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# Compendium of Research Papers The International Forum on the Creative Economy

ECONOMIC PERFORMANCE AND TRENDS



Compendium of Research Papers: The International Forum on the Creative Economy  
by *The Conference Board of Canada*

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In Section II, Research Papers, the inclusion of an abstract was at the author's discretion; citation practices differ according to the preferred style and practice of each author; and the Conference Board has made every effort to improve the quality of the charts and tables provided by the authors.



## Overview

The documents within this research compendium were prepared for the International Forum on the Creative Economy, a two-day learned forum that took place March 17–18, 2008, in Gatineau, Quebec. The event was the product of a collaborative partnership between the Department of Canadian Heritage (Government of Canada) and the Organizational Effectiveness and Learning division and Forecast and Economics division of The Conference Board of Canada.

*Valuing Culture: Measuring and Understanding Canada's Creative Economy* was prepared by The Conference Board of Canada for the International Forum on the Creative Economy. This report sheds light on the value of culture as a cornerstone of the creative economy and as a contributor to economic performance across all sectors. It also presents evidence of how countries around the world recognize the pervasive role of the culture sector in building social cohesion and improving quality of life. The report examines key trends and drivers that are fundamentally changing the way we create, access, and experience culture, and

it looks at the business models that support culture activity. New interactive, Internet-based digital technologies are central to the changes taking place in the creative production process and emerging global value networks.

The research compendium also presents each paper as delivered at the Forum by researchers, academics, and professionals from across Canada and around the world. Submitted in response to an international call for papers, the accepted papers present a wide-ranging investigation of key issues related to the creative economy.

As a complementary resource to this research compendium, audio recordings of speeches and presentations delivered at the International Forum on the Creative Economy are available for download from The Conference Board of Canada's e-Library ([www.conferenceboard.ca](http://www.conferenceboard.ca)).



## **SECTION I**

# **Valuing Culture: Measuring and Understanding Canada's Creative Economy**





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Report August 2008



# Valuing Culture Measuring and Understanding Canada's Creative Economy



Valuing Culture: Measuring and Understanding Canada's Creative Economy  
by *The Conference Board of Canada*

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## Preface

This report was prepared by The Conference Board of Canada for the International Forum on the Creative Economy. It sheds light on the value of culture as a cornerstone of the creative economy and as a contributor to economic performance across all sectors. It also presents evidence of how countries around the world recognize the pervasive role of the culture sector in building social cohesion and improving quality of life. The report examines key trends and drivers that are fundamentally changing the way we create, access, and experience culture, and the business models that support culture activity. New interactive Internet-based digital technologies are central to the changes taking place in the creative production process and emerging global value networks.

Taking into account the substantial direct, indirect, and induced contributions of the arts and culture industries, the Conference Board estimates that the culture sector's economic footprint was \$84.6 billion in 2007, constituting 7.4 per cent of Canada's gross domestic product (GDP). Employment in the culture sector exceeded 1 million jobs.

This report is a joint initiative of the Conference Board's Organizational Effectiveness and Learning Division and Forecast and Economics Division, in collaboration with the Government of Canada's Department of Canadian Heritage.

As a companion to this report, we have prepared a compendium of research papers presented at the International Forum. The compendium will be available for free download at [www.conferenceboard.ca](http://www.conferenceboard.ca) in summer 2008.

# Acknowledgements

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# Foreword

**T**he International Forum on the Creative Economy brought together over 200 scholars, researchers, professionals, and public officials from across Canada and around the world to build understanding and develop new insights about valuing arts and culture as cornerstones of the creative, knowledge-based economy.

A large and growing body of research has documented the many social, cultural, and economic benefits of the culture sector to international economies. Efforts to measure the culture sector statistically, and make comparisons internationally, have begun. Statistics Canada has developed the *Canadian Framework for Culture Statistics*, which underpins the economic impact analysis for the culture sector in Canada. However, data limitations still exist.

Using available data to develop a model, The Conference Board of Canada estimates that the economic footprint of Canada's culture sector was valued at \$84.6 billion in 2007, constituting 7.4 per cent of Canada's real gross domestic product. The Conference Board's estimate takes into account the substantial direct, indirect, and induced contributions of the culture sector, which together resulted in over a million jobs in the Canadian economy.

In Canada, the culture sector plays a critical role in attracting people, business, and investment, and in distinguishing our country as a dynamic and exciting place to live and work. Clearly, a growing, dynamic culture sector is central to Canada's success as a creative, knowledge-based economy. The culture sector also serves as a magnet for skilled and creative people, as Canada becomes increasingly dependent on international migration to sustain the size of its national labour force. Today, there is also growing recognition of the important linkages between arts and culture industries and urban and rural development. Innovation is driven by creativity and diversity.

The Forum presented studies that shed light on the development of interactive and Internet-based digital technologies. Coupled with increasingly versatile digital hand-held wireless devices, these technologies have fundamentally changed how we create, access, and experience culture. Cultural content is now available from a multitude of sources and on a multitude of platforms. It is more important than ever to understand these technological transformations in the value chains of the creative industries.

Improvement in our ability to measure the creative economy will greatly help us present the implicit and explicit impacts on economies writ large.

This compendium report brings together important ideas, models, and evidence supporting the critical role of the culture sector. This outstanding collection of research papers centres on four major themes:

- ♦ The Creative Economy in Transition: Arts and Culture in Domestic and Global Markets
- ♦ Measuring Arts and Culture as an Economic and Social Engine of a Country's Wealth
- ♦ Consumption Dynamics: Consumers Driving Change
- ♦ Innovation and Research: Mobilizing New Practices

A significant amount of work has gone into the International Forum and into the research papers contained in the compendium report. We are grateful to all those who participated. Your contributions are valuable to us all as, together, we advance our understanding of this complex and fascinating subject.

Sincerely,



Michael Bloom  
Vice-President  
Organizational Effectiveness and Learning  
The Conference Board of Canada



Jean-Pierre Blais  
Assistant Deputy Minister  
Cultural Affairs  
Department of Canadian Heritage

## EXECUTIVE SUMMARY

# Valuing Culture Measuring and Understanding Canada's Creative Economy

### At a Glance

- ♦ A dynamic culture sector is a magnet for talent and a catalyst for economic prosperity.
- ♦ Arts and culture industries bring people together locally, globally, and virtually, helping to bridge large geographical distances and create communities of interest.
- ♦ The Conference Board of Canada estimates that the real value-added output by culture sector industries totalled \$46 billion in 2007. Our estimate, taking into account direct, indirect, and induced contributions, is that the economic footprint of the culture sector was approximately \$84.6 billion in 2007, or 7.4 per cent of Canada's total real GDP, and that the culture sector contributed 1.1 million jobs to the economy.

Arts and culture industries contribute significant value to the Canadian economy. This phenomenon is universal: increasingly, countries around the world, as well as cities and regions, are recognizing the pervasive role that a dynamic culture sector plays as a magnet for talent, an enhancer of economic performance, and a catalyst for prosperity.

This paper has been developed for the International Forum on the Creative Economy to stimulate participants' dialogue concerning the value of the culture sector. We present a comprehensive literature review and analysis of Canada's culture sector, and offer insights regarding the substantial contributions made by arts and culture industries as the foundation of the creative economy.

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**The arts and culture industries that make up Canada's culture sector employed about 616,000 in 2003, which represented 3.9 per cent of national employment.**

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In recent years, the culture sector has grown increasingly complex, changing rapidly and demanding new skills, new business models, and new global perspectives. At the same time, the sector has grown significantly in economic importance. The arts and culture industries that make up Canada's culture sector employed about 616,000 in 2003,<sup>1</sup> which represented 3.9 per cent of national employment. Taking into account direct, indirect, and induced contributions to employment, The Conference Board of Canada estimates that the culture sector accounted for 1.1 million jobs in 2007. Moreover, the arts and culture industries also help to attract people and spur creativity across all sectors of the economy.

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1 Statistics Canada, *Economic Contribution of the Culture Sector*, p. 20.

The Conference Board estimates that the culture sector generated about \$46 billion in real value-added GDP in 2007, which constituted 3.8 per cent of Canada's real GDP. However, when considering the effect of culture industries on other sectors of the economy—accounting for indirect and induced effects—the overall impact was much larger. According to our estimates, the economic footprint of the culture sector was valued at about \$84.6 billion in 2007, or 7.4 per cent of total real GDP.

Culture industries bring people together locally, globally, and virtually, and play an important social role, helping to bridge large geographical distances and create communities of interest. Culture industries help to raise people's awareness of cultural distinctiveness and to establish common cultural connections.

---

**The Conference Board estimates the culture sector generated about \$46 billion in real value-added GDP in 2007, which constituted 3.8 per cent of Canada's real GDP.**

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Cultural diversity is an important driver of the creative economy, a critical strength that contributes to our national competitiveness. Canada is internationally recognized as a culturally diverse, prosperous society that has attracted—and welcomed—newcomers from over 200 countries.<sup>2</sup> Canada is characterized both by an aging population and by a tech-savvy youth cohort. These segments represent unique opportunities for cultural expression and commercial activity.

Two of the most powerful drivers of growth in the culture sector are digital technology and expanding Internet use. Digitization is changing how many culture goods and

services are created and disseminated. For players involved in today's sophisticated cultural value network, the impact of digital technologies presents opportunities and raises challenges relating to business models, copyright and intellectual property, content, talent, investment, and government intervention.

Canada's culture industries are increasingly focused on harnessing the energies of "prosumers"—well-educated, demanding consumers who often participate directly in the experience of producing creative value. The Internet and the proliferation of Web 2.0 applications have elicited an explosion of popular creative activity. On a mass scale, individuals are creating their own digital content, co-creating with others and contributing to the development of commercial applications.

This paper highlights the important social and economic contributions of Canada's culture sector, as well as major trends and key drivers affecting its performance. The paper is organized into five core chapters. Chapter 1 provides a definition of the culture sector and explores the multiple dimensions of culture in society, including economic benefits and social benefits to individuals and communities. Chapter 2 examines critical trends affecting the culture sector, particularly demographic and technological changes, expanding global interconnectivity, new consumer trends, intellectual property and copyright issues, and the role of arts and culture in generating, regenerating, and branding creative cities. Chapter 3 provides a detailed analysis of the economic footprint of Canada's creative economy. In Chapter 4, we examine key drivers, with emphasis on the impact of technology on business models in the culture sector and on consumption dynamics. Chapter 5 looks at Canada's creative economy relative to the global marketplace.

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2 Chui et al., *Immigration in Canada*, p. 9.

## CHAPTER 1

# Valuing Arts and Culture as Cornerstones of the Creative Economy

### Chapter Summary

- ♦ In a dynamic environment of global competition, demographic change, and migration, Canada's culture sector plays a critical role in attracting people, businesses, and investment; stimulating creativity and innovation; and distinguishing Canada as an exciting place where people can celebrate their heritage and achieve personal and professional fulfilment.
- ♦ Use of the Internet, digital technologies, and mobile devices has grown exponentially over the past decade, serving as a major driver for growth within the sector, and also influencing consumer dynamics and business models.

There is clear empirical evidence that Canada's culture sector, encompassing arts and culture industries, generates a wealth of contributions to Canada's cultural, social, and economic fabric.

Traditionally, the culture sector has been recognized for its multi-faceted role in contributing to individual and community development, social cohesion, and quality of life; however, in recent decades there has been growing understanding and examination of the substantial economic contributions of arts and culture industries and of their central role in the *creative economy*.

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**Canada's culture sector generates a wealth of contributions to Canada's cultural, social, and economic fabric.**

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### THE MULTIPLE DIMENSIONS OF CULTURE IN SOCIETY

This report has been prepared as a common text for the International Forum on the Creative Economy, one that provides a basis for dialogue on the value to Canada of the *culture sector* as an economic engine, a magnet for talent, and a catalyst for prosperity. By drawing upon the growing body of international literature on arts and culture as cornerstones of the creative economy, it seeks to promote thinking and discussion about the value of arts and culture to Canada's social and economic well-being.

A creative economy extends beyond the culture sector to harness creativity and bring about positive social and economic changes across a broad spectrum of industries, sectors, and social organizations. Leadership is key in all these areas to getting the most from creativity. To do so, leaders work with the "raw materials" of culture—including imagination, attitudes, habits of thought and action, work expectations, talents, and values.

The rise of the creative economy is an international phenomenon. In this paper we focus on the culture sector as the foundation of the creative economy, recognizing that there are other key players, such as scientists and engineers.

Countries around the world, as well as cities and regions, recognize the pervasive role that a dynamic culture sector plays in the overall economy—generating employment and wealth directly within arts and culture industries, but also attracting people and spurring creativity and innovation across all sectors of the economy. Richard Florida suggests that “powering the great ongoing changes of our time is the rise of human creativity as the defining feature of economic life. Creativity has come to be valued—and systems have evolved to encourage and harness it—because new technologies, new industries, new wealth and all other good economic things flow from it.”<sup>1</sup>

Cultural diversity is an important driver of the creative economy and a critical strength that contributes to our national competitiveness. The United Nations ranks Canada among the best countries in the world in which to live.<sup>2</sup> Canada is internationally recognized as a culturally diverse, prosperous society that attracts and welcomes newcomers from over 200 countries.<sup>3</sup> Data from the 2006 Census indicate that the proportion of Canada’s population born outside the country has reached its highest point in over 75 years. More than 6 million (20 per cent) of those living in Canada were born outside the country.<sup>4</sup> Immigrants’ role in Canada’s labour market will become increasingly vital over the next few decades, as the international competition for talent intensifies within creative industries and across all sectors of the economy.

In this dynamic environment of global competition, demographic change, and migration of people, Canada’s culture sector plays a critical role in attracting people, businesses and investment; stimulating creativity and innovation; and distinguishing Canada as a dynamic and exciting place, where people can celebrate their heritage and realize personal and professional fulfilment.

## DEFINING THE CULTURE SECTOR: THE FOUNDATION OF THE CREATIVE ECONOMY

### UNDERSTANDING THE CULTURE SECTOR: LIMITATIONS

Creative enterprises and individuals are found throughout every sector of the Canadian economy. For the purpose of this research, we focus on the production of goods and services in the arts and culture industries, which we refer to as the culture sector.

Culture is multi-dimensional with many tangible and intangible benefits, making it difficult to measure the full extent of its importance. Furthermore, there is no standard definition of culture that allows for a direct comparison of the economic contribution of culture sectors internationally. Throughout the literature, numerous terms are used in association with the creative economy, including culture, culture industries, culture sector, creativity, creative sector, and the creative economy. As a result, a comparative empirical assessment of the culture sector in Canada with that in other countries and jurisdictions presents significant challenges.

---

### Countries, cities, and regions recognize the pervasive role a dynamic culture sector plays in the economy.

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The Organisation for Economic Co-operation and Development (OECD) examined the feasibility of undertaking an international comparison of culture sectors, using five countries and four cities to develop a comparative analysis. The OECD indicates that such comparisons should be made with “extreme caution.”<sup>5</sup> The OECD identified significant challenges associated with international comparisons of culture sectors—for example, variations in cultural industry typologies across countries. At the city level, the availability of data for the culture sector is even more restricted than at the national level.

Within Canada, the definition of culture has undergone significant changes. That makes assessment of the economic performance of the culture sector over time challenging as well.

---

1 Florida, *The Rise of the Creative Class*, p. 21.

2 United Nations, *Human Development Report 2007/2008*.

3 Chui et al., *Immigration in Canada*, p. 9.

4 Statistics Canada, “2006 Census: Immigration, Citizenship, Language, Mobility and Migration.”

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5 Gordon and Beilby-Orrin, *International Measurement*, p. 19.

## CANADIAN FRAMEWORK FOR CULTURE STATISTICS

Statistics Canada has developed a framework for culture statistics.<sup>6</sup> The *Canadian Framework for Culture Statistics* includes a definition of culture that encompasses written media, the film industry, broadcasting, sound recording and music publishing, performing arts, visual arts, crafts, architecture, photography, design, advertising, museums, art galleries, archives, libraries, and culture education. It also includes, to some degree, government support for culture, and activities by unions and associations related to culture.<sup>7</sup> The definition of culture and culture industries set out in this framework covers most of the economic activity in the culture sector.

Statistics Canada notes that there are establishments in Canada that define their products as “digital interactive media.” However, these activities are not defined as a separate industry under the North American Industry Classification System (NAICS), nor under any international classification system. Some of the culture commodities produced by establishments involved in interactive digital media are integrated with other industries in the Statistics Canada framework for culture—for example, digital video, audio, animated images, computer graphics, and arts products.<sup>8</sup>

Interactive media products such as video games straddle two industry sectors. The content creation portion, which includes activities related to factors such as animation, music, audio, characterization, art direction, script, special effects, acting, design and motion-capture photography, already resides within culture in the film industry, while the middleware or specialized software used to bring the effects together is considered part of the information and communications technology (ICT) sector. The result is that the activities are difficult to measure and do not have a separate NAICS identity.

In addition, artisanal crafts are not defined within culture by international classification systems, including those

used by Statistics Canada. Currently most aspects of artisanal crafts are considered to be part of the manufacturing sector.

Although firms in the culture sector may undertake a range of cultural and non-cultural activities, only their cultural activities are included in cultural statistics. It is worth noting that the cultural activities of non-cultural firms are not included in cultural statistics based on this framework, such as the publishing activities of a university. The Statistics Canada definition of culture does not include environment, sports, recreation, and technology. It also excludes tourism.<sup>9</sup>

As well, the substantial contribution of volunteers working in the culture sector is not directly valued in measures of economic contribution.

The *Canadian Framework for Culture Statistics* identifies the distinct activities that form the “creative chain.”<sup>10</sup> The creative chain encompasses creation, production, manufacturing, distribution, and support activities, as well as consumer and social effects. Culture products and services do not necessarily flow through all steps of the creative chain:

- ♦ Creation refers to “establishments that are involved in the development of a creative artistic idea,” such as organizations employing writers and performers. Creative activity may also occur within firms whose primary activity is not creation, such as newspapers.
- ♦ Production includes “establishments involved primarily in the act or process of producing a creative good or service that can be readily identified,” such as book publishers.
- ♦ Manufacturing includes “establishments involved in the mass reproduction of culture core goods from a master copy,” such as printers.
- ♦ Distribution includes “establishments that distribute core culture goods, [and] the mass distribution of visual arts and photography to a variety of players such as wholesalers and retailers, radio and television broadcasters, or the Internet.”

6 This section of the research paper is based on direct extractions from Statistics Canada’s *Canadian Framework for Culture Statistics*.

7 Statistics Canada, *Canadian Framework for Culture Statistics*, p. 8.

8 Statistics Canada, *Economic Contribution of the Culture Sector to Canada’s Provinces*, p. 10.

9 Statistics Canada, *Canadian Framework for Culture Statistics*, p. 8.

10 Ibid., p. 13.



- ♦ Support activities include “activities related to culture that help to finance or support creation and production,” such as management and promotion.<sup>11</sup>

Understanding consumption of culture requires an understanding of the characteristics of consumers—for example, their age and gender, and their motivations for consumption, as well as the characteristics of the goods and services they consume. The framework also considers social effects: that is, ways in which the well-being of an individual may be enhanced as a result of consumption of culture goods and services, and the potential benefits to Canadian society.

In the case of film, for example, independent artists, writers, and performers are involved in creation; a motion picture or video production company may be involved in production; manufacturing may involve firms that make and reproduce magnetic and optical media; and distribution may be carried out by motion picture and video distribution firms. An agent or manager may provide supportive services at any step along the creative chain. The type of film selected is influenced by consumer characteristics such as age, gender, and ethnicity. The experience may provide an opportunity for social interaction and learning.

In the case of heritage, the value chain also includes preservation of culture goods such as historical artifacts.<sup>12</sup>

The framework follows a set of criteria established for the Culture Statistics Program. To be included in this definition of culture, a good or service must meet at least *one* of these criteria. It must be:<sup>13</sup>

- ♦ a creative good that warrants intellectual property rights;
- ♦ a service associated with presenting or preserving creative goods;
- ♦ a good or service supporting creation, production, or transmission of other creative goods or services, including a service that adds to, or alters, the content of a cultural product—for example, editorial services;

- ♦ a service associated with conserving, exhibiting, or interpreting human heritage; or
- ♦ an educational service aimed at workers who produce creative goods or services.

The framework distinguishes between core and non-core culture goods and services. Core culture goods and services are defined as “those where the entire creative chain is in scope for culture. They have as their primary purpose the transmission of an aesthetic or intellectual concept, and are intended to elicit an emotional or cognitive response, and contain intellectual property rights.” Examples include broadcast programming and services, festivals, and heritage services. Non-core culture goods and services are “those where only part of the creative chain is in scope for culture. They are also the result of a creative artistic activity, but either do not have as their primary purpose the transmission of an aesthetic or intellectual concept (e.g., a building) or are the mass reproduction of visual art.” An example of a non-core culture service is advertising services.<sup>14</sup>

## THE ECONOMIC BENEFITS OF THE CULTURE SECTOR

### OVERVIEW OF ECONOMIC CONTRIBUTION

The culture sector is an important contributor to economic activity in Canada. The economic footprint of Canada’s culture sector, including direct, indirect, and induced economic impacts, is assessed in detail in Chapter 3.<sup>15</sup> Here, we provide a brief overview. The Conference Board of Canada estimates that the real value-added output by culture sector industries totalled \$46 billion in 2007, approximately 3.8 per cent of total gross domestic product (GDP). The economic footprint of the culture sector is much larger, when accounting for combined direct, indirect, and induced effects. The Conference Board calculates this full contribution was valued at \$84.6 billion, about 7.4 per cent of total real GDP, in 2007.

11 Ibid., p. 14.

12 Ibid., p. 15.

13 Ibid., p. 9.

14 Ibid., p. 10.

15 See Chapter 3 for details regarding the measurement of Canada’s economic footprint, including data sources, methodology, and key assumptions.



Statistics Canada estimates that the culture sector directly employed 616,000 workers in 2003.<sup>16</sup> The largest three culture subsectors in terms of employment in 2003 were written media, broadcasting, and the film industry. They accounted for 26.6 per cent, 9.2 per cent, and 14.8 per cent of culture sector employment respectively.<sup>17</sup> Considering the effect of culture industries on other sectors of the economy, including direct, indirect, and induced effects combined, culture and related industries employed over 1.1 million people in 2007.

Earnings within the culture sector vary significantly based on occupation and industry. In the case of artists, for example, despite the fact that 41 per cent of artists have a university degree, a certificate, or a diploma—almost double the rate of 22 per cent for the overall labour force—average earnings remain relatively low at \$23,500 per year.<sup>18</sup> In other industries, such as information and culture industries and broadcasting, average earnings are somewhat higher.

The Conference Board estimates that consumer spending on culture goods and services was close to \$21 billion in 2007, equivalent to \$18.9 billion in real 2002 dollars or 1.4 per cent of total real GDP. The total value of real culture exports was just under \$5 billion in 2007, about 1 per cent of Canada's total exports. The Conference Board estimates that spending on culture in 2007 for all levels of government combined, including federal, provincial, and local levels, reached \$7.9 billion.

One of the contributions of the culture sector that is not captured in the *Canadian Framework for Culture Statistics* is the substantial amount of volunteer time contributed by individuals and organizations. Based on the 2004 Canada Survey of Giving, Volunteering and Participating, almost 12 million Canadians, or 45 per cent of the population age 15 and older, volunteered during the one-year period preceding the survey.<sup>19</sup> Approximately 3 per cent

of these volunteers contributed their time to arts and culture organizations. On average, volunteers supporting arts and culture each contributed 120 hours over one year. In addition to their time, in 2004 Canadians gave an estimated \$188 million in financial donations to arts and culture.<sup>20</sup>

In a separate report, Statistics Canada estimates that, in 2000, the value of volunteering for culture and recreation was \$3.6 billion.<sup>21</sup>

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**The Conference Board estimates spending on culture in 2007 for all levels of government, including federal, provincial, and local levels, reached \$7.9 billion.**

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## CULTURAL VALUE NETWORKS

According to CONNECTUS Consulting Inc. researchers, the contribution of the culture sector includes a broad range of economic relationships within and across industry sectors—relationships that today are increasingly driven by digital technologies. Digitization often changes the way culture goods and services flow through the creative chain, so that a sequence of activities from new product development to final distribution is no longer linear. Instead, sophisticated value networks involve “a web of relationships that generates both tangible and intangible value through complex dynamic exchanges between two or more individuals, groups or organizations.”<sup>22</sup>

CONNECTUS Consulting Inc. conducted an analysis of the ways in which digital technologies are transforming business activities within the culture sector.<sup>23</sup> The study looks at the effects of technology on “cultural value networks” through process improvements, new platforms, and new products. New technologies also enable consumers

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16 Calculated based on Statistics Canada, *Economic Contribution of the Culture Sector to Canada's Provinces*, Table 1.7, p. 20.

17 Calculations provided by the Department of Canadian Heritage are consistent with Singh, *Economic Contribution of Culture in Canada*, 2004.

18 Hill Strategies Research Inc., *Artists in Large Canadian Cities*, 2006, p. 1.

19 Statistics Canada, *Caring Canadians, Involved Canadians*, p. 12.

20 Ibid., p. 79.

21 Statistics Canada, “Satellite Account of Nonprofit Institutions and Volunteering: 1997 to 2004,” p. 31.

22 Allee, cited in CONNECTUS Consulting Inc., *The Transformation of Value Chains*, p. 8.

23 Ibid.

to become more directly integrated into creative processes, through initiatives such as YouTube, Creative Commons, Wikipedia, Flickr, and ccMixtr, where consumers may contribute directly to, or share in, the creative process.

CONNECTUS identifies three principal effects of technology on cultural value networks, including process improvements using digital tools, new platforms that it defines as “the combination of new receivers for cultural product and the distribution systems which supply products to those receivers,” and new products or “product transformations.”<sup>24</sup> For players in the cultural value network, the impact of digital technologies raises key issues relating to business models, copyright and intellectual property, content, talent, investment, and government intervention.

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#### **Digital tools generate improvements, including enhanced quality in creation, production, and distribution.**

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Much of the culture sector is affected by transforming value chains. CONNECTUS explains that, “when new products, with no strong attachment to traditional forms, are created as a result of new platform deployment, we refer to them as ‘new media: online content.’”<sup>25</sup> New digital technologies, the Internet, and broadband collectively present a powerful digital arena for new business models.

Digital tools generate improvements, including efficiencies and enhanced quality in creation, production, and distribution. Lawrence Lessig, whose book *The Future of Ideas: The Fate of the Commons in a Connected World* was published by Random House under a Creative Commons Attribution–Non-Commercial Licence, notes that “digital technology has radically reduced the cost of digital creations . . . the cost of filmmaking is a fraction of what it was just a decade ago. The same is true for the production of music or any digital art. Using what we might call a

‘music processor,’ students in a high school music class can compose symphonies that are played back to the composer.”<sup>26</sup> Digital technologies enable music and films to be uploaded and downloaded across networks. Products can be accessed using a variety of devices, from laptop computers and iPods to mobile phones.

