CIMA

CANADIAN INDEPENDENT MUSIC ASSOCIATION

2012 Pre-budget Submission

by the Canadian Independent Music Association (CIMA)

to the Standing Committee on Finance

Submitted to:
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August 12, 2011

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INTRODUCTION

Thank you for the opportunity to submit the Canadian Independent Music Association's (CIMA) pre-budget position to the Standing Committee on Finance.

CIMA represents more than 180 English Canadian companies and professionals engaged in the worldwide commercialization of Canadian independent music.

CIMA's membership consists of Canadian-owned companies and representatives of Canadian-owned companies involved in every aspect of the music and music-related industries. They are exclusively small and medium sized businesses which include: record producers, record labels, recording studios, managers, agents, licensors, music video producers and directors, creative content owners, artists and others professionally involved in the sound recording and music video industries.

For 36 years, CIMA has dedicated its efforts to developing business opportunities through an international network of business contacts in the music and entertainment industries and in the associated media such as film, TV, new media and other users of music products.

CIMA's mandate is to ensure the long-term development of the Canadian-owned sector and to raise the profile of Canadian independent music both in Canada and around the world.

CIMA continues to take a leadership role in improving the economic viability and well-being of the independent music and sound recording sector in important areas such as cultural industry policies and programs; intellectual property and copyright law; tax laws and tariffs; international export and trade development programs; and professional development.

In this submission, CIMA will outline its views on how the Government of Canada's support of the music industry specifically (and the cultural sector broadly) through strong policies and targeted resources, will serve to both sustain the creative sector as well as meet the economic goals of the government.

BACKGROUND

Through countless research studies and submissions over the years from such groups and associations as the Conference Board of Canada, Statistics Canada, the Canadian Conference of the Arts, Heritage Canada, CIMA, Music Canada (formerly CRIA), IFPI and many others, it is an established fact that the creative sector contributes:

- a positive effect on the development of local communities and social networks
- a net return on investment in terms of GDP and jobs
- a strong social and cultural identity for Canada, and
- a strong leverage for economic development and revitalization of communities

Consider that, according to the Conference Board of Canada, the creative economy in general contributes a significant economic footprint, which measured just over $84 billion, or 7.4% of Canada's GDP, in 2007. Further, the Conference Board stated in its *Valuing Culture* report:

- for every $1 of real value-added GDP produced by Canada's cultural industries, roughly $1.84 is added to the overall real GDP
- exported cultural goods and services amounted to approximately $5 billion in 2007, or about 1% of total Canadian exports to the world

- Canada's cultural sector plays a critical role in attracting people, businesses and investment; stimulating creativity and innovation; and distinguishing Canada as a dynamic and exciting place, where people can celebrate their heritage and realize personal and professional fulfilment
- cities that offer a high quality of life attract and retain firms and workers in the knowledge-intensive and creative fields
- cultural activities generate substantial consumer spending on culture goods and services. In addition, they generate significant indirect spending effects that are realized through related spending on, for example, restaurants, hotels and transportation services. Indirect benefits are also derived from culture employees spending their earnings, business owners spending (or investing) the profits they generate, and government spending the additional tax revenues generated by those wages and profits. In turn, these purchases lead to further increases in employment, wages, income and tax revenues that can be felt across a wide range of industries

Specifically, Canada's independent music industry contributes revenues, wages and jobs to the national economy. In many respects, the music industry is a key component of Canada's entertainment and creative cluster, which is also an integral element of the digital media, information and communications industry. Indeed, within the entertainment and creative cluster, the music industry is arguably more interrelated with other industries than any other creative industry in the entertainment and creative cluster.

The music industry is composed of a supply chain that includes labels, publishers, distributors, merchandise, booking agents and managers, tour promoters, retailers, musicians/performers, producers, engineers, live venues, studios, post-secondary music training institutions, etc. Thus, the music industry has numerous spin-offs, which amplify the economic impact of the sound recordings and music content it produces. With these creative and innovative spin-offs, social importance, and trickle-down industries in mind, the music industry should be viewed through a wider lens than merely, for example, assessing the income of the individual artists and independent labels.

Music is a product unto itself, and it is also an integral element of film and television programming. Moreover, it is increasingly seen as an active component to drive audiences and users to interactive digital media (eg: electronic games) and as part of the growing use of video on the Internet. Music should also be considered important within the context of innovation and the transition of individual creative industries to the digital world.

In other words, Canada's independent music industry is an important and fundamental foundation for the cultural sector, and therefore plays an integral role in the nation's economy.

RECOMMENDATIONS

There are a number of ways that federal government policies and investments can contribute to a vibrant independent music sector. Indeed, it is the government's stated intention that it is seeking policies and programs that will serve to achieve a sustained economic recovery, create quality jobs, not increase taxation and lead to a balanced budget. It is CIMA's view that continued strategic investment in the independent music sector will indeed serve to accomplish the government's goals.

