Broadcasting Decision CRTC 2020-220

PDF version

Reference: Part 1 application posted on 3 October 2019

Ottawa, 10 July 2020

Corus Entertainment Inc.

Across Canada

Public record for this application: 2019-0957-4

Television services that form part of the Corus group of services – Licence amendments

The Commission approves in part an application by Corus Entertainment Inc. (Corus) to amend the broadcasting licences for the English-language television services that form part of the Corus group of services in order to amend those services' condition of licence relating to Canadian programming expenditure (CPE) under-expenditures.

Specifically, the Commission approves Corus's request to increase its maximum allowable yearly under-expenditure from 5% of the minimum required CPE for each year of the licence term to 10% of the minimum required CPE for each year of the licence term, but denies its request for its under-expenditures to be cumulative such that full payment of its total required CPE, including under-expenditures, be made up by the end of the licence term. In regard to under-expenditures for programs of national interest, which include Canadian programming in specific genres, the Commission finds, by majority decision, that the resulting additional flexibility that would also be granted to Corus in this regard would be a reasonable approach that would provide the licensee with the greatest degree of flexibility for its English-language services.

This decision takes into account a public record for this application that was completed before the onset in Canada of the current COVID-19 pandemic crisis.

Application

Corus Entertainment Inc. (Corus) filed an application to amend the broadcasting
licences for the English-language television services that form part of the Corus group
of services (the Corus Group) in order to amend those services' condition of licence
relating to Canadian programming expenditure (CPE) under-expenditures (condition
of licence 12.a set out in Appendix 2 to Broadcasting Decision 2017-150), which
currently reads as follows:

In each broadcast year of the licence term, excluding the final year, the licensee, in concert with the other undertakings that form the Corus Group, may expend an amount on Canadian programming and/or on programs of national interest that is



up to 5% less than the minimum required expenditure for that year calculated in accordance with conditions 11(a) and 11(b), respectively; in such case, the licensee shall ensure that the undertakings that form the Corus Group expend in the next broadcast year of the licence term, in addition to the minimum required expenditure for that year, the full amount of the previous year's underexpenditures.

2. Corus stated that it is seeking greater flexibility in regard to the CPE requirements for the Corus Group such that a) its maximum allowable yearly under-expenditure would be increased from 5% to 10% and b) its under-expenditures would be cumulative, with full payment of the total required CPE, including under-expenditures, to be made by the end of the licence term rather than requiring each year's under-expenditure to be made up in the year subsequent to the under-spend. Accordingly, Corus has requested that for the English-language services of the Corus Group, the above condition of licence be replaced by the following (changes in bold):

In each broadcast year of the licence term, excluding the final year, the licensee, in concert with the other undertakings that form the Corus Group, may expend an amount on Canadian programming and/or on programs of national interest that is up to 10% less than the minimum required expenditure for that year calculated in accordance with conditions 11(a) and 11(b), respectively; in such case, the licensee shall ensure that the undertakings that form the Corus Group expend by the end of the licence term, in addition to the minimum required expenditure for the final year of the licence term, the full amount of the previous years' underexpenditures.

- 3. According to Corus, given that CPE requirements are based on the gross revenues of the previous broadcast year, significant positive revenue swings over the last two years will cause an unanticipated spike in its CPE for the 2019-2020 broadcast year. It estimated that under the current regulatory flexibility accorded to its services, its minimum CPE for the 2019-2020 broadcast year will be \$23 million greater than originally anticipated in its 2019 budget projections. In Corus's view, being required to spend, within such a tight time frame, a higher amount on Canadian programming than predicted would impede its progress on its debt repayment strategy. It added that such a requirement would result in it making sub-optimal programming investments, which would lead to an over-supply of single-season shows, with limited export potential.
- 4. Corus further submitted that incremental investments in programs that are already in production would not necessarily result in an incremental improvement in programming quality. In its view, such investments to meet its requirements

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¹ Any flexibility that may be granted in regard to CPE under-expenditures would also apply to expenditures on programs of national interest (PNI) given that the latter include Canadian programming in specific genres. The impact that Corus's request for flexibility in regard to CPE under-expenditures may have on PNI expenditures is addressed in the section below relating to allowing the requested flexibilities to be applied to expenditures on PNI.

combined with holding back on debt repayment would leave it in a more vulnerable financial position in coming years. Corus added that it cannot benefit from the same synergies as do purely vertically integrated entities as a means of absorbing costs and dealing with fluctuating revenues.

