Assessing the Effects of the Bell – Astral Acquisition on Media Concentration in Canada

by

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Abstract and Executive Summary

This study has been prepared for the Public Interest Advocacy Centre to support its intervention at the CRTC hearings on the proposed take-over of Astral Media by BCE (Bell). This is a new proceeding that differs in some significant ways from Bell’s bid to acquire Astral Media last year that was denied by the CRTC. Notably, Astral asserts that “considering the significant divestitures proposed herein, there should not be any concerns relating to the share of revenue a combined Bell-Astral would have” (para 29, p. 30).

This submission argues that the transaction deserves very close scrutiny. Based on a systematic and comprehensive body of evidence covering the Canada-wide, French- and English-language TV, Radio and other media markets from 1996 until 2011, its key findings can be summarized as follows:

- a successful bid by Bell to acquire Astral would place it at the top of the ranks in radio, with 106 radio stations and revenues estimated at $463 million, or just under 24 percent of the national market (after divestitures). A combined Bell Astral would be larger than the CBC and more than double the size of the second and third largest commercial radio groups: Rogers and Corus (Shaw). It would reverse the tide of growing diversity in radio of recent years and put concentration at levels at higher levels than any time since 1984. The same results would be essentially replicated as well in English-language markets, while in Quebec, Bell would become the top commercial radio station operator -- far ahead of smaller rivals (Cogeco) and where Quebecor has no presence at all (see charts below).

- Bell’s acquisition of two conventional TV stations in Terrace and Dawson Creek would be inconsequential in terms of concentration levels for conventional TV outside those two communities.

- in the Specialty and Pay TV market, Bell’s market share would rise sharply from 26.4 percent in 2011 to more than 36 percent (after divestitures), while in English-language markets Bell’s share of revenues would rise from 27.7 to 33.2 percent. The biggest impact in terms of concentration would be in the French-language market, where Bell’s share of revenues would nearly triple, from 19.4 percent to 54 percent – more than three times those of Quebecor, and nearly five times the scale of the CBC/Radio Canada. Since Pay and Specialty TV services are the fastest growing segment of the TV ecology, they will likely eclipse conventional TV over time, thereby translating into an even larger position within the total TV segment.

- across the total TV (conventional + pay and specialty TV) universe nationally, Bell’s share of all revenues (including the CBC’s funding) would rise from 25.2 percent in 2011 to 30.5 percent. Bell and Shaw’s (Corus) plan to divide Astral’s assets between themselves would also further consolidate their existing positions at the top of the total TV market, moving their combined share of revenues from 48 to 54 percent, effectively creating a duopoly in the national TV market. The results would be even more pronounced within the English-language TV sector, while in the French-language TV market Bell would achieve near parity with Quebecor, with its market share to 21 percent versus 24.4 percent for Quebecor’s.
• Television, and indeed many markets, worldwide tend to be more concentrated than often assumed, but Canada is, at best, a middle-of-the-road performer, and often at the high-end of the scale. Concentration is slowly declining elsewhere, but in Canada it has risen immensely in the past decade, especially since 2010 (CR4 scores were 66.3 percent in 2000 and 80 percent in 2011). The Bell – Astral deal will lift the CR4 for the total TV segment to above 86 percent (after divestitures) and push the HHI scores to 2082.1 – a score that signals a very highly concentrated markets (see discussion of CR and HHI methodology below).

• Lastly, Canada already has the highest level of cross-media ownership and vertical integration amongst the twenty-eight countries studied by the International Media Concentration Research Project (Columbia University) for which data is available. That ranking would be further cemented into place if this transaction is approved.

The analysis for this brief is based on ongoing research done by the author as Director of the Canadian Media Concentration Research Project and the lead Canadian researcher in the International Media Concentration Research (IMCR) Project, a project led by Professor of Economics and Finance, Eli Noam, at Columbia University, which includes forty researchers in as many countries studying media concentration trends from 1984 until the present (others stopped mostly at 2008/9). Data is derived from a systematic, comprehensive and long term analysis of the network media industries, a composite of a dozen or so media sectors in Canada: wired and wireless telecoms, internet access, BDUs (cable, satellite & IPTV), pay TV, conventional TV, radio, newspapers, magazines, music, search engines, social media sites and online news sources. Our method analyzes concentration levels sector-by-sector and across the network media as a whole, with analyses done for the national, French- and English-language markets and international comparisons made where available data permits. Finally, we scaffold upwards to offer a birds-eye view of the ‘network-centric media ecology’ as a whole, a concept we prefer to generic ideas about convergence and which shows the growing centrality of the internet as well as wired and wireless networks and devices to the 21st century media ecology. Two analytical tools -- concentration ratios (CR) and the Herfindahl – Hirschman Index (HHI) -- are used to assess concentration levels for each sector and the network media ecology over time since 1984, although we have only submitted data sheets going back to 1996 for the purposes of this analysis.

Its main data sources are as follows:

(1) revenue for specific media sectors is from the CRTC’s Communications Monitoring Report (and its predecessors), Individual Pay and Specialty Statistical and Financial Summaries and Annual Aggregate Reports; Canadian Wireless Telecommunications Association’s Mobile Wireless Subscribers in Canada; Internet Advertising Bureau Canada’s annual online advertising revenue survey. Newspaper Canada’s Daily Newspapers: Circulation by Ownership Group; PriceWaterhouse Coopers Global entertainment and media outlook; the several Cansim Tables from Statistics Canada: 51111 Newspaper Publishers; 51112 Periodical Publishers; 51221-51223 Record Production, Distribution and Music Publishers; 51511 Radio Broadcasting; 51512 Television Broadcasting; 5152 Pay and
Specialty Television; 51711 Wired Telecommunications Carriers; 517112 Cable and Other Program Distribution; 5172 Wireless Carriers (except Satellite); 51913 Internet Publishing and Broadcasting, and Web Search Portals

(2) For data about specific media enterprises, the following are used: corporate financial documents and annual reports, including for the CBC; CRTC’s Communications Monitoring Report; and occasionally for data before 2000, the Financial Post’s Survey of Industrials and FPInfomart’s Historical Profiles (for publicly-traded companies). Where necessary, extrapolations are made based on standard industry measures such as ARPU, audience ratings and CAGR, and will be noted where they are used. Sources are cited sparingly, to avoid cluttering the text. Tables, figures, etc. are the author’s compilation and based on the above sources, although several figures were created by researchers in the IMCR project, and are cited as such. We have attached an appendix of data sets going back to 1996 that underpin our charts and figures, and which display both revenues and market share for each of the broadcasting sectors examined in this study.

About the Author: Dwayne Winseck is Professor at the School of Journalism and Communication, with a cross appointment at the Institute of Political Economy, Carleton University. His co-authored book with Robert Pike Communication and Empire: Media, Markets and Globalization, 1860-1930 won the Canadian Communication Association’s book-of-the-year prize in 2008. He is co-editor, with Dal Yong Jin, of Political Economies of the Media (2011) and several other edited and sole-authored books. He is Director of the Canadian Media Concentration Research Project and has been the lead Canadian researcher in the International Media Concentration Research Project since 2009. His data and views on media concentration and telecom, media and internet issues are well known and have been solicited or cited widely in the scholarly literature and by the Parliament of Canada, Canadian Senate, Department of Canadian Heritage, the CRTC, WTO, ITU, amongst others. He writes for the Globe and Mail and maintains a well-regarded blog, Mediamorphis. His keynote paper to the New Zealand Commerce Commission’s conference, The Future with High-Speed Broadband, was cited in the Commission’s final report on broadband internet services in May 2012. He would especially like to thank the invaluable and tireless work of three able research assistants from Carleton University in the preparation of this brief: Lianrui Jia, Adeel Khamisa and Xiaofei Han.
General Overview and Introduction

The proposed deal between BCE Inc. (Bell), the largest telecom-media-internet conglomerate in Canada with revenues of just over $19,975 million in 2012, and Astral Media Inc., the eighth largest media outlet in the country with revenues of $1021.9 million (2012), is a very significant one (BCE, 2013, p. 40; Astral, 2012, p. 3). Valued at $3.38 billion, Bell’s acquisition of Astral would have a significant impact across the media ecology as a whole and lead to substantially higher levels of concentration in radio, pay and specialty television services and the total television market overall. This is true whether examined on a nation-wide basis, or more specifically in French- and English-language markets, as shown below. It will also increase levels of cross-media ownership and vertical integration in the network media ecology as a whole: nationally and in French- and English-language markets. Moreover, Bell’s acquisition of Astral will further entrench Canada’s status as already having the highest level of cross-media and vertical integration amongst the twenty-eight countries examined by the International Media Concentration Research (IMCR) project (Columbia University) (Noam, 2012).

Whether looked at from the perspective of the French or English-language markets, or across Canada as a whole, Astral is a large media enterprise, even if its size is modest alongside the vastly larger Bell. Bell already has dominant stakes across many telecom-media-internet (TMI) sectors (ranking in each area in parentheses): i.e., wired (1) and wireless telecoms services (3), internet access (1), tv distribution (cable, DTH, IPTV) (3), broadcast television (1), pay and specialty channels (2), total television market (1) and radio (5).

For its part, however, Astral’s TV and Radio revenues in 2011 were $557.9 million and $340.3 million, respectively, or $892 million in total (PWC, Astral Valuation Abridged, 2012, p. 52; Astral, Annual Report 2011, p. 21). As the fifth largest TV ownership group (after Shaw, Bell, the CBC, and Rogers), and the largest radio station owner, Astral is a large media player. It is also the third largest specialty pay TV service provider in the country with 24 channels, as well (e.g. the Movie Network/HBO Canada, Super Écran, Family, Disney Junior, Disney XD, Canal Vie, Canal D, VRAK.TV and TELETOON). It accounts for 14.9 percent of the pay and specialty TV market nation-wide and ranks third in the sector, after Shaw (29 percent) and Bell (26.4 percent), yet well in front of Rogers (13.6%) and with the CBC and Quebecor trailing far behind with 4.3 and 3 percent market share, respectively (see charts below).

Based on revenues for all telecom, media and internet segments in the French-language market, Astral is the fifth largest media enterprise in Quebec, after Bell, Quebecor, Telus and CBC, but larger than Cogeco, Power Corp and V Interactions. Its decisions regarding what kinds of tv and radio programs to make and acquire is a vital part of the diversity of the media, entertainment and cultural industries in Quebec, and across Canada.

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1 Ranking based on compilation of all sectors except wired and wireless telecoms; it is ranked 12th if those two segments are included.
Bell and Astral claim that a main benefit of this transaction will be to enhance competition with Quebecor in French-language markets because of the synergies, greater resources and better access to the multiple distribution platforms that Bell owns. However, Astral is already a very strong rival with far greater revenues ($557.6 million in 2011)\(^2\) than Quebecor’s total TV revenues of roughly $373.2 million (2011).\(^3\)

In terms of radio, Astral’s 84 radio stations, $340 million in revenue in 2011, and 17.5 percent of the national market put it presently in first position. Its share of French- and English-language radio markets are 29.3 and 9.4 percent, respectively. Bell and Astral place great stress on how this transaction will improve competition with Quebecor in French-language markets, however, Quebecor has no presence in radio. More broadly, however, Astral’s five largest rivals in radio nation-wide lag far behind it: e.g. Rogers had radio revenues in 2011 of $220.8 million, the CBC $196.6 million, Shaw (Corus) $195.7 million, Bell $160.5 million and Cogeco $113.6 million.\(^4\)

Approval of the transaction would lift Bell to first place in radio, leaving it with, after divestitures an estimated $336.0 million in revenue, thereby widening the gap between the largest radio broadcaster relative to the rest even further. This may add pressure for consolidation in radio as companies such as Shaw and Rogers seek to reduce the new gap between them and Bell should the Bell Astral deal be approved.

