NATIONAL FILM BOARD OF CANADA

Broadcasting Public Notice CRTC 2006-72

Call for comments on a request by the Governor in Council pursuant to section 15 of the *Broadcasting Act* to prepare a report examining the future environment facing the Canadian broadcasting system

September 1, 2006

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EXECUTIVE SUMMARY

1. The transformation from analog to digital formats is the basic technological change that is transforming the audio-visual sector at all levels. This transformation is affecting audio-visual conception and development, production, distribution, exhibition and the nature of social engagement through media. The transition to digital formats is creating new exhibition platforms that are reshaping the audio-visual environment and fragmenting audiences. The universality of media activity has been accompanied by the entry of large corporations into new and traditional media opening the door to new forms of partnership with non-traditional partners, including the National Film Board of Canada (NFB).

2. Digital technologies offer more flexibility in conception and development, production, distribution, exhibition and the nature of social engagement through media than do analog technologies. Digital technologies also offer the possibility of fulfilling demands by racial, linguistic and other minorities for highly specialized and personalized niche programming that responds to particular needs. The NFB is committed to such communities, particularly the younger generation of filmmakers, and to working with and training them in the new digital forms of expression.

3. The universal nature of digital media favours the globalization of audiovisual production, distribution and public access. The new digital services, including mobile video broadcasting services and web sites catering to consumer/user-generated audio-visual material have the potential to draw audiences and adverting revenues away from licensed Canadian television services. As a result of the multiple distribution channels available on the Internet, Canadians are turning to foreign, often U.S. web sites because there is a deficiency of domestic choices.

4. In the absence of an overall national strategy, Canada risks falling behind other countries in the race to establish a domestic presence in the new audio-visual environment. In this new environment, the presence of Canadian voices, including public service oriented voices, is essential to the maintenance of Canadian individuality and identity. Unless there are French-language and English-language Canadian alternatives, future generations will increasingly gravitate to web sites oriented to U.S. habits and viewpoints. In the new communications-based world of tomorrow, governments must find ways to provide more financing to underwrite the research, development, production, distribution, exhibition and promotion of original Canadian content.

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INTRODUCTION

5. This document contains the response of the National Film Board of Canada (NFB) to the Government of Canada's *Call for comments on a request by the Governor in Council pursuant to section 15 of the Broadcasting Act to prepare a report examining the future environment facing the Canadian broadcasting system*, set out in Broadcasting Public Notice CRTC 2006-72.

6. As Canada's national public film production institution, the NFB produces and distributes distinctive, high quality, culturally diverse audiovisual works that provide Canadians and people around the world with a Canadian perspective. In 2005-06, the NFB completed 109 original film productions: 58 NFB productions and 51 co-productions. Most of this work occurred in the documentary and animation categories.

7. Since its inception, the NFB has distinguished itself by its strong commitment to excellence and innovation. The NFB's strength lies in its ability to marry technological innovation to the creative process. The NFB is a live, interactive laboratory, bringing together Canadian and international creators and partners in the development of new ways to reach and engage Canadians. In recent years, the NFB has transformed its Technical Services sector into a centre for innovation. Its specialists have partnered with industry leaders in Canada (Algolith, La Fondation Daniel Langlois, Discovery Canada) and around the world (NHK in Japan, Rain Network in Brazil). All of this is accomplished with a social commitment towards communities of interest (minorities, socially disadvantaged, handicapped) with a focus on the younger generation of filmmakers, working with and training them in the new digital forms of expression.

8. According to section 9. of the *National Film Act*, "the Board is established to initiate and promote the production and distribution of films in the national interest." [1] This is the basic, on-going purpose of the NFB. Among other things, it means giving authentic Canadian expression to Canadian values and perspectives. Section 9.(c) of the *National Film Act* identifies as one of the purposes of the NFB "to engage in research in film activity and to make available the results thereof to persons engaged in the production of films". To this end, the NFB seeks to encourage innovation and experimentation in traditional media, new media and alternative fiction. Section 9.(d) of the *National Film Act* identifies another of the purposes of the NFB as "to advise the Governor in Council

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[1] According to the *National Film Act*, "'film' means motion pictures, still photographs, photographic displays, filmstrips and such other forms of visual presentation as consist primarily of photographs or photographic reproductions." The definition therefore encompasses all manner of analog and digital audio-visual material.

in connection with film activities". With this in mind, the current document outlines the NFB's vision with respect to the future environment facing the Canadian broadcasting system.

