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ABSTRACT

This paper discusses Canada's response to international television programming competition, both directly from signals from the United States that are available over the air or by cable, and from foreign programming exhibited by Canadian broadcasters. Major topics discussed are: (1) failure of government regulation to induce significant Canadian drama, variety, or children's programming prior to the establishment of the Canadian Broadcast Program Development Fund (the Fund) in 1983, which is administered by Telefilm Canada; (2) provision and guidelines for the Fund; (3) economic incentive provided by the Fund; (4)justification of Fund subsidies from television production in terms of externalities associated with the cultural significance of the programming; (5) evaluation of the Fund experience; and (6) lessons from the Canadian experience with the Fund. It is concluded that the Canadian experiences with, and responses to, American and other competition, are becoming increasingly relevant to other countries, given the technological developments that are globalizing the market for television programming. (18 references) (CGD)

STIMULATION OF NATIONAL TELEVISION PROGRAM PRODUCTION:

A CANADIAN SUCCESS STORY?

by

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and
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Paper presented to the International Television Studies Conference, London, England, July 10-12, 1986.

Canada has long faced international television programming competition both directly from US signals available over-the-air or by cable and from foreign programming exhibited by Canadian broadcasters.

In 1983, as a response to this competition and the failure of regulation to induce significant Canadian drama, variety or children's programming, Canada established the Canadian Broadcast Program Development Fund (the Fund) to be administered by Telefilm Canada. The Fund can now supply up to 49 percent of the investment for eligible independent television productions. Recently the Fund has been very successful in inducing Canadian programming as it was involved during seven months of 1985 in 137 projects with a total budget exceeding $132 million.

In Section I we provide background of the situation prior to the introduction of the Fund, in Section II describe the provisions of the Fund, and in Section III consider the economic incentive provided by such a Fund. In Section IV we consider whether a subsidy through the Fund can be justified in terms of externalities associated with the cultural significance of the programming, the infant industry argument, and/or employment opportunities argument. In the light of this, using data supplied to us by Telefilm Canada, the experience with the Fund is examined and evaluated in Section V.

Given the technological developments which are globalizing the market for television programming, the Canadian experience with, and policy responses to, American competition are becoming increasingly relevant to other countries. Lessons from the Canadian experience are examined in the final section.

I. THE SITUATION PRIOR TO THE INTRODUCTION OF THE FUND

An appreciation of the economic, technological, and regulatory environment in Canada prior to the Fund's introduction July 1, 1983, is necessary to understand why the Fund was introduced and to assess its achievements.

Canadian television programming faces competition from imported US signals, available over-the-air or by cable, and from US programming exhibited by Canadian broadcasters. In recent years US stations have enjoyed a viewer share of about 31 percent (CBC 1984: 14). Now satellite technology is presenting Canadian programming and the Canadian broadcasting system with yet another challenge. Canadians owning a 10 foot dish, costing about $2,000, can get access to a multitude of US satellite channels.

Canadian programming also faces competition from foreign programming exhibited by Canadian broadcasters. During a typical viewer week (January 15-21, 1983) foreign programming dominated the peak period (7-11 p.m.) offerings of CTV (80%) and Global (77%), the major English-language private broadcasters (see CBC 1983:33). The bulk of this foreign programming was American light drama. Although drama accounted for 49 percent of the time spent watching English-language Canadian broadcasters, only 2 percent was Canadian (see Minister of Communications, March 1983: 8). Similarly, there has been a serious deficiency in the area of children's programming and as a consequence English-speaking Canadian children spend more than 80% of their viewing time watching US programming (Juneau, May 9, 1985).

