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Chair

Mr. Gordon Brown

Standing Committee on Canadian Heritage

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• (1100)

[English]

The Chair (Mr. Gordon Brown (Leeds—Grenville, CPC)): Good morning, everyone. I am going to call to order meeting number 14 of the Standing Committee on Canadian Heritage. The orders of the day are our review of the Canadian music industry.

Today for the first hour we have Alain Lauzon from the Society for Reproduction Rights of Authors, Composers and Publishers in Canada. From Connect Music Licensing, we have Victoria Shepherd. From the Alliance of Canadian Cinema, Television and Radio Artists, we have Brad Keenan, director, and from Faber Drive, we have David Faber.

We have three different groups, which have eight minutes each. I will stick with the order on the agenda. We'll start with Mr. Lauzon, for eight minutes.

Mr. Alain Lauzon (General Manager, Society for Reproduction Rights of Authors, Composers and Publishers in Canada): I have the papers that have been asked for, the translation.

[Translation]

Mr. Chair, I am very pleased to be here today to speak on behalf of the SODRAC. Thank you for inviting me to participate in your review of the Canadian music industry.

A copyright collective society like ours is first and foremost an economic advocacy tool used collectively by authors, composers and publishers. Royalties collected by copyright collective societies in Canada and everywhere else in the world for exercising the rights granted to creators by the various copyright laws are often their sole source of income. It cannot be said too often that these royalties make up their revenue. They represent their sole income.

Representatives of professional music associations whose members are the main beneficiaries of government support programs will no doubt be in a much better position than we are to answer your questions about how well government support objectives have been met. However, the fact that the government has confirmed that its industry support programs will continue is very good news. My remarks today therefore will focus more on the effects of technological changes on the creation, distribution and consumption of music in Canada, as well as their effects on the authors, composers and publishers we represent.

First, here are a few statistics that describe the industry's situation and issues. As you know, more than 10 years ago, the music industry—more specifically the recorded music industry—was the first to be affected by the global digital transition and it suffered the most.

Canada was no exception. According to Music Canada statistics, for the period 2001 to 2012, published by the International Federation of the Phonograph Industry, or IFPI, revenue for physical recorded music went from \$765 million in 2001 to \$217 million in 2012. That decrease represents a cumulative lost revenue of over \$3.147 billion.

The digital industry only truly started generating revenue in 2004, and reached \$196 million in 2012, with cumulative revenue of \$787 million. The Canadian recorded music market therefore suffered a net loss of \$2.380 billion from 2001 to 2012. The decrease was similar for the francophone market in Quebec, proportionally speaking, although the decrease in sales began a few years later.

In 2012 Canada ranked 7th on the international recorded music market with a total value of \$454 million. That amount broke down as follows: physical recorded music, 48%, digital, 43%, performing rights, 7% and synchronization rights, 2%. Globally, according to the Digital Music Report 2014 that the IFPI has just published, recorded music sales increased by 0.8% in 2013, and digital sales increased by 4.3%, reaching 39% of the industry's overall revenues. In fact, currently digital sales represent more than 50% of sales in only 3 of the 10 largest international markets. In terms of digital sales in 2013, 67% resulted from downloading and 33% represented streaming.

What does the market look like in Canada over the next few years? Statistics tell us that in 2010 the recorded music market reached its lowest level in Canada and that after more than a decade of declining sales its value started to increase. In a study published in 2013, Futuresource Consulting estimated that that increase would continue until 2014 and then fall by 1% to 2% per year until 2017. At that point, digital sales will represent 78% of all sales and physical recorded music will represent 22%. One can see that digital technology has resulted in dramatic changes for the music industry. Consumers now have a multitude of choices in terms of distribution methods, however, in the current market, the sources of royalties that used to provide adequate support for many creators are no longer sufficient.

In terms of new kinds of digital distribution, we now know that downloading will not compensate for the decrease in physical recorded music sales.

•(1105)

We also know that in terms of online distribution methods, the revenue that is generated comes from subscriptions or advertising, which do not constitute sustainable economic models for creators.

The current unprecedented access to musical works provided by digital services and technology is a key factor in the wealth of choices for consumers and the prosperity of intermediaries, made up of hosting providers, Internet access providers, search engines, etc. Yet, even though these intermediaries owe their economic success to the access to works that they provide, the chain of financial benefits does not ensure a fair share for the creators whose royalties continue to decrease. Fair compensation for the exercise of copyright is essential for our culture because it sustains the creative process. This must continue within a digital environment.

We therefore believe that a real balance now has to be struck between creators, digital intermediaries, and consumers. When new measures are taken to foster creation, economic development and the distribution of musical works within a digital environment, it is essential to provide a concrete acknowledgement of the importance of the role and value of creation. In order to do that, creators have to be fully integrated into a sustainable ecosystem where they can continue to be drivers for our culture and our economy, just as they have always done.

Here are some suggestions for strengthening support for creators and entrepreneurs in the Canadian music industry.

The recognition of the value of the creative process and of authors must happen socially through educational measures that will help everyone understand how creators and rights holders are compensated.

In the digital environment, consumers and the general public have greater and greater access and instant access to creative works. We must remind everyone, through repeated information campaigns, that the vitality of our culture depends first and foremost on creators and that access to their works is a privilege that must be sustainable.

It is also important to better understand who profits and how from the value that is generated by access to these works. Specific funding should be set aside for studies that will give us a better understanding of how economic models have evolved and how the value of creative works is shared.

We have to increase the awareness of the various participants in the digital economy who provide Canadian consumers with easy access to musical works so that there is a fairer sharing of the value generated by their activities.

It is important to review regulations dealing with digital services intermediaries in order to ensure that their activities take place under conditions that are comparable to other sectors of the economy.

We need to positively rethink and update the private copying regime under the Copyright Act.

It is also important to create new incentives, tax incentives or other—

•(1110)

The Chair: Thank you Mr. Lauzon.

[English]

We'll move to Victoria Shepherd, for eight minutes.

Ms. Victoria Shepherd (Executive Director, Connect Music Licensing): Thank you for the opportunity to appear before you today. My name is Victoria Shepherd. I am here on behalf of Connect Music Licensing, which represents over 1,800 rights holder members. Our members own the vast majority of sound recordings and music videos listened to and watched in Canada. Our members include major and independent record companies and many independent artists.

The Copyright Act provides that no one may copy sound recordings or copy and broadcast music videos without the rights holder's permission. These are referred to as exclusive rights. Directly negotiating licences to use each individual sound recording and music video can be complicated and time consuming for both rights holders and music users. For example, if I wish to broadcast a single video on my television station, such as Hedley's *Invincible*, I need to approach the label to obtain permission and negotiate an appropriate fee. If a broadcaster wishes to broadcast many videos, this process of licensing on a case-by-case basis would place an onerous administrative burden on both rights holders and music users.

Connect Music Licensing was founded 30 years ago, as the AVLA Audio-Video Licensing Agency, as a group of rights holders banding together to help the marketplace to work more efficiently. If a broadcaster wishes to broadcast many music videos, a single licence from Connect Music Licensing grants access to all of the repertoire owned by our members. A single payment and report of use is provided to Connect Music Licensing, and funds are distributed to our members. There's no cost to join. We only deduct the cost of doing business, and our cost is among the lowest in the world.

We think it is vitally important to ensure that rights holders generate revenue from their work. We have identified three areas where we think the government can help: educate the marketplace, provide additional resources to the Copyright Board, and ensure that every government institution that uses music is licensed.

The Government of Canada has created important rights for creators that puts money in the pockets of recording artists and record companies. We need to make sure the marketplace is informed of its obligation in regard to these rights.

MusicWorks in the United Kingdom has conducted studies showing the positive effect of music on branding, sales, and productivity. Some of the findings from their 2012 study include the following: 80% of pubs and bars believe that customers and staff would complain if music was shut off; 86% think music increases the anticipation of the crowd when played before an event; 83% say silence makes a place feel unfriendly and unwelcoming.

The Service Canada website provides helpful information about starting a business. It would seem to be consistent with government objectives to also provide information as it relates to the use of music in businesses in Canada. Noting the positive contribution music can make to business success, Service Canada could provide the information businesses need in order to ensure they are compensating rights holders for that contribution.

The Canada Music Fund offers an opportunity to ensure that rights holders are aware of the various revenue streams associated with their music. One method of doing this would be to introduce, on each application for funding, a section about the various revenue streams available to creators. A component of the application could include the applicant's confirmation of understanding of the various revenue streams available, and confirming either membership in, or anticipated membership in the organizations that can help them access this revenue should the funding application be approved. Even in cases where funding applications are unsuccessful, rights holders will have had the benefit of this information. We must ensure that no rights holder revenue is untapped simply due to a lack of awareness.

In addition to the exclusive rights administered by Connect Music Licensing, the Copyright Act provides that there are also rights that bind the music user to pay for use, but that do not entitle the rights holder to authorize or prohibit use. These are referred to as remunerative rights, such as the right to perform or communicate sound recordings to the public. The Copyright Board is the tribunal that sets rates and terms with respect to remunerative rights.

The Copyright Board provides an invaluable service to rights holders and music users. It ensures payment for use and offers marketplace certainty. However, due to lack of resources, the process is very time consuming. It can take two years for the board to reach a decision for a given licence. This can leave rights holders in a position where they are not receiving compensation for new uses of their music, and it leaves music users without any certainty regarding payment obligations for the use of music.