A) THE CURRENT STATE OF AUDIO-VISUAL TECHNOLOGIES AND THEIR PREDICTED EVOLUTION OVER THE COMING YEARS

9. The transformation from analog to digital formats is the basic technological change that is transforming the audio-visual sector at all levels. This transformation is affecting audio-visual conception and development, production, distribution, exhibition and the nature of social engagement through media.

10. The new digital technologies allow consumers themselves to generate audio-visual material and exchange it with peers through interactive distribution channels. The transition to digital formats is creating new exhibition platforms that are reshaping the audio-visual environment and fragmenting audiences. New modes of audio-visual expression can emerge very suddenly and attract considerable interest and activity in a short period of time leaving the impression of considerable de-centralization in media activity.

11. At the same time, the universal nature of digital media is also inducing changes in industrial organization by encouraging vertical integration and cross-media ownership designed to capture economies of scale and of scope. The universality of media activity has been accompanied by the entry of large corporations such as Bell Canada, Telus and Quebecor into new and traditional media opening the door to new forms of partnership with non-traditional partners, including the NFB.

12. The universal nature of digital media also favours the globalization of audiovisual production, distribution and public access by Canadians. In the absence of an overall national strategy, Canada risks falling behind other countries, particularly the United States and the United Kingdom, in the race to establish a domestic presence in the new audio-visual environment. In the new environment, the presence of Canadian voices, including public service oriented voices, is essential to the maintenance of Canadian individuality and identity. As a major public producer of Canadian audio-visual material, the National Film Board of Canada is leading the way in the development, production and distribution of distinctive, culturally diverse, challenging and relevant works that provide Canada and the world with a unique Canadian perspective.

13. As with other public and private producers, the NFB is adapting its activities to the digital environment, which is becoming the norm in the audio-visual industry. The NFB began investing in production and post-production equipment and filming in high definition (HD) digital format in 2004. This year, 25 % of our documentaries will be produced in HD. By next year, 2007-08, we expect 60% of our projects to be produced in HD and we would like to produce all of our productions in HD by the following year.

B) WITH RESPECT TO THE USAGE OF AUDIO-VISUAL TECHNOLOGIES BY CANADIANS

(i) Changes in the usage of audio -visual technologies by Canadians since January 1, 2000

14. Since January 2000 there have been enormous changes in the use of audio-visual technologies by Canadians. For example, in the year 2000, there were no digital specialty television channels in Canada. As of August 31, 2005, the CRTC reported 71 digital channels in operation.[2] The growth in the number of digital channels has encouraged the volume of Canadian digital satellite and cable television subscribers from 3,051,000 in June 2002 to 5,275,000 in September 2005.[3]

15. Digital cinema movie-going is also becoming a reality in Canada although, given the sole reliance on a market-oriented policy approach to conversion, much like Canadian off-air digital television broadcast, the adoption of digital cinema projection is proceeding very slowly in Canada compared to other countries. For example, in the United States there are currently 872 digital cinema installations compared to 12 in Canada (see Table 1).

Table 1
Digital Cinema Installations in Canada, 2006 [4]

Location Detail	Screens	City	Province	Organization
AMC Forum 22	1	Montreal		AMC Entertainment
AMC Winston Churchill 24	1	Oakville	Ontario	AMC Entertainment
Cineplex 10 Theatres at Conestoga Mall	1	Waterloo	Ontario	Cineplex Entertainment
Cineplex Colossus Woodbridge	2	Vaughan	Ontario	Cineplex Entertainment
Cineplex Entertainment Montreal	1	Montreal	Québec	Cineplex Entertainment
Cineple x Galaxy 9	1	Cambridge	Ontario	Cineplex Entertainment
Cineplex Silver City Mississauga 10	1	Mississauga	Ontario	Cineplex Entertainment
Deluxe Sound and Picture	2	Toronto	Ontario	Deluxe Sound and Picture
Ex-Centris	1	Montreal	Québec	Ex-Centris
Paramount Canada's Wonderland Magic of the Movies	1	Toronto	Ontario	Paramount Parks

Source: http://www.dcinematoday.com/ (29 August 2006)

[2] CRTC, *Pay and Specialty Statistical and Financial Summaries (with amortization) 2001-2005*.
[3] CRTC, *Broadcasting Policy Monitoring Report 2006*.
[4] In March 2002, the seven principal Hollywood studios, which also comprise the Motion Picture Association of America (MPAA), created Digital Cinema Initiatives (DCI) to develop digital cinema standards acceptable to DCI's partners. The cinema installations presented in Table 1 appear to be limited to "d-cinema" installations that can potentially fulfil the DCI specifications announced on 27 July 2005.

