Convergence after the collapse:

The “catastrophic” case of Canada

Marc Edge, Ph.D.
Associate Professor
Department of Mass Communication
Sam Houston State University
Huntsville, Texas, U.S.A.

A PAPER FOR PRESENTATION TO CONVERGENCE AND SOCIETY: THE CHANGING MEDIA LANDSCAPE, NOVEMBER 5-6, RENO, NEVADA

ABSTRACT

Due in part to its lack of restrictions on cross-media ownership, Canada was perhaps the nation whose media landscape was transformed most by the wave of multimedia consolidation that arrived with the millennium. The country's two private television networks partnered with national newspaper properties in 2000 following the AOL-Time Warner merger. The largest French-language newspaper company in the province of Quebec also diversified into cable and broadcast television. This consolidation raised the country's level of media ownership concentration, already among the world's highest, to a level that prompted federal inquiries in 2001 and 2003. All three Canadian multimedia pioneers suffered financially during the recession of the early 2000s, but recovered by mid-decade with the economic upturn. A drop in advertising revenues with the recession of the late 2000s, however, cast renewed doubt on the economic viability of convergence. Canwest Global Communications, which carried close to Cdn$4 billion in debt, filed for bankruptcy protection. It and the CTV network threatened to close stations in smaller markets if it did not receive regulatory relief. Both networks demanded a portion of cable television revenues as federally-ordered "fee for carriage." Quebecor experienced less severe financial problems due to its diversification into cable television. Canada is thus offered as a case study in the economic and political perils of corporate media convergence.

Introduction

Corporate convergence as a business model for media companies has suffered wild swings in support among investors over the past decade, from breathless enthusiasm at the height of the late 1990s dot-com bubble to seemingly hopeless despair only a few years later. To many media owners and investors, convergence quickly became a discredited concept with the bursting of the bubble in technology stocks in 2000 and the subsequent failure of the pioneering AOL-Time Warner merger. Some converged media firms that were able to survive the ensuing recession, however, were able to make their vision of cross-media ownership work following a return to health by the economy in mid-decade. The recession of the late 2000s, however, cast even more serious doubt on whether convergence is a viable ownership model. Some converged U.S. media firms, such as the Tribune Company, were forced to seek bankruptcy protection because falling advertising revenues left them unable to service the high levels of debt they had taken on in their quest for convergence. Others, such as Viacom and Belo, reversed course and divided into smaller companies in a process amounting to "deconvergence."

Convergence of media companies in Canada was even more pronounced than in the U.S. during the millennium wave of cross-media mergers due to a lack of regulatory restrictions on multimedia ownership there. So too were the financial problems encountered by the country's multimedia owners, the largest of which was forced to seek court-ordered protection from its creditors in 2009. Canada's two privately-owned national television networks, which both partnered with national newspaper entities in 2000, saw their businesses deteriorate to the point where they joined forces to demand regulatory relief. Both sold money-losing stations in smaller markets for the token price

of a few dollars apiece and campaigned publicly for government-ordered payments from more profitable cable and satellite television companies. This paper examines convergence in Canada from a business perspective by comparing the financial outcomes experienced by the country's three leading converged media companies.

Convergence in Canada

The January 2000 AOL-Time Warner merger convinced many media owners that the Internet and cross-ownership of outlets in multiple media were the way of the future. A rush of multimedia mergers and acquisitions ensued worldwide, but in the U.S. a 1975 FCC restriction prohibiting cross-ownership of a television station and a daily newspaper in the same market slowed convergence of ownership between those two media. In Canada, however, a ban on joint newspaper-television ownership was removed in the 1980s. (Bartley, 1988) As a result, Canada's media landscape was transformed by multimedia consolidation in 2000. By the end of the year, the country's two private national television networks partnered with national newspaper properties, as did the largest privately-owned French-language network in the province of Quebec. CTV, the country's largest private network, was acquired by telecom giant Bell Canada Enterprises, which then partnered with the *Globe and Mail* national newspaper to create a Cdn$4-billion multimedia colossus known as Bell Globemedia. Third national network Canwest Global Communications bought Canada's largest newspaper chain, Southam Inc., for Cdn$3.2 billion. Quebecor, a regional newspaper company that started in the province of Quebec but expanded nationwide with its 1998 purchase of the mostly tabloid Sun Media chain, then paid Cdn$5.4 billion for Quebec's largest cable company, Group Videotron, which owned the regional TVA network.

This consolidation raised Canada's level of media ownership concentration, which was already among the world's highest, to a level that prompted federal government inquiries in 2001 and 2003. While cross-ownership had been legalized with the lifting of Canada's cross-ownership prohibition in 1985, the broadcasting regulator Canadian Radio-Television and Telecommunications Commission expressed concern over the rapid consolidation of Canadian news media. Quebecor agreed to keep the newsgathering operations of its newspapers separate from those at TVA, and a six-page license addendum that required newsroom separation could only be changed with CRTC approval. It promised that Quebecor's print and broadcast journalists would "at no time transmit, receive, exchange or discuss information by phone, fax, Internet or other technology." (Zerbisias, 2001a) Quebecor vice-president Luc Lavoie, a former reporter, admitted it would be "silly" to expect journalists to report for both its newspapers and its television stations. (Swift, 2001) CTV president Trina McQueen similarly cited journalistic constraints as the reason her network had no plans to integrate its newsgathering operations with those of the *Globe and Mail*. "You can't do a TV and a print job all day, every day," she said. You just can't." (Zerbisias, 2001a) Canwest's vision of convergence, as articulated by CEO Leonard Asper, was quite different.