As the eighth largest player on the media landscape in Canada on the basis of revenues (excluding wired and wireless telecoms services), Astral is an important entity in its own right, not least because in a country where vertical integration has moved from the margins to the norm it is one of the most significant non-integrated actors. Astral is to television and radio what Telus, MTS Allstream, Bragg and SaskTel are to telecoms and broadcast distribution: large players in their own right, but without clout across the mediascape, and

\(^2\) Astral’s total TV revenues are based on figures reported in its *Annual Report 2011* (p. 21) as well as PWC, *Astral Valuation Abridged* (2012, p. 52), i.e. 2011 = $557.9m. The figure is based on Astral’s TV segment (total revenues = $582.2m for 2011) but excludes Astral’s in-house advertising, online divisions and two conventional TV stations (see PWC, *Astral Valuation Abridged*, p. 45). This is about $20 million higher than the total of $537 million in revenues reported by the CRTC for Astral in its *Individual Pay, Pay-per-view, Video-on-Demand and Specialty Services Financial Summaries*. Astral and Bell’s Supplemental Brief (p. 30) and the Research Note they submit from Ken Goldstein pegs Astral 2011 revenues from the TV services that Bell will acquire from it at $389.5 million, while burying the rest in a catch-all “other” category consisting of several providers, making it impossible to see the value they are using. The difference between the figures reported for Astral by PWC versus those from the CRTC 53:47 between English- and French-language services based on their respective weight in the CRTC’s Financial Summaries. I will discuss these issues further below under the “methodology” heading.

\(^3\) CRTC, Annual Aggregate Reports.

\(^4\) Cogeco’s notes in its *Annual Report for 2011* that its revenues were $42.3 million higher than the year before (2010), largely because of its station swap with Shaw/Corus (pp. 2, 29). The CRTC’s *Aggregate Annual Report* states Cogeco’s revenue for 2010 as $41.8 million, thus $41.8 million + $42.3 million = $84.1 million (versus the CRTC’s *Aggregate Annual Reports figure* for 2011: $113.6 -- a figure that is high relative to the CRTC’s *Aggregate Annual Report* for 2012 as well, $95.4 million. I use the $84.1 million from Cogeco’s Annual Report as the authoritative source on this point, with addition reasons given in the methodological discussion that follows below.
key participants in the marketplace for content and distribution. Structural diversity amongst independent distributors as well as program creators and aggregators is essential for such groups to thrive in an environment increasingly dominated by four vertically-integrated media giants: Bell, Shaw, Rogers and Quebecor. Today, the “big four” account for 52.3% of all revenues in the network media economy (not including wired and wireless telecoms) -- a figure that would rise to above 54.5% if this transfer of ownership is approved (see details below).

**Measuring and Evaluating Media Concentration: Policies and Methods**

Deciding on the method to use to assess whether media markets are becoming more or less concentrated is essential. Without a proper gauge of the current state-of-affairs, a proper definition of the relevant markets, and a view towards seeing trends over time, it is difficult to make decisions on matters such as Bell’s proposed take-over of Astral. Currently, the CRTC assesses changes in media ownership and control on the basis of two key sets of rules.

**Radio Markets – CRTC Policy and Bell’s Assessment**

The first is the common ownership restrictions\(^5\) that limit the number of radio and television stations any single group can own and control in a given city/market, and which the CRTC put in place in 1998 and 1999, respectively. On the basis of the common ownership policies for radio, Bell and Astral admit that their merger would exceed the CRTC’s threshold for the allowable number of stations that can be owned by a single entity in the five cities: Vancouver (2 FM, 1 AM), Calgary (1 FM), Winnipeg (2 FM), Toronto (2 FM), and Ottawa-Gatineau English (2 FM) (Bell & Astral, Suppl. Brief, p. 7).

Bell has agreed to divest itself of these stations, however, to obtain CRTC approval for its take-over of Astral, leaving it to conclude: “upon divestiture of these stations, post-merger Bell would comply with the Common Ownership Policy everywhere except in Montréal, where Bell is requesting an exception with respect to its English-language AM station (CKGM)” (Bell & Bell & Astral, Supp. Brief, p. 36, para 138). That would still leave Bell with 106 radio stations across the country, whereas now it only has 33, but in terms of the Commission’s Common Ownership Policy for radio, Bell is correct in its assessment. However, a broader and more detailed consideration of the evidence leads to other concerns that I will detail further below.

**Television Markets – CRTC Policy and Bell’s Assessment**

A second set of rules was set out by the CRTC in its *Diversity of Voices* ruling in 2008. The rules set by the *Diversity of Voices* ruling came after a decade of mounting concern over rising media concentration in Canada and as several Parliamentary inquiries set the

political tone that something needed to be done to turn the tide. The expanded framework set firmer limits for cross-media ownership between radio, television and newspapers in local markets and between distribution companies, i.e. between cable, satellite and telecoms providers that operate as broadcast distribution undertakings. Most importantly for the present case, the Diversity of Voices ruling set a new ownership cap for television (not radio). According to the new rules, any transaction that results in a single owner controlling less than 35% of the total tv market will be seen, barring other relevant policy considerations, as not diminishing diversity and thus approved. Transactions that fall into the 35-45% range will be considered as potentially lessening competition and thus reviewed. Anything over 45% will be seen as creating excessive concentration and rejected (CRTC, 2008, para 87).

The regulatory framework that has evolved with respect to media concentration over the past decade-and-a-half has the virtue of providing fairly clear guidelines, whereas in the past there were none. It is not, however, without problems. For instance, the CRTC has long used audience ratings as a proxy for market share when assessing proposed transfers of ownership. This is not unreasonable, but, as the CRTC noted in its decision last year denying Bell’s previous bid to acquire Astral, other useful measures exist too, including revenues. Thus, as the Commission observed, it “now considers that it should rely on multiple indicators of market power, competition and ownership concentration, rather than be limited to the television market share thresholds set out in the DoV policy” (CRTC, 2012, para 54). In other words, while the thresholds are important guides, there is no single ‘magic number’ upon which the CRTC’s determination will turn. Instead, the thresholds have always been cast as guidelines subject to other policy concerns since their adoption (CRTC, 2012, para 53; CRTC, 2008, para 87).

Bell and Astral define the relevant markets as including French and English language television markets and use BBM/Nielsen data to give us a snapshot of total television audience share and revenues for Bell and Astral ‘before’ and ‘after’ the proposed take-over (Bell & Astral, Suppl. Brief, p. 28, para 105; Communications Management Inc., 2013).

With respect to French-language TV, Bell and Astral asserts that a combined Bell Astral, after divestitures, will have a market share of roughly 23 percent using either viewing share or revenues, and thus “raise no issue” with respect to the DoV guidelines in terms of French-language television (p. 29, para 106). They also correctly observe that there will be no impact on conventional TV because other than two small stations in British Columbia, Astral is a pay and specialty television service provider (p. 29, para 108).

In terms of Pay and Specialty TV in English-language markets, however, Bell and Astral are aware that they are approaching or exceeding certain DoV thresholds on the basis of viewing shares and revenues. However, they argue that their planned divestitures will limit the impact of the transaction and result in a combined Bell – Astral with a market share that is only slightly larger than the current leading provider, Shaw (Corus), based on viewing share (p. 29, para 107). When it comes to revenue, however, their own data
indicate, but they do not discuss, that a combined Bell Astral market share of 33 percent would put it five percentage points higher than Shaw (Corus) (p. 30, para 111).

For the total TV segment, Bell and Astral indicate that, again after divestitures, their combined market share would be 30.5 percent nationally, 33.1 percent in English-language markets and 21 percent in French-language markets. Ultimately, all of this leads them to conclude that the impact of a combined Bell Astral in “English-language television is extremely limited” (emphasis added, p. 29; para 108).

The viewing shares for total English-language TV segment could trigger scrutiny on the basis of the Diversity of Voices thresholds (Bell & Astral, Supp. Brief, p. 29, para 107), but Bell and Astral argue there is little to worry about and that whatever lingering concerns might exist should be allayed by several offsetting factors. One such consideration is that while Bell has considered in the past shutting down its A-Channels such as CTV2, it now states it will keep the network active until at least 2016, even though they claim it is in dire economic straights and, for the purposes of calculating market share, only drives up their total share (Bell & Astral, Supp. Brief, p. 17, para 58).

Second, Bell and Astral intimate that their market share would be lower yet if audience measurements took better account of foreign television services that people watch as well as the growing range of OTT services available in Canada such as Apple’s iTunes, Netflix, Microsoft’s Zune, Google (YouTube) and so on that are not included in the BBM data (Bell & Astral, Supp. Brief, p. 24, para 87). Finally, they assert that because Astral’s services are entertainment-driven rather than editorial and journalistic in nature there is little cause for concern with respect to diversity of viewpoints and voices. As Astral and Bell state,

“this transaction does not provide for the transfer of any television programming services that undertake news programming. [In addition,] Astral does not operate any discretionary service that creates or airs its own news or public affairs programming, or that has a nature of service that would authorize it to do so in English or in French. Nor is Bell involved in French-language news and public affairs television programming” (Bell & Astral, Supp. Brief, p. 34, para 130).

By this reading, the CRTC’s media ownership rules concern only news, editorial opinion, education, journalism and the civics of media, not Astral’s roster of entertainment channels: Movie Network/HBO Canada, Super Écran, Family, Disney Junior, Disney XD, Canal Vie, Canal D, VRAK.TV and TELETOON, Historia, and more than a dozen other popular channels. This is a more narrow view of culture. Moreover, while it is possible that the radio stations that Bell plans to divest will end up in the hands of those who will contribute additional voices in the creation and circulation of news, public affairs and public opinion, this is speculative for the time being.
Measuring and evaluating media concentration and trends over time is not easy. In some respects, we agree with the approach that Bell and Astral use to assess the TV market. Like them, we agree that our ‘denominator’ should include all of the resources within the “TV and Radio system”, including the CBC’s annual funding from Parliament, even though this inflates the public broadcasters’ share of the market relative to how much people actually turn to CBC TV or Radio. However, given that our method uses economic resources as its basis, consistency demands that the CBC’s annual funding be counted. It is still worth mentioning, however, that by including the CBC’s funding, the denominator – i.e., the revenues of the sector – is enlarged, and this, in turn, reduces the market share of any single entity as a result. In sum, this is a conservative approach to measuring media concentration that tends to reduce rather than enlarge the market share of commercial broadcasters.

We also use economic ownership (versus legal ownership) to assess market share. However, recognizing that the CRTC has gone both ways on this issue, we show Shaw and Corus’ revenues and market share separately in our illustrations and data charts. For our purposes, however, and for reasons that stem from the methodological considerations just discussed, we treat Shaw (Corus) as a single-entity under common ownership for calculations of market share, concentration ratios and the Herfindahl – Hirschman Index (HHI) (see below).

Lastly, Bell and Astral’s calculations of its own revenues and market shares tally well with our own and, in a few cases, we arrive at results that are actually lower than the results they indicate.

Bell and Astral’s analysis offers a static snapshot of a single point in time – 2010/2011 – to compare their respective market share on a stand-alone basis versus a combined Bell + Astral, should this transaction be approved. Their data is also limited to a snapshot of a single market, an omnibus “total TV” segment, but with data for French- and English-language markets. This static view obscures other relevant components of the total TV category (conventional as well as pay and specialty). In addition, it offers us no view of dynamic trends over time, such as whether there is more or less competition and diversity over time.

Another valuable perspective is to look across the broader communications, media and internet landscape, and determine how the Bell-Astral transaction as structured fits into that totality. Bell-Astral’s brief contains rhetoric about giant foreign OTT providers and references journalistic accounts of Netflix, Google, Apple, Rupert Murdoch, etc. but little evidence – empirical, comparative or historical – to support such claims, perhaps because scholarship and high quality consultants research reports do not support the ‘cannibalization thesis’ upon which Bell and Astral’s seem to hang much of their case (e.g. Zamaria & Fletcher, 2008, p. 9; Wellman and Rainie, 2012; Jenkins, 2006).
The approach we take is based on the belief that it is essential to grasp all parts of the media individually but equally in relation to all of the working parts that make up the network media ecology as a whole. Given that the CRTC has made its concerns about the potential negative impact of vertical integration and concentration on competition and diversity across the Canadian media well known, we trust that our larger analysis can assist the Commission in consideration of this transaction and the larger policy implications of it on the broadcasting system in Canada.

