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## **Standing Committee on Canadian Heritage**

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**EVIDENCE**

**Tuesday, May 13, 2014**

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**Chair**

**Mr. Gordon Brown**



## Standing Committee on Canadian Heritage

Tuesday, May 13, 2014

• (1100)

[English]

**The Chair (Mr. Gordon Brown (Leeds—Grenville, CPC)):** Good morning, everyone. I'm going to call to order meeting number 23 of the Standing Committee on Canadian Heritage.

We are currently conducting a study and a review of the Canadian music industry.

We have quite a number of witnesses with us today. From what is known as FACTOR, the Foundation Assisting Canadian Talent on Recordings, we have Susan Wheeler and Duncan McKie, as well as Allison Outhit. From Fondation Musicaction we have Pierre Rodrigue and Louise Chenail. From Fonds RadioStar we have François Bissoondoyal and Louise Chenail as well.

We are going to hear from our witness groups, each of whom will have eight minutes in total. We will start with FACTOR.

You have the floor for eight minutes.

**Ms. Susan Wheeler (Chair, Foundation Assisting Canadian Talent on Recordings (FACTOR)):** Mr. Chairman, members of the committee, thank you very much for your invitation to appear before you today. We hope these discussions will provide valuable insight into the evolution of the Canada Music Fund.

FACTOR is a private not-for-profit corporation that was established more than 30 years ago by private radio and Canadian music companies with just \$200,000 in voluntary radio contributions.

In 1986 a private-public partnership was formed when FACTOR began to administer government funding offered through the sound recording development program. In the most recent year on record, FACTOR received \$8.4 million from the Government of Canada through the Canada Music Fund and \$11.1 million from private radio broadcasters through their Canadian content development contributions mandated by the CRTC. This makes private radio the majority funding partner in FACTOR.

This revenue model allows us to supplement Canada Music Fund programs with funding from private radio and to develop independent programs financed entirely by the private radio sector. In 2012-13 we committed close to \$17 million through our various programs, supporting almost 2,000 funding requests.

Through FACTOR-administered government and radio support since 1982, Canadian companies and artists have been remarkably successful both domestically and abroad. Companies such as Nettwerk, Maple Music, Arts and Crafts, Paper Bag, Secret City,

and Justin Time are most notable, as is 604 Records, which recorded the Carly Rae Jepsen hit *Call Me Maybe*, which achieved more than 10 million downloads worldwide in 2012.

This year FACTOR supported six Juno-winning albums, and in 2014 the FACTOR-supported album *Throw a Penny in the Wishing Well*, by Jennifer Gasoi, won the first Grammy ever for a Canadian children's recording. We are extremely proud of these accomplishments and the role FACTOR has played in supporting these sound recordings.

**Mr. Duncan McKie (President, Foundation Assisting Canadian Talent on Recordings (FACTOR)):** Notwithstanding these successes and in the face of the profound changes confronting the music industry, FACTOR has completely overhauled its programs and systems. We began with consultations with Canadian Heritage and the music industry in 2012 and launched the new system in the spring of 2013.

In our new system, we ask music company applicants to submit revenue reports based on their exploitation of master rights to recordings. This includes revenues from all sound recording sales, including digital sales and placements in ads, TV, and film. We then rank companies based on that revenue and fund them according to their national standing. This has replaced rankings based entirely on the physical sale of CDs.

For artists, we created a national ranking based on an aggregate score on 17 separate measures of achievement. An artist's ranking on this scale determines their eligibility. This inclusive approach attempts to reflect how today's artists build their audiences and careers and position themselves for commercial success. Included in this assessment are live performance dates completed and booked, their social media success, press notices, placements in ads, films and TV, the strength of their marketing team, and sales of recordings in all forms.

Companies and artists then apply through our programs for support. FACTOR plays a critical role in providing early-stage financial assistance to Canadian artists and music companies. FACTOR operates on a merit system whereby applications are judged by a national network of juries composed of more than 1,000 music industry professionals.

In our demo program, we provide grants of \$1,500 to record a single or demo track that can be used by artists to help promote themselves and professionalize their work. Any artist can apply to this program, provided they submit the requisite materials to our juries. In 2012-13 we funded 215 such projects. In the past year some 279 have received financing under this program, a 30% increase.

At the next level, our full-length juried sound recording programs allow many first-time applicants who wish to create a full-length recording to compete for support in a program that is also juried. Once approved, artists or their representative companies can access additional marketing, showcase, touring, and video funding. In 2012-13, 131 such projects were funded; this number rose to 141 in the past year.

Beyond this level, we provide comprehensive support to more established companies and artists for a funding package comprising a sound recording, marketing and promotion, showcases and touring, and videos, both traditional and digital. Support can be as much as \$150,000 in matching funds per project.

It is also notable that this support and all support for sound recording projects is given in the form of matching funds, which are forgivable loans, repaid based on the overall commercial success of the project. Repayments have averaged about 20% in past years. Overall, FACTOR approved 513 sound recording projects in 2013-14, 234 of which were full-length sound recordings. I should note that sound recordings can also be released exclusively on a digital platform.

Although FACTOR supports the production of sound recordings as a primary investment amounting to about \$4 million per year, the bulk of the overall budget is allocated to marketing, promotion, touring and showcasing, and videos, with \$6.5 million spent on marketing, almost \$3 million on touring and showcasing, and \$400,000 on videos both digital and traditional.

To support the export of Canadian works, we allow half of any marketing budget to be spent outside of Canada. Additionally, \$2 million of the \$3 million in touring and showcasing support is spent in international markets. This ratio is growing as FACTOR sees more demand for live performance support outside of Canada.

Our funding is pan-Canadian. In the year 2012-13, we supported artists, companies, and projects in and from all provinces and territories. With respect to submissions and approvals, some 52% of projects were approved nationally. On a provincial basis, most achieved a success rate within 5% of that number. Only Saskatchewan, at 42%, and the territories, at 22%, fell outside of that range.

We also support a network of regional education coordinators with an annual grant of \$360,000. They provide local guidance to artists in their region who wish to access FACTOR programs.

FACTOR also supports a wide variety of collective activities intended to celebrate our achievements, enhance the domestic and foreign market potential of artists and companies, and subsidize business development costs. There are four such Canada Music Fund collective initiative programs, which we administer, each with a specific goal in mind.

The largest component supports major awards and conferences, such as the Junos, Canadian Music Week, North by Northeast, Polaris, M for Montreal, POP Montreal, Sled Island in Calgary, the Halifax Pop Explosion, the Manito Ahbee aboriginal festival in Winnipeg, BreakOut West, and many more from all across the country, including Yukon and the Northwest Territories. These projects also receive substantial financial support derived from radio CCD contributions.

● (1105)

Other components include support for marketing on digital platforms, export showcases, and official language minority showcases.

We also have a \$450,000 sponsorship fund that underwrites more than 60 smaller events per year, which are outside the scope of the collective initiatives, and it's funded exclusively by private radio. Recipients have included the Lunenburg Folk Harbour Society, the Alianait Arts Festival in Nunavut, the Interstellar Rodeo in Edmonton, and MusicFest Canada, a national competition focused on young artists in classical, jazz, and choral ensembles.

FACTOR staff continue to work with our federal government partners to improve our programs and services. Today, wherever an artist lives in Canada, we have a program available to help them at each stage of their career. Ultimately, we are in the business of helping the industry do what it does best: create, market, and export great Canadian music. Canadian music is one of our greatest national exports and a huge source of pride for all Canadians from coast to coast to coast.

We are very honoured to be entrusted with such an important role in ensuring this impressive legacy continues for many years to come.

We welcome your questions.

**The Chair:** Thank you very much.

We'll now move to Fondation Musicaction.

[*Translation*]

Mr. Rodrigue, you have the floor. You have eight minutes.

**Mr. Pierre Rodrigue (Chairman of the Board of Directors, Fondation Musicaction):** Thank you, Mr. Chair.

Thank you for inviting us this morning. My name is Pierre Rodrigue, and I am the Vice-President of Communications and Marketing at Bell Media. However, it is in my capacity as chairman of the board of directors of Musicaction that I appear before you today. With me is Louise Chenail, chief executive officer of Musicaction.

As you know, Fondation Musicaction manages funding programs which support the development of the independent francophone music industry in Canada. Musicaction also manages the RadioStar Fund, but my presentation today will deal only with the two components of the Canada Music Fund which we administer, and which complements the “Music Entrepreneur” component, which is managed directly by the Department of Canadian Heritage.

Before presenting the foundation's five main mandates, I would like to give you an overview of the structure and governance of our organization.

First, our foundation is based on a public-private partnership. Based on its revenue sources, Musicaction has been a true public-private partnership for 30 years. Since 2002, Heritage Canada has contributed 6 million dollars per year to help manage the “New Musical Works Component” and the “Collective Initiatives Component”. This significant funding is complemented by contributions from private broadcasters, worth \$2.5 million.

Secondly, I will tell you about the composition of our board of directors. Our board is composed of representatives from broadcasters and the music industry, but also—and this is something that distinguishes us from factor—representatives from the Société professionnelle des auteurs et compositeurs du Québec. We benefit from the expertise of these music industry representatives, who continually review the programs. We are also aware of the risk of potential conflicts of interest, so our foundation has developed strict ethics and governance policies, governing the request acceptance process, among other things.

Thirdly, our foundation has a policy of visibility. Musicaction has a detailed policy concerning the obligation to use the Canada wordmark in recognition of Heritage Canada's support. The policy provides for sanctions if the rules are not respected and includes a rigorous verification procedure.

Fourthly, we fund projects individually. Through its various programs, our foundation provides funding for individual projects and does not fund companies as a whole.

I will now present Musicaction's five main mandates.

The first two mandates of the foundation are essentially carried out through the “New Musical Works Component” and its seven programs. The first mandate is to support the production and marketing of francophone music content. This mission is carried out through the album and song production programs, which are designed to guarantee access both to intermediate entrepreneurs with a proven record, called “Recognized Producers”, as well as emerging companies and self-producing artists, through a competition process involving selection by a jury.

These two separate approval methods ensure access for everyone, as well as the quality of the projects that are funded, and a great

musical diversity. Through these two programs, 110 albums and 15 production projects are supported every year. More than 385 songwriters and composers also receive support for their role in producing this content.

This first mandate also involves a national marketing program, which supports the marketing and promotion of sound recordings, image production and stage productions. While 31% of annual funding for new musical works, in other words \$2 million, goes to production, 46% of this component is allocated to national marketing. The marketing mandate is carried out through three other programs, international marketing, sales and management.