A critical concern arising from the transformation of value networks in the cultural sector is the impact on Canadian content. Unlike traditional platforms such as television and radio broadcasting, new online platforms (often referred to as Web 2.0) do not have mechanisms in place to control the amount of foreign content versus Canadian content.

Another key issue is piracy of creative products that are under copyright. Copyright underpins current business models for many arts and culture products. The economic value of many of these products comes from consumers’ willingness to pay for them. The copyright serves to “improve the market transaction via a well-defined property right.” To some extent, it moves the product from “non-exclusive” to “exclusive” good and influences the ability of Canadian cultural businesses that rely on the copyrights of their products to market and sell those products domestically and internationally. It also affects their ability to attract financial investment.<sup>27</sup>

## **THE SOCIAL BENEFITS OF THE CULTURE SECTOR**

Throughout history, arts and culture have contributed numerous benefits to individuals and communities. A large body of research documents the social benefits derived from arts and culture. David Throsby proposes that culture plays a pervasive, socially integrating role in fostering community identity, creativity, cohesion, and vitality.<sup>28</sup> The United Nations Development Programme has stated that “culture provides the social basis that

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<sup>24</sup> Ibid., p. 17.

<sup>25</sup> Ibid., p. 18.

<sup>26</sup> Lessig, *The Future of Ideas*, p. 22.

<sup>27</sup> CONNECTUS Consulting Inc., *The Transformation of Value Chains*, p. 18.

<sup>28</sup> Throsby, *Economics and Culture*.

allows for stimulating creativity, innovation, human progress and well-being. In this sense, culture can be seen as a driving force for human development, in respect of economic growth and also as a means of leading a more fulfilling intellectual, emotional, moral and spiritual life.”<sup>29</sup>

Janet Ruiz of the Scottish Executive Education Department undertook an extensive literature review of the evidence base for culture, the arts, and sport policy.<sup>30</sup> Her research suggests that participation in various forms of arts and culture contributes to society in many tangible and intangible ways:

- ♦ These activities help instill self-confidence, pride, and personal well-being.
- ♦ Arts and culture promote personal, community, and national identity.
- ♦ Social networks generated through arts and cultural activities provide a sense of belonging—a sense of community.
- ♦ They help promote social cohesion and reduce isolation.
- ♦ Arts and culture provide creative mechanisms for individuals to express their individuality, engage with others, and celebrate diversity.

Many educators believe that creative activities provide positive learning experiences:

- ♦ Arts and cultural activities can help to improve communication skills and promote creative thinking.
- ♦ Libraries and reading programs contribute to improved literacy and language development.
- ♦ Creative activities often involve ICTs and help to develop information technology (IT) skills critical for employment in the knowledge economy.

However, potential social impacts of creative activities go beyond learning. For example, Ruiz suggests that substantial research demonstrates a link between participation in arts, cultural, and sport activities and a reduction in offending behaviour. Although causal relationships

have not been established, arts and culture have been shown to create a diversion from criminal behaviour and to help individuals develop personal and social skills.

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**Arts and cultural activities can help to improve communication skills and promote creative thinking.**

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François Matarasso undertook a comprehensive study of the social impacts of over 60 projects involving participation in the arts.<sup>31</sup> Many of the projects were aimed at marginalized individuals and communities. Matarasso identified over 50 social impacts of participation in the arts, which he organized in six key themes:

- ♦ personal development (improving self-confidence and skill building);
- ♦ social cohesion (building community organizational capacity and providing a forum for intercultural understanding);
- ♦ community empowerment and self-determination (enhancing environmental renewal);
- ♦ local image and identity (developing pride in local traditions and culture);
- ♦ imagination and vision (helping people develop their creativity); and
- ♦ health and well-being (contributing to a more relaxed atmosphere).

Today, digital technologies play an important role in the development of new forms of social media and in the development of creative content as they bring individuals together in online communities. Web-based communities, such as Facebook, MySpace, and Friendster, enable individuals to make connections with people internationally across cultures, and to develop meaningful and enduring relationships. They facilitate sharing of ideas, knowledge, and experience, presenting new opportunities for creative expression, and opening new channels for communicating experience and new pathways for social interaction.

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29 UNDP, *Terms of Reference for Thematic Window on Culture and Development*.

30 Ruiz, *A Literature Review of the Evidence Base for Culture*.

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31 Matarasso, *Use or Ornament*, p. 23.

## CITIES AS ENGINES OF CREATIVITY

The concept of cities as important hubs of creative activity was raised by Jane Jacobs several decades ago. Jacobs suggested that “wherever and whenever societies have flourished and prospered, rather than stagnated and decayed, creative and workable cities have been at the core of the phenomenon.”<sup>32</sup>

In its recent flagship report, *Mission Possible: Successful Canadian Cities*, The Conference Board of Canada argues that Canada’s prosperity depends on the success of its major cities.<sup>33</sup> Canada, like other societies, has transformed from a rural to a predominantly urban society, and in the future, urbanization is likely to accelerate. The Conference Board holds that “if Canada’s largest cities are to become world-class centres of design, architecture, and culture, and attract young, talented, creative people, they will have to do more than invest in physical infrastructure. They will have to sustain vibrant cultures and become centres of excellence in education . . . Cities that offer a high quality of life attract and retain firms and workers in the knowledge-intensive and creative fields.”<sup>34</sup>

In Canada, the culture sector labour force is predominantly located in large cities such as Toronto, Montréal, and Vancouver. Together, these three cities account for 64 per cent of Canadian culture industry workers.<sup>35</sup> This phenomenon is not unique to Canada. In the United States’ top 50 metropolitan areas, for example, creative workers (those working in the arts, publishing, broadcasting, architecture, advertising and design, performing arts, and museums) are 53 per cent more likely than other workers to live in “close in” neighbourhoods (close to a city centre), and 41 per cent of all creative jobs are within three miles of the central business district, compared with 17 per cent of total jobs.<sup>36</sup>

Canada’s larger cities also account for the bulk of total spending on culture goods and services. In 2005, total cultural spending was \$4.3 billion in Toronto, representing 17 per cent of the Canadian total. In Montréal, total cultural spending was \$2.5 billion, and in Vancouver, total cultural spending was \$1.9 billion in 2005. On a per capita basis, among 15 Canadian metropolitan areas, Ottawa–Gatineau ranked highest in 2005 in spending on culture goods and services, averaging \$1,064 per person. Victoria was second at \$1,007 per person, and Calgary was third at \$997 per person.<sup>37</sup>

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**In Canada, the culture sector labour force is predominantly located in large cities such as Toronto, Montréal, and Vancouver. These three cities account for 64 per cent of Canadian culture industry workers.**

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## THE CULTURE SECTOR: CENTRE STAGE IN THE CREATIVE ECONOMY

The culture sector is integral to Canada’s creative economy and to Canada’s overall economic performance. Many forces are driving culture to a place of greater prominence, particularly in Canadian cities. Measuring the multiple dimensions of arts and culture in Canada and internationally is challenging; nevertheless, the evidence points to significant social and economic benefits. Many of these benefits are not quantifiable but are well established in the evidence base. Among these, culture shapes our individual and national identity, fosters community and urban development, and promotes cultural understanding. Culture plays a crucial role in the attraction and retention of talent and investment.

As noted, the Conference Board estimates that the economic contribution of the culture sector was \$84.6 billion in 2007. Canada’s culture sector is experiencing solid growth and increasing its share of overall economic activity. Use of the Internet, digital technologies, and mobile devices has grown exponentially over the past decade, serving as a major driver for growth within the

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32 Jacobs, *The Death and Life of Great American Cities*, p. xviii.

33 The Conference Board of Canada, *Mission Possible: Successful Canadian Cities*, p. viii.

34 Ibid., p. 25.

35 Coish, *Census Metropolitan Areas*, pg. 7.

36 Coletta, “Community Challenge Town Hall.”

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37 Hill Strategies Research Inc., *Consumer Spending on Culture in Canada*, p. 13.

sector, and influencing consumer dynamics and business models. Strong interdependencies have been established between ICTs and many culture industries—interactive digital media, for example.

Today's culture sector is centre stage in the creative economy. Its contributions are valuable on their own and also add significant value by stimulating more broadly based creative activity across the economy.

## CHAPTER 2

# Canada's Creative Economy in Transition

## Major Trends

### Chapter Summary

- ◆ The most important demographic trend affecting Canada's future is the aging of the population.
- ◆ Rising use of the Internet and new digital technologies is influencing how people spend their time and providing new options for media choice.
- ◆ New technologies are responding to consumers' desire for greater freedom of individual expression; "prosumerism" refers to consumers' desire to participate directly in generating value from culture products and services and their preference for interactive experiences.
- ◆ The "long tail" business model of many niche markets is creating a sea change in the way many culture industries sell their products and services.
- ◆ Arts and culture industries are magnets for talent. The culture labour force is predominantly located in Canada's largest census metropolitan areas (CMAs): Toronto, Montréal, and Vancouver. Other CMAs across Canada also contain niche clusters of arts and culture industries.

Canada's creative economy is in transition. The face of Canada is quite literally changing—we are getting older and much more diverse. We are connected, we have large bandwidth, and we are interacting with the world. We are more creative. We are more engaged in social networking in ways unimaginable even a decade ago, forming bonds based on interests with "friends" around the world who share our particular passion for creative content. We are sharing, reshaping, and repackaging cultural content and co-creating in the process. We are self-selecting into niche markets that suit our tastes and demanding ever more sophisticated supply responses from others in the creative value chain. And we are voting with our feet, flocking to creative cities and communities where we can express our creative interests in new and emerging high-value-added jobs in the knowledge economy. Canada's cities and communities are retooling, branding themselves as creative hubs of one sort or another, with the right mix of amenities, skilled workers, and training capacity to attract business investment and larger numbers of creative people.

This chapter examines five important trends that are shaping Canada's culture sector during these exciting times: demographic changes; expanding global interconnectivity; today's culture consumer and key trends in supply and demand; international property and international copyright; and the role of arts and culture in generating, regenerating, and branding "creative cities."

## DEMOGRAPHIC CHANGES

### CANADA'S POPULATION IS AGING

The most important demographic trend affecting Canada's future is the age composition of the population. Canada's population and its labour force are aging, as is the case in almost every other developed nation. The Conference Board of Canada reports that nearly every major region in the world will experience a rise in the relative size of its older cohort.<sup>1</sup>

A major determinant of population growth is natural population increase—that is, the number of births less the number of deaths that occur each year. A fertility rate of 2.1 per cent would allow Canada to maintain the population at its current size without relying on immigration. Canada's fertility rate was only 1.54 births per woman in 2005.<sup>2</sup>

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**Although younger seniors today also remain quite active, seniors are more likely to engage in activities that are less physically demanding—reading and attending museums, art galleries, and theatres, for example.**

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The impact of population aging on labour force growth is substantial. Labour force participation rates are set to fall drastically. Contraction in labour force growth from 1.8 per cent annually in 2001–05 to 0.4 per cent annually in 2026–30 will occur unless there is a significant increase in immigration.<sup>3</sup>

As of October 2007, Canada's population exceeded 33 million, according to estimates by Statistics Canada.<sup>4</sup> The median age of Canada's population reached 38.8 years as of July 1, 2006, compared with 37.2 years in 2001.<sup>5</sup> In the culture sector in 2000, the average age of culture

workers in Canada's CMAs was 39.6 years, compared with 38.7 for non-culture workers.<sup>6</sup>

According to Statistics Canada's medium-growth scenarios released in December 2005, the median age of the country's population in 2056 would be 46.9 years.<sup>7</sup> Statistics Canada projects that by 2056, youth aged 0 to 19 could represent less than 20 per cent of the population, while seniors aged 65 and over could account for one out of every four individuals.<sup>8</sup>

Our aging "boomers" are dedicated Internet users and are contributing significantly to the digital retooling of the creative economy. Over the next two decades, the number of individuals aged 65 to 74 will almost double, from 2.3 million to about 4.5 million.<sup>9</sup> Generally, seniors are better off financially than they were in past decades, better educated, and Internet savvy.

In the culture sector, Canada's changing age profile has enormous implications not only for the labour market, but also for the way people spend their time and money. Demographer David Foot suggests that "most people, as they get older, become less active and less inclined to engage in strenuous activities. As a result, their leisure and recreation habits change. The impacts of these changes, on every recreational pursuit from badminton to birding, are dramatic. Moreover, these impacts are predictable."<sup>10</sup> Although younger seniors today also remain quite active, seniors are more likely to engage in activities that are less physically demanding—reading and attending museums, art galleries, and theatres, for example. Today's seniors are increasingly engaging in online activities such as shopping, online training, and interactive gaming. They are participating in large numbers in Facebook, interacting with grandchildren online, and downloading music. Many are meeting new people through dating sites like Date.ca and eHarmony.

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1 The Conference Board of Canada, *How Canada Performs*, p. 25.

2 Statistics Canada, "Births."

3 The Conference Board of Canada, *Human Talent Forecast*.

4 Statistics Canada, "Canada's Population Estimates."

5 Statistics Canada, "Canada's Population by Age and Sex."

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6 Coish, *Census Metropolitan Areas*, p. 42.

7 Statistics Canada, "Canada's Population by Age and Sex."

8 Ibid.

9 Statistics Canada, "A Portrait of Seniors," p. 12.

10 Foot and Stoffman, *Boom, Bust and Echo 2000*, p. 148.



## INCREASING IMMIGRATION: CANADA'S CHANGING CULTURAL LANDSCAPE

Immigration plays an important role in shaping Canada's population. The 2006 Census indicates that over 6 million people in Canada are foreign born, representing one in five of the total population, the highest proportion in 75 years.<sup>11</sup> Statistics Canada projects that, based on current immigration trends, about one out of every five people in Canada could be a member of a visible minority by 2017.<sup>12</sup>

Immigration contributes substantially to linguistic diversity. Nearly 150 languages were reported as a mother tongue among the foreign-born population in 2006.<sup>13</sup>

As well, Canada's Aboriginal population is also experiencing strong growth, increasing 45 per cent between 1996 and 2006. According to the 2006 Census, more than 1 million people in Canada identify themselves as Aboriginal. In 2006 Aboriginal people accounted for 3.8 per cent of Canada's total population.<sup>14</sup> Overall, about half of Aboriginal people live in urban areas, largely in Prairie cities.

Many social and economic benefits of diversity are documented in the literature, from strengthened cultural values to enhanced service levels and customer satisfaction. The increasing diversity of Canada's population has significant implications for business and government. Jeffrey Gandz, a professor at the University of Western Ontario's Richard Ivey School of Business, notes that "one estimate is that visible minorities possess \$76 billion worth of combined purchasing power in Canada."<sup>15</sup> Many organizations are awakening to the reality that cultural diversity is good for business. Diversity drives changes in consumer patterns and behaviour. Increased diversity affects demand for multilingual music and television programming, written media, and other culture goods and services. Reflecting diversity in our creative economy is also a way of tapping into global markets, because consumers of diverse content may be in Canada

or abroad. Viewers of diverse programming on OMNI Television also strengthen bonds within their own cultural communities and maintain links with their country of origin.

The increasing cultural diversity of the Canadian population is affecting the Canadian broadcasting sector significantly. In the midst of demographic change, technological change, and the transformation of business models, there is growing pressure to ensure that Canadian programming reflects the increasing diversity of the Canadian population. Canada's ethnic broadcasting choices have expanded considerably over the years.

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**Diversity drives changes in consumer patterns and behaviour. Increased diversity affects demand for multilingual music and television programming, written media, and other culture goods and services.**

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## EXPANDING GLOBALIZATION AND THE INTERNET: IMPACTS ON CULTURE CONSUMERS

### THE RISE OF INTERNET USAGE, BROADBAND, AND DIGITAL TECHNOLOGIES

Increasingly, people around the world are connecting through the Internet. The percentage of Canadians using the Internet is among the highest in the world. In 2005 the proportion of Canadians using the Internet was 69 per cent, compared with 85 per cent in Sweden, 74 per cent in Finland, 70 per cent in the United Kingdom, and 63 per cent in Australia.<sup>16</sup>

Based on Statistics Canada's 2005 Canadian Internet Use Survey, an estimated 16.8 million adult Canadians used the Internet for personal activities during the 12 months prior to the survey. More than 15 million adult Canadians used the Internet from home in 2005; almost two-thirds of those used it every day during a typical month, and just under one-quarter reported using it 10 hours or more during a

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11 Chui et al., *Immigration in Canada*, p. 7.

12 Statistics Canada, "Canada's Visible Minority Population in 2017."

13 Chui et al., *Immigration in Canada*, p. 11.

14 Statistics Canada, "Aboriginal Peoples in Canada in 2006."

15 Gandz, *The Business Case for Diversity*.

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16 Statistics Canada, *2005 Canadian Internet Use Survey*, p. 7.



typical week.<sup>17</sup> Adult Canadians living in larger cities are more likely to be Internet users than those living in small towns or rural areas.

The growing use of the Internet has significant implications for the culture sector. New digital technologies influence how people spend their time and provide growing options with respect to media choice. Among Canadian adults, young adults between the ages of 18 and 24 are the biggest Internet user group. A 2004 Canadian study found that 90.3 per cent of young adults in this age group are online, and 87.9 per cent of those aged 18 to 34 are online.<sup>18</sup>

The Internet, increased bandwidth (broadband), and digital technologies have created substantial changes in the way people learn, work, and play. These technologies have become embedded across all sectors and substantially influence business models for many culture industries. Recent surveys in the United Kingdom, for example, suggest that “schoolchildren today are as attuned to IT as past generations were to the blackboard, timetables and spelling tests.”<sup>19</sup>

A recent Ipsos Reid survey of over 1,200 online teenagers in Canada between the ages of 12 and 17 suggests that “the Internet is changing the social fabric of interpersonal communication among teens.”<sup>20</sup> For Canada’s teens, socializing is the most popular online activity. Millions of users have accounts on social networking sites such as Facebook and Friendster. Sending and receiving e-mail, instant messaging, and online gaming are among the most common weekly online activities among teens responding to the survey.

Teenagers are not only users; they are also content creators.<sup>21</sup> In the United States, 57 per cent of some 21 million online teens create content for the Internet. These activities include creating a blog; creating or working on a personal web page; creating or working

on a web page for school, a friend, or an organization; sharing original content such as artwork, photos, stories, or videos online; or remixing content found online into a new creation.

Sites such as YouTube, MySpace, Flickr, and Second Life offer interactive environments that enable users to become involved in creating and producing as well as consuming cultural content. A survey of over 2,000 American adults (aged 18 and older) conducted between October and December 2007 indicates that 48 per cent of Internet users said they had visited a video-sharing site such as YouTube, compared with 33 per cent of Internet users one year earlier, representing a 45 per cent increase in one year.<sup>22</sup> Creative Commons provides free tools that enable authors, scientists, artists, and educators to mark their creative work with the freedoms they want it to carry, such as “some rights reserved” versus “all rights reserved.”<sup>23</sup>

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#### **Among Canadian adults, young adults between the ages of 18 and 24 are the biggest Internet user group.**

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Guess who is playing games on the Internet? The average game player is 33 years of age. In 2005, 69 per cent of American heads of households played games on the Internet. Twenty-five per cent of gamers in the United States in 2005 were over the age of 50. The average number of years adult gamers have been playing computer or video games is 12. In 2005, computer and video game sales combined reached \$7 billion, compared with \$2.6 billion in 1996.<sup>24</sup>

Online commerce has dramatically transformed industries such as music and film, largely as a result of increasing speed of streaming or downloading, and resources for sharing and selling music and video files.<sup>25</sup> For example, Canada’s audiovisual industry, valued at almost \$5 billion in 2006, is significantly affected by global technology.

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17 Statistics Canada, “Canadian Internet Use Survey.”

18 Canadian Internet Project, *Canada Online!* p. 37.

19 Holden, “Culture and Technology,” p. 14.

20 Ipsos Reid, *The Internet is Changing*.

21 Lenhart and Madden, *Teen Content Creators and Consumers*, p. 1.

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22 Rainie, PEW Internet Project Data Memo, p. 1.

23 [www.creativecommons.org](http://www.creativecommons.org), retrieved February 4, 2008.

24 Entertainment Software Association, *Essential Facts*, p. 11.

25 Holden, “Culture and Technology,” p. 16.

The industry comprises Canadian television production, which accounts for 59 per cent of the total; foreign location production, which makes up 35 per cent; and feature film production, which comprises 7 per cent.<sup>26</sup> A recent study by GR Strategies Inc. suggests that “there is now widespread recognition that the business models, policy tools, and perhaps even legislation developed for the analog environment must change to meet the challenges of a digital society.”<sup>27</sup>

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**Although Internet users spend less time watching television, listening to radio, and reading magazines and newspapers, they still spend considerable time using all three of these forms of traditional media.**

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Historically, government’s role in the development of Canada’s audiovisual industry has been significant. GR Strategies reports that “market forces, as they are traditionally understood, are not at play in the Canadian television system. The competitors, whether they are producers, broadcasters or distributors, are either regulated or dependent on government support or approval to conduct business. No foreign competitors have been permitted to enter the market.”<sup>28</sup> Today, consumers have many choices for their audiovisual entertainment. In addition to television and radio, Internet platforms such as YouTube and mobile devices, from cell phones to iPods, are gaining audience participation. Moreover, they are also capturing advertising revenues.

#### **IMPACTS OF THE INTERNET ON THE USE OF TRADITIONAL MEDIA AND CANADIAN CULTURAL CONTENT**

The Canadian Internet Project, involving a telephone survey of 3,014 individuals in Canada aged 18 or older, finds that use of the Internet appears to supplement rather than replace traditional media use.<sup>29</sup> On average, Internet users spend only about 1.8 hours less per week using traditional media than do non-users. Although Internet users spend less time watching television, listening to

radio, and reading magazines and newspapers compared with non-users, they still spend considerable time using all three of these forms of traditional media. Younger users and heavier Internet users report that Internet use has led to a decline in the amount of time spent watching television. However, compared with non-Internet users, Internet users engage more in reading books, watching movies in theatres, listening to music, and using the telephone.<sup>30</sup> The study found that 74 per cent of Internet users believe that the Internet has reduced their telephone use. Compared to non-users, Internet users tend to make greater use of all ICTs—for example, VCRs, DVD players, cell phones, video game consoles, digital cameras, MP3 players, and personal digital assistants (PDAs) in the household.

The Canadian Internet Project looked at the types of websites Internet users accessed. About 70 per cent of respondents reported that they never or rarely access Canadian cultural content online. Only 27 per cent of survey respondents are aware of the Canadian portal website culture.ca and only 12 per cent access the site.<sup>31</sup> The report suggests that Canada will see rapid growth in online commerce, the delivery of news and cultural productions through the Internet and new communication services, and various forms of online leisure, such as interactive gaming.

#### **TODAY’S CULTURE CONSUMER: KEY TRENDS IN SUPPLY AND DEMAND**

Three significant trends affect the consumption of culture goods and services, which have been strongly influenced by digital technologies. They are prosumerism, the long tail, and social networking.

##### **PROSUMERISM**

The term “prosumer” was coined by Alvin Toffler over 25 years ago in his 1980 book, *The Third Wave*.<sup>32</sup> The term is a hybrid of the words producer and consumer and was popularized by Don Tapscott in 1995 in *The Digital Economy*.

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26 GR Strategies, *Report on the Impact of Technology on Culture*, p. 1.

27 Ibid., p. 2.

28 Ibid., p. 15.

29 Canadian Internet Project, *Canada Online!* p. 1.

30 Ibid., p. 85.

31 Ibid., p. 8.

32 Toffler, *The Third Wave*.

Facilitated by new technology and largely by consumers' demands for personal freedom and individual expression, prosumerism refers to consumers' desire to participate directly in generating value from products and services and their preference for interactive experiences. Prosumers are keenly interested in directly customizing and controlling their consumption experiences.

*Ericsson Business Review* reports that "consumers around the world are taking an active part in the creation of content. The prosumer trend is strong. Users want to take part in creating, distributing and recommending anything and everything."<sup>33</sup> Through new media, the cultural creative process has been democratized in many ways, and the boundaries between audience and creator have become blurred.

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**Prosumerism refers to consumers' desire to participate directly in generating value from products and services.**

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Participatory technologies such as the Internet and mobile networks enable consumers to engage in knowledge exchange and content production. Generally referred to as Web 2.0 or social software, these interactive technologies have contributed to a rapid increase in user-led content by providing tools to create, share, and remix content and to engage in collaborative innovation. YouTube (broadcasting), "The Sims" (an interactive game), and BitTorrent (a file-sharing program) are a few examples. Music videos play a leading role in the emerging business of consumer-driven websites.<sup>34</sup>

The impact of prosumerism extends beyond cyberspace and the culture sector. A similar phenomenon is occurring in other sectors of the economy. In the ICT sector, for example, the Linux operating system is a free, open-source software supported by IBM, Dell, and other major ICT firms.

Prosumers not only blur the traditional distinction between producer and consumer; they also drive traditional creative producers to develop new business models. These

new business models, in turn, require creative producers to find new approaches to commoditizing creative goods and services, commoditizing the virtual neighbourhoods in which creative expression takes place, or perhaps even commoditizing aspects of the creative experience itself.<sup>35</sup>

## THE LONG TAIL

The concept of the "long tail" is not new. The long tail involves a process by which products with appeal to a narrow audience of consumers can collectively make up a substantial market share. Chris Anderson, editor-in-chief of *Wired* magazine and author of *The Long Tail*, suggests that, given the power of the Internet to access a huge critical mass of people, niche markets can become viable—and quite profitable. Cyber-stores can offer products that have been taken off retail shelves, as well as products that never made it to the shelf. Lower distribution and inventory costs allow businesses to sell smaller volumes of niche products online. *The Long Tail* offers a long list of successful examples, including Amazon, Rhapsody, Netflix, and many others. About 25 per cent of Amazon sales are now products that are not available in offline retail stores.<sup>36</sup>

The long-tail business model is creating a sea change in the way many cultural industries sell their products and services. Anderson suggests we "forget squeezing millions from a few megahits at the top of the charts. The future of entertainment is in the millions of niche markets at the shallow end of the bitstream."<sup>37</sup> Anderson is referring to the virtually unlimited selection of consumer goods and services available on the Internet—selection that is unconstrained by the physical space of bricks-and-mortar retail stores and movie theatres, and a limited number of TV stations and radio stations.

According to Anderson, the online version of the long tail is a new economic model for the media and entertainment industries.<sup>38</sup> He proposes that there is a new economics of abundance rather than scarcity and suggests

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33 Medman, *Doing our Own Thing*, p. 1.

