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# Canada Music Fund

*Music for Everyone*

Annual Report 2005-2006

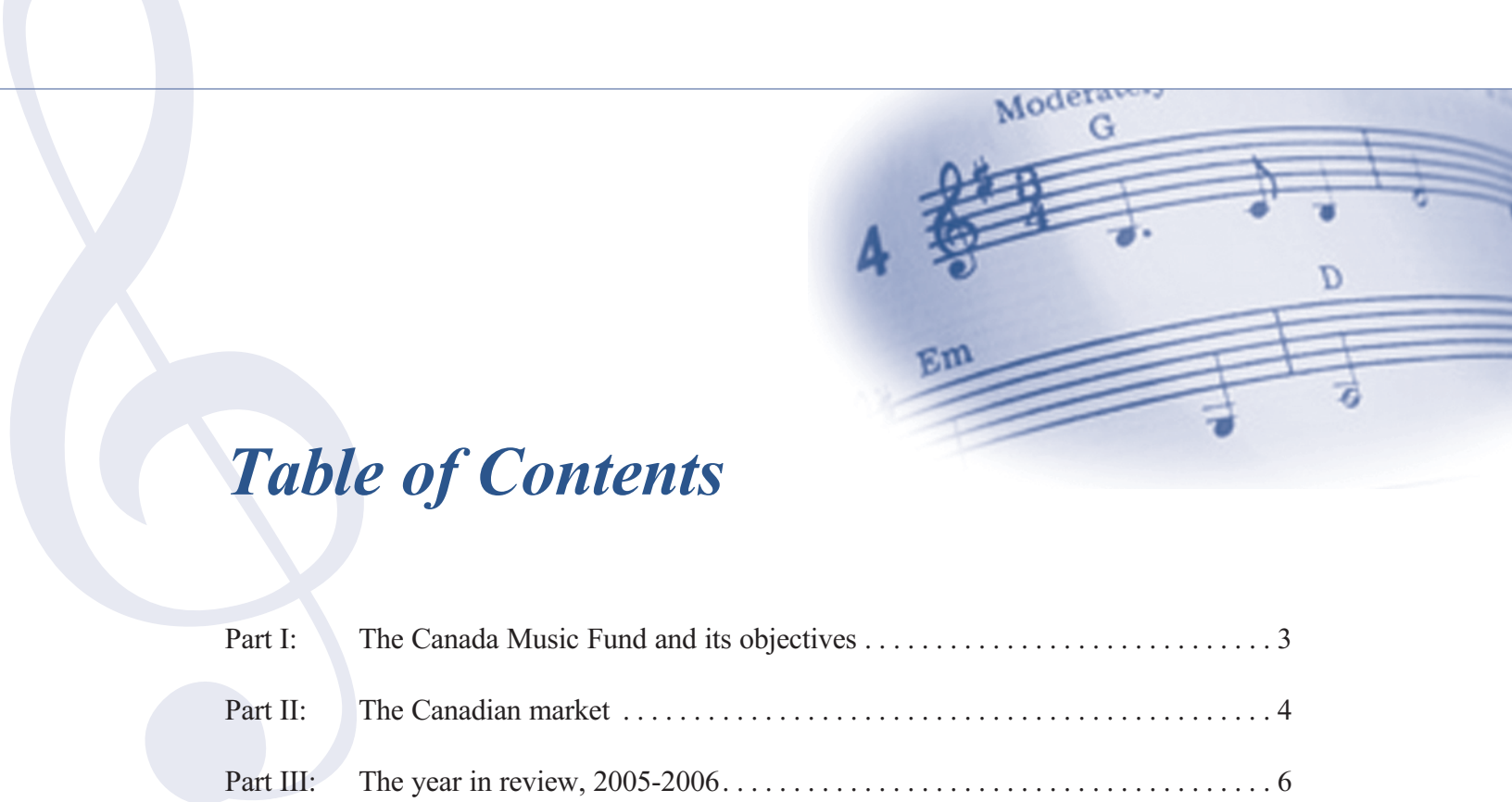


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# 1

## *The Canada Music Fund and its objectives*

The Canadian music industry includes a wide range of creators and entrepreneurs who create, produce and market original and varied Canadian music. To help the industry meet new challenges in a competitive environment characterized by rapid technological advances, the Government of Canada created the Canada Music Fund (CMF) in 2001.