The Government of Canada has committed itself to the development of an efficient digital marketplace. The Copyright Board of Canada should not be seen as a barrier to business or as an impediment. Rather, it should be considered a business development office. It needs resources to ensure it can render decisions at the pace of technological development. In order to attract new digital services to Canada, it is imperative that these services know what their payment obligations will be.

• (1115)

The Recording Industry Association of America reported that in 2013, streaming revenue contributed 21% to total industry revenue. In Canada that number is under 7%. Imagine if you were an investor who wanted to open a new music service in Canada but were told you would not know your costs for two years. A well-resourced efficient Copyright Board will help attract new digital businesses to Canada.

The third way the government can help is to ensure that any government institution that uses music is licensed. This example will reiterate the importance of licensing music use to music users.

Connect Music Licensing would be delighted to work with you to facilitate this.

We believe marketplace education will generate increased revenue for rights holders and help music users comply with their legal obligations. Allocating additional resources at the Copyright Board will permit it to function effectively as a business development office, attracting new revenue for rights holders. Ensuring all music uses are licensed in government institutions will serve as a benchmark to other music users.

Thank you.

The Chair: Thank you very much.

We'll now move to the Alliance of Canadian Cinema, Television and Radio Artists. We have with us today the executive director, Brad Keenan, along with Canadian musician David Faber.

You have eight minutes between you.

Mr. Brad Keenan (Director, Recording Artists' Collecting Society, Alliance of Canadian Cinema, Television and Radio Artists): Good morning to everyone.

Thank you, Mr. Chair and committee members.

I am the director of ACTRA's Performers' Rights Society and its division, the ACTRA Recording Artists' Collecting Society, or what we call RACS for short.

I want to thank the committee for inviting us to participate in these important discussions. I'm pleased that we were able to bring with us one of Canada's most celebrated recording artists, Dave Faber, of the band Faber Drive. Dave will be speaking about some of the realities of working in Canada as a professional recording artist.

First, I want to give you some background and perspective on what RACS does. RACS collects and distributes public performance and private copying royalties to recording artists who have earned that money. We represent over 3,500 recording artists domestically and thousands of others throughout the world through reciprocal agreements with other collective management organizations like RACS.

Since 1998, RACS has distributed over \$35 million to recording artists, which represents a significant income stream for thousands of Canadian musicians. It's important to note that our presentation and comments today are supported by the Canadian Federation of Musicians and its 15,000 members.

Despite the various statures of our artists, our members share the common circumstance of being dependent on a number of different copyright royalty streams to make a living from their art. The overwhelming majority of people we represent are small business owners who don't live on a single paycheque from a single employer, but who instead rely on exploiting their copyrights for royalties domestically and abroad, which in many cases are the cornerstones of building their professional careers.

We are concerned about recent changes to the Copyright Act that have served in many cases to weaken those rights, and consequently, the Canadian music industry. As this committee studies the Canadian music industry, we'd like you to consider a couple of major issues that impact our members' ability to earn a sustainable income and thus their ability to make and distribute Canadian music.

The first is the harm that has come to performers from Canada's failure to modernize its private copying regime. The second issue, which my friend Dave will talk to you about, is the income volatility performers experience from year to year in their careers.

The private copying levy has long served as an effective balanced mechanism supporting the Canadian music industry. On the one hand, consumers are able to make copies for personal use, and on the other hand, creators are fairly compensated for those private copies.

Ten years ago, \$35.6 million per year was available for distribution to rights holders in the Canadian music industry for the private copying of their works onto blank CDs. Today that amount has dropped to significantly less than \$10 million per year, as the nature of private copying has shifted away from increasingly obsolete audio recording media to digital audio recorders.

It is not fair that the artists who have created the recorded music are not compensated for the use of their music on these devices. We note that the Canadian government's decision to not extend the private copying levy to digital audio recorders runs counter to the direction of one of Canada's largest trading partners and the position they have taken with respect to their music industries.

Just last month the European Parliament adopted a resolution on the preservation of private copying levies in the European Union. The main principles upon which the resolution was passed by the European Parliament are worth reading and are referenced in the document that was circulated to the committee clerk this morning. I would note that at the heart of the resolution and its plan for action is a fundamental understanding of the harm that would result to their music industries if private copying levies were simply abandoned in Europe. We're afraid that such simple abandonment is exactly what has recently occurred in Canada. We believe the ill effects of this decision will continue to unfold in the coming years.

Accordingly, we encourage the Canadian government and all parties to revisit how the private copying regime may be modernized to reflect the way in which consumers currently make digital private copies. Our European trading partner is taking a leadership role in looking for solutions, and so should we. We strongly recommend that the Canadian government modernize the private copying part of the Copyright Act as part of its next section 92 review.

At this point, I'm going to turn it over to Dave for some perspective on the impact on recording artists. By way of introduction, Dave's band, Faber Drive, has had two gold and two platinum singles. They're the recipients of a SOCAN number one song award and a Canadian Radio Music Award, and were nominated for a Juno for best new group. They're currently signed to 604 Records, owned by Chad Kroeger of Nickelback fame. Dave is one of Canada's most successful recording artists.

● (1120)

Mr. David Faber (Canadian Musician, Faber Drive, Alliance of Canadian Cinema, Television and Radio Artists): Thanks, Brad.

Like other self-employed people working in Canada's cultural industries, recording artists like me tend to experience sharp swings in our annual income. Our earnings spike when we release an album and tour in support of it, but between recording projects, revenue drops significantly. Unlike people who are employees, as self-employed people we don't have access to many of the supports, such as employment insurance, that other Canadians can count on to help them make it through the transition between jobs.

My band has worked hard and has been blessed by God to see some success, but it's been a tough road to get here. The reality is that even today, like many career musicians, I have to pick up other work to pay the bills. When we first started out, I quit my day job to focus on this opportunity, but that meant going to the food bank and borrowing money from friends and family, which is not uncommon for many musicians trying to make it in a competitive and demanding industry.

That was when we started eight years ago. Fast-forward to today and three albums later, and I still receive support from family to allow me the ability to be a professional musician in this country. Now with a family to support, including a beautiful wife and four amazing children, I have a job pouring concrete to keep us going while working on our fourth album. As well, two of my three band members are working full-time day jobs too, which in turn means that our next album will take a lot longer than expected to get finished.

Our profession is really not that different from any other profession. It takes years of practice, dedication, and risk to make music.

I'm not alone. I've seen countless bands come and go over the years because they just didn't have proper support. I have many friends currently on radio here in Canada who depend on RACS cheques and every single revenue stream to pay the basics such as rent, gas, and food.

Receiving fair compensation for the use of our work is essential. The royalty cheques we receive from RACS help to pay basic bills, knowing that when your song is played on the radio there will be a small payment back to the artist. Like I just said, those little payments are often the difference that help to pay rent, buy food, and get gas.

But there is more that could be done. Right now artists have to pay high marginal tax rates for one-off successful years. To address this issue, ACTRA RACS and other creator organizations have asked the government to support the reintroduction of income averaging for artists under Canadian tax law. Under such a tax measure, the performer's fluctuating earnings are averaged over a period of years to permit a preferential taxation rate in an occasional year where income is higher.

Several European Union countries, including the United Kingdom, have introduced this approach. It works. It smooths out those income peaks and valleys. In so doing it lends a measure of tax predictability to performers' creative endeavours, which in turn makes it easier for our cultural industries to thrive and for our overall economy to benefit.

RACS also supports the creation of a federal tax exemption on the first \$10,000 of royalty income that performers earn on their artistic work. Such an exemption would be in keeping with the royalty income deduction that Quebec has had in place since 1995.

Mr. Brad Keenan: Thanks, David.

Just to wrap up, thank you to the committee again for inviting us to appear. Thank you to the clerks, the staff, and certainly the interpreters, because I'm quite a quick speaker.

With these ideas, we hope we can work together to improve the Canadian music industry as a whole.

Thank you.

The Chair: Thank you very much.

We are now going to move to the first round of questioning. It will be a seven-minute round. We're going to start with Mr. Weston.

[*Translation*]

Mr. John Weston (West Vancouver—Sunshine Coast—Sea to Sky Country, CPC): Thank you Mr. Chair.

● (1125)

I would like to begin by thanking our guests. Their remarks have been very interesting.

[*English*]

First, as a point of clarification, I'd like to make sure that the society for reproduction rights has nothing to do with the one-child policy. Sorry, that was a joke.

Voices: Oh, oh!

Mr. John Weston: This is serious business. You've taken us into a really interesting set of areas.

I'm most intrigued by this private copying question. I have this conversation with my teenage kids all the time: what can you copy; what can't you copy? I was an international lawyer, so I take intellectual rights really seriously, but among teenagers, they don't have that culture.

Do you see a role for starting to educate young people in schools about the importance of what you're doing, David, to get that sense of the value? You talked about the value and the importance of creation, of creators. Should we be starting early? We're here talking

to legislators about trying to create different approaches in taxation, which is really useful, but may I just ask, do any of you have an opinion on where the education starts?

Mr. Brad Keenan: I can start off.

I know Victoria talked about education.

I have a 25-year-old. She has grown up around the music industry because I've been in it for over 20 years. As a result, she knows the difference between what helps these individuals make a living and what doesn't, so she started very early. For all of us, it's education, the sooner the better, and more of it.