16. At the same time, the demand for mobile video broadcasting services is growing. These services provide wireless customers with real-time access to audio-visual content on their wireless handsets. In order to access the services offered by Bell, Rogers, Telus and LOOK, for example, subscribers must be equipped with a compatible handset, subscribe to a data service plan provided by a wireless carrier, and pay a monthly subscription fee.

17. Finally, in the last few years, there has been an important increase in the volume of web sites catering to consumer/user-generated audio-visual material. YouTube.com ("broadcast yourself"), founded in February 2005, is a web site for people to watch and share original short films through a shared experience.[5] At YouTube.com, visitors engage in new ways with audio-visual material by sharing, commenting on, and viewing short films. YouTube originally began as a personal video sharing service, and has expanded into an entertainment destination that claims its worldwide visitors are viewing 70 million films on the site daily.

18. The new digital services, such as mobile video broadcasting services and web sites catering to consumer/user-generated audio-visual material have the potential to draw audiences and advertising revenues away from licensed Canadian television services.

(ii) Changes in demand for various kinds of programming and programming services since January 1, 2000

19. With new digital distribution channels, audio-visual programming can become a nodal point for a range of activities that may involve Internet content, mobile devices and original user-generated digital production.

20. A new demand for short films is developing in niche markets such as wireless broadcasting and downloading to small hand-held devices.[6] There is also a growing interest on the part of licensed broadcasters for short animated films produced by auteur filmmakers. The NFB has a long-standing interest and expertise in short film production because the short film format is particularly suited to the production of animation and certain forms of documentary.

21. Recently, the NFB has also been developing more feature-length documentaries and will be extending this to innovative drama in the near future. These drama features will generally be of an alternative and experimental nature, often addressing social issues or other subject matter in which private sector producers are less interested. For example, the NFB is currently developing one such project with the Canadian director, Deepa Mehta.

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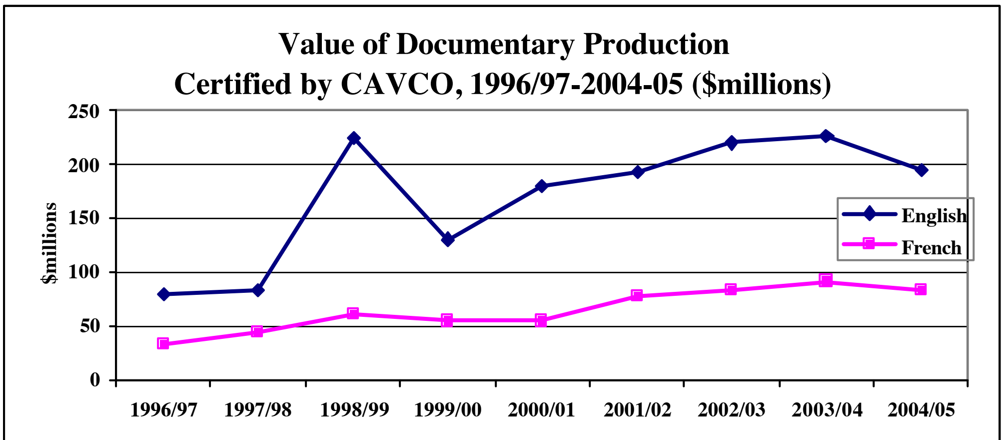
[5] http://www.youtube.com/ NBC is collaborating with YouTube.com to present preview clips for its dramatic series, *The Office*, via an NBC Channel that will be promoted throughout YouTube.com's site.

[6] Short films can be defined as Point of View (POV) films, videos and digital productions in a one-off format with a running time of up to 24 minutes. Programs in a 30-minute format destined for television broadcast may exhibit a running time of as little as 24 minutes (or even less in the case of animation) to accommodate advertising breaks.

