MBS RADIO

NEW BRUNSWICK
CKNB, CAMPBELLTON
CFAN-FM, MIRAMICHI
CKCW-FM, MONCTON
CFQM-FM, MONCTON
CHOY-FM, MONCTON
CJCW, SUSSEX
CFBC, SAINT JOHN
CJYC-FM, SAINT JOHN
CIOK-FM, SAINT JOHN

NOVA SCOTIA
CHNS-FM, HALIFAX
CHFX-FM, HALIFAX
CKDY-FM, WEYMOUTH
CKDY, DIGBY
CKAD, MIDDLETON
CKEN-FM, KENTVILLE
CKWM-FM, KENTVILLE
CFAB, WINDSOR
CKDH-FM, AMHERST
CHER-FM, SYDNEY
CJCB, SYDNEY
CKPE-FM, SYDNEY

PRINCE EDWARD ISLAND
CFCY-FM, CHARLOTTETOWN
CHLQ-FM, CHARLOTTETOWN
CJRW-FM, SUMMERSIDE

HEAD OFFICE ADDRESS:

MBS RADIO
90 LOVETT LAKE COURT
SUITE 101
HALIFAX, NS B3S 0H6
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January 11, 2019

The Broadcasting & Telecommunications Legislative Review Panel
c/o Innovation, Science & Economic Development Canada
235 Queen Street, First Floor
Ottawa, ON
K1A 0H5

Re: Call for Comments-Review of the Canadian Communications Legislative Framework

Dear Panel Members:

Maritime Broadcasting System is pleased to forward our comments relative to the above referenced issue.

Maritime Broadcasting System is a 100% Maritime owned, private broadcasting company operating 23 radio stations in Nova Scotia, New Brunswick and Prince Edward Island. Our radio stations broadcast in very small markets like Digby, NS and Sussex, NB along with larger, competitive markets such as Moncton, Saint John, Sydney, Charlottetown and Halifax.

We are proud of the services we provide to our local communities, many of which have seen the elimination of their newspaper or its significant reduction in local coverage. We are the only viable local media source in many of the markets we serve, including Sussex and Campbellton NB and Digby and Amherst NS. Over the years we have been the voice that has covered major local events; everything from hurricanes and tropical storms to elections, business closures, and crime. We participate or sponsor local community events and fundraisers for hospitals, service clubs, charities and concerts.

We are pleased to have the opportunity to share our views with the panel.

An integral statement in the Terms of Reference for this panel is: The opportunities and challenges of the new environment make it imperative that Canada has effective legislative and regulatory tools in place to support increased innovation, competition, diversity and choice.

The current environment for radio is difficult. Digital media has had a substantial negative impact on radio revenues. As of 2016, internet advertising accounted for more than a third of all Canadian advertising revenues, exceeding 5.5 billion dollars. These revenues were not "new-found" dollars; rather they came from other media. While there is no doubt newspaper has taken a financial hit, radio had been negatively impacted. Local commercial radio advertising across Canada has declined for the 5th consecutive year as noted in the CRTC 2017 Broadcasting Financial Summaries Highlights (in millions):

2103: $1,124

2014: $1,091

2015: $1,067

2016: $1,010

2017: $978

Major competitors for advertising revenue include YouTube, Google, Facebook and Spotify- all of whom are non-Canadian. In 2017, Canadian internet advertising revenue is projected to increase to 6.2 billion dollars which will represent fully 40% of all of Canada's advertising revenues.

In this environment, Maritime Broadcasting System has not been alone in aggressively managing costs. However, it is absolutely clear that going forward, unless radio revenue trends stop their negative trajectory, further cost reductions will directly impact our program quality. So, the simple question is, how can radio survive and thrive in Canada?

I would first suggest you consider the unintended consequences of your objective. One should consider the history of local radio over the last forty years and reflect on the past as an indicator of how the future is likely to unfold. In the late 80's and early 90's, the profitability of radio was difficult and the regulations were adjusted to allow additional multi-station ownership and/or local management agreements (LMA's). These changes led to consolidation but greater diversification of programming and the ability to reinvest in innovation and infrastructure. As the overall macro economy improved, demands by all private broadcasters resulted in a proliferation of new licenses. There is an old saying, "Be careful what you wish for!"

I appeared at a number of public hearings during that period and consistently made the argument that adding additional stations to a market never grows the pie. On this point and particularly for small markets, I have been proven correct. In these markets we have added too many choices and formats which ultimately led to too much fragmentation which has become impossible to sell in this new digital environment. This ultimately will lead to stations closing and abandoning small markets similar what has happened in the newspaper industry.

