CHINA'S MUSIC, TV, & FILM INDUSTRIES

THE CANADIAN MODEL AS A CASE STUDY

Abstract

Most countries contribute to global cultural diversity by supporting their local media industries using government interventions in the marketplace such as minimum requirements for local content as well as quotas and/or tariffs on foreign content. Canada has evolved a system that combines private sector content creation support with public support for maximum stimulus. This has helped Canada's music, broadcast, and new media industries produce content that competes well in its home and international markets. Canada shares a border and language with the United States, whose media/entertainment industries and content tend to dominate Canadian and foreign markets because of their much greater size, a local market that's ten times the size of Canada's, and established international sales channels. The Canadian system blends the US model of free enterprise with European models of governmental intervention and could be a good model for China, whose emerging media industries need to overcome historic non-monetized consumption of their content within China and relatively modest foreign sales. Dr. Hoffert is Chair of the Bell Fund, a private Canadian fund that has contributed more than $100 million to the creation of Canadian digital media linked to the broadcast industry. He will discuss successes and failures of the Canadian approach.

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CHINA’S CREATIVE INDUSTRIES

Chinese creative industries - artists, producers and distributors - are poised to make big commercial gains at home and internationally. It is likely that China’s government will take actions that could enable its cultural industries to flourish. But which paths will it choose?

Will China adopt the norms of leading first world content creators and become a strong member of their community? China has a wide range of approaches it can take ranging from the strong European governmental interventions to the US free enterprise approach that views governmental interventions as restraints of trade. This presentation will present the Canadian approach, a blend of the Euro and US approaches.

CURRENT STATE OF CHINA’S FILM INDUSTRY

Chinese are consuming huge amounts of music, films, television programs, and Internet media. China has skyrocketed to the second largest film market in the world, with production quantitatively on par with Hollywood. In 2005 Chinese box office revenues were $238 million. In 2008 they were $638 million. In 2012, box office receipts grew to $2.7 billion, the world’s second largest.

NEW $8 BILLION FILM STUDIO

Chinese billionaire Wang Jianlin, bought AMC, the world’s largest movie theatre chain last year. Now he’ll have movies to show there. Sep 24 2013 he announced that’s he’s building Oriental Movie Metropolis - the world's largest movie studio - for $8.2 billion that will include 20 film and TV sound stages near Qingdao, along with a theme park and an annual film festival.

CURRENT STATE OF CHINA’s TELEVISION INDUSTRY

China’s television industry is beginning to thrive. Market price for online licenses for Chinese television series increased by an astounding 20,000 percent in two years, from $1,500 per episode in 2009 for the most popular show of that year to more than $270,000 per episode for one of the most popular shows of 2011

CURRENT STATE OF CHINA's MUSIC INDUSTRY

The music industry is disproportionately small given China's size and the enormous popularity of music online. 77 percent of China's 564 million Internet users consume music online, making music China's third-most consumed network application after messaging and web search. Online streaming and downloads provide almost no revenue for music creators and producers and they receive almost revenue from CD sales that are more than 90% pirated.

The only noteworthy music income is from mobile phone music ringback tones, which generate $4US billion annually for China's mobile carriers. But the carriers pay only 1% of that amount to music creators and producers. A few music superstars can earn millions from alternative revenue streams such as concerts, corporate events, and sponsorships

EUROPE

The European countries have a long history of supporting their local cultures with subsidies and grants to creative industries and artists, preferential treatments for local content, strong copyright laws and enforcements, local content requirements for broadcasters and distributors, barriers to foreign ownership of media, and tariffs and quotas on foreign imports. Europe views US domination of world content markets as cultural imperialism that threatens their nations' cultures.

USA

The US does not recognize the creative industries as having cultural components that need support and protection. Rather, the US treats creative industries simply as entertainment. Preferential treatment in foreign countries for their creative industries is a trade irritant. The US does not need to protect its local culture because the US entertainment industries have a huge domestic market and dominate world markets, exporting US culture around the world.

CANADA

According to Statistics Canada, 1 million Canadians, about 5% of Canada's work force, are in its creative industries. Canada's cultural economic footprint is $85 billion, contributing 7.5% to Canada's GDP. That's more than most people expect from a country that's best known for its mining and energy sectors along with its hockey stars.

