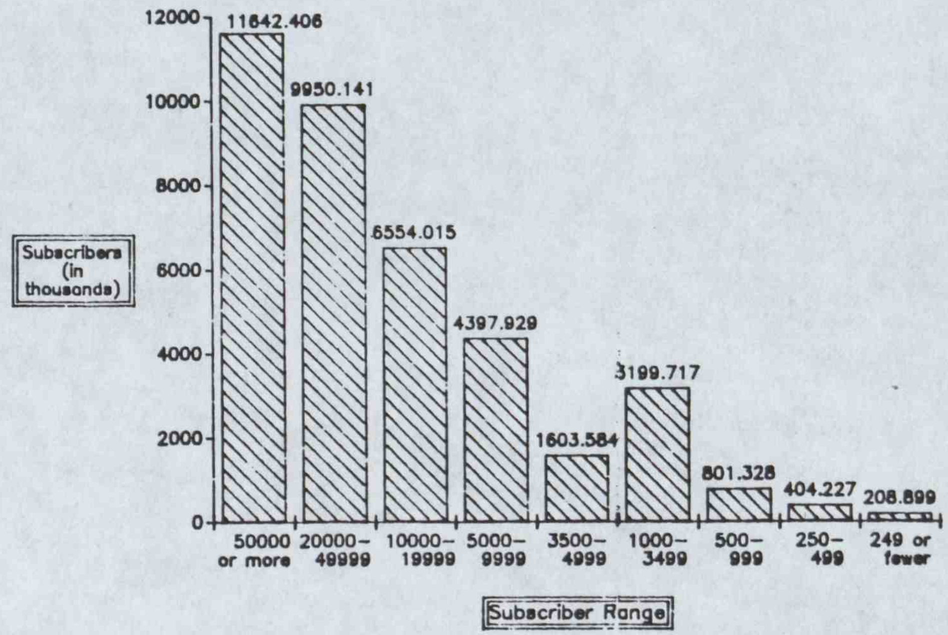




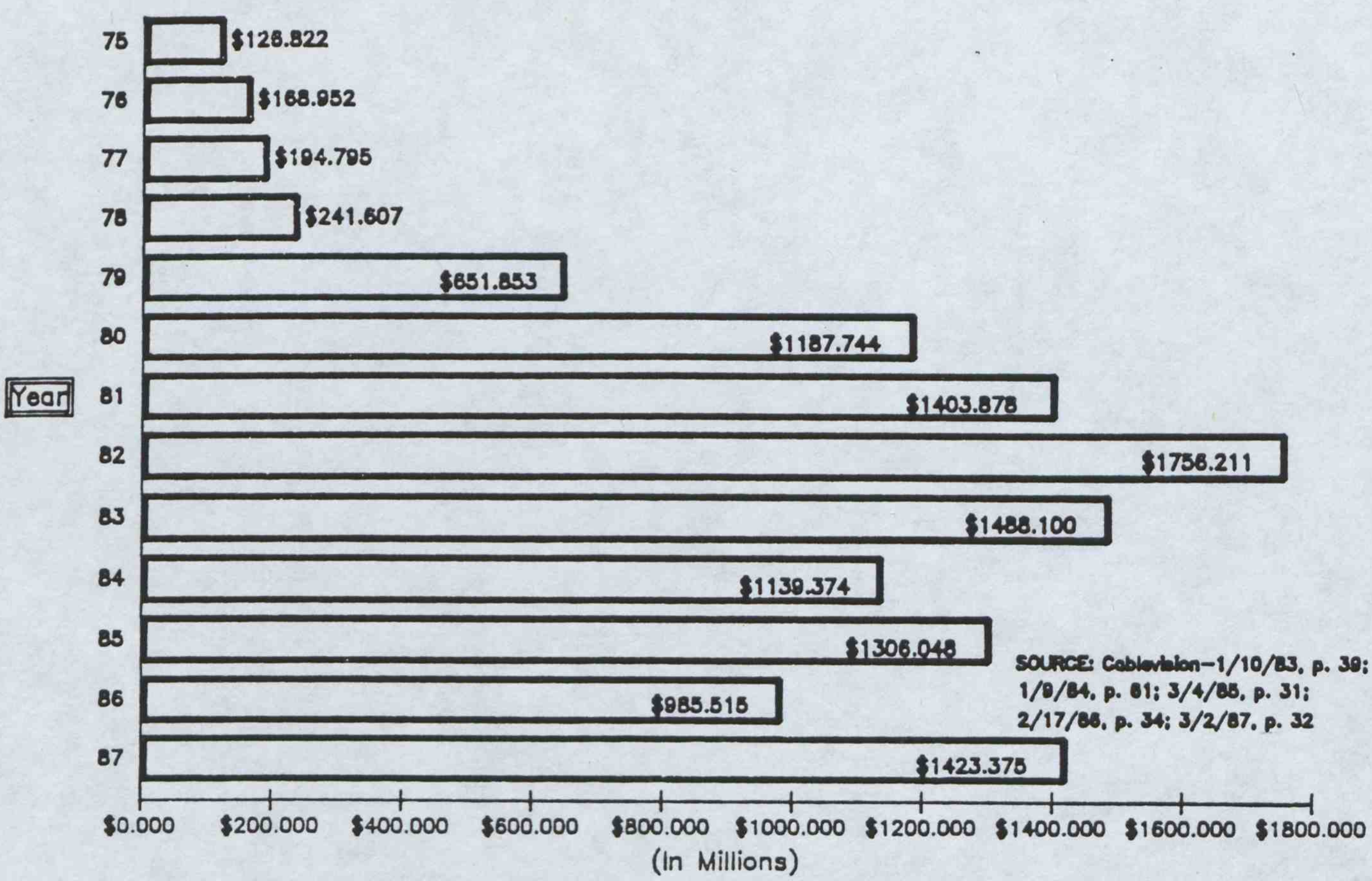
For sources, please see page 16

SYSTEMS AND SUBSCRIBERS:
By Number of Subscribers