To avoid the above outcome, we respectfully submit the following recommendation:

Aggressively change regulations to streamline the approval process to allow for Local Management Agreements (LMA's). Broadcasters must be able to increase our operational efficiencies in what is an increasingly harsh environment. While the CRTC will accept applications for consideration for local sales/management arrangements (LMA's), there are many requirements that stifle the ability to do so.

LMA's can reduce general operating expenses including sales, promotion and accounting, all the while protecting the news and programming of each station. An LMA operated in Halifax in the late 1990's. Members of this LMA included Newcap (now Stingray) and CHUM (now Bell Media) and a local independent operator. We operated 2 radio stations against this LMA. While it was difficult to compete against a 5 station LMA, radio profitability for the market increased. Yes, it was a different time then, and now there are 10 commercial FM's in Halifax operated by 5 companies. But if we look closer at today's environment in Halifax, there are a minimum of 5 radio sales representatives calling on local businesses for advertising. And we are often competing for a dwindling radio advertising budget. Then add to this the huge additional digital choices available to carve up what is essentially a static advertising budget. It is not a promising outlook for radio. We need to be in an environment where radio <u>collectively</u> can compete against these multi-national conglomerates.

Similar to the LMA of the past in Halifax, the CRTC regulations are very specific to the requirements for each broadcaster to have total control of its news and programming and we fully support this now and into the future.

LMA'S offer broadcasters the opportunity to increase their operational efficiencies while ensuring distinct local and separate programming.

In the CRTC examination of LMA's (CRTC 2005-10), the Competition Bureau argued:
"that LMA's should be dealt with in the same manner as any other merger. It argued LMA's have the same competitive effects on advertising markets as a consolidation and should be subject to the same competitive analysis. The Bureau further submitted that LMA's will likely result in significant increases in local advertising rates. According to the Bureau, "LMA's have an impact on competition in relevant advertising markets to the extent that they have the effect of entrenching or increasing the ability of radio stations to exercise market power by raising advertising rates or reducing quality".

A lot has changed in the 13 years since this review. LMA's cannot have "the same competitive effects on advertising as a consolidation." Radio and LMA's have competition from non-regulated digital behemoths YouTube, Facebook, Google, Spotify etc. A local advertiser in a community the size of Miramichi, New Brunswick can advertise of Facebook for less than the cost of a regular 30 second commercial on one of the 2 competing commercial radio stations there.
There are smaller markets in Nova Scotia that are served by one radio broadcaster with 2 licenses in their community. A few examples of this include Truro, with 2 FM's owned and operated by Bell, New Glasgow with 2 FM's owned and operated by Stingray and Bridgewater with Acadia Broadcasting owning and operating 2 FM radio stations. We find it disingenuous to think that any of these broadcasters are "exercising market power by increasing advertising rates or reducing quality." Digital competitors put a negative pressure on advertising rates and radio cannot sustain itself if it lets its only unique selling proposition- LOCAL- decrease in quality.

There are also smaller markets that are served by 2 competing broadcaster. A prime example of this is Miramichi, New Brunswick, where Maritime Broadcasting operates a stand alone FM station that competes directly with a stand alone FM operated by Stingray. Unlike the other smaller markets outlined above, these Miramichi radio stations operate without their synergies. Miramichi stations operate in different buildings, with competing sales staffs, separate technical resources including engineering services, production and commercial writing services amongst other things. In this new environment, which is increasingly trending against local radio, why shouldn't these radio stations, if desired, have the ability to form an LMA? Yes, programming, including news, would be specifically separate and would continue to be the responsibility of the individual licence holder. As has been shown in the past, when there were selected LMA's in Canada, radio stations would compete for their target listeners and advertisers. However, they could then be selling the attributes of local radio rather than competing for the same radio dollar. We can then operate more efficiently and sell together rather than against each other.

These increased efficiencies can put radio on a more level playing field. In our respectful opinion, it would be foolhardy to wait until radio stations are no longer profitable to consider LMA possibilities.

As mentioned in our opening statements, radio stations have been aggressively managing costs while ensuring quality local programming. However, there are very few costs left that can be cut without having a significant impact on quality programming. In the 2012 to 2016 reporting period for 3 Atlantic Canadian markets, commercial radio employment in Halifax has dropped from 178.2 to 125.3 or 24%. At the same time, employment dropped in Moncton from 80.0 to 67.4 or 16% and in Saint John employment fell from 63.1 to 44.7 or a drop of 23%. All of these numbers are reflective of the same amount of reporting radio stations in each market throughout the 2012-2016 period. While some of these numbers could result from increased operational efficiencies, a significant portion could be from outside of this.

If we want to at least maintain employment, radio must be in a position where it can increase efficiencies that do not diminish the local value proposition we offer to both listeners and advertisers.