For the purposes of this pre-budget submission, CIMA is offering a three-pronged strategy for the government to consider:

1. Create a Canadian Sound Recording Tax Credit

2. Establish a market-driven capital investment strategy for the creative industries
3. Maintain the current level of funding for the Canada Music Fund

Create a Canadian Sound Recording Tax Credit

Since 1999, the music industry in Ontario has enjoyed the benefit of the highly successful Ontario Sound Recording Tax Credit. Administered by the Ontario Media Development Corporation (OMDC) and the Ontario Ministry of Finance, the tax credit has consistently provided approximately $1.5 million in annual financial support for sound recording projects.

It is CIMA's opinion that for relatively little investment, the federal government could easily replicate the OSRTC's success nationally, in order to provide a national business approach to assist the independent music industry. Therefore the government should **create a Canadian Sound Recording Tax Credit**.

By way of background, the OSRTC is a refundable tax credit available to eligible Ontario-based sound recording companies, for up to 20% of the eligible production and marketing expenditures that they incur for the development and promotion of emerging artists. Eligibility requirements dictate that a company must have been in operation in Ontario for at least 12 months, have earned more than 50% of its taxable income in Ontario, and demonstrate that more than 50% of its business was in the sound recording industry. Eligible expenses include artists' royalties, musician session fees, graphics, digital scanning; costs of producing a music video directed by a Canadian or made at an Ontario production facility; and direct marketing expenditures.

This tax credit is vital for the independent music industry, especially so as these companies are exclusively small and medium sized enterprises which are particularly sensitive to cash flow issues.

According to a 2011 economic analysis of the OSRTC conducted by Nordicity for CIMA, "Ontario's indie labels are adapting their business models and pursuing…new revenue streams as vigorously as their international counterparts; however, their corporate development is not free of complication. Cash flow pressures and the challenge of growing international sales remain the two most top-of-mind issues for Ontario's indie labels. Without a rolling portfolio of projects, Ontario's indie labels can easily experience cash flow shortages. Improved cash flow can have a real impact on music companies' competitive position and financial performance…As little as an additional $20,000 can often mean the difference between the signing and not signing an artist by an indie label."

According to Nordicity's report, "The economic impact of the OSRTC reaches well beyond the production and marketing expenditures it supports. The OSRTC stimulates the creation and release of sound recordings that generate retail sales and live performance revenues for artists, venues and promoters. Tracing the effect of the OSRTC through the whole music value chain reveals that $1.5 million in financial support from the OSRTC consequently generates $29.7 million of global revenues. Of this $29.7 million, $20.7 million, or 70% is captured by Ontario residents (artists and other workers) and businesses. In the long-term, this $20.7 million is supplemented by an additional $2.7 million in value chain revenues, which can be attributed to emerging artists who eventually break out and achieve gold record status. Without the benefit of the OSRTC, these successful artists may not have been discovered and subsequently signed to produce a break-out production.

Nordicity calculated that the sound recording tax credit in Ontario leads to a $21.7million increase in the province's GDP annually, $16.5 million in additional wage income and has created more than 500 jobs. In addition, the multiplier effect provides further stimulation on the province's economy. "Our research indicates that…one-third of OSRTC supported projects would not proceed without OSRTC financial support. Furthermore, our analysis indicates that the tax credit helps companies expand their marketing expenditures and sales. We found that each dollar of marketing expenditure leads to two more dollars of music label revenue."

Establish a market-driven capital investment strategy for the creative industries

Creative industries, which include the independent music sector in Canada, are currently poorly capitalized.

The creative industries (music, books, magazines, film, television and interactive/games) is a key source of future economic growth, and has an active strategy of investing funds to support the production of saleable content by the creative industries to encourage that growth. While each industry can point to established companies of varying sizes that produce saleable content, the general rule is that these companies are poorly capitalized. Lack of capital is the most serious barrier to the music sector and others in the creative industries.

Largely defined, digital economic development is based on the ability to exploit the value of intellectual property (IP) that content development creates. Canada needs to strengthen a core of creative industry companies that can retain and harvest their IP. Ongoing economic growth needs several large companies and a larger group of small and mid-sized companies with solid growth aspirations and potential. Combine this with a host of small companies producing saleable content and sparking innovation and flexibility, and Canada will have the winning combination for international competitiveness in the digital media marketplace.

Without attracting sufficient capital, there is little potential to achieve the core of sustainable companies critical to enabling strong creative industries to retain economic value from their IP and drive Canada's digital economy.

