

8: The Canadian Music Industry at a Crossroads

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Over the past several years, the state of Canada's sound recording industry has been usually described in pessimistic terms. We should remember, from the outset, that there are several industries involved in music – live concert promotion, music publishing, composing for film or television, and so on. The health of each of these has fluctuated significantly in recent years. It is the sound recording industry, however, which has struggled most desperately to remain afloat over the last half decade. As it grapples with a decline in the sales of compact discs, and continued uncertainty over the impact of the Internet, the recording industry has been slow to grasp the transformations it will require in order to survive. A Canadian record company executive, who did not wish to be identified, told us recently that the record industry as we knew it was dead. The successful music companies, he argued, would no longer be those which, like the firms of the last half-century, sought out artists, built careers, and recorded musical works. Rather, the only certain money to be made in music was through the repackaging of older musical recordings into thematic compact disc compilations, to be sold for \$4.99 at Wal-Mart or Zeller's stores. The industry, he suggested, was now a commodity-based industry like those for eggs or sugar, making small profit margins on large numbers of almost indistinguishable products.

Music has long been a commodity in the broader sense of the term, of course. What is changing are the means by which its value is realized in the

marketplace. The recording industry developed largely as a means to sell physical objects – vinyl records, cassettes, and, for the last two decades, compact discs. CDs remain the largest source of revenue from recordings, but other modes of consumption are becoming more prominent. Downloads of cellphone ringtones, subscription-based satellite radio services, and online sales of music tracks all represent new ways of packaging music and selling it to consumers. As these forms of distribution grow in popularity, the boundaries between the recording industry and other kinds of business are shifting and difficult to draw with precision. Key aspects of the music industry, such as talent development and the distribution of recorded music, are being undertaken by the broadcast industry, retailers, and electronics manufacturers, often in novel and surprising ways.

As the boundaries between industries weaken or disappear, so, too, do those which separate the Canadian market from others in the world. Unsurprisingly, perhaps, Canada's music industry has become just as integrated within a global market as have other industries, such as those producing clothing or consumer electronics. Developments and decisions made in other countries have important effects on the structure and prosperity of the industry here. These changes have imposed considerable stress upon the Canadian music industries at several levels. In the first volume of *How Canadians Communicate*, we described the year 2001 as an *annus horribilis* for the Canadian music industries (Straw 2003). That was the year which saw the closing of Canada's last publicly available industry trade magazine (*The Record*), its most-established music retailer (the Sam the Record Man chain) and the most-ambitious attempt in Canadian history to produce a fully integrated, "mini-major" music company (Song Corporation). That was also the year in which sales figures for musical recordings confirmed a significant downturn for the industry. While that downturn was by no means limited to Canada, the fragility of the music industry's infrastructures here made its effects more devastating.¹

The despair loudly expressed by key players within the music industries in recent years has not been shared by all those involved in producing or consuming music. The revenues of major recording companies may have declined over the last five years, but no one has complained about a shortage of music. The Internet has made access to the innovative and the obscure easier for music fans than at any time in history. Important industry events, like the College Music Journal festival in New York City, continue to attract hundreds of aspiring and inventive new bands (such as Montreal's Arcade Fire, popular favourites at the 2004 CMJ event). Those who bemoaned the continued dominance of sales charts by pop-artists in 2004 still had the option of going to see Mission of Burma, the Pixies, or several dozen other credible punk,

pre-punk, and post-punk bands who had reformed to satisfy or test continued public interest in their music. In 2006, popular musical fans in Great Britain once again felt a sense of energetic generational turnover, as a host of young rock bands, like the Arctic Monkeys or Kaiser Chiefs, rode waves of hype and genuine enthusiasm to the top of sales charts.

The critical acclaim accorded Canadian rock music since 2004 has been without precedent. In 2004 and 2005, a seemingly endless series of media reports hailed and strained to describe Montreal's rock music scene, now consecrated as the coolest and most productive in the world. The U.S. magazine *Spin* (2005) kicked this off in its February 2005 issue, with a long article on Montreal bands like Arcade Fire, the Dears, and godspeed you! black emperor. That same month, the *New York Times* (Carr 2005) published a lengthy piece that grappled awkwardly with the complexities of Montreal's language politics but was left breathless by the range of musical phenomena to be discovered in the city. On November 28, 2005, BBC's Radio One broadcast a documentary entitled "Is Montreal the new Seattle? Find out with the Arcade Fire." This treatment of the Montreal scene likewise floundered in its attempts to situate music within the linguistic and cultural complexities of the city but adequately captured the scene's musical effervescence. Only in early 2006 could one find signs that Montreal's status as hipster mecca might be fading. Increasingly, the North American musical press was turning to Portland, Oregon, as the continent's liveliest incubator for independent rock music, calling it the "new Montreal" (just as Montreal had been designated the "next Seattle," in reference to the birthplace of grunge in the early 1990s). More ominously, for Montrealers, the *New York Times* magazine's February 26, 2006, issue contained a long article on the Toronto band Broken Social Scene and the "Arts & Crafts" label, offering up the observation that "Toronto has become a nicer but less aesthetically coherent version of Seattle in the early days of grunge" (Quart 2006).

In the United States, the largest market for Canadian music, these successes register just below the level of mainstream popularity. Shania Twain, Simple Plan, Nickelback, and Avril Lavigne were the best-selling Canadian acts in the United States in 2005, each registering one album within *Billboard's* list of the Top 100 selling albums of the year. Their success confirms the long-standing popularity of Canadian solo female performers within the U.S. (and international) markets, and the more recent ascendancy of Canadian hard rock bands. In 2005, *Shania Twain's Greatest Hits* was the best-selling country music album in the United States, perpetuating her extraordinary success as, by some measures, the best-selling vocalist in the world. Less predictable, perhaps, were the variety of ways in which Canadians figured on the U.S. jazz

charts, a terrain which has been hospitable to Canadian acts only recently. Diana Krall is the latest in a series of Canadian female singers of popular standards to find success in the U.S. jazz market (following on from Holly Cole and kd lang), and she did so with both a conventional album and a CD package entitled *Christmas Songs*. Elsewhere amidst the best-selling jazz albums of 2005, Paul Anka (born in Canada) made the Top 10 with his *Rock Swings* CD, and the Montreal-based compilation label Madacy ranked at 17 for the year with a package entitled *20 Best of Jazz*.