Finally, the second mandate under the new musical works component is to develop and renew francophone music. Musicaction has programs to support emerging artists. The first aspect of this mission is the program to support emerging artists, which aims to train new artists at the beginning of their career and to integrate them into the music industry.

We are currently supporting around 15 new artists. Through its other programs, the foundation has also implemented criteria that support emerging artists. Every year, through the “New Musical Works” component, 210 separate applicants, excluding singer-song writers, benefit from our financial support. The large number and range of recipients, including artists, producers of albums and shows, record labels, managers, editors, distributors and music industry associations, demonstrate that all players in the music industry can have access to funding in a way that respects quality, diversity and the renewal of the discipline of music.

Our results show that our initiatives have been successful, despite the extremely difficult context of the music industry today. In four years, 20 projects that we supported received certification and more than 200 awards were given to projects and artists that we supported. In 2013 alone, out of the 20 best-selling francophone Canadian albums, 11 had received support from us.

In 2012-2013, the 25 recognized producers who had received support from us had invested nearly \$50 million in the music industry.

● (1110)

In other words, thanks to the Canada Music Fund and private broadcasters, each dollar invested by Musicaction helped generate more than \$14 in independent revenue for companies.

Now, let discuss the last three mandates. They were strengthened in recent years through additional funding from the department for specific initiatives, under the “Collective Initiatives Component”.

Firstly, there is support for francophone minority communities. In 2008, Heritage Canada entrusted Musicaction with the management of the “Music Showcases Program”, whose main objective is to encourage performances by francophone artists from Francophone minority communities within large-scale tours.

To give you some figures, during the program's first installment, we supported 70 artists, presented more than 200 showcases nationally, and saw 50 national tours and more than 250 performances outside of the country. This significant and sustained presence on stages in Canada and abroad has resulted in the emergence of a number of important young artists. I could mention Damien Robitaille from Ontario, or Radio Radio and Lisa LeBlanc from Acadia.

The second mandate is to develop digital markets. In addition to the support for individual digital initiatives, additional funding from Heritage Canada has been invested in collective digital projects since 2010-2011. The goal is to increase the amount of digital content available, but also to increase its visibility amid the huge range of music available online.

The 29 projects funded run the gamut from a mobile application for a large festival with a download link, to a project to adapt and integrate an international digital distribution structure. In short, these new broadcasting, revenue-related, and exclusive original content creation projects have undoubtedly helped to improve the positioning of francophone Canadian music on the Web.

Examples of the foundation's initiatives to promote programming and encourage the emergence of new projects include meetings between music technology professionals, project presentation activities, consultations with experts, collective consultations, and permanent digital committees. Even if the first steps toward establishing a dialogue and creating new habits have been taken, there is still much work to be done to optimize the content available and to establish a presence in the digital space.

Finally, the third mandate under Collective Initiatives is to develop international markets. By supporting showcase presentations, networking activities and collective stands at fairs, this program allowed us to develop new partnerships with some of the most prestigious international festivals. I could mention the Francolies in Spa and in La Rochelle, le Printemps de Bourges, or WOMEX, which increase visibility with foreign professionals.

In its first three years of existence, the program supported 203 artists, and 196 showcases were presented in 29 different events, mainly abroad. As a result, individual requests for international marketing support increased. Canadian artists have never been so active in francophone parts of Europe.

To conclude, I will make four observations concerning current issues.

First of all, we need to invest more and better in the new digital ecosystem which is constantly evolving, in order to be more visible and more accessible.

Secondly, given the emergence of new business models, assistance programs must be flexible in order to meet the needs of a constantly changing industry.

Thirdly, as borders open up, exporting to target markets will become essential.

Finally, the challenge will still be to ensure that our artists can both continue to produce high quality content and have the means necessary to stand out both on the Canadian market and on target export markets, throughout the digital universe.

Thank you for your attention.

•(1115)

**The Chair:** Thank you.

We will now move on to the representative from Fonds RadioStar.

Mr. Bissoondoyal, you have eight minutes.

**Mr. François Bissoondoyal (Chairman of the Board of Directors, Fonds RadioStar):** Mr. Chair, members of the committee, my name is François Bissoondoyal, chairman of the board of directors of RadioStar and also Director of Disks for l'Équipe Spectra.

Before giving you a brief history of Fonds RadioStar, its objectives and its results since we have witnessed changes in Canadian music consumption, first allow me to thank you for having invited us.

Fonds RadioStar was created in 2001. It is a not-for-profit organization born out of the CRTC's 1998 policy concerning commercial radio. This policy provided for a financial contribution of 3% of the purchase price of radio companies to a marketing fund for Canadian culture.

With the goal of promoting French-language Canadian culture, and targeting emerging artists in particular, Fonds RadioStar was officially launched in August 2001, before the first impacts of the changing consumer behaviour in the digital world were being felt by the music industry.

Since its creation, Fondation Musicaction has managed RadioStar, under the authority of an independent board of directors which is separate from that of Musicaction. Fonds RadioStar thus also benefits from expertise and optimal resources to carry out its mandate.

Also, this double management system by Musicaction and Fonds RadioStar as well as national marketing programs under the Canada Music Fund allow us both to ensure that these programs are complementary and can be leveraged, and to avoid duplicating expenses. In this way, we ensure that the fund is meeting its objective of intervening later in the marketing process than other sources of funding.

I will now discuss access to funds.

Funding is available for recent and existing albums that are already on the market. In the case of a record label recognized for promoting new artists, this funding is available one month before the launch, after providing proof that an initial investment in the project has been made.

Since 2007-2008, the return has been based on meeting a sales threshold which varies depending on the musical genre and the number of albums produced by the artist in question. This is a simple and objective criteria which reassures the client that his or her request will be granted if he or she meets the necessary threshold. And indeed the acceptance rate for projects received since this change has been around 99%. This criterion also gives companies the flexibility of investing at the moment that best suits them to ensure the best possible conditions for their artists' development projects to succeed.

One of the other fundamental principles of the fund, we should remember, is to give priority for funding to emerging artists. The thresholds are lower for first albums, facilitating access to funding. On average, since 2007-2008, 65% of projects that were funded were associated with artists who had produced no more than two albums in their career.

Here are a few figures and results associated with this funding.

From its foundation until the last fiscal year in August 2013, Fonds RadioStar has supported the second marketing phases of 544 albums. These albums are associated with 371 different artists and 9 projects are associated with artists' groups. More recently since the overhaul of 2007-2008, 200 albums which received funding and which came out between 2008 and 2012 generated total sales of a little over 2.8 million units. Out of these albums, 22 received certification, 10 platinum and 12 gold.

Looking beyond albums and artists, over 12 years the fund has directly supported the activities of 145 different companies, including 121 record labels and 24 different concert producers. It has also indirectly supported people working in the marketing of an album, including radio promoters, press relations representatives, concert agents, Web promoters and so on. On this last point, analysis of investments in these projects shows there has been a clear change in marketing strategies, which are now more focused on current music consumption trends.

We should not abandon traditional music marketing methods, but we need to be present in different spaces. Today, strategies are emphasizing Web promotion, notably the production of images for the Internet and support for on-stage performances. Over the last 3 years, 45% of investments have been directed to these areas; 25% toward the Web and 30% toward the stage — compare to 28% in 2004-2005.

To ensure that our initiatives remain relevant, we are continually adjusting the fund based on an analysis of the trends and on consultation with industry.

• (1120)

For example, once the new revenue resulting from the Bell-Astral transaction was confirmed, and after consultation with industry representatives, the fund, with the approval of its board and of the CRTC, immediately adopted a series of measures to bolster the available funding. Given that there is a desperate need in terms of promotion, notably because of the industry's transition towards digitalization, we decided to act as quickly as possible while reserving some of that revenue to extend the life of the fund. This

flexibility also allows us to promote alternative initiatives to funding individual projects, and this benefits the industry as a whole.

Recently, in 2012, the fund added a “Collective Projects” Component to its marketing assistance program. This component supported a study concerning consumption habits, sociodemographic trends, the search for new content, and new purchasing processes for francophone music content, which involved 5,000 respondents. The results of this study were included in a practical guide which is available on the Web to all of the players in the music industry.

To conclude, allow me to make a few observations concerning the issues that the industry is currently facing.

Firstly, the democratization of the means of production has led to an abundance of content on the market. As a result, while it is necessary to have original and high quality content, to stand out, marketing is increasingly important.

Secondly, the diversification of promotion and distribution channels, the increase in marketing and international competition costs, notably involving huge stars, require increasingly large marketing budgets. Apart from a few instant successes, most careers develop over a much longer period than before, and even established artists practically have to start at square one or work very hard to maintain interest. So we need to invest more.

For us the goal is to ensure fair access to funding and to maintain a fair balance between demand and the fund's objectives and financial capacity.

Thank you.

• (1125)

**The Chair:** Thank you.

[English]

We will now move to questions.

We're going to start with the government. Mr. Dykstra, you have seven minutes.

**Mr. Rick Dykstra (St. Catharines, CPC):** Thank you, Chair.

Through you, Chair, to the witnesses, I appreciate all of you coming here. This has been a fairly in-depth and long study, so I appreciate the opportunity to meet and speak with you this morning.

We don't have a lot of time, so I'll be as brief as I can, and hopefully you can respond in kind.

Duncan, one of the major pieces of all of this that has been referred to on a regular basis when we come to committee is FACTOR, because it is—and Musicaction—the basis upon which the foundation is built for so many Canadian artists to be able to move forward.

I wonder if you could just clarify for the committee the type of funding that you receive, both privately and publicly.

**Mr. Duncan McKie:** It's very straightforward. We receive \$8.4 million from the Canada Music Fund on an annual basis. It's structured in a particular way, but I won't go into that. That's covered in the contribution agreements which are available to you, of course. Also, we received \$11.1 million last year through CCD, Canadian content development, mandates from radio broadcasters which is, of course, through CRTC regulation. That fluctuates from year to year because it's dependent on transactions in the business and advertising revenues. It can go up or down. Right now it's at \$11.1 million. We estimate it's going to be fairly high for the next one or two years; after that there's a decline.

**Mr. Rick Dykstra:** We've heard both sides of the perspective on FACTOR from those witnesses who have been here. I wonder if you could isolate what you think are the current strengths and weaknesses of FACTOR.

**Mr. Duncan McKie:** I can start with the second one first and say, to give it a short answer, that I'm sure we have some weaknesses.

Let me talk to you a little bit about access because that's one of the things some people have commented on. Anyone can access FACTOR. FACTOR is not an exclusive club that belongs only to a group of independent labels who have a monopoly on the funding.