34 Ibid., p. 49.

35 Policy Research Group, "The New Consumer," slides 3, 6, 10, 13–15.

36 Anderson, *The Long Tail*, p. 7.

37 Ibid., p. 3.

38 Ibid.

new rules for the entertainment economy in this shifting paradigm.<sup>39</sup>

- ♦ Make everything available. (Spend less time on demand analysis.)
- ♦ Cut the price in half. Now lower it. (Online music and videos have no packaging costs.)
- ♦ Help me find it. (Mix mainstream with long tail. For example, Amazon advertises “If you like X, you’ll love Y.”)

### SOCIAL NETWORKING

Today, consumers use new technology not merely to gain access to new markets, new goods, and new services, but also to network. Through networking, they engage in commercial transactions that intensify and deepen their networking experience. Thus, consumer networking is as much socially motivated as it is consumer oriented. Consumers participate in social networking to become part of virtual communities of like-hearted people. Examples of the virtual communities consumers occupy include virtual neighbourhoods such as Facebook, Friendster, and MySpace. In the process of integrating themselves into virtual communities, consumers sometimes assume different identities in cyberspace (such as the avatars on Second Life). Services such as Craigslist help consumers connect with urban communities that match their personal creative profiles.

Community sites make tools available to consumers that allow them to modify their personal web pages and form new communities. Tools that consumers use include Blogger, del.icio.us, digg, and Flickr. These tools facilitate blogging (Blogger), bookmarking web pages and sharing collections of links with others (del.icio.us), and sharing photos (Flickr). Other tool websites such as Technorati enable consumers to search for, find, and organize blogs and other forms of independent, user-generated content.

Community sites also recommend products and services that consumers can purchase on shopping sites, such as Amazon, CafePress, eBay, iTunes, and Puretracks, all of which cater to niche markets. Creative new consumers share and promote their own self-created content and that of others, which they have downloaded themselves or

acquired from peer-to-peer networking on community sites or within tool websites. Creative new consumers customize and personalize creative content produced by others and become co-creators of content, over which they exercise control by posting materials to their own websites or personal blogs.

### CONSUMER SPENDING ON CULTURE GOODS AND SERVICES

Cultural activities generate substantial consumer spending on culture goods and services. In addition, they generate significant indirect spending effects that are realized through related spending on, for example, restaurants, hotels, and transportation services.<sup>40</sup> Indirect benefits are also derived from culture employees spending their earnings, business owners spending (or investing) the profits they generate, and government spending the additional tax revenues generated by those wages and profits. In turn, these purchases lead to further increases in employment, wages, income, and tax revenues that can be felt across a wide range of industries.

Specifically, though, this segment on consumer spending on culture focuses on direct spending on culture goods and services. Hill Strategies reports that Canadian consumers spent \$25.1 billion on culture goods and services in 2005, an amount that is “5% higher than the combined consumer spending on household furniture, appliances and tools (\$24.0 billion)” and “over three times larger than the \$7.7 billion spent on culture in Canada by all levels of government in 2003/04.”<sup>41</sup>

Canadian households spent an average of \$1,450 on culture goods and services in 2004, compared with \$1,290 in 1999.<sup>42</sup> Table 1 shows the total household spending on cultural activities from 1996 to 2003 according to the Statistics Canada’s Survey of Household Spending and Family Expenditure Survey. Overall, spending on cultural activities increased by 45 per cent between 1996 and 2003.

39 Ibid., p. 13.

40 Wiesand and Söndermann, *The “Creative Sector.”*

41 Hill Strategies Research, *Canadians Spend Over \$25 Billion*, p. 1.

42 Statistics Canada, *What Canadian Households Spend*.

Spending on heritage and on broadcasting experienced the largest percentage change between 1996 and 2003, increasing 132 per cent and 101 per cent respectively. Performing arts experienced an increase of 53 per cent. In 2005, Canadians' spending on live performing arts was double their spending on live sports events.<sup>43</sup> Canadians spend \$13 billion on home entertainment, \$4.8 billion on reading material, \$2.7 billion on art works and events, \$2.2 billion on photographic equipment and services, \$1.3 billion on movie theatre admissions, and \$1.1 billion on art supplies and musical instruments. Spending on museum admissions exceeded \$500 million for the first time in 2005.<sup>44</sup>

Of the eight culture subsectors reported in Table 1, only visual arts experienced an overall decline in household spending between 1996 and 2003, decreasing by 12 per cent.

It is worth noting that video game purchases are not included in these totals.

Many of the purchases by Canadian consumers, including culture goods and services, are online. In 2005 Canadians spent \$7.9 billion on the Internet shopping, including travel arrangements, reading material and electronics. Nearly seven million adults bought something online in 2005.<sup>45</sup>

## INTELLECTUAL PROPERTY AND INTERNATIONAL COPYRIGHT

CONNECTUS Consulting Inc. recently released a study on the economic impact of Canadian copyright industries.<sup>46</sup> Copyright is fundamental to the business models supporting arts and cultural enterprise. "In most cases, the right to use a product is the value—not the physical package that contains the content."<sup>47</sup> CONNECTUS

**Table 1**

Household Spending on Cultural Activities, Canada  
(\$ millions)

Cultural Activity	1996	2003	Percentage Change (1996 to 2003)
Heritage	213	493	132
Broadcasting	3,260	6,542	101
Performing arts	765	1,170	53
Written media	3,874	5,315	37
Libraries	125	155	24
Photography	1,191	1,466	23
Film industry	3,711	4,484	21
Visual arts	915	804	-12
<b>Total</b>	<b>14,054</b>	<b>20,430</b>	<b>45</b>

Source: Culture Statistics Program, Statistics Canada, *Economic Contribution of the Culture Sector to Canada's Provinces*, p. 89.

notes several ways in which copyrights may be set, including "by individual negotiations between rights holders and users; by collective bargaining between groups of rights holders and either individual users or groups of users; by collective bargaining, but with recourse to an arbitration tribunal; and by mechanisms which provide alternative compensation for rights holders."<sup>48</sup>

Using the World Intellectual Property Organization (WIPO) definition of copyright-based industries—that is, "those engaged in the creation, production and manufacturing, performance, broadcast, communication and exhibition, or distribution and sales of works and other protected subject matter"<sup>49</sup>—the study encompasses both "core" and non-core industries. Core industries include press and literature; theatrical and music productions, and opera; motion picture and video industries (and sound recording); radio and television; software, databases, and new media; advertising services; photographic, visual, and graphic arts; and copyright collective management societies. The study found that Canada's copyright

43 Hill Strategies Research, *Canadians Spend Over \$25 Billion*, p. 1.

44 Ibid., p. 1.

45 CBC News, "Internet Spending Reaches \$7.9B."

46 CONNECTUS Consulting, *The Economic Impact*, Executive Summary.

47 CONNECTUS Consulting, *The Transformation of Value Chains*, p. 25.

48 Ibid., p. 26.

49 CONNECTUS Consulting, *The Economic Impact*, p. 5.

industries generated \$46.8 billion (calculated in 1997 chained dollars) with core industries accounting for \$34.7 billion. Canada's copyright industries employed 655,000 people in 2004, according to the study.<sup>50</sup>

International piracy of culture goods has become a critical copyright issue. In Canada, "the Copyright Act provides the legal framework within which creators and other rights holders are entitled to recognition and control of, and payment for, the use of their works."<sup>51</sup>

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**Canada is not facing these issues of intellectual property and copyright alone. Countries around the world are struggling with piracy and counterfeiting.**

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A study conducted by LEK Consulting estimated that U.S. movie studios lost about US\$6.1 billion in 2005 due to piracy. The Institute for Policy Innovation released a subsequent study suggesting that the U.S. economy lost a total of \$20.5 billion in 2005 as a result of movie and TV piracy, including impacts to related industries such as DVD retailers and pay-per-view and video-on-demand providers, as well as secondary and tertiary losses.<sup>52</sup>

Canada is not facing these issues of intellectual property and copyrights alone. Countries around the world are struggling with the problem of piracy and counterfeiting. A recent OECD study points to several factors driving the use of the Internet by counterfeiters and pirates, including anonymity; flexibility; the size of the market (the ability to market a small number of infringing products multiple times can undermine enforcement efforts); global market reach; and deception (such as contrived ratings).<sup>53</sup> These challenges are substantial and growing as the digital revolution gains momentum, enabling greater rates of connectivity and increasing consumers' appetite for interactivity, control, and choice in accessing and producing creative content.

## THE ROLE OF ARTS AND CULTURE IN GENERATING, REGENERATING, AND BRANDING "CREATIVE CITIES"

Current economic theories suggest that advanced industrial nations are transforming into knowledge-based, service-oriented, and creative economies. In the industrial economy, competitiveness was driven by physical resources such as coal and oil and by commodities such as steel, automobiles, and machinery. While many of these continue to be important to Canada's economy, in the knowledge economy competitiveness is driven by people. The economic success of nations and cities depends increasingly on their scientific capacity and on their capacity to generate innovative business models and increase productivity. Creativity is the source of innovation.

For many scholars, including such notables as Richard Florida and Charles Landry, creativity is central to economic vitality. Both of these authors characterize creativity as the engine of growth for cities.

Florida proposes a theory to help explain the growth of the knowledge economy—the rise of the creative class. Florida asserts that creativity is now the source of competitive advantage and that the "centre of gravity has shifted from traditional industrial regions toward new axes of creativity and innovation."<sup>54</sup> He suggests that economic growth will occur in places where creative people cluster. In this new paradigm employment is not the central driving force for location decisions; rather, creative people choose to live in places that are centres of creativity and diversity, such as San Francisco, Austin, San Diego, Boston, and Seattle—places with a flourishing artistic and cultural environment.<sup>55</sup>

According to Florida, the creative class grew 10-fold over the 20th century and has doubled since 1980 alone.<sup>56</sup> Approximately 38 million Americans, 30 per cent of all employed people in the U.S., belong to this new class, including scientists, engineers, architects, designers, educators, artists, musicians, and others whose economic

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50 Ibid., pp. 6, 8.

51 Government of Canada, *A Framework for Copyright Reform*, p. 2.

52 Sweeting, "Pirates robbed U.S. of \$20.5 billion."

53 OECD, *The Economic Impact of Counterfeiting and Piracy*, Part IV, Executive Summary, p. 12.

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54 Florida, *The Rise of the Creative Class*, p. 11.

55 Ibid., p. 246.

56 Ibid., p. 9.



function is to create new ideas, technology, or creative content. Additionally, a broad range of creative professionals support core creative functions, including business services and law. Creative workers are generally highly educated and open to diversity, and they work relatively autonomously.

In Canada the culture labour force, which is at the core of the creative class, is predominantly located in the three largest cities: Toronto, Montréal, and Vancouver. (See Table 2.) Culture industries as a percentage of the total labour force in the CMAs were 6.1 per cent in Toronto, 5.5 per cent in Montréal, and 5.2 per cent in Vancouver in 2001. Toronto's culture labour force in 2001 was 154,000; Montréal's was 97,800; and Vancouver's was 54,500.<sup>57</sup> Together, these three cities accounted for 64 per cent of the 27 Canadian CMAs' culture labour force.

For Florida, the capacity of cities to attract both people and investment depends on the coexistence of three constitutive elements: talent, technology, and tolerance. He notes that "globalization increasingly takes shape around city-regions with large concentrations of talent . . . Even as technology enables us to work from virtually anywhere, a key fact of the creative age remains its tremendous geographic concentration."<sup>58</sup> He points to a 2000 study by the Milken Institute that identifies immigration as one of the most powerful demographic trends shaping cities and regions in the United States, including New York, Atlanta, and Silicon Valley.<sup>59</sup>

Like Florida, Landry also suggests the city has a special role in the new economy. He notes that, despite the importance of global virtual networks, place attachment is a powerful human trait. Quality of place is tied to

**Table 2**

Share of Labour Force in Culture Industries, by Census Metropolitan Areas, 2001  
(per cent)

Cultural Industry	Toronto	Montréal	Vancouver	Canada
Advertising and related services	0.81	0.67	0.43	0.39
Agents/managers—artists, athletes, entertainers, and other	0.04	0.03	0.04	0.02
Architectural services	0.17	0.14	0.19	0.08
Book, periodical, or music store	0.21	0.19	0.18	0.15
Heritage institutions	0.09	0.12	0.10	0.16
Independent artists, writers, and performers	0.43	0.35	0.55	0.30
Information services	0.43	0.29	0.44	0.31
Manufacturing and reproducing magnetic and optical media	0.09	0.07	0.03	0.01
Motion picture and video industries	0.69	0.79	0.96	0.38
Newspaper, periodical, book, and database publishing	0.74	0.62	0.54	0.52
Pay and specialty television and program distribution	0.20	0.14	0.15	0.12
Performing arts companies	0.18	0.23	0.17	0.13
Printing	0.94	1.01	0.63	0.61
Promoters/presenters—performing arts, sports, and other	0.09	0.12	0.07	0.07
Radio and television broadcasting industries	0.35	0.32	0.23	0.22
Sound recording industries	0.08	0.05	0.05	0.03
Specialized design services	0.57	0.39	0.44	0.28
<b>Total</b>	<b>6.10</b>	<b>5.54</b>	<b>5.19</b>	<b>3.83</b>

Source: Coish, *Census Metropolitan Areas*, pp. 68–69.

57 Coish, *Census Metropolitan Areas*, pp. 12, 15.

58 Florida, *The Creative Compact*, p. 8.

59 Florida, *The Rise of the Creative Class*, p. 253.

geographic location: “The physical world has fundamental sensual qualities which make actually being there the greatest experiential effect.”<sup>60</sup>

Cities around the world have developed clusters of cultural activity—the new gold of the creative economy. Cities rich in cultural resources are “hotbeds of creativity,” economic wealth generators in their own right, and magnets for talent across all sectors of the economy.<sup>61</sup> Landry suggests that culture be elevated from its undervalued, peripheral role in urban planning to a central force in shaping the growth of cities: “Cultural heritage and contemporary expressions of it have provided a worldwide focus for urban renewal. In the midst of economic development we find inspiration in the buildings, artifacts, traditions, values and skills of the past. Culture helps us to adapt to change by anchoring our sense of being; it shows that we come from somewhere and have a story to tell.”<sup>62</sup>

For Landry, technological transformations, globalization, and mass international migration have important cultural effects on cities and on their relationships, domestically and internationally.<sup>63</sup> All three factors contribute to increasing integration of societies, greater access to information and insights, and increasing economic interdependence among cities, domestically and globally.

While arts and culture industries play an important role in fostering economic development, creative cities are not limited to areas that possess large concentrations of cultural industries; creativity is defined much more broadly. However, the existence of culture clusters or niche concentrations of culture industries are generally considered to be important indicators for creative cities. In particular, they are viewed as magnets for talent. In Toronto, for example, a full 6 per cent of culture workers living in that city in 2001 came from outside the country within the preceding five-year intercensal period, and in Vancouver the corresponding figure was 7.9 per cent.<sup>64</sup>

Canada’s three largest CMAs—Toronto, Montréal, and Vancouver—are generally considered the nation’s cultural capitals. Montréal, well established as one of Canada’s most creative cities, was successful in luring Ubisoft, the largest video game company in Europe, and Electronic Arts, an American-based video game publisher, to open creative studios in the city. According to Ubisoft’s French CEO Martin Tremblay, Montréal “offers four key conditions for success: talented and creative resources, the proper educational infrastructure, a technology community and government support.”<sup>65</sup> Notable government support comes in the form of a refundable tax credit for the production of multimedia titles of up to 37.5 per cent of labour costs, and a refundable tax credit for companies in the IT sector that carry out major employment-generating projects of up to 25 per cent of eligible salaries. Ubisoft has recently created the Ubisoft campus in Montréal. The campus provides training for employees from all of the company’s studios, develops future professionals for the video game industry, and will be the hub of the company’s partnerships with schools to attract and develop future employees.<sup>66</sup>

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**Cities rich in cultural resources are “hotbeds of creativity,” economic wealth generators, and magnets for talent across all sectors of the economy.**

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Canada has many examples of technology clusters that respond to consumer demand in the creative economy, including Canada’s Technology Triangle in the Kitchener–Waterloo region. Headquartered in Kitchener–Waterloo is Research In Motion (RIM), the company that invented the BlackBerry and revolutionized business communications. Research institutes in the universities located in Canada’s Technology Triangle have spawned many new technological start-up companies. Kitchener has developed a cultural plan to ensure that it retains technology companies and creative workers, based on the assumption that world-class cultural amenities, a

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60 Landry, *The Creative City*, p. 37.

61 Ibid., p. 9.

62 Ibid., p. 39.

63 Ibid.

64 Coish, *Census Metropolitan Areas*, p. 65.

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65 Investissement Québec, Montréal, *Multimedia Capital*.

66 KEA European Affairs et al., *The Economy of Culture in Europe*, pp. 171, 278.



highly skilled and creative workforce, and region-wide commercial networks will help to attract more investment, more firms, and more creative workers.<sup>67</sup> In May 2007 Waterloo was named the “World’s Top Intelligent Community” by the Intelligent Community Forum and ranks among the top five “Small Cities of the Future” in North America.<sup>68</sup>

Other CMAs across Canada form niche clusters of cultural activity. For example, Halifax has established a strong presence in domestic film production; Victoria in literary, performing, and visual arts and information services; Halifax, St. John’s, and Ottawa–Gatineau in information services and performing arts; and Winnipeg and St. Catharines–Niagara in performing arts. Calgary is building its capacity for architectural services and specialized design.<sup>69</sup>

Demographic and technological changes, globalization of value chains, consumer dynamics, and emerging regulatory issues are significantly affecting individuals, organizations, cities, and nations. Together these critical trends result in exciting opportunities for growth in the creative economy, but they also demand enhanced adaptive capacity to create relevant business models, policy and regulatory tools, and responsive institutional support to foster positive social, cultural, and economic transformation. The continued growth of Canada’s creative economy requires strong linkages across all levels of government, integrative synergies between the public and private sector, innovative approaches to business development, and enriched understanding of Canada’s cultural wealth in its many delightful forms.

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67 Department of Canadian Heritage, *Creative Communities for a Knowledge Economy*, p. 13.

68 Canada’s Technology Triangle, *Area Named*.

69 Coish, *Census Metropolitan Areas*, p. 66.

## CHAPTER 3

# The Economic Footprint of Canada's Creative Economy

### Chapter Summary

- ◆ The Conference Board estimates that real value-added output by culture sector industries was over \$46 billion in 2007, roughly 3.8 per cent of Canada's total real gross domestic product (GDP).
- ◆ When the effects of arts and culture industries on other sectors of the economy are added—to account for indirect and induced effects—the overall impact is much larger. We estimate that the economic footprint of the culture sector was \$84.6 billion in 2007—7.4 per cent of total real GDP.
- ◆ Employment attributable to the arts and culture industries through direct, indirect, and induced impacts amounted to over 1.1 million people in 2007.

The phrase “l’art pour l’art” or “art for art’s sake” has been a slogan of the creative class since 19th-century France. This phrase has commonly been invoked to remind us that art and the creation of art, in itself, is valuable, regardless of whether it serves a moral purpose or is valued economically. Increasingly it is being understood that art and, more broadly speaking, culture have value beyond the aesthetic sphere. Chapter 1 argues

that arts and culture have provided numerous benefits to individuals and communities, and documented the social benefits from arts and culture.

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**Increasingly it is being understood that art and, more broadly speaking, culture have value beyond the aesthetic sphere . . . arts and culture have provided numerous benefits to individuals and communities.**

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This chapter is focused on assessing the size and economic impact of those components of culture that can be more easily quantified. To this end, we rely on Statistics Canada's framework and data to measure the size of culture industries in Canada. The available data are extended to 2007, utilizing a number of statistical methods, to yield a more recent perspective on the size and economic weight of the culture sector in Canada. The results show that the direct impact of the culture sector, measured as the real value-added output by culture industries, was estimated at \$46 billion in 2007 or roughly 3.8 per cent of total real GDP. Finally, macroeconomic models of the Canadian economy are used to assess the broader economic impacts of culture in Canada—the economic footprint of culture. Summing the quantifiable direct, indirect, and induced impacts suggests that Canada's culture sector contributed \$84.6 billion to total real GDP in 2007. Moreover, nearly 1.1 million jobs can be attributed directly and indirectly to economic activity generated by culture sector industries.

## A FRAMEWORK FOR QUANTIFYING THE CREATIVE ECONOMY

In 2004, in a collaborative effort with the Department of Canadian Heritage, Statistics Canada produced a framework to define culture industries in Canada.<sup>1</sup> Statistics Canada defines culture as a “creative artistic activity and the goods and services produced by it, and the preservation of human heritage.” While the framework may have gaps, it does establish a definition for the culture sector that can be quantified with available data.

The difficulty with assessing the economic value of culture is that culture industries are not separately defined under the current system of national accounting. The North American Industry Classification System (NAICS) is available at various levels of disaggregation. And while some aspects of the culture sector can be captured within some of the detailed NAICS codes, culture is not defined within the current system as an industry. Because of that, many aspects of culture are included within other NAICS codes and not measured on their own. Statistics Canada’s culture industries framework has been developed to pull, from various NAICS industries, the components that are related to culture. First, the framework divides the creative chain for culture industries into five broad categories:

- ♦ **Creation**—This segment includes people involved in the development of a creative artistic idea, such as independent artists, writers, and performers.
- ♦ **Production**—This segment of the creative chain includes organizations involved in processing or producing creative goods or services, such as books or magazines, as well as intangible services, including concerts and theatre performances.
- ♦ **Manufacturing**—This segment includes, for instance, the mass production of a book undertaken by a printer.
- ♦ **Distribution**—This segment includes the distribution of books by wholesalers and retailers, such as bookstores, general merchandise stores, and electronic shopping and mail-order organizations.
- ♦ **Support services**—Many people and organizations provide support in the provision of culture goods and services, including agents and managers who represent publishers and writers.

Statistics Canada notes that the creative chain model used to measure the provision of culture goods and services works best with a physical good rather than a culture service. For example, the preservation of human heritage is more intangible in nature, so measuring its economic value is more difficult. Many activities are required in preserving heritage, including the discovery or identification of a particular artifact, the conservation of the item (repair and storage), interpretation, and, finally, presentation. Identifying and measuring such activities can be complex, given data limitations.

The creative chain encompasses all phases of the provision of culture goods and services, from artistic inception through distribution. Thus, the written media industry, for example, includes printers, book dealers, and publishers as well as writers.

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**While the framework may have gaps, it establishes a definition for the culture sector that can be quantified.**

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The culture sector framework identifies 14 categories of culture industries. The value generated by each of these industries, defined as the value-added<sup>2</sup> or nominal GDP, is estimated by apportioning the GDP in broader NAICS industries that is attributable to culture. To estimate the shares attributable to culture, Statistics Canada often relies on more detailed occupational data. For example, it is possible to break out the value of GDP attributed to visual arts by assessing the share of occupations that include painters, sculptors, and other visual artists. Although there are simplifying assumptions—for example, relative wages or productivity are not considered—the methodology does allow Statistics Canada to estimate, in some detail, the size of cultural industries in Canada.

Table 3 displays the level of nominal GDP estimated for each of the 14 culture industry categories.<sup>3</sup> Because of lags in the availability of detailed industry data, the

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1 Statistics Canada, *Canadian Framework for Culture Statistics*.

2 Value-added or net output is the difference between total revenue and the sum of expenses on parts, materials, and services used in the production process. Summing the value added across all industries will yield the GDP in that region.

3 Statistics Canada, *Economic Contribution of the Culture Sector*.

**Table 3**  
Nominal GDP, Culture Industries in Canada  
(\$ millions)

	1996	1997	1998	1999	2000	2001	2002	2003
Written media	11,301	11,939	12,725	13,319	14,881	16,004	16,703	16,850
Broadcasting	3,686	4,759	4,756	4,962	5,478	5,905	6,438	6,991
Film industry	2,341	2,368	2,854	3,216	3,354	3,585	3,897	4,119
Advertising	1,656	1,751	1,775	2,127	2,417	2,423	2,427	2,578
Heritage	1,303	1,182	1,322	1,395	1,279	1,207	1,259	1,389
Libraries	1,276	1,182	1,262	1,360	1,223	1,176	1,284	1,305
Architecture	788	758	826	907	1,079	1,061	1,110	1,236
Performing arts	1,004	1,021	1,048	1,008	1,078	1,048	1,087	1,132
Visual arts	920	864	941	947	978	950	969	1,041
Design	981	1,040	1,075	917	975	977	1,004	985
Photography	609	627	658	639	659	685	729	755
Sound recording and music publishing	349	283	298	355	374	347	383	391
Festivals	34	34	46	50	53	64	73	82
Support services	2,856	2,836	2,987	3,296	4,061	3,845	4,182	4,329
Culture output, all categories	29,104	30,644	32,573	34,498	37,889	39,277	41,545	43,183

Source: Statistics Canada.

estimates are produced only on a nominal basis,<sup>4</sup> up to the year 2003. While the data are not current, they do provide some interesting insights. Estimated at over \$43 billion in 2003, the culture sector accounted for about 3.8 per cent of Canada's total GDP—a share that remained relatively stable over the 1996 to 2003 period. For comparison, the value-added of Canada's retail industry was just under 6 per cent in 2007. Statistics Canada also estimates that the culture sector directly employed about 616,000 workers in 2003, about 3.9 per cent of total employment. Also interesting is that over the 1996 to 2003 period, the film and broadcasting industries posted very strong growth, allowing their combined share of culture GDP to increase by a full 5 percentage points to nearly 26 per cent.

4 Estimates are provided in current dollars and thus not adjusted for inflation. The Conference Board of Canada has utilized standard price deflators to produce estimates of real culture GDP; these are presented later in this section.

While culture industries, as defined in the framework, add significantly to overall GDP, there are a number of data gaps that suggest the true contribution is larger. The recent emergence of the Internet and other digital technologies has changed the way culture is created and consumed. As such, interactive media have become an increasingly important part of Canada's cultural landscape. Mass written and broadcast media are being, in part, replaced by more interactive and participatory media, including increasingly popular websites such as YouTube, MySpace, Facebook, and Second Life. A 2006 study conducted by PricewaterhouseCoopers provides important insight into the economic importance of the interactive media industry.<sup>5</sup> Estimates from this study suggest that in 2005 total revenue generated from interactive media was \$5 billion, with total employment exceeding 50,000 jobs.

5 PricewaterhouseCoopers, *Canadian Interactive Industry Profile 2006*.

The growing popularity of interactive media is evident from the results of a 2007 study by the Pew Internet and American Life Project, *Teens and Social Media*.<sup>6</sup> The study found that:

- ♦ 64 per cent of online teens aged 12 to 17 have participated in one or more of a wide range of content-creating activities (up from 57 per cent reported in Pew's poll conducted at the end of 2004);
- ♦ 39 per cent of online teens share their own artistic creations online, such as artwork, photos, stories, or videos, up from 33 per cent reported in Pew's 2004 poll; and
- ♦ 26 per cent remix content they find online into their own creations, up from 19 per cent in 2004.

