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 eclipse conventional TV **more and more** 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).[1] 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 sixth largest media enterprise in Quebec, after Bell, Quebecor, Rogers, 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, MTSAllstream, Bragg and SaskTel are to telecoms and broadcast distribution: large players in their own right, but without clout across the mediascape, and

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[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

[5] CRTC, Public Notice 1998-41; CRTC, Public Notice 1999-97.

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 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.

Response: Creating a More Systematic, Consistent and Comprehensive View of Media Concentration in Canada and the Potential Effects of the Bell-Astral Deal

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 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.[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.

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,

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[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: Astral's Revenue and Market Share: CRTC Data vs Annual Reports.[7]

	2010	**2011**
Astral		
CRTC Data		
Total $Mills (ENG)	275.1	284.3
Total $Mills (FR)	237.5	252.9
French + English Total in $Millions	512.3	536.9
PWC Data		
Total Engl + Fr ($Mills)	527.9	557.9
Total ($Mills) ENGL	279.8	295.7
Total ($Mills) FR	248.1	262.2

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.

The Majority-Owner-takes-All method (MOTA), in contrast, appear to do one of two things. One version assigns *all* of the revenues to the majority owner and appears to split them

[7] Please see note 2 above explaining that Astral's 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 $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.

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 this 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 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 services overall.

In the second version of the MOTA, *all* revenues from *all services*, whether jointly-owned or not, are assigned to each of the identified owners. Applying this approach 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 $719.3 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 an appreciable amount of unaccounted revenues equal to between one and two percent of total TV revenue or two and 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:

HHI < 1000	Un-concentrated
HHI > 1000 but < 1,800	Moderately Concentrated
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 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 55.5 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 deal 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 radio 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.