We assemble and present our data in line with the CRTC’s emphasis on both television and radio concentration as well as vertical integration. Unlike Bell And Astral, we have gone beyond a single snapshot of one or two discrete media sectors – TV and radio – to build three sets of data, one for the national level, and two others that take a comprehensive view of the present state of affairs and trends over time with respect to concentration and competition levels over time in several French and English-language markets:

- wired and wireless telecoms sectors,
- internet access,
- BDUs (cable, DTH and IPTV),
- television (conventional, pay & specialty and total TV),
- radio.

We also compile each of these sectors into an overview of the telecom, media and internet landscape as a whole, while ranking the leading ten to twenty firms in each of these markets, including Google and Netflix to give a visual depiction, based on market share and revenues of these firms that are given much attention in Bell-Astral’s application. Our national data covers the period from 1996 to 2011; the French- and English-language markets data sets for wired and wireless, internet and BDU segments cover from 2000 until 2011. The data sets for the French- and English-language conventional TV, pay and specialty TV as well as total TV and radio segments cover from 2004 until 2011. It is important to read our data sector by sector and to scaffold upward to get a birds-eye view of the current state of affairs with respect to media concentration and trends over time.

The approach is based on the methodology and ongoing research done as part of the International Media Concentration Research (IMCR) Project, a project led by Professor of Economics and Finance, Eli Noam, at Columbia University, and which includes forty researchers around the world in as many countries conducting research on media ownership and concentration trends over a period of time spanning from 1984 until the present (at least in the case of the Canadian data, whereas others stopped at 2008/9). Our data is derived from a systematic, comprehensive and long term analysis of the network media industries, a composite of a dozen or so of the largest media sectors in Canada: wired and wireless telecoms services, Internet access, cable, satellite & IPTV distributors, pay tv, broadcast television, radio, newspapers, magazines, music, search engines, social media sites and online news sources. Concentration levels are analyzed on a sector-by-sector basis, then combined into three higher-level categories: (1) the network infrastructure industries; (2) the content industries (most applicable to the Bell – Astral
transaction; and finally (3) we scaffold upwards from there to give a portrait of the network media industries as a whole.\textsuperscript{6} This idea of moving steadily upwards from a sector-by-sector specific analysis to an assessment of the media universe as a whole is a bedrock principle of the ICMR and CMCR projects because doing otherwise tends to lead to selected results to fit the preconceived biases of the observer.

Nonetheless, for the purposes at hand, our data focuses most closely on four markets that are central to the Bell – Astral case – radio, conventional television, specialty and pay television services, and the ‘total television universe’. We bring in the network media economy as a whole towards the end, however, in relation to questions about vertical integration and the assertions that Bell and Astral make with respect to foreign OTT and other internet-oriented media companies, such as Google, Netflix, Apple, and so on. The approach is also essential because, first, Bell is a key player across the network media ecology and, second, because it is not useful to isolate media sectors without accounting for how activities in one area can affect developments and trends across the media as a whole. In sum, the method we use is simultaneously more precise and comprehensive than the approach Bell uses in its submission.

\textit{Why Revenue as a Proxy for Market Shares?}

Revenues are used as a proxy to assess the potential impact of Bell’s proposed purchase of Astral on its own market share as well as concentration levels in each of the relevant segments. While the use of audience ratings as a proxy for market share is useful, from our vantage point the use of revenues is superior for several reasons. Crucially, using revenues makes comparisons across time, media sectors and with the rest of the world more reliable. In addition as Barry Kiefl (2012) of Canadian Media Research Inc., notes audience ratings are easily distorted by the tendency of those who use them to select specific times of the year, week, season or day to advance their interests. In addition, methods used to measure audiences change regularly, making it difficult to develop a consistent body of data over time. Audience viewing shares may be excellent for taking a static snapshot of the state of play at a given point in time, as Bell and Astral as well as their consultant, CMI, do in their submission but, as noted above, this does not allow us to see dynamic trends over time. Audience ratings are also a poor proxy for comparing Canada to what is happening elsewhere in the world, as is done below, given the significant variances in audience measurement techniques that exist.

In addition, audience ratings do not offer a good common denominator for assessing trends across different sectors of the telecom-media-internet. For instance, how can we create a composite view of the relative market power of key players within and across the telecom,

\textsuperscript{6} Often times I will choose to exclude the wired and wireless telecom sectors for particular parts of the analysis because they are so large that they tend to eclipse what is happening in other areas of the media, notably the various components of TV and radio that are central to this proceeding. For a full explanation of methodology, please see D. Winseck (2013, forthcoming). Critical Tools for Critical Media Research: Media Ownership and Concentration in Canada. In I. Wagman & P. Urquhart (eds.). The Cultural Industries in Canada. Toronto: James Lorimer & Company.
media and internet industries on the basis of audience ratings? And if that is not possible, it seems that we would arrive at a disjointed and partial view of the world that under-represents market power, singly and in combination, across the relevant markets. In a context where all the elements that comprise the network media ecology are becoming evermore intertwined – and inseparable from the global context within which they are situated – we need robust measures that can be applied in a systematic and comprehensive way across time, space and all media.

Before starting, however, we need to deal with two deceptively simple but difficult questions: where do we get revenue data from and how do we count it when we get it? The best source of revenue data is the audited Annual Reports of publicly-traded companies, including the CBC, so long as their reporting segments are clear about what they include and exclude, as is the case, for the most part, for the Annual Reports of Astral, Bell, Bell Aliant, Corus, the CBC, MTS, Sasktel and Telus. These documents are chosen because they are publicly available and, most importantly, because they are audited by regulated accounting firms, whereas the CRTC’s data is publicly available but unaudited. Second, where there are discrepancies, and there are several, as discussed immediately below, it is better to rely on audited data versus the company’s unaudited data submitted to the CRTC. Third, this is the method the IMCR and CMCR projects use. The most obvious problem with this method is the difference between the ‘broadcast year’ and the ‘fiscal year’, but in our experience, the differences are not that large, tend to wash out over time and apply equally to all, so there is no sense of ‘bias error’.

For those firms with unclear reporting categories, we use the CRTC’s Aggregate Annual Returns, Communications Monitoring Report as well as its Individual Pay, Pay-per-view, Video-on-Demand and Specialty Services Financial Summaries. Firms that fall into this category, for example, are Quebecor and Rogers, because their ‘media segments’ are very broad, including not just TV and Radio but also magazines (both firms) and newspapers (Quebecor). Moreover, in some instances, notably IPTV and internet access, firms report data for how many subscribers they have, but not total revenues, in which case ARPU figures published by comparable firms (e.g. for MTS we would use SaskTel) or the CRTC are used, and then multiplied against the subscriber numbers to arrive at an estimate for revenues as a whole. The results can also be cross-checked against figures in the “non programming services” of the CRTC’s Aggregate Annual Returns, with allowances made for telephone revenues included in this category and, ultimately, reconciled against the ‘omnibus revenue data’ published in the companies’ Annual Reports. It is a difficult and tangled thread to be followed but it can be done and footnotes to the charts and figures below explain our sources and methods.

A problem arises, however, in some instances when CRTC data clashes with audited annual reports. In this respect, the Commission’s figures in its Individual Pay, Pay-per-view, Video-on-Demand and Specialty Services Financial Summaries appear to be too low for Astral and Corus specialty and pay TV services relative to their annual reports. To take just the most relevant example, Astral, tallying up its revenues for 2010 and 2011 using the Individual Pay, Pay-per-view, Video-on-Demand and Specialty Services Financial Summaries, and
splitting revenues for joint ventures 50/50, the CRTC’s data produces a result that is lower than Astral’s published data by nearly $21 million in 2011 (Astral, 2012, p. 21; PWC, 2012, 2012, p. 52).

Table 1: Calculating Revenues and Market Shares: CRTC Data vs. Annual Reports for Astral.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Astral</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CRTC Data</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total $Mills (ENG)</td>
<td>275.1</td>
<td>284.3</td>
</tr>
<tr>
<td>Total $Mills (FR)</td>
<td>237.5</td>
<td>252.9</td>
</tr>
<tr>
<td>French + English Total in $Millions</td>
<td>512.3</td>
<td>536.9</td>
</tr>
<tr>
<td><strong>PWC Data</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Engl + Fr ($Mills)</td>
<td>527.9</td>
<td>557.9</td>
</tr>
<tr>
<td>Total ($Mills) ENGL</td>
<td>279.8</td>
<td>295.7</td>
</tr>
<tr>
<td>Total ($Mills) FR</td>
<td>248.1</td>
<td>262.2</td>
</tr>
</tbody>
</table>

The point is important for several reasons. First, any under-counting of Astral’s revenues will lead to its market share being lower than it ought to be. Second, it is unclear whether Bell and Astral, and their consultant, are using the higher or lower sum for Astral because their supplementary brief, and CMI’s Research Note, shows only the data for the services that Bell ($389.5 million) will keep after the divestitures, while burying the rest in the ‘other category’ at the bottom of the most important chart they offer on the topic (p. 30). Third, the problem appears to be replicated when it comes to Corus and Rogers. The result is that discrepancies between the CRTC’s revenue data and some companies’ financial documents appear to lead Bell and Astral to indicate revenues that are consistently lower than corresponding corporate Annual Reports would otherwise indicate.

Methodological differences regarding how to calculate revenues when a pay and specialty TV channel is jointly-owned also likely explains some of the differences too. Two methods appear to be used in this context: the “Fully Distributed Method” (FDM) versus the “Majority-Owner-Takes-All” (MOTA) method. The FDM method uses Annual Reports and/or the CRTC’s Individual Pay, Pay-per-view, Video-on-Demand and Specialty Services Financial Summaries to establish the revenues of jointly-owned services and distributes them according to the ownership stake of the parties involved. To take an example, Shaw owned two-thirds of TVtropolis in 2011, while Rogers held the rest. Using the FDM approach, two-thirds of its revenues would go to Shaw and the rest to Rogers.

Please see note 2 above explaining that Astral’s total TV revenues are based on figures reported in its Annual Report 2011 (p. 21) ($582.2 million) and refined by PWC, Astral Valuation Abridged (2012, p. 52) to exclude Astral’s in-house advertising, online divisions and two conventional TV stations from its specialty and pay TV revenue, leaving a total of $527.9 million and $557.9 million for 2010 and 2011. To break out the English- and French-language revenue, I split the total 53:47 based on their respective weight in the CRTC’s Financial Summaries.

7 Please see note 2 above explaining that Astral’s total TV revenues are based on figures reported in its Annual Report 2011 (p. 21) ($582.2 million) and refined by PWC, Astral Valuation Abridged (2012, p. 52) to exclude Astral’s in-house advertising, online divisions and two conventional TV stations from its specialty and pay TV revenue, leaving a total of $527.9 million and $557.9 million for 2010 and 2011. To break out the English- and French-language revenue, I split the total 53:47 based on their respective weight in the CRTC’s Financial Summaries.
The Majority-Owner-takes-All method, in contrast, assigns all of the revenues to the majority owner and appears to split them 50/50 when services are jointly-owned, while minority stakes, such as Rogers’ in TVTropolis or Bell’s in Viewers’ Choice Canada, are discarded. Bell and Astral do not say which method they use, but appear to use the MOTA method to arrive at Bell’s total TV revenue figures for 2011 of $1820.9 million (Bell & Astral, Supp. Brief, p. 30) – an amount that seems consistent with Bell’s 2012 Annual Report (adjusted to account for the ‘missing first quarter’ since Bell only took over CTV at the end of the first quarter, 2011) (page 48). The problem is, thus, not that Bell is under-reports its own revenues, but that it seems to use methods inconsistently from one company to another, leading to other companies’ revenues being under-reported, which has the effect of down-playing the extent of concentration in the relevant sources overall. Applying the MOTA method to the revenue data for Astral in Table 4.3.14 of the CRTC’s Communication Monitoring Report, for instance, yields a sum of $619.5 million for 2011 – which is much higher than the $557.9 million figure we use and higher yet than the $536.9 million that would result by applying the FDM method to the data contained in the CRTC’s Individual Pay, Pay-per-view, Video-on-Demand and Specialty Services Financial Summaries. While we cannot know for certain what the actual sum for Astral being reported in the Bell-Astral brief is, since they refer only to a figure of $389.5 million as the revenue of the TV services they intend to keep, while reporting the rest of the revenues from services that will be divested in a catch-all ‘other’ category, as noted above. Nonetheless, the figure they use appears to be lower than the $619.5 million that results from using the MOTA method.