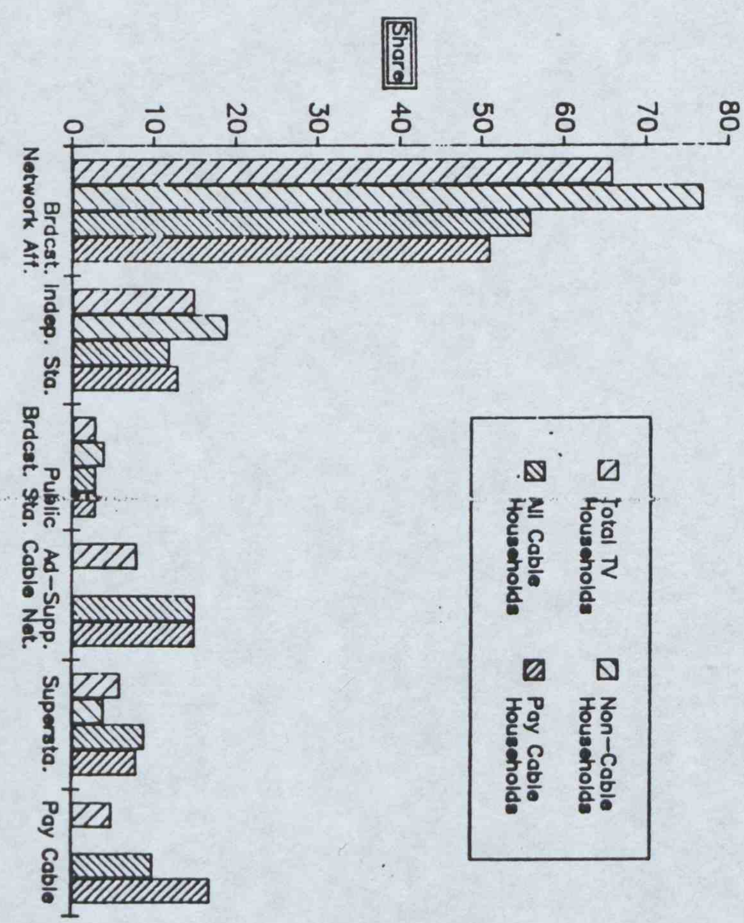


CONSTRUCTION EXPENDITURES: 1975-1987



SOURCE: Cablevision–1/10/83, p. 39; 1/9/84, p. 81; 3/4/85, p. 31; 2/17/86, p. 34; 3/2/87, p. 32