Canada's blend of using a combination of private and public sector stimuli using free market as well as regulatory approaches evolved from both European and American models and could provide a useful model for China and other Asian countries.

The US media industries and content tend to dominate Canadian markets because they are so much larger and powerful than Canada's. The US proximity – a shared 3,000 mile border over which US advertising and marketing spill – provides audiences who are primed to listen to and watch US content.

Canada began supporting its creators and cultural industries in 1970. The Canadian system blends the free enterprise model of its US neighbor with the Euro model of government interventions. Canada used to follow the Euro approach more closely but over the past 15 years has been slowly moving to a more free trade and unfettered entrepreneurial approach.

CANADA'S CONNECTIVITY

- 82% have a broadband Internet
- 56% have a smartphone
- 42% have a PVR
- 31% have a tablet
- 21% have a smart TV

CANADA'S DIGITAL MEDIA…

- 41 hours/month online – #2 worldwide
- 71% watch videos online
- 25 hours/month of online videos – #2 worldwide
- 37% of smartphone owners watch TV/video on their phone
- # 1 worldwide for Internet pages viewed and number of visits

CANADA'S **SOCIAL MEDIA**

- 63% connect to social media each month
- 28 hours of TV viewed per week
- 63% go online while watching TV
- 4 % tweet about a TV program
- 8% Facebook or tweet while watching TV
- # 1 users of Facebook per capita

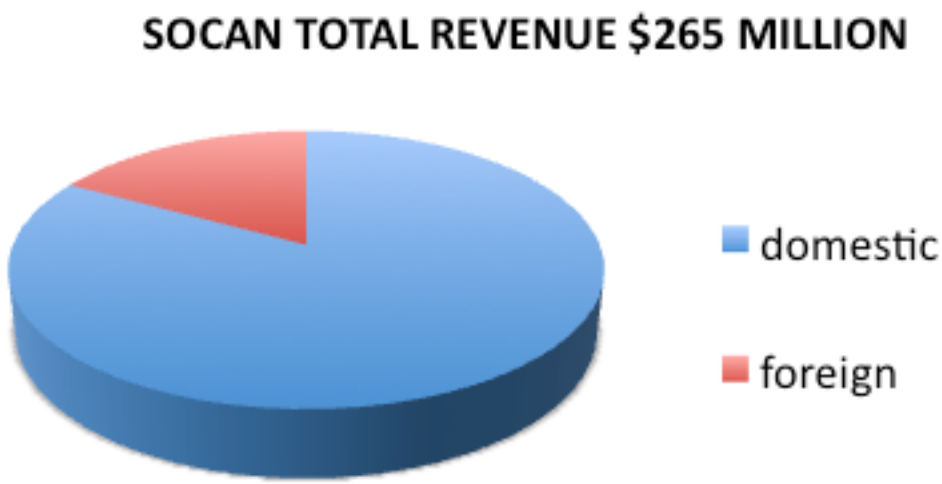
CANADA'S GAMING

- 58% of Canadians are gamers
- 90% of Canadian children and teens are gamers
- 61% or Canadian households own a game console
  impact on Canadian economy by the video game industry: $1.7 billion

CANADA'S DIGITAL MEDIA INDUSTRY

- $13 billion in Canada
- More than 900 TV producers
- More than 1,400 digital media producers
- 348 gaming companies operating in Canada
- More than 100,000 creative jobs
- Video game industry ranks 3rd worldwide (# of employees)

SOCAN – PRIVATE COMPANY
Private sector companies and non-profit foundations support content creators and cultural products. An example is SOCAN and its Foundation. SOCAN is a private company that collects royalties on behalf of its music composer and music publisher members. SOCAN relies on Canadian and international copyright laws and enforcements to collect music performance fees for the use of music in concerts, restaurants and bars, theatres, radio, television, and websites. In 2011, SOCAN's revenue was $265 million - $220 million domestic (83%) and $45 million foreign (17%).



SOCAN FOUNDATION – PRIVATE NON-PROFIT
SOCAN established the SOCAN Foundation to support events and projects that benefit songwriters, composers, lyricists, and music publishers. In 2011 SOCAN contributed $1.5 million to the SOCAN Foundation, which also has investment income from an endowment and contributions from private sector benefactors and government programs. The SOCAN Foundation provides grants to hundreds of events that use Canadian music content as well as travel grants and awards for Young Composers.