According to the Local News Research Project, 250 Canadian news outlets have closed in the 10-year period from 2008 to October 2018. While a few were a result of media mergers, the cast majority closed outright. While 350 have closed, there has been only small number of new entrants. If one looks at Ottawa- a city of over one million people, both daily newspapers- the Citizen and the Sun- operate with one newsroom and within one building. It is a troubling trend.

Maritime Broadcasting is requesting that LMA's be easily available for private commercial radio, with the specific requirement that news and programming remain totally separate for each licensee. While we have limited time, this is the opportunity to ensure radio can remain a relevant and local voice of the community it is licensed to serve.

We would like to address other issues that rose from the LMA 2005-10 procedures. For ease of reference, we are copying selected comments and offering our position reflective of the realty in 2018:

"The (competition) Bureau also stated that the combined control of radio stations through mergers or LMA's would lead to competition policy concerns when such control leads to a potential lessening on competition. It argued that radio advertising has no sufficiently close substitutes..."

LMA's did not and will not "lead to a potential lessening on competition." The behemoths were not on the radar in 2005. Facebook started in 2004, YouTube in 2005, Spotify in 2006, Twitter in 2006 and Instagram in 2010. There is a staggering amount of new advertising choices, most of which are foreign.

"None of the broadcasters agreed with the Bureau's position that radio advertising has no sufficiently close substitutes."

It is beyond any reasonable doubt that the Bureau's position in 2005 could not even remotely apply in 2018.

"Newcap submitted that, because of the impact on revenues resulting from the termination of LMAs, its stations went from being profitable to being cash flow negative in every one of the markets involved. Newcap was of the view that, in small market situations, an LSA can make the difference between making money or not. It submitted that the ability to work together on sales brings a consolidated offering for advertisers in the marketplace and allows the stations involved to be more profitable."

LMA's can give radio operators an increased chance at effectively competing against foreign digital offerings.

"The OIRG argued that radio operates in a competitive advertising market and that the benefit of LMAs or LSAs are very significant in that they enable stations to sell the product better and more efficiently. Furthermore, the OIRG advocated allowing LMAs and LSAs on a case-by-case basis to improve the profitability of stations in smaller markets by allowing operators to share costs such as traffic, accounting and engineering. The OIRG submitted that such an approach provides small market stations the same opportunity as large market clustered operations."

We respectfully submit that LMA's should not be considered on a "case-by-case" basis. If operators agree to form an LMA, then they must maintain separate and distinct programming as per their broadcasting licence. In a significant number of situations, an LMA may not improve "profitability" but will improve radio's viability and sustainability.

The distribution of radio is at risk. Private radio is the only freely available, local, audio based medium in Canada. Our radio stations broadcast over the air on our respective frequencies and thru on-line streaming via our websites. However, the availability of radio is severely limited outside of these current delivery mechanisms. For example, studies have shown that only 20% of cellphones sold in Canada have a manufacturer FM radio chip-either installed, or in the majority of cases, activated. Thus a large number of listeners are having to use Wi-Fi or their data plans to access local radio. This 20% figure is substantially lower than EU countries or the United States or Mexico. Radio listening can hold its own if it is offered other means of delivery via cellphone manufacturers, providers and automotive companies. We would encourage the government to explore avenues whereby this issue can be resolved; either via taxes or fees for non-compliance. The long term future of local Canadian radio is at risk.

Radio needs greater flexibility on old and cumbersome regulations including multiple station ownership restrictions on AM and FM radio stations in a market. As you are aware, current regulations restrict ownership to a maximum of 2 AM and 2 FM radio stations within a single market. We operate in 2 markets where this policy continues to severely impact our fiscal health. More specifically, we operate 2 FM stations in Sydney and Saint John along with an AM station in both cities. Because of existing regulations, we are currently forced to either continue operating these AM stations or shut them down. Further note that in much larger markets such as Halifax, there are no AM radio stations in operation. With today's difficulty in even securing parts and supplies for AM facilities, let alone the increasing lack of availability of AM radio receivers, this business model cannot and will not survive.

We respectfully suggest the Commission revise its current regulations to permit operators to convert any existing AM station to FM. This conversion will ensure that going forward, operators will not have to continue to subsidize their AM stations from their FM revenues and will offer listeners a far superior listening experience.

In summary, the revenue and profitability for radio in the next 5 years is under a clear threat. Local radio provides community reflection. It is an intrinsic part of the Canadian landscape. We are involved with the community. We play and promote Canadian music. Foreign digital media does not. We need greater flexibility, less regulation and more support. Let's work together to ensure radio has the right environment to grow and prosper and not follow the sad past of what has happened to the print industry in this country.

All of which is respectfully submitted.

Sincerely,

Jim Meradett for

Robert Pace

Chairman

Maritime Broadcasting System