The CMF is the primary tool for implementing the three major objectives of the Canadian Sound Recording Policy, *From Creators to Audience*, which are:

- to enhance Canadians' access to a diverse range of Canadian music choices available through existing and emerging media;
- to increase the opportunities available for Canadian music artists and cultural entrepreneurs to make a significant and lasting contribution to Canadian cultural expression; and

- to ensure that Canadian music artists and entrepreneurs have the skills, knowledge and tools to succeed in a global and digital environment.

The CMF supports songwriters, the development of new artists, the production and promotion of new recordings, multidisciplinary projects benefiting the entire industry, and the conservation of Canadian musical works. The federal government has demonstrated its commitment to the Canadian music industry through the CMF. Since the creation of the Fund, up to 2005-2006, it invested a little over \$125 million, including \$27.75 million in 2005-2006.

This annual report examines the support provided in 2005-2006 to the Canadian music industry through the seven components of the CMF.

# 2

## *The Canadian market*



Between 2001 and 2005, the domestic market share of albums by Canadian artists rose from 16% to 22.9%, peaking in 2004 at 25% of total sales. Domestic unit sales of albums by Canadian artists increased by 13.7%, while unit sales of all other types of albums decreased by 26.8% (source: Canadian Heritage analysis of the Nielsen SoundScan Top 2000 sales charts). Not surprisingly then, around 93% of Canadians think that Canadian music is as good as that of other countries, if not better (Decima Research, 2005).

Sales of foreign artists in Canada did not fare so well as overall recorded music sales fell for the sixth straight year in 2005. Sales amounted to C\$886 million for the year, down by 1.7% from 2004. The decline slowed over the last two years; still, according to the International Federation of Phonographic Industry (IFPI), retail sales of music recordings in Canada have fallen in value by 31.8% since 1999.

The Canadian music industry has many stakeholders, including songwriters, artists, record labels, music publishers, distributors, retailers and promoters. Every year, according to the Society of Composers, Authors and Music Publishers of Canada (SOCAN), more than 45,000 Canadian music artists and entrepreneurs create, produce and market their products at home and abroad. In 2005, 20,811 Canadian songwriters and 4,844 music publishers earned more than \$106 million from the performance of their works, including \$41.1 million received from abroad. In the same year, foreign songwriters earned close to \$51.6 million in royalties for the performance of their works in Canada.

Around 300 record companies operate in Canada; 287 of them are Canadian-owned and controlled, and the remaining 13 are under foreign control (source: Statistics Canada, 2003). Most of the labels are based in Ontario, Quebec and British Columbia. More than 2,000 new Canadian recordings were released in 2005; the majority were

produced by Canadian-owned and controlled record companies or by independent artists (source: Canadian Music Industry Database/Société de gestion collective des droits des producteurs de phonogrammes et de vidéogrammes du Québec).

Canadian sound recordings are distributed mainly by Canadian subsidiaries of foreign multinationals. The exception is Quebec, where locally controlled companies distribute most Canadian sound recordings.

The Canadian retail sector is currently in transformation. Although record stores still dominate the retail music market, “big-box” stores such as Wal-Mart and Future Shop continue to increase their market share. In 2005, these mass merchants captured 30% of all sound recording sales in Canada (source: IFPI). Adding significantly to the change in the retail landscape are the burgeoning digital music downloading retailers. In 2005, on-line stores such as iTunes, Puretracks and Zik.ca accounted for 3% of all sound recording sales (source: IFPI).







# 3

## *The year in review, 2005-2006*

In June 2005, the Treasury Board of Canada renewed the CMF up to March 31, 2010. In addition, during 2005-2006 the Department of Canadian Heritage renewed its contribution agreements with the Fund's designated administrators, as well as its commitments to the Canada Council for the Arts (CCA) and Library and Archives Canada.

During the fiscal year the CMF was redefined as a single program with seven complementary components, each contributing in a different way to the achievement of fund objectives. The new CMF structure gives the Department greater flexibility. In particular, it allows funds to be moved from one component to another to meet the current needs of the Canadian music industry.

In 2005-2006 the Department stopped listing policy monitoring as a separate CMF component since this is not an activity under a contribution program. Instead, policy monitoring supports the research and data-gathering efforts of the Department with the aim of measuring the progress and results of the CMF,

and tracking developments in the music industry. The Department publishes a yearly economic profile of the Canadian music industry.