Summing up the year 2003, *Billboard* magazine's Canadian correspondent, Larry LeBlanc (2003a) had spoken of an "anxious year for the Canadian music business." In 2004, it seemed clear that, while the music industry's condition remained anxious, it might no longer be disastrous. Since then, continued uncertainty over the industry's future shape and direction has been tempered by scattered signs of stabilization and by fresh thinking in different corners of the industry. For parts of the music industry, the most hope-inspiring developments of the last two or three years have come from different extremes of the technological spectrum. The enormous success of *Pop Idol* competitions around the world made the mainstream television variety show, an almost extinct form in North America, newly influential within popular musical culture. At the same time, the massive popularity of Apple's iPod music playback device, and of the iTunes website with which it is associated, brought some clarity and promise to the otherwise unsettled world of commercial musical downloading.

Declining Sales: Piracy or Competition?

The Canadian Recording Industry Association claims that sales of recorded music in Canada continued a multi-year decline in 2005, dropping 4 per cent and \$23 million over the previous year (CRIA 2006). Early statistics for 2006 have shown a significant increase in music sales over the previous year, with growth in the CD market now outstripping that in the sales of DVD's, whose spectacular rise over the last five years is now slowing. Despite the slight optimism these figures might suggest, there is a sense that the last five years have been lost ones for the music industry (CRIA 2005b). The Canadian Recording Industry Association, which represents major multinationals operating in Canada, has claimed in press releases that music retail losses between 1999 and 2004 totalled \$465 million (CRIA 2004c). This decline is blamed principally on the illegal downloading of music, but statistics on this behaviour and its effects are notoriously difficult to produce with accuracy. Computer possession and high-speed Internet access are tools for downloading music,

but they also present people with competing forms of entertainment. Like the DVD, the computer and the Internet may simply be making music less central within people's lives. In the retail sector, it has become easy to distinguish between those stores – mostly independent – which concentrate on music and therefore suffer continued losses, and the multinational chains (like HMV or the now American-owned Future Shop) which have hurriedly moved DVD's into the prominent display space once occupied by compact discs.

The boom in DVD sales has much to do with the format's continued novelty, but it, too, may indicate a shift in consumer interest – away from music, and towards the viewing and collecting of films or other audiovisual forms. The recording industry relishes statistics that claim to measure the impact of Internet access and downloading on music sales, but it has done little to measure shifts in consumer behaviour between different kinds of pre-packaged entertainment commodities. When lovingly restored and feature-packed DVDs of classic or cult films can be purchased for \$9.99, it is easy to grasp why consumers prefer them to risky new CDs that retail for five dollars more. Universal's 2003 announcement that it was significantly lowering the retail price of new compact discs was viewed as a necessary step in the compact disc's commercial recovery, but the impact of this move is not yet clear (*Globe and Mail* 2003).

Majors and Independents: Both Local and Global

Since the 1960s, levels of concentration within the worldwide music industries have grown steadily. In large measure, this has come through major companies' domination of the distribution process, and their subsequent acquisition of smaller companies so as to maximize use of their costly distribution channels. In 1998, Seagram's – then the owner of Universal Music – bought the PolyGram family of music companies from the Dutch Philips Electronics firm. This reduced the number of multinational music companies in the world to five. Together, these multinational majors account for 80 to 90 per cent of all recorded music sales in Canada, a percentage which has remained stable over many years.

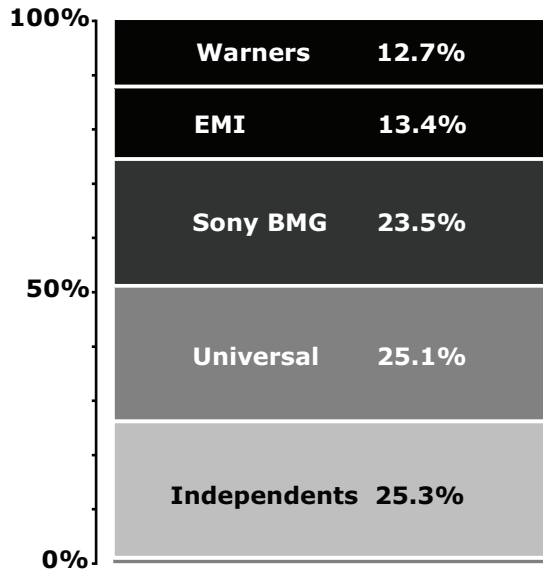
Further consolidation of the international industry has been underway since 2003. In that year, the Bertelsmann Music Group and Sony announced their intention, subject to regulatory approval, to merge their music operations, creating the world's second largest music company (right behind Universal Music). This merger was approved by the European Union and U.S. Federal Trade Commission in 2004, then blocked, in a surprise decision by the European Court of First Instance in August of 2006. Sony's attempt to

join with BMG came on the heels of a debt-ridden Time Warner's sale of its music division for \$2.6 billion to a group of investors led by Canadian Edgar Bronfman. Bronfman had presided over the Seagram company's acquisition of Universal Music, its takeover of the European company Polygram, and the subsequent sale of both to French company Vivendi. His purchase of Time Warner's assets marks the end of Warner Brothers' life as a major record company player, which began in 1958. Earlier in 2004, Time Warner sold off its disc manufacturing and distribution facilities to another Canadian company – Cinram, of Markham, Ontario, a world leader in the disc duplication industry, and now the leading disc manufacturer in North America. In a further attempt to save itself, Warner Brothers Records had attempted a union with the British-based EMI, but this had been blocked by European regulators. Pending the final outcome of the BMG-Sony agreement, there will certainly be heightened pressure towards a union between EMI (home to the Beatles' catalogue, among many other assets) and the entity Bronfman has created with his purchase of Time Warner's musical assets. One result of all these moves may be a multinational recording industry dominated by four large players (Sony, BMG, Universal and Time-Warner-EMI). This consolidation continues in the music publishing sector (controlled largely by divisions of the major labels) with the sale of BMG Music Publishing to Universal-Vivendi in September 2006 for US\$2.09 billion.

