

**Pre-Budget Consultations in Advance of the 2019 Federal
Budget**

August 3, 2018



List of recommendations

- **Recommendation 1: \$10M in immediate and recurring additional financial support**

That the government, in order to ensure the competitiveness of local independent companies responsible for producing and marketing Canadian musical content, provide an additional annual amount to go with the modernization under way of the \$10 million Canada Music Fund, starting in the 2019-20 fiscal year, and that this amount be renewed until the many actions needed to return to a balanced, equitable and viable market for music companies have occurred.

- **Recommendation 2: Continuation of the legislative modernization work under way**

That the government, with a view to enabling a return to a fair, balanced and viable music market in the medium and long term, continue the work begun to modernize the *Broadcasting Act*, the *Telecommunications Act* and the *Copyright Act*.

- **Recommendation 3: Spectrum auctions**

That the government put in place a plan to ensure that spectrum auctions benefit cultural industries, including music, as quickly as possible.

Canada's Francophone music industry: unique in the world

ADISQ: 40 years defending the interests of passionate independent entrepreneurs

- Over 250 companies
 - producers of recordings, entertainment and videos
 - record distributors
 - artist managers
 - music distributors
 - publishing houses
 - booking agencies
 - entertainment venues and presenters
 - advertising and media relations agencies

- Responsible **for more than 95%** of the production of records, performances and videos **by Canadian Francophone artists – a phenomenon unique in the world, which should make Canadians and our decision-makers proud.**

The government has invested in culture, but independent music companies are still waiting

Since taking office in 2015, the government has made significant investments in culture

The recipients of these investments are essentially large national institutions:

- Canadian Broadcasting Corporation
- Telefilm Canada
- National Film Board of Canada
- National Historic Sites and Museums
- Canada Cultural Spaces Fund
- National Arts Centre
- Canada Council for the Arts

The most recent federal budget acted for the audiovisual sector, affected by changes similar to those in music, announcing \$172M over five years for the Canada Media Fund.

In June, \$125M over five years was announced for Canada's Creative Export Strategy.

But how much goes to independent music companies?

These investments are noble, and many are essential. However, music industry companies, affected by unprecedented challenges, seem to have so far been forgotten... or almost.

Canada Council for the Arts:

- The CCA provides creative support to artists and organizations, including some in the music industry, but companies are not eligible.

Canada's Creative Export Strategy:

- Of the \$125M announced for export, the Canadian music sector is guaranteed to receive \$2.5M a year for five years: a welcome amount. Let's emphasize: **without a strong domestic market, Canada will not be able to shine abroad.**

This is the main purpose of this application: **to inject a substantial additional \$10 million a year into the Canada Music Fund** to ensure that it remains **the effective economic lever** it has been so far for entrepreneurs in the independent music sector.

Independent music companies, important levers of economic development, need momentum

Urgency to act

Since the government took office, music companies have not received any additional money for the domestic market. Yet they operate in an inequitable and unbalanced market, **threatening their ability to provide Canadians with sustainable access to diverse and quality national professional content.**

An unbalanced, inequitable and increasingly unsustainable market

- **Revenue** from **album sales** – physical and digital – is in a **free fall**.
- **Revenue** from **streaming** is **dismal** for the overwhelming majority of artists and producers, particularly those in the **independent** sector.
- Internet service providers **do not contribute to supporting the music industry**, whereas what mainly makes them attractive is the consumption of cultural content.
- **The investments** required to hope to make a sound recording profitable have **increased**: it is now necessary to invest in two formats (traditional and digital).
- **Federal public funding** to the music industry for production and marketing **has stagnated** since 2002-2003. However, it produces a necessary **leverage effect**.
- Since 2012, changes to the **Copyright Act** have deprived the industry of tens of millions of dollars.

The music industry has experienced dramatic declines in revenue for over a decade

Evolution of Revenue in the Canadian Music Industry

Cumulative revenue losses in the music industry since the beginning of the decline (1999): \$7,607,122,900

