

Digital Disruption: Modernizing the Income of Canadian Music Creators

Executive Summary

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Executive Summary

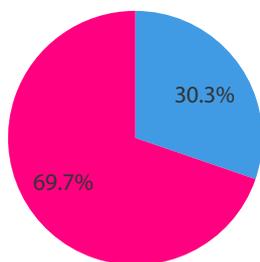
Digital platforms are increasingly shaping how creative content is created, distributed, and consumed. This resulting shift away from the traditional media sources for content consumption is, in turn, impacting the way in which many in the creative industries earn a living. In particular, the music sector is experiencing a substantial impact.

In Canada (and globally) digital sales have surpassed physical sales of music. Within the digital distribution, streaming has replaced digital downloads as the primary source of music distribution. Similarly, digital streaming of audio-visual content is moving fast to grab a large market share of traditional TV broadcasting. The shift towards digital platforms in music and television have fundamentally changed how – and how much – revenue flows to music creators for the use of their work.

Two specific groups of music creators that are being affected by the rise of digital streaming are (i) songwriters and (ii) screen composers. Both groups rely heavily on royalty payments from the licensing and use of their copyrighted works, as this revenue constitutes an important part of their income. Collection societies such as SOCAN (which collects performance rights royalties in Canada for Canadian and foreign rights holders) are experiencing increases in the total amount of royalties they are collecting from internet-based services. However, different practices have evolved for this digital streaming segment vs. the traditional broadcasting sources, and they are limiting the share of these internet-based royalties making their way to Canadian creators.

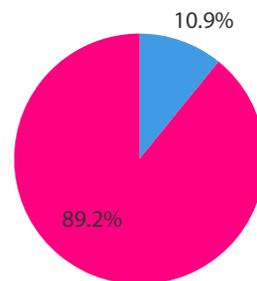
SOCAN – whose members include songwriters, composers, and music publishers – reports that the songwriter and composer royalties (SOCAN refers to these non-publisher members collectively as “writers”) collected for music played on a traditional audio platform (i.e., radio) are higher than those collected from internet streaming services. As visualized in the charts below, for 2018, SOCAN reports that 30% of writers’ royalties collected from traditional audio platforms were paid to Canadian SOCAN writers, and the remaining 70% were paid to international writers. In contrast, in 2018 the percentage of royalties paid out to Canadian SOCAN writers for music played on an audio internet platform (i.e., music streaming services), was just 11% of the total writer royalties. This discrepancy illustrates that international content is being consumed much more on music streaming platforms by Canadians than Canadian content.

Total Writer Distributions From **Traditional Audio** Sources



■ Canadian Writers
■ International Writers

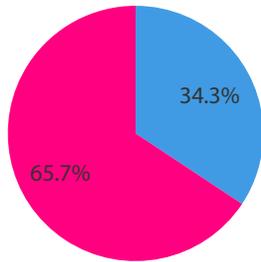
Total Writer Distributions From **Digital Audio** Sources



■ Canadian Writers
■ International Writers

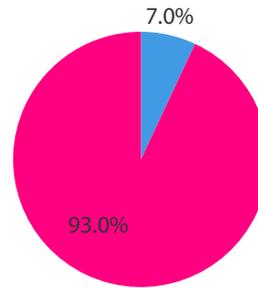
The same result in terms of royalty retention by Canadian songwriters and composers occurs in SOCAN payouts to their Canadian writers from audio-visual (AV) platforms (i.e., television streaming services). As seen in the charts below, in 2018 just 7% of all SOCAN's distributions collected from digital Audio-Visual (AV) platforms went to SOCAN's Canadian songwriters or composers, as compared to 34% of royalties distributed to Canadian SOCAN writers from a traditional AV media source (e.g., a broadcaster).