These changes in ownership have coincided with a gradual shift in the role of the major labels in Canada. As Larry LeBlanc has noted, major labels operating in Canada have faced pressure in recent years to reduce their signing of Canadian artists so as to save money (LeBlanc 2003a, 3). Instead, operations of major labels concentrate increasingly on marketing international repertoire. The route to international success is less likely to run through the Canadian branch of a major label; rather, success on a major label in Canada for Canadians is more likely to come through having sufficient international, particularly U.S., success.

One result of this is that more and more Canadian artists touted for success – such as Nickelback or Avril Lavigne – have signed directly to labels located outside Canada. Artist development activity on the part of major companies has therefore moved outside the country, and with it has gone the investment of money and personnel that activity requires. This is unfortunate, but it also opens up opportunities for Canadian-owned independent music companies. For much of the past thirty years Canadian independents have had to compete with multinationals for Canadian artists; the competition was especially acute at various points in the 1990s. As major labels in Canada sign fewer artists, Canadian independent labels have come to play a greater role in the

Figure 8.1
Global Market Shares of
Record Companies after
Sony-BMG Merger



development of Canadian artists, building their success within Canada and marketing them outside the country as well (Flohil 2004b). In 2004, when roughly a quarter of albums on Nielsen Soundscan's sales charts for Canada were by Canadian artists – an extraordinarily high percentage in historical terms – there were certainly grounds for feeling optimistic about the openings available to Canadian artists. By early 2006, the resurgence of British rock, popularity of U.S.-based soundtrack albums, and unstoppable success of American hip-hop had led to much lower percentages of Canadian acts on our domestic sales charts.

The novel structure and recent successes of Toronto-based company Maple-Music provides an excellent example of an independent company adapting to recent changes in industry structure and working with major labels to their mutual benefit. It also stands in contrast to the total service model of the ambitiously conceived Song Corporation. MapleMusic has attracted considerable attention over its relatively brief life, with significant success both within and beyond Canada's borders (Flohil 2004a). Maple-Music had begun as an electronic commerce website, offering compact discs and a variety of music-related products. Following investment by multinational

Universal Music, it launched the label MapleMusic Recordings, which has found success with albums by such artists as the Skydiggers, Sam Roberts, and the Dears. In many respects, MapleMusic is like many of the great Canadian independent labels of the 1970s or 1980s (such as Aquarius or Attic), devoted to finding talent and leaving manufacturing and other functions to a multinational major (in this case, part-owner Universal, which increasingly uses MapleMusic as its means of remaining involved in the national music scene). At the same time, however, MapleMusic serves as a clearing house for independent Canadian musicians, giving them a single Internet portal through which to promote and sell their music without “signing” to a music label in the traditional sense.

Vancouver-based Nettwerk Records has a much longer history, but its recent transformations have been widely noted as evidence of a label’s capacity to adapt to an industry undergoing major restructuring. Nettwerk is probably best known as the management and label for Sarah McLachlan. The company began in the manner of many independent labels, serving a particular musical genre within a distinct geographical region (it grew out of the post-punk synthesizer music scene in Vancouver). Much of its recent success, in fact, has come in the field of artist management, often involving artists who are not signed to the label itself. Nettwerk manages Avril Lavigne, the Barenaked Ladies, and Chantal Kreviazuk, as well as some of the best-known acts in the United Kingdom (such as Dido and Coldplay). Nettwerk’s demonstrated skills in the management area have put them at the forefront of artist management worldwide and their success in marketing and breaking new artists has brought them into a joint venture with EMI’s American operations as Nettwerk America. This is an example of a Canadian company operating at a high level internationally, building on its successes in Canada to expand its scope of operations.

A very different model of international success is offered by the Montreal-based Madacy Entertainment group, by some accounts the largest Canadian-based distributor of recorded music. Madacy, with branches servicing markets for Latin music, karaoke CD’s, children’s recordings, and a host of other products, functions principally as a producer of budget-line CDs and DVD’s. Its ongoing relationships with the Wal-Mart and Best Buy retail chains drive Madacy’s production of low-end CD packages and public-domain films on DVD – packages which include the Instant Mp3 Library series of discs, each of which offers some 200 MP3’s of classic, ballroom, and other musical styles for those uncertain how to download music over the Internet. In a variety of ways, Madacy is the exemplary contemporary music company, purchasing and repackaging recordings that have fallen into the public domain and

deriving revenues from the exploitation of small niches which, at a global level, form markets of significant scale.

Digital Distribution: Signs of Hope for a Legitimate Online Market

In Canada, as elsewhere, perhaps the biggest change in the music industry has been the adjustment to digital technologies, a process which has been far from easy. After years of ludicrous false starts (such as those services offering downloaded albums at the same price as those available in stores), events in 2003–2004 brought signs that some sort of order might slowly emerge in the online distribution of music to consumers. The success of Apple's iTunes website has been simultaneously a unique commercial achievement and a major spark for similar initiatives by other firms. Apple, working with the cooperation of all five major labels, demonstrated that it was possible to sell music online in significant amounts. In the United States alone, Apple's iTunes sold 30 million music tracks in its first year, principally to Mac computer users. Its expansion into the market of Windows computer users, who have had access to compatible iPod playback devices for several years now, and its introduction to Europe and Canada late in 2004, has certainly magnified this success. In early 2006, iTunes sold its billionth download.