The dearth of English-language Canadian drama shows is not surprising as Lapointe and Le Goff (May 1980) estimated that revenue earned by such programming covered only about half of production costs. On the other hand, we have estimated, using Lapointe and Le Goff data, that the revenue an English-language broadcaster receives from showing a US drama is typically at least four times as great as the cost associated with buying the Canadian rights to exhibit that program. CBC vice-president Denis Harvey recently stated the cost, in terms of loss of advertising revenue and increased programming costs of replacing a season of an hour-long series such as 'Dallas' by a Canadian show to be $15,000,000 (Fraser, September 18, 1985: 11).

The role of regulation has been to attempt to force or entice private broadcasters to offer Canadian programming they would not otherwise undertake. The primary vehicle for promoting Canadian programming exhibition by Canadian broadcasters has been the CRTC's Canadian content regulations. These have required private stations to show 60 percent Canadian programming on a full-day basis and 50 percent on a prime time basis (6 p.m. to midnight) averaged over a year. Conduct regulation, which attempts to cause private firms to act against the interest of their shareholders, invites token responses, and private stations have thwarted the intention of the prime time quota by bunching Canadian programming in the early or late evening thus leaving the peak period for the profitable US programs. For example, CTV, 1978 to 1979, exhibited only 6 percent Canadian programming in peak period (8 p.m. to 10.30 p.m.) (CRTC, 1979: Volume 1, Table 14). Another ploy has been to concentrate Canadian programming in the summer off-season. A third has been to produce low cost programming to minimize the loss possible from satisfying the Canadian content quota.

The experience prior to the introduction of the Fund in 1983 demonstrates that conduct regulation failed to cajole or induce private broadcasters to exhibit significant Canadian drama, children's, or variety programming. This was finally recognized by the government in its policy paper, Towards a New National Broadcasting Policy (March 1983):

> In the new broadcasting environment, regulation is not sufficient to preserve an identifiable Canadian broadcasting system. In particular, it is vital, and now a matter of policy, that the private Canadian program industry have additional funds at its disposal in order to compete with the flood of foreign programming now available because of the new technologies. It is for this reason that the Federal Government has decided to establish a Canadian Broadcast Program Development Fund.

II. THE PROVISIONS AND GUIDELINES FOR THE FUND

As enunciated in Towards a New National Broadcasting Policy (March 1983) and the Memorandum of Understanding (February 21, 1983), the Fund was made available for assistance in the production of drama, children's, and variety programming; categories where there had been a particular dearth of Canadian product. Telefilm Canada was given discretion over whether its investment in a particular program was to be in the form of a loan, loan guarantee, equity, or some mix of these. The size of the Fund planned was $34,000,000 in 1983/84, increasing to $60,000,000 in 1987/88. The producer was required to raise at least $2 for every $1 investment from the Fund.

The Fund was to be available only to private Canadian production companies and independent producers. In addition, producers were required to obtain a letter of intent from an over-the-air Canadian broadcaster to exhibit the program within two years of its completion. At

least half of the Fund was allocated to television programs exhibited by private broadcasters with up to a half to programs exhibited by the CBC. Approximately one-third of the Fund was to be invested in French-language television productions and two-thirds in English-language television productions.

Changes to the original provisions and guidelines were laid out in the Memorandum of the Understanding (March 15, 1985) and became effective April 1, 1985. Fund eligibility was widened to include documentaries and the regulations were clarified to confirm their applicability to the performing arts. A letter of intent from a provincial educational broadcaster now qualified programs for Telefilm Canada Funding.

The maximum Telefilm investment was increased to 49 percent. To qualify for this increased limit, rather than the standard one-third, the program must earn the maximum 10 points on the CRTC ten-point scale determining Canadian content, unless it is a pilot for a series in which case six points out of ten is sufficient. This point system is based purely on the character of the inputs, two points being allocated for the director being Canadian, one point for the script writer being a Canadian, one point for the leading performer being a Canadian and so on.

Up to ten percent of the Fund was to be made available for script and project development, where there is a demonstrated interest by a broadcaster, on the basis of a maximum of 60 percent of cost. This provision permitted funds to be allocated to development of program proposals that might never reach the production stage. Previously funding of development costs was possible only for programs that were carried through to production.