- 5. Noting that the current regulatory framework for CPE requires that expenditures be calculated on an amortization basis, Corus argued that the cash burden of the additional CPE requirement stemming from the increase in unanticipated revenue is even more significant. It added that since amortization occurs over multiple broadcast years, only a portion of the additional cash expenditures would count as eligible CPE in the first year of program broadcast. Corus indicated that in order to meet its CPE requirements, it would therefore be required to commission a significantly higher volume of programming (amounting to \$67 million) in a very short and unrealistic period of time.
- 6. Finally, Corus stated that it must deal with an industry that is increasingly disrupted by foreign Internet giants involved in the production and distribution of content to Canadians, and that new foreign direct-to-consumer platforms will continue to enter Canada in the coming years.
- 7. The Commission received several interventions in regard to this application, some of which were generally supportive of Corus's application, while others opposed its requests for flexibility. Corus replied to specific issues raised in certain interventions. In addition, as noted below, in order to address the concerns of certain interveners, Corus submitted revised proposals to carve out programs of national interest (PNI) and French-language programming from the flexibilities it is seeking.

Issues

8. After examining the record for this proceeding in light of applicable regulations and policies, the Commission considers that the issues it must address relate to the following:

- whether approval of Corus's requests would be consistent with recent policy considerations relating to spending on Canadian programming;
- the impact that approval of Corus's request for additional flexibility could have on spending on Canadian programming; and
- whether approval of Corus's requests would be consistent with objectives of the *Broadcasting Act* (the Act), in particular, those set out in section 3(1)(s).

² BCE Inc. and Rogers Media Inc. (joint intervention), Blue Ant Media Inc., and Quebecor Media Inc., on behalf of TVA Group Inc.

Would approval of Corus's requests be consistent with recent policy considerations relating to spending on Canadian programming?

- 9. In an effort to allow broadcasters to better manage their CPE, particularly when production costs span more than one broadcast year, the Commission has traditionally allowed certain flexibilities in regard to the accounting of spending on Canadian programming. As an example, in Broadcasting Decision 2011-441, the Commission determined that all qualifying services of a broadcast group would be permitted to count CPE under- or over-expenditures of up to 5% in any broadcast year of the new licence term against CPE requirements in the subsequent broadcast year.³ In Broadcasting Regulatory Policy 2012-596, the Commission revised its group-based policy as it related to over-expenditures that may be deducted from the required expenditures on Canadian programming or PNI in the next broadcast year by removing the 5% limitation on the carry-over of such over-expenditures and the obligation to use them in the subsequent broadcast year. This same CPE spending flexibility was subsequently extended to smaller broadcast groups and several independent broadcasters.
- 10. In Broadcasting Regulatory Policy 2015-86, to support the production of high-quality programming, the Commission continued a shift in focus from a regulatory approach based on exhibition quotas (the number of hours of Canadian programming broadcast) to one based on expenditures (the amount of money spent on Canadian programming). The Commission further explained that the rationale for this approach was to avoid the repeated broadcast of programs and the broadcast of inexpensive programming in order to meet regulatory requirements, rather than incent the creation of high-quality productions.
- 11. Finally, the understanding of the need for regulatory flexibilities formed part of the basis of the Commission's 2018 report entitled *Harnessing Change: The Future of Programming Distribution in Canada*⁴ (the report). In the report, the Commission recognized that online services have turned the media ecosystem on its head with increased accessibility, flexibility and low pricing, and stated that this reality has had a direct impact on regulated broadcasters. As a result of these changes, the Commission further noted in the report that the tools it develops for the future must assume that unforeseen changes will be the norm and must be flexible enough to continuously adapt along with them.

³ At that time, qualifying specialty and pay television services were permitted to make-up under-expenditures of up to either 5% or 10%, or carry forward over-expenditures of the amounts spent on Canadian programming in one broadcast year against CPE requirements in the subsequent broadcast year. As noted in Broadcasting Decision 2011-441, certain parties to that proceeding proposed that all qualifying services be permitted to count under- and over-expenditures of up to 10% in any broadcast year of the new licence term against CPE requirements in the subsequent broadcast year. However, the Commission considered that a 5% level would be sufficient for all groups, especially given that the designated groups would also be granted the flexibility to count CPE on one qualifying service towards another service.