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**In 2006, spending on video games in Canada totalled \$989 million. Between 2002 and 2006, spending on video games in Canada grew 68 per cent.**

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Another example of interactive media is video games. This market reflects consumer spending on console games, personal computer games, online games (including massive multi-player online games), downloadable games, on-demand games streamed through a website, and wireless games played on mobile phones. PricewaterhouseCoopers reports that, in 2006, spending on video games in Canada totalled \$989 million.<sup>7</sup> Between 2002 and 2006 spending on video games in Canada grew 68 per cent—an average growth of 14 per cent compounded annually. More importantly, Canada has become recognized as a global leader in video game development.

Video games fit into Statistics Canada's definition of culture in that many people would argue that the development of video games involves a creative artistic activity and, hence, video game companies meet a key requirement for inclusion as producers of a culture good. Perhaps, even more importantly, the methods for producing video games closely parallel those in the film industry. These production methods include animation, art direction, producing

and directing, characterizations, texturing of surfaces, scene design, motion capture, photography, voice-overs by actors, lighting, sound, and audio. In addition to the direct development of video games, there are many support industries that produce goods or services supporting creation, production, or transmission of other creative goods or services. Vancouver and Montréal have become video game development hubs and, according to New Media BC, there were 120 companies in B.C. directly involved in video game development in 2004. Canada is home to the two largest game development studios in the world, by revenues and by number of employees: Electronic Arts employs about 2,000 of its worldwide total of 7,900<sup>8</sup> employees in Burnaby, Vancouver, and Montréal, and in 2006–2007 Ubisoft employed 1,400 game development staff<sup>9</sup> of its worldwide total of 3,950 employees in Montréal.<sup>10</sup> PricewaterhouseCoopers has noted that about 20 per cent of the top-selling games in North America are developed in Canada.<sup>11</sup> Canada's strength in the high-value-added segments of the video game production chain—development and publishing—suggests that the video game industry is making an important, albeit unmeasured, contribution to the culture sector's impact on the Canadian economy. Canada has also provided a nurturing environment for these industries and boasts numerous interactive media education facilities, such as Sheridan College and “Ubisoft University.” The country is also renowned for its 2-D and 3-D animation and imaging software developers for interactive digital media, such as Flood Software, specializing in the animation of fluids, and XYZ RGB, which performs 3-D scanning of objects, including faces and animals, for film and games such as *King Kong*, *Lord of the Rings*, *The Matrix*, and Electronic Arts' “Need for Speed.”

Statistics Canada's NAICS codes covering the culture industry do not specifically account for the cultural activities involved in producing interactive media and video games. Production, manufacturing, and distribution

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6 Lenhart et al., *Teens and Social Media*.

7 PricewaterhouseCoopers, *Global Entertainment and Media Outlook: 2007–2011*.

8 Electronic Arts, Corporate Information.

9 Kumar, “The French-Canadian Connection.”

10 Ubisoft, *Ubisoft 2008*.

11 PricewaterhouseCoopers, *Global Entertainment and Media Outlook: 2007–2011*.

of film and video do not include a NAICS code for video games. Also, there is not a category that captures Canadians' involvement with interactive media Internet sites.

Another gap highlighted by Statistics Canada is that the framework excludes the value of volunteer activity, which is not captured in the employment data. Estimates suggest that the economic contribution of the non-profit sector to culture was \$3.6 billion in 2000.<sup>12</sup>

## ASSESSING THE SIZE OF CANADA'S CULTURE SECTOR

While Statistics Canada has provided a measure of the value-added contribution to GDP of Canada's culture industries, there are other measures that can yield some sense of the importance of Canada's culture sector. Indeed, the framework developed by Statistics Canada relies on adding up the value added or economic contribution by industry. But GDP can also be measured by looking at the total demand for or spending on cultural goods and services by all the agents within an economy: households, government, and businesses. In addition, transactions across borders must also be considered. As such, foreign purchases of culture goods and services—exports—will also add to total culture GDP, while sales by foreigners of culture goods and services are measured as imports.<sup>13</sup> While it is not possible to add up all of these components to measure the contribution of culture to Canada's GDP—for example, data on business investment in culture are not available—there is good information available about the amount households spend on culture and about trade flows of culture goods, as well as some information about the size of government spending on culture. In this section we present some of these measures; we also discuss the methodology used in extending a number of culture sector indicators to 2007.

## EXTENDING ESTIMATES OF CULTURE INDUSTRIES TO 2007

Table 3 presented the nominal value-added GDP of culture industries from 1996 to 2003. While it is not possible given current data gaps<sup>14</sup> to extend each of the sectors beyond 2003, it is possible, using broader categories of NAICS industries, to extend more aggregate components up to 2007. Statistics Canada publishes estimates of real (inflation-adjusted) GDP in a number of related categories<sup>15</sup> and these were used to grow the industry components, on an annual basis, up to 2007. Setting 2002 as the base year, the data were deflated, over the 1996 to 2002 period, using a private wage-based deflator.

According to our estimates, real value-added output by culture sector industries was valued at just over \$46 billion in 2007, roughly 3.8 per cent of total real GDP. While the direct economic contribution of culture industries has stayed relatively stable, broadcasting, telecommunications, and publishing activities have outpaced other culture industries, with the three components now accounting for nearly 60 per cent of total culture sector output. (See Chart 1.) Those components more directly related to household-recreation spending, including performing and visual arts, festivals, and portions of heritage and libraries, accounted for about 8 per cent of total culture GDP. Motion picture and sound recording industries also accounted for about 8 per cent of culture GDP, a sharp decline from the peak of 10.3 per cent attained in 2002, prior to the strong run-up in the value of the Canadian dollar. According to Statistics Canada, from 2002 to 2007 real GDP attributed to motion picture and sound recording industries fell by nearly 10 per cent—perhaps not a bad performance considering that the loonie appreciated by nearly 46 per cent over the same period. The remaining

12 Statistics Canada, *Satellite Account of Nonprofit Institutions and Volunteering: 1997 to 2004*.

13 In essence, value-added GDP is the same measure as expenditure-based GDP, for the whole economy or, more specifically, for the culture sector. Of course, measurement difficulties due to data gaps and the more complex definition of culture remain present for either measure.

14 While some of the data are not yet available beyond 2004, we are also unable to replicate Statistics Canada's methodology because many of the data used in constructing the culture industry detail are unpublished.

15 In some cases, the culture sector is closely tied to the related (and available) NAICS industry code. For example, written media and broadcasting are grown out using the closely related NAICS publishing industries and broadcasting industries. In other cases, the NAICS codes are not so closely related, such that tied performing arts industries are grown out using a broader NAICS category that also includes professional sports (a sector that in Canada is not considered part of the culture sector).

components of culture sector GDP, defined as culture and support services in Chart 1, account for about 23 per cent of the total value added. These components include a wide range of private business services and public sector contributions to overall culture output.

### SPENDING ON CULTURE GOODS AND SERVICES

While the industry estimates give us a sense of the direct economic contribution of culture sector GDP, spending on culture goods and services by households also provides some interesting perspectives. Statistics Canada conducts, annually, a detailed survey of consumer expenditures<sup>16</sup> that allows us to assess household spending on culture goods and services. Survey questions allow us to break out average household spending on 16 relatively detailed components of culture, ranging from antiques to rental of cable and satellite services, museum fees, and newspapers. The nominal expenditure estimates were available from Statistics Canada only up to 2005. These were adjusted for inflation and extended to 2007 utilizing broader categories of consumer spending in Canada.<sup>17</sup>

**Overall, real household spending on culture has remained relatively stable over the past decade.**

According to our estimates, in 2007 the average household in Canada spent roughly \$1,650 (in current dollars) on culture goods and services. Given that there are an estimated 12.6 million households in Canada, this suggests that consumer spending on culture goods and services was close to \$21 billion in 2007. That is equivalent to \$18.9 billion in real 2002 dollars, representing 2.4 per cent of total real consumer spending or 1.4 per cent of total real GDP. Overall, real household spending on culture has remained relatively stable over the past decade.

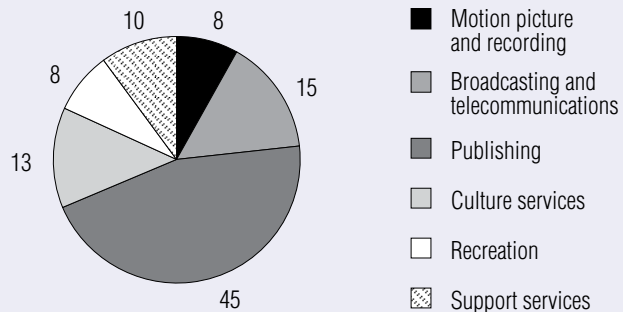
<sup>16</sup> For the purposes of our analysis, survey results were pulled directly from Statistics Canada's CANSIM database. For an overview of the survey, see Statistics Canada, *Spending Patterns in Canada*.

<sup>17</sup> The Conference Board examined the historical relationship between household spending on culture and broader consumer spending estimates available to 2007. These relationships were maintained when extending consumption on culture sector components over 2006 and 2007. Data were deflated utilizing the consumption of other services deflator available from Statistics Canada.

However, some interesting trends are revealed within each component. For example, household spending on cable and satellite television services has increased steadily since 1997, displacing written media as the largest cultural expenditure item. (See Chart 2.) Average spending on movie theatres has been growing, however; spending on music and video CDs and rentals has been declining. This trend suggests that interactive media are playing an increasing role in consumer spending, a trend that unfortunately cannot be assessed from the current household survey questions.

**Chart 1**

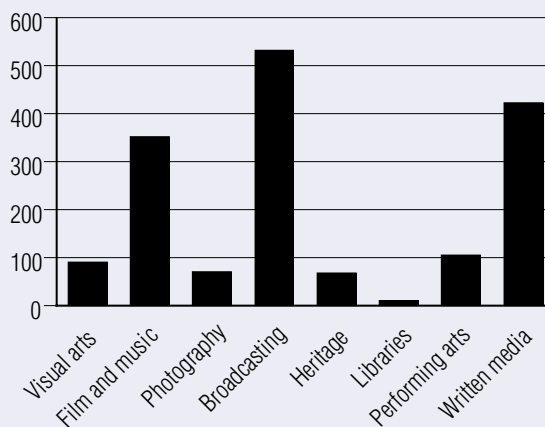
Culture Industries in Canada, 2007  
(major categories as a percentage share of total real culture GDP)



Sources: The Conference Board of Canada; Statistics Canada.

**Chart 2**

Average Household Spending on Culture, 2007  
(current \$)



Source: The Conference Board of Canada; Statistics Canada.



On the trade side, Canada tends to import more culture goods and services than we export. The overall trade deficit, available only for 2004, totalled nearly \$2 billion in current dollars. However, exports of culture goods and services do contribute significantly to Canada's overall export performance. According to our estimates, real exports of culture services were worth over \$3.3 billion in 2007.<sup>18</sup> Adding in exports of culture goods brings the total value of real culture exports to just under \$5 billion in 2007, about 1 per cent of Canada's total exports. Data from Statistics Canada for exports of culture goods are more current, available up to 2006, and were thus extended only for one year.<sup>19</sup> It is evident that the strong appreciation in the Canadian dollar has had a significant impact on Canada's sale to foreigners of culture goods. In real terms, exports of culture goods fell by nearly 22 per cent from 2002 to 2006, while our estimates suggest

that another 12.9 per cent decline occurred in 2007. (See Table 4.) Film and video, and written works, are the two largest components of culture goods exports, accounting for nearly 65 per cent of the total.

The remaining categories include spending by government and by businesses on culture goods and services. Survey data are available for government spending but nothing is produced with respect to the private business sector, making it impossible to fully assess the size of the culture sector in Canada on an expenditure basis. According to a Statistics Canada survey, total public spending on culture, including federal, provincial, and local levels of government, reached \$7.3 billion in the 2003–04 fiscal year.<sup>20</sup> Growth in real government spending on culture has been relatively steady over the past 10 years, at least keeping pace with total government spending on goods

**Table 4**  
Spending on Canada's Culture Goods and Services  
(selected components; Conference Board of Canada estimates; 2002 \$ millions)

	2000	2001	2002	2003	2004	2005	2006	2007
Household spending	14,877	15,593	15,975	15,626	16,858	17,484	18,204	18,865
Per cent change		4.8	2.5	-2.2	7.9	3.7	4.1	3.6
Government spending on culture	6,577	6,857	7,033	7,111	7,268	7,435	7,673	7,922
Per cent change		4.3	2.6	1.1	2.2	2.3	3.2	3.2
Exports of culture goods	2,078	2,277	2,458	2,375	2,276	2,224	1,918	1,671
Per cent change		9.6	7.9	-3.4	-4.2	-2.3	-13.7	-12.9
Exports of culture services	2,267	2,412	2,226	2,148	2,966	3,021	3,182	3,321
Per cent change		6.4	-7.7	-3.5	38.1	1.9	5.3	4.4
Total culture GDP	38,943	39,745	41,545	41,160	42,556	43,760	44,882	46,082
Per cent change		2.1	4.5	-0.9	3.4	2.8	2.6	2.7

Sources: The Conference Board of Canada; Statistics Canada.

18 Statistics Canada provides data on culture services exports for 11 categories, the biggest of which are film production and distribution services and trademarks (royalties). See Statistics Canada, *Culture Services Trade: Data Tables*. Data are currently available to 2004. Total culture services exports were extended to 2007 using statistical techniques that simply tied total culture services exports to more aggregate, and current, exports of services components. The relationship was statistically strong, allowing us to "forecast," over history, an estimate of total culture services.

19 A methodology similar to that used for services was used to extend exports of culture goods. Given the very strong currency appreciation in 2007, our estimates suggest that exports of culture goods declined sharply in 2007.

20 The \$7.3 billion excludes intergovernmental transfers, providing a better estimate of net spending. Current-dollar estimates of total government spending are available from Government Expenditure on Culture Tables available through Statistics Canada's CANSIM database. The estimates are available only on a fiscal-year basis up to 2003–04. Government spending on culture provided in Table 4 is in real terms and is converted to a calendar-year basis for consistency with other indicators. Spending was projected to 2007 utilizing other measures of government spending that are available up to 2007.



and services, owing to an improved fiscal situation. Nonetheless, our estimates suggest that real government spending on culture as a share of GDP is below 1999 levels by roughly 0.3 percentage points.

While the projected \$7.9 billion in government spending on culture in 2007 is a substantive number, summing the total of household spending, government spending, and net trade of culture goods and services suggests that the total spending would be, at best, in the range of \$27 billion in 2007. This is significantly shy of the value-added industry measure that is estimated at \$46 billion. Statistics Canada does not reconcile the cultural accounts in the way that the accounts for total GDP on an expenditure and industry basis are reconciled. Consequently, we can only suggest that business spending on culture accounts for the balance or, the more likely explanation, that the survey data produced for some of the expenditure categories do not represent the full value of spending on culture.

## QUANTIFYING THE BROADER ECONOMIC IMPACTS OF CULTURE

In the preceding section, available data measuring the direct economic weight or value of the culture sector were presented. In this section, we present the results of utilizing macroeconomic models of the Canadian economy to quantify how culture industries affect the broader economy. The economic activity of culture has effects on other sectors of the economy by generating demand for goods and services from industries outside those directly involved in producing culture goods and services. Moreover, while wages in the broadly defined “arts, entertainment, and recreation industry” (which includes performing arts and heritage institutions) are low relative to wages in the manufacturing and services sectors, wages in the broadly defined “information and cultural industries” (which include written media, broadcasting, and film) are quite high relative to wages in the manufacturing and services sectors.<sup>21</sup> Since these “information and cultural industries” make up the largest portion of cultural GDP, culture industries, on net, tend to create jobs that lift

labour income and lead to other repercussions on the economy. A description of the methods for and results of measuring these and other factors, contributing to what we have defined as the economic footprint of culture, follows.

The model simulations suggest that Canada’s culture sector has a large economic footprint. On average, for every \$1 of real value-added GDP produced by Canada’s culture industries, roughly \$1.84 is added to overall real GDP. Employment is also lifted, with the culture sector and related impacts contributing to an estimated 1.1 million jobs in Canada in 2007. The economic impact on other key economic indicators is also discussed.

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**On average, for every \$1 of real value-added GDP produced by Canada’s culture industries, roughly \$1.84 is added to overall real GDP. Employment is also lifted.**

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## METHODOLOGY IN ESTIMATING THE ECONOMIC FOOTPRINT OF CULTURE

The economic footprint of culture is defined as the combined direct, indirect, and induced economic impacts, where the following definitions apply:

- ♦ **Direct impact** measures the value added to the economy by those firms directly producing culture goods and services. That was defined earlier at a total estimated value of \$46 billion in 2007 (in real 2002 dollars).
- ♦ **Indirect impact** measures the added value that the “direct impact firms” generate economically through their demand for intermediate inputs or other support services. For example, the industrial production of music CDs will require inputs from other industries, such as aluminum production. It may also require inputs that are imported, which would tend to mute the effect on the Canadian economy.
- ♦ **Induced impacts** are derived when employees of the aforementioned industries (both direct and indirect) spend their earnings and owners spend their profits. These purchases lead to more employment, wages, income, and tax revenues, and their impact can be felt across a wide range of industries.

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21 CANSIM Table 281-0036.

As such, increased demand for the products or services of a specific industry (or the collection of industries defining culture) will not only have direct impacts on the economy but will also spread through the economy via a series of multiplier effects. Indirect effects are first felt on demand for the products or services of industries that are direct suppliers. Second-round induced effects produce a widespread impact (albeit usually smaller) on all sectors of the economy, largely through a general increase in consumer spending. The overall economic multiplier is calculated as the sum of all value-added impacts (direct, indirect, and induced) divided by the direct impact of culture industries in Canada.

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**Increased demand for the collection of industries defining culture will not only have direct impacts on the economy but will also spread through the economy.**

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Given that culture industries are spread over a wide range of detailed industries, the analysis relied on the use of Statistics Canada's national model of Canada's industrial structure, in an effort to more accurately assess the indirect value-added impact on related industries. The Statistics Canada National Input-Output (I-O) model has the advantage of finely detailing the industrial structure within our economy as well as containing linkages for inputs that are imported. As such, the I-O model has the advantage of being able to assess, based on the 2004 structure of the Canadian economy, the total indirect effects of Canada's culture industries.

The industrial estimates of Canada's culture industries, realigned with the NAICS structure of the I-O model, were provided to Statistics Canada in order to simulate the model and produce industry-level results. Once Statistics Canada provided its assessment of direct and indirect impacts, the aggregate results were utilized to bring out additional induced effects. While the Conference Board's National Forecasting Model contains a more aggregate industrial sector, it has the benefit of assessing the impact of additional income, through changes in wages and profits, on a wide range of economic indicators. Moreover, the Conference Board's models allow for the analysis to be carried out over a time period, whereas Statistics Canada's

I-O model produces a point-in-time measure of the impact. The direct and indirect effects obtained from the I-O simulations were utilized as inputs in simulating the Conference Board's model of the national economy to produce the overall economic footprint of Canada's culture sector over the 2003 to 2007 period.

The methodology allowed for the calculation of economic multipliers—rules of thumb that link the direct value-added of culture industries to the broader economy—that, under not too stringent assumptions, remain relatively stable over time. The multiplier for indirect and direct impact obtained from the I-O model is presented in Table 5, as is the overall multiplier, generated using the Conference Board's model, which includes induced economic impacts.

## KEY ASSUMPTIONS

Some key points about the model simulations are worth mentioning. Although the methodology is similar to a typical economic impact analysis, measuring the economic footprint of culture in Canada is conceptually a much different exercise. In fact, we are not trying to compare a world in which there are no culture industries to one in which culture industries exist. Instead, the methodology is meant to allow us to assess the reality that exists today: the extent to which a wide range of culture industries flow through, and affect, our economy. Given this background, a number of assumptions were introduced in the model simulations. For example, prices, interest rates, and a few other key variables, which normally react to economic cycles, were not allowed to change during the model simulation. That allowed us to isolate the economic footprint of culture in the Canadian economy without having to worry about other “business cycle” impacts on the results.

## MODEL SIMULATION RESULTS

Table 5 presents, in the first column, the economic multiplier from the I-O simulation. The multiplier of 1.57 is calculated as the ratio of indirect and direct GDP to direct GDP. The I-O economic multiplier can be interpreted in the following way: For each \$1 of real GDP produced by culture sector industries, a \$1.57 increase in GDP results from direct and indirect economic effects. According to the I-O model simulations, about \$26 billion

in indirect GDP would be produced in addition to the direct GDP contribution of \$46 billion from culture industries in 2007. Interestingly, goods-producing sectors supply only about \$5 billion of the \$26 billion in indirect GDP (with manufacturing accounting for \$3.4 billion of this amount). As such, services sector industries produce the lion's share of indirect GDP, through increased output from a wide range of industries, with the largest impacts coming from information and culture industries; finance, insurance, real estate, and rental and leasing; and professional, scientific, and technical services.

In the table's second column, the GDP multiplier is lifted by including induced effects—the effects of higher wages and profits on overall consumer spending and other activities—as calculated utilizing the Conference

Board's national model. This multiplier, then, reflects the total direct, indirect, and induced effects of culture industries. As expected, the overall economic multiplier is augmented from 1.57 to 1.84. Table 6 displays the total economic impact, on an aggregate industry basis, simulated utilizing the Conference Board's national model. As expected, the economic footprint of the culture sector is much larger when accounting for indirect and induced effects. Overall, the real GDP impact is raised from \$46 billion in 2007 to \$84.6 billion, as suggested by the economic multiplier. That implies that culture and related industries affected about 7.4 per cent of total real GDP in Canada in 2007, a share that has remained relatively stable over the 2003 to 2007 period examined. Services sector industries are the most affected, with government services contributing an estimated \$14 billion and business and personal services industries (commercial services) contributing over \$55 billion, respectively 1 and 4.9 per cent of total GDP in 2007. As a result of the indirect and induced impacts, the footprint of culture industries also extends to the primary sector, the manufacturing sector, and the construction sector as direct impact firms purchase intermediate inputs from these sectors; employees of direct and indirect impact firms spend their earnings on goods and services that require inputs from these sectors; and owners of direct and indirect impact

**Table 5**  
Footprint of Culture in Canada

	<b>Input-Output Model Multiplier</b>	<b>Overall Economic Multiplier</b>
Economic multipliers	1.57	1.84

Sources: The Conference Board of Canada; Input-Output Division, Statistics Canada.

**Table 6**  
Economic Footprint of Canada's Culture Industries—Total GDP Impact by Industry  
(2002 \$ millions except where otherwise indicated)

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Total cultural GDP	41,160	42,556	43,760	44,882	46,082
as a per cent of total GDP	3.8	3.8	3.8	3.8	3.8
Real GDP	77,057	77,785	79,859	82,881	84,651
as a per cent of total GDP	7.6	7.4	7.4	7.5	7.4
Primary sector	2,516	2,617	2,737	2,818	2,926
Manufacturing	8,316	8,494	8,782	9,222	9,275
Construction	1,533	1,841	2,096	2,319	2,505
Commercial services	50,057	50,605	52,237	54,237	55,409
Government services	14,635	14,228	14,006	14,285	14,535
Employment (000s)	1,049	1,057	1,074	1,102	1,123
as a per cent of total employment	7.2	7.1	7.1	7.2	7.1

Sources: The Conference Board of Canada; Statistics Canada.

firms spend their profits on goods and services that require inputs from these sectors. In 2007 the total impact of culture industries on these three sectors amounted to almost \$15 billion.

Economy-wide, employment is up by 1.1 million, a figure that represents 7.1 per cent of Canada's total employment in 2007.

In addition to the overall impact on GDP, the effect of increased economic activity plays itself out on a number of other key economic indicators. As described earlier, economic activity can be measured by adding up the value added across industries, or by measuring GDP on an expenditure or income basis. The Conference Board's economic model incorporates each of these accounting methods. Table 7 presents the economy-wide effect of culture industries on some expenditure and income components of the economy, also allowing us to infer the culture sector's footprint on overall government revenues. Stronger consumer spending has an impact on

sales tax revenues, largely responsible for the increase in federal-regional indirect tax revenues. Moreover, a lift to employment has an impact on labour income, adding to personal income tax revenue, while a rise in corporate profits yields an increase in corporate tax revenues. Overall, in current dollar terms, the impact of culture industries on the economy contributed nearly \$25 billion to federal and regional government coffers in 2007.

In summary, the culture sector is an important contributor to economic activity in Canada. Estimates suggest that culture industries produced roughly \$46 billion of real value-added GDP in 2007. However, after considering the effect of culture industries on other sectors of the economy—accounting for indirect and induced effects—it is clear that the overall impact is much larger. According to our estimates, the economic footprint of culture was valued at roughly \$84.6 billion in 2007—7.4 per cent of total real GDP. Moreover, the employment attributable to culture industries through direct, indirect, and induced impacts amounted to over 1.1 million people in 2007.

**Table 7**

Economic Footprint of Canada's Culture Industries—Other Economic Indicators  
(\$ millions except where otherwise indicated)

	2003	2004	2005	2006	2007
Household spending (2002 \$ millions)	37,039	37,850	39,382	40,966	41,963
Household spending	37,904	39,448	41,742	44,170	46,209
Labour income	31,661	34,029	36,621	39,514	42,726
Corporate profits	44,268	46,891	43,007	47,584	39,942
Government revenues					
Federal-regional personal income taxes	3,419	3,993	4,593	5,202	5,868
Federal-regional corporate income taxes	7,611	7,777	7,043	7,801	6,485
Federal-regional indirect taxes	5,019	5,375	5,731	5,941	6,125
Other government revenues	5,309	5,467	5,772	6,042	6,402
<b>Total government revenues</b>	<b>21,358</b>	<b>22,612</b>	<b>23,139</b>	<b>24,985</b>	<b>24,881</b>

Sources: The Conference Board of Canada; Statistics Canada.

## CHAPTER 4

# Drivers of the Creative Economy

### Chapter Summary

- ♦ Seven key drivers of the creative economy are consumption dynamics, innovation, technology, talent, diversity, social capital and collaboration, and capital investment.
- ♦ Amid the plethora of user-generated content and the passion for co-creation, traditional producers of goods and services in the creative economy are finding new opportunities to profit from creativity by commoditizing the virtual neighbourhoods in which popular creative expression takes place.
- ♦ In the creative economy, individuals and teams are valued for their diversity of talent and innovative ideas.