If you're an artist in any part of the country that wants to start out, wants to begin a career, you can access FACTOR for a \$1,500 grant to record your first demo or single. Indeed, if you're a band or an artist and you get a showcase invitation from a legitimate festival in Canada, we will fund you up to \$5,000 to go there, no matter what you've done. We have entry-level programs for people right across the country.

Also I'd say that distribution of our funds regionally is, importantly, very equitable. In fact I think somebody pointed out that 80% of the English music business is in Ontario and only 59% of our approvals are in Ontario, so there's a disproportionality. There's a larger percentage—or 52% of our approvals are in Ontario—and every province gets about the same number, as I pointed out. So, there's an equal probability that if you have a project that you're proposing to us, you'll get funded whether you're in Newfoundland or in Victoria or in Toronto.

There have been some misconceptions I think about.... The last thing I'll mention, and I mentioned it in our notes, is that we were the first organization to move towards funding that is not based on the sale of physical CDs, which was the old model of counting units. We are now fully engaged in measuring the commercial success of the company based on all forms of distribution, including digital, and with respect to the artist, we also dropped that singular condition. Now, we have 17 measures that cut across all of the artists' activities, including their digital activities, including their touring, including their live....

I think we're incredibly robust when it comes to our approach. If we have any weaknesses, it's that we can't cover all the ground. Some people like you to be, to quote the chair, like peanut butter and spread all over the place. It's just not possible. The demands are sometimes beyond what we can meet. Although some might say that's not a weakness, I would say it's problematic to be continually meeting those issues, for us.

**Mr. Rick Dykstra:** It's an interesting question. From a financial perspective, I understand that you guys do have some reserve money.

• (1130)

**Mr. Duncan McKie:** Yes.

**Mr. Rick Dykstra:** How much is in that reserve?

**Mr. Duncan McKie:** About \$35 million.

**Mr. Rick Dykstra:** It kind of contradicts what you just said, in the sense that you can't spread yourself everywhere, yet you've got millions of dollars in reserve that you could potentially use on a yearly basis to assist more artists.

**Mr. Duncan McKie:** We will use that. The plan that the board adopted about two or three years ago was to take the tangible benefits money, which is where those reserves, from which we—

**Mr. Rick Dykstra:** What does that mean? What are the tangible benefits?

**Mr. Duncan McKie:** They are the benefits that come from radio transactions through the CRTC. For example, there's a 6% levy on the amount that one pays in a transaction for a radio group. You might remember there was a large deal not that many years ago, maybe four or five years ago, between Astral and Standard, another between CHUM and CTV, and a recent one between Astral and Bell. All of these generated fairly large sums of tangible benefits. The board decided not to spend the money immediately but to set it aside for when those transactions weren't happening anymore.

We have a financial plan that shows the diminishment of those tangible benefits starting in about 2017. Then the reserve becomes an income generator, plus we're going to access the capital to keep FACTOR at a constant level of about \$16 million, at least until 2020, so that far out. Beyond that, it just depends on the conditions.

I would say that was a prudent approach because if we hadn't done that and had started to invest the capital, we might see no FACTOR past 2020, or a very small FACTOR past 2020, and we couldn't meet the commitments we've built up in the industry today. The choice was made by the board at the time, and Susan may want to comment on it, but I think it was financially prudent. I think it was the right thing to do. I think we're now seeing the fruits of having made that decision.

**Mr. Rick Dykstra:** When you go post-2017 to the decline in revenue from radio, is it basically the music that's played that you won't receive revenue from anymore?

**Mr. Duncan McKie:** It's not based on music played. We don't get paid that way. Our revenue from radio is based on a percentage of advertising revenue, a gross.

**Mr. Rick Dykstra:** That the ownership receives from the advertising base.

**Mr. Duncan McKie:** Yes. There are two forms. There's a 0.5% levy on gross revenues that go to radio stations every year. That's accounted for by the stations and their groups, and we receive a cheque. The second form, which I alluded to, is the 0.6% on transactions.



That's not related in any way to their play of music. It's an obligation of the CRTC for them to contribute to the development of Canadian content.

**Mr. Rick Dykstra:** So your view is that there won't be as many transactions, and therefore there won't be as much revenue.

**Mr. Duncan McKie:** Well, you know, almost everything has been sold or bought recently, so....

**The Chair:** Thank you.

We'll move now to Monsieur Nantel, for seven minutes.

[*Translation*]

**Mr. Pierre Nantel (Longueuil—Pierre-Boucher, NDP):** Thank you, Mr. Chair.

First of all I would like to thank the witnesses for being with us today. I am happy that Mr. Dykstra asked that question and that it was resolved. Indeed, there will not be many transactions like the one Bell was involved in recently every day. You have to make provisions if that kind of good news comes out of the blue.

I am happy that you are all here. I wouldn't want you to think otherwise. Since the beginning of this study, most witnesses have praised the programs that support production and creation. Most of the witnesses sang the praises of your two programs and your two subprograms. You are doing good work and we congratulate you. You certainly understand the industry.

And that is probably the secret. Naturally, the music industry is very balanced and it does not want to cut off its source. It's all well and good to replay Roger Whittaker, but young people want something different. So there is nothing to do but to seek out new material. From time to time, I listen to Roger Whittaker in my living room, but my children do not.

Your work has led to some wonderful successes. Lisa LeBlanc is the result of these funding programs. And this is not just the case in Canada. There is Pharrell Williams and his song *Happy*. That is an artist that we didn't know before.

Mr. Rodrigue, you mentioned four points, and the second point had to do with the flexibility of these programs. Were you referring to the variations in the inflow of funds to record producers?

•(1135)

**Mr. Pierre Rodrigue:** Yes and no.

Your question gives me the opportunity to demonstrate the fundamental difference between FACTOR's funding and that of Musicaction when it comes to the viability of the organization.

Duncan M. McKie told you about the three major transactions which occurred recently in Canadian broadcasting. You will remember that the transaction affecting Standard Radio did not concern any francophone stations, that the transaction involving CHUM did not involve any francophone stations and that the transaction involving Bell-Astral, if I remember correctly, concerned 23 francophone stations out of about 100.

If you do the math, you can see there have been significant investments which will lead to concrete benefits for FACTOR's long-term funding. Musicaction and even RadioStar do not benefit from

the same level of investments. This does not change the government's investments, but, keeping the same proportions, there is no reserve fund of \$30 million, even at Musicaction.

Why do I say that the outcome would be the same? Obviously, given the financial context and given that the music industry has been going through some tumultuous changes in recent years, programs cannot be set in stone and cannot remain unchanged for many years.

Our board wisely decided to set up a permanent review mechanism for our programs. We need to resist the temptation to jump on the bandwagon of the most popular model. Every year, new models emerge and while we may be tempted to adopt them, we do not. We were on the cutting edge when it came to digital.

Every year, we implement several new pilot projects, for example in the area of international management. For certain marketed products, we even invite industry to submit new projects. We ask which pilot projects might meet the latest needs. Obviously, we do not dedicate a significant percentage of our funding to this, but we invest enough to be able to test the market.

We need to be flexible, and we need to do so in collaboration with Heritage Canada. In theory, according to our agreements, Heritage Canada could tell us to keep our action plan and to review it in five years, but this is not the case. We often have discussions with our granting organization. Broadcasters also play a role. They could easily write a cheque at the beginning of the year and then disengage. But the board members who represent broadcasters listen to people in the music industry. They participate in these review committees and they adopt new programs from time to time.

**Mr. Pierre Nantel:** Thank you, Mr. Rodrigue.

Mr. Bissoondoyal, earlier, you mentioned these programs. You have a multitude of projects. On the recommendation of your producers, you decided to explore different opportunities. One of the obvious conclusions of this comprehensive study is that we are doing well in terms of creativity and production, but we are having a hard time finding a place for ourselves on a competitive market where the rules have changed. Making sure our productions are visible and that our commercial model is viable are key.

Is that correct?

**Mr. François Bissoondoyal:** Yes, in a certain sense. It is good that you have asked me this question. This will allow me to come back to the practical guide and to the study that Fonds RadioStar conducted.

In Quebec, the predominant model is one of independent producers, which is not the case in many other places around the world. As a result, there are often small businesses that do not necessarily have the means to use focus groups for example. This practical guide allows them to do that and, as a result, to build a closer relationship with their clientele. In this way they can better allocate their spending in order to obtain greater visibility, which is of course what we are constantly seeking.

**Mr. Pierre Nantel:** Thank you.

My next question is for Mr. McKie.

Regarding the Canadian music ecosystem and new and emerging talent, I would like to know to what extent international companies are eligible for your programs supporting this aspect of the creation process. I believe they have access to the products you provided support for, but only in terms of a licence.

Is that correct?

• (1140)

[English]

**Mr. Duncan McKie:** Yes. Let me explain to you briefly how a person might work with a major label if they have access to our programs initially. Is that consistent with your question?

**Mr. Pierre Nantel:** Yes.

**Mr. Duncan McKie:** Anyone can access our programs, as I said. It's possible that an artist will create a sound recording and, having done so, instead of offering it to the market in general, might actually offer it to an international company. In our system at that point, if the international companies decide to license that product for Canada, our support is then refunded to the system.

In our system you cannot access the programs directly, nor can those international companies. Nor can artists who are licensed to those companies access the sound recording programs directly, although they can access the tour programs. As I said, if you've taken a loan or a grant from FACTOR and you then license the product to an international company, the loan or grant becomes immediately due to be repaid to FACTOR.

**Mr. Pierre Nantel:** Is your logo visible?

**Mr. Duncan McKie:** Was that the question?

**The Chair:** I'm sorry, Mr. Nantel. We're going to have to move on.

We must have equitable time, so you'll get another chance to answer that, I'm sure.

[Translation]

Mr. Dion, you have the floor. You have seven minutes.

**Hon. Stéphane Dion (Saint-Laurent—Cartierville, Lib.):** Thank you, Mr. Chair.

Thank you to each and every one of you for being with us today.

[English]

Mr. McKie, maybe I misunderstood, but it seems to me that you've said you expect the contributions from broadcasters to go up for the next two years and afterwards to fall.

**Mr. Duncan McKie:** It will remain more or less stable for the next year or so, because we're still under the regime of those original tangible benefits. On the 0.5% side, that may actually go down, because radio revenues are not trending upwards by any means.

So yes, the current state of affairs is exactly that, and then there's a very large fall-off into 2020, where the tangible benefit component goes from about \$12 million to \$3 million. It drops off this year, to about \$3 million by 2020, so there is quite a substantial drop in the tangible benefits component, which is based on transactions.