I won't say that this is a grey area, but it's not an easy area to understand as far as where to stop and start with respect to what's acceptable and what's not acceptable. Because this is content that can be moved across a line through technology, it's not like shoplifting in a convenience store. It's not seen. But there is a difference between what's acceptable and what's not, and the sooner we start educating, the better.

[*Translation*]

Mr. Alain Lauzon: With your permission I would like to add something.

There have been several discussions in universities in Quebec about student work and plagiarism. You are a lawyer. When I was young, we were told in grade school that copying from a book was plagiarism. Plagiarism, intellectual property and music are all related. I think that young people need to be educated about this from a very young age. This value seems to have been lost over the past 10 to 15 years with the freedom that the Internet has given us.

Mr. John Weston: Thank you very much.

Mr. Lauzon, you spoke about the access to music that consumers have and the increase in that access.

Does that mean, from a government perspective, that we have succeeded in increasing the market for consumers? Is this a success, not only for creators but also for consumers?

Mr. Alain Lauzon: It seems these days that consumers have increasing access to legal services. What has transpired over the last 10 years has been at the expense of the recorded music market, by which I mean producers, artists, performers and creators. Consumers are the ones who have benefited. This is a major phenomenon.

In the digital world, a society like ours can grant licences to users and to intermediaries. The problem is that many people who use the music have a management model that was designed around music, without the law creating a balance between revenues for those who created the music and access to that same music for consumers.

When we were young, we had access to music through radio, live recordings and purchases. It was controlled. These days, it is much less so. The ability to benefit from this access is a major advantage for the consumer. Consumers should be aware of this. It is not without cost.

•(1130)

Mr. John Weston: In your opinion, the challenge mainly concerns creators.

[English]

Victoria, I thought you were very clear. You gave us three very specific suggestions.

You talked about information, so implicitly you were talking about education, right?

Ms. Victoria Shepherd: Absolutely.

Mr. John Weston: I wonder if you want to elaborate on that a little bit, because the government is also very concerned about improving the strength of our creators, of our wonderful musicians and artists.

David, we have an incredible tradition in Canada. The world is proud of us.

Do you want to elaborate on the information and education part?

Ms. Victoria Shepherd: Certainly. Actually, one of the things I'd like to draw to the committee's attention is that Music Canada published a report called, "The Next Big Bang". It identified several pillars that could lead to improved and future success of the industry.

One of those pillars was education. In their report they talk about the importance of music education in school. I think hand in hand what comes with that, in addition to the more immediate solutions we proposed, such as information from the Canada Music Fund and information on the Service Canada website, is that we teach our youth, our children from the beginning that everyone loves music, and everyone knows that, and that the value of the music isn't just how it makes us feel, that there is value in terms of being a creator, and there is value in terms of appreciating music.

When you have organizations that do these kinds of studies that show how important music is to business, how much it improves customer experience and brings more money in the door, and the folks who've made that music should be benefiting as well, that's what Connect Music Licensing does.

I think it's crucial to have a culture of understanding. I firmly believe that Canadians are not intending to go out and not pay creators. I don't think that's our mental process at all. I think it's a matter of their just not knowing.

Organizations like Connect Music Licensing are out there all the time. We're approaching rights holders; we're approaching users. I think we do a very good job, but I think that if we had something national in place, that would be immensely helpful.

The Chair: Okay, thank you very much.

We're going to move to Ms. Mathyssen and *Monsieur Nantel pour sept minutes*.

[Translation]

Ms. Irene Mathyssen (London—Fanshawe, NDP): Thank you very much, Mr. Chairman.

[English]

I want to say thank you to all of you. I learned something important today and I appreciate the clarity of your presentation.

I wish I could ask a question of all of you, but Monsieur Nantel is very jealous and I must share the time.

I'll start with you, Mr. Lauzon.

When your time ended, you had just begun to talk about Bill C-11. I'd like to give you the opportunity to finish those remarks and talk about the challenges your industry is facing in regard to Bill C-11.

Mr. Alain Lauzon: I think Brad spoke in detail a little bit more about the private copying that we're involved in. Brad and I are both on the Copyright Board as members of the board.

As I mentioned, private copying is one issue that is really being looked at in Europe, not being weakened but being stronger for the Europeans that we work with, and the value of the private copying for the creators, performers, songwriters, and record labels as well, because it brings money directly into the hands of those who have created the works. That part is very important. That's the first thing about Bill C-11.

The second thing is the law has to pass, obviously, the one that came into force in 2012. It's sad that in the last 15 years we had minority governments and all that and it didn't go. I has to pass. Is it 100% good? No. But the problem that we're facing right now with Bill C-11 is the fact that we're facing a lot of cases in front of the court in the next coming years. I'm involved in two or three of the decisions of the Copyright Board. We will have to go in front of the Supreme Court as well because new concepts are coming with Bill C-11, and we will face that obviously.

Some of the exemptions that were brought up in Bill C-11 did not facilitate our work. Especially with the broadcasters, it brought out a situation where the revenues can decrease in the future. This is something we have to face. In the next five years it's supposed to be reviewed. I hope the decision will be there and that the target will be looked at within those next five years. I think we will have to adjust a lot of things. Especially, as I said, we have to put back in the equation the value of the music and have an *équilibre* with the revenues that are coming from the...in the pockets of the performers and the creators. That's mainly the problem we have right now.

I have 6,000 members who are creators and who are publishers and they have exactly the same thing. The first question I ask them is whether they are living off their music. There aren't that many people living off their music nowadays. Back then they could live because their market was larger. As I explained, the problem is with the development of technology. We can't go in the past. We have to go in the future, except that the revenues that are coming from new services, the business model that is related to creators—and when I say "creators", it's all of us—even though there will be more income coming from digital in the future with streaming services and all that, the level of revenue that will end up in the pockets of the songwriters or the performers is not high enough in that kind of business model.

● (1135)

Ms. Irene Mathysen: Okay. *Merci*.

I am going to turn it over to Monsieur Nantel, but we will be making recommendations. Should the first recommendation be that whatever we do, we have to ensure the survival of those wonderful creators?

Mr. Alain Lauzon: Absolutely.

[*Translation*]

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

My colleague is correct in saying that this is a subject we care deeply about, particularly in my case. I would like to thank all four of you for being here today.

Mr. Faber, I have certainly taken note of your message about income averaging. This is a measure we have always supported. It seems like a very practical approach for dealing with artists' revenues, which are not so much annual as cyclical in nature. Such a measure would certainly ease their circumstances.

The witnesses' perspectives are always quite relevant, for those of us seeking to better understand the various issues with which an industry has to deal, but I must tell you, Mr. Faber, that yours seems particularly so. Your career was marked by major success in 2008 and 2009. You were hit full-force by a changing business model which literally pillaged your sales after that.

You said that your group's members have full-time jobs; that's fantastic. We have among us an artist who is part of our heritage and yet must supplement his income. Given that you are the main author of your own works, you have had access to more revenues, but your musicians have to work full-time.

We discussed all kinds of issues with respect to the recording industry, but someone here is obviously afflicted with the creators' malaise and can no longer survive by creating. This is a clear example and we must discuss it.

Mr. Lauzon, you are a member of the Copyright Board. In fact, you are not a member, but of course you deal with them. My question is for all of you. What recommendations do you feel should go into our report?

Mr. Alain Lauzon: My colleague talked about the resources of the board, an institution set up by the government, is an excellent platform compared with what we find in other countries. Other countries, for example England, came here to see what the Copyright Board does. The board is an organization which establishes the value of a copyright, when the parties cannot arrive at an agreement, which is an excellent thing because it allows people to pursue things further.

As to the issue of whether decisions take time, the answer is yes. Furthermore, the Copyright Board should be provided with additional resources.

We recommend that the board be obliged to submit its reports within a certain deadline and that it receive additional resources to allow that. In that way, both users and we ourselves will not be in a vacuum when people come to invest in Canadian businesses.

● (1140)

The Chair: Thank you.

Mr. Dion, you have seven minutes.

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

I would like to thank all our witnesses for being here today.

I would like to follow up on Mr. Nantel's question and ask you to summarize as briefly as possible the changes you would like us to make to the federal music policy and that you would like to see in this committee's report.

[*English*]

Mr. Faber and Mr. Keenan, I understand you have two requests. Just repeat your two.

Mr. Brad Keenan: Okay. I'll go first.

What I would like to see this committee recommend on behalf of Canadian performers is to not let the private copying regime in Canada die a slow, natural death, which is what it's doing. Its having decreased from \$34.6 million down to less than \$10 million in just a span of a year means that friends like me or Dave Faber here have had money removed from our pockets.

What I would like to see this committee do is recommend looking at and paying attention to what our international trading partners are doing for solutions in this area. If the European Union can look for solutions, we should expect our Canadian government—

Hon. Stéphane Dion: That's the problem, but what are your solutions that you would like us to implement? We understand the problem. Now we're looking for solutions.

Mr. Brad Keenan: Our solution is to look at our international trading partners' solutions and bring them home here, within Canadian borders, to solve the problem of money leaving the pockets of Canadian performers, of reductions in their income.

Hon. Stéphane Dion: Mr. Faber, do you want to add something?

Mr. David Faber: I think the income averaging thing is really good too.

Hon. Stéphane Dion: We understand.

Madam Shepherd, you came with a list of things you would like to see.

Ms. Victoria Shepherd: I did, yes. We have three items that we would love to see in recommendations for a review of the music industry.