VIEWING SHARES



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Public Broadcasting Stations	3	4	3	3
Ad-Supported Cable Satellite Networks	8	-	15	15
Superstations 3/	6	4	9	8
Pay Cable	5	-	10	17

1/From October through September

2/See also Superstations

3/Satellite-delivered independent stations such as WTBS, WOR, and WGN
Totals may exceed 100 percent due to rounding and multi-set usage.

SOURCE: A. C. Nielsen NTI Cable TV Status Report data published in Cabletelevision Advertising Bureau's 1987 Cable TV Facts, page 6.

WNET

WNET is New York's main PBS television station. It serves a potential audience of 17m people, on a budget of $100m (of which 15% comes from CPB).

Discussion

2. WNET urged the UK not to follow the PBS example. Security of finance was a constant worry and drain on effort. (The head of WNET spent 80% of his time on fund raising, which was itself an expensive operation.) WNET had 350,000 voluntary subscribers. It was always under pressure to increase its audience in order to attract more subscribers but at the price of compromising its mission to address otherwise unmet needs.

3. WNET was cable-proof. Its audience had grown despite the growth of cable.

4. WNET was under-funded. 80% of its schedule was bought in. It would like to produce more itself.

5. WNET thought that the standard of commercial television had gone down in recent years. This was due at least in part to the FCC's withdrawal from regulation.

<ak>nt/wnet/5/11

ABC

ABC operates TV and radio networks. It was recently taken over by Capital Cities Communications Inc, which forced through major economies.

Discussion

2. ABC (like the other networks) had responded to advertiser concern about violence by toning down its output. There had always been a high degree of self-regulation in the portrayal of sex; and ABC would never contemplate screen nudity. The competition for advertising and audience was so fierce that no-one could afford to cause offence.

3. The spotlight was now turned on children's programmes. Because of the need to fill the technical capacity of the delivery system toy manufacturers have been coming forward with ready-made programmes (featuring their own products) for broadcast.

4. Programme costs were rising faster than revenue. This was partly due to the fragmentation of the audience through new channels. It was also due to the inability of independent producers (mainly in Hollywood) to control their costs. Hollywood was fabulously greedy. And every new production fashion cost money (eg the latest craze for using only one cameraman instead of three had inflated costs by 25% - the perils of undermanning!). ABC found prime time the hardest area in which to make a profit. Every television operator was chasing a hit formula (like the Cosby show). And when a formula was found television had to pay through the nose to repeat it. ABC had tried to cultivate smaller-scale independent production, and had put seedcorn money in. This had not come to anything, but might have to be tried again.

5. ABC said that 80% of TV advertising revenue depended on its ability to deliver a guaranteed audience. If the audience its programmes attracted were not up to the level bought by an advertiser its charges were sharply reduced.

6. ABC said that regulatory changes (eg the abolition of the requirement to carry public affairs and the doubling to 24 of the number of stations permitted in single membership) had made radio a very attractive market. 1,000 stations a year changed hands for $3bn. But the number of networks had shrunk from 17 to only 3.

7. ABC said that MMDS had been stifled at birth by the FCC. Cable was now too well entrenched for MMDS to recover. In addition MMDS operators could not get programmes: cable operators had told programme providers that they would not buy if programmes were also sold to MMDS.

<ak>nt/abc/5/11

CANADIAN BROADCASTING CORPORATION (CBC)

The Canadian Equivalent of the BBC is the CBC, established in 1936. It has two television networks (one English, one French) and two radio networks (ditto). About 30% of the CBC television audience is delivered by 32 private television stations affiliated to the network on the same kind of commercial basis as in the USA.