22. As noted in a recent research document, the period of rapid growth in traditional documentary television production may be at an end.[7] In the last year or so, English-language independent television documentary production in the traditional 30-minute or one-hour format appears to be declining. French-language independent documentary production for television has remained more stable but this may change once the effects of the analog specialty services launched in the year 2000 have run their course and newer, non-traditional distribution channels come to the fore. See Chart 1.

Chart 1



Source: Nordicity Breakdown of CFTPA Profile 2006

23. At the same time, the phenomenal international success of feature documentaries presented in movie theatres, such as *Space Station*, *Bowling for Columbine*, *Winged Migration* and *Fahrenheit 9/11*, has led to unprecedented growth in the interest for theatrically released documentaries since 2002.

(iii) How Canadians of different generations use various technologies and the impact that these different uses will have on the broadcasting system

24. Digital technologies offer more flexibility in conception and development, production, distribution, exhibition and the nature of social engagement through media than do analog technologies. For example, they offer opportunities for flexibility in storytelling, non-linear storytelling and the expression of multiple points of view that are particularly attractive to young people. As well, digital technologies enhance the opportunity to undertake "multi-tasking": viewing a film on a computer screen while engaging in "chat" with a variety of friends.

25. Digital technologies also offer opportunities to fulfil the need for social community and interactivity on the Internet as represented by complex social network sites offering a

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[7] See Communications Médias inc., *Documentary Policy Environmental Scan*, a study undertaken for the Documentary Policy Advisory Group, 12 July 2005, p.22. Available at: http://www.nfb.ca/atonf/organisation.php?idcat=73&id=872&position=2&v=h&lg=en

wide variety of forums, blogs, e-mail opportunities, games and events, such as MySpace.com (owned by Rupert Murdoch's News Corporation).[8] Citizen*Shift* (http://citizen.nfb.ca) and Parole Citoyenne (http://citoyen.onf.ca) are web initiatives of the NFB that integrate written, audio and visual media. These two web sites offer community groups and independent media makers a space to exhibit their work as well as encouraging dialogue and debate around social issues.

26. Short filmmaking is one format that is growing in popularity among amateurs and professionals, particularly young people, who are taking advantage of affordable digital equipment. Semi-professional digital cameras are now available for less than $3,000 and free or low-cost digital software is capable of video editing, post-production and DVD impression. Short films financed in part by broadcasters or broadcaster-related organisations, such as Bravo!FACT, are distributed on television.

(iv) A comparison of the adoption rate for technologies between Canada and other countries

27. According to the National Association of Broadcasters in the U.S., 1566 off-air television stations in 211 markets were delivering signals in digital format as of August 27, 2006.[9] The *Deficit Reduction Act of 2005*, signed by President Bush in February 2006, establishes the digital transition deadline as February 17, 2009, and allocates up to $1.5 billion for a digital-to-analog converter box program to be administered by the U.S. Department of Commerce.

28. Given the different television markets within Europe, each country will formulate a unique digital switchover approach and timetable for analog switch-off. Current proposals suggest that analog switch-off will take place in Europe between 2008 and 2015 with most countries ending analog terrestrial television around 2012.

29. In Canada, the CRTC has adopted a market-driven approach for the analog switch-off. Since 2002, 26 off-air digital television services have been licensed for the cities of Toronto, Montréal and Vancouver but the number actually operating is unclear. As the CRTC recognizes in Broadcasting Notice of Public Hearing 2006-5, *Review of certain aspects of the regulatory framework for over-the-air television*, the pace of transition in Canada has been slow, particularly in comparison with the U.S. If viewers adopt digital technology, particularly high definition (HD) technology, and Canadian broadcasters are not able to supply sufficient programming, viewers will turn to foreign programming services.

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[8] http://www.myspace.com/ According to Alexa Internet (a subsidiary of Amazon.com), MySpace.com is the world's fourth most popular English-language web site and the sixth most popular website in the world.

[9] http://www.nab.org/newsroom/issues/digitaltv/dtvstations.asp

(v) The demand for various kinds of programming and programming services by the Canadian population, taking into account its full diversity

30. Digital technology offers the possibility of fulfilling demands by racial, linguistic and other minorities for highly specialized and personalized niche programming that responds to particular needs. Part of the NFB's mandate concerns responding to a demand for programming and programming services among minority groups including racial and linguistic minorities, the handicapped and other disadvantages segments of the Canadian population. These initiatives develop the skills of emerging filmmakers, discover new talent, contribute to the creation of authentic Canadian cinema and television production, give voice to those who don't have voices, and promote experimentation and innovation in digital production.