> In the future, journalists will wake up, write a story for the Web, write a column, take their cameras, cover an event and do a report for TV and file a video clip for the Web. What we have really acquired is a quantum leap in the product we offer advertisers and a massive, creative, content-generation machine. (Zerbisias, 2001a)

The broadcasting licences of CTV and Canwest Global both came up for renewal in the spring of 2001. Some consumer advocates suggested they be renewed for shorter than the normal seven-year term in order to monitor the effects of convergence. The

CRTC demanded a “firewall” of separation between print and television newsrooms similar to the one at Quebecor. CTV and Canwest Global, however, balked at such a limitation on their operations. Asper suggested that any imposition of a code of newsroom separation by the CRTC could be subject to a legal challenge, saying: “We believe that is bordering on if not unconstitutional and a serious imposition against freedom of speech.” (Zerbisias, 2001b) Canwest and CTV agreed only to a separation of the management structures of their print and television newsrooms, and that was the only restriction the CRTC imposed in renewing their licences for a full seven-year term in August 2001. The networks pledged adherence only to a voluntary one-page statement of principles and refused to allow the CRTC to monitor their operations for compliance.

Newspaper ownership by Canwest Global became problematic starting in early 2001, as editorial intervention by members of its owning Asper family prompted calls from Members of Parliament from all three Opposition parties for an inquiry into media ownership. The ruling Liberal government at first promised that a panel of experts would study the matter, but it later announced it would instead be studied by a committee that had already been formed to examine broadcasting policy. (Jack, 2001) The committee chaired by MP Clifford Lincoln had been tasked the previous month with considering the future of an industry convulsed by convergence. “Ours is not a race against convergence,” Lincoln said. “We’re going to lose that race. . . . We’ve got to find out what the impact is.” (Scoffield, 2001)

In late 2001, journalists at several Southam dailies began protesting editorial interference by the Aspers. Canwest abandoned traditional Southam principles of local editorial independence by ordering its major newspapers to publish “national” editorials

written at company headquarters. The editorials were reportedly ordered to be run without dissenting opinion, even in letters to the editor. Journalists at Southam's Montreal *Gazette* withdrew their bylines in protest and published an open letter in the competing *Globe and Mail.* It charged that the national editorials were "an attempt to centralize opinion to serve the corporate interests of CanWest." (Perusse et al., 2001) The self-described "Gazette Intifada" was quickly quashed, however, by suspensions and threats of dismissal. Columnists at several other newspapers quit or were fired if they did not fall into line with Canwest's editorial positions. A March 2002 speech to the University of Regina journalism school referred to this as "censorship," but a news story in the local Canwest-owned daily was rewritten to remove that reference. Journalists at the *Regina Leader-Post* protested by removing their bylines, and several were suspended for speaking publicly about it. The crisis of confidence in Canadian journalism reached a peak in mid-2002 when Canwest fired the publisher of the *Ottawa Citizen* in the nation's capital after his newspaper ran an editorial calling for the resignation of prime minister Jean Chrétien, who was an Asper family friend. A Senate inquiry into Canada's news media was called in early 2003.

The Aspers aggressively promoted in their newly-acquired newspapers a political agenda that included neoliberal economic policies such as privatization and tax cuts. They also called for dismantling of the CBC public broadcaster because they saw it as unfair, taxpayer-subsidized competition for private firms such as Canwest Global. Perhaps their most controversial position was on media coverage of the Middle East conflict, which they saw as biased against Israel. In 2004, the Reuter's and Associated

Press wire services protested editing of their stories from the Middle East to substitute the word "terrorist" for "insurgent." (Edge, 2007a)

The Lincoln committee issued an 897-page report on Canada's broadcasting policy in 2003. It made 97 recommendations, urging that foreign ownership restrictions be maintained to help preserve Canadian culture, and that funding for the CBC be increased for the same reason. It also urged the government to issue a moratorium on new broadcasting licenses for companies that also owned newspapers, pending a review of convergence.

> The danger is that too much power can fall into too few hands and it is power without accountability. Ownership of multiple media outlets in the same local or national market gives corporations extraordinary power to shape the views of citizens. (Canada, 2003, 405)

Yet despite the report's scope and significance, it "virtually fell into a black news hole," according to Zerbisias (2003), who noted: "These are not proposals that some media barons wanted to see." Canwest's *Montreal Gazette* did not even mention the report, and the *Vancouver Sun* did so only in a 71-word brief headlined "More cash for CBC recommended." (Edge, 2007b) The 2006 final report of the Senate inquiry on news media suggested a process to review news media mergers in order to prevent dominance by one owner in any market. "The media's right to be free from government interference does not extend," it noted, "to a conclusion that proprietors should be allowed to own an excessive proportion of media holdings in a particular market, let alone the national market." (Canada, 2006a, 24) By then, however, any hope of media ownership reform in Canada had been doused by the election of a minority Conservative government earlier that year. The Conservatives had been personally endorsed by David Asper, Leonard's brother and Chairman of Canwest's *National Post* newspaper, who appeared onstage at a

rally with prime ministerial candidate Stephen Harper. A senior Canwest executive ran unsuccessfully as a Conservative candidate in that election (he would be elected two years later) and a former Harper aide was named chairman of Canwest's board of directors. (Edge, 2007a) Before 2006 ended, the new minister in charge of broadcasting, who was a former CTV and Canwest executive, issued a policy response to the Senate report that officially blessed convergence as a business model for Canadian media. "The government recognizes that convergence has become an essential business strategy for media organizations to stay competitive in a highly competitive and diverse marketplace." (Canada, 2006b, 13).