2. The CBC total budget is $1.1bn. About 80% is contributed by the Federal Government. CBC is responsible for raising the balance principally by the sale of advertising time. The balance between the two sources of funding has been an obvious source of difficulty over the years.

3. CBC also provides a service, provided free to all cable systems, dedicated to the broadcasting of Parliamentary business.

<u>Discussion</u>

4. CBC was well on course to achieving its target of taking 50% of its original output (excluding news and sport) from <u>independent producers</u>. It was now commissioning 40% on its English-language side, rather less on its French. The main motive behind this programme was to provide a justification for the continuing existence of an English-language TV network given the widespread availability of US television services. It was, however, depressing that in spite of all the efforts made less than 3% of the total entertainment output of Canadian broadcast television was made in Canada.

5. There were a lot of small production companies, though concentrated in Toronto and Montreal.

6. Programmes commissioned from independent producers attract up to 1/3 funding from the Broadcast Fund, itself funded by a

hypothecated 8% impost on cable subscriber revenues (see Annex). CBC was worried that as its budget was squeezed (see below) and cable revenues continued to grow strongly the commissioning process would increasingly be production-led rather than programme-led.

7. When CBC commissioned a programme from an independent producer it contributed only 20% of the cash requirement, and therefore laid no claim to the copyright or exploitation revenue. CBC was prepared to negotiate with independent producers on the assignment of advertising revenue generated by the sale of advertising time within the programmes they made. Independent producers were also encouraged to obtain commercial sponsorship in return for a discreet on-screen credit.

8. CBC tried to keep some (eg children's) programmes free of advertisements. But the pressure to sell advertising was constant, and CBC was now up to 11 minutes an hour in peak time, necessitated by the shortfall in Government funding (calculated by CBC to be $60m a year). The shortfall arose because while the Government grant was increased annually in line with inflation minus 1% in respect of CBC pay there was no uplift in respect of the element of the grant geared to goods and services obtained by CBC.

9. CBC's English-language television service had a 22% audience share, having been substantially eroded by cable. (The French-language service was faring much better at 40%.) This posed a dilemma for CBC. If it continued to lose audience its grant would be in jeopardy. It it programmed to keep audience share it would lose its raison d'etre.

<ak>nt/can/bd/corp/10/11

ANNEX

Broadcast Fund

The main preoccupation of Government policy over many years has been to encourage the provision of indigenous programming. At present between half and three-quarters of programmes broadcast are brought in, the lower end of the range in the public sector and the higher in the private. In order to promote indigenous programming the Government set up in 1983 a broadcasting fund regionally administered by Telefilm Canada (the equivalent of the British Film Finance Corporation). The Government committed up to $80m a year to the fund, with the expectation that it would be matched by contributions from the CBC and the private sector. However, the private sector contributed virtually nothing, and a crisis developed in 1984 when CBC froze its contribution. The future of the fund (which is sponsoring about 500 hours a year of independent production) is now uncertain. A further problem was that those administering the fund could not spend all the money earmarked for French language production.

<ak>nt/can/bd/corp/10/11/annex

CANADIAN RADIO AND TELECOMMUNICATIONS COMMISSION (CRTC)

The CRTC licenses and regulates all broadcast and cable services, as well as all forms of non-broadcast telecommunications. It was set up in 1968 with a statutory brief to promote both Canadian national identity and adequate competition.

Discuss

2. When issuing or renewing licences the CRTC was empowered to hold public hearings, at which members of the public affected by the service concerned had an opportunity to speak. The public hearing was not automatic in the case of renewals: it tended to be regarded in the way of a sanction if a licensee failed to respond adequately to warnings against departure from his promised format or to a short licence renewal (eg one year as against a maximum of 5 years). The CRTC made a practice, however, of holding public hearings on the renewal of all CBC licences, even though it had no power to withdraw them: this was to ensure proper public accountability. The CRTC had so far never failed to renew a television licence. It has, however, done so on 12 occasions in the case of radio, and was now trying to toughen up its approach. It held about 35 public hearings a year.