**Hon. Stéphane Dion:** Is that a likelihood or...?

**Mr. Duncan McKie:** In the current schedule, that's exactly what's going to happen unless something should change in the business environment to make it different.

**Hon. Stéphane Dion:** What do you think we should do to adapt to this new reality?

**Mr. Duncan McKie:** Well, I know what I'm going to do. I'm going to take the reserve we have, live partly on the interest, and invest some of the capital. I think if we continue to do that, and the government continues to throw in at the level that they are, we'll be able to remain at some \$16 million as an organization for some time to come.

There will, ultimately, be a point where those tangible benefits will diminish the reserves to the point where we can't sustain that. I don't really have the model out past 2020 at this point, because I'm sort of looking at the next five-year iteration of the Canada Music Fund as my base for estimating where we're going to be.

I think that's the reality. I think it's up to policy-makers to decide if they want to address it or not.

**Hon. Stéphane Dion:** If they had to address it, what kind of address would you like to see?

**Mr. Duncan McKie:** Pardon me?

**Hon. Stéphane Dion:** If they had to address that, what kind of a —

**Mr. Duncan McKie:** Well, it's not up to me. I'm the administrator. People give us the money. We do the best we can to make sure—

**Hon. Stéphane Dion:** You have no recommendations to make on that?

**Mr. Duncan McKie:** Not on financing.

**Ms. Susan Wheeler:** Certainly, the CRTC could play a role in allowing radio to consolidate, which would generate more money for funding agencies like FACTOR and Musicaction, so that's also an option, as well.

[Translation]

**Hon. Stéphane Dion:** Anybody else? Please go ahead if you would like to add something.

Otherwise, I have more questions.

[English]

One point that has been raised by some witnesses, although I agree with Mr. Nantel that most comments about what you are doing were very positive, is the difficult balance between well-established artists and creators and emerging ones. Some said that maybe you should focus more on emerging ones and that when an artist is well established they should be on their own.

Is that something that you're aware of as a concern?

• (1145)

**Mr. Duncan McKie:** I think it depends on how you define well established.

**Hon. Stéphane Dion:** I guess so.

**Mr. Duncan McKie:** That's a very interesting point. Who's well established? We know people who have won Juno Awards who still have part-time jobs, and they're in the FACTOR system. We know people like Jennifer Gasoi, who we mentioned, who won a Grammy award for a children's album. She still works part-time. That's hardly well established in the sense of a well-established doctor, lawyer, or other profession. These are people who still live marginally on their music and have some opportunities to commercialize it but are not doing it on a full-time basis.

So, I think, yes, we do have that balance between people who are more established and people who are less established, but I think we try to develop our program so each has an opportunity to benefit from the system.

Remember, too, that one of our responsibilities is to provide commercial radio with records to play, to provide people with commercial opportunities, and to introduce new artists to the commercial world of the industry, and not so much subsidize them to, say, learn their instruments or something like that. We are operating in that niche. That's an important point to remember.

So, yes, we do struggle with that, but I think we have a good balance right now, and it works very well.

**Hon. Stéphane Dion:** Thank you.

[Translation]

Mr. Rodrigue, would you like to add something?

**Mr. Pierre Rodrigue:** At the other end of the spectrum, there will always be those young artists who will claim they should get funding when they were not selected by their industry's jury system. Juries receive dozens and dozens of applications and cannot accept everyone.

I empathize with them, but from an industry perspective I cannot feel for artists who have not been successful in attracting interest when others are able to do so...

**Hon. Stéphane Dion:** These artists are not even at the "emerging" stage yet.

**Mr. Pierre Rodrigue:** They are at the front door, if I can put it that way. I think that if those artists are truly talented and relevant, they will succeed. In 2014, people who were told "no" may wonder, "why not me?" My answer would be, "because not everyone can make it." And that happens often.

**Hon. Stéphane Dion:** Mr. Rodrigue, since you have finished, we would now like to hear three or four recommendations.

Could you give us more details? You talked about flexibility and tailoring to outside markets. Is there anything we should include in our report about this? Or are you rather asking that we leave you alone, that we provide you with that flexibility and let you deal with things yourselves? Is there anything about these policies we should put in our report to the government? Whether it is the structure of the Canada Music Fund or anything else?

**Mr. Pierre Rodrigue:** I would say I have the same concern you expressed earlier when you asked my colleagues what would happen next.

If you look at the francophone broadcasting ecosystem, the transactions that should have been done were done. As for French-language radio in Canada, mainly in Quebec, there is the Cogeco group, the Bell Média group, to which I belong, and some independents. As Susan mentioned, it would be almost impossible for other transactions to take place unless current CRTC rules were changed.

While FACTOR may be able to plan how it will manage its money over the next five, six or seven years to get as far as possible, for us, with this latest transaction, part of Bell-Astral, part of Cogeco and part of Corus will be no more. After that, if the government does not find a way to increase its funding to Musicaction or if the CRTC does not change its rules, we could have a problem. I am not here to talk politics. As an individual, I may have my proposals and ideas...

**Hon. Stéphane Dion:** We would like to hear them.

**Mr. Pierre Rodrigue:** You know what projects are floating around. Should the CRTC look at what is happening on the Internet? Since new media are increasingly involved in music, should Internet service providers one day be called upon to contribute? Should international players, the Netflix and YouTubes of this world eventually be called upon to contribute as well?

**Hon. Stéphane Dion:** We mentioned a shortfall...

**The Chair:** Thank you.

[English]

We'll go to Mr. Boughen, for seven minutes.

**Mr. Ray Boughen (Palliser, CPC):** Chair, let me add my voice of welcome to the panellists for taking time to visit with us. I'm sure you're very busy.

Staying with my colleague's questions on finance for a minute, can you explain to the group what are the advantages and disadvantages of handing over administration of the two components of the Canada Music Fund to the third party?

• (1150)

**Mr. Duncan McKie:** What are the advantages of having us administer the fund, rather than say having the Government of Canada administer it directly? Is that the question? It's a sort of a compare and contrast question. Is that what you mean?

**Mr. Ray Boughen:** The Department of Canadian Heritage, our department, has assigned Music Canada and FACTOR to administer two components of the Canada Music Fund. The question really is what are the advantages and disadvantages of that kind of structure?

**Mr. Duncan McKie:** The real advantage, I think, is initially we have a private-public partnership, so we don't just have public money being administered directly by a third party. Had there not been that, perhaps the department could administer it directly. It would only be government money. But in order to lever this relationship you can combine the two. Then you have the possibility of doing more. You can take the government money and combine it with the money from the broadcasters and create larger programs, other programs, alternative programs, more support for artists, more support in the regions, sponsorship programs, things like that.

Of course, the other advantage is we can move more quickly. We can make decisions on programs and their development and distribution of money in a matter of days or at least a month. I think you'll admit that sometimes it takes a little longer in government to get money out the door and spent and in the hands of the people who might want to use it.

Those are two advantages.

I think the disadvantage is we're out there in the public and people criticize us. We serve two masters. There's always a tension there and we live with that, but I think we're able to manage it fairly well.

We know there's a component of the Canada Music Fund now administered exclusively by government. You might ask some recipients of that how they're living in that world. I don't know, but I think we're doing a pretty good job in the relationship we have now.

**Mr. Ray Boughen:** Good.

François, what do you think of that question, the advantages and disadvantages?

[*Translation*]

**Mr. François Bissoondoyal:** I rather agree, that is, the word flexibility was used a number of times. Being close to the people you are helping is, in my opinion, one of the strengths of this type of organization. It means that you have a better understanding of everyone's challenges and that you can fix problems fairly quickly. I would say that it is a good thing in that sense.

[*English*]

**Mr. Ray Boughen:** Part of the whole operation is to encourage young performers to stay with their skill and develop it and move forward.

What feedback do you give applicants whose funding requests have to be refused? It's kind of like *Canadian Idol*. How did that work?

**Mr. Duncan McKie:** Jake Gold is not on my board. That's a little inside joke.

We have a jury system, as I said, and a jury will consider each submission. It's a responsibility to give feedback on a number of dimensions. They score people on a number of dimensions and give them that straight score feedback, in addition to which these music professionals are asked to give the applicants specific feedback on where they thought they were weak, where they were strong, and how they might improve.

I have to say the system works. An anecdote I often tell people is that Dan Mangan once told me—he was a well-known artist from Vancouver who won a number of Juno awards—that he tried the system four times before he succeeded, but every time he was refused he took the advice of the jury and tried to improve. In the end he won multiple Junos. There is a lesson for any young artists who might not make it the first time that if they listen to the jury and try again, they can succeed.

**Mr. Ray Boughen:** Right.

Pierre, how do you—

[*Translation*]

**Mr. Pierre Rodrigue:** I quite like the expression “the system works” because it is true.

The Musicaction board of directors is made up of 11 or 12 members who are broadcasters and record producers or who represent songwriters. They participate in launches and events in show business in general. They are very much present. They form a sort of community where artists who receive assistance and those who receive less, as well as those who have already received assistance but who no longer do so are very much aware of the group's programs and direction. Nobody can hide. It is not some kind of court that conducts its activities behind closed doors and that no one can access. There is a lot of communication. The same is true for my colleagues at FACTOR. No one can hide. The community is part of the system. I must say the system works.

● (1155)

[*English*]

**Mr. Ray Boughen:** Thanks, Chair.

**The Chair:** Thank you very much.

We'll now move to Mr. Stewart for about three minutes.

**Mr. Kennedy Stewart (Burnaby—Douglas, NDP):** Thank you, Mr. Chair.

Thank you to the witnesses.

I'll keep it short because I only have three minutes. My questions are addressed to FACTOR.

In the supply chain of music we have people who pick up instruments and learn how to play. Then they might at some point decide that they want to move toward becoming professional musicians. FACTOR comes in when you decide that you want to cut a demo or start to perform in front of people for money.

There have been some suggestions that the FACTOR fund should be split and more money should be going to the early stages of musical development, that the money should be spent on getting kids their first instruments or perhaps getting them lessons or something before they get into the supply chain.

If that happened, if FACTOR's funding was split and you took on that role, what do you think that would do to your existing program?

**Ms. Susan Wheeler:** Before Duncan addresses the last part of your question, I just want to explain a little bit about what private radio does in terms of funding that element of the system. Sixty per cent of our annual contributions must be directed to FACTOR, but the remaining portion, the 40%, is discretionary, and that money is used for a number of initiatives similar to that, primarily MusiCounts, which funds musical instruments in schools. Radio broadcasters are huge supporters of that, as well as local community initiatives that really are able to be targeted in those communities that the radio broadcasters serve.