The mixture of discrepancies between CRTC data and annual reports, methodological inconsistencies as well as honest differences in method lead to differences elsewhere, as well. For instance, Bell and Astral set Rogers’ total television revenues at $699.9 million for 2011 (p. 30), for instance, but give no indication of how they arrived at that sum. In contrast, according to our data, Rogers had total TV revenues of $804.4 million in 2011, based on the CRTC’s Aggregate Annual Returns for its conventional TV stations – CITY TV – and the Individual Pay and Financial Summaries using the FDM approach (the sum is $785 million using the MOTA method). Likewise, Bell and Astral, and CMI’s Research Note, claim that Shaw (Corus) had revenues of $1606.7 million in 2011 versus $1646.7 on the basis of the method we use. This discrepancy is most likely because they have not included revenue from three conventional TV stations -- Channel 12 (Oshawa), CHEX TV (Peterborough) and CKWS TV (Kingston) – that Corus (Shaw) have owned since 2000. Ultimately, there is roughly $166 million in unaccounted revenues, an amount equal to a little over two percent of total TV revenue or four-and-a-half percent of the Pay and Specialty TV segment, where most of the discrepancies seem to be clustered.

The overall effect is not to underplay Bell’s revenues or market share, but levels of concentration generally. The issue offers an important reminder about why it is so important that media concentration not be limited to considerations of a single firm’s market share, but seen as a relational construct instead, where the sum total and dispersion of all firms’ market share, or at least the top 4, 8 or 10, is determinative.
Concentration Ratios and the Herfindahl-Hirschman Index (HHI)

Throughout the rest of this brief, I will assess the impact of the Bell–Astral deal using the thresholds established by the CRTC in its Diversity of Voices ruling. I will also use two other widely used research tools to assess whether the sectors analyzed, and the network media ecology as a whole, have become more or less concentrated over time. To do so, I assemble data for the revenues of each ownership group – including the annual parliamentary grant to the CBC – in the above-mentioned sectors and chart the trends in market share/power from 1984 until 2011, using two common research tools: concentration ratios (CR) and the Herfindahl–Hirschman Index (HHI) (see below).

The CR method adds the shares of each firm and makes judgments based on widely accepted standards, with four firms (CR4) having more than 50 percent market share and 8 firms (CR8) more than 75 percent considered to be indicators of the potential for dominant firms to exercise significant market power over prices, access to essential resources (i.e. content and networks), business strategies and so forth. The HHI method squares and sums the market share of each firm to arrive at a total. If 100 firms exist with a 1% market share each, than markets are highly competitive, whereas a monopoly exists when one firm has 100% market share (Noam, 2009). The U.S. Department of Justice as well as Canadian competition authorities use the thresholds below to help determine if markets are more or less concentrated:

- \( \text{HHI} < 1000 \) Un-concentrated
- \( \text{HHI} > 1000 \) but \( < 1,800 \) Moderately Concentrated
- \( \text{HHI} > 1,800 \) Highly Concentrated

We also use CR and HHI as our evaluative tools and revenues as a proxy for market share, in line with the CRTC’s acknowledgement in the first Bell Astral decision that the use of such tools are acceptable and useful, and its endorsement of it again in the Notice of Consultation. Bell, in contrast, offers single firm market shares but does not combine them to portray the structure of markets based on the combination of firms in them. I will return to this point further below.

Radio – Assessment

Bell and Astral are correct that once Bell divests itself of the ten stations it identified in Vancouver, Calgary, Winnipeg, Toronto, and Ottawa-Gatineau, it will be in compliance with the CRTC’s Common Ownership Policy with respect to radio (Bell & Astral, Suppl. Brief, p. 6, para 15). Yet, it is interesting to delve deeper into the matter to see what the actual effects will be should this transaction be approved, and to consider whether they are as benign as Bell suggests.

The fact that this is not just a minor transfer of ownership and control in the radio market is underscored by the fact that, if approved, Bell will go from owning 33 radio stations to 106 (after divesting the Vancouver, Calgary, Winnipeg, Toronto, and Ottawa-Gatineau
stations referred to above). That this will translate into a significant increase in market power is visible in the fact that Bell will jump from being the fifth ranked player to the first, accounting for 23.8 percent of revenues in the sector.\(^8\)

In the French-language market, Bell's share of revenues, after divestitures, would jump from 0 to over 27 percent, making it the second largest radio group in Quebec after Radio Canada/CBC. For English-language radio, its market share would more than double, from 10.7 percent to 23.5 percent, making it the largest radio broadcaster in these areas, and far ahead of Rogers (14.7%), the CBC (13%) and Corus (Shaw) (12.6%).

Using the two other measures – the CR and HHI – presents a slightly more mixed picture. On the basis of the former, the Bell Astral transaction would render a slightly concentrated market more concentrated, lifting the CR4 score from roughly 53 percent of radio revenues in 2011 controlled by the top four groups (Astral – 17.5%, Rogers – 11.3%, CBC – 17.3% and Shaw (Corus) – 9.7%) to 62.1 percent. The effect when seen in terms of the HHI point in a similar direction, lifting the score from 954.1 – a sign of a competitive market and the lowest it has been since 1996 – to 1154 – a sign of a moderately concentrated market. Cast in starker terms, Bell's acquisition of Astral's radio assets would reverse a quarter-of-a-century long trend of declining concentration levels in radio. Moreover, widening the gap between the largest radio broadcaster relative to the rest of the field would likely add pressure for more consolidation as Rogers, Shaw (Corus) and Cogeco, for instance, strive to close the expanding gap between them and Bell in both English- and French-language radio markets, should this de
al be approved.

The points just made with respect to trends nationally are paralleled in English-language radio, but in a slightly more pronounced fashion. In French-language markets, however, Bell's share, while increasing greatly from its current total absence from radio in the province to 27 percent, would actually be less than Astral’s market share at present. There would also be a corresponding decline in the CR from 85.6 to 83.5 and in HHI scores, which would decline from 2542.9 to 2426.5 – although in both of these cases the more pressing point is that French radio markets will remain very concentrated relative to standards in the rest of the country and the criteria of the CR and HHI methods. Recall, as well, that Quebecor has no stakes in radio in any language.

Figures 1, 2 and 3 below show the trends with respect to the radio sector in the national, French- and English-language markets for 2004, 2011 and for a combined Bell + Astral. Figure 4 on the page after puts things in a comparative global context, showing where Canada's ranks with respect to radio sector concentration relative to twenty-seven other countries examined by the International Media Concentration Research Project.

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\(^8\) Bell does not supply revenue figures for the 10 stations that it will divest. However, using the number of stations out of Bell's total (10/116) as a proxy for the value of the revenues they account for allows us to come up with a figure of 8.6% of Astral's revenues, or $29.6 million.
Figure 1. Radio Ownership Groups (Canada), Market Shares and Concentration Levels, 2004, 2011 and Combined Bell – Astral.

Notes and Sources: See corresponding entry for this figure in Appendix 2
Figure 2. French-language Radio Ownership Groups, Market Shares, and Concentration Levels, 2004, 2011 and Combined Bell – Astral.

CR3: 86.9  
HHI: 2994

CR3: 85.6  
HHI: 2542.9

CR3: 83.5  
HHI: 2426.5

Notes and Sources: See corresponding entry for this figure in Appendix 2

<table>
<thead>
<tr>
<th>Year</th>
<th>CR4:</th>
<th>HHI:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>56.7</td>
<td>943.9</td>
</tr>
<tr>
<td>2011</td>
<td>54.8</td>
<td>925.4</td>
</tr>
<tr>
<td>Bell - Astral</td>
<td>63.8</td>
<td>1158.5</td>
</tr>
</tbody>
</table>

Notes and Sources: See corresponding entry for this figure in Appendix 2
Figure 1: Canadian Radio Concentration-levels in a Global Context:
CR Scores for 2004/5 and 2008/9 and Canada 2011/Bell + Astral

Notes and Sources: See corresponding entry for this figure in Appendix 2
As the last figure indicates, Canada’s rank relative to other countries is not at the upper end of the spectrum, but in the middle of the pack. Yet, it is important to note that the relatively high CR scores for many of the countries depicted in Figure 1 reflect the enduring strong role for public service broadcasters relative to Canada in many of the countries at the upper end of the range versus a weak standing in countries at the other end of the scale. That the CBC stands mid-way between a strong core public service broadcast (the “BBC-Model” and the niche model of NPR in the US) has much to do with our mid-level international ranking on this measure. Yet, perhaps of more importance, is that whilst concentration is declining in most countries, it has been rising slowly but steadily in Canada for the past decade-and-a-half. Approving the Bell – Astral transaction would push us further up the scale. The bottom line is that on the basis of CR and HHI scores, radio in Canada is shifting from being fairly diverse to moderately concentrated.

Television

Conventional TV

There is not just one television sector but three: conventional television, pay and specialty services, and the total television universe that combines both of them, and in this section we look at each of them in relation to the Canada-wide as well as French- and English-language markets. With respect to the conventional, over-the-air sector, the Bell – Astral transaction will not affect diversity levels because Astral does not operate in this area, other than two small TV stations in British Columbia. It is worth noting nonetheless that the conventional television market is, while not tripping any of the CRTC’s thresholds, very concentrated according to both the CR and HHI methods. The CBC is the largest player, with 38.3% share of all revenues, followed by Bell (24%), Shaw (16.2%) and Rogers (8.5%), yielding a CR4 of 87%. The HHI measure points in the same direction, and except for having dipped for a few years in the late 1990s, it has stayed at remarkably high levels for much of the last decade, and especially so since about 2008 after the acquisitions of CityTV by Rogers (2007), Canwest Global by Shaw (2010) and Bell’s re-acquisition of CTV (and the A-Channels) in 2011. The HHI score is currently 2444 – a level not seen since the early 1980s.

The same patterns of high concentration are present in English-language conventional TV, where Bell (32.6%), the CBC (30.3%), Shaw (22%) and Rogers account for 95% of revenues, with an HHI score over 2,500. Yet, it is in the French-language, conventional TV where concentration is at its most extreme, with just three entities accounting for 96 percent of all revenues: CBC (60.6%), TVA (28.1%) and V-Interactions (7.2%). The HHI score is off the chart at nearly 4,500 – a level that has become higher over time, not less. Bell’s acquisition of Astral, will do nothing to change this situation, because, as mentioned above, other than two small BC TV stations, Astral’s TV interest are all in the Pay and Specialty area. Before turning to that aspect, however, Figures 5, 6 and 7, below,
show concentration levels in conventional TV for the national as well as French- and English-language markets for 2004, 2011 and post Bell + Astral.
Figure 5. Conventional Television Ownership Groups (Canada), Market Shares and Concentration Levels, 2004, 2011 and Combined Bell – Astral

2004

CR4: 84.9
HHI: 2161.2

2011

CR4: 87
HHI: 2438.9

Bell - Astral

CR4: 87.1
HHI: 2444.4

Notes and Sources: See corresponding entry for this figure in Appendix 2

<table>
<thead>
<tr>
<th>Year</th>
<th>CR3</th>
<th>HHI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>91.9</td>
<td>3379.2</td>
</tr>
<tr>
<td>2011</td>
<td>95.9</td>
<td>4510.8</td>
</tr>
<tr>
<td>Bell - Astral</td>
<td>95.9</td>
<td>4510.8</td>
</tr>
</tbody>
</table>

Notes and Sources: See corresponding entry for this figure in Appendix 2

Notes and Sources: See corresponding entry for this figure in Appendix 2
Pay and Specialty TV: Divestitures, Combinations and Concentration

It is only once we focus on the largest and fastest growing segment of television – pay and specialty channels – that the most significant effects of the Bell – Astral deal come fully into view. This is because these services are now the biggest and fastest growing part of the TV economy. Revenues in 2011 were $3732.1 million – over half of the ‘total tv’ economy, and set to become much bigger in the years ahead.

