

Pre-Budget Consultation Brief

Federal Budget 2021

August 7, 2020



List of Recommendations

Structuring Support for the Music Industry (*Required Even Under Normal Circumstances*)

- First Recommendation: Maintain the \$10 million financial support granted in 2018–2019.
- Second Recommendation: Add a \$5 million annual financial support to produce French-language music audiovisual content.

Support to Ensure Recovery of the Music Industry in the Context of a Health Crisis

- Third Recommendation: Increase the assistance ceiling for projects supported by Canadian Heritage from 50% to 75% for the next two years (\$9 million).
- Fourth Recommendation: Support the production and marketing of live performances at a rate of \$10 million per year for the next two years.

Why Should Companies Responsible for Music Production be Supported?

The production of music and live performances is carried out by independent companies that bear significant risks in a market that has been characterized, for several years now, by a significant imbalance and by inequities that deeply affect revenues. Thus, the COVID-19 crisis is having severe repercussions in an already highly weakened environment. The investment cycle, which is crucial to the development of the industry, will continue to be under threat in the years to come.

All our requests have the following objectives:

- To support a critical mass of artists, as well as a plethora of craftspeople, technicians and professionals;
- To stimulate original Canadian music production through sound recordings and live performances in both official languages and in all its diversity, including emerging artists (riskier ventures);
- To preserve as many independent companies as possible, as they provide employment for a large and skilled workforce (including in a wide variety of trades);
- To maintain a unique ecosystem which provides significant economic, territorial and social benefits.

Canada's Francophone Music Industry: Unique in the World

ADISQ:

More than 200 companies responsible for **more than 95%** of the production of records, shows and videos by **Francophone Canadian artists:**

- Record, live music, and video producers
- Record labels
- Artists managers
- Music distributors
- Music publishers
- Booking agencies
- Concert promoters and venues
- Promotion and media relations agencies

Key Facts and Figures about Canada's Francophone Music Industry:

- Eighty-four percent of revenues are self-sustaining. On average, profit margins for businesses of 8%. The leverage effect created by 16% of public aid is crucial.
- Although sound recording production is at the heart of the music industry, more than 70% of companies in the music sector produce live performances. According to a 2018 unpublished preliminary study by SODEC, the revenues generated by companies benefiting from the PADISQ program total \$162.5 million, 56% of which comes from live performances.
- Massive investments in manpower:
 - Sixty-six percent of the average production cost of a sound recording.
 - Seventy-five percent of the average production cost of a live show.

A Welcomed Government Support to music that Needs to be Sustained by Targeting Key Players

Before the COVID-19 Crisis

- 2019 Budget: \$10 million per year for two years through the Canada Music Fund

Since the Start of the COVID-19 Crisis

- Initiatives Dedicated to Music: Out of the \$500 million package, \$34 million for music, **including \$3.6 million for French-language content production companies.**
- General initiatives impacting our sector include the Canada Emergency Wage Subsidy, the Canada Business Emergency Account, the Business Credit Availability Program, and tax deferrals.

Towards Recovery: Focus on Content Production

The support provided so far has been salutary and well adapted to the urgency of the situation.

To ensure a successful recovery, we must now focus on the companies responsible for music and live performance production, which are at the heart of the ecosystem, and for which public funding has a genuine leverage effect.

An Unbalanced Market, Becoming Less and Less Viable, Even Before COVID-19

Over the past 20 years, the Canadian music market has been undergoing a process of value destruction

- Sales of physical and digital albums have fallen by 72% over the past 15 years.
- Streaming revenues are anemic.