⁴ In 2017, the Government of Canada, via Order in Council P.C. 2017-1195, dated 22 September 2017, requested that the Commission examine the future of programming in Canada. The report was published on 31 May 2018.

- 12. Corus has requested additional flexibility in part to deal with the above-noted changes to the broadcasting environment, but also to avoid a sub-optimal spending strategy that would result in an increased quantity of programming, but would not necessarily result in programming that fulfills its longer-term programming and business strategies. In the Commission's view, providing Corus additional flexibility in regard to CPE under-expenditures would benefit both Corus, by allowing it to avoid being rushed into investing in programing of potentially lesser quality, and Canadians as consumers of content.
- 13. Moreover, the current approach to CPE requires broadcasters to base their programming expenditures on revenue totals that are not fully known to them until several months into the broadcast year. For this reason, the Commission introduced a measure of spending flexibility that allows CPE under-expenditures of 5% in a specific broadcast year as long as the amount of underspend is made up the following year. Such an approach is meant to accommodate certain market and other realities, including multi-year programming acquisition strategies, and to allow broadcasters to meet their regulatory obligations, while being mindful of a need for flexibility. In light of this approach, the Commission also agrees with Corus that spending on programming should not be done haphazardly given that such spending is part of a broader multi-year strategy that involves planning out quality productions on a cycle that often involves series to be commissioned for and broadcast over a number of years.
- 14. The Commission therefore finds that Corus's request for flexibility is consistent with recent policy considerations relating to spending on Canadian programming.

Impact that approval of Corus's request for additional flexibility could have on spending on Canadian programming

- 15. The Commission has considered the following in regard to Corus's request for additional CPE flexibility:
 - the impact that approval of Corus's request could have on its CPE;
 - allowing the requested flexibilities to be applied to PNI expenditures; and
 - the impact that approval of Corus's request could have on its expenditures on French-language children's programming.

Impact on Canadian programming expenditures

Interventions and reply

16. In their interventions, the Canadian Media Producers Association (CMPA) and On Screen Manitoba submitted that there is no evidence that the proposed amendment is necessary for the financial viability of the Corus Group. In the CMPA's view, Corus should not defer its CPE, PNI and independently-produced programming requirements in favor of achieving other priorities.

- 17. In response to Corus's argument that it does not benefit from the same synergies as vertically integrated entities, On Screen Manitoba submitted that the fact that Corus is a separately traded company on the Toronto Stock Exchange (TSE), a choice made by Corus's shareholders, should not in any way affect how the Commission manages CPE or any other of Corus's conditions of licence. It further submitted that Corus's decision to pay down its debt rather than focusing on CPE contributions led to the situation in which Corus now finds itself. The intervener added that Corus's argument relating to greater challenges from the emergence of over-the-top services is irrelevant as such services have now been around for years.
- 18. The Directors Guild of Canada (DGC) echoed On Screen Manitoba' position regarding digital players, and argued that Corus has not demonstrated why flexibility is necessary. According to the DGC, as echoed by the Writers Guild of Canada (WGC) in its intervention, the CPE policy and its approach for the group-based licensing of services already provides enough flexibility to broadcasters, such as the ability to redirect CPE requirements between services in addition to the 5% underspend on CPE. It argued that Corus's request is not isolated and is aligned with the Canadian Association of Broadcasters' (CAB) recommendation to increase the level of underspending from 5% to 10% as part of the Commission's overall consultation on its CPE policy. The DGC noted that in both cases, the CAB and Corus failed to demonstrate how this additional flexibility, which would have a detrimental impact on the production of independent Canadian programming, is necessary, and why the current policy does not already provide broadcasters with the tools needed to manage their licence obligations.
- 19. Finally, both the CMPA and the WGC expressed the view that approving the requested flexibility would be precedent setting. According to the WGC, the request of a single broadcaster points to potentially precedent-setting special treatment which does not reflect the spirit of the group-based licencing approach (as outlined in Broadcasting Regulatory Policy 2010-167). For its part, the CMPA noted that Corus may have other unforeseen inabilities to meet its forecasts and other changes in revenues, and argued that allowing Corus to make up for under-expenditures only at the end of its licence term could result in it not being able to meet its expenditure requirements.
- 20. In its reply, Corus submitted that the 2018 fiscal year proved extremely challenging, with consolidated revenues for the year down 2% from the previous year, driven by a 4% decrease in television advertising revenues and flat subscriber revenues. Further, it noted that the Competition Bureau prevented it from selling two French-language discretionary services to Bell Media, costing it \$200 million in sales proceeds and a significant deleveraging opportunity, and that it cut its dividend by roughly 80%. Corus added that in light of these financial challenges, it did not consider it financially prudent to increase investments in CPE above its requirements in the