The chapter focuses on seven key drivers of the creative economy:

1. Consumption dynamics
2. Innovation
3. Technology
4. Talent
5. Diversity
6. Social capital and collaboration
7. Capital investment

In addition, the creative economy is itself a driver of competitiveness and growth in the broader economy. The impacts of the creative economy emanate from the creative core and ripple through culture industries, and other creative industries, into the wider economy.<sup>1</sup>

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**Creativity springs from individuals and from the social interaction of individuals in groups.**

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**T**his chapter identifies and describes the drivers of the creative economy, shows how they interact and combine with each other, and illustrates, with examples, new and emerging practices that contribute to the vibrancy of the creative economy and its power to shape competitiveness and growth in the broader economy.

The seven drivers listed above are ways by which we create the conditions necessary for creative individuals and teams to flourish, harness their talent, and commoditize their creative efforts. As we will show, creativity springs from individuals and from the social interaction of individuals in groups, and of groups with each other.

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<sup>1</sup> The Work Foundation, *Staying Ahead*, p. 4.

Creativity is involved in how people shape their life-styles, form their identities, and express their sense of self and community. The story of the drivers of the creative economy builds on the narrative of how individuals and groups make meaning, share experiences, and express their orientation to themselves, to each other, and to the world.

## CONSUMPTION DYNAMICS

This section examines changing consumer dynamics, including the ways in which producers cater to demand and commoditize the experience: in other words, how they derive revenue from supplying goods and services to meet consumer demand. It also examines the phenomena of customization, user-generated content, emerging new platforms, and niche markets, and how they are moving the market from producer-centric to consumer-centric dynamics. The key message is that consumer behaviours are changing and that these changes are fuelled by the freeing of popular creativity made possible by new ICTs that allow users to create their own content, gain access to creative content produced by others, and co-create with them.

Behind the changing consumer demand is a consumer who is more articulate, more discerning, better educated, and richer than previous consumers, and who has higher expectations. This consumer highly values the experience of consumption both alone and with others. For example, Apple's iPod and video on demand are "supply responses" to demanding consumers, who seek to personalize their experience of consuming and contributing to creative content.<sup>2</sup>

### PRODUCER-CENTRIC DYNAMICS: THE ONE-WAY CULTURE MODEL

According to traditional marketing strategy in the creative economy (as elsewhere), producers, and those involved in the value chain connecting producers with consumers, have a dual focus. On the one hand, they feed known demand, based on consumption patterns. On the other hand, they attempt to stimulate new demand for goods and services that were not formerly available or were not available in new formats now on offer. In this model,

producers see themselves as protecting their market share by satisfying existing consumer demands in new and better ways, and increasing their market share by stimulating new consumer "wants" and whetting the appetite of consumers for new categories of goods and services.

Much of the success of traditional marketing strategy was due to advertisers who were able to anticipate new desires, stimulate appetites, and satisfy the public's preferences. While the focus was always on the consumer, the approach was "top down" and had more to do with influencing consumers directly than accepting feedback or listening to echoes from the market. Producers and others in the value chain leading to the consumer focused on "pushing product" with sophisticated advertising campaigns.

### CONSUMER-CENTRIC DYNAMICS: THE TWO-WAY CULTURE OF THE DIGITAL AGE

The digital age has revolutionized the dynamics of production and consumption, nowhere more dramatically than in the creative economy. Consumer behaviour now drives the behaviour of producers and others in the value chain involved in commoditizing goods and services. Consumers of creative content are no longer passive recipients of content that others deem fit to provide to them. Instead, consumers are active participants in the creation of content—they are true co-creators in the value chain. The signals consumers send to producers are as important as the messages conveyed by producers and their partners to the market, perhaps even more important. Consumption dynamics are an integral part of a new two-way culture, whereby the behaviour of consumers influences the actions of producers in real time. Consumers are actively creating and articulating their own demands and their own content.

Perhaps the most succinct formulation of consumer demand comes from PricewaterhouseCoopers, which characterizes the activities of the digital consumer as "ubiquitous participation," where *ubiquitous* means "everywhere, anytime, omnipresent, unrestricted, flexible" and where *participation* signifies "connecting, imagining, inventing, collaborating, contributing, managing, marketing, selling, locating, entertaining, exploring, purchasing,

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2 Ibid., p. 17.

supplying, paying, investing.”<sup>3</sup> In a certain way, advances in technology from analog to digital have not only helped create an environment that supports ubiquitous participation; in a very real sense, consumer demand has also driven the digital revolution. Early subscribers to cable television and pay-TV when these were introduced into Canada in the 1960s and 1983, respectively, were demonstrating their appetite for creative content more reflective of their tastes and interests.<sup>4</sup> Subsequent technological advances have shown just how hungry consumers really are for creative content that mirrors their experience and indeed helps them to express it.

### CONSEQUENCES OF CHANGING CONSUMER DYNAMICS FOR PRODUCERS

Amid the plethora of user-generated content and passion for co-creation, traditional producers of goods and services in the creative economy are finding new opportunities to make money out of creativity by commoditizing the virtual neighbourhoods in which popular creative expression takes place and even by commoditizing aspects of the creative experience itself. For example, corporations such as Wendy’s International, Nike, and Honda Motor Company have started to create their own social networks on MySpace.com. Their objective in posting personalized corporate profiles is to attract “friends” in the hope of cultivating a community of potential customers. Such profiles are meant to attract Internet users in much the same way as other popular personal profiles do. Participants from communities of interest share stories, likes and dislikes, and preferences for goods and services, which turns them into personal marketing agents for goods and services that firms are in the business of selling.

It is interesting to note that when corporations develop an Internet presence on the same model as individuals, they position themselves as creative peers with whom individual consumers can build bonds of attachment and loyalty. Individuals may be attracted to the creative expression associated with a firm’s web presence or persona. They may like the “look and feel” of the company’s virtual

image, quite apart from the goods and services the firm produces and offers for sale. Individuals may also identify with the messages a firm communicates, (such as a commitment to “being the best” or to “reducing, reusing, and recycling.”) Fans might then interact with each other online about the products and services they have purchased, their experience of owning a product being intensified by “chatting” and sharing with others with whom they have ownership of the product in common.

In reaching out to potential consumers, firms seek to assert their own creative presence in the virtual marketplace—a form of user content creation—and tap the creativity of potential consumers to co-create a brand with them and generate sales. In other words, such firms are working with the potential for creativity offered by the Internet.

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**When corporations develop an Internet presence on the same model as individuals, they position themselves as creative peers with whom individual consumers can build bonds of attachment and loyalty.**

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For example, Russell T. Davies and Julie Gardner, executive producers of BBC Wales’ *Doctor Who*, its sister series *Torchwood* and *The Sarah Jane Adventures*, “plus the myriad online and interactive incarnations,”<sup>5</sup> have strongly capitalized on the consumer as co-creator theme. They recognized that their remake of *Doctor Who* gave them an unprecedented opportunity to tap into the creativity of *Doctor Who* followers, who are not only loyal followers of the television series, but also *Doctor Who* gamers and word-of-mouth and Internet-based social network marketers of the *Doctor Who* suite of products.

Similarly, Terry McBride, CEO of the Canadian-based Nettwerk Music Group, whose client roster includes Avril Lavigne, Sarah McLachlan, and the Barenaked Ladies, has made a deliberate effort to use digital technologies to experiment with new ways of commoditizing the music experience. By taking advantage of peer-to-peer networks, the iPod, and digital technologies, McBride focuses on making money through multiple revenue channels that

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3 PricewaterhouseCoopers, *Global Entertainment and Media Outlook: 2007–2011*, Slide 23.

4 Ogrodnik, *Patterns in Culture Consumption and Participation*, p. 40; cf. p. 88.

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5 The Work Foundation, *Staying Ahead*, p. 11.



leave copyright with the bands and cater to fans and firms hungry for ring tones, concert tickets, and licensing agreements with TV shows and video games. McBride recognized that giving away the ProTool vocals, guitars, drums, and bass files for a new album by the Barenaked Ladies on MySpace to allow fans to make their own mixes was actually a way of increasing rather than undercutting revenues. McBride converted the band's 29 new songs into more than 200 musical assets—including a CD, four different digital versions, a 14-track collection for Starbucks in Canada, ring tones, acoustic versions, concert recordings, and a selection of 45 assets on a USB drive—that can be used by listeners on their own or in conjunction with others to create products.<sup>6</sup>

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**Creative production and consumption allow creative producers and consumers to recognize elements of shared experience.**

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The central message here is that producers and consumers co-drive the creative economy. Creative production and consumption allow creative producers and consumers to recognize elements of shared experience and spark off each other in a creative and responsive cycle of demand and supply. In the process, creative producers and consumers take on aspects of a shared identity—brand attractiveness from the point of view of the creative producer and brand relevance from the perspective of the creative consumer.

## INNOVATION

The Conference Board of Canada argues that “innovation involves more than the creation and diffusion of new ideas. It also embraces the transformation of ideas, and their use as new value-added products and services in the marketplace.”<sup>7</sup> In this section we address the process through which creative ideas are commercialized to produce economic value.

In the context of the creative economy, innovation requires the development of links between:

- ♦ content and technology;
- ♦ technology and creativity;
- ♦ creativity and business acumen; and
- ♦ production and consumption.

Creative people need to work closely with ICT specialists. Both need to be informed by consumer demand and both need to be able to grasp and implement business models that commoditize the creative results of their synergies and collaboration.<sup>8</sup> When creative people work with technology specialists in a business environment, they can “act as mediators at the interface of communication processes while at the same time being creators of new messages and movements with the ability to translate them into aesthetic forms” that can be commoditized.<sup>9</sup> It is not surprising that creative industries tend to be more innovative than industries in other sectors.<sup>10</sup>

The process of innovation involves “light-bulb moments, iteration and experimentation, rather than recourse to any codified body of knowledge.”<sup>11</sup> Innovation therefore requires high levels of creativity, skill, knowledge, collaboration, and application.

Building on the work of Richard Florida, Michael Porter, and Amartya Sen, Pier Luigi Sacco and his colleagues contend that innovation in the creative economy depends on the development and maintenance of what they have dubbed an *advanced cultural cluster*. These clusters are “characterized by an industrial atmosphere strongly oriented toward the production, absorption, consolidation, and dissemination of new thoughts and technologies” and involve cultural producers along with their business, education, and government partners. According to Sacco's model, a culturally endowed city like Vancouver, known

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6 Howe, “No Suit Required.”

7 The Conference Board of Canada, *5th Annual Innovation Report*, p. 5.

8 KEA European Affairs, *The Economy of Culture in Europe*, pp. 11, 39.

9 Wiesand and Söndermann, *The “Creative Sector,”* p. 14.

10 The 2005 UK Innovation Survey showed that about 70 per cent of creative businesses had been involved in some form of innovation over the period 2002–04, compared with about 55 per cent of businesses in other industries. See The Work Foundation, *Staying Ahead*, p. 35.

11 The Work Foundation, *Staying Ahead*, p. 20.



for its high quality of life, acts as a magnet for creative people and investment capital. When governments create a business environment favourable to research and development (R&D), when business-education-government partnerships support the development of entrepreneurial skills and local talent, and when players in the cluster network internally and externally, they increase their chances of innovating, including in the area of commercially viable creative products and services.<sup>12</sup>

Innovation—in the context of this chapter, the commercializing of creative value—is assisted by the concerted efforts of business, education, and government to turn cities into magnets for creative workers and investment capital. While the ICTs essential to commercializing creative content “shorten” the distance between people globally, some argue that innovation tends to require creative people, technology specialists, and business investors working in physical proximity to each other to maximize synergies and collaboration. At the same time, other analysts emphasize that “digital communities and peer production are important drivers of the innovation process,” which puts the onus on creative businesses to “embrace . . . new ways of managing reciprocal relationships.”<sup>13</sup>

## TECHNOLOGY

Technology is revolutionizing the creative economy. The Internet and ICTs are embedded in the creative economy and have enhanced the “creative production process, enabling new content distribution channels, as well as changing how and where the content is used by the consumer.”<sup>14</sup> Probably the most far-reaching integration of technology with the creative economy is the diffusion of Web 2.0, a range of online services that have facilitated the rise of user-generated content, enabled file sharing, and supported more intensive forms of social networking and participatory forms of content

co-creation. The uptake of Web 2.0 services has been made possible by increasing rates of connectivity (access to the Internet) and the widespread availability of broadband, which facilitates faster Internet connections.

But Web 2.0 is not simply a technology story. Web 2.0 services reflect the growing demand on the part of consumers to generate their own creative content and network with their peers—which more often than not involves the sharing of digital files—and their appetite to manipulate existing creative content and co-create new creative assets. In other words, Web 2.0 services are not neutral facilitators of interaction; they are responses to a popular need to express creativity and are actually fuelling the growth of user-created content.

In the context of the creative economy, the role of technology is changing—at the behest of creative users—from providing a vehicle for delivering creative content from producer to waiting consumers, to serving as a tool for authoring, co-creating, and sharing creative content on a peer-to-peer basis.

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**Web 2.0 services are not neutral facilitators of interaction; they are responses to a need to express creativity.**

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In the creative economy, the relationship between technology and creative goods and services is reciprocal and synergistic. On the strength of its iPod device, for example, Apple has commoditized music and movies in the form of iTunes.<sup>15</sup> But the Apple experience also shows that consumer demand for creative content determines the value of the software platform on which creative content rides, and the availability of high-quality creative content is what drives demand for hardware.<sup>16</sup>

PricewaterhouseCoopers forecasts that nearly half of all entertainment and media (E&M) growth over the next five years will be generated through online and wireless technologies. Demonstrating their appetite for

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12 Sacco et al., *The Power of the Arts in Vancouver*, p. 15; cf. pp. 24–27.

13 The Work Foundation, *Staying Ahead*, p. 43.

14 Department for Culture, Media and Sport, *Creative Economy Programme Technology Working Group—Final Report*, p. 1.

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15 See [www.apple.com/itunes/](http://www.apple.com/itunes/).

16 KEA European Affairs, *The Economy of Culture in Europe*, p. 139.

user-generated content, consumers are migrating to convergent platforms (the convergence of the home computer, wireless handsets, and television) that enable them to create and share their own content and co-create digital assets with others, as well as participate in online gaming and take advantage of video on demand. PricewaterhouseCoopers estimates that consumer spending on convergent platforms will account for 72 per cent of total E&M spending growth after 2008. Digital distribution over convergent platforms and consumer use of Web 2.0 services are driving Internet advertising and access spending, which is forecast to grow by 12.2 per cent between 2007 and 2011.<sup>17</sup>

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**To contribute productively in the creative economy, workers require a mix of industry-specific skills.**

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The integration of the creative industry with technology is pitting the Internet against TV in a battle for revenues. A key issue is who will be more successful in monetizing the so-called long tail of specialty programming. Will it be traditional TV broadcasting, or will it be Internet content aggregators such as Babelgum, Joost, and ZIM, which replicate the traditional TV experience online or via mobile wireless devices? The key to capitalizing on the long tail lies in providing navigation and search functionality that not only “helps viewers find what they are looking for, but also helps advertisers target directly those consumers they are looking for.” Aggregators also have an opportunity to become “taste-makers—selecting content which exists, or commissioning new content, organizing it with other content in a way which appeals to viewers.”<sup>18</sup>

The real strength of technology lies in its power to connect:

- ♦ producers with consumers;
  - ♦ like-hearted people, who share, co-create, and feed each other’s appetite for creative content;
  - ♦ people with creative content, helping to release their own creative expression; and
  - ♦ advertisers with consumers.
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17 PricewaterhouseCoopers, *Global Entertainment and Media Outlook: 2007–2011*, slides 5, 13, 17, 24, 26, 30.

18 Nordicity Group, *Banff Green Paper 2007*, p. 20.

Technology drives the creative economy by facilitating these connections, enhancing the experience of those who are thus connected, and stimulating demand and supply responses that feed the cycle of creative production and consumption.

It is not technology alone that triggers demand for creative content; it is also the interplay between creative consumers and—especially—Web 2.0 services providers that brings new creative demand to the surface and new opportunities for creative supply responses to meet that demand.

## TALENT

Talent is an indispensable driver of the creative economy. Skilled and knowledgeable creative people are essential to producing creative content, developing and deploying engaging delivery platforms, judging consumer demand, and designing creative responses to that demand. The creative economy, like any other segment of the economy, depends on a high-quality supply of talented people, sufficient quantities of workers with the right skill-sets, and efficient mechanisms for facilitating the flow of skilled workers into productive employment.

This section focuses on the skills and knowledge—especially the new knowledge competencies—necessary to spin creative ideas into commercial products and services. It also examines the need for multi-skilling and cross-disciplinary practices required to fuel the creative economy. Finally, it addresses the education and training necessary to develop talent for the creative economy.

## SKILLS AND KNOWLEDGE

To contribute productively in the creative economy, workers require a mix of industry-specific skills—particularly artistic skills and competencies related to the use and adaptation of ICTs, and knowledge of how to commercialize creative ideas—and business acumen and know-how, including management and entrepreneurial skills; marketing, budgeting, and financial planning knowledge; and awareness of investment opportunities.

They also require a range of “soft skills which allow tacit knowledge to be exchanged and developed.”<sup>19</sup> The Work Foundation characterizes these soft skills as “sophisticated cognitive and interpersonal skills” and argues that the creative economy places a premium on what it describes as “expert thinking . . . in which judgement is needed, often against a background of considerable ambiguity.” The creative economy also depends on “complex communication,” which goes well beyond the capacity to “elicit and transmit information” to include the ability to “convey a particular interpretation of information or use it to persuade others (e.g., teaching, selling, managing and negotiation.” Creative firms distinguish themselves from their competitors by their employees’ “expert capacity to solve problems and communicate complex ideas.”<sup>20</sup>

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**The Cultural Human Resources Council notes that employers across its sector face challenges “[f]inding workers with cross-over skills, particularly a combination of artistic or technical and ‘soft’ skills.”**

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In creative firms, the requirement to demonstrate these skills proficiently is not limited to those involved in R&D or marketing. These skills are required across the workforce, since employees are no longer called upon merely to “apply information in a mechanical sequence, but are also invited to participate, experiment and offer suggestions about how to improve the production process, and management is expected to build feedback back into that—a powerful driver of learning by doing and incremental innovation.”<sup>21</sup>

### **MULTI-SKILLING AND CROSS-DISCIPLINARY PRACTICES**

Firms in the creative economy need to be able to combine talents that run the gamut from creativity through technology to business. In practice this means “mixing creative and business disciplines, developing boundary-crossing collaborations (e.g., between technologists and content

providers, or scientists and artists), and capitalizing on the uncommon ground of core general education and industry-specific skills needs.”<sup>22</sup> With cross-disciplinary collaboration comes the need for cross-disciplinary skills, such as “adaptability, problem solving, openness to collaboration, interpersonal skills . . . [and] leadership abilities.”<sup>23</sup>

The following profile of perceived skill gaps of workers employed in the Canadian screen-based media reveals the extent of multi-skilling expected in the creative economy. It also highlights the challenge in finding individuals or firms who can combine the diverse skill-sets needed to thrive in creative businesses. The desired skills include:

- ♦ business skills, including management, financial, legal, and marketing skills (e.g., executive production, management, production, venture financing, sales, and marketing);
- ♦ information-related skills (e.g., archiving, information retrieval, management, teaching, and research skills);
- ♦ generic skills and attributes (e.g., perseverance, adaptability, and communication, teamwork, interpersonal, thinking, problem-solving, leadership, and continuous learning skills);
- ♦ creative skills (e.g., graphic modelling, animation, interface design, graphic design, scriptwriting, and storyboarding); and
- ♦ computer skills (e.g., computer programming, interactive design, games development, and website design).<sup>24</sup>

Although screen-based media are but one segment of the Canadian creative economy, other segments have similar skill requirements and workers in these sectors face similar skill gaps. The Cultural Human Resources Council notes that employers across its sector face challenges “[f]inding workers with cross-over skills, particularly a combination of artistic or technical and ‘soft’ skills.” Moreover, employers in creative businesses increasingly require their employees to have “multi-disciplinary competencies,” including career management skills and

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19 The Work Foundation, *Staying Ahead*, p. 23; cf. p. 136. See also Fleming, *A Creative Economy Green Paper*.

20 The Work Foundation, *Staying Ahead*, pp. 68, 69, 129; cf. p. 37.

21 Ibid., p. 80.

22 Fleming, *A Creative Economy Green Paper*.

23 The Work Foundation, *Staying Ahead*, p. 137.

24 Extracted from Ekos Research Associates Inc. et al., *Frame Work*, Table 9.9, p. 163.

export marketing savvy, along with “new competencies in new technologies” and “new personal competencies.” Competencies in new technologies include “practical knowledge” of working in computerized office environments and experience in working with digital interactive media directly linked to creating and distributing goods and services.<sup>25</sup>

Cross-disciplinary collaboration is a hallmark of the creative process. The Work Foundation observes that the process of creation “tends to be intuitive, iterative” and based on trial and error. It is, moreover, “largely sui generis to individuals, teams, networks and organizations,” so that when teams are broken up the “creative knowledge they generate can quickly be dissipated.”<sup>26</sup>

## EDUCATION AND TRAINING

To ensure the vibrancy of the creative economy, educational institutions need to work at unlocking students’ creativity. As jurisdictions maintain their dual focus on knowledge acquisition and the achievement of skill-based learning outcomes, they must strive to ensure that creativity is not lost in the “cognitive shuffle.”

Employers also have a role in encouraging employee creativity in the workplace and can play an important role in tapping into the creative talents of their workforce. Employers can be instrumental in creating environments where ideas can be discussed before actions are taken, where feedback can be given and received, and where reforming project teams can bring forth the creative assets of the workforce.

Educational institutions alone cannot remedy skill shortages reported by employers. In his foreword to the U.K.’s First Skills Strategy, Prime Minister Tony Blair stated that increased productivity, competitiveness, and growth can only be achieved if employers’ and employees’ “ambition in the demand for skills” is raised so that they are both inclined to make the necessary investments in training and learning in the workplace and in partnership with education.<sup>27</sup>

Firms in the creative economy face several challenges relating to gaps in perception among employers, employees, and educational institutions with respect to:

- ♦ competencies that new media content creators would like to develop;
- ♦ competencies that are in greatest demand (and perceived short supply) by employers;
- ♦ the way these competencies should be developed; and
- ♦ the priority employers and employees place on training to support competency development.

According to a 2004 survey by Delvinia, when it comes to researching or exploring ideas, 46 per cent of content creators feel they lack or would like to develop this competency. At the same time, 33 per cent of employers indicated that this is an area where they are experiencing the greatest competency shortages. Moreover, 46 per cent of employers indicated that new hires with formal education do not meet their expectations relative to researching and exploring ideas, despite the fact that 90 per cent of post-secondary institutions feel that this competency is best acquired through formal education. Yet only 36 per cent of employers are likely to offer on-the-job training to develop this skill. Strikingly, both content creators and their employers feel that self-education, rather than formal education or on-the-job training, is the best way to develop this quintessentially creative competency.<sup>28</sup>

25 Mercadex International Inc., *Face of the Future*, pp. 10, 14, 15, 16. See also T.J. Cheney Research, *Building on Success*, p. 21. Comparable skill gaps are reported in (a) Lowenbe Holdings, *Fast Forward: Recommendations*, pp. 13, 43; (b) Groupe Réseau Conseil, *Survey of Training Offerings and Assessment of Training Needs for Artist Managers in the Music Industry*, p. 20; (c) kiskared, *Stage Technicians*, p. 56; (d) Ekos Research Associates, *New Media Freelance Content Creators*, pp. 27, 33; Groupe Réseau Conseil, *Training Offerings Survey and Training Needs Assessment for Cultural Mentors*, pp. 22, 23; (e) Ekos Research Associates et al., *Frame Work*, p. 161 and Table 4.14, p. 48 and Table 5.9, p. 75, where employers report recent graduates not having the “right attitude”; and (f) Hill Strategies Research, *Training Gap Analysis of Documentary Filmmakers*, pp. 9, 21, 26.

26 The Work Foundation, *Staying Ahead*, p. 102.

27 *21st Century Skills: Realising Our Potential*, Skills White Paper, July 2003. Cited in Department for Culture, Media and Sport, *Creative Economy Programme Education and Skills Working Group*, Appendix 1, p. 45.

28 Delvinia Interactive, *New Media Content Creators*, pp. 21, 22, 24, 27, 35, 45, 59.

What this tells us is that employers need to talk more with post-secondary institutions about how the latter can enhance their programming to improve student outcomes with respect to researching and exploring ideas. Without this dialogue, and without employer attention to on-the-job training, a key driver of the creative economy could be weakened, threatening the competitiveness and growth of creative firms.<sup>29</sup>

## DIVERSITY

Diversity is a very powerful driver of the creative economy. In this context, diversity encompasses traditional categories such as ethnicity, gender, age, and religion, which distinguish people individually and in groups. As immigration changes the face of Canada, respecting cultural diversity and welcoming people from diverse backgrounds into our communities and workplaces are not only marks of our hospitality. They are also indicators of how successful we will be in attracting creative talent and investment to Canada, and how competitive we will be in marketing our creativity and innovation to the world.

### CULTURAL DIVERSITY

The creative economy has the potential to strengthen Canada's cultural fabric, contribute to the vibrancy of our cities, make us more cosmopolitan, attract more creative people and inbound investment, and help to define our brand in the global market.

The stories we believe about ourselves are strongly rooted in our passions, specifically in our hopes and fears. Creative goods and services speak directly to our identity, to our sense of belonging, and to our expectation that we can make a difference. Often that can mean making ourselves known to others, getting to know them in turn, and forming bonds and relationships that carry us forward into a future that we help to shape. As such, creative goods and services are a way of projecting our stories onto the world.

The modern creative economy is characterized by a demand for diverse products delivered through diverse channels to diverse markets to meet diverse client needs. A potentially great competitive advantage for increasingly cosmopolitan countries such as Canada is tapping into the creative talents of equity groups, including immigrants, Aboriginal people, women, persons with disabilities, and mature workers, and, at the same time, catering to the needs they bring to the creative marketplace. Canada's screen-based media industry, for example, has an enormous opportunity to diversify its workforce, become more inclusive, and be more reflective of the communities it serves and more responsive to their need to identify with characters who are portrayed in creative broadcast works.<sup>30</sup>

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**Social networking demonstrates the power of creative goods and services to draw people together, stimulate commercial activity, and generally get people “involved” with family, neighbours, friends, and strangers.**

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Canada's cities and communities have their own distinctive identities, which they are consciously working to develop and project to attract creative and skilled people and business investment, so it makes sense that our country's screen-based media industry would want to reflect our various city and community identities in creative ways, employing local talent and filming in regional settings.<sup>31</sup>

Participating in the creative economy—whether as a producer, distributor, prosumer, co-creator, or in any other capacity—affirms individuality and the connections that people make with each other based on shared experience or common purpose. The experience of social networking on the Internet demonstrates the power of creative goods and services to draw people together, stimulate commercial activity, and generally get people “involved” with family, neighbours, friends, and strangers.

