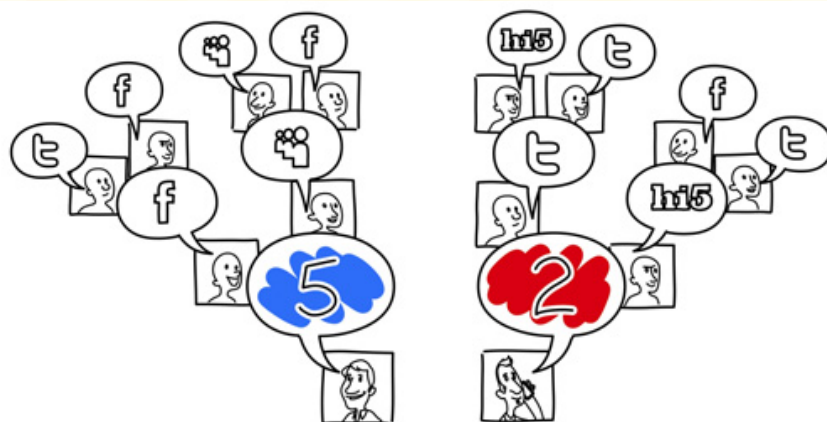








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**KEY INDUSTRY DEVELOPMENTS**


**The Ubiquity of Digital Media**


Perhaps the most characteristic feature in the evolution of the media business in 2010-2011 is that the notion of “new media” has vanished, making way for the ubiquity of digital media as a simple fact of life. The Internet is now everywhere, creating a media space where content of every sort multiplies and circulates more rapidly, where multi-platform consumption driven by the “user as king” has

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become the norm, and where broadcasters realize they must prove themselves technologically versatile and open to change.

The social web is undoubtedly the most influential trend in this most recent period. The growth of social networks like Facebook and Twitter has redesigned all relationships between consumers and content creators, notably by introducing geolocation, instant information and high-speed distribution. Inexorably, the mobile web has become part of the landscape with Apple's launch in Canada of the iPad in May and the iPhone 4 in July. By the summer of 2010, the numbers of mobile devices and service providers offering the Android operating system were also growing on the Canadian market.

Online video use continues to grow with equal rapidity. The arrival of Netflix in Canada in December, with its video-on-demand (VOD) service for \$7.99, confirms the absolute necessity for television broadcasters to secure a presence in all digital spaces. It may be noted here that the Tou.tv webcasting platform launched by Radio-Canada and its partners in January 2010 is well on its way to success and will be followed by many more VOD service offers to come.

In short, television, web and mobile technologies are now virtually inseparable. There are no more "traditional" media and "new" media. There is simply content, which consumers want to see available anywhere at any time, on the platform of their choice.

### **Consolidation and Vertical Integration**

Consolidation and growing vertical integration in the broadcasting system continued in the last year with two major transactions: Shaw Communications' acquisition of Canwest Global Communications and BCE's acquisition of CTVglobemedia. Recognizing the importance of maintaining a strong competitive industry while also ensuring Canadians have access to a diversity of voices in programming choices, the CRTC announced that it would hold a public hearing on the issue. The Commission noted that that it wished to put in place norms for interaction among the players in the broadcasting system to negotiate programming rights and carriage.

### **Competition from Foreign Over-The-Top ("OTT") Services**

With the arrival of Netflix in Canada in the late Fall of 2010 and the subsequent rapid growth of Canadian subscribers to this service, industry stakeholders expressed concern about the potential impact of such unregulated services on the Canadian broadcasting system.<sup>1</sup> Among the issues of continued debate among stakeholders are whether increasing consumption of audiovisual content from unregulated sources may be detrimental to Canadian content creation and exhibition, whether increased network traffic associated with greater video consumption will require additional investment in infrastructure capacity without compensation from unregulated entities and whether these new distribution platforms provide an additional avenue for the delivery of Canadian content. In light of the entry of other services into the Canadian marketplace, the CRTC announced that it would call for comments on the impact of such services on the broadcasting system.

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## **KEY GOVERNMENT POLICY DEVELOPMENTS**

Key developments took place in 2010-2011 that shone the spotlight on Canada's goals to develop a national digital strategy and position the audiovisual industry as a co-production partner of choice.

### **Towards a Digital Economy Strategy**

The federal government's release of *Improving Canada's Digital Advantage: Strategies for Sustainable Prosperity* in May 2010 launched a national consultation aimed at developing a multi-year digital economy strategy for Canada. The document underlines the importance of creating a modernized framework for the digital media sector to help position Canada as a destination of choice for creativity and innovation. Within this context, the CMF's role was highlighted as part of a suite of strategic programs that aim to support the production of Canadian content on multiple platforms.

The Standing Committee on Canadian Heritage's report, *Emerging and Digital Media: Opportunities and Challenges* released in February 2011 called on the federal government to introduce new measures to support digital media including the introduction of a national digital strategy, increased funding to the CMF and a national tax credit for digital media production.

### **A New Policy on Audiovisual Treaty Co-production**

On the international front, the federal government released its *Policy on Audiovisual Treaty Co-production* for discussion, with the goal to address Canada's declining treaty co-production activity. The CMF participated in this process, proposing in particular that the Policy consider the need to adapt to the co-production of convergent projects.

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## **KEY REGULATORY DEVELOPMENTS**

### **Towards Greater Flexibility**

Following the release of a proposed group-based licensing policy for large private English-language ownership groups<sup>2</sup> in 2009, the CRTC announced in December 2010 its intention to move forward on the implementation of the policy. Under this policy, the Commission intends to reduce its focus on Canadian exhibition and focus on programming expenditure requirements. In addition, the Commission plans to introduce a greater level of flexibility in the manner in which television services account for Canadian programming expenditures.

### **Terms of Trade and Increased Value for Digital Rights for Producers**

A key feature of the group-based licensing policy for English-language ownership groups will be the adherence by broadcasters through a condition of licence to Terms of Trade for all independently produced projects. This tool which standardizes business practices and terms between broadcasters and producers is expected to apply to the entire life cycle of a project - from first pitch, through to development, production and broadcast on all platforms. The agreement is expected to increase the value of digital rights for independent producers.

### **A Regulatory Framework for VOD Services**

In January 2011, the CRTC announced a new regulatory framework for video-on-demand (VOD) services. Among the conditions imposed by the CRTC are that VOD services contribute five per cent of their gross annual revenues to a Canadian program production fund, and that not less than 20 per cent of all programming other than feature films be Canadian. The new framework also permits advertising on VOD services to offset the costs of acquiring the rights to programming. The intended impacts of these changes are to provide Canadian broadcasters with a new revenue stream enabling them to produce more content for VOD and with favourable conditions to compete with OTT services.

### **Monitoring of New Media Activities**

Mindful of the growing significance of broadcasting in "new media", the CRTC established new reporting requirements for new media undertakings that are affiliated with traditional broadcasters. The CRTC also established a working group to help develop standards for the reporting of new media revenues and expenditures. The working group is expected to issue a report to the Commission in 2011.

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<sup>1</sup> A defining feature of OTT services is that they provide Internet access to programming independent of a facility or network dedicated to its delivery (via, for example, cable or satellite).

<sup>2</sup> This applies to English-language broadcasting groups that generate more than \$100 million in annual revenues.

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### Contact

*4-50 Wellington Street East  
Toronto, Ontario M5E 1C8*

*Email: [info@cmf-fmc.ca](mailto:info@cmf-fmc.ca)  
Telephone: 416.214.4400  
Toll-free: 1.877.975.0766  
Fax: 416.214.4420*