Pay and specialty TV is also the most profitable sector of the television universe, with 25 percent plus profit margins since 2008, despite turbulent economic times (CRTC, 2012, p. 79). Pay and subscription TV, along with “real-time entertainment video,” are also believed by many to be the key drivers of bandwidth use, both for the internet and mobile (Sandvine, 2011, p. 8; Cisco, 2012). And this view is very much confirmed by Bell’s 2012 Annual Report, which states that Bell Mobile TV already offers thirty mobile tv channels, carrying sports, news, entertainment and many other channels, including some that it owns (e.g. CTV, RDS, TSN) and others from Astral, the CBC and Global that it does not. As the Annual Report observes, Mobile TV boosts ARPU, and the acquisition of content cast as a key driver of its main lines of business: connectivity and networks -- themes that are central to earlier parts of the current submission (BCE, 2012, p. 8; Bell & Astral, 2013, pp. iii-iv).

The Commission noted these trends in its Public Notice for this proceeding (CRTC, 2013, p. 3).

Bell and Astral try to allay such concerns several ways. One is by arguing that there are more tv services and owners then ever. “In 2002”, they note, “there were 226 licensed Canadian programming undertakings in Canada”. Fast forward to 2012, and there are 365. “The number of . . . owners increased from 40 to 89”, while the Commission has handed out an additional 131 licenses to foreign tv channels during this time as well (Bell & Astral, Suppl Brief, pp. 33-34). There are also several other large players on the scene, including Shaw (Corus) and Rogers in English-language markets and Radio Canada and TVA/Quebecor in French markets, ensuring a competitive equilibrium amongst large players.

Furthermore, any concerns that Bell’s acquisition of Astral could lead to intolerably high levels of concentration, they say, should be set aside because Bell will be divesting itself of most of Astral’s pay and specialty TV services. Indeed, in English-language markets, Bell and Astral state, Bell will only, other than the radio stations discussed earlier, retain “two rural B.C. over-the-air broadcast outlets, and two Eastern Canada pay television undertakings built around purchasing limited-duration rights to air either current (The Movie Network) or five-year-old (TMN Encore) movies and drama produced and owned by others” (p. 30, para 111).
Other than these, it will divest: “all of Astral’s English-language and bilingual specialty services (TELETOON, TELETOON Retro, Cartoon Network, and Disney XD) and its only national English-language pay television service, Family Channel (including the Disney Junior multiplex) (Bell & Astral Suppl Brief, p. 29, para 107). It will also divest more than half of Astral’s French-language and bilingual television channels: Canal D, Canal Vie, VRAK.TV, Ztélé, Super Écran, CINÉPOP (Bell & Astral, p. 5, para 12). With so little seemingly left of Astral’s TV services in Bell’s hands, Bell and Astral argue that “there should not be any concerns relating to the share of revenue a combined Bell-Astral would have” (p. 30, para 112).

**Divestitures and Dismantling Astral: Who Gets What**

However, from a media concentration viewpoint, it is more important to focus on which pay and specialty TV assets Bell will keep after divestitures. In English-language services, this includes some of the best titles in the Astral roster: The Movie Network, HBO Canada, and TMN Encore. Bell, in other words, is not just retaining three TV services of no specific description, but the most attractive assets to viewers and distributors in Astral’s English-language TV services, assets that accounted for just under 59 percent of its English-language TV service revenue streams in 2011. These channels are very profitable and help account for Astral’s record profits in the 1st quarter of 2013 and Astral’s strong profits for the past sixteen years, as announced in recent audited financial reports (Astral, 2012a; Astral, 2012b; Astral, 2013).

This strategy is even more pronounced for the French-language pay and TV services Bell will retain: Super Écran, Canal D, Canal Vie, VRAK.TV and Ztélé, and CINÉPOP. These represent 77.8% of Astral’s French language revenues in 2011 (based on PWC 2012 revenue estimates).

All told, while Bell may be divesting “most” of Astral’s French or English-language pay and specialty TV services, this is only true in numerical terms, *not revenues*. Indeed, Bell plans to keep the most attractive assets that drive the majority of revenues – roughly 68.5% based on the PWC figures.

Furthermore, of the pay and specialty TV assets that it plans to divest, the majority are been promised to Corus: the bilingual Teletoon/Télétoon, Teletoon Retro and Cartoon Network (Canada). Corus will obtain the remaining half-stakes in three French-language specialty services that it already partially owns: Télétoon Rétro, Historia and Séries+. In sum, the English- and French-language TV services that Corus (Shaw) will acquire account for roughly thirteen percent of Astral’s TV revenue.

After totalling the revenues of the services destined for Corus (Shaw) and the marquee channels that Bell plans to retain, these two vertically-integrated entities (Bell and Corus(Shaw)) will account for almost 82% of the revenue streams from the former Astral’s TV services, and just over 90% of radio revenues. The following table provides a
clearer and more coherent view of who will get what after the sale (and dismantling) of Astral.

Table 2: Who Gets What after the Sale of Astral?

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
<td>Bell: Pay TV FR</td>
<td>204.1</td>
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<tr>
<td>Bell: Pay TV Total</td>
<td>378</td>
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<tr>
<td>Bell: Conv TV</td>
<td>4</td>
</tr>
<tr>
<td>Total TV</td>
<td>382</td>
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<tr>
<td>Bell: Radio</td>
<td>302.8</td>
</tr>
<tr>
<td>Total</td>
<td>684.8</td>
</tr>
<tr>
<td>Shaw: Pay TV ENG</td>
<td>47.9</td>
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<tr>
<td>Shaw: Pay TV FR</td>
<td>25.7</td>
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<tr>
<td>Shaw: TV</td>
<td>73.6</td>
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<tr>
<td>Shaw Radio:</td>
<td>5.2</td>
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<tr>
<td>Total</td>
<td>78.8</td>
</tr>
<tr>
<td>Total TV Acquisitions (Bell + Shaw)</td>
<td>455.6</td>
</tr>
<tr>
<td>Total Radio Acquisitions (Bell + Shaw)</td>
<td>308</td>
</tr>
<tr>
<td>Total ENG TV Acquisitions (Bell + Shaw)</td>
<td>221.8</td>
</tr>
<tr>
<td>Total FR TV Acquisitions (Bell + Shaw)</td>
<td>229.8</td>
</tr>
<tr>
<td>+ Astral 2 Conv TV Stns</td>
<td>4</td>
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<tr>
<td>Total All TV Acquisitions</td>
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**Revenues of Astral Assets still to be sold based on PWC Figures**

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<tr>
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<tr>
<td>Total TV</td>
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<tr>
<td>Total Radio</td>
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</tbody>
</table>

In other words, TV services accounting for less than 18% of the Astral’s revenues will be auctioned – all of which are in the English-language market. These services are: The Family Channel, Mpix, Disney XD, Disney Jr. (English). After the divestitures are sold to Corus (Shaw), no French-language TV services are available to other players.

This is a different image than the one that Bell and Astral present in their application. The services slated for divestiture are not the fulcrum upon which this transaction, in my opinion, will turn. In my view, the divestitures are peripheral to the real centre of gravity in this event: Bell’s solidified dominance of the Pay and Specialty TV market –
Canada-wide, English-language and French-language, along with the rising fortunes of Corus (Shaw) on account of this transaction as well.

If this transaction is approved, Bell will command over a third of all revenues (36.6%), as well as 40 pay and specialty channels, in Canada-wide pay and specialty television services. Its share of the English-language pay and specialty TV market will swell from 27.7 to 33.2 percent. Bell will also see its share of the French-language market soar from 19.4 to 54.1 percent – three times the market share of its closest rival, Quebecor (17.7%), twice the market share of Shaw (Corus) and Quebecor combined, and nearly five times the CBC’s stake in the specialty and pay tv domain (see Figures 8, 9 and 10, ).

Together, Bell and Shaw (Corus) will control between them, as a result of this transaction, as currently structured, roughly two-thirds of the pay and specialty TV markets across the country; in French language markets, they will have a combined share of 62.9%; and in English-language markets 68.3% (see Figures 8, 9 and 10, below). It should also not be forgotten that such conditions are the product of very recent changes, namely Shaw’s acquisition of Canwest, and its fleet of pay and specialty tv channels in 2010, and Bell’s re-acquisition of CTV, with a similarly large fleet of conventional and pay and specialty tv channels, in 2011. These recent events have transformed the TV landscape in Canada in terms of ownership and concentration.

To go back to the point raised earlier by Bell and Astral in the application about all of the channels that have emerged in the last decade, and which have been licensed for distribution by the CRTC for delivery in Canada (496), only 207 filed financial returns with the Commission in 2011. And of those 207 services, Bell currently owns 33.Bell will own 40 if the proposed transaction is approved. Add those to the 51 services that Shaw (Corus) control, and just two firms will have over ninety tv channels in the fastest growing and most lucrative area of the Canadian television business. The ‘big four’ – Shaw (Corus), Bell, Astral, Rogers – currently have 116 channels that account for just under 84% of all Pay and Specialty TV revenues. The ranks of the big four will change with the acquisition of Astral by Bell to make room for a much smaller Quebecor in all pay and specialty TV markets. Between them, they will account for 84.8% of revenues and 117 of the 207 channels that filed returns with the CRTC last year. While the “before” and “after” CR4 results do not change much in this case, this is because the area is already so concentrated and the elimination of one big player – Astral, the 3rd largest – leads to a smaller one, at least within this specific segment, joining the ranks. Indeed, given the centrality that Quebecor has come to play in this event, it is essential to note that should this deal go ahead, Quebecor will move into fourth place with 17 smaller channels of its own, but a very distant fourth place based on only 3 percent of revenues across Canada in pay and specialty TV services (versus 17.7% in Quebec) compared against Bell’s 36 percent nationally (or 54.1% in Quebec).

While Bell and Astral do not offer composite, relational views of market concentration in their brief, it is essential that we briefly review the impact of this transaction in these
terms. When we do, two things are apparent: the first is the dramatic changes that have occurred just since 2008, and even more so from a baseline of 2004 (and even more so if we go back further). The second is the scale of the increase in concentration in Pay and Specialty TV markets. In 2008, the CR4 was 71.9; today it is 84%. If the Bell Astral transaction is approved, it will be 85%. In terms of the HHI, over the same span of time, scores have gone from mid-range concentration levels to above the highly concentrated threshold, i.e. from 1452 to 1974. Furthermore, as indicative of how significant the Astral acquisition is, as well as the sensitivity of the HHI as an analytical tool, the HHI will rise from its already very high level to 2469, in the event this deal is approved by the CRTC. Figures 8, 9 and 10, below, show the trends with respect to Canada overall and in relation to French- and English-language areas.
Figure 8. Pay & Specialty TV Ownership Groups (Canada), Market Shares & Concentration Levels, 2004, 2011 and Combined Bell – Astral.

<table>
<thead>
<tr>
<th>Year</th>
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<th>HHI</th>
</tr>
</thead>
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<tr>
<td>2004</td>
<td>57.8</td>
<td>1008.7</td>
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<tr>
<td>2011</td>
<td>83.9</td>
<td>1973.9</td>
</tr>
<tr>
<td>Bell - Astral</td>
<td>84.8</td>
<td>2468.9</td>
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</table>

Notes and Sources: See corresponding entry for this figure in Appendix 2

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<th>Year</th>
<th>CR4</th>
<th>HHI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>82.9</td>
<td>2394.8</td>
</tr>
<tr>
<td>2011</td>
<td>91.8</td>
<td>2697.6</td>
</tr>
<tr>
<td>Bell - Astral</td>
<td>92.3</td>
<td>3489.9</td>
</tr>
</tbody>
</table>

Notes and Sources: See corresponding entry for this figure in Appendix 2
Figure 10. English-Language Pay & Specialty TV, Market Shares, and Concentration Levels, 2004, 2011 and Combined Bell – Astral.