The first one is to educate the marketplace so that rights holders know how to access funds and music users respect the obligation to pay for music use.

The second one is to provide additional resources to the Copyright Board. Let's help it continue its work as a business development company.

Hon. Stéphane Dion: Would this be within the Canada Music Fund or outside it?

Ms. Victoria Shepherd: I mean generally, not necessarily relating strictly to the Canada Music Fund. As an integral part of an overall review of the industry, these are the three pillars we would like to bring in.

The third is a commitment from the government to make sure that any institution it is responsible for licenses music use. It's a great example for everyone else in the country.

[Translation]

Hon. Stéphane Dion: Mr. Lauzon, do you agree with everything you have just heard? Have you anything else to add?

Mr. Alain Lauzon: I definitely agree with what was said on private copying and training. However, we also have to look at all the studies that have been done.

In many other countries, studies were done. For example, in England, there was a study conducted with Google on illegal services. Actually, rather than use the word “illegal”, let us say services for which music is being used without rights being granted. Support must be provided through subsidies. Those are the studies that must be reviewed.

The other thing that must also be reviewed is the balance with respect to the value of a creation. In Europe, there is a major discussion going on about forecasting the value of music and intermediaries. Questions are being asked about the role they play and the social role they must play when it comes to creation.

Understandably, technological development has been emphasized. But without content, technological development is nothing. Content is the base. It is the roots of the tree which must blossom. So, certain things must be looked at. We must investigate the value of music and the way it is shared between stakeholders all along the chain of recorded music.

• (1145)

[English]

Hon. Stéphane Dion: Madam Shepherd, you identified three points, but in fact your presentation was more detailed, and I appreciated that a lot.

Is what you are proposing completely new, or is it something you have been beating the drum about for a while? What kind of feedback have you received?

Ms. Victoria Shepherd: I'll start with the Copyright Board point. Monsieur Lauzon has touched on this as well. If you look at Music Canada's report, “The Next Big Bang”, they also advocate for additional resources at the Copyright Board.

The notion of education of the marketplace is something which Connect Music Licensing as well as every other rights holder collective probably in Canada is continually doing. We have individual efforts, so you'll hear from me, but you may also hear from ACTRA RACS and from SODRAC. If there's one central place you can go that says, “Here's what you need, music users and rights holders”, that would help the whole revenue flow accelerate.

In terms of the government ask regarding licensing of music use in its institutions, that's an offshoot of the kind of work Connect Music Licensing does anyway. In a perfect world, we would have every

single music user in Canada paying the creators exactly what they ought to be paid, and every single rights holder in Canada would have access to every single penny of every single revenue stream that's available to them.

Hon. Stéphane Dion: Thank you.

What will be the cost to the consumers if we do what you are asking for? Somebody will have to pay for it.

Ms. Victoria Shepherd: Is that question specifically for me, or in general?

Hon. Stéphane Dion: Yes, take it.

Ms. Victoria Shepherd: Okay.

Well, I think in terms of educating the marketplace, on the two initial solutions proposed while I was speaking this morning, I don't think they're incredibly costly in terms of making sure there's space on a website: Service Canada, how do I start my business? Here are all the forms you need to fill out, here are the taxes you need to pay, and then here's a section on entertainment in your venue.

Similarly, on the Canada Music Fund, when interested parties are applying for money and they want to have money to create music, let's have a section for them saying that once they've created their music, they can make money from it that's not just from sales and touring, and tell them about all the rights. Again, that's an information piece which I'm certain rights holders and Connect Music Licensing would be delighted to facilitate and work with the government on.

I don't have an answer for funding of additional resources at the Copyright Board, but I strongly feel that if we can enhance its presence as a business development office, then new revenue coming in would possibly create a bucket that would help pay for those resources.

The third piece, the notion of licensing in institutions, that is an offshoot of education and facilitation, and Connect Music Licensing is here for you if you want that assistance.

The Chair: Thank you.

Mr. Dykstra, for seven minutes.

Mr. Rick Dykstra (St. Catharines, CPC): I want to pursue the education angle a little bit, because I do think it's very enticing.

First off, thanks for being here. I appreciate all of you taking the time to do this. It's a learning experience for a lot of us. We're being educated as we move through this.

One of the specifics around education is getting into classrooms and ensuring that young people understand the amount of work that goes into creating music, creating culture, if you will, and their ability to at least understand that there's a cost to that, or there's an awareness that there needs to be a cost to it and they need to do it properly.

I'm just wondering—as John was asking you and you were corresponding on the education side—how we would implement a strategy like that.

Ms. Victoria Shepherd: I've been focusing my points today strictly on what Connect Music Licensing does, which is collect money for rights holders and remit it to them.

I don't want to sound like a broken record, but I really do recommend Music Canada's "The Next Big Bang", because they have specifically looked at education in terms of bringing that into classrooms. I think the knowledge about the marketplace education would be just a curriculum offshoot of that.

I really do recommend the report. It's available on their website. It's updated regularly.

• (1150)

Mr. Rick Dykstra: Okay, thank you.

David, it was interesting that a lot of folks in the country who are aware of the Ministry of Canadian Heritage at all focus on the Canada Music Fund and how to access that money to get themselves started. I found it fascinating. You didn't take that tack. You actually spoke about being an entrepreneur and being someone who's self-employed and trying to make your business, so to speak, successful to the point that you'd be independent in being able to employ both yourself and obviously the rest of the band, and those who work with you.

It was a very interesting way that you presented it. I want to get a feeling from you about your access to things like the Canada Music Fund. As you were going through the growth of the band and as you were becoming more popular, but you realized it costs money to tour, it costs money to write music, all of those things, was the Ministry of Canadian Heritage or the Canada Music Fund something you thought about on a regular basis, or were you more focused on trying to do this independently without having to access government?

Mr. David Faber: Our record label generally gets grants and moneys to help support with touring, making albums. We generally weren't too focused on getting the money ourselves, because generally the record label would help support with that type of stuff.

When you're first starting out, record labels usually help with that, but after a few years they tend to cut out helping with that stuff. They still do help out, but they want you to become self-sustaining. It's tough, but that's what I have.

Mr. Rick Dykstra: You talked about the whole aspect of income averaging and trying to find a different way to, obviously, pay taxes, but pay taxes on a more consistent level of revenue versus making a lot of money in one year and then, as you say, not making necessarily as much the next year. Look, I'm not a tax guy and you're not a tax guy, but how wide of a net would we make this?

I remember sitting on the finance committee and we would get presentations around budget time about the exact same thing. Those who are self-employed in general have some good years, and they may have some bad years, and income averaging would allow them to pay a little bit less tax when they're having a really good year and a little bit more tax when they're having a harder year.

I wonder how far you were thinking of casting the net when you made your recommendation.

Mr. David Faber: I would think probably around three or four years, because oftentimes it's year to year. Last year we got stung with a big tax bill because the year before we had a really good year. The problem is we have to pay that off within the next year. It's hard. That's part of the reason that I had to go back to doing concrete. I've been in concrete for a few months now because we're just not able to pay the taxes back. It's a big bill. That's basically why.

Mr. Rick Dykstra: The other thing, and maybe this is more for Brad, is the aspect that you guys brought forward in terms of how you make sure that people know—I'll step back here.

It seems that young people for the most part are not quite sure how the industry works in the sense of being able to get music any more. When I was a kid, we bought records and CDs. That was the only way we could access music, so we automatically, for the most part, paid for the album. Nowadays it's a lot easier to do that. From your responsibility or your company's representation, what is the aspect of education?

I'm very intrigued with this whole concept of introducing a national educational component that allows schools and school boards to pick up on the potential of offering this as a way of educating people to understand that folks are trying to make a living and that by stealing their work, it doesn't help them.

• (1155)

Mr. Brad Keenan: When I think about this education, it's certainly something we would agree with. I think for the younger community and even some adults, people don't understand how these people make a living. There are perceptions of red carpets and tuxedos and gowns and fancy parties, big houses and Lamborghinis, but in fact, we hear of situations like what Dave is talking about that are much different.

Part of the education that Music Canada has talked about in their report and what Victoria has mentioned here is educating people about how performers make a living and that their revenue comes from various different streams, whether it's from album sales, both digitally or physically, or merchandising and touring. All these revenue streams—from having their music played on radio, from private copying, the streams just go on and on—are collectively making up their income. It's educating everybody about what happens and creating resources for people to go to in order to understand what these people do for a living.

It's very different from...for example, when I go to work, I have one employer and one paycheque. I don't have multitudes of revenue streams. That's sometimes difficult to understand because of what we see on TV, in the movies, and so on. It creates a very different perception.

Education nationally across the country as part of the school system we see as being something that would start sooner rather than later and would be consistent.

The Chair: Thank you very much.

We have a few minutes left, but we're going to move to Monsieur Lapointe.

[Translation]

Mr. Lapointe, you have four minutes.

[English]

Mr. François Lapointe (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, NDP): Good, thank you.

Mr. Faber, if I may....

[Translation]

I thank you for being with us today.

I would like to take this opportunity to use your experience as an example, more specifically to discuss the consequences of the current state of affairs in the industry for songwriters and composers.

As a band, you are quite successful in pop rock, which is not an alternative genre of music listened to by few people. You have recorded three albums so far.

Could you tell us a bit more about your situation? You are a songwriter in a band which has been successful in Canada. How do your sources of revenue compare with what you receive as a songwriter? Despite the fact that your band is quite successful, with touring and all the rest, in your case, what do those resources look like?

