



Canadian Independent Music Association

Written Submission for the Pre-Budget Consultations in Advance of the 2019 Budget

By: Canadian Independent Music Association (CIMA)

August 3, 2018



Canadian Independent Music Association

List of Recommendations:

CIMA recommends that the federal government:

Recommendation 1: Increase the Canada Music Fund budget by up to **\$10 million**, with annualized staged increases over five years.

Recommendation 2: Establish an annual **\$10 million Music Export Fund** for Canadian-owned music companies and their artists.



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EXECUTIVE SUMMARY

The Canadian Independent Music Association (CIMA) commends the government for its investments in Canada's commercial music industry through its support of talented artists and the hardworking Canadian companies and entrepreneurs who stand behind them.

It takes the talent of our recording artists, songwriters, composers; the support and investment of our world-class entrepreneurs such as record label executives, managers, publishers and programs like the *Canada Music Fund*, to make our industry internationally competitive.

To survive and thrive, Canadian artists must be engaged in markets around the world. The *Canada Music Fund (CMF)* has been a critical source of support over the years. However, with costs ever expanding to be on the world stage, the industry requires additional investments. These investments assist the commercial **music industry**, the market-driven sector of the cultural economy that drives the discovery, development and promotion of emerging Canadian artists.

Since taking office in 2015, the government has made significant investments in culture. However, the beneficiaries of these investments have mainly been large national institutions, none of which support Canada's commercial music companies.

The recent federal budget also took action to support the audiovisual sector – a sector affected by changes similar to those of music – announcing \$172 million over five years for the Canada Media Fund.

In contrast, the CMF had received modest increases over the past two years and will see an additional \$2.5 million annually over the next five years as part of the government's Creative Export Strategy. This strategy includes a \$125 million investment over five years to assist all creative industries, including music, to compete globally. While important and timely, the portion of this investment dedicated to the music industry is a modest down payment and a precursor to what CIMA hopes will be the establishment of a more robust, long-term music exporting fund, and additional investments in the industry's core support program, the Canada Music Fund. Without a strong domestic market, Canada will not be able to shine abroad.



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About CIMA

CIMA is a not-for-profit national trade association representing English-language, Canadian-owned and controlled businesses of the domestic, commercial music industry. CIMA represents a diverse membership of small businesses including: record producers, record labels, recording studios, managers, agents, licensors, music video producers and directors, creative content owners, artist-entrepreneurs and other professionals from across the sound recording industry.

CIMA's mandate is to develop professional services and advocate for policies that foster a more viable independent music industry and raise the profile of Canadian music, domestically and abroad.

CIMA represents over 300 Canadian companies and professionals and 6,200 Canadian artists including: A Tribe Called Red, Tanya Tagaq, Serena Ryder, The Trews, Terra Lightfoot, Tegan and Sara, Whitehorse, The Sheepdogs and METRIC.

CIMA manages *Music Export Canada*, the international brand of our music export office. *Music Export Canada* organizes up to twenty annual music trade missions to markets around the globe, helping businesses connect with international buyers and sellers, while providing important showcase opportunities for Canada's emerging artists.

PRODUCTIVITY AND INTERNATIONAL COMPETITIVENESS CANADIAN INDEPENDENT MUSIC ON THE WORLD STAGE

The Canadian music industry is the sixth largest in the world, making it a powerful contribution to the Canadian economy. Studies have shown that “audio-visual and interactive media” comprises 50% of the growth in Canadian culture-related GDP; with Canadian sound recordings being the largest increase (7.9%). The music industry generated approximately \$430 million for the Canadian economy in 2015, up 8.3% from 2014.

Canada's economy relies on a prosperous Canadian-owned and controlled music sector to discover, develop, support and promote local talent in commercial markets at home and abroad.

Independent music is uniquely positioned to help artists establish careers in the creative sector and tell original Canadian stories. It is within this sector that music creators are likely to follow bold, unconventional paths in their business decisions and the style of music they create.



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A music company's 'product' is largely intangible intellectual property. Thus, the traditional banking system is reluctant to provide capital to music companies in the manner that it does for other industries. Funding and access to capital are the most significant obstacles facing our independent music sector. Through considerable expenditures on artist development, recording, touring, marketing and promotion, Canadian independent music companies (eg: record labels) shoulder most of the risk necessary to foster new, innovative Canadian music. The economic, cultural and social benefits that result from musical innovation at the independent level are significant. Sustainable funding should be increased to support independent music creators who are responsible for undertaking such risks in the Canadian economy.

The increasing degree to which cultural products are exchanged on Internet platforms means that digital transactions should be integrated into Canada's media regulation system. **The federal government must ensure that a share of revenues generated from the online transaction of cultural products still contributes to the ongoing development and promotion of Canadian cultural industries.**

THE CANADA MUSIC FUND

Support from the federal government is integral to the domestic and international success of the Canadian music industry. This support is leveraged by the music sector for much-needed capital into the professional and artistic development of emerging Canadian artists.

The **Canada Music Fund (CMF)** assists artists and entrepreneurs undertake sound recordings, music videos, touring and showcasing, marketing and promotional initiatives in an increasingly global, digital marketplace. It also allows Canadian consumers to access high-quality music choices.