Share of independent companies: \$1,521,424,580

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800

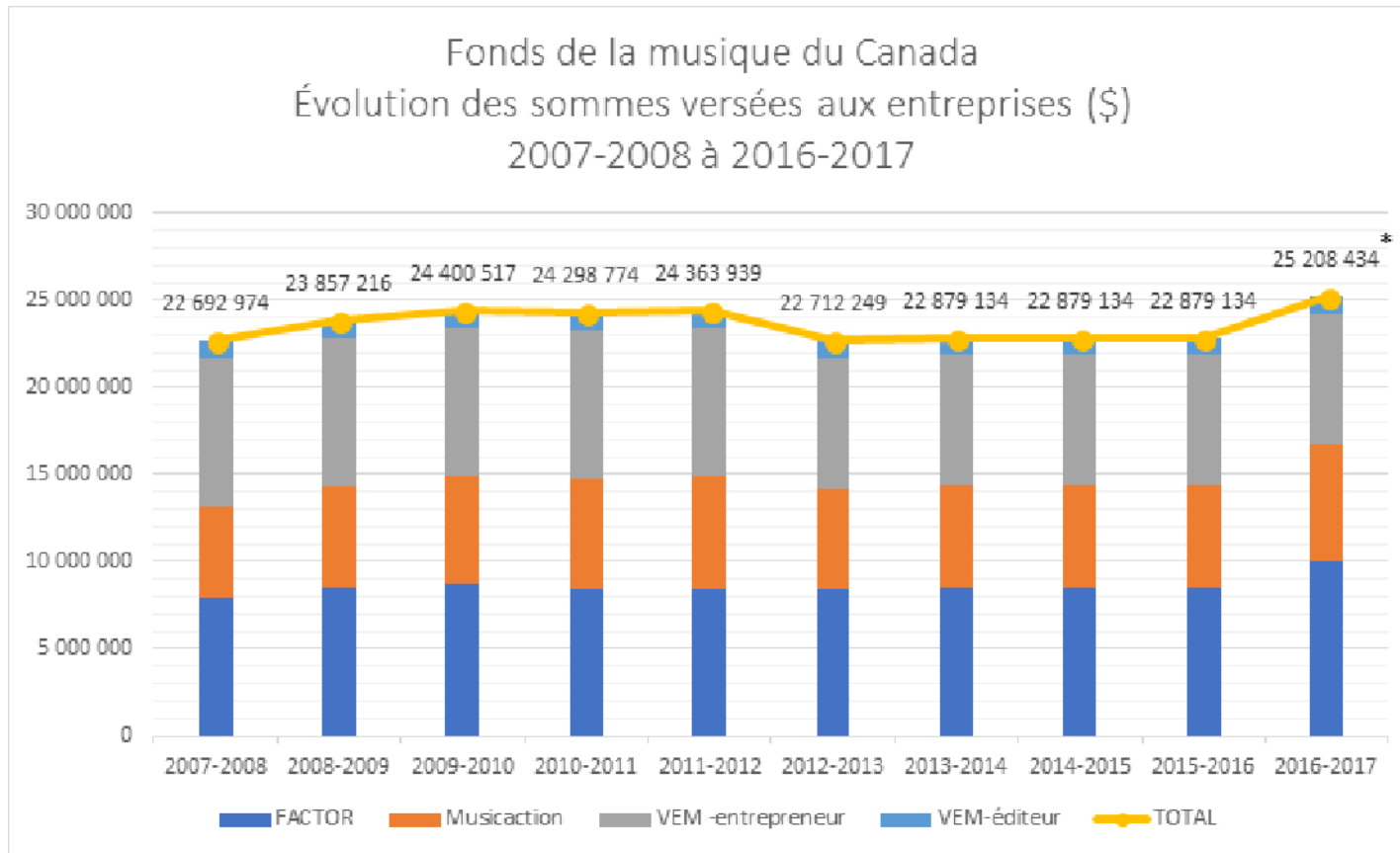
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1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017

• Physical • Digital • Other (Performing rights, Synchronization rights)

Canada Music Funds support for independent music companies is stagnating

Canada Music Fund: Evolution of the Amount Paid to Companies (\$) 2007-2008 to 2016-2017



CMF – Entrepreneur

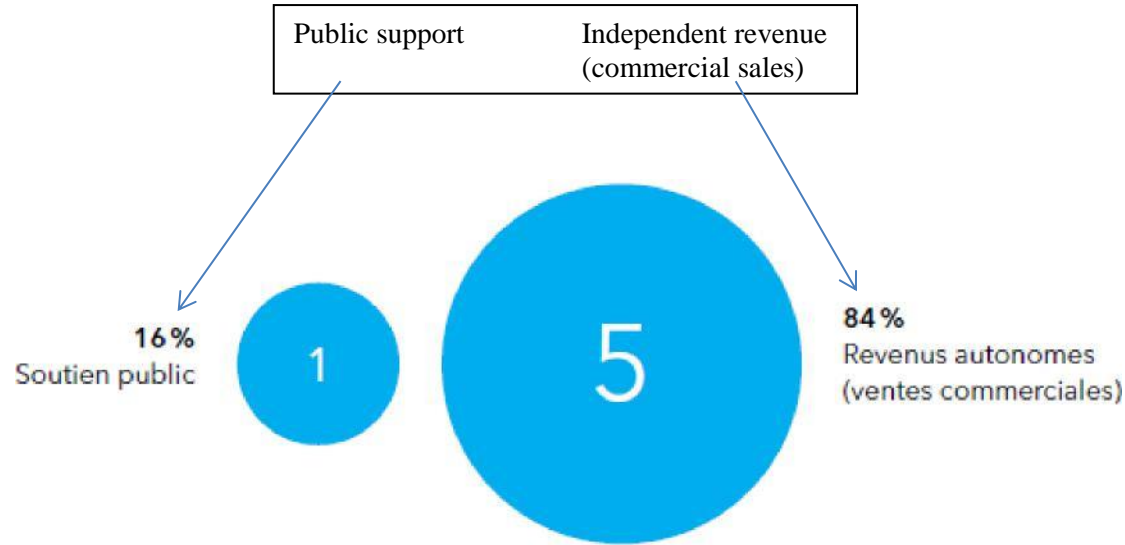
CMF – Publisher

Sources: Musicaction, FACTOR, Canadian Heritage

Note: The increase observed for 2016-17 is explained by the addition of \$2.5 million divided between FACTOR and Musicaction, and meant specifically for export activities. These amounts have recently been renewed for five years.