III. THE ECONOMIC INCENTIVE PROVIDED BY THE FUND

Given that the Canadian capital market is reasonably efficient, if investments in Canadian drama, variety, and children's programming gave expected returns commensurate with their risk, there would be no need for the Fund because private venture capital would be available to provide the funding necessary. Thus the Fund subsidizes in the sense that most of its investments, virtually all which have been made in the form of equity, have an expected loss. Ex ante the Fund provides downside risk protection as it reduces the size of loss for other investors associated with any level of revenue generation below cost, while ex post it provides a subsidy for projects which fail to recoup all investment costs. If Fund investments are made partially or wholly subordinate to that of other investors, the latter may recoup all of their investment while Telefilm Canada bears the loss. It thus makes Canadian programming more economically attractive to Canadian producers, broadcasters, and other investors. The hope would be that such an inducement would result in some substitution of Canadian for US programming and, perhaps more realistically where private broadcasters are concerned, substitution of high quality Canadian independent productions in the desired categories for low-cost broadcaster-produced quota fillers.

IV. ECONOMIC RATIONALE FOR A SUBSIDY THROUGH THE FUND

Various arguments have been put forward for subsidizing Canadian television program production. Two justifications appear in the government's strategy paper, Towards a New National Broadcasting Policy (March 1983). Economic benefits are stressed, specifically the creation

of "a large number of additional jobs in the private program production centres." Another is "the overriding importance of ensuing that Canadian culture thrives in the new technological environments," and the consequent need to promote programming "which reinforces the cultural heritage of all Canadians."

The economic stimulus argument is effectively debunked by the Nielsen study report on culture and communication (1986:16) which concludes that public support in this area has "only a modest impact on income, tax revenue, productivity, and the balance of payments" and that "although the economic benefits may exist, they are unlikely to be as high as for other economic investments."

The economic basis of the cultural argument has to be couched in terms of market failure, namely that program producers do not receive revenue in return for the provision of external benefits to Canadian society as a whole resulting from citizens being exposed to additional Canadian programming. Such benefits would take the form of an increased sense of Canadian identity or awareness of Canadian themes and values amongst those viewing. Hence the private sector, in the absence of a subsidy, will produce less than an optimal amount of programs promoting such themes and values. A subsidy is justified if it is judged the benefits from such positive externalities outweigh the dollar cost of the subsidy necessary to induce the extra programming. In the next section we will examine whether the Fund has induced distinctive programming with significant positive externalities.

A third rationale worthy of consideration, although not put forward by the government policy paper, is the infant industry argument. This argues that a country may have a comparative advantage in production of a product or service that it does not currently produce, and a subsidy is

necessary to enable the industry to engage in a learning process and become proficient in the relevant technology. With respect to the feature film industry, Lyon and Trebilcock (1982) have stated that "the companion theory is that the economics of the film industry require government stimulation of massive amounts of production to foster an infrastructure that can eventually support the production of culturally significant films."

There is some reason for supposing that Canada does have a comparative advantage with respect to television program production, that it can produce equivalent programming at considerably less cost than the Americans. Paul Morton, of Global, told us that production costs in Canada in Canadian dollars are about equal to US production costs in US dollars. This suggests Canadian costs are 30% to 40% less for similar productions. An article in Variety ("Costs in Canada: What's Cheap, What's Steep," November 27, 1985, p.41) states:

> Aside from the favourable 35 cent dollar exchange, there are considerable overall savings for US productions done in Canada. ...film processing costs 8.5 cents a linear foot as compared to an average 13 cents a foot US. Work prints, negative transfers and other post-production costs are 20 to 30% less; set construction, location fees, vehicle rental and catering each about 20%.