Apple's success demonstrates that one can sell MP3 files online in large numbers, yet the total sales for legal downloads are still only a small fraction of overall revenues for the industry. In the six-month period ending June 30, 2005, the total value of CD albums and singles shipped by manufacturers in the United States reached \$4,493.6 million, while total shipments of digital albums and singles was some \$198 million, or roughly 4 per cent of the former total (RIAA 2005). The enormous growth in legitimate downloads over 2004, "more than ten-fold to over \$200 million in the US, UK and Germany combined" (IFPI 2005, 3), still leaves revenues for downloaded music as a small percentage of the overall market. Moreover, despite the supposed decline in illegal downloading activity, some estimates suggest that as many as 2.6 billion tracks are downloaded illegally for free every month (Holloway 2003). Given the level of this activity, French economist Jacques Attali may appear to be prophetic when he describes recordings as stockpiled time in an economy of repetition that may be doomed to expire from "an excess of life, from excessive, uncontrolled, carcinogenic replication" (1985, 130). His image of a post-commodity future for music is certainly suggestive. For the moment, however, as the industry continues to wage legal battles against companies such as Kazaa on three continents, with slow but steady progress, music remains well within the commodity framework in a variety of ways.² Not only are CDs

still sold in considerable quantities but music is also economically significant as a driver of sales of goods (such as iPods) and services (principally Internet service providers), whether individual copies are authorized or not.

What has changed are the kinds of businesses involved in selling music to consumers. A distribution network dominated by the major record labels (and involving a complicated system of wholesalers, rack jobbers, and music retailers) is giving way to a supply chain that involves new media and technology companies from outside the industry. In October 2003, following lengthy negotiations with Canadian music publishers and the recording industry, Canada's first industry-approved downloading site, PureTracks, launched its operations. PureTracks was conceived by the Toronto-based company Moon-taxi Media (*Globe and Mail* 2004a). It quickly moved to develop formal links with Bell Sympatico and Telus, two of Canada's largest Internet service providers. Downloading services in the United States, such as Apple's iTunes or Real Networks' RealRhapsody, have taken shape as adjunct operations of hardware or software companies, for whom music downloads are not the original or primary source of revenues. In Europe, a hazy patchwork of download providers, which ranges from Coca Cola's "mycokemusic" to Dutch music retailer "Free Record Shop," has rendered the situation somewhat more anarchic. It remains to be seen whether downloading services in Canada will be dominated by Internet service providers, as recent developments suggest. PureTracks – which sold over one million downloaded music tracks in its first five months of operation – faces competition from the French-language entertainment superstore chain Archambault, which launched its own site in January 2004. The Archambault chain is owned by Quebecor, whose other subsidiary Videotron is a major Internet service provider within Quebec. As yet, Quebecor has made only tentative moves towards using its status as ISP to push its music downloading service (in the way that PureTracks partners Telus or Sympatico have). The entry of other services such as Apple's iTunes and the revamped Napster promise to make this a volatile and competitive sector for some time to come.

This has been exacerbated by the entry of mobile phone providers into offering music downloads for customers, an expansion from their already lucrative market in ringtones. As handsets capable of playing music files came on the market over 2001–2002, mobile phone service providers began to offer a selection of downloadable ringtones. At a cost of between \$1 and \$3.50 in Canada, these have proved very productive for phone companies and for rightsholders (primarily record companies). In 2003 this was already a US\$3 billion industry worldwide (Openwave 2004). Its significance as a market was such that, in November 2004, *Billboard* magazine initiated a chart of the Top

Table 8.1 Some of Canada's online music services

<i>Name of Service</i>	<i>Ownership</i>	<i>Date of Launch</i>	<i>Initial Selection of Songs</i>	<i>Minimum Price</i>
PureTracks	Moontaxi Media Inc.	October, 2003	700,000	79¢/track and up; \$7.99/album and up
archambaultzik.ca	Archambault Group (Quebecor Media Inc.)	January, 2004	300,000	99¢/track and up
Napster	Roxio Inc.	May, 2004	500,000	\$9.95/month (subscription); \$1.19/track; \$9.25/album
iTunes	Apple Computers Inc.	December, 2004	700,000	99¢/track

Sources: Apple (2004); Napster (2004); Quebecor (2004); Telus (2006).

20 ringtone downloads. The range of available songs for download becomes a selling point (albeit a minor one) for these providers, which builds another opportunity for alliances between telecommunications and music companies or their representatives. Again, music becomes an auxiliary feature of electronic devices and services, a way of adding value.

Digital Globalization

The slow expansion of commercial downloading offers sharp lessons in the barriers that constrain globalization, even in an age of digital information and international data networks. Legitimate downloading services in Canada, over the Internet or mobile phone networks, must grapple with the intricacies of GST payments, royalties to artists and music publishers, and differences in territorial rights to the exploitation of artists and recordings. Services that aspire to be genuinely international will have to contend with all these factors, and then with differences in currencies and credit card payment systems. All of these factors have made moves towards commercial downloading very distinct, from one country to another.

Broader questions about the future structure of the music industry persist, as well. When companies like Apple Computers, Wal-Mart, Hewlett-Packard, Videotron, and Amazon all run their own download sites, they have assumed

the role of distributor, which was once the province of the recording company. Having withdrawn from so many other stages in the recording process – leaving the signing of artists to boutique subsidiaries, and the actual recording process to artists themselves and their producers – major music companies may find themselves left with the one function most threatened by new technologies – that of distribution. As the success of Amazon and similar ventures has shown, however, entertainment products may be distributed by any company able to build warehouses and a website. Over time, it seems, the value of large music companies will reside less in what they are able to do (which is increasingly uncertain) than in what they own. What they own is commonly referred to as “intellectual property,” the rights to millions and millions of musical compositions and performances.