Economic viability

In addition to concerns about the political implications of increased corporate concentration of media ownership, some scholars questioned whether convergence was a sound business strategy. Doyle (1999) found little enthusiasm for convergence among UK newspaper and television executives, who wondered if there were "any real operational synergies between television broadcasting and newspaper publishing." (Doyle, 1999, p. 151) Many managers were skeptical that staff from such different media could work together productively. "Most agree that the skills and techniques involved in newspaper production and distribution are quite *different* from those required in the television industry, and vice versa." (Doyle, 1999, p. 151) Doyle found that the impetus for convergence came not from management but from ownership and concluded that a host of motivations accounted for the corporate urge to converge. These included increased company size, greater prestige and political power, increased employee morale, empire building, and defense against takeover. Rather than admitting these self-serving

ends, however, the technological possibilities brought by convergence were instead advanced as a politically-expedient reason for allowing increased media ownership concentration, according to Doyle.

> Whereas deregulation of cross-ownership could otherwise have been seen as a response to special pleadings from influential media owners, 'convergence' provided ministers and policy-makers with a convenient and much more respectable argument for change. (Doyle, 1999, p. 153)

A 2006 study of Canadian online news found support for Doyle's conclusion that, in the absence of economic advantages, the major effect of convergence was to increase corporate size. "More than technological convergence, the mergers and acquisitions that occurred in 2000 seem to have resulted in increased conglomeration in the Canadian news industry." (Sparks, Young, & Darnell, 2006, p. 418) The concentration was justified politically by a "rhetoric of technological innovation and new-economy demands," the study noted, but there had been "little public debate of the potential social and political consequences." (Sparks, Young, & Darnell, 2006, p. 418)

Early 2000s recession

The bursting of the dot-com bubble in 2000 quelled enthusiasm for convergence among investors, and the AOL-Time Warner merger exemplified the plight of multimedia companies. AOL-Time Warner shares fell from a high of US$55 to a low of US$8.70 as the company reported a corporate record loss of US$98.7 billion for 2002. AOL was removed from the company's name in 2003 and a share in the online division was sold to Google in 2005. Convergence quickly fell from favor among media executives as the AOL-Time Warner merger went down as one of the most disastrous of all time. (Klein, 2003; Swisher and Dickey, 2003; Munk, 2004)

In Canada, the financial fortunes of the country's new converged media giants followed a similar downward trend. Before 2001 ended, Canwest Global Communications, which had taken on close to Cdn$4 billion in debt in acquiring Southam, posted a quarterly loss of Cdn$37 million. Advertising sales slowed with a deepening recession and Canwest struggled with the cost of servicing its debt. From a high of Cdn$22 in 2000, its share price fell below Cdn$7 in mid-2002. To reduce debt, Canwest sold three of its daily newspapers in Atlantic Canada, which cut ties between them and Global Television's stations in those markets. The sale suggested to some that Canwest was abandoning its convergence strategy, but Leonard Asper claimed the newspapers were "not central to the company's over-all media integration strategy." (Ferguson, 2002) In October of 2002, Canwest shares fell to Cdn$3.32 and the company cut costs and moved to further lower its debt. In early 2003, it sold four Ontario dailies and twenty-one weeklies for Cdn$193.5 million. Canwest also discontinued the Southam Fellowship program for mid-career journalists that had run for 40 years and cost Cdn$250,000 annually, rationalizing that it had pledged Cdn$10 million over five years to assist journalism and media education programs. (Laucius, 2002) The payments were required, however, under a CRTC program called Public Benefits, which since the late 1980s had forced companies to devote to worthwhile initiatives at least 10 percent of the value of acquired broadcasting licences. (Edge, 2009b)

Quebecor encountered similar problems digesting its Cdn$5.4-billion takeover of Groupe Videotron. It was financed in partnership with the Quebec provincial pension plan, which took a 45-percent interest in a new company called Quebecor Media. Quebecor took on massive short-term debt to finance its share of the all-cash acquisition,

but the sale of non-core assets, such as Videotron's home telephone division and its Microcell mobile phone company, had been planned to lower that debt. The deepening recession vastly reduced the value of those assets, however, and Quebecor was forced to enter the U.S. junk bond market to raise Cdn$1.3 billion to pay off its debt, which by the end of 2000 stood at Cdn$6.7 billion. It also sold its 11-percent holding in forestry giant Abitibi-Consolidated Inc. for Cdn$600 million and about one quarter of its wholly-owned printing subsidiary Quebecor World, the world's largest, for Cdn$500 million. (Marotte, 2001a) In September 2002, however, after four consecutive quarters of losses, its Cdn$4-billion debt load prompted bond rating agency Standard & Poor's to lower Quebecor's rating and to place it on credit watch. (Marotte, 2002) From a high of Cdn$61.50 before the Videotron purchase, Quebecor stock bottomed out in 2002 at Cdn$12.25. By early 2003, however, Quebecor had sold more assets, paid off most of its high-interest debt, restructured other debt, and was taken off credit watch by Standard & Poor's. (Gibbens, 2003) With the improving economy Quebecor Media began turning a modest profit by mid-2003 and was able to pay down more debt, which stood at Cdn$1.4 billion by that fall. (Silcoff, 2003)