We are inclined to give the infant industry argument, with respect to production of television programming in Canada, the benefit of the doubt but it is important to realize that this argument can only be used to support a temporary subsidy. The subsidy should be phased out when the industry has been established and the infrastructure is in place. The only justification for a permanent subsidy through the Fund is the positive externality rationale.

V. THE EXPERIENCE WITH THE FUND

In this section we evaluate the experience with the Fund to examine whether this experience is consistent with development of a viable independent production industry, which can be supported by the infant industry argument, and whether it has induced distinctive Canadian programming, the positive externality rationale for a subsidy.

1. Has the Fund led to the development of a viable independent production industry?

To some extent this question is premature. It would be more appropriate to attempt an answer in mid-1988, after five years of Fund operations. However, some early indications can be assessed.

As can be seen from Table 1, the Fund has recently been very successful in promoting production of Canadian programs. In the seven months prior to November 1985, Telefilm Canada invested $52 million in 137 projects which involved total expenditures of $132 million.[1] The Telefilm investment was already close to the planned budget for the year ending March 31, 1986. However, this success was neither instantaneous nor easily achieved.

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[1]All data in this section was provided to us by Telefilm Canada and are for contracted projects defined to include projects where a signed deal letter has been sent (although the contract has not yet been formally signed). Telefilm tell us that the deal letter constitutes a legal commitment and hence it makes sense to include such projects with those contracted. However, their inclusion means that our data for the first 21 months are not exactly comparable to those reported in <u>After Two Years</u> (Telefilm Canada, 1985).

Table 1

Investment in Fund Projects ($ million)

	July 1, 1983- Mar. 31, 1984	Apr. 1, 1984- Mar. 31, 1985	Apr. 1, 1985- Oct. 31, 1985	Apr. 1, 1985- Mar. 31, 1986
Telefilm Budget	34	50		54
Telefilm Investment	10 (36)[1]	45 (99)	52 (137)	
Total Investment from all sources	53	141	132	

[1]Numbers in brackets show the number of projects invested in.

During the first nine months (July 1, 1983 to March 31, 1984), the Fund got off to a very slow start. Telefilm Canada investment of $10 million in 36 projects was less than one-third the budget planned of $34 million (see Table 1). Part of the explanation may have been the normal lead time associated with a new program. Associated with this would be an initial dearth of suitable scripts and then lack of budget to stimulate their immediate provision. The importance of a generous supply of scripts is indicated by American practice:

> Prior to each television season in the United States, about 500 ideas of a new, mass market dramatic series are roughed out. About 250 of these get as far as detailed plot outlines and 100 go to scripting. About 50 reach the pilot film stage. Perhaps six actually go on the air, and perhaps three succeed in staying there for the full season or more. (McQueen, 1983: 130)

Another contributing factor may have been the average rate of Fund participation which was only 21 percent (see Table 2), well below the one-third maximum permitted.

Table 2

Average Level of Telefilm Participation (%)

	July 1, 1983- Mar. 31, 1984	April 1, 1984- March 31, 1985	April 1, 1985- Oct. 31, 1985
English-language	21	32	41
French-language	19	30	36
Total	21	32	39

The initial difficulties applied to both the English-language and French-language sectors. In dollar terms 47% of Telefilm investment was in French-language projects (see Table 3), obviously considerably in excess of the one-third guideline (but see footnote to Table 4). However, CBC was responsible for 72% of broadcaster expenditures on French-language Fund projects whereas the involvement of French-language private broadcasters was negligible (see Table 4). On the English-language side, private sector involvement was much greater (69%).

Table 3

Share of Telefilm Canada Investment by Language of Production

	July 1, 1983- March 31, 1984	April 1, 1984- March 31, 1985	April 1, 1985- October 31, 1985
English	53	78	67
French	47	22	33

Table 4

Share, by Type of Broadcaster, of Total Broadcaster Expenditure on Fund Projects

	July 1, 1983- March 31, 1984		April 1, 1984- March 31, 1985		April 1, 1985- October 31, 1985	
	English	French	English	French	English	French
CBC	31	72	70	5C	50	73
Education TV	0	6	3	39	4	20
Private	69	22[1]	27	3	46	7

[1] 21 percentage points of this was comprised of a co-production between France and the English-language network CTV. It was actually shot in English and then dubbed into French so the classification as French-language is very dubious. Only 1 percentage point involved French-language private broadcasters.