Major record companies may be frightened by the challenge of illegal downloading, but they are more profoundly alarmed by provisions in copyright legislation that would allow their ownership of music to expire. As commercially active recordings (such as those of Elvis Presley) celebrate their fiftieth year since release, they enter the public domain throughout European markets, as well as in Canada. As a result, they may be released by anyone with the means to manufacture them and be sold at prices driven down by competition and the absence of royalties. While their importation into countries operating under different copyright regimes – such as the United States, which protects recordings for much longer periods – may be illegal, an international grey market in low-priced reissues of public-domain recordings has already developed. (On the Internet, Canadians may already buy European compilations of 1950s jazz or rhythm and blues music at prices far below those charged for similar collections in the United States.) Moves to harmonize copyright regimes across the world are clearly driven by the music industry’s desire to standardize its operations. They are sparked, as well, by companies’ fears that the collapse of their assets’ value in any single territory will start a chain-reaction, as consumers seek out, on a global basis, the cheapest versions of any given recording.

Despite attempts to create a global copyright regime which is consistent across borders, through international treaties and organizations such as the World Intellectual Property Organization (WIPO), the administration of copyright is still a nationally administered affair. It is enforced by the courts of national or sub-national territories. The collectives that collect and administer funds are themselves the product of each nation’s history and their relationship to governments varies widely from one country to another. (In some countries, such as the United States, the groups that collect royalties are run as private companies. In many European countries, they are public services.)

For the time being, the global free flow of information is a reality only within the worlds of unauthorized downloading and uploading.

Yet harmonization of copyright remains a key issue for governments concerned with developing an information economy and international trade. It appears that the Canadian government's cultural policy is becoming increasingly trade-oriented. This does not mean that trade was not previously an issue in the cultural field. However, whereas cultural policy was, in the past, designed principally to ameliorate the effects of international trade on Canadian culture, policies are more and more oriented towards allowing Canadian producers to take advantage of international trade in cultural products. Relatively recent developments include the creation of an initiative jointly administered by External Trade and Canadian Heritage, the three-year \$23 million Trade Routes program, announced late in 2001 (Canada 2003). The aim of this program is to provide assistance for Canadian cultural producers seeking to exploit external markets. It does so by providing direct funding to companies, collecting and distributing information on international markets, and providing advice from expert consultants. While a concern with trade has long marked cultural policy in Canada, the creation of a distinct new program for culture, which is located, at least in part, within the bureaucracy overseeing External Trade, is a significant development.

Canadian music industry policy has been affected in perceptible ways by these developments. In fact, the recording industry is seen as somewhat exemplary because of the considerable and sustained international success of Canadian artists, from Rush to Avril Lavigne. Despite such successes, Canada's balance of trade in terms of music is negative – \$507.1 million in exports, as opposed to \$1279.8 million in imports (Towse 2002, 14). However, these figures represent a situation that is far more equitable than is typical for Canadian products, and better than the traditionally anemic sales of Canadian music product in Canada (usually about 15 per cent, at best) would suggest. This balance of trade, it seems, might be a better indicator of Canada's economic strength in this sector. Keith Acheson further suggests, were Canadian music to achieve a 5 per cent share of the English-speaking market for music in other countries, this “would generate as much or more of an inflow as the outflow from importing 95% of the same type of music in the relatively small Canadian market” (*ibid.*). Small market shares for Canadian music in several countries with large populations might produce a high level of prosperity for our domestic music industries.³ Analyses of this kind represent a remarkable shift in the ways in which Canadian cultural policy is conceived. We seem to be moving from a model that sought to protect Canadian culture at home to one more oriented towards promoting and exporting it on the global stage.

Other policy concerns, such as funding programs and Canadian content broadcasting quotas, continue to be important issues for the independent sector of the Canadian recording industry. Generally, the past five years have seen funding for the Sound Recording Sector in Canada increase substantially. With the creation of its *Tomorrow Starts Today* policy in 2001, which integrated most of the Department of Canadian Heritage's existing cultural industries funding, and the introduction of a new policy for the sound recording industry, *From Creators to Audiences*, in the same year, the federal government both enhanced and integrated its programs for the sector. All funding was subsumed under a new program, the Canadian Music Fund. A number of the fund's components are a reconfigured version of the Sound Recording Development Program (in place since 1986) and continue to be administered by the private foundations FACTOR and MusicAction.

The most notable new component of the CMF was the Music Entrepreneur Fund (MEF), initially with a budget of \$23 million over three years. It was initially administered by Telefilm Canada (the federal government's agency for funding film and television programming) from 2002 to March 31, 2005, when Canadian Heritage assumed control of the fund directly. With a budget of \$8.5 million per year, the Canadian Entrepreneur Component receives more contributions from the federal government than does FACTOR (at approximately \$7 million per year). More importantly, companies that access this fund cannot access FACTOR funds, essentially setting up an entirely different stream of funding and eligibility criteria (for instance, it is not project-based) for Canada's more-established independent labels, and one more directly under government oversight.

While this might represent a weakening of FACTOR's and MusicAction's influence over the independent recording sector, and particularly over its more established labels, it does mean that established and fledgling labels are no longer competing for the same funds. The fact that there is a sufficient number of independent companies sufficiently prosperous and viable to meet the MEC's requirements of five years of continuous operation and unit sales of over 200,000 in the previous year may be taken as an indication of the Canadian industry's growing stability and maturation.

Arguably, however, the issue of greatest importance to Canada's music industry (and the issue on which the industry has been most united and has carried on the greatest amount of sustained lobbying) has been copyright. The Canadian government itself has clearly come to see copyright as the key issue for the music industry in this country. In part, this is due to music industry pressures, but it is also the case that copyright fits particularly well with the Canadian government's increasing orientation towards external trade as the principal engine of the country's economic prosperity.