3. The CRTC had looked at various ways of trying to enforce licence conditions relating to Canadian programming. For example it would be possible to have a points system for programming under which eg the use of a Canadian director scored one point, a Canadian actor scored one point etc. The CRTC disliked, however, the idea of performance bonds, which it saw as vague and impracticable.

4. When considering licence applications the CRTC looked at the applicant's programme plans and financial projections. It then decided whether or not there would be room in the market for a new

station (ie whether it would be financially viable) and whether it would enhance the overall diversity of programming. Licence fees were set as a percentage of turnover. At present licence fees yielded $50m, of which half paid for the CRTC itself.

5. Violence in US films was a worry. The CRTC expected broadcasters to act sensibly and exercise a degree of self-regulation either in not buying films or in showing them late. Because it was clear that neither the US nor the Canadian public would accept explicit sexual portrayals this was less of a worry. (Our question about sex was taken by the CRTC to refer to sexual stereotyping, which is forbidden under licence conditions and which is a hot political issue.) The CRTC had it in mind to include in future licence conditions codes of practice which the industry was now drawing up, amended as necessary in the light of public hearings. The Canadian Association of Broadcasters had also suggested the formation of a voluntary Broadcasting Council, comprising representatives of the industry and of the public at large, which would act as a focus for complaints.

6. The CRTC had no locus in relation to videos, which were neither regulated nor classified.

7. The CRTC was now conducting public consultations about the possible use of 15-channel MMDS with a view to inviting licence applications. MMDS was not seen as a contender to cable, given that 30 household systems were now viable: it was more a question of serving remote areas. There might, however, be scope for MMDS as an alternative distribution system within cabled areas for the carriage of special interest (eg minority language) programming. At present cable operators were required to carry certain priority services (eg CBC). Minority language services might not be financially attractive to a cable operator but could not be regarded as a priority service.
<ak>nt/can/rad/tele/comm/crtc/12/11

FEDERAL DEPARTMENT OF COMMUNICATIONS

The Department is now considering the case for broadcasting legislation and what provisions it might include.

Discussion

2. Legislation needed to be technology-neutral and therefore not prescriptive. It would be wrong to stifle innovation by protecting any particular form of delivery mechanism, and there could be no guarantee that any form of protection would either work or prove to be in the long term public interest.

3. There was a dilemma at the heart of CBC. In order to retain its present audience share CBC has to have mass appeal. It is only that share that justifies its grant. At some point CBC ought to stop broadcasting US programmes altogether - they could perfectly well be delivered by cable. This would result in the Government having to increase its grant to CBC to compensate for the advertising revenue CBC would lose.

4. The costs of maintaining the CBC terrestrial transmitter network were a real worry. Cable (on which CBC was of course carried) was already so widely taken that it would be cheaper for the Government to cable up non-subscribers and pay their subscriptions than to maintain the transmitter network through the CBC grant. If this approach were taken to its logical conclusion CBC would cease to be a broadcaster and would become simply a programme provider distributing product through private sector delivery mechanisms.

5. The cable market was now pretty well saturated in the main centres of population. 80% of the total population was passed by cable, with an 80% penetration rate. Cable operators therefore wanted to move the industry on a step eg by making programmes

themselves or showing "live" advertisements (at present they could insert in programmes which were not taken off-air only still photographs, although these might be "riffled" at speed to convey the illusion of movement). It was essential for all these activities to be regulated so long as the Government was concerned to ensure an adequate proportion of indigenous Canadian production.

6. The plant of both the telephone and cable companies was ageing. Ought it to be replaced by co-axial or fibre-optic cable? This was not a matter for Government prescription, and either appeared capable of carrying HDTV services (for which there was insufficient bandwidth off-air).