⁵ This consultation, initiated by Broadcasting Notice of Consultation 2019-91, is addressed in greater detail below.

subsequent year, despite initial signs of financial success in 2019. In this regard, Corus argued that its financial projections and prior use of the CPE under-expenditure tool were prudent and reasonable.

Commission's analysis and decisions

- 21. In the event the Commission approves Corus's request for additional flexibility, the actual amount of Corus's expenditures directed to meet its obligations for the creation and presentation of Canadian programming would not change. As Corus stated in its application, it is not requesting a reduction in its spending obligation on Canadian programming, which would remain at 30% of previous years' revenues, but instead is requesting increased flexibility in the manner in which it spends on Canadian programming over the licence term.
- 22. The primary objective of having limited underspend flexibility in regard to CPE requirements, with underspend that must be made up the following year, was in essence to allay concerns over revenue and CPE volatility. Should Corus be permitted under-expenditures of 10% for each year, rather than the current 5%, but continue being required to make up any under-expenditures for one year in the subsequent year, the maximum annual fluctuation in expenses, when considered in the context of the industry as a whole, would represent slightly less than 1% of the overall industry annual CPE as reported to the Commission by Canada's licensed broadcasters. It would represent an even smaller percentage when factoring in Canadian production commissioned by domestic and foreign online services.
- 23. Should Corus be granted the full extent of the flexibility it is seeking (i.e., being permitted under-expenditures of 10% and being permitted to make up any resulting shortfalls for each year of the licence term in the final year of the licence term, rather than in each subsequent year of the licence term as currently required by condition of licence), the fluctuation between its second last and last year of the licence term risks being substantial given that the shortfalls would be permitted to accumulate.
- 24. In the Commission's view, this could force Corus to spend significantly in the final year of the licence term in order to adhere to its CPE obligations, particularly given that, as stated by Corus, only a portion of the additional cash expenditures would count as eligible CPE in the first year of the broadcast of content. Consequently, the Commission determines that granting both a 10% underspend flexibility and the ability for Corus to make up cumulative underspending by the end of the licence term, as sought by Corus, would make the potential for volatility in regard to its CPE requirements more significant.
- 25. In light of the above, the Commission finds that it would be appropriate to approve an increase in Corus's maximum allowable yearly under-expenditure from 5% of the minimum required CPE for each year of the licence term to 10% of the minimum required expenditure, while maintaining the requirement that any under-expenditures for one year are made up in the subsequent year.

Allowing the requested flexibilities to be applied to expenditures on programs of national interest