The last major round of copyright revision occurred in 1997 and brought the music industry two long-sought objectives. One of these was the levy on those “media” (blank cassettes, computer discs, etc.) that might be used to make copies of copyrighted materials. The other – little known by the public, but of crucial significance for musicians and the music industries – was the adoption of a so-called performance right in sound recordings, or what is known as “neighbouring rights.” Previously, Canadian broadcasters using music within their programming paid monies only to those who had composed the music (and to the publishing companies that administered their compositions). Under new “neighbouring rights” legislation, broadcasters will pay a portion of their revenues to recording artists (those who perform the music) and to the record companies who own those performances. The implications of this for musicians and record companies are enormous. Both stand to make significant amounts of money from the use of their music in other media (and not merely from the sale of compact disc recordings). In a sense, the legislation installing “neighbouring rights” updated the Copyright Act to allow it to deal with the technologies of broadcasting and magnetic tape. However, it did not deal in any substantial way with issues arising from the rapid development of the Internet. These issues are dealt with at length in the contributions by Sheryl Hamilton and Graham Longford in this volume.

Again, this is perhaps why copyright has emerged as the central policy issue for the sound recording industry in Canada. Both the government and industry have moved from a concern with cultural protection to an emphasis on cultural trade. The shift is evident in the issue of digital, satellite-based radio and its introduction into Canada. In July 2005, the CRTC approved all three applications to provide satellite radio service in Canada, which provides listeners with a wide range of specialty radio channels, available across the country, free of advertising but requiring a monthly subscription fee of about ten dollars and the purchase of a special receiver. The applications in the hearings held the previous autumn had come from two firms in partnership with the major American satellite radio services, Sirius Canada Inc. (for Sirius Satellite Radio Inc.) and Canadian Satellite Radio Inc. (for XM Satellite Radio Inc.), as well as a stand-alone Canadian bid from CHUM/Astral Media. Sirius Satellite Radio’s Canadian partners are Standard Broadcasting Ltd., one of Canada’s major radio ownership groups, as well as the state-owned Canadian Broadcasting Corporation. XM Satellite Radio is partnered with Toronto businessman John Bitove Jr.

Not surprisingly, the CRTC’s initial decision was appealed to Cabinet by a number of parties, including the Friends of Canadian Broadcasting and a number of music industry associations, as well as CHUM/Astral, who claimed that, given their own substantially higher commitment to Canadian content

(and, it must be said, far more modest choice of programming and more limited area of coverage), the licensing of Sirius and CSR rendered their own service unworkable. Cabinet agreed to hear the appeal, but in September 2005 they ultimately upheld the original decision, despite some difficulties in reaching consensus.

Both CSR and Sirius launched their services in early December 2005, and although subscription numbers are so far fairly low (CSR recently announced that they had only 44,000 subscribers; Robertson 2006) satellite radio represents a potential shakeup in the radio broadcasting industry in Canada, offering listeners a tremendously enhanced range of choice in terms of radio listening. While many of the services are sports or information oriented, the programming remains predominantly music, much of it in channels even more tightly formatted than conventional commercial radio.

In terms of music industry policy, satellite radio represents a more immediate shift. The CRTC approved the services with a much lower overall level of Canadian (and French) content than that required of conventional radio broadcasters, and although applicants raised their commitments while awaiting the results of the appeal to Cabinet, these levels remain well below those for conventional radio. The new services offer eight Canadian channels alongside seventy-two American channels. These Canadian music channels must play at least 85 per cent Canadian content. Two interesting requirements are that 25 per cent of programming must be “new” Canadian (that is, produced by artists within the last six months) and that a further 25 per cent must be the work of artists who have not had any hits.

The requirements for the Canadian stations go well beyond what is required of their conventional broadcast counterparts; however, the overall level of Canadian content in the system is much lower, perhaps 10 per cent of the overall music programming. While there is no sign that the CRTC intends to lower Canadian content levels for conventional radio broadcasters, it is significant in the most important recent development in radio broadcasting technology that the requirement for Canadian content, which has often been characterized as the cornerstone of Canadian music industry policy, has been drastically curtailed, with the approval, not only of the CRTC but of the federal cabinet as well. In this case, as in other recent policy shifts, the Canadian government seems willing to relax protectionist measures (Cancon requirements) in exchange for commitments by companies to invest in the production and promotion of Canadian music, here and abroad.

It is highly debatable whether most internationally successful Canadian musical acts convey any meaningful Canadian cultural identity to those outside Canada; and this does not seem to be the goal – certainly not for the

industry, which is by and large indifferent to such concerns. We would argue that this shift towards trade is not simply a matter of directing our national successes outwards to the rest of the world. By positing cultural goods as, fundamentally, objects of exchange, we render them economic commodities like any other. Scholars and critics have long grappled with the question of how Canadian music expresses Canadian values and sentiments. Their failure to answer that question in succinct and consensual ways does not mean that music does not fulfill that function, or that it is merely a commodity. Music remains, particularly for young people, an important tool by which identities are given shape and meaning, or through which people develop a relationship to the times and places in which they live. Policies that loosen or sever the links between music and the contexts in which it is made may weaken music's longstanding role in the shaping of identity.

Idols and Academies at Home and around the World

The recent and spectacular success of televised talent competitions – the *Idol* phenomena – in various countries is full of multiple lessons concerning the status of popular music in today's global culture. While the concept on which it is based is imported, *Canadian Idol* forcefully showed us that the success of local music is tightly bound to the media infrastructure through which it is made popular – and this infrastructure has been carefully built and controlled by Canadian companies and governments. In 2000, the *Pop Idols* television program (based on a concept developed by Bertelsmann Media's Fremantle Entertainment) made its debut in the United Kingdom. Since then, the format has been exported successfully to a number of markets, including the United States, Canada, and several European countries. *Canadian Idol*, like its counterparts elsewhere, demonstrated convincingly that there was still money to be made from music in an age of file sharing. In a music market that regularly mourns the fragmentation of tastes, the *Pop Idols* programs attracted audiences that crossed demographic groups and sustained public attention over the several weeks of each competition's duration.