Entrepreneurs are the risk-takers

Sources of funding for Quebec music companies



Source: SODEC

Public support in music: a significant leverage effect

Every dollar invested by the government in our song industry generates more than five dollars in revenue in the song industry. Those five dollars can be attributed to the investment, work and risk-taking of entrepreneurs.

It is important to remember that music remains an **industry with a precarious profit margin**. In 2013-14, **it was**, on average, only **7.1%**. Spotify and Apple Music had not yet come to Canada.

The urgency to take action in television was recognized at the first signs of imbalance, but music, which has been hard hit for a long time, has been forgotten

MUSIC

Continuous losses since 1999

- In 20 years, the cumulative **losses** of the Canadian independent music industry have amounted to \$1.5 billion.
- Since 2002-2003, public funding of the industry has stagnated.

TELEVISION

The Canada Media Fund (CMF) has decreased since 2016

- Losses on broadcasting undertakings (BDUs) to the CMF amounted to \$4.8 billion.
- Despite the decrease in the CMF, Canadian television production funding increased by 30% from 2012 to 2017.

BUDGETS 2015 to 2018:

No additional assistance.

BUDGET 2018: The government gave **\$172 million over five years**, starting in 2018-19, to maintain CMF funding at the 2016-17 level.

For independents, the profitability of sound recordings becomes unattainable

Estimated recovery thresholds for an album project based on method of consumption, in number of units		
Physical Albums	Digital Albums	Streams
15,000 units	18,000 units	30 million streams

Source: ADISQ.

- The ADISQ estimates that **the average production and marketing budgets for an album are around \$45,000 and \$75,000, respectively.**
- While the sale of 15,000 physical albums makes an album profitable for a producer, **30 million streams** are needed, a threshold never reached by an album by a French-speaking Canadian artist in the market.

Major record companies: powerful competitors

The IFPI estimates that when a major record company launches an artist in a significant market, it invests between \$500,000 and \$2,000,000. **This is up to 16 times more than what independent labels can currently afford.**

For the past two years, we have been reading that the music industry is growing once again, albeit modestly, thanks to streaming. This renewal can be explained by the success of a handful of privileged artists, supported by major record companies.

In streaming, major record companies have much more clout than independent companies. While success is a matter of volume, they have vast catalogues of world-renowned artists.

Moreover, Spotify's recent IPO served as a reminder that, in addition to collecting a significant share of the royalties from this dominant service, they also own shares. Sony and Warner, for example, have collected \$1.2 billion to date by selling 50% and 75% of their shares, respectively.

Restoring balance will require changes that will take time.

SEVERAL LEVERS MUST BE USED AT THE FEDERAL LEVEL TO RESTORE BALANCE		
LEGISLATIVE LEVER	REGULATORY LEVER	TAX LEVER
Amendments to the <i>Telecommunications Act</i> and the <i>Broadcasting Act</i> to make it possible to impose obligations for the development of Canadian cultural content and its visibility on all players	End of the regulatory exemption applying to online music services	Subjecting foreign businesses to Canadian tax rules to fund cultural measures
Amendments to the <i>Copyright Act</i> to make Internet service providers accountable for the content they distribute, restore the private copying regime and eliminate outdated exceptions for radio stations	Fight against piracy	

Until these processes are completed, additional financial support will be required for companies in the music industry.

Funding the cultural sector through spectrum auctions?

An option to explore: spectrum auctions

The Government of Canada periodically holds spectrum auctions. The next ones will take place in March 2019.

If the most recent ones make it possible to collect considerable sums, it is in large part thanks to the cultural content, which is mainly consumed online by Canadians. As a result, the cultural sector considers that a portion of the funds resulting from these auctions could be directed to it.

This solution must be quickly explored, without however delaying the granting of an additional \$10 million in annual assistance to music companies.

Canadians are partial to cultural content online

“But the true driving force behind the rise of broadband Internet in this country is demand for real-time entertainment, and particularly video, which accounts for two-thirds of the capacity of fixed networks and one-third of the capacity of mobile networks.”

- CRTC, *Harnessing Change: The Future of Programming Distribution in Canada*

Support independent music companies to ensure their competitiveness: an overview of needs

Entrepreneurial performance and development:

- Increase access of companies to a quality workforce to meet challenges in terms of the visibility of our content on all platforms, revenue diversification and exports.
- Increase the capacity of companies to offer artists and artisans in the music and entertainment sector more opportunities to reach their various audiences by increasing their presence throughout Canada.
- Enable companies to significantly increase the continuous creation of audiovisual material promoting the visibility of artists on all platforms.