Unlike Canwest and Quebecor, Bell Globemedia was a privately-owned partnership that did not trade shares on the stock market, and it also did not carry large levels of debt as a result of its acquisitions. It thus weathered the recession of the early 2000s better than its debt-laden, publicly-traded counterparts. Bell Globemedia even managed to finance a modest expansion during the downturn, paying Cdn$74 million in 2001 for an 86-percent interest in Quebec television network TQS. (Marotte, 2001b) It also paid Cdn$100 million in early 2003 a 15-percent interest in Maple Leaf Sports &

Entertainment, which owned sports teams, including the Toronto Maple Leafs of the National Hockey League and the Toronto Raptors of the National Basketball Association, the cable television networks that broadcast their games, and the Air Canada Centre where they were played. (Lewis, 2003)

Mid-2000s recovery

With the ensuing economic recovery, the financial fortunes of all three Canadian convergence players improved. Canwest recovered to the point where it again began making acquisitions. In early 2006, it bought 30 percent of U.S. magazine *The New Republic* for US$2.3 million and a year later bought the rest for a reported US$5 million. It bought radio stations in New Zealand and Turkey in 2006 and bid for the English-language *Jerusalem Post* in Israel. In early 2007, despite still being deeply in debt, Canwest made another major acquisition, buying thirteen Canadian cable channels for Cdn$2.3 billion. The purchase was made in partnership with U.S. investment bank Goldman Sachs, which contributed almost two-thirds of the purchase price despite Canada's foreign ownership limits, which amounted to 46.7 percent directly and indirectly through a holding company. Cultural and industry groups protested that majority American involvement in the purchase would open the door to more foreign ownership of Canadian media. The CRTC held hearings into the arrangement, which saw Canwest hold two-thirds of the company's voting shares, and approved it in late 2007 with only slight modification. (Robertson, 2007a)

Quebecor Media's financial fortunes also experienced a turnaround in the mid-2000s and it began to expand into such areas as broadband Internet and 3G wireless telephony. Its TVA network helped in 2003 with a hit show called Star Academie, which

was described as a cross between American Idol and Big Brother. It was heavily cross-promoted in Quebecor's French-language newspapers and helped propel Quebecor's online and cable divisions. Analysts began rethinking the possibilities of media convergence, at least in the unique Quebec market. "If convergence can work anywhere," wrote one, "it should work in Quebec, a homogenous island of French-speakers in the New World where Quebecor is Number 1 in most media categories."

> Star Academie boosted TVA's audience share, was the launch vehicle for Videotron's video-on-demand service, pulled thousands of new subscribers to Videotron's high-speed Internet service, and yielded Quebecor-produced CDs, DVDs and books that were peddled in the company's music, books and video-rental shops. (Olive, 2003)

Its improved fortunes enabled Quebecor to embark on another expansion program. In 2004, it bought TV station Toronto 1 for Cdn$46 million. (Brent, 2004) In 2007, it won a takeover battle with Torstar Corp., the owner of Canada's largest daily newspaper, the *Toronto Star*, for Ontario publisher Osprey Media, which owned 54 newspapers, including twenty dailies. When added to its Sun Media dailies, the Cdn$414-million purchase made Quebecor the country's largest newspaper owner, ahead of Canwest. (Robertson, 2007b)

Bell Globemedia transformed its corporate makeup during the mid-decade economic upturn, then engineered a major media acquisition that brought renewed protest about concentration of media ownership in Canada. In late 2005, Bell Canada Enterprises sold most of its majority interest in Bell Globemedia to three buyers: Thomson Newspapers (which already owned 20 percent), the Ontario Teachers Pension Plan, and the Torstar Corporation. The reorganization not only gave Thomson 40 percent ownership, it also resulted in minority ownership of the *Globe and Mail* by the owner of

the competing *Toronto Star.* Because Bell's ownership was reduced to 20 percent, the corporate name was changed to CTVglobemedia. In mid-2006, the company announced the acquisition for Cdn$1.4 billion of Toronto-based CHUM Ltd., which included thirty-three radio stations, a dozen television stations of the CITY-TV and A Channel station groups, and twenty-one cable television channels. (Robertson & McNish, 2006) That brought the number of television stations owned by CTVglobemedia to thirty-three, including more than one in several major Canadian cities, and its number of cable television channels to thirty-eight.

The second wave of media consolidation in Canada of the millennium also saw Montreal-based Astral Media become the country's largest owner of radio stations by acquiring the 52 stations owned by Standard Radio for Cdn$1.2 billion. (Blackwell, 2007) The CHUM purchase came three weeks after the Senate report on news media urged limits on media power, and it resulted in three companies controlling more than half of the advertising revenues in Canada. Concentration of press ownership had risen to 87.4 percent by the five largest newspaper chains, while three-quarters of television outlets had become concentrated in the hands of only five owners. (Winseck, 2008) The increased concentration of media ownership brought protests that it resulted in "too much power in too few hands in too small a country," as noted by the media critic of the *Toronto Star.*

> It will not only create a media behemoth. . . . it will dominate the advertising, cultural, music and sports landscapes as well as the news agenda. Consider advertising. With one fewer competitor, media costs will rise and will undoubtedly be passed on to consumers. (Zerbisias, 2006)

The CRTC forced CTVglobemedia to divest the five-station CITY network it had acquired from CHUM, which it sold to Rogers Communication for Cdn$375 million.