CR4:  
HHI: 

2004  
CR4: 58.4  
HHI: 1091.4

2011  
CR4: 84  
HHI: 2171.2

Bell - Astral  
CR4: 84.7  
HHI: 2527.7

Notes and Sources: See corresponding entry for this figure in Appendix 2
Figure 11 below adds to the analysis by illustrating Canada’s rank relative to fifteen other countries studied by the IMCR Project in terms of concentration levels in specialty and pay services. Several things stand out. First, there is nothing about the emerging televisual landscape that renders concerns with concentration obsolete. Concentration is remarkably high in several countries, but as Figure 11 depicts, Canada is closer to the high end of the scale rather than the lower end (i.e. it ranks 9th out of 15 countries for which there is adequate data available), and well above the average. Moreover, and similar to radio, concentration is drifting downwards in most countries. The trend in Canada is in the opposite direction, however, and starkly so in the past three years on account of the Bell and Shaw acquisitions noted above. Most importantly, as the yellow column shows, Canada will move sharply towards those countries at the upper end of the scale should the Bell-Astral amalgamation be approved.

Figure 11: Pay and Specialty TV in a Global Context, HHI Scores for 2004/5 and 2008/9 and Canada 2011/Post Bell - Astral

**Total TV**

The final step in this stage of the analysis is to consider developments across the entire television system – a measure which combines conventional as well as pay and specialty television services. This is the measure that the CRTC considers in its *Diversity of Voices* decision, as it captures trends across all relevant television markets. Yet, as the analysis above shows, it is equally crucial to illustrate developments in each component part before creating an overall portrait so that specific trends are not washed out by an overly broad measure. Thus, it is worth remembering that the proposed acquisition of Astral by Bell will not have a direct impact on the over-the-air television market, but Bell is already the largest player in that segment. We have also seen that Bell is the second largest player in the pay and specialty television market, and will rise to the top of the rankings, with just over 42 percent market share, if its bid to acquire Astral succeeds – with significant, even dramatic, effects for this sector.

According to Bell and Astral, a combined “Bell-Astral’s revenue share *post-divestitures* would be 33.2 percent in English, and 22.9 percent in French” (p. 30, para 110). And from this they draw the conclusion that, with respect to the total French-language TV sector, “the combination of Bell and Astral will create a new competitive balance with Quebecor. In fact, the Québec broadcasting system will be more dynamic than ever before” (Bell & Astral, Suppl. Brief, p. 9, para 31). With respect to the total English-language TV segment, they conclude that, “Considering the significant divestitures proposed herein, there should not be any concerns relating to the share of revenue a combined Bell-Astral would have.” (Bell & Astral, Supplemental Brief, p. 30, para 112).

Our results in terms of market share are actually lower than Bell and Astral’s figures, although in light of the fact that we are not fixated on the market share of single firms but equally and perhaps even more so on (a) the results within specific components of the overall TV ecology and (b) a relational and composite conception of the total TV sector registered in terms of CR4 and HHI scores, we reach very different conclusions. According to our calculations, a combined Bell-Astral, after divestitures, will have a market share of 30.5% in the Canada-wide total TV segment, up from 25.2% (Bell and Astral offer no figures on this dimension). In terms of the French-language total TV dimension, it’s market share will rise from 7.5% currently to 21% (versus Bell and Astral’s figure of 22.9%). And in the English-language counterpart, we find that, after divestitures, a combined Bell Astral will have a market share of 33 percent (basically the same as the figure Bell Astral cite, i.e. 33.2%).

Going beyond just the single firm market shares, however, we find the following:
• Canada-wide, the CR4 score will rise from 79.9 to 86.2, while the HHI will rise from 1796.9 to 2082.1. In 2004, in contrast, the CR4 was 62.4 and the HHI well down the concentration scale at 1268.6.

• For French-language total TV, the CR4 score will rise from the very high 89.9 to 91.1, while the HHI will rise from the very high score of 2668.9 to 2788.2. In 2004, in contrast, the CR4 was 82.3 and the HHI 2201 – still very high, but unlike present levels or those contemplated by a combined Bell-Astral scenario.

• For English-language TV, the CR4 score will rise from 87.6 to 91.5, while the HHI will rise appreciably from the already very high level of 2157.4 to 2374.4. In 2004, in contrast, the CR4 was 67.3 and the HHI a moderate 1328.8.

Figures 12, 13 and 14 on the following pages illustrate these conditions and the trends over time.

**2004**

- Bell Globemedia: 22.8%
- Alliance Atlantis: 5.8%
- CBC/Radio Canada: 4.6%
- Rogers: 6.1%
- Quebecor: 18.8%
- V Interactions (Remstar): 6.7%
- Shaw/CORUS: 13.7%
- Canwest: 6.7%
- Astral: 7.2%

**2011**

- Bell Globemedia: 22.8%
- Alliance Atlantis: 11.1%
- CBC/Radio Canada: 20.7%
- Rogers: 22.8%
- Quebecor: 7.7%
- V Interactions (Remstar): 5.2%
- Shaw/CORUS: 14.4%
- Canwest: 11.1%
- Astral: 6.7%

**Bell - Astral**

- Bell Globemedia: 23.8%
- Alliance Atlantis: 5.2%
- CBC/Radio Canada: 11.1%
- Rogers: 20.7%
- Quebecor: 30.5%
- V Interactions (Remstar): 5.2%
- Shaw/CORUS: 14.4%
- Canwest: 9.5%

**CR4:**
- 2004: 62.5
- 2011: 79.9
- Bell - Astral: 86.2

**HHI:**
- 2004: 1268.6
- 2011: 1796.9
- Bell - Astral: 2082.1

*Notes and Sources: See corresponding entry for this figure in Appendix 2*

**2004**
- CBC: 36.8%
- Quebecor/TVA: 9.3%
- BCE: 12.2%
- Astral: 5.6%
- Others: 5.5%
- Remstar/V Interactions: 24%

**2011**
- CBC: 41.6%
- Quebecor/TVA: 16.7%
- BCE: 7.5%
- Astral: 24.1%
- Others: 24.1%
- Remstar/V Interactions: 4%

**Bell - Astral**
- Quebecor/TVA: 21%
- BCE: 24.1%
- Astral: 24.1%
- Others: 41.6%

**CR4:** 82.3  
**HHI:** 2201.2

**CR4:** 89.9  
**HHI:** 2668.9

CR4:** 89.9  
**HHI:** 2668.9

Notes and Sources: See corresponding entry for this figure in Appendix 2

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<thead>
<tr>
<th>Year</th>
<th>CR4</th>
<th>HHI</th>
</tr>
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<tbody>
<tr>
<td>2004</td>
<td>67.3</td>
<td>1336.5</td>
</tr>
<tr>
<td>2011</td>
<td>87.6</td>
<td>2157.4</td>
</tr>
<tr>
<td>Bell - Astral</td>
<td>91.5</td>
<td>2380.8</td>
</tr>
</tbody>
</table>

Notes and Sources: See corresponding entry for this figure in Appendix 2
As the above Figures show, Bell already has a large of total TV revenues and that will become significantly higher yet if this transaction is approved. Furthermore, looking beyond the single firm standard, the CR and HHI methods confirm what we saw earlier: the total television universe is extremely concentrated, and has become substantially more so in just the past few years. Indeed, in just the past few years, concentration levels across the country, have moved upwards from 71% (HHI = 1486.7) in 2008 to 80% (HHI + 1796.9) after Shaw's take-over of Canwest Global and Bell's (re-)acquisition of CTV (and the A-Channels) in 2010 and 2011, respectively. The Bell – Astral deal will raise those scores into the very highly concentrated zone, with an HHI score of 2082.1 and CR4 of 86.2, nearly to a level last seen in 1984: (HHI (2287), when the CBC reigned supreme and VCRs were becoming all the rage.

**Vertical Integration, National Champions and the Supposed Threat of Digital Media Goliaths**

Bell’s submission strives to maintain a tight focus on the implications of its proposed acquisition of Astral for radio and television, but largely ignores vertical integration. Beyond the impact that this transfer of ownership would have in terms of much higher levels of concentration in radio and TV markets, however, the transaction would further entrench the role of large, vertically-integrated telecom-media-internet (TMI) conglomerates at the heart of the network media economy in Canada. This would occur precisely at a moment in time when opportunities to foster a more open, innovative and competitive network media system have never been greater. The once fashionable concept of the integrated media conglomerate has fallen from grace in many other developed capitalist democracies and amongst media economists of many persuasions, not on normative grounds but because they often fail to deliver on the beliefs held about them (e.g. Noam, 2009; Albarran, 2010, p. 47; Skorup & Theirirer, 2012; Thierer & Eskelesen, 2008, pp. 55-56; Waters & Choi, 2010), as the following section shows.

Bell and Astral return time and again to state their belief that fostering large vertically integrated media companies in Canada is a good thing. Their submission on this point is based on four assertions, which are outlined immediately below and addressed over the rest of this submission:

1. Canada has a small media economy that requires big vertically-integrated media companies such as Bell Astral, whose “scale will help create a robust Canadian ecosystem that will allow home-grown players to compete with integrated global players over the long term” (Bell & Astral, Supp. Brief, p. 1, para 2).

2. Vertical integration is the wave of the future. Taking advantage of synergies between different elements of network media infrastructure, on one side, and complementary relations in different content sectors (broadcasting, film, music, publishing, etc.), on the other, produces efficiencies and an outcome where the
value of the whole is substantially greater than the sum of its individual parts (Bell, Application, para ES4; also Bell Reply Letter 4, A10a).

3. Over-the-top internet-based television, music and film services pose a significant threat to the integrity of the Canadian media system and it is the role of the CRTC to shelter Canadian firms from the effects of this fast growing competitive threat (Bell Reply Letter 4, A14b; Bell, Supp. Brief, paras 66-68).

4. A large vertically-integrated Bell is especially good for Quebec, where Bell and all other providers are currently “dwarfed by Quebecor” (Para 116, p. 31)

1. **Canada has a small media economy**

With respect to the first point, the media economy in Canada is often cast as being dwarfed by the world’s largest media economy on its doorstep, the United States and as being relatively small by global standards. In fact, however, it is the ninth largest media economy on the planet, as Table 4 below shows.

### Table 3: Top 10 Network Media, Entertainment and Internet Markets by Country (US$ Millions), 2000-2011.

<table>
<thead>
<tr>
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</tr>
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<tbody>
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<td>United States</td>
<td>305,485</td>
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<td>Japan</td>
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<td>155,641</td>
<td>174,046</td>
<td>172,392</td>
<td>170,581</td>
<td>+23</td>
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<tr>
<td>Germany</td>
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<td>68,360</td>
<td>74,068</td>
<td>75,509</td>
<td>77,794</td>
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<td>China</td>
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<td>30,588</td>
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<td>75,696</td>
<td>87,264</td>
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<td>United Kingdom</td>
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<tr>
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<tr>
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<td>Canada</td>
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<td>Australia</td>
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<td>S. Korea</td>
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<td>25,518</td>
<td>28,085</td>
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<td>26,100</td>
<td>23,697</td>
<td>24,671</td>
<td>+11</td>
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</tbody>
</table>

**Sources:** PWC (2012), *Global Entertainment and Media Outlook* for all countries and for all segments, except publishing rights and live concerts for the music sector, which are based on IDATE (2012). Les fondamentaux de l’industrie de la musique: Marché, acteurs, chaîne de valeur, modèles économiques, tendances. Paris: IDATE, p. 18; IDate, DigiWorld 2009. Paris: IDATE; E-marketer (2012). Worldwide Live Music / Concert Revenues, 2006 – 2011. I have excluded video games, consumer and educational book publishing, and business to business sectors from the PWC figures so as to make the country profiles correspond as far as possible with the method used to by the CMCR project to develop a profile of the network media economy in Canada. Canadian sources as listed in the CMCR projects methodology primary, but generally speaking based on the CRTC’s *Communications Monitoring Report* as well as Statistics Canada’s Cansim tables and publications for the sectors that make up the network media economy.
Moreover, as table 4 also shows, Canada’s media economy is growing fast relative to other countries, at 86 percent over the last decade. In fact, it has been transformed by extraordinary growth and greater differentiation within the media ecology over the past quarter-of-a-century. Many new services have emerged (e.g. pay tv, wireless telephony, Internet, for example) and at least during the 1980s and early-1990s competition took greater hold in most media sectors before the tide was reversed in favour of greater concentration in the late 1990s and has been accelerating at an even faster clip in the past two to five years, as the evidence above so far illustrates. That trend is not uncommon, as Eli Noam (2009) shows with respect to the United States, but it is more pronounced and has reached higher levels in Canada than in most other comparable countries.