Total Writer Distributions From
Traditional AV Sources



■ Canadian Writers
■ International Writers

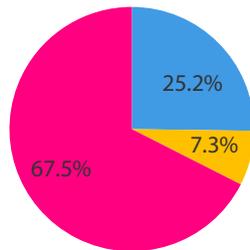
Total Writer Distributions From **Digital AV Sources**



■ Canadian Writers
■ International Writers

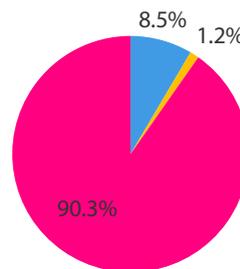
The amount of royalties retained by Canadian French-language songwriters and composers from digital-based sources is even less – as the charts below illustrate, just 1% of all writer royalties that SOCAN paid out for songs played on an online platform (either audio or AV) went to French-language songwriters/composers in 2018 (compared to 8.5% for English-language songwriters in Canada, and the 7% French-language writers retain from traditional media sources) – the remaining percentage went to songwriters/composers in the rest of the world.

Total Writer Distributions From
Traditional Media (Audio & AV)



■ English Writer (Canadian)
■ French Writer (Canadian)
■ International Writers

Total Writer Distributions From
Digital Media (Audio & AV)



■ English Writer (Canadian)
■ French Writer (Canadian)
■ International Writers

The reason is not because French-language speakers in Canada consume music on streaming services much less than English speakers – it is only slightly less than English speakers in Canada (31% to 33%).

Nor is there a substantial difference in consumption when it comes to AV streaming content either. 41% of Francophone Canadians report accessing AV content through a streaming service, as compared to 58% of Anglophone Canadians (2017). Thus, the gap in retention of royalties is significant, and indicates that French-language content is not being heavily consumed by Canadians, regardless of their primary language.

On both music and AV streaming platforms, Canadian music creators are facing real challenges in terms of their content being discovered and consumed. But royalty retention and discoverability impediments on these platforms, while significant, are not the only challenges.

For songwriters, their revenues are being impacted by:

- **Consumers who are increasingly paying for music via streaming subscriptions:** The shift in consumer purchases away from physical copies, along with a growing preference to consume music via monthly subscription or via “free” (i.e., ad-based) platforms, has increased songwriters’ reliance on revenues from royalties paid to them from these digital platforms.
- **New business models of music streaming platforms:** Increased consumption of music via platforms that are populated with user generated content, coupled with the low rates that these platforms pay by stream has reduced the total payouts to Canadian creators, and thus royalties returned to a songwriter. Music streaming platforms operate in a highly competitive market, and thus charge low subscription fees to gain market share. As well, in the global market of streaming services, Canadian content struggles for exposure on streaming playlists.

And for screen composers, the key factors impacting their revenues are:

- **Lower performance rights revenues from internet-based platforms:** Streaming platforms operate outside of the Canadian regulatory framework and, consequently, no Canadian content quotas, nor discoverability rules, apply to them. As a result, the AV productions for which Canadian screen composers make music are underrepresented on the streaming services and are not in any way protected as they are in the Canadian broadcasting system. Subsequently, the share of performance rights royalties which flow to Canadian screen composers from these AV streaming services are much lower than the share received under the traditional, regulated, broadcast model.
- **Disruption of back-end performance royalty model:** AV streaming platforms are increasingly exerting pressure on screen composers to forgo performance royalties altogether in exchange for a one-time, upfront payment (commonly referred to as a “buyout”) of performance rights. Where a screen composer accepts such a buyout, the potential for any downstream performance revenues disappear entirely. Such downstream revenues have historically been an important part of the screen composers’ income.

As streaming music and AV content consumption continues to rise, these challenges will only be exacerbated. There are potential avenues for action by the music sector and governments - including increased creator and digital rights literacy, harnessing technology, and regulatory changes and copyright updates to bring streaming models into alignment with the dominant broadcast models. All have the potential to help songwriters and screen composers benefit from the increasing consumption and proven revenue impacts of digital platforms.