(Robertson, 2007c) The CRTC also held "media diversity" hearings, but the policy announcement it made in early 2008 disappointed some. In limiting cross-ownership of Canadian media, the CRTC ruled only that ownership in all three media – television, radio, and newspapers – would be banned. Critics pointed out that because no Canadian company owned outlets in all three media, the effect of the ruling was to endorse the status quo.

Late 2000s recession

Where Canada's broadcasting regulator failed to limit media concentration in any meaningful way, the marketplace stepped in as a *de facto* regulator and forced a diversification of ownership. In mid-2007, Canwest followed its contentious acquisition of Alliance Atlantis with two more moves that stock market analysts questioned. First, it paid Cdn$495 million to buy back the 26-percent of its newspaper division it had sold on the stock market just two years earlier. Analysts expected Canwest to pay for the purchase by selling its majority interest in Australia's Network TEN, which it had put on the market with an asking price of A$1 billion. Despite again being almost Cdn$4 billion in debt, however, Canwest decided not to sell when it did not attract its asking price. CEO Leonard Asper explained the decision by claiming Canwest had no immediate need for the money. "I don't think there's any point just having it sit there in a bank in Canada," he said as Canwest announced a 36-percent drop in its third-quarter earnings due to slumping ad markets. According to the *Globe and Mail*, "shareholders headed for the door" as Canwest's share price fell 10 percent in a month to below Cdn$10. (Robertson, 2007d).

The recession that began in late 2007 caused advertising revenues to plummet worldwide, dropping television network profits in Canada from Cdn$113 million in 2007 to only Cdn$8 million in 2008. (Robertson, 2009a) Canwest missed a number of interest payments to bond holders and its stock price sank to as low as six cents in mid-2009. Canwest put its five-station subsidiary television network E! up for sale in an attempt to raise cash to meet its debt payments. (Robertson, 2009b) It agreed to sell E! stations in two major markets – CHCH in Hamilton, Ontario, and CJNT in Montreal – to cable broadcaster Channel Zero Inc. for a mere $12 just to avoid their losses. (Robertson, 2009d) It converted its E! station CHBC in Kelowna, British Columbia to an affiliate of its main Global Television network, but it threatened to close its stations in Red Deer, Alberta, and Victoria, British Columbia, if buyers could not be found. Only Alberta station CHCA was closed, however, after employees of Victoria's CHEK paid Canwest a token $1 for the station in early September. (Kirby, 2009)

In late September, Canwest seemed to have eased its credit crisis by selling its majority interest in Australia's Network TEN for Cdn$634 million. (Robertson, 2009f) The sale also erased Cdn$582 million of Network TEN's debt from Canwest's books, lowering its debt load to an estimated Cdn$2.5 billion. (Willis, 2009) Just when it appeared that Canwest might have life, however, it announced in early October that it had filed for court-ordered protection from its creditors. (Robertson & Willis, 2009) CTVglobemedia also suffered from the economic downturn despite its private ownership. In a bid to lower costs to match plummeting ad revenues, it eliminated 105 jobs at its broadcasting operations, including its all-news network CTV Newsnet. (Blackwell, 2008) CTVglobemedia reported a loss of Cdn$13.3 million in 2008 and forecast that its loss in

2009 would be Cdn$90-100 million. It also took a Cdn $1.7-billion accounting writedown on the value of its television assets, which represented three-quarters of their book value. (Surridge, 2009) In March, the network announced the elimination of 118 jobs at its subsidiary A Channel network, or 28 per cent of staff, and the cancellation of morning shows at several of its local stations. (Hartley, 2009) It also laid off more than two dozen employees at its Canada AM national morning show and dropped its last remaining early morning local newscast. (Friend, 2009) CTVglobemedia sold half of its share in Maple Leaf Sports & Entertainment in early 2009 to help pay down the debt it had taken on in the CHUM purchase, and it sold the other half six months later. (Sturgeon, 2009a) In July, it sold its specialty cable channels Drive-In Classics and SexTV to radio company Corus Entertainment for Cdn$40 million. (Krashinsky, 2009a) In September, public filings by Torstar showed that CTVglobemedia had been forced to renegotiate loan agreements for its more than Cdn.$1.9 billion in debt to avoid defaulting on them. (Sturgeon, 2009b)

Like Canwest Global, CTVglobemedia also threatened to close several of its money-losing television stations in smaller markets if it could not find a buyer or gain regulatory relief from the CRTC. In March 2009, it offered to sell stations in Brandon, Manitoba; Windsor, Ontario; and Wingham, Ontario, for Cdn$1 each. Cable television company Shaw Communications offered to meet the asking price, but it backed out of the deal after doing due diligence research on the stations' finances. Brandon station CKX was sold to Bluepoint Investment Corp. for Cdn$1, but that buyer also backed out after failing to secure carriage for CKX on Canadian satellite television systems. (Krashinsky, 2009b) CTV closed CKX, converted its Wingham station into a rebroadcaster of its

London, Ontario, A Channel station, and announced it would close its Windsor station on August 31. It extended the Windsor station a one-year reprieve, however, after the CRTC boosted subsidies for local programming by 50 per cent to more than Cdn$100 million for 2009-2010. (Grant, 2009)