ARTS COUNCILS - GOVERNMENT

In the US the creation of artistic works is largely supported by private foundations and individual philanthropy. Government support is through the National Endowment for the Arts, whose 2011 budget was $154 million, less than $0.50 per capita. In Canada, government support for arts creation is much higher. The Canada Council for the Arts has a budget of $180 million and the provincial arts councils jointly contribute about the same for a total in excess of $300 million, about $10 per capita.

OCAF – PROMOTION AND MARKETING OF CULTURAL EVENTS

OCAF, the Ontario Cultural Attractions Fund, funds the marketing and promotion of cultural events. Unlike Arts Councils, whose criteria for support are artistic merit, the cultural attractions fund uses business criteria such as increased audiences due to increased and better marketing, the subsidy cost of each attendee, and the financial tourism benefits to the region where the event takes place.

For example, a museum or gallery might be enabled to mount an important international show that would attract many additional visitors if it could mount a large advertising campaign. OCAF provides the funds and the institution repays half of its loan to OCAF after the event, using revenue earned. The other half of funding is considered a grant.

OCAF was created in 1999 and has been very successful. More than 450 events have been funded, and the loan repayments have led to a healthy replenishment of the Fund for future projects. OCAF-funded events have attracted more than 35 million visitors with $32 million in investments a subsidy of less than $1 per attendee, and generated revenues of over $300 million, a 10:1 ratio of revenue to investment.

TELEFILM CANADA

The largest Canadian production fund for television and digital media is the government's Telefilm Canada. Telefilm manages the Canadian Media Fund (CMF) for television and digital media (web, mobile) and the Canadian Feature Film Fund (CFFF) for theatrical films and documentaries. The CMF is also supported by contributions from private sector broadcasters and by revenue from its investments in television projects.

12 TELEVISION CONTENT FUNDS

Private sector Canadian satellite TV and cable TV companies contribute 5% of their gross revenue to Canadian television content production funds. There are 12 such funds -11 private and 1 government. The government-run Canada Media Fund (CMF) is the largest, with an annual budget of $358 million, which triggered $1.3 billion in production activity in 2011. Producers frequently apply to and can be successful with more than one fund for a single production.

BELL FUND

I am Chair of the Bell Fund, the largest of the 11 private television and new media content funds. Established in 2000, the Bell Fund has provided more than $120 million in grants towards the development and production of digital media (web & mobile) that is tied to television programs.

Bell Fund is independent from the government and from its main financial contributor - Bell Canada. We have an independent board of directors that creates funding programs, hires independent evaluators to rate applications, and decides which productions will be funded. Bell Fund is an example of a Canadian private sector content stimulator that would not likely exist without government programs but whose operation is independent of the government.

CFFF - CANADIAN FEATURE FILM FUND

The CFFF provides investments and grants to Canadian feature films and documentaries. In addition, Canadian distributors invested $188 million in Canadian feature films supported by the Canada Feature Film Fund (CFFF) between from 2002 to 2011, primarily in the form of minimum guarantees. As in most other territories, film producers market their film using the window licensing approach. For a typical Canadian film, the license window sequence is: theatrical, home video/DVD, digital delivery and VOD, pay-television, network television and then cable television.

FILM INDUSTRY POLICY

Hollywood films have average budgets greater than $100 million and there have been 30 Hollywood movies made in the past few years with budgets over $250 million. Because of the much smaller home market for Canadian films and the lack of available funding comparable to Hollywood, the average budget of a Canadian feature film is les than 5 million. Every Canadian feature film ever made has had a budget that qualifies in Hollywood as “low budget”.

The strong Hollywood film industry lobby has prevented any Canadian government legislation for content minimums in cinemas, unlike music and television content, which have legislated minimum carriage. This difference in distribution regulations is frequently pointed to as a reason that there is no viable theatrical feature film production industry in Canada.

RADIO CONTENT MINIMUMS - CANCON

Before 1969, Canadians could not get Canadian music played on Canadian radio stations, because music playlists copied US music industry charts such as Billboard and Cashbox. Canadian artists needed to leave the country to find success in the US and Canadian record producers had no viable business models. Canadian record products had much lower budgets and sounded inferior to their American counterparts.