[English]

Mr. David Faber: For me, I would say the three main revenue sources are doing concerts, touring, but more than that would be songwriting, so getting royalties from songwriting, as well as ACTRA RACS. Those are probably the three main sources for income for me personally.

[Translation]

Mr. François Lapointe: Could you give me an idea of your albums' reach in terms of CD sales and downloads?

[English]

Mr. David Faber: Well, our biggest-selling song was *G-Get Up and Dance!*, which sold more than 120,000 copies in Canada. Then we had a couple of other songs that went gold.

In terms of physical copies of CDs, I don't know whether we sold much more than 20,000 physical copies of each album.

[Translation]

Mr. François Lapointe: So, if I have correctly understood you, for a pop rock group like yours, 120,000 downloads are a hit.

Is that correct?

[English]

Mr. David Faber: Yes, I would say that for a massive hit such as *Call Me Maybe* by Carly Rae Jepsen there will be something like 200,000 to 300,000 singles sold. *G-Get Up and Dance!* went to number two on Top 40 radio in Canada, and that song sold about 120,000 to 130,000 copies.

[Translation]

Mr. François Lapointe: As things stand in the industry, what does that mean for your group in terms of potential revenues?

I am trying to understand why members of a band that is successful still have to find a day job after three albums. I would simply like people to correctly understand the situation.

[English]

Mr. David Faber: I'm sorry; are you saying...?

[Translation]

Mr. François Lapointe: As a sound engineer, I have worked in the industry for a long time. I would like to help people understand that in 1982, a success like yours would provide a decent income for at least five or ten years, which is no longer the case.

Since you have direct experience of this situation, I would like you to tell us about your circumstances and the reason why you cannot make a decent living despite such success.

● (1200)

[English]

Mr. David Faber: To be totally honest, I don't know the exact answer to that, except that maybe a lot of it is smoke and mirrors. People see you on MuchMusic and think you're rich. They think you're a millionaire. They think you have a mansion. We've had three number one singles on MuchMusic, and I'm still living in a basement suite of my in-laws' house. They've been very supportive and very kind. It's the reality of music nowadays. The fact that you're on TV or that you have a number one song on the radio doesn't mean that you're rich, doesn't mean that you're a millionaire, doesn't mean that you drive a Ferrari.

[Translation]

Mr. François Lapointe: I believe Mr. Lauzon also wanted to make a comment.

[English]

The Chair: We're going to have to wrap up, but take 15 seconds.

Mr. Alain Lauzon: Twenty years ago when there were albums, there were 13 to 15 songs on an album. Whether it was 20,000, 50,000 or 100,000 albums that were sold, people were making a living out of 15 times the number of albums. It was 8.3 cents for a song on an album. That was almost a dollar as an author-composer. If you are selling 20,000 albums and it brings you a dollar approximately per album.... Now you're selling one song through download. Adjusting it so that the market is the same, you have to sell—

Mr. François Lapointe: —10 times more.

Mr. Alain Lauzon: —or 15 times as many just to be equal to where you would have been in the past. Then obviously you make revenues out of broadcast, performing, and all of those things. That's why, as an education question.... This is mainly what we do: we educate people on this.

The Chair: That's going to have to be the last word; I'm sorry. We have another panel. But I want to thank our panellists for their time today. We appreciate your input into our study.

Thank you very much. We will suspend.

● (1200)

(Pause)

● (1205)

The Chair: We're going to call this meeting back to order.

First of all, we are having a little bit of difficulty with the translation, but it is all there. The English and the French are being swapped at certain times. If you find that the audio is in the language you don't want it to be in, just try to flip over. We're trying to fix this right now. We are being broadcast in both French and English, but it may not be on the correct channel.

We now are going to move to our second panel.

We have with us today, from the Association québécoise de l'industrie du disque, du spectacle et de la vidéo, Solange Drouin, the vice-president of public affairs and executive director.

From the Canadian Independent Music Association, we have Stuart Johnston, the president, and Shauna de Cartier, the chair.

By video conference from Vancouver, British Columbia, from Music BC Industry Association, we have Robert D'Eith.

We are going to start with Ms. Drouin. You have eight minutes.

[Translation]

Ms. Solange Drouin (Vice-President of Public Affairs and Executive Director, Association québécoise de l'industrie du disque, du spectacle et de la vidéo (ADISQ)): Hello.

[English]

The Chair: Could we have quiet in the room. We are starting the first presentation.

We haven't started your time yet. We're starting right now.

Ms. Solange Drouin: Thank you, and I hope we'll have extra time to discuss after one o'clock.

The Chair: Your eight minutes are starting now.

Ms. Solange Drouin: Thank you.

[Translation]

My name is Solange Drouin and I am the Vice-President of Public Affairs and the Executive Director of ADISQ.

First of all, I would like to thank you for having invited us to participate in the review that you have begun of the Canadian music industry, including its funding.

To begin, I'd like to say a few words about our association. ADISQ is a professional association that represents disk, performance and video producers working mainly in Canada's French-language market.

Our association is over 35 years old, and we are active in every field that involves our members' interests: workforce training, labour relations, funding businesses, broadcasting and telecommunications, as well as collective promotion.

To truly understand the reality of both Canadian markets, francophone and anglophone, let us briefly review the organization of this sector at an international level.

Throughout the world, three companies share 80% of the market. These companies, you already know. They are Warner, Universal and Sony. The other 20% of the world's market is shared by a multitude of small, independent businesses whose proportion and

weight in a given market vary significantly from one country to the next.

● (1210)

[English]

The Chair: One moment, please. Right now we have no English. Could you hold on for one moment, please. I'm sorry for this inconvenience.

Ms. Solange Drouin: Okay, so you don't understand me if I talk in French. That's great.

The Chair: Hold on a second. We hope we can fix our technical difficulties.

Ms. Drouin, do you mind starting over again?

Ms. Drouin: I don't mind at all.

The Chair: We're very sorry for this technical difficulty.

Ms. Solange Drouin: There's no problem. I understand.

[Translation]

Mr. Pierre Nantel: I am going to do a test.

[English]

Is everything fine?

The Chair: It appears so, yes, on the English channel.

Okay, let's give this another go.

Thank you. Your time will start over again.

Ms. Solange Drouin: I'll start again.

[Translation]

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Throughout the world, three companies share 80% of the market. These companies, you already know. They are Warner, Universal and Sony. The other 20% of the world's market is shared by a multitude of small, independent businesses whose proportion and weight in a given market vary significantly from one country to the next.

There exists a significant distinction between the practices of these three large groups and those of independent companies. The majors focus their efforts on developing the career of a limited number of artists to cover as large a market as possible. For their part, the independents, represented by the CIMA and the ADISQ, focus mostly on developing the careers of local artists, first and foremost for local markets.

In Canada, this logic of development is used, with a very important nuance for Quebec. In 2011, when the majors were putting out only 13% of Canadian artists' albums, the independents, represented by the CIMA and the ADISQ, were responsible for putting out 87% of our artists' albums.

However, the majors grabbed about 70% of the Canadian industry's total revenue, mostly through the distribution of international artists. This means that distribution activities done by the majors for international artists are very important, which often leaves very little room for local artists on their own markets.

In the Canadian francophone market, the situation is not the same. The number of local artists associated with the majors is minimal, even trivial. Independent companies are responsible for more than 95% of local artists' albums, and those artists represent, in both good years and bad, between 40% and 50% of total sales in Quebec.

That being said, even though the market share results are very different for the Canadian anglophone and francophone markets, it is clear that those who are largely responsible for developing the careers of local artists are the independents, which we represent, and not multinational corporations.

I would therefore warn you about those who claim to represent the Canadian music sector as a whole, when the majority of their revenues come from distributing international artists.

When it comes to public funding of the Canada music sector, what does this all mean? The Canadian government's goal in terms of public funding of music is, and always has been, to ensure that the Canadian public has access to a sustainable reservoir of music from here, while promoting those who are largely responsible for these productions, which are businesses and Canadian artists. This funding has increased over the years, and is now at \$25 million.

Furthermore, in the last federal budget, this entire amount was made permanent, and we were very pleased by that. This amount has been managed by a limited number of administrators, namely Musicaction, FACTOR and Canadian Heritage. These organizations and this department's programs have reached an admirable degree of maturity, developed with a logical theory of intervention that meets the needs expressed by the Canadian music scene.

That being said, does public funding meet all of the industry's needs? Of course not. However, at its current level, it still plays, though not as easily, its role as an essential lever to maintain a certain degree of national musical content production, resulting in an adequate level of outreach. But how long will this last?

•(1215)

I am sure you know that the music industry has undergone significant changes since the rapid development of digital technologies. I could mention—and I am sure you have heard of this—the

dramatic drop in the number of disk sales. All of the markets in the world have seen drops of between 30% to 60%. In some cases, digital sales have mitigated the reduction, but they have not slowed it down.

In Quebec, for example—this is an important figure—while we sold 13 million albums in 2005, we sold only 6 million in 2013. However, that is not the only major change affecting our industry.

In a report published last week, the International Federation of Phonographic Industry, or IFPI, was very clear. Our industry is clearly headed toward a future where music is consumed through online music services that provide access to a very large music repertoire. These include services such as DEEZER, Spotify, rdio, Beatsmusic and Google play.