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30 Ekos Research Associates et al., *Frame Work*, pp. xi, xiv, xv–xvii. See also Lowenbe Holdings, *Fast Forward*, p. 50.

31 Department for Culture, Media and Sport, *Creative Economy Programme Infrastructure Working Group—Final Report*, p. 14.

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29 Ibid.

## COGNITIVE DIVERSITY

In the creative economy, individuals and teams are valued for the diversity they bring individually and collectively to the projects they work on. Creative firms are valued in the marketplace for their *distinctive* goods and services, which are characterized by a *diversity* of expression, a *uniqueness* in the way they are delivered to the market, and their ability to resonate with *different* segments of the marketplace.

In the creative economy, diversity can also refer to the mix of skill sets required to ensure a successful creative collaboration, one that taps the talents of creative individuals and teams, leverages the power of technologies, and commoditizes the creative experience to ensure that creative people are rewarded for their efforts and encouraged to bring forth new works to a waiting and demanding public.

In terms of skills, creative people are expected to demonstrate diversity within their own range of abilities. For example, in the advertising industry, creative individuals are valued for their power of *diagonal thinking*—in other words, firms value people who can shift quickly and easily “between linear and lateral thought processes, people who think creatively but commercially.”<sup>32</sup>

The diversity that individuals and teams bring to the table and the diversity they co-create has been described as *cognitive diversity*, which refers to the “capacity of different sets of knowledge when interacting to produce better decisions and outcomes.”<sup>33</sup>

Such innovations would not be possible if firms or creative entrepreneurs were not open to diversity, comfortable with ambiguity, and patient with change. In the creative economy, creativity involves *purposive* trial and error—even tinkering—by one or many people. Moreover, while creative teams may rely on the genius of some people at different stages of the creative process, it may well be the *unintended* result of many working together that proves to

be the commercial “hit.” The Work Foundation observes that commercial success often results from the creative tension between “exploiting old ideas that have proven technologies and ready payoffs, and exploring new possibilities that are risky but can reap large, long-term benefits.”<sup>34</sup>

The real power of diversity as a driver of the creative economy is that giving public creative expression to diverse voices not only enables different viewpoints to be heard—and responds to a deep-seated need that all people have to express themselves, to communicate, to be noticed, to be recognized, to be heard, and generally to be creative in their own right—but it also provides an opportunity for people to connect with others. That, in turn, drives demand for more diverse content and deepens relationships along personal, professional, cultural, geographical, or consumer lines. When people associate online to share, create, or co-create, savvy advertisers, marketers, distributors, and producers of commercial creative content can “listen in” or observe carefully to understand how their initial creations are seen and used by consumers and to develop fresh content or commoditize the experience of consumption in innovative ways.

## SOCIAL CAPITAL AND COLLABORATION

Social capital and collaboration, like many of the concepts we have been discussing in this chapter, are products of the creative economy and drivers of it. Social capital is created in the collaboration of diverse creative teams, in the interaction between individuals from different firms, and in the relationships that are built when consumers of creative content connect with each other and strengthen their bonds with each other based on their shared participation in a creative experience. Social capital and collaboration are factors in the organic growth of creative firms, in their ability to partner and integrate themselves in supply chains, and in their responsiveness to consumer demand.

32 Director General of the Institute of Practitioners in Advertising, quoted in The Work Foundation, *Staying Ahead*, p. 137.

33 The Work Foundation, *Staying Ahead*, p. 138.

34 Ibid., p. 141.



Peer-to-peer interaction is not only a driver of demand, but it is also in the Web. 2.0 world critical input for new creative supply responses on the part of creative firms. The act of recommending a creative product or encouraging others to participate in a potentially “commoditize-able” creative experience can profitably be seen as the last step in one phase of co-production or the first step in another.<sup>35</sup>

### OPEN SOURCE SOFTWARE AND CROWDSOURCING

Open source software and crowdsourcing are special cases of collaboration, and their popularity and commercial prospects are on the rise. Examples of open source software co-design are Mozilla’s Firefox and Electronic Arts’ “The Sims.” “The Sims” is an online computer game that features simulated people or avatars created by the game’s users. One estimate is that 90 per cent of the online content on “The Sims” is created by users.<sup>36</sup> Firefox is a “next-generation Web browser” that actively encourages its users to co-develop the product.<sup>37</sup>

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#### **The Web is increasingly a vehicle that facilitates collaboration and the accumulation of social capital.**

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*Crowdsourcing* refers to a form of peer collaboration in which a business tenders problem-solving and service provision work to the general public via the Internet based on the “presumption that a large number of enthusiasts can outperform a small group of experienced professionals.”<sup>38</sup> The Work Foundation cites an example of the effectiveness of crowdsourcing as a technique for solving scientific problems that stumped experts at the firm level. In the study they describe, 166 problems were “disclosed on the InnoCentre website to over 80,000 independent scientists in over 150 countries.” This resulted in a 29.5 per cent resolution rate.<sup>39</sup>

To summarize, the Internet provides a vehicle that allows producers and consumers to interact in real time to co-produce and collaborate on problem-solving and service provision issues that enrich the creative consumer’s experience of the product, build consumer engagement and loyalty, and tap into the rich creative reserves of consumers as part of the creative process. Through their collaborative efforts, social capital is built up among members of creative teams, among partners who collaborate on a business-to-business level, between creative producers and their consumers, and among social networks of creative consumers themselves. The World Wide Web is increasingly a vehicle that facilitates collaboration and the accumulation of social capital through the web of interrelationships that creative people form.

### CAPITAL INVESTMENT

Capital investment is also a key driver of the creative economy. Here, we focus on issues relating to the capacity of creative firms to compete and grow—especially in the context of the Web 2.0 universe, where anyone who would make money in conjunction with a creative endeavour must be just as innovative about developing business models that “fly” as they are about developing, producing, distributing, marketing, and advertising creative content.

The U.K.-based Work Foundation observes that investing in creative firms tends to carry with it a great deal of uncertainty because artists themselves—not to mention those who might be interested in bankrolling their activities—cannot be sure whether their creative output will be appealing to potential consumers. But risk is not only inherent in the creative products themselves. Angel investors<sup>40</sup> and venture capitalists<sup>41</sup> may not be satisfied with the business acumen of creative firms, which may require them to invest in non-financial ways, such as business mentoring. Nevertheless, in the U.K. there does not seem

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35 Ibid., p. 99. See also Fleming, *A Creative Economy Green Paper*.

36 Department for Culture, Media and Sport, *Creative Economy Programme Diversity Working Group—Final Report*. See also the official websites for “The Sims”: <http://thesims.ea.com/> and <http://thesims2.ea.com/>.

37 See [www.mozilla.org/products/](http://www.mozilla.org/products/).

38 See <http://crowdsourcing.typepad.com>.

39 The Work Foundation, *Staying Ahead*, p. 140.

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40 Angel investors (known as business angels in Europe) are affluent individuals who provide capital for start-up businesses, usually in exchange for convertible debt or ownership equity.

41 Venture capitalists (VCs) invest private equity capital, typically in new, growth businesses. VCs generally offer cash in exchange for shares in the company they invest in. However, VCs can also offer managerial and technical expertise in exchange for a say in company decisions.

to be a shortage of equity investors. The Work Foundation estimates that there are 3,885 business angels involved in financing the activities of creative firms through a variety of networks. Business angels are known for bringing hands-on business management skills and mentoring support to creative firms. Firms that do not tap into *equity* investment must rely on *debt* financing, which tends to contribute to the precariousness of their existence in the creative economy.

While there is some evidence that access to funding for industries such as the creative industries with large numbers of small and medium-sized enterprises may be particularly tight during downturns in the economy, a more endemic issue is the capacity of creative firms to develop and implement business strategies that involve raising finances and commoditizing their creative offers. This issue relates as much to the attitude of the principals in creative firms as it does to the skill sets they bring to their creative enterprises and to their knowledge of matters related to intellectual property rights.

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**Radiohead's strategy is to appeal to their fans and their appetite for downloading, trusting that loyalty and direct appeal are sufficiently pragmatic bases for commoditizing their audience's experience.**

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Consider, for example, the innovative business model of the Oxfordshire, U.K., alternative rock band Radiohead. In 2007, Radiohead left their EMI record label and released their seventh album *In Rainbows* through their own website as a digital download that customers were encouraged to pay for by selecting their own price. *In Rainbows* had apparently been downloaded on these flexible terms 1.2 million times by the day of the physical album's release. Radiohead's lead singer, Thom Yorke, is reported to have claimed that the band's profits from the digital download of *In Rainbows* exceeded the combined profits of digital downloads from their previous six albums.<sup>42</sup>

Radiohead's strategy is to appeal directly to their fans and their appetite for downloading, trusting that loyalty and direct appeal are sufficiently pragmatic bases for commoditizing their audience's experience. That might seem to be a particularly risky business model, but it does leverage the social networking and social capital building capacity of the Internet, which is something that advertisers are increasingly doing.

## CONCLUSION

While we have reviewed as part of our analysis the roles played by consumption dynamics, technology, innovation, talent, diversity, social capital and collaboration, and capital investment in driving the creative economy, a recurring theme of our discussion has been the psychological motors of creativity itself, whether within a creative individual, among members of a creative team, or between firms in creative value chains. Creativity is a critical manifestation of the human need to express oneself, to communicate, to be recognized, to make connections, to build relationships, and to seek fulfilment.

The Internet opens amazing vistas in which creative people can flourish. It presents enormous possibilities for creative firms or entrepreneurs seeking to commoditize aspects of the creative experience so that they can "pay the bills"—compete and grow—and continue to invest their energies in personally rewarding and socially enriching creative activities.

Throughout our analysis of the *economic* drivers of the creative economy, we have consistently emphasized the *social* aspect of creativity. Creativity is a way of reflecting cultural diversity, building social cohesion, and generating social capital.

The economic and social impacts of creativity have the potential to help industries far beyond the creative sector to enhance their value proposition to consumers, move up the value chain, and compete on the quality of the experience they provide, rather than on the low cost of production, which is an area of diminishing returns

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<sup>42</sup> See <http://en.wikipedia.org/wiki/Radiohead>.



for advanced economies. Firms in every sector can learn lessons from the creative economy about commercializing creative value, just as creative firms can learn lessons about innovation from their cousins in industries that are not typically seen as creative, but that nevertheless innovate, often with impressive commercial results.

The central message of this chapter is that creativity is not the exclusive preserve of a creative few, but a popular domain that is daily demonstrating its potential to bring

producers and consumers of creative content closer together and stimulate unprecedented social networking. The power of this social networking has yet to be fully tapped, whether in the form of rejuvenating our democratic institutions, increasing the vibrancy of our cities and communities, or creating more stimulating work environments.

## CHAPTER 5

# Positioning Canada's Culture Sector in the Global Market

### Chapter Summary

- ♦ Canada is a relatively small market dispersed across a large geography. Therefore, the success of many culture products and services depends significantly on international trade.
- ♦ In recent years, Canada has experienced substantial new injections of foreign direct investment in our culture industries. For example, the France-based gaming company Ubisoft's new operations in Montréal involve an investment of \$454 million and the creation of up to 1,000 jobs by 2013.
- ♦ Canada has also recently experienced a rise in mergers and acquisitions in the culture sector, creating larger enterprises. Canada's telecommunications, broadcasting, and new media sectors are actively contributing to the mergers and acquisition growth trend.

### THE GLOBAL COMPETITIVENESS OF CANADA'S CULTURE INDUSTRIES: KEY ISSUES

This chapter focuses on the performance of Canada's culture sector in the global culture economy. Like other developed nations around the world, Canada participates in a global market in which economic interconnectivity and interdependencies are

rapidly growing. Growth of digital technologies and Internet use are significantly affecting consumer dynamics. At the same time, a steady and rapid increase in the number of international migrants in the developed world, as well as trade liberalization and the opening up of new markets, is affecting the international marketplace for culture goods and services. These drivers also affect national policies related to doing business in a global economy, including international trade agreements and other international conventions. These same drivers of the global creative economy create both challenges and opportunities for Canada's culture industries.

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**A steady and rapid increase in the number of international migrants in the developed world affects the international marketplace for culture goods and services.**

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Canada is a relatively small market dispersed across a large geography. Therefore, the success of many culture products and services depends significantly on international trade. Additionally, Statistics Canada notes that "domestic production is fragmented by the need for two parallel infrastructures in most culture industries to accommodate two distinct language markets—French and English."<sup>1</sup> As immigration increases, demands for multilingual culture products and services are also increasing, further fragmenting the Canadian market.

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1 Statistics Canada, *Canadian Culture in Perspective*, p. 99.

Developed nations are particularly desirable markets for cultural trade and investment activity. Trade activity has increased substantially in recent decades and has the potential to grow further. Potential capacity to absorb cultural products and services is growing, but there are challenges in penetrating international markets due to intensifying competition and the rising Canadian dollar.

Developed nations are important sources of foreign direct investment in Canada's culture sector. Foreign direct investment (FDI) has increased in recent decades among advanced nations; today it is critical for continued business growth and international competitiveness. A current example of FDI being attracted into Canada relates to investments in the video gaming industry. The culture sector also helps to attract talent and investment in other sectors of the economy by contributing to the attractiveness of Canadian cities and communities.

Central to the discussion of international trade and investment relating to culture goods and services is the issue of national cultural identity. International trade and investment, and more broadly economic globalization, are sometimes perceived as potential risks to the survival of cultural diversity. As a result, concerns arise with respect to ownership of cultural enterprises and the protection of cultural diversity.

Such concerns centre on the capacity of large multinational corporations to exert control over markets and, in effect, create a relatively homogeneous mass culture, thereby eroding indigenous cultural values and threatening the viability of locally produced products and the livelihoods of those who make them.

Others argue that international trade of culture goods and services contributes to multiculturalism and broader consumer choices. It serves to enhance understanding of diverse cultures and builds greater awareness of Canada's cultural milieu. Further, it provides an opportunity to promote Canada's distinctive cultural brand. The good news story for Canada's creative economy in the global market is that distinctiveness sells. For example, Canada produces distinctively Anglo-Canadian film and television productions, distinctively Franco-Canadian film

and television productions, and third-language productions. Each of them can reach out to markets that share one or more of the languages in which the productions are created, while conveying a uniquely Canadian experience that transcends the common language.

International agreements are also an important element affecting global competitiveness. The North American Free Trade Agreement (NAFTA), for example, sets out rules governing trade, investment, and intellectual property rights between Canada, the United States, and Mexico. Culture industries are exempted from the provisions of NAFTA. After NAFTA, and in all bilateral trade agreements, Canada's approach in the World Trade Organization has been to maintain domestic policy flexibility by not taking on new obligations that affect the culture sector.

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**The good news story for Canada's creative economy in the global market is that distinctiveness sells.**

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In addition to these trade agreements, the UNESCO *Convention on the Protection and Promotion of the Diversity of Cultural Expressions* (ratified by Canada in November 2005) officially entered into force on March 18, 2007.<sup>2</sup> The Convention is considered an important international legal instrument as it "reaffirms the right of countries to adopt cultural policies to promote the diversity of cultural expressions. The Convention also recognizes the dual economic and social nature of cultural goods and services." To date, it has been adopted by over 75 UNESCO member states.

Digital technologies and the Internet enable people around the world to access diverse content such as video productions in any language with ease. They have the potential to increase the ability of Canadian cultural content to circulate globally and ensure that distinctively national brands can freely cross borders. Peter Van den Bossche, professor of international economic law at Maastricht University in the Netherlands, suggests that

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<sup>2</sup> UNESCO, *A Convention on the Protection and Promotion of the Diversity of Cultural Expression*.

today, “cultures exist within and across borders.”<sup>3</sup> Consumer trends such as prosumerism and the co-creation of products significantly affect business models, including international business activity.

While there is clearly an opportunity for major media such as Canwest to market Canadian-made television series such as “Da Vinci’s Inquest,” an English-Canadian police drama or “Fortier,” a Franco-Canadian police drama, to foreign television networks, there is also increasing opportunity for small culture enterprises and individuals to participate in the production, promotion, distribution, and consumption of creative Canadian content globally through e-commerce.

## HOW CANADA PERFORMS IN THE GLOBAL CREATIVE ECONOMY: INTERNATIONAL TRADE IN CANADA’S CULTURE GOODS AND SERVICES

Trade in culture goods and services is measured according to the *Canadian Framework for Culture Statistics*. Estimates of culture goods and services trade are based on different data sources, and therefore Statistics Canada suggests caution in measuring them together.

International trade consists of exports and imports of culture goods and services, including intellectual property. This paper relies on the following definitions of these concepts relating to trade and investment activity.

Goods are defined as “physical objects for which a demand exists, over which ownership rights can be established and whose ownership can be transferred from one institutional unit to another by engaging in transactions on markets.”<sup>4</sup> Culture goods are tangible, physical goods such as books, magazines, newspapers, videos, paintings, and sculptures. Exports and imports of such goods physically cross borders.<sup>5</sup>

A culture service is an “action that can be bought or sold.”<sup>6</sup> The *Canadian Framework for Culture Statistics* includes the following categories in the definition of culture services: creative services (such as live performances, and intellectual property rights for culture products, including trademarks and copyrights); artistic expression (such as broadcasting services); content services (such as film production and distribution); and preservation services.

Trade in intellectual property includes “the payment or receipt of royalties, licensing fees and subsidiary rights derived from the sale of culture goods.”<sup>7</sup>

Canada’s culture goods trade deficit grew from \$1.7 billion in 2005 to \$1.8 billion in 2006 (in current dollars). Canada imported \$3.9 billion worth of culture goods, representing a 3.2 per cent decline from 2005, and exports fell to \$2.1 billion, representing a 12.7 per cent decline from 2005.<sup>8</sup> The decline is due, at least in part, to the rise of the Canadian dollar relative to the U.S. dollar.

The United States accounts for over 90 per cent of Canada’s culture goods exports. Exports of culture goods to the United States totalled \$1.9 billion in 2006, down from \$2.2 billion in 2005. Imports of culture goods from the U.S. totalled \$3 billion in 2006.<sup>9</sup>

China ranks second in terms of culture goods imports. Canada imported \$295 million worth of culture goods from China, while exports from Canada to China totalled \$13.8 million in 2006.

France is Canada’s third largest trading partner in terms of culture goods. Imports from France totalled \$168 million, while exports of culture goods to France totalled \$30.5 million in 2006. Imports from the United Kingdom, Canada’s fourth largest trading partner for culture goods, totalled \$138 million, while exports totalled \$36 million in 2006.<sup>10</sup>

3 Van den Bossche, *Free Trade and Culture*, p. 18.

4 United Nations Statistics Division cited in Robles, *Culture Goods Trade Data User Guide*, p. 7.

5 Robles, *Culture Goods Trade Data User Guide*, p. 7.

6 Statistics Canada, *Trade in Culture Services*.

7 Statistics Canada, *Canadian Culture in Perspective*, p. 28.

8 Statistics Canada, “International Trade in Culture Goods.”

9 Statistics Canada, *Culture Goods Trade: Data Tables 2006*, p. 3.

10 Ibid., pp. 4–6.

Written and published works represented 73 per cent of all culture goods imports in 2006. Imports of books, newspapers and periodicals, and other printed matter were worth \$2.8 billion in 2006. Films and videos was the second largest culture import, accounting for 7.3 per cent of all culture goods imports.

Books, film, and advertising material represented over half of Canada's culture goods exports. Books accounted for 19 per cent, films made up 18 per cent, and advertising materials accounted for 16 per cent.<sup>11</sup>

Data on Canada's international trade in culture services are available up to 2004.<sup>12</sup> Canada has experienced significant growth in trade activity for culture services in recent years. In 2004, Canada imported \$3.5 billion worth of culture services, compared with \$2.6 billion in 2003, representing an increase of 35 per cent. By far the largest component in the growth of imports of services was film and video services, comprising close to half of all imports in 2004. The other large component in services imports was broadcasting, amounting to \$976 million, or 28 per cent of the total.

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**Canada has experienced significant growth in trade in culture services in recent years. In 2004, Canada imported \$3.5 billion worth of culture services.**

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Exports of culture services totalled more than \$3 billion in 2004, compared with less than \$2.2 billion in 2003, an increase of 41 per cent. By far the largest component of these exported culture services was film and video services.

The United States is Canada's largest trading partner for culture services, accounting for almost \$3 billion (85 per cent) of imports in 2004. Imports of culture services from the European Union totalled \$348 million (10 per cent) in 2004, of which \$156 million came from the United Kingdom. The rest of the world provides only about 5 per cent of imports of culture services.

The United States is the primary destination for Canada's culture services exports, accounting for an estimated \$2.4 billion (78 per cent) in 2004. Exports of Canada's culture services to the European Union totalled \$411 million, of which \$112 million was exported to the United Kingdom.<sup>13</sup>

The Conference Board estimates that real exports of culture services were worth over \$3.3 billion in 2007. Adding in exports of culture goods brings the total value of real culture exports to about \$5 billion in 2007, about 1 per cent of Canada's total exports.

## FOREIGN DIRECT INVESTMENT, MERGERS, AND ACQUISITIONS

In recent years, Canada has experienced significant new injections of foreign direct investment in our culture industries. For example, France-based Ubisoft's new operations in Montréal involve an investment of \$454 million and the creation of up to 1,000 new jobs by 2013. Ubisoft plans to transform its facilities in Quebec into one of the largest digital entertainment centres in the world.<sup>14</sup> As well, California-based Electronic Arts, which has operations in Vancouver, expanded in 2003 to Montréal, in a studio that is expected to employ between 300 and 500 people by the end of the decade.<sup>15</sup> Electronic Arts employs over 2,000 game developers at its three studios in Burnaby, Vancouver, and Montréal, and is the largest game developer in the world.<sup>16</sup>

Canada has also recently experienced a rise in mergers and acquisitions in the culture sector. Canada's telecommunications, broadcasting, and new media sectors are actively contributing to the mergers and acquisition growth trend. Such mergers and acquisitions are subject to the approval of the Canadian Radio-television and

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11 Statistics Canada, "International Trade in Culture Goods."

12 Statistics Canada, *Culture Services Trade: Data Tables*, Table 5.

13 Statistics Canada, *Culture Services Trade: Data Tables*, tables 2, 3, and 8.

14 Government of Quebec, "Québec attracts large investment from Ubisoft Entertainment Inc."

15 CBC News, "Electronic Arts to Set Up Montréal Game Development Studio."

16 Electronic Arts, "EA Helps Digital Media Masters Students."

Telecommunications Commission (CRTC), which has the primary authority to regulate the cable, television, radio, telecommunications, and related industries in Canada. *The Broadcasting Act* serves as the main legislative tool for regulating communications content in Canada.<sup>17</sup>

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**In effect, these mergers and acquisitions could actually increase the capacity of these media giants to finance, create, promote, and distribute significant volumes of distinctive Canadian cultural content.**

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For example, in July 2006, Bell Globemedia (BMG), now renamed CTVglobemedia, acquired CHUM Ltd. in a \$1.7-billion deal. CHUM owned 33 radio stations and 12 television stations across Canada.<sup>18</sup> As a condition of the purchase, the CRTC required CTVglobemedia to sell five Citytv stations, which Rogers Media acquired.<sup>19</sup> In December 2007 the CRTC approved an acquisition by CanWest MediaWorks Inc. and Goldman Sachs (an investment bank) of Alliance Atlantis Communications for \$2.3 billion.<sup>20</sup> Alliance Atlantis is part owner of the popular “CSI: Crime Scene Investigation” franchise and holds the worldwide distribution rights to the hit television franchise outside the United States.<sup>21</sup>

In effect, these mergers and acquisitions could actually increase the capacity of these media giants to finance, create, promote, and distribute significant volumes of distinctive Canadian cultural content, and help to ensure the viability and growth of the businesses. On the other hand, there is some concern that production and distribution of Canadian cultural content on a mass scale could crowd out smaller productions and decrease variety in the marketplace.

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17 Canadian Cultural Policy, Ownership Restrictions, and Evolving International Trade Rules, *Annex 1: Canadian Ownership Requirements Relating to the Cultural Industries*.

18 CRTC, *Broadcasting Decision CRTC 2007-165*.

19 CBC News, “CRTC approves acquisitions by Rogers Media, Astral Media.”

20 CRTC, *Broadcasting Decision CRTC 2007-429*.

21 Agence France-Presse, “‘CSI’ Co-owner Alliance Atlantis Sold for Two Billion Dollars.”

## COMPARISON OF THE ECONOMIC PERFORMANCE OF CANADA’S CULTURE INDUSTRIES WITH THAT OF OTHER OECD NATIONS

In an effort to develop an international comparison of economic measures of the culture sector, the OECD brought together measures for five countries in a study released in 2006. The countries participating in the study were Australia, Canada, France, the United Kingdom, and the United States.

Data were derived from official national sources—for example, Statistics Canada’s Culture Statistics Program (CSP) and Australia’s National Centre for Culture and Recreation Statistics (NCCRS). Table 8 shows the estimates of the contribution of the culture sector to the national economies of these five countries. Based on this comparison, the United Kingdom’s culture sector makes the largest direct contribution to national GDP with 5.8 per cent, while France’s culture sector contributes the least, 2.8 per cent, among these five countries. Australia, Canada, and the United States were relatively similar in terms of their culture sector contribution to GDP, with 3.1 per cent, 3.5 per cent, and 3.3 per cent respectively.

The OECD notes that due to the amount of estimation involved, the comparisons between countries should be used with “extreme caution.”<sup>22</sup> No existing operational framework is in place for international comparisons of the culture sector. Although the UNESCO Framework for Culture Statistics has been developed, the OECD found that, “from an international-comparison point of view, one of the problems with the UNESCO framework was the lack of precise definitions of the proposed measures.”<sup>23</sup> Data standards also presented challenges: “in examining existing data on the culture sector in five OECD countries — Australia, Canada, France, the United Kingdom and the United States — the authors highlight not only the lack of detail in the standards but also the different classifications used by each country.”<sup>24</sup>

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22 Gordon and Beilby-Orrin, *International Measurement*, p. 55.

23 Ibid., p. 5.

24 Ibid., p. 1.

**Table 8**  
OECD Estimates of Culture Industries' Contribution to National GDP/GVA

Country	Reference Year	Currency	Value (\$ millions)	Per Cent of Total Economy
Australia	1998–99	Australian dollars	17,053	3.1
Canada*	2002	Canadian dollars	37,465	3.5
France	2003	Euros	39,899	2.8
United Kingdom	2003	Pounds sterling	42,180	5.8
United States	2002	United States dollars	341,139	3.3

\*GDP data for Canada in 2003, the most recent year available, were noted earlier in this report.