In our view, that element of the system is well covered through that funding and that FACTOR, as the professional administrator of music programming for professional musicians, is well suited to cover that side of the business.

**Mr. Kennedy Stewart:** Thank you.

**Mr. Duncan McKie:** [*Inaudible—Editor*] that comes from a sound recording, it's almost all of it, so that answers that question. If it comes out of collective initiatives, it's almost all of it.

I heard that testimony, 19,000 musicians in Canada who are underserved. If you take \$4.5 million and you spread it among 19,000 people, you get about \$250 apiece, so it isn't a critical amount of money.

What we do is we try to find people who are ready for the system who could use an amount of money which is reasonable to get them started in a professional environment. If people want to start a second system to help those beyond what radio does to help musicians at the earliest stages of their careers once they exit school or even younger, I think that's great.

When you start decimating funds, you start removing the opportunity from other people in the system. It's not a straight win. That's a zero sum game. You're taking money away from people who are deserving, have made a strong impression, and are developed and ready to go. I don't think it makes sense, frankly, from a funding perspective.

**The Chair:** Thank you very much, Mr. Stewart, and thank you to our panel. That's going to have to be the last word.

I'd like to thank all of you for coming today. We are just about to wrap up hearing from witnesses on this study, so if you have any other contributions, please get those to us in writing, hopefully by the end of the week.

We will briefly suspend. Thank you.

• (1155) \_\_\_\_\_ (Pause) \_\_\_\_\_

• (1200)

**The Chair:** Good afternoon, everyone.

We're going to call this 23rd meeting of the Standing Committee on Canadian Heritage to order. We're conducting our review of the Canadian music industry.

This afternoon, we have Graham Henderson with us. He is the president of Music Canada.

From the Radio Starmaker Fund, we have the chair, Sylvie Courtemanche, and the executive director, Chip Sutherland.

We also have Alan Doyle from Great Big Sea, a band that I've had the pleasure of seeing many times.

From Canadian Music Week, we have Neill Dixon.

We're going to start with Mr. Henderson from Music Canada. You have the floor for eight minutes.

• (1205)

**Mr. Graham Henderson (President, Music Canada):** Mr. Chair and members of the committee, thanks for the opportunity to speak today.

In my remarks I hope to provide a summary of some of the themes that have come through over the past months. Many ideas that have been presented to you resemble some of those that were put forward

in our report, "The Next Big Bang", which I have as a prop here, and which, in fact, previous witnesses cited it several times.

It was developed with a somewhat similar purpose in mind to your own study, and that is to identify a framework for a new industrial strategy for music. In doing so, we had to consider the context of the digital environment, trends in consumption, music discovery, and the growing importance of live performance to an artist's income. The report was generated by capturing many different voices through interviews as well as the contributions of complete chapters by experts. As such, it represents the collective thoughts of a broader community.

We focused on five key strategies: music education, digital innovation, music tourism, export expansion, and tax credits. Now, no report of any value rests idle, and since publishing in 2013 we have evolved further our thinking to include music celebration and music's role in city and community building.

Let's talk first about music education. Many witnesses have spoken passionately about the importance of music education. It develops skills such as critical thinking, spatial reasoning, cognitive development, collaboration, creativity. A study by the Information and Communications Technology Council confirms that ICT workers trained in music are better equipped to succeed in their fields.

Multiple witnesses have also expressed the belief that music education instills respect in the creative process. A national survey of schools in 2010 revealed a myriad of deficiencies, including lack of qualified teachers, insufficient class time, and under-resourced programs. Meanwhile, threatened cuts to music education has drawn intense criticism and media scrutiny in Toronto and Vancouver. Calls for a national music education strategy have been supported by witnesses as diverse as the Polaris Music Prize, Live Nation, and SiriusXM.

It was Mike Tanner of North by Northeast who suggested that the federal government has a role in "creating a cultural shift and a national identity built around music and music education." We agree. The federal government has great authority and influence, and we would encourage you to work with music leaders to formulate a plan for leadership concerning music education.

On digital innovation, the promise of, and ability to adapt to, the digital environment have been consistent themes. The utopian promise of the Internet, however, has yet to be fully realized in Canada despite the rosy picture that has been painted by some. While the Canadian music industry in 2013 for the first time saw revenues from the digital market overtake those from the physical market, the fact remains that our digital sales are nowhere near replacing what we have lost in physical sales. Our digital market remains relatively undeveloped. Digital music sales in Canada remain nearly one and a half times lower than per capita sales in the United States. While we have recently welcomed great new digital services to Canada, we lag behind other leading music markets in launching these services. Rather than innovators, we are followers.

We are beginning to see a migration to new and exciting digital music services which offer consumers the ability to access music wherever they are and whenever they want, with new revenue models such as subscription services. Unfortunately, millions of listens on these services do not translate to a living wage for artists and those in the music industry. There has been an enormous shift in wealth away from creators into technologically driven intermediaries who are amassing fortunes on a scale that at times beggars the imagination. Intermediaries often blame the victims with tawdry accusations that creators are simply not adapting, as if we live in some kind of antediluvian adapt-or-die world. As artist-activist David Lowery said, the old boss is being replaced by a new boss. Power and wealth are now concentrated in intermediaries, technology firms that control access to the distribution system. And the artists? Lowery says that 99% are barely surviving while the top 1% prosper.

CIMA released a study that said artists earn about \$10,000 a year from music and spend 29 hours a week on it. That doesn't sound like a full-time professional job to me. It's hardly a rosy landscape.

• (1210)

Canadian-born filmmaker, Astra Taylor, who has just published a book called *The People's Platform*, which you as policy-makers I would suggest absolutely must read, says that the difference between the old and new bosses is that the new bosses don't invest in artist development, and they don't pay advances. Read her book. She's critical of us, and she's critical of others, but she brings a new perspective and a balanced perspective to the debate.

The question here becomes what are we going to do about it, and what is our collective responsibility?

One way forward is to make it easier for digital services to launch and operate in Canada. Numerous witnesses have pointed to the slow nature of decisions made by the Copyright Board, through no fault of its own, and uncertainty in the legal landscape as deterrents to progress. Given the proper tools, personnel, and financing, the Copyright Board could become something more analogous to a business development office.

Parliament should also consider unleashing rights holders and digital services to do deals directly at fair market value rather than having to wait years for the Copyright Board and the courts, to whom board decisions are frequently appealed, to determine what they think the fair market value should have been. This will enable services to launch now with the certainty they require, and it will allow rights to be properly valued in Canada to ensure that being a Canadian musical artist can provide a sustainable livelihood rather than at best being a hobby.

Finally, we have the issue of piracy. Ad-supported piracy continues to plague creators. The digital landscape is littered with illegal services that do not pay artists or copyright owners. Many of them appear to consumers to be legitimate, and they are aided by the likes of intermediaries and other search engines, the search results for which, despite their claims, continue to promote illegal links. There is an opportunity here for international cooperation.

On the subject of music tourism, you have heard compelling testimony from both music presenters and tourism professionals

about the power and the potential of music tourism for our country. David Goldstein of the Tourism Industry Association of Canada testified that as an international destination, we're slipping from eighth in the world to eighteenth.

He further spoke about music as a travel motivator as "one of the most compelling tourism products that spark economic growth in all regions of the country." The Canadian Tourism Commission specifically identified music festivals and events as key motivators for young travellers. These activities would go directly to support artists and musicians in the way they are now earning more of their income, through live music.

Ottawa Bluesfest recommended commissioning a national economic impact study on live music. We fully support this idea and are currently in the process of developing such a study for the province of Ontario, and would, with the support of Canadian Heritage, happily extend it across the country.

On export expansion, export is clearly a critical piece in the development of an artist's career. "The Next Big Bang" relied heavily on input from CIMA and FACTOR. The growth of international markets for music brings forth many benefits for individual artists and music companies. In addition there is a reputational gain for Canada, as Duncan alluded to, as our musicians and artists become de facto ambassadors portraying Canada as culturally diverse and creative. As such they are an essential part of brand Canada. "The Next Big Bang" recommends a more cohesive national approach to export, with resources earmarked for a national export office.

The final area is interconnected tax credits. You have heard several witnesses suggest an update to the tax credit regime. We often point to the success of Canada's film and television production system, which has in large part occurred because of a system of stable, robust tax credits offered to domestic and foreign companies.

Tax credits are used to support industries that make significant investments in R and D. That is us. In music, artist development is our R and D, and for all the reasons previously expressed in these hearings, capturing a return on that investment is harder than ever.

I would urge you to examine the existing tax credit framework and to update it according to the testimony that came before me, which has included discussion on production, touring, awards programs, and digital development.

Thank you.

• (1215)

**The Chair:** Thank you very much.

We'll now move to the Radio Starmaker Fund, for eight minutes.

**Ms. Sylvie Courtemanche (Chair of the Board, Radio Starmaker Fund):** Thank you, Mr. Chair, for inviting us to appear today. My name is Sylvie Courtemanche. In my day job, I am the vice-president and associate general counsel for government relations and compliance for Corus Entertainment, but I am also very proud to serve as the chair of the Radio Starmaker board.

I would like to introduce my two distinguished guests, who will be doing the talking today.

First is Chip Sutherland, who is our executive director. Perhaps more importantly, Chip is an entertainment lawyer from Halifax who has practised for over 20 years representing artists in the music business as well as managing such Canadian successes as Sloan and Feist. He is also the co-author of the Canadian edition of the bestselling book *All You Need to Know About the Music Business* by Donald Passman.

Also with me today is a man who really needs no introduction, Alan Doyle, the lead singer of Great Big Sea, an accomplished museum—

**Voices:** Oh, oh!

**Ms. Sylvie Courtemanche:** Sorry; I mean musician.

Well, it is Canadian Heritage so....

**Mr. Rick Dykstra:** On a point of order, Chair, we're not funding any more museums, just so you're clear.

**Voices:** Oh, oh!

**Mr. Alan Doyle (Member of the Board, Radio Starmaker Fund):** My birthday's this weekend, too. That's a bad sign; that's a bad sign.

**Voices:** Oh, oh!

**The Chair:** I won't take this out of your time.

**Ms. Sylvie Courtemanche:** Thank you, Mr. Chair. I appreciate that.

Mr. Doyle is a songwriter and actor and is our artist representative on the Starmaker board.

Without further delay, over to you, Chip.