In aggregate the experience for the financial year beginning April 1, 1984 was very much better. From Table 1 we see that Telefilm invested $45 million in 99 projects, close to the planned budget of $50 million. It would seem that this improvement is at least partially due to two operating policy changes made by Telefilm Canada. It will be noted from Table 2 that the Fund participation rate went up to 32% (from 21% during the first nine months) so projects were now financed at the maximum rate possible. The other change was an increasing willingness by Telefilm to permit is own equity investment to be partially subordinate to private Canadian equity through tiered recoupment arrangements, made on a case-by-case basis.

However, the improvement was almost entirely due to the big increase in the involvement of CBC in English-language projects. From Table 4 we see that CBC's share of English-language broadcaster expenditures on Fund projects increased to 70% (from 31% in the first nine months.) A major negative aspect was the virtually complete withdrawal of the only private

national English-language broadcaster, the CTV network. French-language projects now accounted for only 22% (down from 47%) of Telefilm investments (see Table 3) despite the emergence of Radio Quebec, the provincial educational network, as a significant player with involvement in 39% of French-language projects. The private Francophone broadcasters remaincd uninterested.

The low level of private broadcaster involvement in both languages during the financial year April 1, 1984 to March 31, 1985 support the contention of Pierre Juneau, President of the CBC, that "without our commitment, the entire strategy supporting the utilization of the Fund would have collapsed" (May 15, 1984). When the CBC announced, December 1984, that it was withdrawing from future Fund projects (as a response to the decision by the Federal Government to cut the CBC's operating budget for the next financial year by $75 million) the future of the Fund was indeed in doubt.

During the seven month period beginning April 1, 1985, use of the Fund really took off with Telefilm investing in more projects (137) in seven months than in the previous 21 months (135) (see Table 1). The change in the guidelines with respect to the maximum participation rate, resulted in Telefilm funding increasing on average to 39% of project costs, up from 32% for the previous twelve months.

The changes induced CBC to cancel its planned withdrawal and remain a major player. For French-language projects, CBC's share of the broadcaster expenditures increased to 73% from 58% (see Table 4). Although CBC's share of English-language broadcaster expenditures fell to 50% (from 70%) its monthly dollar participation rate was higher than during the previous twelve months. In addition, there has been an upsurge in private broadcaster involvement in English-language projects

with the big difference being that the CTV Network now contributes 17% (up from less than 1% 1984/85) of broadcaster expenditures on English-language productions. Global's share has also increased substantially to 15% (from 6%).

Another aspect of the Fund's success, helped by the special provisions for pilot projects, has been its inducement of English-language series. This is important because series foster viewer loyalty and also have the best export prospects. This very success, however, has created a problem. An internal Telefilm Canada report prepared by Bob Linnell (Deputy Director) shows that "if all current 49% backed English-tracked series are renewed next season, they would take up the Fund's entire (English-language) $40 million allotment."

The only black spot is that the Fund is still failing to get significant support from the French-language private broadcasting sector despite the share of Telefilm investments in French-language projects being up to the guideline of 33%. There are several explanations for this lack of support. Michel Houle, formerly General Manager of Société Générale du Cinema du Québec, suggests a factor is the difficult union relationships that exist at the principal French-language private broadcaster Télé-Métropole. The strike history at Télé-Métropole leads to concerns that labour difficulties may arise if production is let out to private producers. In addition, the tough negotiating positions adopted by Télé-Métropole management have led to a low level of in-house production cost as a result of lower than average labour rates. We suggest another explanation is the profitability of télé romans (French-language soap operas) produced in-house. Lapointe and Le Goff's data suggests the advertising revenue generated is about twice the cost of such production. With proven profitable in-house projects it is

understandable that the private broadcaster does not wish to share the profits with independent producers or Telefilm Canada. Telefilm Canada officials believe that ownership changes at Télé-Métropole[1] and the licensing of a new station in Montreal will rectify the situation.