Source: OECD, *International Measurement of the Economic and Social Importance of Culture*. See p. 6 for summary table and Section X of the OECD report for detailed explanatory notes and warnings, especially p. 55.

The OECD notes several other difficulties associated with comparing measures of culture internationally. Standard statistical techniques do not directly value volunteer labour in measures of economic contribution. Inconsistencies exist in data collection techniques. Another significant issue is that cultural activity by

firms whose principal activity is other than cultural is not reflected in the standard statistical tabulations.<sup>25</sup> It should also be noted that the reference years for data in Table 8 were not consistent for all five countries.

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<sup>25</sup> Ibid., p. 19.



## CHAPTER 6

# Conclusion

### Chapter Summary

- ♦ Arts and culture industries are widely recognized for their multi-faceted role in contributing to personal and community development, enhancing social cohesion, and improving quality of life.
- ♦ In recent decades, there has been growing understanding of the important economic contributions that culture industries make and of the central role that the culture sector plays in the creative economy.
- ♦ Technology invites participation in creative activity on a mass scale. That has profound social and economic implications. The Internet and Web 2.0 applications already help bring people together virtually in communities of interest that are increasingly focused on activities of a creative nature, and their potential impact is even greater.
- ♦ Creative communities are important drivers in Canada's economy. They project unique identities that act as magnets for skilled, creative people and for business investment. An important challenge for governments is to ensure communities have the means necessary to support creativity and diversity, and to build a thriving culture sector.

**T**he culture sector is a significant contributor to Canada's economy and helps strengthen the fabric of Canadian society. The arts and culture industries are widely recognized for their multi-faceted role in contributing to personal and community development, enhancing social cohesion, and improving quality of life. Creative activities provide positive learning experiences and mechanisms for individual expression that build personal awareness and insight, and make it possible for people to connect better with each other, as individuals and in groups or communities. Culture springs from the creativity of individuals and from people working collaboratively. For this reason, creative activities based on culture help to promote national identity at the same time as they sustain the cultural diversity that is important to Canadians.

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**Over a million people are employed directly or indirectly as a result of cultural economic activity in Canada.**

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In recent decades, there has been growing understanding of the important economic contributions that culture industries make and of the central role that the culture sector plays in the creative economy as a whole. The economic contribution of the culture sector to Canada in 2007 was \$84.6 billion, or 7.4 per cent of total real GDP, taking into account direct, indirect, and induced contributions. Over a million people are employed directly or indirectly as a result of cultural economic activity in Canada.



Technology invites participation in creative activity on a mass scale. That has profound social and economic implications. The Internet and Web 2.0 applications already help bring people together virtually in communities of interest that are increasingly focused on activities of a creative nature, and their potential is even greater. Technology enables collaboration and mass participation, two great engines of diversity that allow people to express their uniqueness and associate on the basis of what they have in common. People are now collaborating online to create diverse cultural content such as movies, music, and video games. Technology also opens the door to commoditizing the creative experience and creating new forms of economic value and business relationships that can underpin significant growth in the scale and importance of the culture sector within the economy as a whole.

Creative communities are important drivers in Canada's economy. They project unique identities that act as magnets for skilled and creative people and for business investment. An important challenge for all levels of government is to ensure that communities have the means necessary to support creativity and diversity, and to build a thriving culture sector.

While the culture sector constitutes a distinct sphere of economic activity in its own right, generating substantial wealth domestically and through international trade and investment, it also plays a much more expansive role in Canada's social, cultural, and economic well-being. Increasingly, Canada and other countries around the world are recognizing the importance of valuing culture in its multiple dimensions, as well as the capacity of arts and culture industries to fuel other sectors in unique ways.

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## **SECTION II**

### Research Papers



## RESEARCH PAPER 1

# Embedded Creatives: Revealing the Extent and Contribution of Creative Professionals Working Throughout the Economy

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### Abstract

Efforts to measure reliably the extent of creative professionals working in non-creative industries started with the release of the Department of Culture, Media and Sport (DCMS) Economic Estimates in 2003. Little was known, however, about how the level of employment may vary between the industry sectors of the economy. Queensland University of Technology has applied a methodology to workforce data from the United Kingdom, Australia, and New Zealand and has shown that the creative economy can legitimately be regarded as composed of:

- ♦ specialist occupations within creative industries (Specialist)
- ♦ support occupations within creative industries (Support)
- ♦ specialist occupations outside the creative industries (Embedded)

While our studies of the United Kingdom, Australia and New Zealand have provided more reliable estimates of the size,

average income, and economic contribution of the creative workforce, the exciting outcome has been the ability to measure consistently the patterns of distribution of the embedded creatives across the sectors of the economy—such as the proportion that industrial and graphic designers hold of the total employment within the manufacturing sector or the proportion that web developers and software designers have of financial services sector employment.

For policy-makers and industry analysts, the ability to better understand, measure, and track embeddedness is critical in making the transition from programs that support just the creative industries to those that encourage and promote the creative economy as a whole.

## INTRODUCTION

The complexity and often inconsistently defined nature of the cultural sector soup bedevilled the cultural support policies of many governments in the 1980s and 1990s. That changed substantially after the Department of Culture, Media and Sport (DCMS) issued the UK Creative Industries Mapping Document series in 1998. The details of the many, often overlapping sectors became subsumed under an umbrella brand—“creative industries”—that with its emphasis on the more commercial aspects of the activities appealed to politicians and bureaucrats alike.

The DCMS model, an application of the traditional industrial sector approach, identified 13 creative sectors for analysis of a range of measures: employment; business characteristics (including their number, their size, turnover and profit margins); and outputs including the value of exports and estimates of gross value-added.

A pro forma or template for analyzing the creative industries was formalized in the subsequent 2001 UK Creative Industries Mapping Documents, and this structure was applied in New Zealand in 2002 (*Creative Industries in New Zealand: Economic Contribution*<sup>1</sup>), in Australia

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1 Mark Walton, Ian Duncan (2002) *Creative Industries in New Zealand Economic Contribution*, Industry New Zealand, Wellington, <<http://www.nzte.govt.nz/common/files/nzier-mapping-ci.doc>> last accessed 21/08/2007

(Creative Industry Cluster Study Series<sup>2</sup>) and Singapore (Economic Contribution of Singapore's Creative Industries) in 2003, and regionally, in Queensland, Australia (*Creativity Is Big Business*<sup>3</sup>) in 2004.

It was not until 2003 with the release of the second in the DCMS Economic Estimates series that the definition of creative employment was expanded to include those people employed in creative occupations in businesses outside of the creative industries. At that time, the DCMS<sup>4</sup> Economic Estimates reported that creative jobs outside the creative industries would add approximately 780,000 people to the estimated one million working in the creative industries.

This delay of five years is strange considering there have been a number of frameworks developed for measuring cultural employment with, for instance, the Australian Bureau of Statistics commencing its series in 1991<sup>5</sup> as well as a New Zealand Framework in 1995<sup>6</sup> and Canada in 2001.<sup>7</sup> These studies mostly examined employment from the point of view of “craft,” sometimes with ring-in such as the inclusion of sportspeople and ministers of religion in some definitions of cultural employment.

While the cited reports also considered the employment of non-creative occupations in cultural industries as part

of the characteristics, they were not used to calculate total cultural employment.

The approach of the ARC Centre of Excellence for Creative Industry (known as CCI) was set by the objectives of the original Creative Industries National Mapping project:

1. How to provide “defensible” evidence of the extent and contribution of creative workforce to the economy?
2. How to reliably measure the value of creative industries’ intermediate outputs to the rest of the economy?

To achieve this, we knew we needed to move away from sector-based surveys and “ground” the creative workforce sizing and characteristics studies within the whole economy so that meaningful comparisons can be made. We also quickly discovered that the traditional approach of using national accounts input/output tables was not satisfactory as they were too coarse in industry classifications and, with a five-year lag, too delayed in their availability.

Instead, we obtained very detailed employment data from the Australian census consisting of the number of people employed within 16 income bands for every occupation within every industry—in theory, a 13-million cell data-cube. After classifying the occupations and industries into creative segments (or not), these datasets were used to create whole-of-economy pivot tables, including a two-by-two matrix with, naturally, four quadrants:

The three quadrants that we call the modes of the Creative Trident are:

1. *Specialist mode*: Those people in defined creative occupations employed within the defined creative industries
2. *Support mode*: Those people employed within the defined creative industries who are not working in the defined creative occupations but perform the essential sales, management, secretarial, accounting, and administrative functions
3. *Embedded mode*: Those people employed within the defined creative occupations who are working outside the defined creative industries
4. *Balance*: *The fourth quadrant is employment in the rest of the economy.*

2 Department of Communications, Information Technology and the Arts (2002) CICS Creative Industries Cluster Study Stage One. DCITA, Canberra. <<http://www.cultureandrecreation.gov.au/cics/>> last accessed 27/08/2007

3 ICF Consulting, SGS Economics and Planning (2003) *Creativity Is Big Business*—A framework for the future (QCIS), Queensland Department of State Development, Trade and Innovation, Brisbane, <[http://www.sd.qld.gov.au/dsdweb/v3/guis/templates/content/gui\\_cue\\_cntnhtml.cfm?id=34220](http://www.sd.qld.gov.au/dsdweb/v3/guis/templates/content/gui_cue_cntnhtml.cfm?id=34220)> last accessed 27/08/2007

4 DCMS (2003) Creative Industries Economic Estimates Statistical Bulletin, DCMS, London, <[http://www.culture.gov.uk/Reference\\_library/rands/statistics/creative\\_industries\\_eco\\_est.htm](http://www.culture.gov.uk/Reference_library/rands/statistics/creative_industries_eco_est.htm)> last accessed 21/08/2007

5 Australian Bureau of Statistics (1993) 6273.0 Employment in Culture, Australia 1991. <http://www.abs.gov.au/ausstats/abs@.nsf/ProductsByReleaseDate/7B6FA8E71107B398CA25722E001B036C?OpenDocument>

6 Statistics New Zealand (1995) New Zealand Framework for Cultural Statistics 1995. <http://www.stats.govt.nz/NR/rdonlyres/FFF63470-EF5F-43C2-A5F8-840267B30EED/0/frameworkforculturalstatistics.pdf>

7 Culture Statistics Program, Canadian Framework for Culture Statistics, 2001, Catalogue No. 81-595-MIE ñ No. 021, Statistics Canada, Ottawa, <[www.statcan.ca/english/research/81-595-MIE/81-595-MIE2004021.pdf](http://www.statcan.ca/english/research/81-595-MIE/81-595-MIE2004021.pdf)>

Our analysis has shown that three Creative Trident modes each account for approximately a third of creative employment.

While a similar quadrant approach was used in the 2005 French Ministry of Culture report,<sup>8</sup> its study did not directly total the three quadrants, perhaps because of the difficulty of sourcing equivalent detailed multi-dimensional employment tables from the many European Union countries studied.

Creative employment in Australia has grown substantially from almost 354,000 people in 1996 to 474,000 in 2006.<sup>9</sup>

Although the growth rate (Table 2) has slowed from the head heights of 4.2 per cent per year on average between 1996 and 2001 to 1.7 per cent between 2001 and 2006,

significant growth has continued to occur in embedded employment over the past 10 years. Between 2001 and 2006, the 4.3 per cent cumulative average growth rate of embedded employment was some 10 times higher than the growth rate in specialist and support employment.

CCI has also analyzed employment in the United Kingdom on behalf of the national Endowment for Science, Technology and the Arts (NESTA)<sup>10</sup> and New Zealand with New Zealand Institute of Economic Research (NZIER) on behalf of New Zealand Trade and Enterprise.<sup>11</sup> These studies show the significance of the creative workforce's share of the total employment and especially the growth in importance of embedded creative to the overall economy.

**Table 1**

Employment within the creative modes and the total workforce, Australia

Year	Specialist	Support	Embedded	Creative Workforce	Australian Workforce
1996	98,241	144,840	110,798	353,879	7,635,791
2001	134,442	165,474	135,561	435,477	8,102,892
2006	136,888	170,068	167,474	474,430	9,104,187

Source: CCI analysis of custom 2006 Census data tables from the Australian Bureau of Statistics.

**Table 2**

Annual growth rate in employment within the creative modes and the Australian workforce

Year	Specialist (%)	Support (%)	Embedded (%)	Creative Workforce (%)	Australian Workforce (%)
1996 to 2001	6.5	2.7	4.1	4.2	1.2
2001 to 2006	0.4	0.5	4.3	1.7	2.4

Source: CCI analysis of custom 2006 Census data tables from the Australian Bureau of Statistics.

8 French Ministry of Culture 2005, L'emploi culturel dans l'Union européenne en 2002: Données de cadrage et indicateurs, L'Observatoire de l'emploi Culturel, Département des études, de la prospective et des statistiques, Paris, June 2005 <http://www2.culture.gouv.fr/deps/telechrg/noec39.pdf> last accessed 21/08/2007

9 The employment figure in 2006 is also sometimes shown as being 486,000. This is the employment calculated with the newest 2006 industry and occupation classifications.

10 Higgs, Peter L. and Cunningham, Stuart D. and Bakhshi, Hasan (2008) Beyond the creative industries: mapping the creative economy in the United Kingdom, NESTA, London, <[http://www.nesta.org.uk/assets/pdf/beyond\\_creative\\_industries\\_report\\_NESTA.pdf](http://www.nesta.org.uk/assets/pdf/beyond_creative_industries_report_NESTA.pdf)> last accessed 15/1/2008

11 Andrews, Grant. and Higgs, Peter L. (Forthcoming) Employment in New Zealand's Creative Economy, New Zealand Trade and Enterprise, Wellington,

**Table 3**

Employment within the creative modes and the total workforce, Australia

Country	Year	Specialist Mode (%)	Embedded Mode (%)	Support Mode (%)	Creative Workforce (%)
Australia	1996	1.3	1.5	1.9	4.6
	2001	1.7	1.7	2.0	5.4
	2006	1.5	1.8	1.9	5.2
New Zealand	2001	1.4	1.7	2.3	5.4
	2006	1.5	1.8	2.5	5.7
United Kingdom	2001	2.1	2.4	2.6	7.1
	2003	2.3	2.5	2.2	6.9
	2006	2.5	2.5	2.1	7.0

Source: CCI analysis of custom tables of Australian, N.Z. and U.K. census data and U.K. labour force survey for 2003 and 2006.

**Table 4**

Specialist, embedded, support, other, and workforce employment in Australia, 2006

Division	Specialist	Embedded	Support	Other	Workforce	Embedded Share (%)
<b>A</b> Agriculture, Forestry and Fishing			544		285,411	0.2
<b>B</b> Mining			762		106,568	0.7
<b>C</b> Manufacturing	19,967	20,912	38,692	939,807	998,466	
<b>D</b> Electricity, Gas and Water Supply			1,577		71,014	2.2
<b>E</b> Construction		7,146		705,228	705,228	
<b>F</b> Wholesale Trade			12,037		434,255	2.8
<b>G</b> Retail Trade			12,345		1,300,581	0.9
<b>H</b> Accommodation and Restaurants		3,236		433,678	433,678	0.7
<b>I</b> Transport and Storage		3,545		403,437	403,437	0.9
<b>J</b> Communication Services		5,723		132,063	132,063	4.3
<b>K</b> Finance and Insurance		12,955		346,891	346,891	3.7
<b>L</b> Property and Business Services	71,789	24,260	102,020	803,241	977,050	2.5
<b>M</b> Government Administration		22,383		493,736	493,736	4.5
<b>N</b> Education		19,071		678,113	678,113	2.8
<b>O</b> Health and Community Services		4,280		976,491	976,491	0.4
<b>P</b> Cultural and Recreational Services	39,901	4,917	27,527	133,393	200,821	2.4
<b>Q</b> Personal and Other Services	5,231	4,441	1,829	316,836	323,896	1.4
<b>R</b> Non-Classifiable Economic Units		5,983		113,443	113,443	5.3
<b>Z</b> Not Stated		1,357		123,045	123,045	1.1
<b>Grand Total</b>	<b>136,888</b>	<b>167,474</b>	<b>170,068</b>	<b>8,797,231</b>	<b>9,104,187</b>	<b>1.8</b>

Source: CCI analysis of custom 2006 Census data tables from the Australian Bureau of Statistics.

## PATTERNS OF DISTRIBUTION OF EMBEDDED EMPLOYMENT IN NON-CREATIVE INDUSTRIES

The detailed two-dimensional employment datasets that are used to calculate the Creative Trident also allow additional types of analysis that are not possible using single-dimension, occupation-based, or industry-based employment datasets. It is particularly interesting to examine the distribution of embedded employment across the whole economy, either at the single-digit “division” level or at the more detailed two-digit industry level. As well as embedded employment, Table 4 also shows the divisions in which the specialist creative industries are located; and within the creative industries, the breakdown between specialist and support employment.

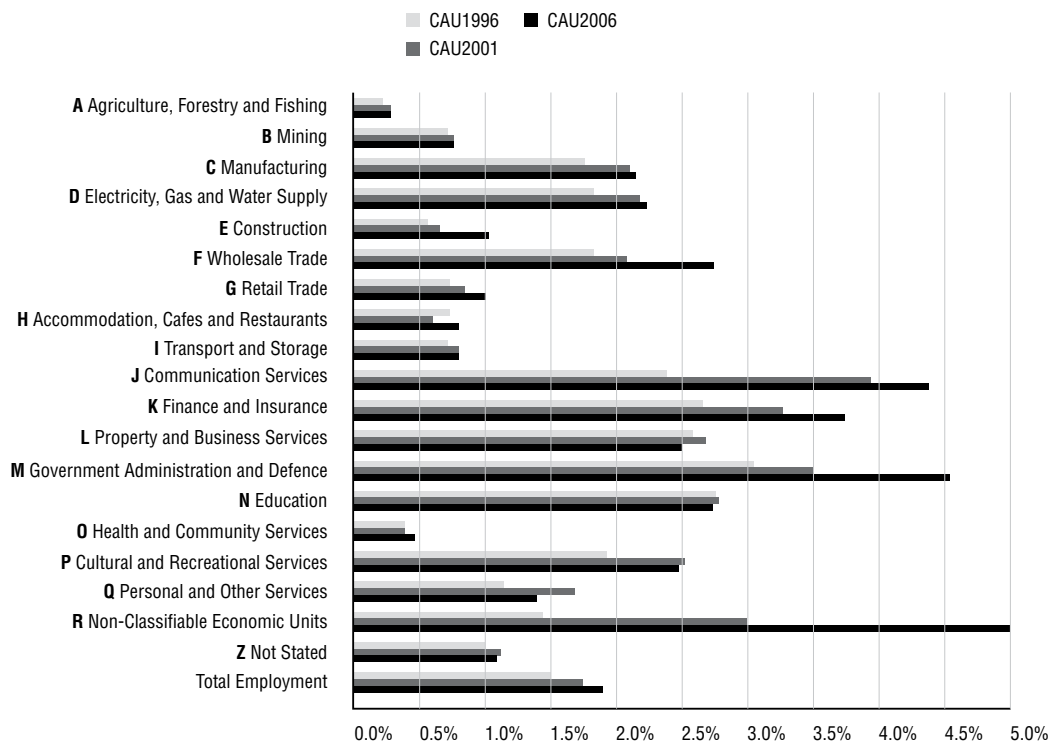
Chart 1 shows the consistent increase in the embedded share of most division’s employment from 1996 through 2001 and 2006.

The two exceptions to this growth are Division L Property and Business Services—which rose from 2.6 to 2.7 per cent between 1996 and 2001 then dropped to 2.5 per cent in 2006, and Division N Education which has remained relatively static around 2.8 to 2.9 per cent.

This pattern is also revealed when examining New Zealand’s embedded share of employment, with the share increasing in most divisions with the exception of three showing a decline: L Property and Business Services, M Government Administration and Defence, and N Education.

**Chart 1**

The embedded share of each division’s employment for Australia, 1996, 2001, and 2006

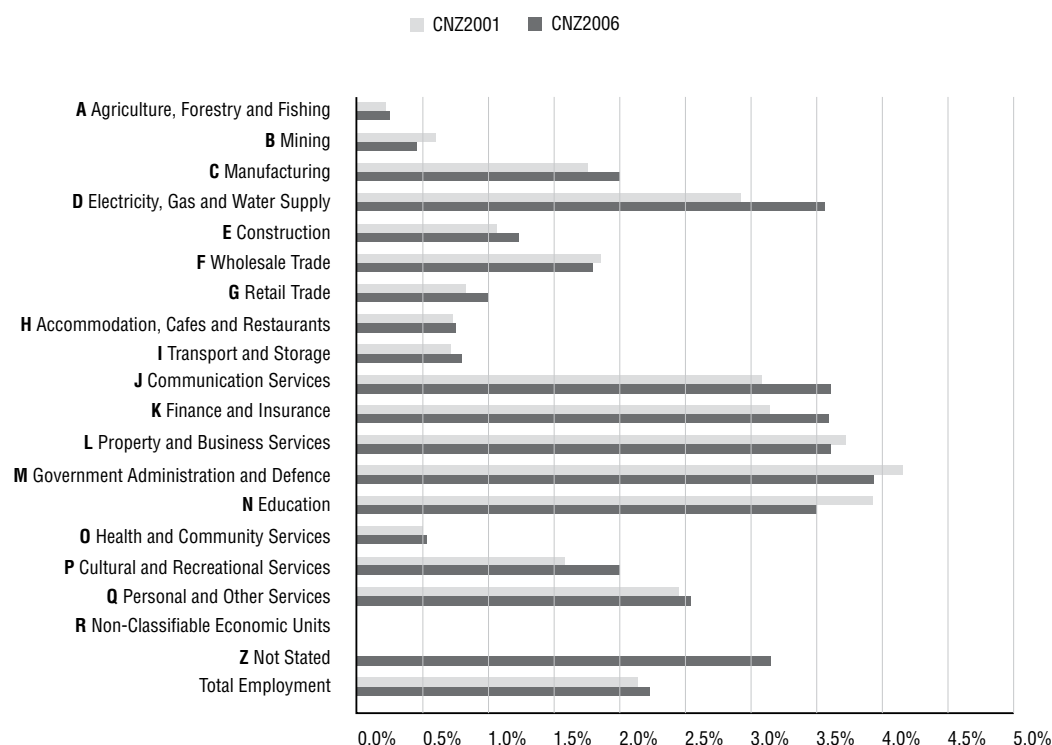


Source: CCI analysis of custom census data tables (1996, 2001 and 2006) from the Australian Bureau of Statistics.



**Chart 2**

The embedded share of each division's employment for New Zealand, 2001 and 2006



Source: CCI analysis of custom 2001 and 2006 Census data tables from Statistics New Zealand.

Reliably analyzing the shifts in embedded employment in the U.K. data is not as clear cut because of changes in classifications, the level of detail at which the 2001 census data are available, and the fact that 2003 and 2006 data are available only from a relative small sample-rate labour force survey.

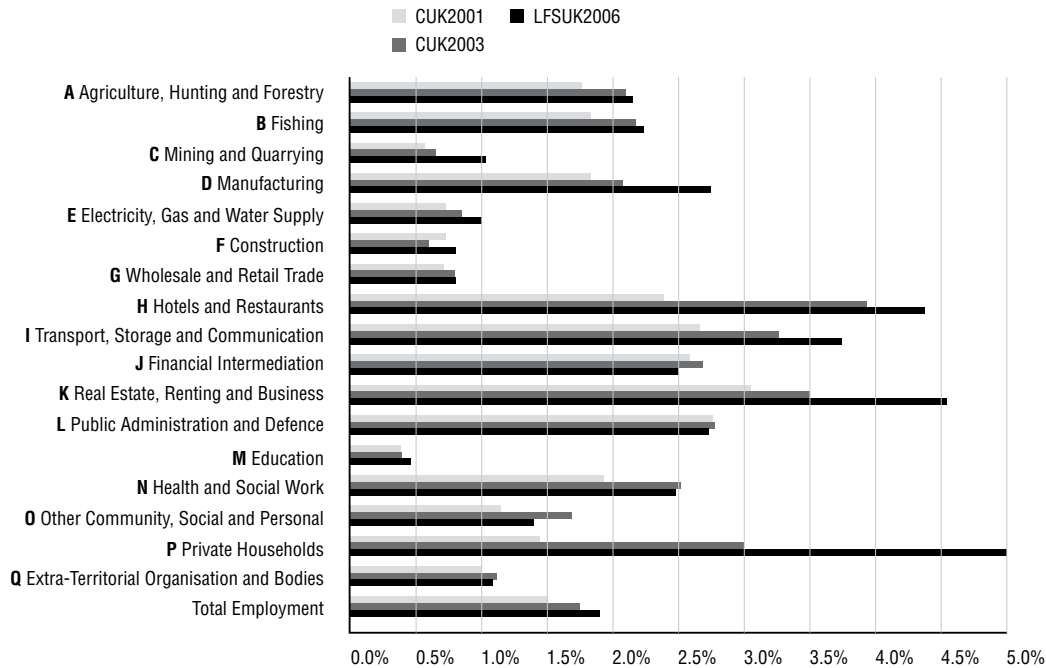
However, even with these caveats, there are some observable patterns: the growth in Division L Public Administration and Defence from 2.3 per cent in 2001 to 2.5 per cent in 2003 and 3.0 per cent in 2006 and the high level of embedded share in Division D Manufacturing in 2006 with 4.7 per cent, up from 3.5 per cent in 2003.

## ASSESSING THE FINANCIAL IMPACTS OF EMBEDDED EMPLOYMENT

The salaries, fees, and profits paid to staff and business owners broadly reflect the value of an activity to the economy. The ability to determine with reasonable accuracy the total personal earnings arising from creative employment therefore provides an indicator (if not a proxy) of value-added. The CCI methodology allows the calculation of earnings, combining both the level of employment and the average level of remunerations received by individuals (specifically the mean income), of each combination of occupation within industry: graphic artists may earn substantially more working within a bank's corporate communications department than they would working for an education department, for example.

**Chart 3**

The embedded share of each division's employment for United Kingdom, 2001, 2003, and 2006



Source: CCI analysis of custom tables of U.K. 2001 Census data and labour force survey data for 2003 and 2006.

Because it uses datasets with complete coverage, the Creative Trident methodology can not only calculate total earnings more accurately than traditional approaches, but it can also highlight some of the disparities between different roles within a segment and between those in a segment who are employed in different divisions.