31. In a sense, the NFB is a live, interactive laboratory, bringing together Canadian and international creators and partners in the development of new ways to reach and engage Canadians. This is accomplished with a social commitment to communities of interest (minorities, socially disadvantaged, the handicapped), with a focus on the younger generation of filmmakers, and by working with and training these communities in the new digital forms of expression.

32. One market segment that poses a particular challenge to Canadians is that of servicing remote and underserved communities, particularly in rural and Northern Canada. The new digital environment offers new possibilities but also difficult challenges insofar as digital satellite technologies available from the United States have the potential to occupy considerable Canadian space, unless domestic alternatives are provided. The creation of digital cinema network to services remote and underserved communities is one potential response to this difficult problem.

(vi) How future generations will consume or access content, programming, and programming services

33. Rapid technological change is constantly producing a wide variety of new digital consumer products and devices. With these new products in hand, Canadians are demanding access to original content of all kinds – where and when they want it. Some, unfortunately, resort to illegal means to obtain the content they desire if it is not accessible by legal means.

34. As a result of the multiple distribution channels available on the Internet, Canadians are turning to foreign, often U.S. web sites, such as MySpace.com, YouTube.com, AtomFilms.com and Grouper.com because there is a deficiency of domestic choices. These sites are user friendly and adept at marketing themselves as hip and attractive to young people. Unless there are French-language and English-language Canadian alternatives, future generations will increasingly gravitate to web sites oriented to U.S. habits and viewpoints. New public and private initiatives are required to develop

homegrown sites where Canadians can access content that addresses domestic interests and concerns.[10]

35. HD digital television is another example of a product for which consumer demand appears to be outstripping what Canadian sources (in this case, broadcasting programming undertakings) are willing or able to provide. As a result, Canadian HD television viewers are relying primarily on U.S. HD product at the present time.

36. It is essential that Canadian options, including socially oriented options, are available in the digital audio-visual environment. The future legal, regulatory and financing environment, as set out by the Canadian government, will determine whether Canadian audiences can be repatriated.

(vii) The impact this evolution of technologies has for content and programming choices available to Canadians, including local, regional, national and international content

37. The universal nature of digital media favours the globalization of audiovisual production, distribution and public access by Canadians. The non-regulated sector is pervasive and includes theatrical feature film distribution and exhibition, the Internet, and mobile video services that provide wireless customers with real-time access to audio-visual content on wireless handsets. It is therefore imperative that Canadian content be produced, distributed and marketed to ensure that Canadians have access to their own voices. The presence of Canadian voices, including public service oriented voices, is essential to the maintenance of Canadian identity. In the new communications-based world of tomorrow, governments must find ways to provide more financing to underwrite research, development and production in the new audio-visual technologies to ensure Canada's relevance in the new information-based economy.

C) WITH RESPECT TO THE IMPACT ON THE BROADCASTING SYSTEM,

(i) The adoption of technologies by broadcasting undertakings since January 1, 2000

38. See the response to B)(iv) above.

(ii) The economic and regulatory impact on the broadcasting system caused by these technologies

39. Digital production is having a major impact on production methods at all levels. About 20% of Canadian feature films are produced in digital format, about 50% of Canadian television production is produced in standard definition (SD) digital format and about 5% to 10% in HD digital format.[11] Market forces are driving the transition to digital

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[10] *CitizenShift-Parole citoyenne* is an example of a web site developed by the NFB to facilitate social dialogue but the NFB does not have the resources to provide a wide range of such initiatives.

[11] Kelly Sears Consulting Group (with Drisdell Consulting), *Status of Digital Production in Canada: Final Report*. 11 April 2006.

television production but the issue of the high costs of such production, particularly HD production, and how such production will be financed has not fully been addressed.

40. Market forces are also driving the transition to digital television delivery by distribution undertakings within an evolving regulatory environment. Audio-visual programming is now being delivered in Canada via some distributors who operate in the regulated sector and others who operate in a unregulated sector, including the Internet. The unregulated sector is flooding the Canadian marketplace with foreign audio-visual material and it is imperative that a review of the regulatory framework for the audio-visual environment take place in the near future.