Quebecor Media, which experienced the most severe financial problems of the Canadian multimedia giants during the recession of the early 2000s, emerged from it the healthiest of the three. Due to Quebecor's diversification into cable television, its timely divestitures, and its debt reduction, it weathered the late 2000s recession the best of Canada's three major converged media companies. While the CTV network lost Cdn$13.6 million and Canwest Global lost Cdn$1.8 million in 2008, Quebecor's television operations posted a profit before interest and taxes of Cdn$33.2 million. (O'Brien, 2009) The advertising slump affected its television and newspaper properties, but Quebecor Media's telephone, broadband, and cable television divisions more than made up the shortfall with increased profitability. The company was also helped by the fact that media in the province did not suffer the steep advertising decline due to the recession that media in other parts of the country did. According to CRTC data, advertising revenues for conventional television broadcasters in the country as a whole declined 2 percent in 2008 and profits before income and taxes went from 5 percent to -2 percent. In Quebec, however, advertising revenues for conventional television broadcasters increased 1 percent and profits rose from 8 percent to 10 percent. (Canada, 2009)

Like Canada's other converged media companies, however, Quebecor used the recession as an opportunity to trim costs. In late 2008, after posting a Cdn$45 million

quarterly profit, it laid off 600 staff across its Sun Media division, or 10 percent of its workforce. (Shalom, 2008) In early 2009, it locked out more than 250 workers at its *Journal de Montréal* newspaper and continued to publish with management personnel while demanding contract concessions. They included lengthening the workweek by 25 percent without additional pay, reducing benefits by 20 percent, laying off 75 staff, and introducing an "unlimited convergence plan." The plan would require newsroom staff to produce content across Quebecor media, including its Canoe (Canadian Online Explorer) websites and its television outlets. (Derfel, 2009)

Discussion

The apparent disintegration of Canadian broadcast television was played out against the backdrop of a dispute between the networks and the CRTC that may in part explain the tumult of layoffs, station sales, and closures. As CTV and Canwest Global profits fell, the networks pointed to profits at Canada's deregulated cable television companies, which were setting records, and claimed that the country's television system was "broken." (Akin, 2009) To fix it, the networks asked the CRTC to order the cable companies to pay them 50 cents per subscriber in "fee for carriage" in return for their over-the-air signals, which the cable companies had always rebroadcast for free. The regulator turned down the request in 2007 and 2008. As the recession deepened, however, the networks applied political pressure by threatening station closures, which prompted Parliamentary hearings in Ottawa. (Vieira, 2009) The cable companies told the hearings that the networks were taking advantage of the economic downturn to exaggerate their financial problems. (Trichur, 2009a) CTV set up a website (www.savelocal.ctv.ca) and launched a "Save Local TV" advertising campaign to lobby for carriage fees, focusing on

the threat of local station closures. (Toughill, 2009a) The cable companies responded with newspaper and television ads and a website of their own (www.stopthetvtax.ca), describing the proposed fee for carriage as a "TV tax" and promising to pass along to consumers the cost of fee for carriage, which they estimated at Cdn$5-10 per subscriber monthly. (Marlow, 2009)

The CRTC, however, cited data that that showed much of the financial hardship was self-inflicted by the networks. Not only had they taken on enormous debt in making acquisitions, they had spent a record Cdn$775 million on foreign (mostly U.S.) programming in 2008, compared with Cdn$619 million on Canadian programming. Due to increased bidding between the networks, expenditures on foreign programs had increased 43 percent from Cdn$541 million in 2003. The CRTC threatened to impose a spending limit, suggesting that the networks be required to spend as much on Canadian content as on foreign content. (Robertson & Bradshaw, 2009) The networks claimed they were losing viewers to cable channels and the Internet, but a study showed that conventional television viewers aged 18-34 fell just 2.4 per cent between 1998 and 2007. The *Globe and Mail* saw the job cuts and station closures as "part of a strategy to force a radical redrawing of the Canadian TV landscape."

> It's a matter of scaring the local and national power structure. Members of Parliament are among the first to panic when their local TV stations shrink or disappear. They are being sent a blunt message about the economics of television. And, as TV is regulated in Canada, Parliament and government have the power to do something about it. The television industry is not in crisis. The economy is in crisis. (Doyle, 2009)

The Parliamentary committee that heard arguments on fee for carriage ordered the CRTC to reconsider the matter for a third time, and the regulator scheduled hearings for the last month of 2009. Meanwhile, the networks banded

together to counter the public relations campaign mounted by the cable companies with newspaper, radio, and television advertising around the theme “Local TV Matters,” along with a website (localtvmatters.ca) complete with a “viral” video. (Trichur, 2009b) CTVglobemedia threatened in late October to close ten of its eleven stations in the largest province of Ontario if the CRTC did not order fee for carriage. The networks also reframed what they were seeking from a “fee,” which the cable companies had characterized as a “tax,” to a more benign “negotiation for value.” (Clarkson, 2009)

Conclusions

After the bankruptcy filing of Canwest Global Communications, *Maclean’s*, Canada’s national newsmagazine, asked on its blog “Is there a future for Canadian TV?” It attributed the threat it perceived to conventional television broadcasters like Canwest and CTV to “a perfect storm of the recession, new technologies and shifting tastes.” (Kirby, 2009) To that list, however, must be added mismanagement. In their quest for convergence, the country’s largest private broadcasters overextended their empires, took on enormous debt, then sought government assistance when the recession dropped their revenues. More prudent debt management by Quebecor Media has left that company in a better position to weather the recession of the late 2000s. Quebecor has also been helped by its diversification into more profitable media businesses, such as cable television and wireless telephony, as well as by the relative health of the Quebec economy.