**Mr. Chip Sutherland (Executive Director, Radio Starmaker Fund):** Thank you, Sylvie.

The Radio Starmaker Fund is the English side of the Fonds RadioStar. We started handing out money in 2001.

To some extent we have the easy job, because we are focused on the commercial sector of the business. I was tasked with building the fund in 2001. The broadcasters came to me because I was an entertainment lawyer who represented artists exclusively. I had the easy task of looking at the landscape and saying, "What's the need? What do they need?"

I knew intimately the challenges faced by artists, as Graham has alluded to. There is the myth of the successful artist living the good life. You have a gold record. You win a Juno. You go down to the Bahamas and drink rum punch, and everything's great. That of

course is not the reality. It's an ongoing struggle. Alan can explain that to you directly.

We focused early on, as Graham pointed out, to particular points that they're looking at now, which is the touring being so important and international being so important. We started that in 2003. That's because I had worked with bands for years, knowing exactly how expensive it is to get out there in the world. To give the CRTC credit, at the beginning the funding had been targeted for Canada, and they allowed us to move it internationally.

We have five programs right now.

We have domestic marketing and domestic touring. That's roughly half of our money. We give out \$7.5 million a year. As Duncan explained, we are on the same curve that FACTOR is on, because we share a stream of that same money. We similarly have planned our money in three-year and seven-year cycles. We have a seven-year capital model. We're always pushing our money and keeping it level for seven years so that the industry can rely on a steady source and amount of funding.

We have domestic marketing, domestic touring, international touring, international marketing, and then we do some domestic industry-building things. For instance, we run an event at the Toronto International Film Festival called Festival Music House, where we showcase Canadian artists.

The touring component in particular is almost \$5 million of the \$7.5 million.

Our board is made up of 10 industry experts. We have the highest level of expertise on our board. We have someone like Alan; we have the president of Universal, Randy Lennox; the president of Warner Music at one point, Steve Kane; and we have high-level program directors and the broadcasters. We also have very key independent label people on our board, such as Ric Arboit, the head of Nettwerk records. We have very good people to make some of these decisions.

Touring is important for artists, because that money goes directly to artists and it develops a business that is the artist's equity. The labels do not have any involvement in the economic side of touring. That is an artist's business. We're writing cheques directly to the artists for them to go and build a business. They might sell three records and do okay, but then they tour for 15 years.

Take the band Sloan, who I work with. They had all their big records out in the late 1990s. They're still going and touring now, playing the songs that... As k.d. lang famously told them, you make three records and then spend the rest of your life singing the songs on those three records. That is the reality for a lot of bands, and that's how they live—

**Mr. Alan Doyle:** Hopefully; hopefully.

**Voices:** Oh, oh!

**Mr. Chip Sutherland:** Sorry, Alan, except for your very successful solo career, which then involves more....

How do we stay relevant going forward? As I said, we're focused on marketing and touring. We don't make records. You need to have sales to get into the Starmaker Fund, so we assume you have your records and videos taken care of. We're trying to add that extra element to give them the boost to help them sustain themselves and become internationally relevant.

We try to maintain a steady input of new artists at 20%. Our average is around 21% new artists. We're not just giving the money out to the same bands. There are new people every year, which I always find encouraging; there are always new people breaking that ground. We manage our funding thresholds and success to make sure the sales level to get into the fund is relevant. We have a 91% approval rating of applications. If you can get to that threshold where you're in the fund, you have a 90% chance of being approved when you come to us for money, because we're very careful of how we manage all of the parameters.

We continue to focus on international programs. Two years ago we expanded all of our available digital initiatives to allow bands more flexibility for the kinds of things they wanted to innovate digitally. They can get funding for that. We've maintained an artist-centred approach, which means we don't judge people based on where they have their business set up. If they do it themselves, we fund them. If they're signed to Universal, we fund them. If they're signed to Nettwerk records, an independent, we fund them. We're more interested in the artist, and in that way we help the industry on the side.

Alan.

•(1220)

**Mr. Alan Doyle:** Thank you.

Let me quickly say it's a pleasure to be here. This is not my normal gig. It's a tough-looking room; I'm not going to lie to you. I'd also like to acknowledge the good work of the interpreters and translators behind the glass. I'm going to try to keep my Newfoundland accent down as much as I possibly can.

As an artist, it's good to be here as well, because it gives me a chance in front of the committee to say thank you to all the other groups that have spoken here today, including FACTOR, Graham, Neill, and all the guys, because in different ways, I personally, or friends or colleagues of mine, have benefited from all these institutions over the years.

In the little time we have in this section, I would simply like to explain why I was drawn to the Starmaker Fund. It's very simply because it kicks in on a part of a musician's or an act's career that is the most risky, the most costly, and the most in need of support. You can spend five years or a decade or so building yourself up to get to be perhaps nationally recognizable, and you want to take the next step, the next big thing that comes along, and that step is a massive one. To go from playing the local club to playing the bigger theatre, your expense triples. If you want to go from the theatre to becoming a hockey-rink band, your expense and risk quadruple. If you want to go into the United States, Australia, Germany, or wherever to take that step that will get you to becoming an A-list international artist, that's the biggest risk, the biggest expense, that you will ever have in your career. I've felt it on both sides.

I remember when Great Big Sea got signed to Sire Records in the States in the late nineties. We wanted to go, and we said, "Great, we got signed to a label in the States. Wow. We made it. Let's try to get a song on U.S. radio." They said, "Well, okay. Here's how much a radio tracker costs for a week and a half." I don't remember what it was, but it was somewhere around \$125,000 for a campaign to try to get a song on the radio—and this is after you've made it, when stuff gets easy.

It's right at a point when you can start employing people long term. If you can get to that next step, then all of a sudden the guys who work every other week for you become constantly employed. One of the proudest things I had at Great Big Sea was looking down the bus and seeing 14 or 15 mortgages that were getting paid by our gig. It was such an awesome thing.

The Starmaker Fund kicks in right when you need it the most.

As I said, I'm grateful to all the people and the groups that have been represented here today. That's why I'm here, and that's why I'm grateful to get a chance to answer your questions, if you have any, about my experiences with it.

**The Chair:** Thank you very much.

We'll now move to Neill Dixon from Canadian Music Week. You have the floor for eight minutes.

**Mr. Neill Dixon (President, Canadian Music Week):** Good afternoon, everyone. I'd like to thank the committee for inviting me to speak here today.

I'm the president of Canadian Music Week. Now in its 32nd year, Canadian Music Week has become the largest, most influential music and media conference and festival in Canada. Each year, the event draws more than 3,000 delegates from more than 32 countries. The festival now features over 1,000 performers in more than 60 venues throughout downtown Toronto, engaging over 160,000 fans, with the total economic impact estimated at \$16 million this year. By the way, it just finished a day ago. So if I look a little tired....

CMW assists in the education and development of performers and music business professionals of the future and promotes Canadian artists and recordings around the world. Our slogan is "bringing the world to Canada and Canadian music to the world". CMW's key activities include music education, live performance, discovery and recognition, international trade and export, and music tourism.

In the past decade, CMW's efforts have increased the number of international music industry executives coming to Canada by more than 500%, resulting in thousands of dollars of new business being struck in territories including Japan, Australia, China, India, Germany, Britain, France, Southeast Asia, Latin America, and of course, the U.S.A.

We have seen increases in numbers of Canadian songs being placed in film and television productions, and we've facilitated export marketing training sessions presented by these experts. As a result, a better trained industry with a clear understanding of the export process is better able to take advantage of business and export opportunities.

Prior to running CMW, I started my music career as a working musician. You probably didn't know that.



**A voice:** I believe it's museum, a working museum.

**Voices:** Oh, oh!

**Mr. Neill Dixon:** You'll recognize this: it didn't pay the bills, so I used my entrepreneurial skills for the next 16 years in artist management, publishing, and owning the largest independent label of its time in the 1970s called Solid Gold Records.

First off, I think both FACTOR and Starmaker are doing a tremendous job. If there's no more money in the pipeline, then we should maintain the status quo, but there are a lot of worthwhile projects that go underfunded. My first recommendation is more money for FACTOR and more money for other industry initiatives in general.

I've seen a lot of changes in the business over the years, with technology having both positive and negative consequences. Unfortunately, with a poorly regulated digital economy, songwriters and composers have seen their income from reproduction, distribution, and performance of their work almost disappear. Traditional royalties have steadily declined since the year 2000.

This has also had a profound effect on CMW, as we watch labels, artists, and publishers' attendance shrink. Even the multinationals weren't immune. It forced us to think globally, and luckily we've been able to sustain ourselves during these tough times of more and more international registrations and bands.

Let's get back to royalties. When the Canadian government refused to recognize modern media, MP3 players, smart phones, USB, and all the other devices capable of reproducing thousands of works, it also rejected the collection of fees as prescribed in the legislation for those new generation devices, resulting in millions of works being pirated, transported, and stored with no compensation to the creators. Describing the fees as a tax instead of a royalty made things difficult to implement, and the artist paid the price.

The second recommendation is the Copyright Act should be absolutely modernized across all new media platforms. It would go a long way to guaranteeing that Canadian artists continue to be fairly paid for the use of their work and to ensure that they can make a living from their craft instead of begging for handouts.

While we're on the subject, Internet service providers should also contribute to the system because they have a substantial revenue stream from Internet subscriptions, bandwidth, and sales, which are in part attributed to the public desire to download and stream songs. However, with the exception of a growing number of legitimate outlets, a large portion of music delivered by ISPs brings almost nothing to creators.

●(1225)

It's not just the ISPs. Streaming services like YouTube enable people to listen to almost any musical work for free. Yes, they sell advertising, but much of that income never gets distributed to the rights holders. The government needs to get involved in protecting our rights on the Internet.

My third recommendation is that when it comes to export development, I agree with the concept of one central export office. After spending a lifetime promoting Canadian talent around the

world by myself, it would be great to have some support. Over the years we've established a network of international festivals that we have reached reciprocal export development agreements with to promote each other's artists. I caution that we will still need flexibility in the ability to make immediate decisions to capitalize on opportunities.

Finally, on the subject of music tourism, about 20% of our festival audience is out of country. The numbers are even higher when it comes to business delegates. Our festival gets huge international coverage, and with the right support to invest in marquee talent, we have the possibility to grow into one of the premier festivals of the world.