- 26. In its intervention, the CMPA noted that any under-expenditure provisions applied to CPE could also be applied to PNI under-expenditures. It, along with other interveners, expressed concern that the impact of Corus's request on its PNI expenditures was not demonstrated in its application. In this regard, the CMPA submitted that the Commission should have required Corus to file projections for its expenditures on PNI and independently-produced programming and allowed interveners the opportunity to provide further comments on this new evidence before rendering a decision.
- 27. For its part, the Association québécoise de la production médiatique (AQPM) expressed the concern that Corus may elect to spend on non-Canadian productions as a result of the flexibility sought. It alleged that Corus's application forms part of a broader strategy to eliminate expenditure requirements related to PNI and independent production.
- 28. In its reply, Corus stated that this application is not part of a larger scheme or agenda, and that the requested flexibility would not reduce investments in PNI. However, to address the concerns of certain interveners, Corus submitted a revised proposal whereby it would be ready to carve out PNI from the flexibilities it is seeking.
- 29. Corus is required to spend 8.5% of the previous year's revenues on PNI, 75% of which must be allocated to independently produced programming. In the Commission's view, the relative impact that approval of Corus's request for additional flexibility in regard to CPE under-expenditures would have on its PNI under-expenditures as a whole and on the independent production sector would be relatively small, particularly given that overall expenditures on PNI would not change. Moreover, as noted above, continuing to require Corus to make up any CPE under-expenditures (and, consequently, any PNI under-expenditures) for one year by the end of the subsequent year would alleviate any undue volatility regarding PNI expenditures. In this regard, as noted above, the flexibility sought by Corus represents only a very modest industry-wide impact on overall CPE, and, consequently, on overall PNI expenditures, even if Corus uses the flexibility to its maximum.
- 30. Finally, the Commission notes that PNI is generally more costly and riskier to produce than other forms of Canadian programming given that it often competes directly with the premium content available from non-Canadian sources.
- 31. In light of the above, the Commission finds, by majority decision, that the resulting additional flexibility that would also be granted to Corus in regard its PNI underexpenditures would be a reasonable approach that would provide it with the greatest degree of flexibility for its English-language services.

⁶ This level was set further to Broadcasting Decision 2018-335.

Impact on expenditures on French-language children's programming

- 32. In its intervention, the CMPA noted that Corus did not explain the potential impact that approval of the requested additional flexibility would have on French-language Canadian programming. The AQPM echoed this concern, noting that current expenditure requirements and the associated flexibility provisions are designed to ensure a steady flow of support to Canadian programming, including to particular cultural identities such as those that form part of the French-language market and their related growth and success. It also expressed concern over the potential damage that such flexibility could cause to the creation of French-language children's programming, noting that the financing for and production of such programming has reached a five-year low, but that audience demand for such programming has been increasing.
- 33. In its reply, Corus stated that its proposed amendments would not reduce investments in French-language children's programming. However, to address the concerns of certain interveners, Corus submitted a revised proposal whereby it would be ready to carve out French-language programming from the flexibilities it is seeking.
- 34. Corus's bilingual discretionary service TELETOON/TÉLÉTOON is subject to the following condition of licence relating to CPE, set out in Appendix 3 to Broadcasting Decision 2017-150:
 - 25. As part of its fulfilment of condition 3,⁷ the licensee shall in each broadcast year devote to the acquisition of or investment in French-language Canadian programming at least 9% of the previous broadcast year's gross revenues of the undertaking. Further, these expenditures may not be counted towards meeting the obligations of any other service from the Corus Group.
- 35. As specified in that condition of licence, any expenditures made by Corus towards the acquisition of or investment in French-language Canadian programming for TELETOON/TÉLÉTOON "may not be counted towards meeting the obligations of any other service from the Corus Group." As such, the Commission considers that the additional flexibility Corus is seeking would be of limited use for TELETOON/TÉLÉTOON and would have little or no impact on investment in French-language children's programming.

Would approval of Corus's requests contravene section 3(1)(s)(i) of the *Broadcasting Act*?

36. Section 3(1)(s) of the Act sets out the following in regard to Canadian programming:

⁷ Condition of licence 3 set out in Appendix 3 to Broadcasting Decision 2017-150 reads as follows: "In accordance with *A group-based approach to the licensing of private television services*, Broadcasting Regulatory Policy CRTC 2010-167, 22 March 2010, the licensee shall in each broadcast year devote to the acquisition of or investment in Canadian programming a minimum of 30% of the previous year's gross revenues of the undertaking."

- 3. It is hereby declared as the broadcasting policy for Canada that:
 - (s) private networks and programming undertakings should, to an extent consistent with the financial and other resources available to them,
 - (i) contribute significantly to the creation and presentation of Canadian programming, and
 - (ii) be responsive to the evolving demands of the public.
- 37. In its intervention, the Alliance of Canadian Cinema, Television and Radio Artists argued that approval of Corus's application would contravene that section of the Act as it relates specifically to the significant contributions by broadcasters to the creation and presentation of Canadian programming. It submitted that the Commission should "consider Canadians' ability to see high-quality, distinctive entertainment programming on their televisions and other screens" rather than Corus's argued financial needs, which largely underpin this application. It added that Corus has a considerable range of readily available options as it decides how to spend the additional money it now has available for CPE.
- 38. In its reply, Corus stated that its business priorities and plans as well as its support for Canadian productions are consistent with the Act.
- 39. Should the Commission approve the present application (in whole or in part), Corus's total CPE and PNI expenditures would in effect remain unchanged over the licence term; what would change is the amount of under-expenditures that could be carried over to a subsequent broadcast year. Further, in the Commission's view, the additional flexibilities that would be granted (under the partial approval scenario) should allow Corus to align its expenditures in a way that would better optimize its offer of high quality programming, in a manner consistent with the financial and other resources available to it, while having a minimal effect on the industry. Accordingly, the Commission finds that the partial approval of Corus's request, in accordance with the Commission's determinations above, would not undermine the objectives set out in section 3(1)(s)(i) of the Act.