There were significant changes in the CMF component for established music entrepreneurs. Discussions with many industry stakeholders confirmed the relevance of the component's objectives but raised the need for changes to its structure. Therefore, in September 2005, the Music Entrepreneur Component (MEC) was launched. Previously administered by Telefilm Canada, the component is now under the direct responsibility of the Department.

With regard to program development, the Department undertook an exploratory study of funding needs in the music publishing sector, in collaboration with the Professional Music Publishers Association and the Canadian Music Publishers Association. Discussions about the potential development of support measures for this sector began with key stakeholders in 2005-2006 and are ongoing.



# 4

## *Canada Music Fund Components*

The seven components of the CMF are administered directly by the Department or in partnership with other federal institutions and industry organizations: the Canada Council for the Arts; Library and Archives Canada; the Fondation Musicaction (Musicaction); the Foundation Assisting Canadian Talent on Recordings (FACTOR);

and the SOCAN Foundation. CMF funding is meant to encourage production of diverse Canadian music, to foster the development of Canadian talent at home and abroad, and to ensure the success of Canadian music in the digital age.





The following table shows a breakdown of CMF resources by component in 2005-2006.

Component	Administrator	Contribution from the CMF	Amount used by administrators, according to annual reports*
Creators' Assistance	SOCAN Foundation	\$906,561	\$892,125
Music Entrepreneur	Canadian Heritage Telefilm Canada	\$2,872,466 \$174,646	\$2,872,466 \$174,646
Canadian Musical Diversity	Canada Council for the Arts	\$1,106,250	\$1,260,050
New Musical Works	Musicaction FACTOR	\$5,810,604 \$9,403,955	\$5,810,604 \$9,403,955
Collective Initiatives	Musicaction FACTOR	\$732,225 \$1,398,338	\$732,225 \$1,398,338
Canadian Music Memories	Library and Archives Canada Canadian Heritage/ Audio-Visual Preservation Trust of Canada	\$0 \$175,000	\$360,000 \$158,186
Support to Sector Associations	Canadian Heritage	\$566,263	\$566,263
<b>Total**</b>		<b>\$23,146,308</b>	<b>\$23,628,858</b>

\* Amounts include administration costs, where applicable.

\*\* Expenses related to policy monitoring activities are excluded from this table since these operational activities are not the result of a contribution program. Also, up to \$1 million intended for the possible development of a Music Entrepreneur sub-component for the music publishing sector was not used in 2005-2006 and was therefore reallocated to offset internal financial pressures.

## Creators' Assistance Component

The goal of the *Creators' Assistance Component* is to assist Canadian composers, lyricists and songwriters in developing their craft and becoming better acquainted with the business community. The component enables Canadian performing artists and producers to have access to high-quality Canadian musical compositions. In turn, it enables Canadians to hear music and lyrics that are relevant to them and that they can identify with. This component is administered by the SOCAN Foundation.

**Eligible recipients:** Canadian not-for-profit music sector associations and organizations representing Canadian creators.

### Use of funds

Creators' Assistance Component	
Applications received	5
Applications approved	4
Amount requested by recipients	\$1,032,600
Amount disbursed to recipients (A)	\$821,604
Administration costs (B)	\$70,521
Amount used (A + B)	\$892,125

The total amount disbursed by the SOCAN Foundation in 2005-2006 came to \$821,604, or about 80% of the amount requested by recipients.

## Music Entrepreneur Component

The objective of the *Music Entrepreneur Component* is to ensure that Canadian music entrepreneurs build a strong, sustainable industry. The component focuses on a core of established Canadian companies that specialize in developing and promoting Canadian creators and performers. The component is administered directly by the Department of Canadian Heritage. For details, see Appendix 1.

**Eligible recipients:** Canadian-owned and controlled firms with a proven track record in developing and marketing Canadian musical talent, and whose principal business is producing and marketing Canadian-content sound recordings.

### Use of funds

Music Entrepreneur Component	
Applications received	25
Applications approved	19
Amount used	\$2,872,466

Because of the late launch of the MEC on September 19, 2005, the Department directly administered only \$2,872,466 of the \$6,257,284 available for the component in 2005-2006. The balance of \$3,384,818 was transferred to the New Musical Works Component (NMWC) to fund projects submitted by potential MEC recipients and accepted by FACTOR and Musicaction after the launch date of the MEC (excluding the administration costs of FACTOR and Musicaction).