2. Vertical Integration

Any discussion about vertical integration and the assertions that Bell makes about its virtues must be prefaced by the reminder that Bell attempted this strategy once before when it took over CTV and the Globe and Mail in 2000, and failed, before dramatically scaling back its stake in these ventures to a minority ownership stake in 2006. Astral in this application has not recounted this recent history, but it is worth keeping in mind that Bell’s convergence strategy between 2000 and 2006 failed, leading to the resignation of its CEO, a large markdown in the capitalization value of its assets\(^9\) and a long list of broken promises regarding journalism and the production of original Canadian programming, as the CRTC itself noted during Bell’s acquisition of CHUM in 2006/7 and just before it scaled back its stake in CTV and the Globe and Mail (CRTC, 2006; CRTC, 2007). In light of this recent history, and given that it only re-entered the field only in 2011 when it re-acquired CTV, in addition to the A-Channels, it may be prudent to wait for Bell to demonstrate the viability of that strategy at its present stage before giving it permission to buy yet another one of the biggest media enterprises in Canada.

Bell’s experience was not unique. Indeed, while consolidation and the pursuit of convergence was all the rage in the late-1990s, many such efforts floundered and failed. In fact, as media economists James Owes, Rodney Carveth & Alison Alexander (2004) state, bigger is not necessarily better and nearly three quarters of all mergers are unsuccessful (pp. 6, 14, 22, 36; also Albarran, 2010, pp. 46-47). The crash in the value of the turn-of-the-21st century star of colossal-sized media conglomerates, Time Warner, is a stark example of this phenomenon. The ill-fated AOL Time Warner deal erased

\(^9\) As Bell noted in its 2007 Annual Report, “we reduced our interest in CTVglobemedia to 20% from 68.5% and received net proceeds of approximately $665 million… Goodwill of $1,920 million was included”. This, in essence, meant that Bell received $665 million for about 1/2 the company in 2006 (i.e. it’s 68.5% stake pared back to 15% = sale of 53.5%), meaning that the entity was now worth roughly $1,330 million – roughly $2 billion less than it had paid in 2000. See BCE Annual Report 2007, p. 86
nearly a quarter of a trillion dollars in market capitalization between the announcement of the deal worth an estimated $350 billion in 2000 to $78 billion in 2009. By 2002, AOL-Time Warner had already reported a staggering $54 billion loss, with losses growing to $99 billion a year later. The entity has been dismantled ever since, as Time Warner dropped the AOL from its name in 2003, spun off Time Warner Cable in 2009 and divested itself of AOL altogether a year after that (Time Warner, 2008; Time Warner, 2009).

The ‘old’ AT&T also collapsed, before being resurrected as the ‘new AT&T’ by SBC in 2005. AT&T also experienced financial difficulties went belly-up in its aggressive move from the wires into all things media, only to be resurrected in 2005 when the weakened company was bought out by SBC. Vivendi Universal in France is another example of a failed media conglomeration. The bankruptcy of Canwest and break up of Vivendi-Universal as well as spin-offs and divestitures over the decade at Bertelsmann, News Corp/Sky, Viacom-CBS and Time Warner are further evidence that the idea of integrated media conglomerates may look much better on paper than they perform in practice (Winseck, 2011; Jin, 2011; Jin, 2013; Peltier, 2004; Thierer & Eskelsen, 2008; Skorup & Thierer, 2012). As media and telecom economist Peter Curwen (2008) observed, his prognostication a decade earlier that “the era of the telecoms, or . . . simply ‘coms’, dinosaurs bestriding the world is upon us” had not come to pass. Instead, break-ups, bankruptcy, spin-offs and divestitures meant that “a settled structure” for the telecoms and media industries “remains a mirage” (p. 3).

In the United States, the results of de-convergence have been quite remarkable. As a result of this massive break-up, the number of pay and specialty tv channels controlled by cable companies fell from the 50-55% range in the early 1990s to 15% by 2006 (Thierer & Eskelsen, 2008, pp. 55-56). Waterman and Choi (2010) also confirm the trend: the number of cable channels owned by a cable distributor fell from 53% in 1994 to less than 15% in 2006.

All of this led Viacom-CBS Chairman Sumner Redstone, in 2005, to declare that “the age of the conglomerate is over” (Sutel, 2005). A year later, Time Warner President Jeffrey Bewkes put a finer point on the matter, calling convergence and synergy “bullsh*t”! (Karnitschnig, 2006). Media economist Alan Albarran (2010) summed up the lessons as follows: “Looking back, vertical integration was not a very successful strategy for media companies, and it was a very expensive strategy – costing billions of dollars over time. In the 21st century, the early trends have been to shed non-core assets that distract from the base of the company . . .” (Albarran, p. 47).

The explanations for such failures are manifold and while there is neither space nor time to fully review them, observers point to several factors. One of the first on the list is the idea of clashes in organizational culture, since those who lay and control the pipes often do not know much about music, movies, broadcasting and publishing. Second, the first decade of the 21st century is notorious for its failures in corporate governance,
with perverse incentives for managers and failure left unpunished, and sometimes even rewarded (Owers, et. al. 2004; p. 37). Robert Picard (2002) simply points to hubris. Third, there are distinct cultures of media production associated with different media that are not easily united under one corporate umbrella. Others point to the fact that in contemporary business strategy, even though firms may be united under one roof, different segments are internally at odds with another because of the requirement that they not only compete with rival firms in the market, but with another against the prevailing rates of return on capital. In other words, while conglomerates sing the praises of synergy publicly, on the inside different divisions are at war with one another. Indeed, it is no secret that demands for return on capital drive corporations, but in this case it leads to perverse outcomes as the potentials for synergy are sacrificed on the alter of investors’ demand for greater return on capital (Owers, pp. 34-43; Fitzgerald, 2011; Hesmondhalgh, 2007; Miege, 2011).

From a different view, the idea of media conglomerates and convergence have typically been predicated on one version or another of the ‘walled garden’ strategy, that is, the drive to privilege a conglomerate’s own content, networks and services over those of competitors, and to deliver them as an integrated bundle to consumers. Yet, on this score, media economists once again increasingly concur that the idea of walled gardens that was touted to justify for vertical integration “appears to be over because end users want to ... choose their applications from the Internet rather than have their access network or communications provider choose for them” (Lewis, Williamson & Cave, 2009, p. 6).

Yet, at the same time that this new consensus was emerging, Canadian media firms have embraced vertical integration. Indeed, while Bell’s early experiment with convergence failed, and Canwest collapsed in bankruptcy, Shaw, Rogers and Quebecor added acquisitions, and Bell, as we have seen, returned to the same strategy after repurchasing CTV in 2010. As a result, the big four vertically-integrated TMI conglomerates’ share of the total network media economy has risen steadily from the mid-30% range in the 1980s and early 1990s. While there were changes in the early-2000s, when Bell entered the field through its first acquisition of CTV and the Globe and Mail, its exit in 2006 meant that by 2008, vertical integration levels had fallen with three such entities – Shaw (Corus), Rogers and Quebecor – accounting for about 31.4%. Things have changed dramatically in the interval, with Shaw’s acquisition of Canwest Global in 2010 and BCE’s (re-)acquisition of CTV driving the levels to 52.3% in 2011. The ‘big four’ vertically integrated companies share of all revenues in the network media economy will be 54.5% if the Bell - Astral acquisition is approved.

Figures 15, 16 and 17, below, illustrate the trends.

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10 The definition of the “network media economy” includes: internet access, cable, satellite & IPTV distributors, pay tv, broadcast tv, radio, newspapers, magazines and online advertising. Wired and wireless excluded from these calculations.
(excluding Wired and Wireless)

31.4% Vertically-Integrated Companies (% Market Share)

Notes and Sources: See corresponding entry for this figure in Appendix 2
(excluding Wired and Wireless)

Notes and Sources: See corresponding entry for this figure in Appendix 2
17. **Vertical Integration and the Network Media Ecology (Bell-Astral)**

(excluding Wired and Wireless)

- **54.5%** Vertically-Integrated Companies (% Market Share)

- **Bell CTV**: 18.1%
- **Shaw**: 15.7%
- **Rogers**: 11.7%
- **QMI**: 9%
- **MTS**: 6.8%
- **Astral**: 6.8%
- **Netfllix**: 5.4%
- **Globe & Mail**: 4%
- **Telus**: 3.5%
- **Cogeco**: 2.9%
- **Postmedia**: 2.4%
- **CBC**: 2.4%
- **East-Link**: 2.2%
- **Torstar**: 2.2%
- **SaskTel**: 2%
- **Other**: 24.9%

**Notes and Sources**: See corresponding entry for this figure in Appendix 2
The following two figures – Figures 18 and 19 – show the trends over a longer span of time on the basis of both CR and HHI scores, with the addition of showing what things look like in terms of the share of the network media economy by the top firm (CR1), the top 4 (CR4) and the top 10 firms (CR10). The HHI scores point in the same direction.

**Figure 18: Concentration in the Network Media Economy, 1984–2011 (CR Scores)**

![Figure 18: Concentration in the Network Media Economy, 1984–2011 (CR Scores)](image)

**Notes and Sources:** See corresponding entry for this figure in Appendix 2.

**Figure 19: Concentration Trends Across the Network Media Economy, 1984 – 2011 (HHI)**

![Figure 19: Concentration Trends Across the Network Media Economy, 1984 – 2011 (HHI)](image)
Notes and Sources: See corresponding entry for this figure in Appendix 2.
Vertical Integration and the French-Language Media Economy

There is also a distinctly French angle to the issue of vertical integration given the weight of Quebecor in Quebec. Indeed, much is made in Bell and Astral's application that not only does Canada need strong integrated firms like Bell to compete globally but also to undercut Quebecor’s dominance of the French-language media economy (Bell & Astral, Suppl. Brief, p. 1, para 2). There is no denying that Quebecor is a dominant figure within Quebec. However, it is not so clear that Bell, as the application before the CRTC states, “is dwarfed by Quebecor’s Vidéotron” (Para 116, p. 31) and that “the major private conventional television operator [TVA] is combined with a BDU [Videotron] whose ubiquity has no counterpart in English Canada” (Bell, Supplemental Brief, p. 33).

Indeed, if we open the lens a little bit wider to look not just at BDUs, but all aspects of the ‘connectivity sectors’ (wiredline, wireless, internet access and BDUs, including IPTV, cable and DTH), a different picture emerges. Our data, as depicted in Figure 20 on the following page shows that when we account for all elements of the network media ecology, Bell has almost twice the market share of Quebecor.

Approving the Bell – Astral transaction will increase the CR4 of the “total network media economy” (i.e. including wired and wireless) to nearly 77 percent, versus its high level of 70.6 percent pre-transaction. The HHI will also move from a place already beyond the threshold for highly concentrated markets from 1803.1 to 2134.8. Moreover, the acquisition of Astral will increase Bell’s share of the “total French media economy” from roughly 33.8 percent to 36.4 percent. Quebecor – the second largest firm in the total French media market -- in contrast, has a 20.9 percent market share of the total French-language media economy. Figure 20 on the following page shows the results.