The success of these programs exemplifies the complex forms of globalization that characterize the music industries today. On the one hand, as a genuinely multinational phenomena, the various national *Idols* competitions testify to the triumph of global strategies for revenue maximization within the music industries. The success of these competitions in each country has enhanced their appeal in other countries, as public familiarity with the overall concept has spread across national boundaries. *Canadian Idol*, quite clearly, benefited from the enormous audience within Canada for its U.S.

predecessor, which helped to make Canadians familiar with the format. On the other hand, few musical phenomena in recent years have so solidified the boundaries around and between national (and even regional cultures). As television systems continue to be shaped by distinctly national regulatory and industrial structures, each nation's *Idol* programs has fit into (and drawn upon) national star systems and media cross-over patterns. Contestants in these programs are covered within national and local media, strengthening audience members' loyalties to particular contestants and deepening their links to region and community. The winners move from local news shows to national talk shows and, in so doing, draw lines of continuity between the various components of each country's media system.

Both *American Idol* and *Canadian Idol* were among the highest-rated television shows of recent years in their respective markets. The first *Canadian Idol* winner, Ryan Malcolm, debuted at no. 4 on Canada's Nielsen SoundScan charts with his album *Home*, which then moved downwards over its eleven-week stay on the charts. In January of 2004, *Home* was certified "platinum" by the Canadian Recording Industry Association, indicating that Malcolm had sold at least 100,000 copies. *Home* was released on Vik Records, the Canadian imprint of the Bertelsmann Music Group. Vik is the home, as well, of musician-songwriters like Bobby Cameron, who contributed songs both to Ryan Malcolm's album and to the debut by the 2004 *Canadian Idol*, Kalan Porter. Porter's debut single "Awake in a Dream" sat atop the Canadian singles charts for at least four weeks in the Fall of 2004, as the artist went about the mall tours, CBC interviews, and other milestones that are now part of the promotion of *Canadian Idol* competition winners. His debut album *219 Days* has been the most successful of the *Canadian Idol* albums going double platinum early in 2005. Collectively, *Canadian Idol* winners and runners-up have sold more than half a million records in Canada. While *Canadian Idol* has generated fewer CD sales than the Quebec-based *Star Académie*, it stands, nevertheless, as a useful example of a media conglomerate successfully exploiting its horizontal integration and multinational reach. Bertelsmann makes significant revenues licensing the show's concept, then expects to build upon these revenues with profits from recordings featuring the contest winners.

Even more than the *Pop Idol* programs, Quebec's *Star Académie* illustrates the considerable advantages that vertical integration and cross-promotion can bring. *Star Académie* is a cross between *Pop Idols* and *Big Brother*, a talent competition during which the competitors live together as they are groomed for stardom. The concept for the program was developed by Netherlands production company Endemol and licensed by Productions J, a company owned by Quebec media personality Julie Snyder, for production in Quebec's francophone market.

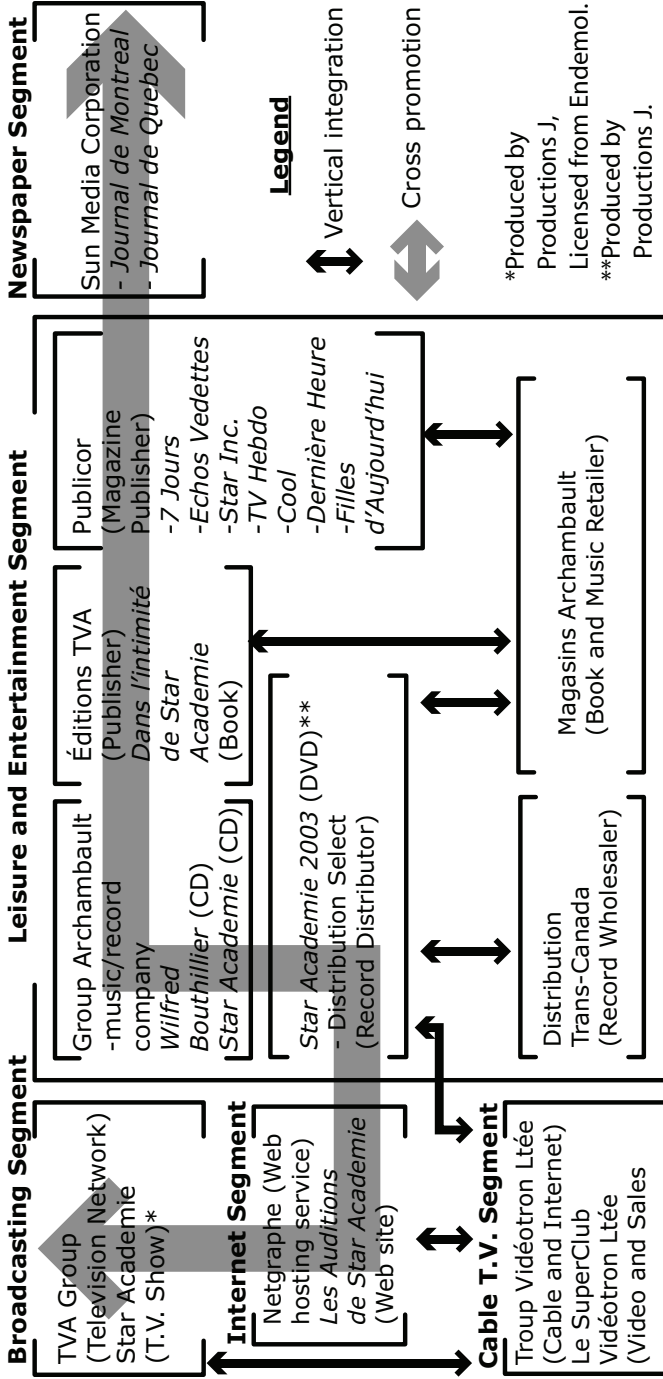


Figure 8.2 Vertical Integration and Cross-Promotion of Star Académie at Quebecor.