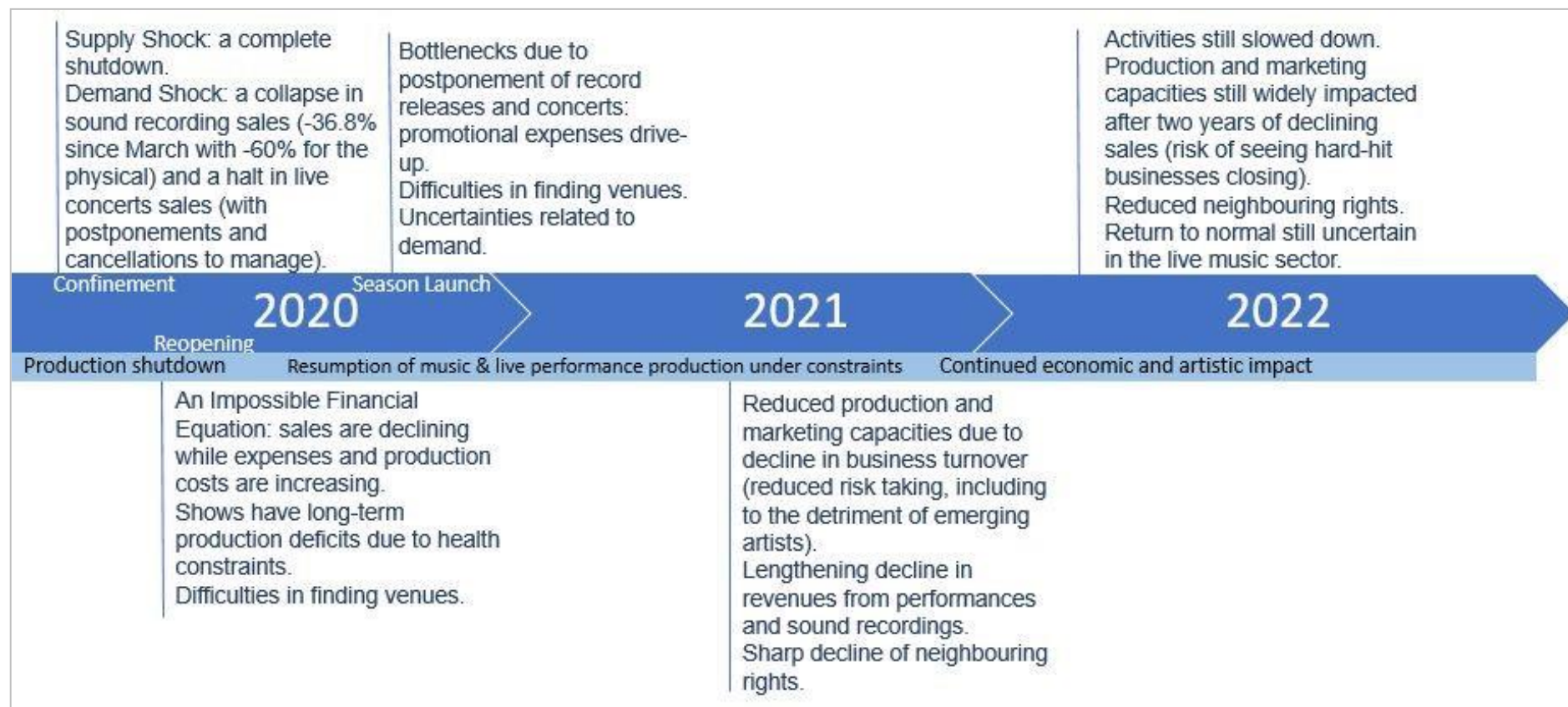
A Legislative Framework Slow in Being Modernized

- Internet service providers do not contribute towards supporting the music industry, even though their main attractiveness lies in the consumption of cultural content.
- Online music services have no obligation to promote and finance local production.
- Since 2012, amendments to the *Copyright Act* have deprived the industry of tens of millions of dollars.

Despite the turmoil, government funding has been stagnating for several years

The 2019 Budget is the first, in more than a decade, to provide a significant increase in funding for Canadian music production, even though the period has been defined by a slump in industry revenues.

COVID-19: A Violent Trauma with Long-Term Economic Consequences



The Pandemic Highlights the Importance of Production and Marketing Companies: An Artist's Career Cannot Be Put on Hold

Activities Maintained During the Crisis

Production and Marketing of Live Performances:

- Managing postponements and cancellations
- Resumption of activities with new sanitary measures

Production and Marketing of Recorded Music:

- Various productions: web performances, live recordings in home studios
- Resumption of studio recordings with sanitary measures
- Album releases
- Higher marketing costs in the absence of live performances

Research and Development:

- New artists
- Development of new projects

Management Activities

Publishing and Content Management

Our Artists During the Crisis: Active ... and Necessary!