According to the IFPI, such services are currently providing the public with access to 38 million songs. This new reality is completely transforming the amount and type of income that all of the partners in the musical content creation process can receive. While selling a CD generates a certain number of dollars that can be divided between the partners, legal online music services generate a multitude of micro-incomes for every song transaction. This leads us to a paradox which is difficult to explain.

While music has never before been so widely available and consumed, the income it generates for content and production partners has never been so low. Of course, there is income and it is significant. However, it is other players outside of the music world who are able to seize and keep that income. It is strange to think that an important sector of our economy is largely using a product, in this case music, to sell its own service—I could mention Google or an Internet service provider—without compensating the owners of the product it is using to sell its service.

For example, could you imagine, in the agricultural world, if the wheat producers were not compensated because the distributors argued that they were making the wheat accessible to the public and that they had to support their distribution network? That would be unthinkable.

The Canadian government and some of its agencies have several tools at their disposal which they could use to correct this imbalance in the music industry. For example, they have skills in copyright law, broadcasting regulation, international taxation, funding, and so on. The longer the Canadian government waits to use these tools, the more it will become necessary to invest public money in the Canadian music industry to ensure that Canadians have access to their music.

In my opinion, it would be unfair for the government to place a larger burden on the shoulders of Canadian taxpayers to help our industry develop, when it would be possible instead to make the main consumers of our music, who in many cases are foreign companies, contribute.

This is why we are asking the committee to pay particular attention to identifying priorities and actions that can be taken quickly vis à vis these large music users. This will promote long-term access to our music, with all its richness and diversity, for the Canadian public.

•(1220)

[English]

The Chair: We'll have an opportunity in the questioning to expand. Thank you.

We're now going to move to the Canadian Independent Music Association, Stuart Johnston and Shauna de Cartier. You have a total of eight minutes.

Mr. Stuart Johnston (President, Canadian Independent Music Association): Good afternoon. I am president of the Canadian Independent Music Association. Joining me today is Shauna de Cartier, owner of Toronto-based record label and management company, Six Shooter Records, and the current chair of my organization's board of directors.

Thank you very much for the opportunity to speak to you today.

Each and every one of you plays an important role in the success of the Canadian music industry, and for that we sincerely thank you. We would be remiss if we did not also thank the federal government for not only renewing the Canada Music Fund but also renewing it essentially in perpetuity. It certainly sends a strong signal to the business community that such support will be there for the years to come, a particularly important point considering the three- to five-year planning window of our music companies.

It is important to understand that the Canadian music industry is not homogenous. It is a community of Canadian-owned small businesses, half of which are sole proprietors, in which the top 10% earn more than \$500,000 annually. These are the entrepreneurs and artists who work hard every day earning a living doing what they are passionate about.

My organization is the not-for-profit national trade organization representing the English language Canadian-owned sector of the independent music industry, whose primary mandate is advocating for, supporting, and promoting the business of music, both domestically and around the world. We have over 220 members located in every province plus one territory. Together, our members directly employ almost 2,200 people and collectively represent more than 5,100 artists. CIMA's membership is involved in every aspect of the music and music-related industries, including record labels, producers, managers, and others professionally involved in the sound recording and music video industries.

In the aggregate, the domestic English language music sector truly punches above its weight, annually contributing at least \$303 million to Canada's GDP and employing more than 13,000 people. An important economic indicator for any industry is the measure of its intensity ratio, or how much of its economic activity sticks to the Canadian economy. According to CIMA's research, for every \$10 million of revenues earned the independent industry adds \$8.2 million to the Canadian economy, an 82% return.

From a tax perspective alone, Canada's federal and provincial governments annually receive a healthy rate of return from the Canadian-owned music sector. In 2011, English language independents paid \$93.2 million in taxes to the provincial and federal governments. On average, for every dollar of public support it received through programs like the Canada Music Fund the music

industry generated \$1.22 in taxes across Canada to the net benefit of our governments.

The Chair: Excuse me for one moment.

I think Mr. D'Eith is having some difficulty.

We think that if you just switch over from one to the other you may be able to get the English feed. Can you do that?

Mr. Robert D'Eith (Executive Director, Music BC Industry Association): Everything is done at your end.

The Chair: You can't switch it yourself?

Mr. Robert D'Eith: It's okay. It just went to English. Don't start again, it's all good.

The Chair: Sorry for the technical difficulties.

Go ahead.

Mr. Stuart Johnston: All right, no problem. Thanks.

However, our industry is not without its challenges. As small businesses that discover and develop Canadian artists, create and commercialize music, access to capital is our number one issue. Banks by and large do not lend money to the music industry. Our product is intellectual property. Our songs are ephemeral. That is why governments are important partners. You provide some of the seed capital that enables commercial success, economic benefits, and job creation in our industry.

Competition, both global and domestic, is an ongoing challenge. For example, as Solange mentioned, the multinational major record labels, Sony, Warner, Universal, are both our strong business partners as well as our competition. How can they be both? About 85% of the independents such as Shauna's company are distributed in Canada by one of the majors, or have marketing and promotion agreements with them. In many ways it is a symbiotic relationship and it works very well for all parties.

On a broader level, though, our small businesses still struggle for market share and shelf space, be it physical or digital, in the marketplace. For example, Universal, since its acquisition of Britain's EMI label, owns close to half of the overall market. Last year, over 76% of all album sales in Canada were by major label international artists like Beyoncé and Lady Gaga. Canadian artists owned 23% of the domestic market last year, over 14% of which was sold by independent artists in both English and French markets. The upside is that 60% of all Canadian artists' sales in Canada were from artists signed to CIMA's or ADISQ's members. Forty per cent of Canadian sales were by artists signed to the major labels.

Still, it is a struggle for individual Canadian companies like Shauna's to compete one on one with the relatively deep pockets and international marketing heft of the major labels. This is why continued support for production, marketing and promotion is so important to our domestic companies.

Technological changes over the past decade have significantly impacted the industry. While digital piracy and file sharing were rampant for most of the past decade, technology has also influenced consumer behaviour. Whereas before it was an album market, now consumers purchase singles or they stream music, which is otherwise known as renting music. This has dramatically impacted the revenue model of the industry. Unit sales and per unit revenues have dramatically declined. Therefore there is a stronger reliance on diversifying revenues from a multitude of sources, be they public, private, and broadcasting dollars through the CRTC-mandated CCD fund.

Digital technology advancements have both helped and hindered the industry. It has never been easier to record and distribute music globally. Communicating with fans is more direct and interactive. However, while relatively inexpensive on the lower end, professional recording is increasingly more expensive and there is a stratification of production costs. It is increasingly difficult to gain market attention, and it's hard to rise above the noise. Resources in this area are a priority.

Technology alone cannot ensure that an artist's work is heard or discovered. Music is also a global market. Music has no borders, which means we must be anywhere and everywhere to commercialize our music, engage with our fans, and showcase our artists. Therefore, exporting is a key component of our global strategy. Unlike many of Canada's major competitors, Canada does not have a formal music export office. In recent years, CIMA has acted as a de facto export office with the support and partnership of industry partners like ADISQ, Music BC, and other music industry associations. This is an area where government is and should continue to be a key partner as we collectively explore opportunities to commercially exploit foreign markets.

Shauna.

● (1225)

Ms. Shauna de Cartier (Chair, Canadian Independent Music Association): I am here to provide a real-life example of the Canada Music Fund in action. I moved to Toronto in the year 2000 with a \$15,000 loan from my brother, and a couple of credit cards. After four years of building a track record, I was eligible to access funds from FACTOR. I have since leveraged that support to release more than 80 albums by dozens of Canadian artists, and coordinated thousands of concerts around the world. I've also started a festival attended by more than 10,000 people in Edmonton. Now, more than 50 people rely on Six Shooter for their livelihoods. Six Shooter is a typical example of how your support can go a long way to create a sustainable Canadian-based infrastructure for a vibrant cultural industry.

In closing, the business of music, the commercialization of music, is multi-dimensional, but it all starts with the song. The Canadian-owned independent community is leading the way on artist discovery and development, and commercially exploiting markets around the world.

The cornerstone of the industry is still production, marketing, and touring. It is a three-legged stool and it all starts with the music. Therefore, Canada Music Fund programs must continue to support these fundamentals. They are necessary to support industry. These

programs help ensure that artists are fairly compensated, and businesses are successful both globally and at home, based on the execution of sound business strategies. Any new programs should be funded in addition to the Canada Music Fund's core funding.

Thank you for recognizing the value that Canadian music brings to our country, both culturally and financially.

The Chair: Thank you very much.

We're now going to go to Vancouver, where we have Robert D'Eith, who is the executive director of Music BC Industry Association. Hopefully, our technological issues have been resolved.

You have the floor for eight minutes.

● (1230)

Mr. Robert D'Eith: Thank you very much, Mr. Chairman.

My name is Bob D'Eith, I'm the executive director of Music BC. I'm also the acting chair of the Canadian Council of Music Industry Associations.

To give you a bit of background, Music BC is a provincial music industry association. We provide advocacy, artist development, music business education programs, networking opportunities, export marketing initiatives, and funding resources. We have 1,000 paid members.