7. There was an obvious conflict between broadcasters' commercial imperatives and the Government's concern to foster Canadian national identity and culture. In the past broadcasters had failed to produce enough Canadian programmes and had always promised, at licence renewal time, to do better. It would be possible for the CRTC to fine them for non-performance, but a better way of reconciling these considerations now under consideration might be to require broadcasters, as a condition of their licence, to put up a performance bond which they could earn back over the course of the licence. The system would be designed to encourage quality production rather than "quota quickies", so that to qualify for a rebate a broadcaster would have to score a specified number of points each year, with eg a ½ hour drama scoring four times as many points as a ½ hour quiz show. A points system would also have the advantage of reducing the subjectivity of the whole procedure. The Department believed that under such a system some broadcasters would earn their bonds back while others would be content to regard the forfeited bonds simply as an additional tax.

<ak>nt/fed/dept/comms/12/11

CANADIAN CABLE TELEVISION ASSOCIATION (CCTA)

The Association represents the operators of 913 cable systems. Cable is taken in 6m Canadian homes (68% penetration of TV households). Key statistics are annexed.

...

<u>Discussion</u>

2. Cable system costs were much cheaper in Canada than in the UK. Canadian operators favoured aluminium rather than copper wire. 70% of cable was above ground. Cable below ground was direct buried 2½ feet down, never ducted. Canadian operators had looked at the UK market many times but had always backed away. In Canada it cost \$200-\$300 per subscriber to build a system as against £13,000 in the UK.

3. The key to commercial success was rate of penetration, not level of subscriber fees. Fees were at present regulated by the CRTC, but even if they were not they would be kept down to maintain penetration.

4. Having achieved penetration cable operators now wanted the freedom to add more and more services. They accepted the obligation to carry CBC services, but they did not support the prohibition on carrying foreign services for which there was a genuine Canadian alternative. Having said that they claimed that they would not want to take Home Box Office because they believed that the Canadian equivalent was better and had successfully persuaded their subscribers to believe so too.

5. Pay-per-view was at present forbidden by the CRTC, because the industry had so far failed to explain how this would promote Canadian content. The industry saw pay-per-view, however, as a real growth area, although only in respect of speciality services over and above the basic service. Operators would buy pay-per-

view programmes on a per-subscriber basis, so they would not mind how large or small an audience was attracted.

6. There was no need for fibre-optic cable. HDTV could successfully be displayed via co-axial cable. Fibre-optic was seen as the Trojan House of US telephone companies.

7. Cable stations were required to allow community access programmes. They provided studios where local groups could come in and make programmes. There was minimal supervision. Everything was left to the good sense of all concerned. The provision of these facilities consumed about 7% of gross revenue. They constituted a contribution to Canadian life which could not be matched by a generic telephone common carrier.

8. We subsequently visited one of Ottawa's main cable operators where we saw a programme (in Arabic) going out directed to the city's Lebanese community.

<ak>nt/can/cable/tv/assn/12/11

CABLE TELEVISION
THE BASIC FACTS

GENERAL STATISTICS

Operating cable TV systems	913
Canadian households	8,991,675
Households with TV sets	8,869,292
Homes passed by cable	7,660,678
Kilometers of cable in place	

BASIC SERVICE PENETRATION

Households with basic service	6,028,000*
as a % of Canadian homes	67%
as a % of TV households	68%
as a % of homes passed by cable	78.7%

SPECIALTY SERVICES PENETRATION

Homes purchasing on a discretionary basis	1,134,090
Homes purchasing as part of basic service	115,959
Total specialty service households	1,250,049

INDUSTRY REVENUES

Average monthly fee (basic)	$10.67
Gross operating revenue (basic)	$ 762,774,000
Net profit before tax (basic)	$ 134,894,000
Net after tax profit (basic)	$ 71,000,000
Discretionary service revenue	$ 169,000,000

CABLE PROGRAMMING

Production studios	275
Hours of programming produced per day	1,500
Annual industry expenditure	$ 44,200,388

EMPLOYMENT

Persons employed	7,714
Industry payroll	$ 204,457,899

CABLE SYSTEMS ARE SMALL BUSINESSES FOR EXAMPLE, OF CCTA MEMBERS:**

70.1%	serve	under 6,0000 homes
19.0%	serve	6,000—25,000 homes
9.1%	serve	25,000—100,000 homes
1.8	serve	over 100,000 homes

[illegible]

ROGERS CABLE SYSTEMS

Rogers operates cable systems in Canada and the USA (with 2m subscribers). Its systems are amongst the modern in the world. It also owns a number of radio stations, a Toronto television station, and Canada's only cellular telephone company.