We've heard a lot about Austin and Nashville. I was in Germany recently as a guest of the Berlin music board while attending Berlin Music Week. They gave me a little bit of their philosophy. The city had no music industry or cultural attractions after the war, and until the Berlin Wall came down, as recently as 1989, the city was still partially in ruins and it lost many of its young inhabitants. They had a lot of catching up to do. The Berlin government decided on a two-pronged strategy of cultural and tech to stimulate business. They took into account the value of music to attract young adults and the resulting lifestyle that would encourage the right workforce, and subsequently it would be easier for technology industries to move their headquarters to Berlin. The plan has worked. Berlin is now a thriving metropolis and a cultural hub and is now known as a music capital of Europe.

We're hoping to do that in Toronto.

Thank you for your time.

●(1230)

**The Chair:** Thank you very much.

We're now going to go to the questions, and we'll go to Mr. Dykstra for seven minutes.

**Mr. Rick Dykstra:** Thank you, Chair.

Again, thanks. We say this so much, it seems as if we don't mean it. But we appreciate you guys being here.

This really is something that is fundamental to where we are going with respect to Canadian music, and I can't think of a better place for it to start than out of a solid report from this committee and actually turning it into something that we can begin to implement.

Graham, the last part of what you spoke about or have spoken about is the Ontario Music Fund. I wonder if you could quickly identify how the foreign investment now works in terms of the tax credit. We have had a few people make suggestions like this, that we need to move in this direction overall from a Canadian perspective.

**Mr. Graham Henderson:** Yes, no problem. The Ontario Music Fund has set aside a portion of the fund, which is designed to encourage foreign direct investment by my members, Universal, Sony, and Warner, in Ontario. It's designed to mirror the tax credit system that is in place for film. In Ontario and federally, you have a bucket for the domestic film and television production business and you have a bucket for the international because we are very anxious to encourage Steven Spielberg to come and make movies here. This has been fantastically successful and has made Canada into one of the great film and television production places in the world.

That same model does not exist in music. There are tax incentives and government grants that are available for the domestic industry, but there's nothing that is specifically designed to encourage my members to invest in Ontario or Canada. So the Ontario government, in its infinite wisdom, decided to take a portion of the fund, which is \$15 million a year over three years, earmark it for my members, who have—by the way, they elected not to cast it in terms of a tax credit, because the tax credit system is under review in Ontario because of the Drummond report. This doesn't say it couldn't be converted to it, but actually they kind of like a grant system because it has certainty up front. My members have to submit a business plan, the business plan is approved or rejected in bits and pieces, and then a number is set, and then we have to spend money to show that the success is already there. I think it's in excess of \$3.5 million that is going to be spent by my members in this six months that would not otherwise have been spent in Ontario. We'd like to see that number obviously increase in a federal component.

• (1235)

**Mr. Rick Dykstra:** Thank you.

The other piece is.... FACTOR is sitting right here. It's sometimes easier to speak when no one else is in the room, and sometimes it's actually good to chat when everyone else is here so we can actually see how to build together. I wonder if you had recommendations in terms of how we could address FACTOR.

We had a great presentation with them this morning, some questions in terms of direction. The theme, obviously, through the last number of weeks that we've been dealing with this, is whether or not we should be making changes to FACTOR in terms of how it funds and what its responsibilities are.

Alan, you touched on, as many of our witnesses have, the assistance that you received from it. Maybe I could get Graham to comment directly on some solid recommendations that would improve it, or if you think there are some things that are in FACTOR right now that should remain, please note them.

Alan, when Graham is done, maybe I'll turn the rest of the time over to you to comment on your experience with FACTOR.

**Mr. Graham Henderson:** I'll be brief and I'll give my time to Alan because I actually don't have any recommendations in that regard.

Our focus has been exclusively on what else we can do. We haven't looked at or studied exactly what we're currently doing. I thought Duncan made a pretty persuasive explanation of what it is they're doing and the strengths and the weaknesses.

Our focus, on the other hand, is on those other five, plus celebration, plus cities, and so on.

Alan.

**Mr. Alan Doyle:** My experience with FACTOR directly hasn't been that extensive. I know I've benefited from it tremendously through applications from our management company and stuff for making the earlier records, and Great Big Sea. I see it mostly in the music community around St. John's where friends of mine have applied for FACTOR funding and got it and have started burgeoning careers as a result of that whole involvement with them. My recommendation as an artist, if I could have one, is for all the groups I see around here: the more, the better.

We live in a world right now, as has been pointed out very eloquently a few times, where the industry that I work in has changed, probably more than any other industry, in the last 20 years. I used to make money selling records. My copyright used to be worth something. The records that FACTOR helps us build and the tours we go on, it's all but gone.

Recording music used to occupy about 40% of my money in the early 1990s. For myself, and just about every other artist kicking around in North America, especially right now it's—what would you say Chip? It's probably 5%.

**Mr. Chip Sutherland:** It's down significantly.

**Mr. Alan Doyle:** I really enjoyed hearing talks about changing legislation, where we could get some of the money back that we lost when people started being able to get our stuff for, not little, but nothing. How do you compete with nothing? It's free.

**Mr. Rick Dykstra:** Alan, can I maybe touch on that from a tourism perspective. One of the recommendations that we've.... We had the tourism group here to talk about the industry itself. Graham quoted from it.

To all of you, what is the impact that could have in terms of its future? Obviously the way to make money now, you were just saying, is you have to tour, you have to play, and you have to promote yourself in that type of venue. The tough part, I didn't get that from the tourism folks when they were here. They were more interested in the foreign aspect of tourism than they were necessarily in Canadians going out all over the country to see you play on the other side of the country.

**Mr. Graham Henderson:** Can I quickly address that? I actually think what's being said here is, it's not that they're not interested in the domestic marketplace, it is our domestic marketplace, which is one of the most vibrant, dynamic, and diverse in the world. What we want to do is bring foreign tourists here to see them.

If we can bring tourists into Ontario or Canada with the lure of music tourism, we can help build back our tourism profile around the world and build a sustainable audience for Alan, two shows instead of one show. It's absolutely about showcasing our incredible world-beating local scene to the world.

**Mr. Alan Doyle:** I'm from Newfoundland. Tourism and music are bedfellows. I've said it from day one, and people have been saying it long before me. I honestly think that it's completely undervalued how big an economic engine Canadian music is. I honestly think it's almost ignored.

It's like, "Guys, do you know why they're here? Do you know why that couple from Connecticut is here? They're here to see us. They didn't come to do anything else. They came to see the band. They came for the festival."

I have a bachelor of arts, so I'm not top-notch on the math, but that strikes me as free money. Isn't it? It's fantastic.

● (1240)

**Mr. Chip Sutherland:** I think one point to make about the touring thing, too, is that when you get to a certain level there are only so many times people can see you play. A band can only play in Sudbury so many times. How many times? Eleven times? There is a finite amount. If you think of your favourite bands, which I know you all have, how many times have you seen them? How many times have you seen Bruce Cockburn or whoever play?

That's why there either has to be a new influx of people who are fresh bums in seats or you have to get out. Canada, in terms of a marketplace, is a small place. To make a living, you have to get out, and then you draw people back.

**Mr. Alan Doyle:** Yes, I—

**The Chair:** Thank you. We're going to have to—

**Mr. Alan Doyle:** I don't want to get in trouble, but I'll say this very quickly. It goes the other way as well. It goes the other way. I just found out, for example, that for the government-assisted Canada Day celebrations, the gig in Trafalgar Square, the funding for it was removed. That was a prime way to help musical tourism for Canada. We had an amazing showcase for all the good stuff we do in the arts for people in the U.K.

How many people walk around Trafalgar Square in a day? They're from all over the world, and to showcase Canadian talent and Canadian music.... I'd encourage it. I'd love to see that come back. It was such a brilliant way for the world to get to see us for almost no money.

Sorry, Mr. Chair.

**The Chair:** Okay. Thank you.

We're going to move to Monsieur Nantel and Mr. Stewart for eight minutes, please.

[Translation]

**Mr. Pierre Nantel:** Thank you, Mr. Chair.

First, I would like to thank the witnesses for being with us.

Ms. Courtemanche, thank you for your employer's continued contribution, even if it is simply your presence here.

You introduced your two colleagues. There is Mr. Sutherland, who works with Feist. This is obviously an artist who has done much, in terms of both being a commercial success and having a very particular artistic style. She is extremely popular. When Mac or Apple use her songs in advertising, it adds another dimension to the tracks we can all identify with and are so proud of.

You also have with you Mr. Doyle.

[English]

Mr. Doyle, clearly you have been there for a while, and you bring a lot to our heritage aspect. What you're doing has a heritage aspect. It's clearly popular music, but it's also so special, so peculiar and so close to where you're from, and that's very important. The whole thing around it, though, is that clearly you've been there for 21 years, and I think you've been signed to Warner all this time.

At that time, I was working for Sony, and I did so for four years. What shocks me now is to see that we have a strong advocate here in Mr. Henderson, with his speech about how we have to change the situation. We have to get involved. I'm happy to see that these foreign companies remain involved. When I was working for Sony, we invested in at least 10 projects that were completely local.

The question for me, I think, is that the biggest common denominator we've had among all the witnesses coming here is that the streaming services are the new thing. You were saying that we should enhance the copyright office to make it quicker and stuff, but what do you recommend? We all know that the share, the money you get every time, the micro-penny you get, is not sufficient for smaller-market artists.

**Mr. Graham Henderson:** The access is here. The access models will dominate. We're either going to make this work or we're not. If we don't make it work, then we will be doing a manifest injustice to the creator community.

As for what my recommendation is at a top-down level, I would say this. Policy-makers and/or governments have put technology at the heart of their policies for about 15 years. There was a promise that kind of went with it, and we heard it from the pundits and the professors. We heard it from everybody, including some artists. The promise was that it would all kind of take care of itself, that there would be a promised land: wealth, a middle class, and a golden age, some said, for the creator community.

Well, you've been sitting here. You've been listening. Where the heck is it?

**Voices:** Oh, oh!

**Mr. Graham Henderson:** We grew up in a world, all of us, where there was something called the Pareto effect, where 20% of the people have 80% of the wealth. That dominated, but the 20% of the money that was left over for the 80% in music was enough to create a middle class. That middle class, ladies and gentlemen, is gone. In the world that we're moving into, what we're seeing is an unprecedented shift of wealth away from creators to intermediaries, and as for our world, it looks like the 1% versus the 99%. That's what it looks like.

I would say that it is not enough to cast creators into the cockpit of some sort of social Darwinism, or as I said earlier, adapt or die. This is Canada, and we can do better, but we have to recognize the collective responsibility, and we have to put creators at the heart of our policy-making for the next 15 years.