The CCMIA is a group of the provincial and territorial music industry associations that represent about 10,000 artists, labels, publishers, managers, studios, and producers from coast to coast to coast. The mandate of the CCMIA is to act as the national voice of the provincial and territorial music industry associations. The CCMIA membership consists of Music Newfoundland and Labrador, Music Nova Scotia, Music Prince Edward Island, Music NB, Music and Film in Motion Northern Ontario, Manitoba Music, SaskMusic, Alberta Music, Music Yukon, Music NWT, and Music BC. I'll refer to them as the MIAs. Please note that Music Ontario is run by CIMA and is not part of our organization.

That was background.

CCMIA and Music BC would like to thank the Canadian government and the Department of Canadian Heritage for renewing the Canada Music Fund. These funds, forming such private partnerships as FACTOR and Musicaction, have really helped to establish Canada as a leader in the world of music. We certainly deliver more than our fair share of internationally successful artists, and I believe this is to a great extent the result of public support of the music industry in Canada, so thank you.

In particular, the MIAs' memberships have benefited greatly from the Canadian Heritage collective initiative program administered by FACTOR. These programs help the MIAs to support their communities in many ways: education of artists and music industry personnel through career development programming on topics such as online and social media marketing, booking, touring, securing music placements for film and television; developing digital online initiatives such as our tourhub national venue database; funding export marketing to key markets such as South by Southwest, The Great Escape in the U.K., and BIGSOUND in Australia, to name a few; bringing international buyers in with programs as Showcase PEI, BreakOut West, the ECMAs; developing and supporting music industry partnerships such as the Western Canadian Music Alliance, which produces BreakOut West; and of course, supporting amazing conferences and celebration of Canadian talent such as the Western Canadian Music Awards, ECMAs, CMW, North by Northeast, and many others. These are fantastic programs and essential to the health and vibrancy of the Canadian music industry. We really, really want to thank the Canadian government for continuing to support Canadian music in this way.

Now for the regional perspective, let me give you a bit of background.

Napster of course changed the entire landscape of the industry in 2000. Even though the original Napster is no longer with us, it really led the way to the erosion of the major label control of distribution worldwide. What resulted over the next 10 years was a paradigm shift in the distribution of recorded music globally. Physical sales, the foundation of record label financial stability, fell dramatically throughout the world. Unfortunately, legitimate online downloads such as iTunes did not bring up the gap. The result is a halving of worldwide record sale revenue and a massive downsizing of the major labels.

During the 1970s to the 1990s, record labels recognized that artists needed to be developed over a number of albums, but most major labels in that era often did not expect a return on their investment until the third album released. Today a lot of artists are lucky to get a single, it's so competitive. Artists are generally not signed nowadays without significant development from either themselves or an independent music company.

In Canada, 80% of the independent record labels and all of the major labels are located in Toronto; however, the new and emerging artists are located all over Canada. A concerted effort was made by Music Canada to consolidate and grow the Ontario-based industry. This has resulted in the Ontario government creating a \$45 million fund for Ontario-based companies, including the foreign major labels.

• (1235)

This move is unprecedented in Canadian funding history. Luckily, with lobbying from CIMA, the independent sector in Ontario was also able to access that funding.

As it stands right now with annual reports, 59% of FACTOR funding goes to Ontario, and 50% of Radio Starmaker CCD goes to Ontario as well. In English Canada the majority of the music entrepreneurial component funding goes to Ontario companies. As 80% of the companies are in southern Ontario, that makes a bit of

sense, but from the regional perspective there seems to be an imbalance.

The music industry has been redefined due to market pressures. As stated earlier, the new and emerging artists, to get the attention of the major labels or labels like Shauna's, often have to develop themselves. This artist development is happening right across the country in small and large communities. Nationally, artists and their teams are creating micro-entrepreneurial ventures to develop their careers. The role of provincial and territorial music industry associations in helping these artists and their teams has grown exponentially over the last 10 years.

While the CCMIA is the first to recognize and praise the amazing work of MEC, FACTOR, and Musicaction and Radio Starmaker, the CCMIA respectfully submits that the changes in the market should lead to more artist development at the grassroots level. We have some models that work. We developed a program in British Columbia called the Peak Performance Project. This marries education, marketing, and promotion, leverages every penny with sponsorship dollars, and also allows us to activate locally. It has been incredibly successful. We have had two Juno award winners, dozens of records released, international tours, and significant radio play.

The point is that the music industry associations provide locally activated artist development. What we would like the Department of Canadian Heritage to consider is that perhaps there needs to be some sort of balancing. In other words, we would like to see, from the music industry association point of view, more money spent in the regions for grassroots artist development.

In closing, I want to reiterate that certainly the music industry associations and the CCMIA completely support the positions of ADISQ and CIMA that were just made. There's absolutely no question that FACTOR, Radio Starmaker, and MEC, all these programs, are absolutely essential. We're just saying that perhaps there could be some balancing.

Thank you very much.

The Chair: Thank you very much.

We are now going to move to some questioning.

We have Mr. Boughen for seven minutes.

Mr. Ray Boughen (Palliser, CPC): Thanks to you music folks for sharing part of your day with us. We appreciate your input. It's good to hear from you.

It seems to me there are a number of different organizations involved in the music industry. Is there any attempt by any of the groups to pull together to form a sizable voice, not only in terms of performers, but in terms of administrators, developers, and music artists? Is that something the industry has looked at, or hasn't that come to the fore?

Mr. Stuart Johnston: Yes, I can say that we have a number of organizations representing different aspects of the music industry. As I said at the top of my remarks, the industry is not homogenous, so each individual component I think requires its own voice, because there is a uniqueness to each one.

That said, on many issues and on many programs and services, we do band together as an industry. I don't know if you've noticed, but we all know each other. We know the previous speakers and we all know each other. Shauna and Bob are both on my board. We work with ADISQ quite often.

We do band together as an industry. I mentioned CIMA acting in the capacity of an export office, but we couldn't do that without our industry partners at the table as well. In a recent development, we are formalizing a group to coordinate those efforts, share information, share market strategies, and work together. That's a long way to say that we do work as an industry when we need to, and then we are our own voices for the unique aspects of our various constituencies.

• (1240)

Mr. Ray Boughen: Okay.

I have a general question, open to all the panel members. How do you see the role of government facilitating the industry and helping it grow and continue on a path that seems to be moving forward at a pretty good rate? The other panel members suggested a couple of things having to do with income tax.

What do you see as a way the government can be involved in facilitating continued growth and movement?

[Translation]

Ms. Solange Drouin: In this regard, we recommend a very broad approach. We cannot consider the music industry from only one angle. The music must be created, produced, marketed, broadcast and distributed. So all of those components need to be taken into consideration. Today you want to talk about funding. If you ask us if more money is needed, of course we will say yes, but we are aware of the state of public finances.

However, as far as copyright law is concerned, you, as the government, do have some other tools at your disposal. As I was saying, there are international regulations and international taxes, subjects you examined in a recent budget consultation. We need to have a broad view of all of these tools in order to help the industry. We can't consider all of the components separately; we need an overall approach. Of course, this involves education, and that's important, but that requires a long period of time. And we would like the effects to be felt as soon as possible. Given the state of the industry, we can't wait to make progress in terms of education before taking action on other fronts.

[English]

Mr. Ray Boughen: As a performer, Shauna, how do you view that? What is the role of government to help you continue on your career path?

Ms. Shauna de Cartier: To clarify, I'm not a performer.

Mr. Ray Boughen: Oh, I'm sorry.

Ms. Shauna de Cartier: I have a record label, and I'm also an artist manager. As an artist manager, I do work very closely with artists and performers who make records and tour nationally and internationally.

I just can't say enough about how important the support of FACTOR is. It makes it possible for a struggling artist to figure out a way to get their record made, to get even just a tour across Canada, to get from Vancouver to Edmonton to Winnipeg to Toronto. That's how we know how to do it. That support, I feel, has created an infrastructure here in Canada of an independent community that is sustainable. Our main point is that we're grateful the funding has been made permanent, so to speak.

We have lots of other ideas. For example, exporting is something that all independent artists need help with. It's something that CIMA is doing. We could use the support to do that better and do more of it, but we don't want to see that at the expense of the core: production and marketing and touring.

Mr. Ray Boughen: What is the core? I've heard the core mentioned a couple of times this morning.

Ms. Shauna de Cartier: It's production, as in making the records, marketing, which is self-explanatory, and touring.

Mr. Ray Boughen: Good. Thank you.

How much time, Mr. Chair?

The Chair: You have about a minute.

Mr. Robert D'Eith: Could I jump in here?

Mr. Ray Boughen: Yes, by all means, Bob.

Mr. Robert D'Eith: Wonderful.

I totally agree with what Shauna is saying. I think the existing programs are great. Thank you for continuing to support those.

As I said, I do think there is a gap that has been created because of the industry at a regional level. I think artists need more artist development so that they're more attractive to labels like Shauna's and to the majors and others. I really think we need a strategy to help the artists get from the basement to a place where they're attractive to the industry. There's a gap that's created, and I believe if we had a strategy moving forward, we could fill that gap a bit better.

We're doing a good job; FACTOR does a really great job at part of that, but I do think there's more room at the regional level to try to bridge that gap.

• (1245)

[Translation]

The Chair: Mr. Nantel, you have seven minutes.

Mr. Pierre Nantel: Thank you very much, Mr. Chair.

I would like to verify something, Mr. D'Eith. Can you hear me in French or in English?

[*English*]

Mr. Robert D'Eith: I'm hearing you in English right now.

[*Translation*]

Mr. Pierre Nantel: Good, that's wonderful. I didn't know that I was able to be heard in both languages.