In addition, the Department contributed \$174,646 to Telefilm Canada, which used the entire amount to cover the administration costs related to closing the files of the former Music Entrepreneur Program of the CMF.

### *Canadian Musical Diversity Component*

The *Canadian Musical Diversity Component* provides assistance for the production and distribution of specialized music recordings. This music is generally not part of prevailing musical trends since it emphasizes artistic considerations—creativity, free expression and/or experimentation—that do not necessarily meet conventional criteria and formats as defined by the popular music marketplace. The component is administered by the Canada Council for the Arts.

**Eligible recipients:** Canadian artists, ensembles or bands, or Canadian-owned and controlled record companies or record distribution companies whose artistic genre, work or product is specialized music.

### *Use of funds*

Canadian Musical Diversity Component	
Eligible applications received	413
Applications approved	91
Amount requested by eligible applicants	\$5,817,644
Amount disbursed to applicants (A)	\$1,140,050
Administration costs (B)	\$120,000
Amount used (A + B)	\$1,260,050

In 2005-2006, the Canadian Musical Diversity Component distributed \$1,140,050 in grants, or 20% of the amount requested by eligible applicants.

In 2005-2006 the component helped support the production of recordings of various types of music, including folk music, world music, Aboriginal works, jazz, *musique actuelle*, contemporary music, classical music and electroacoustic creations.

## New Musical Works Component

The *New Musical Works Component* (NMWC) is designed to support the efforts of creators, artists, record labels and other entrepreneurs in the music field. It provides them with opportunities to produce and promote Canadian sound recordings, and to develop their craft and expertise. The component is administered by FACTOR for the English-language sector and by Musicaction for the French-language sector.

**Eligible recipients:** Canadian artists and not-for-profit associations, organizations or corporations, including record labels, music publishers and artists' managers.

### Use of funds

The funds administered by FACTOR and Musicaction come from amounts received from the Department of Canadian Heritage under the CMF, from private broadcasters, from loan repayments and from investment income.

The following table shows how FACTOR and Musicaction used funds available under the NMWC in 2005-2006. Note that the funds disbursed by the two organizations during the fiscal year do not represent the total amount of funds committed, but mainly payments for projects approved during the year and final payments for projects approved earlier.

New Musical Works Component		
	Musicaction	FACTOR
Applications received*	795	3,347
Applications approved*	686	1,245
Amount requested by applicants	\$12,858,997	\$36,419,967
Commitments	\$8,890,443	\$12,561,053
Contribution from Canadian Heritage	\$5,810,604	\$9,403,955

\* Includes projects submitted by potential MEC recipients.

As an exception in 2005-2006, FACTOR and Musicaction administered additional funds from the Music Entrepreneur Component (MEC). These funds were transferred to the New Musical Works Component so that potential MEC recipients could receive support for their projects in advance of the launch of the MEC. This measure was intended to reduce potential undesirable effects of the MEC's late launch. It also helped ensure that the two components were complementary.

The Department disbursed \$9,403,955 to FACTOR under the NMWC. Of this amount, \$1,993,725 was allocated to projects submitted by potential MEC recipients.

The Department disbursed \$5,810,604 to Musicaction under the NMWC. Of this amount, \$1,391,093 was allocated by Musicaction to projects submitted by potential MEC recipients.



## Collective Initiatives Component

The *Collective Initiatives Component* supports the development of the Canadian music industry by fostering an increased regional, national and international presence for Canadian undertakings, companies, record labels, creators and artists. The component provides financial assistance for the organization of conferences and award ceremonies, real and virtual exhibits, and market development initiatives. It is also administered by FACTOR for the English-language sector, and Musicaction for the French-language sector.

**Eligible recipients:** Canadian not-for-profit associations, organizations or corporations.

### Use of funds

Collective Initiatives Component		
	Musicaction	FACTOR
Applications received	54	71
Applications approved	51	56
Amount requested by applicants	\$1,782,491	\$2,429,515
Commitments	\$1,231,649	\$1,595,664
Contribution from Canadian Heritage	\$732,225	\$1,398,338

As mentioned earlier, the funds administered by FACTOR and Musicaction come from amounts received from the Department of Canadian Heritage under the CMF, from private broadcasters, from loan repayments and from investment income.