The perceived threat to conventional television in Canada, however, may not be as severe as made out by the networks. While their profits are certainly not as high as they once were, and in some cases are apparently not enough to cover their loan

payments, accounting methods may explain much of the red ink. While CTVglobemedia did suffer a loss from its conventional television operations in 2008 and undoubtedly faces a larger loss for 2009, when its newspaper and cable television revenues are included the company reportedly turned a profit of 9.7 percent in 2008, according to public filings by Torstar. (Toughill, 2009b) CTVglobemedia's overall loss for the year, according to one analysis, was the result of the large writedown on the book value of its conventional television assets, and the company actually recorded an operating profit of Cdn$214 million on revenues of $2.2 billion. (Toughill, 2009b)

The penchant of network executives for telling investors one story and the CRTC another was pointed out by one analyst, who compared Leonard Asper's forecast to investors of 10-20 percent profitability with the doom and gloom he conveyed to the regulator. "It must be so confusing to have to talk out of both sides of your mouth," noted the *Globe and Mail*, which mused that the double talk had more to do with the "fee for carriage" fight than with the falling economy. "The broadcasters won't take no for an answer. You want proof, they say? We'll give you proof." (DeCloet, 2008) The conflicting versions of reality promise to make the third round of "fee for carriage" an interesting battle.

References

Akin, D. (2009). Television business model 'broken.' *Montreal Gazette*, March 11, B7.

Bartley, A. (1988). The regulation of cross-media ownership: The life and short times of PCO 2294. *Canadian Journal of Communication* 13/2, Summer, 45-59.

Blackwell, R. (2007). Astral seals deal with Standard for radio stations. *Globe and Mail*, April 13, B3.

Blackwell, R. (2008). CTV cuts 105 positions. *Globe and Mail*, November 28, B3.

Brent, P. (2004). Quebecor buys Toronto 1 TV station from CHUM. *National Post*, August 21, FP1.

Canada, Canadian Radio-Television and Telecommunications Commission. (2009). *Communications Monitoring Report*, August, 119.

Canada, Standing Committee on Canadian Heritage. (2003). *Our cultural sovereignty: The second century of Canadian broadcasting.* Ottawa: Queen's Printer.

Canada, Standing Senate Committee on Transportations and Communications. (2006a). *Final report on the Canadian news media, Volume 1*. Ottawa: Senate of Canada.

Canada, Canadian Heritage. (2006b). *Response to the Report of the Standing Senate Committee on Transport and Communications: Final report on the Canadian News Media*. Ottawa: Minister of Public Works.

Clarkson, B. (2009). CTV stations face the axe: Cable firms must fork over cash, TV exec says. *Toronto Sun*, October 22, 14.

DeCloet, D. (2008). Don't believe everything they say on TV. *Globe and Mail*, March 15, B2.

Derfel, A. (2009). Journal de Montréal locks out staff. *Montreal Gazette*, January 25, A2.

Doyle, G. (1999). Convergence: "A unique opportunity to evolve in previously unthought-of ways" or a hoax? in Marsden, C. T. & Verhulst, S. G., Eds., *Convergence in European digital TV regulation.* (London: Blackstone), pp. 141-154.

Doyle, J. (2009). We still watch TV. So why are stations going out of business? *Globe and Mail*, March 10, R3

Edge, M. (2007a). *Asper Nation: Canada's Most Dangerous Media Company.* Vancouver: New Star Books.

Edge, M. (2007b). Convergence and the "Black News Hole": Canadian Newspaper Coverage of the 2003 Lincoln Report. *Canadian Journal of Media Studies* 2 (1), April, pp. 76-107.

Edge, M. (2009). Public benefits or private? The case of the Canadian Media Research Consortium. Paper accepted for presentation to Journalism Research in the Public Interest, November 19-21, Zurich, Switzerland.

Ferguson, R. (2002). CanWest Global sells east coast newspapers – Pressing need for capital overrides convergence strategy. *Toronto Star*, July 11, C12.

Friend, D. (2009). CTV axes morning newscasts. *Toronto Star*, March 11, E4.

Gibbens, R. (2003). Quebecor Media taken off credit watch. *National Post*, February 12, FP 5.

Grant, T. (2009). CTV Windsor station spared. *Globe and Mail*, July 9, B2.

Hartley, M. (2009). Broadcasters seek changes for 'broken' industry. *Globe and Mail*, March 4, B3.

Jack, I. (2001). Ottawa drops study of media ownership. *National Post*, March 17, A6.

Kirby, J. (2009). Is there a future for Canadian TV? *Maclean's.ca,* October 20. Accessed October 20, 2009 from http://www2.macleans.ca/2009/10/19/is-there-a-future-for-canadian-tv/.

Klein, A. (2003). *Stealing Time: Steve Case, Jerry Levin, and the collapse of AOL Time Warner*. New York: Simon & Shuster.

Krashinsky, S. (2009a). Corus buying CTV specialty channels for $40-million. *Globe and Mail*, July 15, B4.