Another aspect of broadcaster participation worth considering is their share of the total expenditure on Fund projects. This is shown in Table 5, together with shares contributed by other selected sources. It was originally anticipated that Canadian broadcasters would pay about one-third of programming costs but as can be seen their contribution has never come near to that level. This is particularly the case for private broadcasters. Although the breakdown is not provided in Table 5, during the financial year 1984-85, the private broadcaster share of total cost was only 5%, much below the CBC's share of 21%, even though about 1/5 of the latter was in the form of equity rather than the straight licence fee

Table 5

Selected Sources and their Contribution (%) to
Total Expenditure on Fund Projects

	July 1, 1983-March 31, 1984		April 1, 1984-March 31, 1985		April 1,1985-October 31, 1985	
	English	French	English	French	English	French
Canadian Broadcasters	10	10	17	22	18	10
Canadian Producers	20	7	7	11	8	11
Canadian Private Venture	4	1	8	2	9	4
Foreign	30	37	28	23	18	23

[1]However, in April 1986 the CRTC rejected the bid of Power Corporation for Télé-Métropole. The Power Corporation can make a fresh presentation to the CRTC within two months.

preferred by producers. Thus private broadcasters have been able to exhibit a $500,000 program for a licence fee of about $25,000.

The proportion of foreign funding has decreased over time from around one-third to about one-fifth. This may be of concern in terms of the economic viability of projects where pre-sale is sometimes suggested as the key to recoupment of total costs.

Despite favourable tax treatment, the level of Canadian private venture capital has been low throughout. However, the steady growth in the share of an expanding budget coming from this source could be viewed as encouraging.

2. Has the Fund resulted in Distinctive Canadian Programming?

Table 6 reveals that in both languages, the Fund has been primarily successful in inducing drama, although the children's programming resulting has also been significant.

Table 6

Share of Telefilm Canada Investment by Program Category

	July 1, 1983-March 31, 1984		April 1, 1984-March 31, 1985		April 1, 1985-October 31, 1986	
	English	French	English	French	English	French
Drama	78	88	65	70	67	59
Children's	2	5	25	7	17	17
Variety	18	3	10	23	12	12
Documentary	n/a[1]	n/a	n/a	n/a	3	11

[1]Not Applicable as documentaries were not eligible for Telefilm funding prior to April 1, 1985.

We have argued earlier that the only justification for a permanent subsidy through Telefilm Canada funding is the positive externality rationale. Insofar as drama reflects and enhances an appreciation of and an identification with Canadian themes, values, history, and institutions, this category has significant externalities and is worthy of support. Not all drama does this, however. The danger with international co-productions is they may lose any Canadian distinctiveness. Even where no foreign money is involved there may be incentive for the producer to downplay any distinctiveness in the hope this will make it more acceptable to a foreign audience. For example, with respect to "Night Heat", shown on CTV, a critic (Remington, September 8, 1985:C4) writes:

> The sad thing for this Canadian-made series is that Toronto isn't Toronto. It's just an unnamed, typical big city that is supposed to pass for New York, Philadelphia, Chicago or if you want, Toronto. That's because 'Night Heat' is also running in the U.S. on CBS.

John Reynolds, General Manager of British Broadcasting Corporation's Co-productions states that the BBC does not follow this strategy:

> Firstly, we do not make "international" programs. We make programs to inform and entertain the British television audience. Nevertheless, we are both commercially and socially delighted, if they appeal to foreign viewers. Despite the need for co-production money, I see absolutely no sign of wavering on this basic principle. (Reynolds, July 11, 1985:16).