In 2005-2006, the Department disbursed \$732,225 to Musicaction and \$2,429,515 to FACTOR under the component. Note that the funds disbursed by the two organizations during the fiscal year do not represent the total amount of funds committed but mainly payments for projects approved during the year and final payments for projects approved earlier.

## Canadian Music Memories Component

The *Canadian Music Memories Component* supports the conservation of Canadian sound recordings to provide Canadians with access to their musical heritage. The component is administered jointly by Library and Archives Canada and the Department of Canadian Heritage through the Audio-Visual Preservation Trust of Canada.

**Eligible recipients:** recognized organizations that specialize in the preservation and conservation of Canadian sound recordings.





### *Use of funds — Library and Archives Canada*

The Canadian Music Memories Component has an annual budget of \$360,000. In 2005-2006, Library and Archives Canada used these funds for three major activities: \$122,000 for acquiring sound recordings, \$185,000 for access and awareness activities, and \$53,000 for conservation.

### *Use of funds — Canadian Heritage/ Audio-Visual Preservation Trust of Canada*

In 2005-2006 the Department of Canadian Heritage provided \$158,186 to the Audio-Visual Preservation Trust of Canada. The funds were used for two major activities: education and public engagement. Of this amount, \$6,151 went to cover administration costs.

### *Support to Sector Associations Component*

The *Support to Sector Associations Component* (SSAC) was designed to support Canadian not-for-profit associations in the music industry. The component's objective is to help associations provide their members with professional representation

services, as well as analysis of public policy initiatives and issues of concern to the industry. The component is administered by the Department of Canadian Heritage. For more details, see Appendix 2.

**Eligible recipients:** Canadian not-for-profit music sector associations.

### *Use of funds*

<b>Support to Sector Associations Component</b>	
Applications received	12
Applications approved	9
Amount requested by recipients	\$858,299
Amount disbursed	\$566,263

The component has an annual budget of \$558,000. In 2005-2006 the Department provided an additional \$8,263. The amount disbursed represented 66% of the amount requested by recipients.

### *Conclusion*

A report on the Canada Music Fund activities in 2006-2007 will be available in the fall of 2007.





## *Appendix 1: Music Entrepreneur Component*

The Music Entrepreneur Component (MEC) focuses on a core of established Canadian companies that specialize in developing and promoting Canadian creators and performers. The MEC enables established Canadian music entrepreneurs to offer a wide range of choices that enrich the Canadian musical experience in the long term, to become increasingly competitive nationally and internationally, and to earn a leading role in the global digital economy. The ultimate objective of the component is to ensure that Canadian music entrepreneurs build a vigorous and sustainable industry by fostering the production and marketing of Canadian sound recordings.

### *Looking back*

The MEC is the outcome of an in depth review conducted in 2005-2006 following exchanges with many stakeholders in the Canadian music industry, including



the Canadian Independent Record Production Association and the Association québécoise de l'industrie du disque, du spectacle et de la vidéo.

As of April 1, 2005, the Department-administered MEC replaced the Music Entrepreneur Program, administered by Telefilm Canada. The MEC was launched on September 19, 2005.

The MEC provides annual funding to established Canadian music entrepreneurs. Recipients are selected for their ability to reach Canadian and foreign audiences with Canadian products. The funding level is calculated according to a sales-based formula, rewarding success. To ensure that its objectives are attained, the MEC makes use of eligibility criteria and measurable objectives. With its new structure, the MEC can quickly adapt to changes in the Canadian music industry.

The MEC and the New Musical Works Component, administered by FACTOR and Musicaction, are intended to be complementary. MEC recipients are not eligible for funding under the NMWC. Certain measures had to be implemented in 2005-2006 to facilitate the administrative transition for MEC recipients from a project funding model (NMWC) to an overall funding model (MEC). The transition measures were also aimed at offsetting certain difficulties related to the late launch of the MEC. The key measures were:

(i) Calculation of the contribution. Two variables were taken into account in calculating the contribution of the MEC to eligible applicants for the first funding cycle (2005-2006 and 2006-2007): (1) the maximum amount received from the NMWC in 2003-2004 or 2004-2005; and (2) the amount calculated using the formula described in the 2005-2006 and 2006-2007 application guide. Eligible applicants whose contribution would have been less than \$200,000 could not receive MEC funding but were eligible for the NMWC. This measure was aimed at allowing recipients to receive a critical mass of funding, rather than an amount that would very likely have been less than what they could have received from the NMWC.