The need for action has been recognized by the government, which has announced the modernization of key legislation for the sector, initiated the modernization of the CMF and allocated \$2.5 million annually for five years for this fund. This modest increase represents a very welcome first step.

However, for the CMF modernization to be truly effective for the industry, another \$7.5 million – bringing the additional annual investment total to \$10 million – is needed for the long-term stability of Canada's music companies and artists.



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The need for this additional investment is acute. Businesses in the music industry are currently operating in an unpredictable and ever-changing market due to:

- A forecasted **significant decrease** over the next five years of mandated **funding from private radio broadcasters** that supports several programs for the commercial music industry.
- **Revenues** from both physical and digital **album sales plummeting**.
- **Streaming revenues** being almost non-existent for the overwhelming majority of artists and producers, especially those in the independent sector.
- **High-risk investments** needed to make a sound recording profitable **increasing** because of the need to invest in two worlds (traditional and digital).
- **Public funding** for production and marketing in the music sector **stagnating** for over a decade.
- Recent **CRTC decisions** on television license renewals that have **deprived the music industry of millions of dollars in annual support**
- Amendments to the **Copyright Act** that have deprived the industry tens of millions of dollars.
- **Important players** (online music services and internet service providers) **not contributing to the support of the music industry**.

These challenges undermine not only the competitiveness of Canadian music companies, but threatens their ability to provide the Canadian public with sustainable access to diverse and quality professional national content.

Therefore, in order to have a successful and fulsome modernization of the CMF, new dollars must be injected into the fund. In many respects, CMF programming is in need of a 'tune up', wherein changes and improvements are made to ensure it continually supports the core functions of the Canadian music industry in the future. The current programs under the CMF are vastly oversubscribed and underfunded. The modernization of the CMF is expected to expand the program's eligibility requirements, resulting in more organizations applying for financial backing. Unless the overall financial resources available to the fund are increased, this will inevitably result in a reduction in per company funding to CMF beneficiaries. We caution that this modernization must be done in tandem with significant annual **increases to the CMF**. Increasing **CMF funding by up to \$10 million annually with staged, predictable adjustments over the next five years** will enable our industry to continue providing dynamic, substantial return on investments for the Canadian economy, while helping address the real costs and inflationary pressures facing the Canadian music industry.



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Independent music companies have been able to generate over \$300 million in annual GDP for the Canadian economy and a disproportionately large amount of tax revenue, despite their small size. For every dollar received in government support, they return \$1.42 in federal and provincial tax contributions.

One strategy to help fund the CMF increase is to allocate revenues from spectrum auctions to the music industry. The next auction will take place in March 2019. Such spectrum is used to broadcast cultural content. Therefore it stands to reason that a reasonable portion of the auction revenues be invested back into the music industry. This solution will assist the government in its allocation of an additional \$ 10 million annually to Canadian music companies through the Canada Music Fund.

MUSIC EXPORT FUND

Music export strategies support artists during all phases of their careers. CIMA is encouraged by the federal government's Creative Export Strategy, which includes a \$7 million Creative Export Canada funding program for all creative industries, a portion of which will be funding music projects. This new support is a welcome investment, but needs to be viewed as a down payment as international engagement truly requires more robust support. We encourage the government to fully invest in a long-term, dedicated funding program to assist music companies and their artists at all stages of their professional development.

On average, music export investments cost **double** domestic activities and can cost **21 times more** for breakout artists (per artist) than for emerging artists. This cost is highly burdensome, especially as 50% of the English Canada music industry is comprised of sole proprietorships.

Canadian music companies, artists and industry associations like ours are all actively engaged in global exporting. Per CIMA's 2016 *Music in Motion* report, almost 90% of those surveyed for the report identify exporting as extremely important to their business, with almost 60% noting it is necessary for their survival. Immediately increasing the **CMF** by up to \$10 million will help address some of these funding pressures. However, there is an urgent need for the creation of a dedicated **Music Export Fund** – one specifically designed to provide music companies the capital to invest in both emerging artists and those on the verge of fully exploiting international markets. Therefore, **CIMA recommends a dedicated, annual Music Export Fund of \$10 million for Canadian-owned music sector export initiatives should be established.** Such a diverse funding program would capitalize on international momentum within the industry and establish a stronger commercial environment where all music professionals (including new artists) can advance their careers at home and abroad. As export activities require long-term



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planning and cost significantly more than comparable domestic activities, a music export fund should provide multi-year funding and have flexible application and expense rules.

New exporting dollars specifically dedicated to music will assist Canadian music companies better **understand markets, invest** in the **training, development and marketing of artists, fully engage** in the **global marketplace** and **increase** their **international market share**.

Thank you for your time and consideration of CIMA's pre-budget submission. Having never appeared before the Standing Committee on Finance, we would welcome the opportunity to present, either in Toronto or Ottawa, when it begins receiving witnesses. We look forward to growing a strong, dynamic Canadian music sector together.

Yours sincerely,

Stuart Johnston
President

Cc: Rt. Hon. Justin Trudeau, Prime Minister of Canada
Hon. William Morneau, Minister of Finance
Hon. Pablo Rodriguez, Minister of Canadian Heritage and Multiculturalism