First of all, I just want to say that I think it's wonderful to have with us a group of people from all over Canada who have shared artistic and cultural interests. I think that's very exciting. I think that we are all learning a lot.

Clearly, this industry is facing particular challenges that are intimately linked to technology. We have to recognize that the music industry is very happy with the amount that they have been able to secure. It's an amount of \$25 million. You said several times that that's all the better for the government.

Furthermore, the program managers are doing good work in terms of production and in terms of the basic activities we've been talking about so far. This money and this expertise from the government, all of that matches. I would like to hear you speak about the fact that we will have to change our way of analyzing and we will have to move more quickly in order to deal with these changes.

Ms. Drouin, you mentioned figures from the IFPI which indicate to what extent we are moving towards a streaming broadcast model. I will give you an example. Yesterday, while I was preparing for today's meeting, I discovered that there was a new Hall and Oates album. I am betraying my age. Hall and Oates were a duo from the 1970s. I listened to the entire album, I didn't pay anything, and it was not illegal. So there's a problem. It's not the fact that it's free. Indeed, if it's free, so much the better for everyone, but an agreement was signed with these streaming broadcasting services. I would like to know if the terms are favourable for you. How is such an agreement signed? We are always hearing and reading that these agreements only allow for a tiny amount of income. Will you be able to renew these agreements? Do you have the support of government policies to do so?

You should at least be paid when people listen to a song. It would be nice if you could also be seen. We would like the artists to be seen. That's why I will let you speak. It's important to hear the perspective of independent companies and not just large companies.

We know that Avril Lavigne comes from Napanee, but promotional tools are definitely developed in the United States, and that is a huge machine. The artists who represent our cultural reality are the artists that the Standing Committee on Canadian Heritage should consider.

I would like to hear your opinion on this, Ms. Drouin, Mr. Johnston, Ms. de Cartier and Mr. D'Eith.

Ms. Solange Drouin: Mr. Nantel, it is important to put that \$25 million into context. It was implemented around 1998. At the time, funding for the industry was increased. At the time, the return on investment was still appealing. It was possible to sell albums and to invest in the production of an album. Ms. de Cartier talked about

tours. There was significant income at the time and a sum of \$25 million played an important role.

Today, incomes are collapsing. Some people have said—incorrectly, in my opinion—that income from the sale of recorded music was collapsing, but that we could recoup the money through live shows. That is not the case for local and Canadian artists who do not have an international career. People like Madonna or Rihanna can decide to give a show in Toronto, Montreal, Washington or Boston. However, a Quebec artist cannot stay in the Gaspé more than four days if there is not a sufficient audience. You can't claim that local artists can recoup significant sums of money through shows. The income lost in disk sales really constitutes a significant loss.

However, I would encourage you to look at the lost income. I was reading this morning that in 2014, Google and Facebook will have \$21 billion in revenue from mobile phone advertising, while these companies do not give back any money to the content industry, which nonetheless produces a large part of their services. Perhaps not all of their services, because people conduct searches with Google and do other things with Facebook, but it is clear that a large part of these two services is based on entertainment and music. How is it that this \$21 billion in advertising revenue is being completely lost to those who are providing a product for resale, and how is it that there is no return on investment? We need regulation. You have power as far as copyright law is concerned. That could be used to rebalance the situation.

• (1250)

Mr. Pierre Nantel: Ms. Drouin, since I only have a minute and a half left, I will give the floor to Mr. Johnston.

A few years ago, agreements were signed by various parties. Commercial radio stations played music, and because the financial situation was good, it was possible to contribute more. I can make a parallel, Mr. Johnston, between the enormous revenues Ms. Drouin was talking about, and which come from Internet companies, and your situation as a provider of raw content. And I could ask the same question to people working in the video industry, isn't that right?

[*English*]

Mr. Stuart Johnston: Well, I guess the bottom line is that those who create need to be compensated. That's the fundamental. Our industry has splintered so much in terms of the types of revenues we need to draw from. The old cliché is that it used to be a dollars business. Now it's a pennies business, and you have to find those pennies from a multitude of sources.

Broadly speaking, it's great that the government is at the table, because it really is a true public-private partnership of the music industry and government. There's private sector money. There's public sector money. There is broadcaster money. There's a multitude of revenues coming in to provide seed money.

Our entrepreneurs, who are small businesses, just need two things. They need time and money. If they don't have the time, they need the money. With them being small businesses and sole proprietors, that capital from a multitude of sources, not the least of which is the public sector, helps them to make the investments they need in their artists and to invest in the strategies they need to do in terms of marketing, touring, promotion, and whatnot.

That doesn't directly answer your question. We could spend an hour and a half on that particular topic, but it's extremely important that we tease out dollars as much as possible where people are exploiting the content that is created by others.

The Chair: Thank you.

[*Translation*]

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

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

I would like to thank Ms. Drouin, Mr. Johnston, Ms. de Cartier and Mr. D'Eith for being with us today.

I think that we will agree on the challenge, which is the drop in revenues that followed the arrival of new technologies. Now, we need to find solutions.

[*English*]

Mr. Johnston and Madam de Cartier, you've come here with some very specific propositions. I don't know if there is one that you would like to expand on.

I am intrigued by the one you proposed about giving the CRTC regulatory powers to enforce rules for broadcasters to pay into the Canadian content development funds. Would you like to develop this proposition more for the benefit of the committee?

Mr. Stuart Johnston: Yes, for sure. There's an area where it just takes a regulatory change, we believe.

The CRTC right now is undergoing a radio review to determine future policies relating to the broadcasters, the Broadcasting Act, and whatnot.

One of the challenges the CRTC has is enforcing compliance for the broadcasters to pay their required Canadian content development funds. They have to pay half a per cent of their revenues every year into the CCD fund, which goes to the support of the music industry, and up to 6% of the value of a licence whenever they sell that licence, like the Bell-Astral deal.

Compliance is a very big problem. Last year a million dollars was left on the table because in 266 instances last year, CCD money was not paid by the broadcasters in a timely manner.

How does the CRTC enforce this? Our solution, in part, would be to give the CRTC the regulatory authority, if they don't already have it, and there's some question as to whether or not they do, and the ability to impose a late fee. It's not unheard of. The phone companies all charge us late fees. Well, when the phone companies forget to pay their CCD, perhaps a 2% surcharge should be added to what they owe. There's a simple way to change the regulatory authority to provide the incentive for the broadcasters to comply with their obligations.

That's one of the things we'd like to put on the table for consideration.

• (1255)

[*Translation*]

Hon. Stéphane Dion: Ms. Drouin, you concluded your presentation by saying that we needed to develop tools.

Is this one of the tools that you would recommend?

Ms. Solange Drouin: Definitely. Furthermore, the CIMA proposed that in their brief. We supported that measure, but it is aimed at current conventional broadcasters. We absolutely must not forget them, because they are still a very important part of the landscape of music broadcasting. We must never forget that we have not quite transitioned into a new reality. We are still in a traditional world, if I can put it that way. The broadcasters have a significant impact.

There is something else. The CRTC has the power to regulate broadcast services on the Internet. They have chosen not to do so by renewing the exemption for new media. Personally, I do not believe that we absolutely must copy the radio regulations simplistically and apply them to the new music broadcast services. It has to be adapted.

We asked the CRTC, when they were studying the renewal of this exemption, to start to do something. On the Internet, there are several things and people play with combinations. There are so many things to do that that forces people not to do anything at all.

We have to study the Internet for what it is, that is to say many things. There are telecommunications, that is telephone conversations on the Internet, which we must not regulate, of course, because that constitutes freedom of expression. However, there are commercial services on the Internet, as there are music broadcasting services with subscription fees. Why is this beyond our control?

We must review all facets of the Internet and study this issue. We must take a step in the right direction and start regulating certain Internet services. Technologically speaking, it is possible to do so. If we do not do so, it is a political issue.

Hon. Stéphane Dion: Thank you.

[*English*]

Mr. D'Eith, is this issue part of what you call at the end of your presentation the need for balancing?

Mr. Robert D'Eith: I'm sorry, what was the question?

Hon. Stéphane Dion: We were discussing the need to review the regulatory power of the CRTC. I wonder whether you have something to say about it.

Mr. Robert D'Eith: One of the biggest problems with Canadian content development funding is just deciding whose money it is. We have always taken the position that once Canadian content development money is there, it should really belong to the music industry. That's something that is still unclear. Is it the radio's money or is it our money? That's something, if anything, that could be clarified.

It should be the industry's money, and we should have discretion to do what we need to do with that funding. That's not clear. I think the government could take a position trying to clarify this.

As far as the other regulatory matters with the CRTC are concerned, certainly making sure that the Canadian content development funding is spent properly, is spent on time, and that we get the money is important.

As for balancing, we've already found that many of the radio stations like the money to stay in their local communities. One of the problems the stations have is that when it goes into some central pot, it doesn't always make its way back to the local community.

In the \$5.2 million program that we did with the Pattison Broadcast Group, for example, their CCD money stayed local. This helped to balance the equation nationally. Some sort of balance between national programs and regional programs is very important.

Hon. Stéphane Dion: Thank you very much.

The Chair: Thank you. We are out of time.

I'd like to thank our witnesses. We appreciate your input into our study. Hopefully, in the next few months you'll be able to see what we've been doing.

Thank you for coming today.

The meeting is adjourned.

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