At the height of the crisis, when many sectors of the economy were at a standstill, music companies competed with energy and creativity to maintain their activities.

For example, between March and June 2020, at least 75 French-language albums were released, to which must be added numerous online performances and large-scale television shows.

First Recommendation: Maintain the Additional \$10 million Financial Support Granted in 2018–2019.

Governmental Support is Still Needed

“To address some of the challenges faced by Canadian musicians in the digital era” (2019 Budget, Chapter 4), the 2019 Budget provided \$20 million in funding over two years.

While revisions to the *Copyright Act* and the *Broadcasting Act* are still pending, the challenges facing the music industry have only increased in recent years. The COVID-19 crisis has reinforced how crucial digital technologies have become, and the importance of large multinational corporations that divert much of the value created by cultural industries.

The assessment made by the Government in 2019 is even truer today.

Ensuring the sustainability of government support

Used efficiently, the 2019 government funding has helped support *“more Canadian musicians and music entrepreneurs, and help with the rising costs of marketing and promotion necessary in the music industry today.”* (Canada Music Fund).

Second Recommendation: Add Another \$5 million Annual Financing to Produce French-Language Music Audiovisual Content.

Audiovisual Production: An Essential Promotional Tool

The success of YouTube and TikTok, and some music television programs illustrate the growing importance of video. Music can also be listened to with our eyes, especially among young people. Music videos, but also a whole range of videos related to artists, have become essential promotional tools, a fact that has been exacerbated by the crisis. The impossibility of staging shows deprived artists of a unique and essential promotional window.

Such local productions compete with foreign entities, which mobilize massive budgets.

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Support for Audiovisual Content: Insufficient and at Risk

In its *Decision 2018-334*, the CRTC determined that private French-language television groups must contribute 0.17% of their annual revenues to a fund supporting music videos. In two years, this has provided producers with just under \$900,000 annually for approximately 63 music videos per year. Given the needs of the industry, this particularly coveted funding makes it possible to finance a limited number of projects with very modest budgets.

Yet, this spending requirement is temporary and is in danger of ending soon.

Third Recommendation: Increase the Assistance Ceiling for Projects Supported by Canadian Heritage from 50% to 75% for the Next Two Years (\$9 million).

Maintain Investment Capacity and Employment in the Music Industry

In the face of emergency, the government increased the ceiling for assistance to projects supported by Canadian Heritage, which allowed businesses to quickly access cash and maintain activities and the link between artists and the public.

This highly effective measure must be maintained in order to stimulate investment, while the outlook for profitability remains virtually nil.

In this unprecedented period, increased government support will help maintain the confidence of our companies and generate a leverage effect with ripple effects for the entire music industry. It will also make it possible to maintain a significant number of jobs.

Increasing the assistance ceiling for projects supported by Canadian Heritage

This increase will help boost the confidence of entrepreneurs and maintain companies' investment capacity and propensity to take risks.

Fourth Recommendation: Support the Production and Marketing of Live Performances at a Rate of \$10 Million per Year for the Next Two Years.

Independent producers are at the heart of Canada's Francophone live music sector.

In general, most federal government support in the music industry is used to support sound recording-related activities. Indeed, stage production activities account for only 14% to 19% of the activities supported by MUSICACTION.

However, in the Francophone market, the production and marketing of musical shows are mainly carried out by independent companies. Thus, the increase in normal funding granted provides little support for live performance activities. However, while the sound recording sector is being severely shaken by the current crisis, the performing arts sector is experiencing a veritable hecatomb—a situation that calls for even greater assistance.

Support the production and marketing of live performances

Under normal circumstances, the profit margin for a show is particularly low because of the high costs involved.

Sanitary measures and reduced audience gauges generate additional costs, despite declining revenues. According to our consultations with producers, even if they are very keen to produce shows, the fear of excessive losses is the main obstacle to recovery.