That year, I started a rock band and was determined to help improve the situation for Canadian recorded music. The government held hearings about the state of the Canadian music industry and I was invited along with several of my colleagues to testify at federal government hearings.

Those hearings of the CRTC (Canadian Radio-television and Telecommunications Commission) led to regulations in 1971 for minimum Canadian content (cancon) for broadcasters. The radio minimum was set at 25% in 1971 and gradually increased to 40% by 1999.

The stimulus to Canada's music industry was immediate and dramatically positive. Canadian record companies had previously licensed almost all their products from American and British companies but, after regulation began, they began signing Canadian artists to recording contracts because their records now had a good chance of being played and heard…and that meant being sold.

My band, Lighthouse, benefitted along with many other Canadian recording artists. Within a few years, one of our record albums achieved platinum sales within Canada– more than $1 million dollars. Our Canadian success spilled over into the US, Europe, and Japan. Many other Canadian artists and record companies became successful too. An entire infrastructure of Canadian recording studios, producers, marketers, promoters, publishers, record companies, distributors, and industry associations flourished and, over time, the economic and cultural results have been impressive.

Canadian recording artists are now among the biggest stars and earners - Celine Dion, Justin Bieber, Shania Twane, Avril Levigne, Neil Young, Carly Rae Jepson, Drake, Diana Krall, Holly Cole, Michael Bublé, Leonard Cohen, Bryan Adams, Alanis Morissette, Joni Mitchell, and many more. At one point in 2012, 4 out of the top 5 recordings on the US Billboard record charts were by Canadians.

Now that the Canadian record industry has been established globally there are arguments to remove the government minimum content requirements. Some feel that they have served their purpose and are no longer needed.

Canada has joined the 2013 Trans-Pacific Partnership, a multilateral Free Trade Agreement among 12 countries representing more than 1/3 of the world’s economy. The US, also a member, is putting pressure on Canada to eliminate Canadian content regulations as a requirement for joining the TPP agreement.

TELEVISION CONTENT MINIMUMS

In 1971, the CRTC also created regulations for Canadian television broadcasters. The current minimums are 60% Canadian content averaged over each year, and at least 50% in prime-time between 6:00 pm and midnight.

Canadian broadcasters can license popular foreign English and French language programs much more cheaply than they can license Canadian programs because, for foreign producers, Canada is a small population secondary market that can be licensed for modest fees, whereas Canadian producers must recoup the bulk of their production costs from their home Canadian market.

Canadian minimums have been crucial for providing the necessary incentive for broadcasters to license Canadian TV programs. Without these minimums, Canada's television channels would be filled with almost 100% foreign programs.

IMPACT OF CANCON REGULATIONS

By many measures, the minimum content regulations have been successful in building robust television and music recording industries that reflect the stories of Canadians, our culture, and compete well internationally.

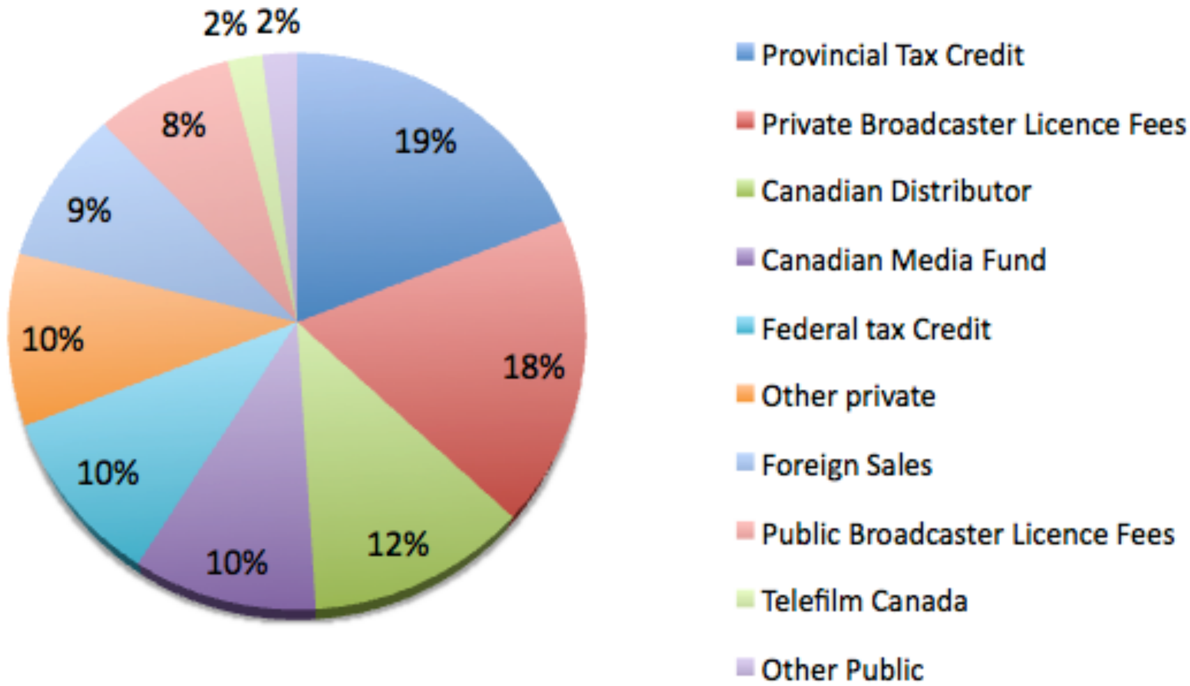
However, both radio and television minimum content requirements are becoming less effective day by day as listeners and viewers get more (most) of their music online from sources that are not subject to minimum content regulations. Increasingly, viewers are getting programming from licensed online services such as Netflix and unlicensed websites and P2P sites. Since the Internet is difficult to regulate, it would seem that the impact of minimum content regulations will continue to diminish.