● (1245)

**Mr. Pierre Nantel:** Thank you. That's very convincing. It truly is.

Mr. Dixon, you did evoke the trouble with Google giving direct access to the various BitTorrents of this world. Do you have any advice on this issue?

**Mr. Neill Dixon:** For the labels and publishers, I don't think they have any power. I think really the only people who can help would be the government. Somebody has to step in and enforce. It's almost as if you had no traffic cops on the streets; there would be chaos. That's what it is right now. I think to bring a little law and order to it we need to establish the value of these goods, and then somebody has to make them pay.

**Mr. Graham Henderson:** If I could add to that, on that point, you heard a few days ago about how online piracy is such a challenge, and Google is doing this, that, and the other thing. As of today, pirated content still remains the top of search results. Right? You do a search for a Carly Rae Jepsen download, and it displays three links to pirate sites before any legitimate retailers.

The pirate sites that are listed at the top of the search results have a combined 8.24 million take-down notices. One of them is called mp3skull. It has 1.7 million take-down notices. Now does mp3skull sound like a legal site to anybody? Why is it still up? Why do we not have something where when you send 1.7 million notices to somebody, you take it down and it stays down?

**Mr. Pierre Nantel:** Right. I absolutely understand.

Talking about all this money being put away from the creators, my colleague Mr. Stewart has a question I think.

**Mr. Kennedy Stewart:** Yes. Thanks again for coming. I'm enjoying this discussion.

We've had a proposal on the table for income averaging. We know that musicians have peaks and valleys in terms of earnings. We're just wondering what your thoughts are on the idea of income averaging over, say, a five-year period rather than annual filings?

Would anybody care to comment on that?

**A voice:** It's math, right?

**Mr. Alan Doyle:** Yes, I was told there'd be no math.

**Voices:** Oh, oh!

**Mr. Alan Doyle:** When you say income averaging, do you mean how people report their income?

**Mr. Kennedy Stewart:** That's right. When you make a lot of money one year and you make no money the next year, you would be able to average those so your tax would be paid on—

**Mr. Chip Sutherland:** Maybe I'll take it, just because as a lawyer I set up all the corporate structures for the artists.

From the commercial level, almost without fail, the artists are incorporated, and the first thing they learn.... People come to me and say that they think they need a lawyer, and I tell them they always need a good accountant first. Always. Learn how to manage your money. Learn how to monitor it. Get a corporation set up. The tax rules for small business work terrifically for artists, who are cash-driven small business kinds of operations. You have to have enough money to take advantage of it, but in that real commercial aspect of it, as a small business, there are lots of small tax breaks for them to average things out.

**Mr. Kennedy Stewart:** That's a no, then?

**Mr. Chip Sutherland:** I think the system is there. I don't know whether people who are making \$20,000 a year still feel the need to do it, but anyone who's in the sort of \$50,000 a year range, as an artist who would come to me, would be incorporated and I would teach them exactly this. You have 18 months off because you're making a record, then you go on tour and make all your money in nine months, so you have to park it, and you want to have the advantages of dividend tax benefits and things like that.

• (1250)

**Mr. Alan Doyle:** I might add that if you're in the tax bracket that's below that—this may be prudent; it may not be—the income averaging, the amount of tax you're paying over the five-year period, is not going to make or break you, one way or the other. I don't think so.

**Mr. Graham Henderson:** That's the problem now, right? It's almost solving an old world problem.

I think you would agree, Chip. This was a very big problem in the seventies, the eighties, the nineties, where there would be very large advances, huge influxes of cash, and then it had to be digested in the system, and there was a large amount of tax, and then artists stopped touring and they stopped for a year. There was a whole system that it worked...but it is an old world problem.

I'm not saying that you shouldn't do it. Put it in place. It will benefit artists if there's money there, but the big issue that we have is getting them money.

**Mr. Alan Doyle:** When's the peak again?

**Voices:** Oh, oh!

**The Chair:** Thank you very much.

We're going to move to Monsieur Dion, *pour sept minutes*.

[*Translation*]

**Hon. Stéphane Dion:** Thank you very much, Mr. Chair.

Ms. Courtemanche and gentlemen, thank you for being with us today.

[*English*]

I think, Mr. Henderson, you have been very good at describing the problems, but I have problems understanding your recommendations.

If I read recommendation three:

More fluid funding, allocated according to criteria that reward a constant push toward finding innovative ways to do business, should be implemented and would help secure a place for Canada on the leading edge of digital innovation.

I read that in French too. I'm not sure I understand what kind of specific policy the federal government should implement.

**Mr. Graham Henderson:** What we're trying to suggest is that digital innovation has to be at the heart of all things music now, whether it's an artist's career or it's a music company, or even touring.

As policy-makers, as funders of the process, we're suggesting that you need to be thinking about that. When somebody is coming to you and saying they would like access to some funding, one of the principal questions has to be whether digital innovation is at the heart of what they do.

**Hon. Stéphane Dion:** You said that we are followers and we should lead. That means that other countries are doing something that we are not doing. I would like to understand what Berlin is doing that Toronto is not doing exactly.

Mr. Doyle, you lose 30% to 40% of your revenues because of the copyright problems. Are there artists around the world who have a legal framework that helps them to cope with that, and do we not have that in Canada?

That's a broad question to everyone.

**Mr. Alan Doyle:** If I understood Neill's point correctly, I think he made reference to the difference between the tax and the levy.

Is that not correct?

**Mr. Neill Dixon:** Yes, that is correct. But it's a hodgepodge of a lot of different tax rules and royalty situations.

We have a unique situation here in Canada. I think the lawyer could probably explain that a little better.

**Mr. Chip Sutherland:** Graham is a lawyer too, so we can throw it to him.

**Hon. Stéphane Dion:** The question is very specific. Are there some countries that could teach us something about the problem that we are speaking about?

**Mr. Graham Henderson:** There are certainly jurisdictions around the world that are doing things better than we are, whether it's at the city level....

What we've tried to do in our study is to take bits and pieces and look at what amounts to a multi-jurisdictional approach—federal, provincial, and municipal—for the first time. We are in the process of getting to best practices.

The Ontario Music Fund is a huge step forward. An idea like that did not exist before. It's here. It may be one of the first of its kind in the world. The fact that the City of Toronto, the City of Hamilton, the City of London, the City of Calgary, and the City of Winnipeg are all looking at specific municipal initiatives to make their cities more music friendly, more musician friendly, those are things we have to do.

Federally we have framework legislation that says what's legal and what isn't. Frankly, it obviously hasn't gone far enough because we have a huge problem. That doesn't mean we have to rip up copyright legislation and start all over again. However, it does mean let's look at the problem. We don't have a middle class any more. We don't have people who are making money any more. Let's try to find an integrated holistic approach from top to bottom.

• (1255)

**Hon. Stéphane Dion:** A holistic approach from top to bottom—

**Mr. Graham Henderson:** I mean, we have seven very specific recommendations. Music education, by the way, is a key piece.

**Mr. Alan Doyle:** This might make it a bit more clear. The heart of the new technology was reproduction devices, tapes, cassettes, CDs, whatever way people could duplicate sound and video, copyrighted stuff. There are countries in the world where the tax on the sale of each individual one of those things isn't really a tax at all; it's a fee that goes directly back to the people who created the content that goes on to those things.

If I have it correctly, in Canada that tax goes to the general pool of the Canadian coffers. That's a simple step. I would say that we should get that money directly.

In 1982, nobody was using a cassette tape for anything, or 99% of the usage of cassette tapes was to copy my songs. Five years later, that was the case with burning CDs. Right now that happens on the Internet.

As Graham said, for anyone who is looking for someone's song, the top hits are free. It's the policing and the taxing and then the redistribution of the funds that come directly from it back to the people who created the content that people are copying or streaming for nothing. That's the specific thing that I think all of us would like to see happen.

**Hon. Stéphane Dion:** Does that mean reopening the Copyright Act, or are there other ways?

**Mr. Graham Henderson:** That's one way, but the other way is to rebuild the marketplace.

The access model, as I said before, is here. Streaming services are the way that people are going to consume music in the future.

You had Deezer here, I believe. These are fantastic services that give you access to millions of titles. The market wasn't ready for them in 2002-03. It's ready for them now. They cost \$9.99 or \$4.99; there are a variety of prices. We have to start driving people to those services.

Google Play is a wonderful service. The problem is, when you search for music on Google, you get illegal results, and people go to what is free.

Part of a strategy is finding ways to encourage people to migrate to these incredibly good legal services, which include social media components, a huge number of titles, high-quality sound. It's great. Build back the marketplace.

**Hon. Stéphane Dion:** Again, are there federal policies that may help do that?

**Mr. Graham Henderson:** Well, in England, for example, they are very aggressively pursuing ad-supported piracy. It's actually the London police department. They're finding the websites that are getting money through PayPal or MasterCard or something and are going to MasterCard and PayPal and stopping them from facilitating the exchange of money between the illegal site and the consumer.

That's one way to do it: follow the money. It's a quite obvious thing. The oddity is that it is London's Metropolitan Police Service that is doing it.

Another way to do it is to work with us so that we can fix the market, fix the way that advertisements appear on digital websites. This is a huge problem.

Ellen Seidler is an independent filmmaker from California whose film was pirated. She set about trying to go through the nightmare of take-down notices, which she has adequately presented to the world on the Internet. One of the key pieces was that she kept going to websites and finding advertisements for major commercial enterprises right above an advertisement for Russian brides and right above an advertisement for something far worse—all right there. When you go to these major corporations and ask what their ad is doing there, they say, “Well, it’s there; I don’t know how it got there.”

There have to be ways that we can bring some sense to that market. How is it that David Lowery’s songs or Alan’s songs are being leveraged by illegal sites to make money from advertising?

You can be part of the solution to this.

**Hon. Stéphane Dion:** —and the Copyright Board as well.

**Mr. Graham Henderson:** The which?

**Hon. Stéphane Dion:** I’m saying the Copyright Board as well.

**Mr. Graham Henderson:** Yes, I think the Copyright Board.... We have Digital Canada 150. We are trying to put digital innovation at

the heart of our nation. Through no fault of its own, the Copyright Board is under-resourced. I think it needs more money, resources, and personnel to turn it into an effective, open-for-business office aggressively getting people into the marketplace, and for those of us who have to go in front of it, hurrying the process up.

So yes, that’s a big piece.

• (1300)

**The Chair:** That’s going to have to be it.

I want to thank our panellists. This was very interesting.

We’re coming to the end of our study, so if you have any further contributions, please get them in to us, hopefully by the end of the week, because we’ll be working on our report.

Thank you very much.

We stand adjourned.

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