Krashinsky, S. (2009b). Lights dim for last time at small Manitoba station. *Globe and Mail*, October 3, B5.

Laucius, J. (2001). CanWest drops Southam fellowship. *Ottawa Citizen*, November 17, A7.

Lewis, M. (2003). Teachers and Bell take sporting reins. *National Post*, February 12, A1.

Marlow, I. (2009). Taking on cable giants. *Toronto Star*, October 9, B1.

Marotte, B. (2001a). Quebecor Media taps junk bonds. *Globe and Mail*, June 16, B3.

Marotte, B. (2001b). Cogeco, Bell Globemedia buy TQS from Quebecor. *Globe and Mail*, September 19, B8.

Marotte, B. (2002). Quebecor Media on credit watch. *Globe and Mail*, September 17, B5.

Munk, N. (2004). *Fools rush in: Steve Case, Jerry Levin, and the unmaking of AOL Time Warner*. New York: Harper Business.

O'Brien, G. (2009). Fun with TV numbers as Commission releases BDUs' and broadcasters' aggregate financial data. *Carrt.ca*, September 29. Downloaded September 29, 2009 from www.cartt.ca/news/FullStory.cfm?NewsNo=8690

Olive, D. (2003). Convergence gets personal at Quebecor. *Toronto Star*, September 12, E1.

Perusse, B. et al. (2001). How CanWest is threatening press freedom. *Globe and Mail*, December 11, A27.

Robertson, G. (2007a). CanWest ruling seen as setting precedent. *Globe and Mail*, December 21, B1.

Robertson, G. (2007b). Quebecor triumphant in Osprey battle. *Globe and Mail*, August 4, B3.

Robertson, G. (2007c). Rogers acquires CITY-TV stations for $375-million. *Globe and Mail*, June 12, A1.

Robertson, G. (2007d). Asper defends move to retain Aussie TV. *Globe and Mail*, July 13, B3.

Robertson, G. (2009a). TV network profits at 'crisis' levels. *Globe and Mail*, February 11, B2.

Robertson, G. (2009b). CanWest puts E! up for sale. *Globe and Mail*, February 6, B1.

Robertson, G. (2009d). A week of reckoning for Canadian TV. *Globe and Mail*, August 31, B3.

Robertson, G. (2009f). CanWest sells Australian TV channel. *Globe and Mail*, September 24, A2.

Robertson, G. & Bradshaw, J. (2009). CRTC looks to retool Canadian TV. *Globe and Mail*, February 11, B1.

Robertson, G. & McNish, J. (2006). BGM grabs CHUM for $1.4-billion**.** *Globe and Mail*, July 13, B1.

Robertson, G. & Willis, A. (2009). The Asper dream ends, the sell-off begins. *Globe and Mail*, October 3, A1.

Scoffield, H. (2001). Ottawa and the Goliaths: Media giants are converging at breakneck speed. Will regulators be left in the dust? *Globe and Mail*, March 26, R1.

Shalom, F. (2008). No holiday cheer at Sun Media. *Montreal Gazette*, December 17, B3.

Silcoff, S. (2003). Quebecor cutting media division debt. *National Post*, October 10, FP4.

Sparks, R., Young, M. L. & Darnell, S. (2006). Convergence, corporate restructuring, and Canadian online news, 2000-2003. *Canadian Journal of Communication* 31 (2), pp. 391-423.

Sturgeon, J. (2009a). Teachers buys rest of CTV's stake in MLSE, *National Post*, August 21, FP4.

Sturgeon, J. (2009b). CTV rejigs finances to avoid default. *National Post*, September 17.

Surridge, G. (2009). CTV sees $100M loss, takes $1.7B writedown. *Montreal Gazette*, February 28, C2.

Swift, A. (2001). TVA will be independent, Quebecor says – Print, broadcast newsrooms to remain separate. *Toronto Star*, March 27, 1.

Swisher K. and Dickey, L. (2003). *There must be a pony in here somewhere: The AOL Time Warner debacle and the quest for a digital future.* New York: Crown Business.

Toughill, K. (2009a). Feud roils troubled TV industry. *Toronto Star*, May 16, IN06.

Toughill, K. (2009b). CTV: operating profits and job losses. *J-Source.ca*, March 19. Downoaded September 26, 2009 from http://www.j-source.ca/english_new/detail.php?id=3533.

Trichur, R. (2009a). Carriage-fee necessity exaggerated, Rogers says. *Toronto Star*, April 17, B4.

Trichur, R. (2009b). Carriage fee fight is on the air. *Toronto Star*, September 14, B2.

Vieira, P. (2009). Broadcasters argue for more revenue, fewer restrictions. *Montreal Gazette*, April 23, B2.

Willis, A. (2009). With Australia off its plate, CanWest on to bigger issues. *Globe and Mail*, September 25, B3.

Winseck, D. (2008). Media Merger Mania. *Canadian Dimension* 42 (1), January/February, pp. 30-33.

Zerbisias, A. (2001a). Ready or not, CRTC takes on media convergence. *Toronto Star*, April 14, 6.

Zerbisias, A. (2001b). CanWest agrees to journalistic code: CRTC pushes for TV, print newsroom independence. *Toronto Star*, April 20, 2.

Zerbisias, A. (2003). Heritage report buried. *Toronto Star*, July 10, A23.

Zerbisias, A. (2006). Just say no to this monstrous media deal. *Toronto Star*, August 7, C2.