A subsidy for children's programming that is distinctive can be justified on similar grounds to those for drama. Positive externalities for documentaries can be justified on the grounds they lead to a more knowledgeable, better-informed population. We are somewhat less

convinced with respect to the extent of positive externalities for variety.

There is reason for concern that in recent months Telefilm Canada have been over-emphasizing rate of return considerations and under-emphasizing cultural significance. In our dicsussions with Telefilm Canada officials, fiscal responsibility in the form of a need to get a good return on taxpayers' money was emphasized. CBC officials, and a private producer, recounted the rejection of three CBC arts and music programs. Although this type of programming is eligible for Telefilm Canada funding, it appears that these programs were rejected by Telefilm Canada on commercial grounds. Telefilm Canada appears to be putting little weight on the cultural significance of programming and yet in the long run this is the only sound economic justification for subsidization through such a body.

VI. LESSONS FROM THE CANADIAN EXPERIENCE WITH THE FUND

The new satellite and cable technologies are propelling many countries into a situation where their indigenous broadcasting systems are having to compete with foreign signals. Due to its geographic location Canada's broadcasting system has long faced such foreign (US) competition and the Fund was developed specifically to meet this challenge. We thus believe that the following lessons gained from the Canadian experience with the Fund have wide application. Where appropriate we suggest changes in the provisions of the Telefilm Canada Fund.

1. A Fund can induce a significant amount of indigenous programming.

Recent experience with the Telefilm Canada Fund, with 137 projects with a total budget exceeding $132 million induced in seven months of 1985, supports this contention. However, the earlier experience suggests that a Fund will only be successful in this regard if it is structured and operated in a manner which provides sufficient economic incentive for private sector broadcasters to want to become involved.

The recent success only came about after the average level of Fund participation had increased from 21% 1983-1984 to 39% in 1985, and after Telefilm increasingly permitted its own equity investment to be partially subordinate to priviate Canadian equity through tiered recoupment arrangements. Other significant factors were changes in Fund guidelines to make script and project development eligible and to make pilot programs qualify for maximum support as long as they earned six points (rather than ten) on the CRTC ten-point scale. As we have seen, however, the success of the latter provision is stimulating continuing series has itself caused problems. We would recommend that the level of Fund support for continuing series be reduced after the first season. By then the series has an established track record and the risk of investing in additional programs is less.

2. In the long-term only distinctive indigenous programming should be funded.

Our analysis suggested that the only rationale for long-term support is the market failure argument where positive externalities justify a

subsidy. This requires that eligibility be judged on the basis of the output, the distinctiveness of the program itself, rather than the nature of the inputs (such as a criterion based on the CRTC ten-point scale) or the commercial viability (and consequent return on Fund investments) which recently seems to pre-occupy Telefilm Canada.

With respect to Canada, this suggests the following. During the period (we suggest to mid-1988 when the current Fund mandate expires) in which the infant industry argument remains valid, there should be a two-tiered level of Telefilm Canada funding. Programming, which does not have indigenous distinctiveness or cultural significance (such programming has been described to us by Mike McMillan, Atlantis Films, as "American clone programming") should receive the base level of support. Programming that can claim cultural significance, and hence eligibility under the positive externality argument, should receive an additional level of funding. After the phasing out of support based on the infant industry argument, only programming which can be justified by positive externalities should receive Telefilm Canada support.

The way this might work in practice is that during the interim period all projects that qualify under the ten point system, based on use of Canadian inputs, would automatically qualify for a base level of Telefilm Canada support as long as the producer could raise the rest of the financing elsewhere and get a letter of intent from an eligible Canadian broadcaster. Additional Telefilm funding would have to be specifically applied for and Telefilm Canada would make a judgment on the basis of the positive externalities/cultural significance of the output. After the interim period, with the infant industry argument no longer applicable, private producers could apply for Telefilm Canada funding only on the basis of the cultural significance of the program.