(iii) The kind of content delivered through the regulated and the non-regulated aspects of the system, and how it is delivered

41. New media provide an opportunity to promote experimentation and innovation in filmmaking. Unlike Internet users, iPod and digital video cellular phone users are accustomed to paying for content. There exists therefore a remunerative potential market for short digital films that are appropriate for display on these devices. Exploiting this market will almost certainly require the development of a new set of production techniques and rules that address the particularities of small screen display. The CRTC's recent decision to exempt from regulation mobile television services that offer programming accessible through a wireless handset, such as a cell phone, will facilitate this development.[12]

42. The new media distribution platforms offer an opportunity to reach Canadians directly. The Internet, as well as downloading to cellular telephones and iPods, provide new instruments for promoting and distributing short films that are rarely seen on broadcast television. By means of these new platforms, the NFB can reach into Canadian homes across the country without recourse to a broadcast programming or distribution intermediary.

(iv) The different methods for providing local, regional and national programming on a going forward basis

43. The NFB produces documentaries, animation, children's programs and multimedia materials at English-language regional production centres in Halifax, Toronto, Winnipeg, Edmonton and Vancouver, and at French-language production centres in Moncton and Toronto, in digital formats.

44. The NFB is also involved in the funding of a variety of regional and community-based special initiatives such as Voices from the Hood, First Stories, All Told, Edgecode, St.

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[12] The Commission determined that the services provided by Bell Mobility, Rogers Wireless and Telus Mobility fall within the Commission's New Media Exemption Order that applies to services delivered and accessed over the Internet. See Broadcasting Public Notice CRTC 2006-47, *Regulatory framework for mobile television broadcasting services.* 12 April 2006.

Mike's, CitizenShift, Doc Shop, Animacadie, Parole citoyenne, Racisme au travail, Tremplin, Wapikoni Mobile and Vidéo Paradiso.

(v) The predicted economic impact these technologies will have on broadcasting undertakings

45. Inspection of the CRTC's financial and statistical summaries for the Canadian conventional, specialty and pay television services over the years 2001-2005 suggests that the addition of a substantial number of new digital specialty and pay services, as well as the development of other new competing digital technologies, has not yet had a noticeable impact on the financial viability of these services. While advertisers may eventually find a way to develop a financial model for web advertising, this does not appear to be the case to date.

(vi) The adoption of technologies by the independent production sector and their impact on this sector

46. The adoption of digital technologies by the independent production sector raises a variety of issues related to costs, particularly the costs of producing in HD digital formats, rights management, including the sale of productions to various platforms, and security to protect rightsholders, including creators. (See the response to C)(ii) for an indication of the impact of new technologies on the independent production sector.)

47. For example, broadcasters are increasingly demanding rights to television programs for multiple platforms. For the independent production sector and the NFB, the individual pricing of such rights is a basic principle that must be respected. The NFB considers that broadcasters should not acquire rights for platforms that they cannot use within their own corporate group.

48. In 2005-06, the NFB completed 51 co-productions, which represents 47% of all NFB productions, with Canadian and international independent sector partners. In these kinds of projects, the NFB is typically a minority co-producer responsible for financing up to 49% of the production budget. The NFB works closely with the independent production sector and several of its initiatives offer assistance directly to independently produced productions, including the Filmmaker Assistance Program and Aide au cinema independent du Canada.

CONCLUSION

49. Since its inception, the NFB, Canada's public producer and distributor of audio-visual content, has distinguished itself through its strong commitment to excellence and innovation. The NFB's true strength lies in its ability to integrate technological innovation with the creative process. The NFB is a live, interactive laboratory, bringing together Canadian and international creators and partners in the development of new methods of reaching and engaging Canadians. As a public agency, this is accomplished with a social commitment towards communities of interest (minorities, socially

disadvantaged, the handicapped) with a special emphasis on the younger generation of filmmakers, working with and training them in the new forms of media expression.

50. It is essential that the public interest be well served and that technological advances permit social engagement and discourse. To accomplish these ends, the public producer has never been more important. The proliferation of audio-visual content, including user-generated material, and the presence of important unregulated delivery platforms, will fundamentally change our broadcasting landscape. Ensuring that Canadian voices are easily available to Canadians is a challenge to which the NFB is uniquely positioned to respond.

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