(ii) Transfer of funds. For 2005-2006, part of the resources available for the MEC were transferred to the NMWC to enable potential MEC recipients to continue receiving support for their projects in advance of the launch of the MEC. This exceptional measure was intended to reduce the undesirable effects related to the late launch of the MEC. The measure remained in place in 2006-2007 to take into account projects approved by FACTOR and Musicaction in 2005-2006 but not completed by March 31, 2006. For MEC recipients, amounts approved under the NMWC starting from September 19, 2005 (the launch date of the MEC) were deducted from their MEC contribution for 2005-2006 and 2006-2007.

This transition was successful as a result of the support and efforts of FACTOR and Musicaction. Their cooperation ensured continuity in working toward the objectives of the MEC and the CMF overall.

### *Financial data and statistics*

In 2005-2006 the Department contributed \$174,646 to Telefilm Canada, which used the entire amount to cover the administration costs related to closing the files of the former Music Entrepreneur Program.



The Department approved 19 of the 25 applications received for the first funding cycle of the MEC, which on this one occasion covered two fiscal years: 2005-2006 and 2006-2007. Funds available for the MEC in 2005-06 totalled \$6,257,284.

The following table shows the breakdown of MEC funding by recipient in 2005-2006.

Recipients	Contributions
Aquarius Records	\$637,177
Compagnie Larivée, Cabot Champagne	\$386,353
Déjà Musique	\$365,184
Diffusion YFB	\$278,282
ATMA Records Inc.	\$325,548
Audiogram	\$595,543
Tox Records	\$160,090
Earl Rosen and Associates (Marquis Classics)	\$134,583
Analekta	\$391,535
Groupe Archambault (Musicor)	\$306,282
Gestion Son Image	\$188,010
Justin Time Records	\$321,358
Linus Entertainment	\$342,364
Nettwerk Productions	\$650,000
Novem Communications	\$237,001
Productions Folle Avoine	\$134,051
Tacca Records	\$223,729
High Romance Music (True North Records)	\$281,629
Zone 3	\$298,565
<b>Total contribution</b>	<b>\$6,257,284</b>

# A

## *Appendix 2: Support to Sector Associations Component*



The objective of the component is to help Canadian music sector associations provide their members with professional representation services, analyze public policy initiatives, and better monitor industry trends and issues.

The component funds association-based initiatives that either:

- enhance the capacity of music industry associations to support and represent their members;
- increase the capacity of music sector associations in the area of public policy development, analysis and research through sector-specific studies, surveys, and statistical analysis; or
- better inform and educate association members in making decisions regarding their career and music industry businesses.

Through the assistance given to these associations, Canadians working in fields such as songwriting, sound recording, music publishing, performance and marketing will be better informed and will make better decisions about their career and their activities within the industry. The assistance covers part of the operational expenses of recipients under this component.

### *Looking back*

During discussions with music sector associations in 2004, the Department gathered a number of suggestions and comments. In 2005-2006 the Department followed up on the discussions by making certain changes to the component.

First of all, the SSAC now allocates core funding of \$25,000 as part of the contribution calculation for all eligible associations. By ensuring a minimum contribution to a larger number of associations, the SSAC helps improve services given to more members, producing more significant results.



Second, while giving priority to national and then regional associations, the Department continued to disburse funds to certain provincial associations with members not, or likely not, represented by national or regional associations. This allowed a greater number of Canadians to benefit from limited public funds.

### *Financial data and statistics*

In 2005-2006, under the SSAC, the Department received 12 applications for financial assistance totalling \$1,034,499. Support was provided to 9 organizations for a total of \$566,263, which represented 66% of the amount requested by recipients.

The following table shows the breakdown of funding by SSAC recipient in 2005-2006:

<b>Recipients</b>	<b>Contributions</b>
Alliance nationale de l'industrie musicale	\$28,294
Association québécoise de l'industrie du disque, du spectacle et de la vidéo	\$175,261
Canadian Independent Record Production Association	\$198,904
Music Managers Forum Canada	\$25,000
National Aboriginal Recording Industry Association	\$25,000
Professional Music Publishers Association	\$25,000
Société pour la promotion de la relève musicale de l'espace francophone	\$25,000
Société professionnelle des auteurs et des compositeurs du Québec	\$32,399
Songwriters Association of Canada	\$31,405
<b>Total</b>	<b>\$566,263</b>