3. Only independent private productions should be supported.

The Telefilm Canada Fund can only invest in independent private productions. We agree with this approach as it diversifies the source for programming and promotes competition not only between the private producers themselves but also between these producers and in-house broadcast productions. With their different set of incentives we believe that independent private producers are more likely to aim for quality productions, both to establish their reputation and exploit export markets, than are private broadcasters. The latter are primarily concerned with packaging programming for exhibition and many of their in-house productions appear to be primarily aimed at filling CRTC Canadian content requirements at minimum cost. It also seems desirable to encourage the public sector broadcaster to purchase some of its indigenous programming requirements from independent producers who may be more efficient.

4. Only broadcaster supported projects should be Funded.

A desirable provision of the Telefilm Canada Fund is the requirement that the producer have a letter of intent from an over-the-air broadcaster (since the 1985 revision expanded to include provincial educational channels) to exhibit the program within two years of its completion. This ensures that funds are not wasted on programming that will be left on the shelf and makes the independent producers responsive to broadcasters' demands.

5. The need for an incentive formula that matches broadcaster licence fees.

The existing incentive formula used in the Telefilm Canada Fund has two shortcomings: use of a percentage formula to calculate the Telefilm Canada contribution leads to administrative effort to control budget inflation and the high Telefilm percentage used has caused broadcasters to minimize the dollar amount of their broadcast licence fees. This had led to anomalous situations. For example, several industry people mentioned a substantial Fund investment in a feature film, "One magic Christmas." A letter of intent from CITV made this film eligible for Broadcast Fund support. Yet CITV is an independent station based in Edmonton whose signal is available only in that city and in remote areas served by Cancom. With this small market the licence fee was obviously an insignificant contribution to the total cost.

The simplest way to deal with the budget inflation problem is to move directly to the support on a fixed dollar rather than a percentage basis. If considered in conjunction with the two-tier level of support program outlined above, this fixed dollar amount could be viewed as the dollar cost of achieving the development of the private Canadian program production industry during its infant phase.

The use of the fixed dollar investment while dealing with the problem of artificial budget inflation would also, by removing a matching of larger budgets, result in some tendency to lower cost programming. The actual dollar amount of the investment for each particular program category would have to be set (with an inflation factor) at a level that would permit the provision of quality Canadian offerings.

On the question of achieving larger broadcast licence fees, clearly what is required is some type of matching formula. What we recommend is that the basic flat dollar investment, designed to move the production industry out of the infant industry phase, be coupled with a dollar for dollar matching program by the Fund of all amounts invested in the project in the form of broadcast licence fees. Thus, for example, in the case of a project involving a one-hour program budgeted at $800,000, rather than a 49% Telefilm contribution of $394,000 and say a licence fee of $104,000, there could be a basic $100,000 plus a matching of say the next $200,000 of broadcast licence fee which would bring the producer a total of $300,000 from the Broadcast Fund and $200,000 from the broadcaster.

6. The Need to Reconsider the Role of a Public Broadcaster in such a Fund.

The CBC should be provided with a special envelope of financing tied to purchase of programming from the independent production sector. This would ensure that the CBC was fully able to access the Fund, possibly permit more continuing series to be produced, and most importantly would permit a restoration of a more reasonable level of broadcast licence fees. From the CBC's viewpoint this would, of course, facilitate the process of attaining higher levels of Canadian content during prime time. Of course, if the value of the special envelope was large enough that CBC licence fees increased to around 70-80% of production costs, Telefilm Canada funding would not be necessary for independent productions exhibited by CBC. This would be simpler and more efficient but politically difficult as it might appear that the Government was going back on its budget cuts for CBC. However, for other countries where no

such political constraint is in effect, this is the solution we would propose.

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