Discussion

2. Rogers saw a bright future for pay-per-programme. All its systems had this capacity. It was always on the look-out to buy the rights to films and special events which could be marketed on a pay basis. But there was no scope for pay-per-programme beyond films and special events.

3. Rogers' business strategy was, having achieved high penetration of basic cable, to sell more speciality services. In this it lacked complete freedom of manoeuvre. It wanted to pull down a number of channels distributed by satellite in the USA which the CRTC did not allow it to, whether because there was already a mandatory Canadian equivalent or because of the nature of the service.

4. In the same way Rogers wanted to be able to originate programming itself, but had so far been stopped by the CRTC.

5. Rogers acknowledged, however, that Canadian cable, having got off the ground by relaying US services which everyone wanted to watch with good reception, had been favoured over the years by the Government and the CRTC.

6. Rogers saw no need to go to fibre-optic cable. The cost escalated severely with the splitting of the cable, whereas splitting was of the essence of the cable business.

7. It was easier to buy cable systems in Canada than in the USA. Cable systems were conventionally priced on a multiple (about 12) of total subscriber cash flow; and in Canada the average subscriber paid $12-$15 a month as against twice that in the USA. Nevertheless it was likely that in due course the bulk of the US market would be controlled by 5 or 6 major operators.

<ak>nt/rogers/cable/systems/9/11

CTV

CTV is Canada's English-language commercial off-air television network (having 29 affiliated stations, 16 of them CTV shareholders). It has a 24% share of the English-language audience. There is an equivalent private sector French-language network, as well as 10 wholly independent English language commercial stations with which CTV competes. Total private sector turnover is $900m a year.

Discussion

2. CTV claimed to be under severe financial pressure. Three of its shareholding affiliates were running at a loss and it was touch and go whether 5 survived. CTV thought that it would not be able to survive further audience fragmentation, and regarded it as unreasonable that the Government and CRTC should be pressing it to "be Canadian" at the same time as exposing it to fierce competition. The idea of performance bonds was unworkable because if CTV put up a bond it would have no money to make programmes.

3. CTV dismissed the Task Force report as, in the words of the CTV President, "rubbish". It saw the Government and the CRTC has having been taken over by cable interests, who were forcing it to support its network affiliates in order to weaken its ability to compete head-on.

4. CTV thought that the managers of the Broadcast Fund were getting too involved in programme-making. The Fund should not be a quasi-broadcaster, but a bank.

5. CTV referred to recent research which showed that the practice of using VCRs to "zip" at speed through advertisements in recorded programmes did not blunt the impact that the advertisements had on customers.

6. CTV regarded Canadian commercial television as underfunded in relation to its US competitors receivable in Canada on cable. Nearly all consumer items advertised on Canadian television were US products; but US advertisers paid only 47% per viewer of what they paid in the USA.

<ak>nt/ctv/10/11

CJRT

CJRT is a non-profit making Toronto radio station, 58% funded by the Ontario Government. It provides classical music, jazz, folk and selected BBC Radio 4 programmes.

2. CJRT's annual budget is $2m. It has 34 full-time staff.

<u>Discussion</u>

3. CJRT readily acknowledged that its audience share was small (1%), but described it as loyal and fanatic. It received 42% of its income from voluntary (tax-deductible) subscriptions from 11,800 individuals and 475 corporate donors. It asked on-air for cash only twice a year.

4. CJRT was growing in strength. It had a 100 square mile service area, and was now being distributed by satellite to cable systems all over Ontario. It had no ambitions to change its programme format: it just wanted to keep its present audience happy.

5. CJRT was critical of the failure of the CRTC to enforce licence conditions. A number of stations had been allowed to stay on air despite broadcasting gross racial abuse.

6. CJRT relied mainly on recorded music, although it also arranged and recorded series of classical and jazz music.

<ak>nt/cjrt/11/11