Therefore, CIMA proposes that **Canada establish a Creative Industries Investment Fund** – a market-driven investment fund governed by strict rules for Management Expense Ratios (MER), disclosure, marketing and valuation practices – dedicated to spurring private capital investment in the creative industries. This fund would be developed in partnership with the private sector with perhaps the provincial governments as well.

The strategic objective of the Creative Industries Investment Fund would be to mitigate the access to capital challenges faced by the music sector and others by promoting growth and development of enterprises that are market and audience driven, globally competitive, diversified and stable, and retain the benefit of their intellectual property.

Targeted investors would be institutions with experience in the creative industries sector, investment funds, and sophisticated investors. The Creative Industries Investment Fund would be managed by arms-length, competent media and financial professionals. As with other programs, additional private sector funding would be leveraged through risk reduction from shared investment by government and from the returns generated by investing in growing companies who can monetize their IP.

An important step towards sustainable and profitable creative industries: Better capitalized, bankable music companies will be in a better position to develop projects internally; to market slates of products; to fully exploit all channels including emerging new media channels; to develop stable and long term business plans, and to sell in the marketplace in a manner that permits them to retain their intellectual property.

In our view, these are building blocks to promote and develop the business of Canadian music, along with film and television, book, magazine and interactive industries that will make our companies far more successful in the domestic and international marketplace. CIMA and its partners in the creative industries would work with the Government to develop the optimum working model for this important initiative.

Maintain the current level of funding for the Canada Music Fund

According to the Department of Heritage, its Canada Music Fund (CMF) “seeks to strengthen the Canadian sound recording industry ‘from creator to audience’”. The CMF has three overarching public policy goals:

1. to ensure that Canadian music artists and entrepreneurs have the skills, know-how and tools to succeed in a global and digital environment;
2. to enhance Canadians' access to a diverse range of Canadian music choices through existing and emerging media;
3. to increase the opportunities available for Canadian music artists and cultural entrepreneurs to make a significant and lasting contribution to Canadian cultural expression.

This $27.6 million investment into the music industry is the lifeblood of CIMA members, and is the cornerstone of a very successful industrial strategy that serves to protect and grow jobs in the sector.

CIMA’s members, and CIMA itself, rely on the contributions of the CMF as a means of facilitating cash flow, offsetting business costs and leveraging new and emerging markets. In recent years, the Canadian and global music industry had seen a drastic decline in sales as a result of many factors, such as the rapid advancements of digital technology, changing consumer patterns and online piracy. Consider that in 2008, Canadian recorded music sales were $488.2 million, which was an 8% decline from the previous year. The sale of physical formats (CDs) has declined over the past decade, while sales of digital music has seen an increase during the same period; however, digital sales have not made up the difference in losses over the years.

At a time when the music industry’s business model is in flux, the Canada Music Fund provides a foundation for the independent music sector to invest in Canadian talent, to provide jobs, expand and invest in new and emerging markets and to remain competitive in this changing digital environment. Without this important fund, the independent music industry would simply have not been able to weather the challenges of the past decade and would have been unable to provide a positive economic impact that exceeds the investments made by the CMF through re-investment and spending by our businesses.

The CMF’s investment in CIMA’s export initiatives has seen a tremendous return on investment. CIMA has adopted an industrial economic development strategy in which it facilitates business to business meetings and showcasing opportunities for its members around the world. In 2010, CIMA engaged in 36 strategic export initiatives in 16 countries in UK-Europe, the United States and south Asia.

As an example, in just three of the largest of those export initiatives, the Canada Music Fund’s investments through its Music Entrepreneur Program (MEC) resulted in multi-million dollar contracts for our Canadian music businesses.

In 2010-2011, facilitated B2B and showcasing opportunities at three of the industry's largest conferences: MIDEM in Cannes, France; SXSW in Austin, Texas; and PopKomm in Berlin, Germany. In total, we involved 98 Canadian music companies which closed a total of 678 business deals at these events. From a federal investment of $227,000, CIMA members were able to leverage $10.55 million worth of business. In other words, for every $1 invested by the federal government, there was a $46.50 return.

In summary, the Canada Music Fund is a sustainable investment in the Canadian music industry, one that has proven results in terms of creating jobs and investments. Therefore, we ask that the current level of funding for the Canada Music Fund be maintained.

SUMMARY OF RECOMMENDATIONS

1. Create a Canada Sound Recording Tax Credit
2. Establish a market-driven capital investment strategy for the creative industries
3. Maintain the current level of funding for the Canada Music Fund

Thank you very much for the opportunity to present CIMA's prebudget submission. If you have any questions or comments, you may contact Stuart Johnston, President, at (416) 485-3152ext 232 or stuart@cimamusic.ca.

Yours sincerely,

Stuart Johnston
President