Conclusion

40. In light of all of the above, the Commission **approves in part** the application by Corus Entertainment Inc. to amend the broadcasting licences for the English-language television services that form part of the Corus Group in order to amend those services' condition of licence relating to CPE under-expenditures. Specifically, the Commission **approves** the request by Corus to increase its maximum allowable yearly under-expenditure from 5% of the minimum required CPE for each year of the licence term to 10% of the minimum required expenditure, but **denies** its request for its under-expenditures to be cumulative such that full payment of the total required

CPE, including under-expenditures, be made up by the end of its current licence term. Accordingly, that **condition of licence** shall now read as follows:

In each broadcast year of the licence term, excluding the final year, the licensee, in concert with the other undertakings that form the Corus Group, may expend an amount on Canadian programming and/or on programs of national interest that is up to 10% less than the minimum required expenditure for that year calculated in accordance with conditions 11(a) and 11(b), respectively; in such case, the licensee shall ensure that the undertakings that form the Corus Group expend in the next broadcast year of the licence term, in addition to the minimum required expenditure for that year, the full amount of the previous year's underexpenditure.

41. The Commission notes that the above determination will not apply to spending on French-language children's programming for the service TELETOON/TÉLÉTOON. As such, the current condition of licence in this regard (i.e., condition of licence 25 set out in Appendix 3 to Broadcasting Decision 2017-150), will remain in effect.

Broadcasting Notice of Consultation 2019-91 – Call for comments on the Commission's policy on Canadian programming expenditures

- 42. In Broadcasting Notice of Consultation 2019-91 (the Call), issued in March 2019, the Commission called for comments on a proposal to update its CPE policy. In the Call, the Commission sought comment on, among things, whether the measure relating to CPE under-expenditures continues to be appropriate (see Question 17).
- 43. The Commission has rendered its decision in regard to Corus's application based on the full record of the proceeding for that application. In regard to the broader implications of additional CPE flexibility on the television broadcasting system that were raised by interveners to Corus's application, the Commission intends to address issues in that regard in the context of the proceeding initiated by the Call and will render its policy determinations based on the record filed as a part of that proceeding.

Secretary General

Related documents

Call for comments on the Commission's policy on Canadian programming expenditures, Broadcasting Notice of Consultation CRTC 2019-91,
 March 2019, as amended by Call for comments on the Commission's policy on Canadian programming expenditures – Direction to comply with a request for information, Broadcasting Notice of Consultation CRTC 2019-91-1, 10 May 2019

⁸ This decision takes into account a public record for this application that was completed before the onset in Canada of the current COVID-19 pandemic crisis.

- Reconsideration of licence renewal decisions for the television services of large English-language private ownership groups, Broadcasting Decision CRTC 2018-335, 30 August 2018
- Corus Entertainment Inc. Licence renewals for English-language television stations and services, Broadcasting Decision CRTC 2017-150, 15 May 2017
- Let's Talk TV The way forward Creating compelling and diverse Canadian programming, Broadcasting Regulatory Policy CRTC 2015-86, 12 March 2015
- Revised policy for large broadcast groups regarding Canadian programming expenditure over-expenditures for conventional television and specialty services, Broadcasting Regulatory Policy CRTC 2012-596, 30 October 2012
- Group-based licence renewals for English-language television groups Introductory decisions, Broadcasting Decision CRTC 2011-441, 27 July 2011
- A group-based approach to the licensing of private television services, Broadcasting Regulatory Policy CRTC 2010-167, 22 March 2010

This decision is to be appended to each licence.