In its first season, *Star Académie* became one of the most successful programs in the history of Quebec television, with 3.2 million viewers (in a market of only about 7 million) tuning in to watch New Brunswick lobster fisherman Wilfred Le Bouthillier win the competition (Olive 2003). The show was broadcast on TVA, the most popular television network in Quebec. TVA is controlled by Quebecor Inc. (whose CEO Pierre Karl Péladeau is, coincidentally, Snyder's romantic partner). TVA is only one of the media interests owned by Quebecor's media division. In addition, the company controls Groupe Vidéotron Ltée, the dominant cable television and Internet provider in Quebec, as well as the owner of the province's largest chain of video rental stores (Le SuperClub Vidéotron Ltée.). As well, Netgraphe, a web-hosting service owned by Quebecor, developed and hosted the official website for the show – accessed largely via Vidéotron hookups.

Nor is that the extent of Quebecor's involvement in the show. Quebecor also owns Groupe Archambault, which includes a record label (Musicor), Canada's largest independent record distributor (Distribution Select), a record wholesaler (Distribution Trans-Canada), and the largest retailer of books and music in Quebec, Magasins Archambault. The first season of *Star Académie* led to two compact discs released on Musicor (Le Bouthillier's debut and a compilation from the entire first season) with sales of over 700,000 discs (CRIA 2004c), and while sales of discs from subsequent seasons have not reached these heights, these recordings remain among the best-selling albums in Canada. Additionally, Select Distribution distributed a DVD compilation of highlights from the first season, which sold over 100,000 copies (ibid.). Éditions TVA, part of Quebecor's books division, also published *Dans l'intimité de Star Académie* by Michele Lemieux, a book about the show's first season. The vertical integration within these various divisions allows Quebecor to collect revenues at most, if not all the points in the supply chain between producer and consumer.

The cross-ownership of various media and cultural industries is one way in which Quebecor maximizes its profits from the show. Clearly the large sales were a result of the television show's enormous popularity, but they also obviously greatly enhanced the revenues generated by the show. Finally, Quebecor's ownership of Quebec's two most popular daily tabloid newspapers *Journal de Montréal* and *Journal de Québec*, and the considerable number of entertainment-oriented magazines such as *Echos Vedettes* and *Star Inc.*, issued through its Publicor magazines division, allow it to both promote the show in print and to sell copies of these publications to fans eager for more coverage of the show, its stars, and competitors. Overall, the show had considerable impact on Quebecor's revenues, as noted in the company's report on

its earnings for the third quarter of 2003 (Quebecor). As a number of journalists have noted, this is a rare case of a strategy of media convergence working seamlessly (Boshra 2003; Olive 2003).

Star Académie and the *Idol* programs represent another challenge to our notion of the music industry. Although music performance is at the heart of the competition, the focus of the broadcasts is on the drama of the selection process and the public's own participation in it. The competition is, in a sense, a simulation of the longstanding process whereby record companies select a number of hopefuls who then vie for public approval, with only a very limited number winning out. It is common practice in the music industry to extract every possible source of revenue from a recording following its release: through music publishing, performing rights, licensing, and so on. Now, we would argue, it has become possible to start profiting from a recording prior to its release. What were previously backstage practices of talent acquisition and development are now turned into large-scale spectacles and profitable forms of programming through television. Popular success is achieved prior to recordings, which now become almost secondary, responsible for only one portion of overall revenues. Viewed cynically, this might be seen as a system that allows entertainment corporations to profit from the failure of artists as well as from their successes.

With even more cynicism, we might see the music industries as relying more and more on others for their core functions. When television audiences and celebrity judges are called upon to make talent acquisition decisions, music companies are abdicating one of their traditional roles. When fan website and file-sharing Internet sites carry out much of the promotion and distribution of music, entertainment companies need only find ways of deriving revenue from elaborate cultural labour that is now being done for them by others.

Conclusion

"The Government will continue its leadership in the creation of a new international instrument on cultural diversity, participate actively in La Francophonie and disseminate our cultural products and works around the world." – February 2, 2004, Speech from the Throne.

If the borders between nations have become more porous, those between industries have lost their solidity as well. More and more activities that were once the preserve of the music industry, such as distribution and artist development, are being done by other industries, and on different terms. Apple

Computers is in the music industry; so, in its own way, is the CTV Network, through its production of *Canadian Idol*. Long ago, when musical programs for radio were produced by toothpaste companies, the music industry was no more distinct than it is now. Over the past forty years, nevertheless, we have expected the music industry to be unique and imposing, just as music itself had come to be an enormously powerful cultural force. If the music industry is now losing its definition, this may be because music itself has moved from the centre of cultural life, at least for the younger listeners who had once kept it there. It is unfortunate that this move coincides with our government's own transformation of culture, from collective resource into exportable commodity.

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Notes

- 1 Applaud, a new trade-oriented magazine, appeared in late 2002. Published by Al Mair, former owner of Attic Records, the new publication is issued six times a year. Its focus is on promoting and profiling the international success of Canadian musical acts.
- 2 On July 27, 2006, Kazaa's parent, Sharman Networks, made an out of court settlement with the four major record companies in a suit carried on in both American and Australian courts. Sharman agreed to pay US\$100 million in penalties to the record companies, to build copyright protection into its software.
- 3 One should be cautious about these claims. In sound recording, the copyright is commonly held not by the artist but by the recording company. With an increasing number of Canada's most successful recording artists signed to U.S. labels, more of the revenue they generate (within Canada, as well) will flow to these labels. While this does not invalidate their reasoning, it should temper predictions about how achievable a trade surplus is for the Canadian sound recording industry.