TAX CREDITS

Canada provides tax credits to producers of films and television programs that meet minimum thresholds of contributions by Canadian creators, performers, and producers. The federal agency that certifies eligibility for these tax credits is CAVCO.

Individual provinces also provide provincial tax credits that require productions to have a minimum percentage of their production budgets spent in the province. Provincial tax credits can be triggered by productions that don’t meet federal CAVCO requirements so many US and other foreign productions are shot in Canadian provinces to access these tax credits.

FILM PRODUCTION FINANCING 2012



How Canadian Films are financed

Provincial Tax Credit	19%
Private Broadcaster License Fees	18%
Theatrical Distribution	12%
Canadian Media Fund	10%
Federal Tax Credit	10%
Private Financing	10%
Foreign Sales	9%
Public Broadcaster CBC/SRC	8%
Telefilm Canada	2%
Other government	2%

CENSORSHIP

Canada's music, broadcasters and film distributors have industrial policies that censor content that is deemed too offensive for a majority of viewers, generally because of a combination of violence and degrading sex. Such self-censorship is extremely rare and takes the form of asking the distributor to remove some footage. The television and film industries also provide guidance ratings for viewers if programs/films contain sex, violence, or language that might be offensive to some or inappropriate for children. This allows individuals to practice self-censorship if they wish. There is no government censorship or industrial political censorship.

COPYRIGHT AND PIRACY

Canada and other countries with vibrant creative industries have required copyright laws with strong enforcement so their creators and producers can have viable business models. As exhibition of films, television programs, and music continue to move to digital platforms, piracy becomes easier to do and more difficult to stop.

As China's creative industries have started to grow, so have the copyright and patent law suits n China. In 2011, more than 35,000 civil copyright cases were litigated in China, as compared with 2,225 in the U.S. The plaintiffs and defendants in the vast majority of these cases were both Chinese. In the near term, copyright appears to be the only mechanism to reward creators and entrepreneurs for their investments in innovation and content creation.

In the future there may be technological solutions that do not rely on copyright to ensure that creators, producers and distributors get paid. Some of these solutions exist today but there has been no appetite to exchange the copyright system (devil we know) for technology solutions (devil we don't know)

RECAP

Canada's blend of private sector (SOCAN Foundation, Bell Fund) and public sector (CMF, CFFF) stimuli using free market (OCAF) as well as regulatory (content minimums) approaches could be a good model for China. In addition, the countries that lead the world in domestic and export content sales adhere to copyright regimes and have strong enforcement.

China has the potential to be a global economic powerhouse for content creation and distribution because of its huge size and its rapidly growing number of consumers of films, television, music and other media. China has four times the population of the United States and a natural export market of forty million Mandarin speakers outside of China, more than the entire population of Canada. The next decade will determine whether or not China will lead this world in this important economic and cultural industry.