This is significant because in recent years Quebecor has expanded its share of the basic telephone market from zero to 11.5 percent in 2011. In wireless, Quebecor has gained just over 3 percent market share alongside new entrants who held another 5 percent (CRTC, 2012).

Finally, in terms of the French-language media economy, Astral is not a small player, but a significant one, with Pay and Specialty TV revenues in 2011 of $252.6 million and another $116.9 million in revenues from radio (PWC, Astral Valuation Abridged, 2012, p. 52; Astral, Annual Report 2011, p. 21). Figure 20 below depicts Astral’s place within the Top 10 French Telecom-Media-Internet Enterprises. Based on revenues for all telecom, media and internet segments in the French-language market, Astral is the fifth largest media enterprise in Quebec, after Bell, QMI, Telus and CBC, but larger than Cogeco, Power Corp and V Interactions. Its decisions about what kinds of TV and radio programs to make and to acquire is an important part of the structural diversity of the media, entertainment and cultural industries in Quebec, and across Canada.
20. Leading Telecom-Media-Internet Enterprises in French Canada, 2011 (mill$)

CR4: 70.5
HHI: 1803.1

Notes and Sources: See corresponding entry for this figure in Appendix 2
Vertical Integration: Canada in Comparative Global Context

The levels of concentration across the media economy in both French-language markets and across the country as a whole are not only high by Canadian historical standards, they are extremely high by global standards. In fact, Canada has the highest level of vertical integration and cross-media concentration amongst the twenty-eight countries studied by International Media Concentration Research Project researchers. Approving the Bell Astral transaction will only harden the trend.

Figure 21 on the following page illustrates the point.

Notes and Sources: See corresponding entry for this figure in Appendix 2
Of course, it is not that there are no vertically integrated TMI conglomerates anywhere else, but rather that trends elsewhere are far weaker in Canada, heading in the opposite direction and more likely to be the exception to the rule rather than the dominant trend. The amalgamation of Comcast and NBC-Universal last year in the United States is a contrary example, however, it is also the exception that serves to prove the rule. One can also argue that the conditions imposed on Comcast by the Department of Justice and Federal Communications Commission are far more stringent than the measures adopted by the CRTC as part of last year’s decision for a vertical integration regulatory framework (United States, Department of Justice, 2011; Federal Communications Commission, 2011; CRTC, 2011a; Winseck, 2012).

Canada’s Network Media Economy in a Global Context

As Table 2 introduced earlier showed, Canada does not have a small media economy but the eighth largest in the world. The growth of the network media economy in Canada over time has also been brisk relative the other large media economies in the world. This is a crucial point because Bell bases much of its justification for its bid to take-over Astral on the ground that firms like Astral need to bulk up and integrated into TMI conglomerates in order to better compete with foreign, largely unregulated digital media giants that are making increased incursions into Canada, thereby posing a direct threat to the fabric of communication, media and cultural policy in this country. In its application, Bell sets out the issues as follows:

“From a standing start in September 2010, Netflix has grown to well over a million Canadian subscribers and has outbid established companies like Astral and Corus for Canadian rights to programming. Apple TV’s iTunes, Google’s YouTube Movies, Microsoft’s Zune, and Sony’s Crackle OTT services are backed by major international players that have similarly waded into the Canadian market, free of any requirement to contribute into the Canadian broadcasting system . . . . In that challenging environment, we believe that it is crucial that Canada not hold back domestic players from joining forces, identifying areas of comparative advantage, and positioning themselves to compete with the unregulated players that have entered the field” (Bell & Astral, Supp. Brief, p. 22, paras 79-80). The scale of a combined Bell-Astral is an important element in positioning ourselves to compete more effectively with those OTT services as they grow to converge with mainstream audiovisual markets (Bell & Astral, Supp. Brief, p. 24, paras 89).

The problem with this way of seeing things, however, are manifold. Most importantly, it casts developments in terms of a zero sum game when, in fact, the total size of the network media economy is growing, rather than new interlopers cannibalizing the revenues of existing players. A case might be made that this is not true for newspapers, but that is outside the scope of these proceedings, and in terms of the relevant sectors of the telecom, media and internet industries at issue, the evidence clearly shows that the
overall trend is toward a much bigger network media economy. The key point, however, is that OTT services like iTunes and Netflix are mostly complementary, not rivalrous. The best data available shows that very few people have “cut the cord” by substituting such services for traditional sources of television (MTM/CBC, 2012, pp. 4-9). Figures 22 and 23 below show the trend with respect to the growth of the network media economy between 1984 and 2011.

**Figure 22: The Growth of the Network Media Economy, 1984 -2011 (without Wiredline and Wireless) (2010$ mills)**

**Notes and Sources:** See corresponding entry for this figure in Appendix 2.
Figure 23: The Growth of the Network Media Economy, 1984 -2011 (with Wiredline and Wireless) (2010$ mills)

Notes and Sources: See corresponding entry for this figure in Appendix 2.

There is no doubt that the use of online video is growing. Studies by the Media Technology Monitor and CBC indicate that in 2008 about 3 percent of television viewing occurred on the Internet (MTM/CBC, 2009, p. 49). The most recent study by MTM/CBC shows that the number has grown but still “only 4% of Anglophones report only using new platforms to watch TV”, while nearly a fifth have televisions connected to the internet (MTM/CBC, 2012, p. 4). The study also concludes that OTT services are mostly complementary to existing television and internet services, with competition mainly on the margins. Bell complains that Canadian media companies such as Astral and Shaw (Corus) have had to compete with the likes of Netflix and Apple for online video distribution rights and lost. Yet, rather than trying to nip such growing competition in online video distribution and other such services in the bud the CRTC should encourage more competition, not less. Moreover, based on roughly 1.2 million subscribers, Netflix’s annual revenues would be an estimated $115 million in 2011, or about 0.7% of the total television universe (including BDUs). To this we can estimate that Google’s revenues in Canada last year would have been roughly $1.3 billion, or half of online advertising revenue (IAB, 2011). While that may have had an impact on the newspaper and magazine industries, there is no evidence that this detracted from the flow of advertising dollars to the broadcasting industry.
The CRTC has thus far decided not to regulate OTT services, first in 1999, then again in 2009 and most recently in October of last year (CRTC, 2011c). As the Commission (2011c) stated in its Results of the Fact-Finding Exercise on the Over-the-Top Programming Services,

“... the evidence does not demonstrate that the presence of OTT providers in Canada and greater consumption of OTT content is having a negative impact on the ability of the system to achieve the policy objectives of the Broadcasting Act or that there are structural impediments to a competitive response by licensed undertakings to the activities of OTT providers” (p. 8).

Bell and the other vertically integrated TMI conglomerates have used a variety of strategies to curb the emergence of new services that they perceive as a threat to their interests. The inequity of Bell’s – and the other three big TMI powerhouses, Shaw, Rogers and QMI – practice of lifting its bandwidth caps and usage-based internet charges for its own affiliated services – or dedicating “special” channels for IPTV and their own online services – while capping and charging others will only be magnified should the Bell – Astral deal pass. Indeed, with control over 28 local television stations, fifty-three of the most popular specialty and pay television services, 106 radio stations from coast-to-coast, and the ability to give all of them a free pass on Bell’s pipes while others have to either pay or be counted against subscribers’ bandwidth caps, would allow Bell to carve out its own quasi-separate network media universe – or so it seems to hope. The CRTC has refused to curb such tactics, and its new vertical integration rules do nothing to curb the problem.

In contrast, in the United States, Congressional committee held hearings have been held to examine whether incumbent telecom-cable-ISP operators like AT&T, Verizon, Comcast and Time Warner are using bandwidth caps and usage-based billings to stifle competition, particularly online video distributors (OVDS) like Netflix, stifle diversity and otherwise limit subscribers’ use of the internet (United States, House Energy and Commerce Commission, 2012). The Department of Justice is conducting a similar investigation of its own (Reuters, 2012; Catan & Katz, 2012). Vint Cerf, one of the “founding fathers” of the internet also sees a problem with such practices (Farivar, 2012). Susan Crawford (2011), visiting professor of law and the First Amendment at Harvard University and former communications policy advisor to President Barack Obama calls such practices anti-competitive and a threat to freedom of expression. She also suggests such practices threaten to transform the internet into a series of relatively enclosed “splinternets”, as incumbents try to carve out their own separate universes within the online digital media environment.

Yet, over and against such proclivities, Canadians remain amongst the world’s heaviest media-internet users, even if that standing is sliding with respect to wireless (Comscore, 2010). As Google likes to boast, Canadians upload “hundreds of thousands of hours of new Canadian content every year” to, the greatest explosion in Canadian culture ever, it enthuses (Glick, 2011).
In light of this evidence, neither Canadians nor the network media in Canada need the financial stability and scale that Bell offers as a key benefit of this proposed ownership transfer. When Bell says that a key benefit is that Astral will gain special access to its “world-leading next generation networks on which to make services available” (Suppl. Brief, para 68), we should be thinking about anti-competitive behaviour and walled gardens rather than a pledge that embodies the public good. Instead, open pipes on a robust, all-embracing and universal, fast internet is all that is needed. “Special” access to Bell’s carriage facilities for Astral is not only normatively wrong, but from a techno-economic point of view (as indicated above), and the stern lessons of recent history, it is unlikely that promises of discovering hidden synergies and efficiencies will come to pass.

Conclusion

Overall, Bell’s proposed acquisition of Astral will have a very significant impact not just on radio and television markets in Canada but across the network media as a whole, and will lead to increasing media concentration that is not in the public interest. To be more specific, the study has shown:

1. While Bell meets the Commission’s formal requirements under the Common Ownership Policy for radio (given promised divestitures) this result is still a policy concern. Until now, radio has been one of the least concentrated and most diverse media in Canada. Moreover, this deal will increase concentration in the radio market, whereas in most countries covered by the IMCR study, concentration in radio is declining.

2. Television is a different matter. Again, while there will be no direct effects on broadcast television, there will, however, be large and significant effects on the specialty and pay television and “total television” markets. Concentration levels in both of these areas are already very high by the CRTC’s own standards, historical norms, global standards and by CR and HHI standards.

3. The impact will be most pronounced in the specialty and pay tv market across Canada, where Bell will increase its share of the market from 26% to 36%. This would be well in excess of every other player, except perhaps Shaw (Corus) (31%), the other major beneficiary of the Bell – Astral amalgamation: Rogers (13.6%), CBC (4.3%) and Quebecor (3%). Together, Bell and Shaw (Corus) will control 67% of this market, while the CR4 and HHI will rise from 83.9 to 84.8 and 1973.9 to 2468.9, respectively. The patterns are fairly similar in the English-language market, but in the French-language market, Bell will become the largest provider by far, with 54.1% market share versus Quebecor’s 17.7%.

4. The trend is similar with respect to the “total television” market, but not quite as pronounced. On the basis of the CR, this sector is already more concentrated than it has ever been in the last twenty-five years. In terms of the HHI, things could soon be
close to where they were in 1984. The HHI score is presently 1796.9, up significantly from three years earlier when it was 1,486.7. Should the Bell-Astral transaction go through, Bell will have 30.5% of the market and the HHI score will be 2082.1. Patterns are, again, similar in the English-language total TV market, with the CR4 rising from 87.6% to 91.5%, and the HHI moving upwards from a very high 2157.4 to 2374.4. In the French-language total TV market, it is clear that the CR4 score will rise from the already very high 89.9 to 91.1, while the HHI will rise from 2668.9 to 2788.2. Whatever benefits may come from an enlarged and integrated Bell competing with Quebecor in Quebec would seem to come at high cost both in terms of further concentration in French-language television as well as the French media economy overall, and for the media economy of the country as a whole.

5. Lastly, Canada already has the highest cross-media ownership consolidation and vertical integration in the 28 countries examined by the IMCR project. Concentration within and across the network media industries – demonstrably and empirically – has been extremely high, and is set to get higher yet.
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