While this is useful for showing that some segments, such as Software and Digital Content, earn substantially more than the other segments and almost twice the national mean annual income, a potentially more significant usage is that the analysis can reveal the relative value of each segment's

**Table 5**

Mean incomes for creative segments and embedded compared to the workforce mean, Australia, 2001 and 2006

Segment	Mean 2001	Embedded Mean 2001	Mean 2006	Embedded Mean 2006
Australian Workforce	\$36,280		\$43,690	
Advertising and Marketing	\$47,910	\$50,650	\$57,480	\$61,580
Architecture, Design and Visual Arts	\$38,040	\$37,810	\$46,180	\$46,690
Film, TV and Radio	\$48,810	\$42,110	\$58,070	\$55,100
Music and Performing Arts	\$32,550	\$29,740	\$38,570	\$33,210
Publishing	\$38,460	\$34,800	\$46,470	\$40,490
Software and Digital Content	\$64,290	\$65,540	\$75,110	\$77,920
All Creative Segments	\$47,700	\$47,320	\$56,900	\$56,640

Source: CCI analysis of custom census data tables (2001 and 2006) from the Australian Bureau of Statistics.

embedded professionals to the different divisions of the economy and how these relationships change over time.

Chart 4 shows a comparison of the mean annual income of the embedded professionals from the Architecture Design and Visual Arts segment relative to the mean income of the division of their employment for both 2001 and 2006.

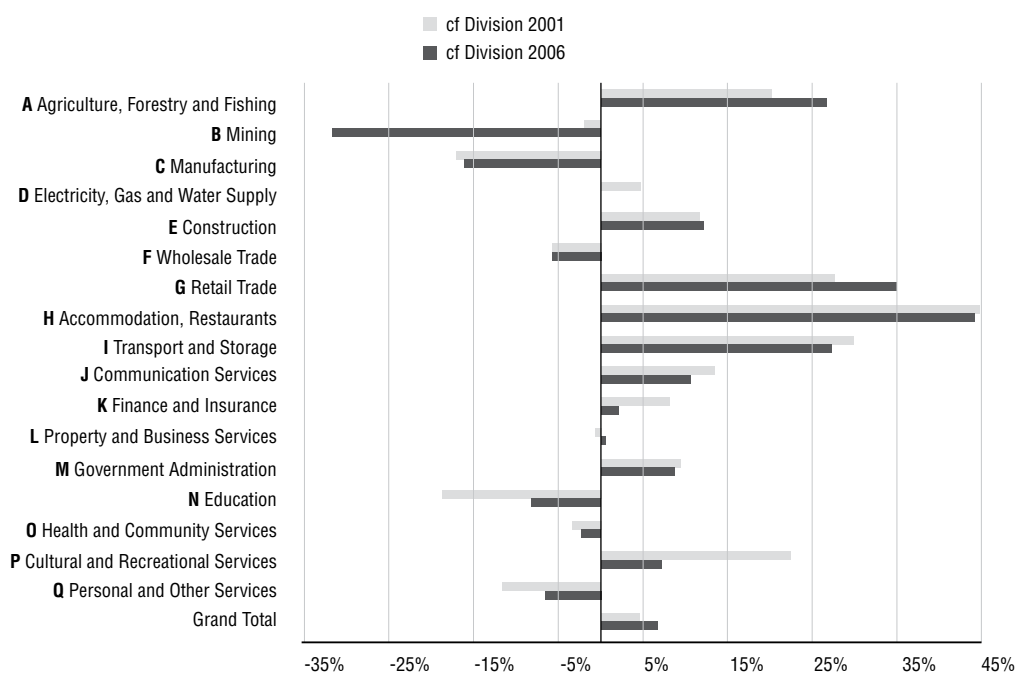
Chart 4 shows that design professionals employed in the G Retail trade division earned 28 per cent more than the division's mean in 2001 and this increased to 35 per cent more in 2006. A similar increase was observed in

Division A Agriculture, Hunting and Forestry. But the chart also shows that the mean income of some design professionals lost ground relatively speaking between 2001 and 2006—those in Division K Real Estate, Renting, and Business fell from 11 per cent above to near parity at 2 per cent above.

It is also valuable to compare the mean income of Architecture Design and Visual Arts professionals embedded within each division to the mean income of all of those in their segment—specialists, embedded, and support—as shown in Chart 5.

**Chart 4**

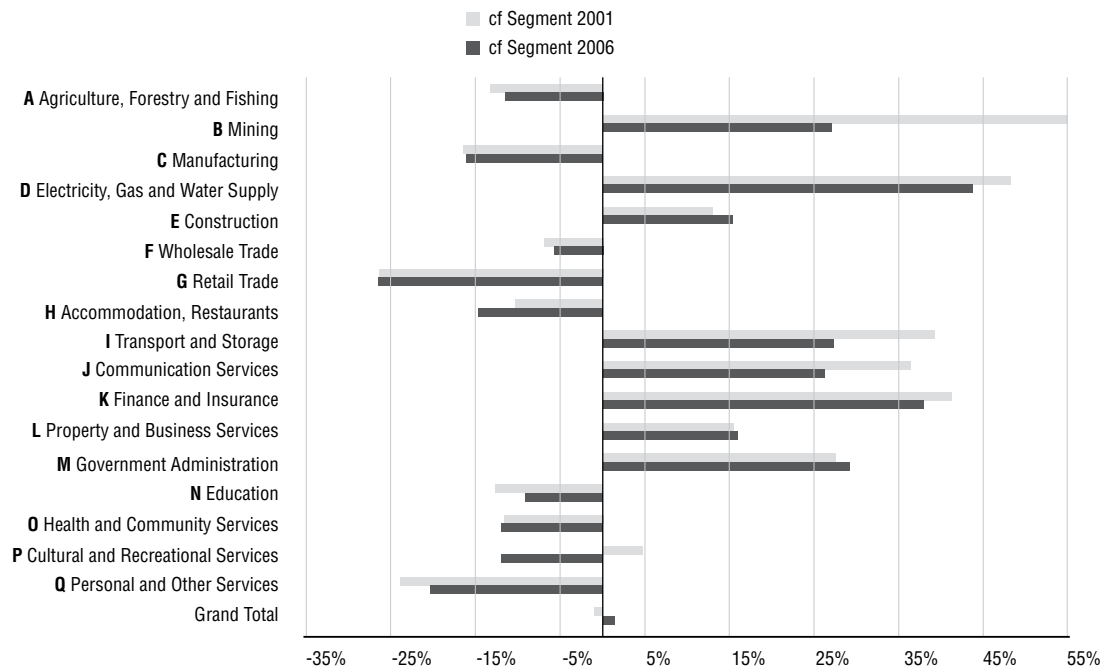
Comparison of the mean income of Architecture Design and Visual Arts embedded professionals to the mean income of the division of employment, Australia, 2001 and 2006



Source: CCI analysis of custom census data tables (2001 and 2006) from the Australian Bureau of Statistics.

**Chart 5**

Comparison of the mean income of Architecture Design and Visual Arts professionals embedded within each division to the segment's Creative Trident mean income, Australia, 2001 and 2006



Source: Analysis by CCI of custom census data tables from the Australian Bureau of Statistics.

Relative to the mean of everyone in their segment, those relatively few designers employed in Division B Mining did very well, with a mean some 76 per cent above in 2001, although this reduced to 26.5 per cent in 2006. Similarly, the higher incomes in Divisions I, J, K in 2001 reduced somewhat in 2006. On the negative side, designers embedded in Manufacturing were consistently 15 per cent below the norm; likewise those in Education were 12 per cent behind in 2001, although this improved slightly to 8.5 per cent behind in 2006.

## CONCLUSION

The Creative Trident methodology requires highly detailed, two- or even three-dimensional employment datasets extracted from a census of population, although a labour force survey could also be used if it had a high sampling rate. From our experience, it is difficult to acquire such datasets where the workforce is less than a million people

because of confidentiality constraints and the application of randomizing. However, where quality data are available the methodology allows for a significant improvement in the capacity to understand the extent and contribution of creative employment, and most especially, those working in the broader economy. The methodology enables us to look beyond simple analysis of employment in individual occupations and can provide insights into relative valuations of contribution through mean incomes and total expenditure on personal earnings as a possible indicator for their value-added.

As the NESTA Beyond the Creative Industries report stated, “For policy makers and industry analysts the ability to better understand, measure and track embeddedness is critical in making the transition from programs that support just the creative industries to those that encourage and promote the Creative Economy as a whole.”



## RESEARCH PAPER 2

# A “Creativity” Based Cultural Policy: Objectives, Conditions and Paradoxes

*Philippe Chantepie<sup>1</sup>, Ministry of Culture and Communication, France*

The Lisbon Agenda works from the assumption that culture, through creativity, helps to drive long-term growth and competitiveness. This perspective, which views culture as an economic activity capable of “contributing directly, therefore by itself, to innovation,”<sup>2</sup> is still relatively new and runs the risk of subjecting a unique domain to regulations that, at times, may be specific. Many national or local policies have already undertaken to support cultural activities towards that end. From a methodological standpoint, a certain number of essential economic and statistical hypotheses must be questioned in developing such policies:

- ♦ the transition from the “field of cultural activities,” stemming from the Leadership Group on Cultural Statistics or LEG (an initiative of the European Union begun in 1995), to the field designated by the expression “cultural and creative industrial economy,” in order for policies to be comparable in view of their implementation;
- ♦ the criteria used for defining this field and identifying policy goals, instruments and assessment methods;
- ♦ an open perspective by immaterial economic indicators so as to establish a bridge between culture and creativity.

### A FIELD OF ACTIVITIES UNDER REVIEW

There is a hypothesis on a general causality: artistic and cultural activity drives creativity that promotes innovative ability, which underpins the development of long-term economic growth (undoubtedly outside the field of cultural activities) and thus, supports employment and income growth. Based on economic analysis, the foundations and terms of this causality are far from obvious, unequivocal and homogeneous. What does creativity mean from an economic perspective? Not so much as from the economy, creativity proceeds first and foremost from psychology, cognitive sciences, and the history of arts or sciences. What are its attributes? Are they the same as for innovation? What criteria set it apart from creation, innovation, etc.? What is the economic field of these industries, considered to be creative, where one is hard-pressed to imagine that some bear no relation, and does it overlap with the LEG’s? Answering these questions is a pre-requisite to establishing creativity policy objectives on a consistent concept, not a built-to-fit basis.

The issue of the field of cultural activities is complex. The LEG conducted a long and at times arduous study to arrive at a consensus. The final report that resulted<sup>3</sup> succeeded in laying out a general framework for defining the field of cultural activities by domains and by functions, and it constitutes a solid base of reference that is still current. New perspectives are being drawn

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2 Eichengreen, Barry. *The European Economy since 1945: Coordinated Capitalism and Beyond*, Princeton: Princeton University Press, 2006.

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3 *Cultural statistics in the EU. Final report of the LEG*, Population and social conditions 3/2000/E/N°1, Eurostat Working Papers, European Commission, 2000 [http://circa.europa.eu/Public/irc/dsis/edtcsl/library?l=/public/culture/leg\\_culture\\_report/\\_EN\\_1.0\\_&a=d](http://circa.europa.eu/Public/irc/dsis/edtcsl/library?l=/public/culture/leg_culture_report/_EN_1.0_&a=d).

politically around the expression “creative industries,” both to economically justify cultural policies as well as to promote a creativity policy. The approach developed by the Department for Culture, Media and Sport in the United Kingdom since 1998<sup>4</sup>, then 2001<sup>5</sup> is based on a definition of the field of creative industries founded on activities with “*their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property*”<sup>6</sup>.

Nonetheless, the definitions of economy of culture or field of industries dubbed “cultural” or “creative” vary depending on the statistical, economic, sociological or political approach. Authorities are split and put forward a wide variety of possible definitions<sup>7</sup>. They include the following:

- ♦ arts and entertainment industries,
- ♦ audiovisual industries,
- ♦ communication or communicational industries,
- ♦ knowledge or cognitive industries,
- ♦ content industries,
- ♦ entertainment industries,
- ♦ experience industries or experience economy industries,
- ♦ imagination industries,
- ♦ information industries,
- ♦ leisure industries,
- ♦ multimedia or media industries,

- ♦ literary and artistic property-based industries, copyright-based industries or copyright industries.

This proliferation of definitions is problematic for establishing a policy, goals and means, notwithstanding agreement as to the diversity of expressions. It is preferable to adopt a pragmatic approach on two or three fundamentals for the field of policies to promote creativity.

A consensus exists, however, around a body of activities that includes the performing arts, visual arts, cinema, publishing, recorded music, advertising, radio and television, and architecture. This approach opens up a definition of the field of cultural industries in concentric circles centred on core creative arts<sup>8</sup>. Around the first circle, a few activities deserve analysis, although they could, without too much difficulty, be included in the broader field of cultural activities: design, fashion, video games, even advertising, or at least creative advertising. Based on other disciplines, a definition of the field of cultural industries can be argued on the basis of a few features relating to the industrial production and circulation of symbolic content<sup>9</sup>.

As regards international institutions, any of several criteria can be adopted: for example, the World Intellectual Property Organisation (WIPO) centres the field of cultural industries on the criterion for which the institution has responsibility: literary and artistic property-based industries (*copyright-based industries*)<sup>10</sup>. Or, without too many criteria, a broad field can be adopted, such as the one used by UNESCO on the basis of cultural

4 *Creative Industries Mapping Document 1998*, London: DCMS, [http://www.culture.gov.uk/Reference\\_library/Publications/archive\\_1998/Creative\\_Industries\\_Mapping\\_Document\\_1998.htm](http://www.culture.gov.uk/Reference_library/Publications/archive_1998/Creative_Industries_Mapping_Document_1998.htm).

5 *Creative Industries Mapping Document 2001*, London: DCMS, [http://www.culture.gov.uk/Reference\\_library/Publications/archive\\_2001/ci\\_mapping\\_doc\\_2001.htm](http://www.culture.gov.uk/Reference_library/Publications/archive_2001/ci_mapping_doc_2001.htm).

6 The 13 industries identified by DCMS (see table on page \*) were recently the subject of a report by the Work Foundation on behalf of DCMS: *Staying ahead: the economic performance of the UK's creative industries*, London: DCMS, June 2007, [http://www.culture.gov.uk/Reference\\_library/Publications/archive\\_2007/stayingahead\\_epukci.htm](http://www.culture.gov.uk/Reference_library/Publications/archive_2007/stayingahead_epukci.htm).

7 Segers, K. and E. Huijgh. “Clarifying the complexity and ambivalence of the cultural industries,” Gent: Re-creatie Vlaanderen, working paper 2006-02, 2006, [http://www.re-creatievlaanderen.be/srv/pdf/srcvwp\\_200602.pdf](http://www.re-creatievlaanderen.be/srv/pdf/srcvwp_200602.pdf).

8 Throsby, D. *Economics and Culture*, Cambridge University Press.

9 Hesmondhalgh, D. *The Cultural Industries*, Sage Publications.

10 World Intellectual Property Organisation. *Guide on Surveying the Economic Contribution of the Copyright-based Industries*, Geneva: WIPO, [http://www.wipo.int/copyright/en/publications/pdf/copyright\\_pub\\_893.pdf](http://www.wipo.int/copyright/en/publications/pdf/copyright_pub_893.pdf).



goods and services that flow internationally<sup>11</sup> or the one adopted by OECD, which favours content industries within the information economy<sup>12</sup>.

At the national level, many governments favour such and such a field of cultural activities, depending on their economic sectors or their cultural traditions.

Removing the relative ambiguity from the notion of creativity or creative industries does not scale back the number of analyses of the field of activities prerequisite to the development of public policies in line with the Lisbon Agenda without losing sight of the risk of dissolving the body of cultural activities.

## CHOOSING AND COMBINING PROBLEMATIC CRITERIA

Defining a common intellectual field of cultural activities implies obtaining a consensus on the criteria for distinguishing between categories of cultural activities based on a concentric circles classification logic<sup>13</sup>. These criteria, which are the building blocks for policies to promote the economy of culture or the creative economy, also serve to identify creativity factors and goals for public action.

Economic analysis relating to the classification of cultural industries<sup>14</sup> provides a fertile synthetic approach around *five* criteria. They must be the focus of common

work and discussions on the best practices in the area of cultural policies:

- ◆ *creativity* is a criterion that is both obvious for these industries, but nonetheless vague, and non-specific to these industries, therefore not very discriminating;
- ◆ *intellectual property* is a relatively obvious criterion, but it is not simple to use and it is not specific; a legal institution, it responds economically to the question of non-competition of cultural information assets rather than serving as a reflection of creativity in and of itself;
- ◆ *symbolic meaning* would be the most appropriate for determining the cultural nature of certain types of goods, therefore the most specific, albeit not very objective, so it opens the door to countless questions on the definition of culture between arts and anthropology; it is not very operative in that it also encompasses the marks of sectors with few or no ties to culture; however, cultural marks are also essential to the valuation of culture;
- ◆ *use value* would be a criterion capable of extending the field of symbolic goods to functional utility; although rich, it is not very discriminating either, as it does not forge an objective partition between activities and goods, even though the “communication of ideas” would allow a portion of activities to be centred on a classical approach;
- ◆ *production methods* constitute a final criterion, undoubtedly the most effective; it relies on the economic characteristics at least of cultural industries that the culture economy has identified with cost structure, reproducibility<sup>15</sup>, the “no one knows” principle<sup>16</sup>, and properties of economy of scale and prototype<sup>17</sup>.

11 UNESCO Institute for Statistics. *International Flows of Selected Cultural Goods and Services 1994–2003: Defining and Capturing the Flows of Global Cultural Trade*, Montreal: UIS, 2005, [http://www.uis.unesco.org/template/pdf/cscl/IntlFlows\\_EN.pdf](http://www.uis.unesco.org/template/pdf/cscl/IntlFlows_EN.pdf). French Version: [http://www.uis.unesco.org/template/pdf/cscl/IntlFlows\\_FR.pdf](http://www.uis.unesco.org/template/pdf/cscl/IntlFlows_FR.pdf).

12 OCDE. (<http://www.oecd.org/dataoecd/49/44/35930616.pdf>).

13 Segers, K. and E. Huijgh. “Clarifying the complexity and ambivalence of the cultural industries,” Gent: Re-creatief Vlaanderen, working paper 2006-02, 2006, [http://www.re-creatievlaanderen.be/srv/pdf/srvcwp\\_200602.pdf](http://www.re-creatievlaanderen.be/srv/pdf/srvcwp_200602.pdf).

14 Galloway, S. and S. Dunlop. “A critique of definitions of the cultural and creative industries in public policy,” *International Journal of Cultural Policy*, 13(1), February 2007, 17–31.

15 Towse, R. “Cultural industries,” chapter 20 of R. Towse (ed.), *A Handbook of Cultural Economics*, Edward Elgar, 170–6.

16 Caves, R. *Creative Industries: Contracts between Art and Commerce*, Harvard University Press.

17 Ménard, Marc. *Éléments pour une économie des industries culturelles*, Sodec.

All of these characteristics are essential for defining the field of culture and developing specific policies for promoting creativity, particularly very small businesses, often in the form of associations, access to funding, R&D, territorialization, etc. However, these elements cannot be found either in certain non-industrial cultural activities, or in traditional industries where the creative portion is an *input* (fashion, design, advertising). This criterion is undoubtedly the most fertile for building active policies to support creativity, particularly on a territorial level, based on the nature of companies and of employment.

Combining criteria is a possibility, but a considerable amount of work would be involved starting from the set of possible criteria if the result is to be consistent and homogeneous. This work could be developed to determine what sector might or might not be incorporated into a broader field of cultural and creative industries. It requires a pragmatic approach along the lines of the one that was used at the LEG if the field is to be expanded within the perspective of the Lisbon Agenda. With the new operational NACE<sup>18</sup> nomenclature in early 2008, it will be possible to extend the field of cultural activities without losing consistency or in terms of recurrent and harmonized data. In fact, the cultural field can find its place in new classifications:

- ◆ *J Information and communication;*
- ◆ *R Arts, entertainment and recreation.*

It will be possible to describe cultural activities using 30 or so classes (four digits) and an initial approach will be possible over nine groups and five divisions:

- ◆ *58 Publishing activities;*
- ◆ *59 Motion picture, video and television programme production, sound recording and music publishing activities;*
- ◆ *60 Programming and broadcasting activities;*
- ◆ *90 Creative, arts and entertainment activities;*
- ◆ *91 Libraries, archives, museums and other cultural activities.*

Finally, it will be possible to incorporate all or part of design or fashion activities, even advertising activities. The pragmatic approach must resolve the confrontation between relatively equal-weighted authorities and expand the field of cultural activities to a much broader one where creation plays a major role. In this respect, a major hurdle must be overcome: can common elements be used for analyzing the economic role of culture, or, in other words, what are the mechanisms that create benefits from culture for the rest of the economy?

## MEASURING “IMMATERIAL ASSETS”: A CHANNEL OF TRUTH

The true economic question relates to the causality between the artistic and cultural field, or the field of “creativity,” and that of growth. It relies on hypotheses that have yet to be verified. A pragmatic approach is possible in terms of economic statistics: artistic and cultural activity in a region could thus, for example, lead indirectly to greater innovative industrial development through artistic and cultural creativity emanating to other economic activities. Arts and culture act as a sort of dynamo or catalyst in the development of society<sup>19</sup>. But a comparison is needed against other investments.

The immaterial economy applied to the cultural domain must pinpoint conditions for possibly expanding the field of cultural activities and demonstrating, or not, how culture drives creativity for the rest of the economy.

In this regard, only the measurement of immaterial assets is valid as a relevant and homogeneous criterion since it is the criterion used for the economy as a whole for assessing its creativity, or rather its innovation and its performance. Since “creative industries” policy was associated from the outset with economic analysis, assessing the relevance and effectiveness of a supposed connection, where the economy of culture and the economy of creativity are drivers of the economy as a

18 [http://circa.europa.eu/irc/dsis/nacecpaon/info/data/en/nace\\_correspondance\\_table.htm](http://circa.europa.eu/irc/dsis/nacecpaon/info/data/en/nace_correspondance_table.htm).

19 Bille Hansen, TR. (1995), “Measuring the Value of Culture,” *European Journal of Cultural Policy*, 1(2); *in extenso*.

whole, must be capable of meeting a minimum concern for refutability or falsification<sup>20</sup>, at the risk of ending up nowhere and contradicting the scientific starting point of the endeavour. Under these conditions, analyzing the immaterial assets of the field of cultural activities offers just the needed test of truth. It entails measuring the following for all or every portion of cultural activities:

- ♦ *cultural human capital*, in terms of knowledge, skills and know-how. This type of asset is considered a model for non-cultural creative products that cross all industries and services in terms of design, brand and symbolic elements. It acts as a lever for production through human capital, skills and qualifications<sup>21</sup> which imply a renewal of human resources management in companies<sup>22</sup>. It would be a core factor of causality between culture/creativity and growth. In fact, this sector can rely relatively more so than others on a high level of human capital. Through advanced artistic learning, career mobility and multi-activity, cultural employment has unique features that play a pioneering role for employment as a whole. In addition, taking human capital into consideration serves as a bridge between low-tech activities, founded on specific know-how, and more industrial activities, whether cultural or not;
- ♦ *R&D* is, of course, essential in the economy as a whole. It overlaps, in part, with another creation indicator: “intellectual property,” or actually industrial property (patents and brands) to be examined in the field of cultural activities for measuring the intensity of traditional R&D. There is no certainty, however, that it is of greater relative importance than in other sectors. Consideration must be given to the company’s structure, size, commercial relations, etc. The measurement of innovation should therefore be applied to cultural activities.

Specific instruments may then emerge for promoting R&D in this sector;

- ♦ *literary and artistic property rights* whose importance is paramount in the immaterial economy, particularly that of digitized content, and of course for creativity. It is a difficult entity to measure owing to its essentially contractual nature. And as far as we know, in France for example, it would appear that, regardless of the sector, royalties – at the origin and at the heart – of the creative process, are bottom-heavy, very concentrated, and they have a tendency to erode to the benefit of the neighbouring rights of producers, publishers and even broadcasters. The contractual dimension of the valuation of cultural goods will not make this knowledge easy, but indicators must be found. This type of data and analyzing the flow of rights and their valuation are absolutely necessary because it is undoubtedly the heart of creativity that continues to lack an objective and quantifiable indicator;
- ♦ other immaterial assets that are more vague but no doubt essential for understanding and forging a broadening of cultural policies; they involve innovation in the cultural sector (excluding product innovation), namely:
  - relational capital (valuation methods, domestic and international markets, international relations);
  - marketing and advertising within cultural activities, but also as a method of funding cultural goods, and also as input for other sectors;
  - organizational capital which should constitute a model of the creative economy generally and appreciate on the basis of production/ dissemination, methods and management processes, particularly in relation to talent<sup>23</sup>.

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20 Popper, Karl R. *Logique de la découverte scientifique*, Bibliothèque scientifique, Payot, 1973

21 Rouet, F. (2004), “La place de la culture dans l’économie à l’heure de la mondialisation et de la diversité culturelle,” *April; in extenso*.

22 For the last two factors, we distanced ourselves from questions of “creativity” and turned instead to human capital and its process of accrual, these elements constituting another important factor for long-term economic growth.

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23 Paris, Thomas. *Organisation, processus et structure de la création*, Culture prospective, 2007-5, Nov. 2007.

**Table 1****Knowledge creation****Share of enterprises receiving public funding for innovation**

Innovation and entrepreneurship

Small and medium sized enterprises (SMEs) innovating in-house

Innovative SMEs cooperating with others

Innovation expenditure

SMEs using organizational innovation

Application

Sales of new-to-market products

Sales of new-to-firm products

The economic and statistical analysis of creativity that should be developed has undoubtedly much to draw from this approach, firstly because it is a true channel of transmission between cultural activities and the rest of the economy. In these domains, there are uniform statistical data whose quality and number can continue to grow, for example:

- ♦ Community Innovation Survey (CIS 4);
- ♦ European Innovation Scoreboard (EIS) 2006;
  - through work on the Summary Innovation Index (SII), particularly on innovation input: innovation drivers, knowledge creation, innovation and entrepreneurship, but also intellectual property;
  - by the EIS indicators;
- ♦ The Regional Innovation Scoreboard (RIS) that will provide elements for the 208 European regions, for example, for analyzing district-based regional policies.

With this perspective, assessable creativity-based policies can be developed and, as often as necessary, possible economic or institutional subinvestments can be isolated to promote creativity, and warranting public intervention.

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The objectives of a cultural policy to promote creative industries can assume an evolution in the field of cultural activities as defined by the LEG, in certain regards easy for a small number of economically and culturally well established domains, but much harder if the adopted ideological approach is founded on an inadequate combination of criteria. A pragmatic approach is therefore preferable to analyze criteria for distinguishing fields, identifying the goals of creativity-based cultural policies, and evaluating them. It also assumes relying on the existing context, particularly in terms of statistics, for defining the notion of creativity, measuring it at least with respect to the field of cultural activities, which is the touchstone of such a policy to promote cultural activities from a purely economic perspective. Nonetheless, performing this analysis work – measuring immaterial or creative assets – in the field of cultural activities or the creative economy could well produce paradoxical and disappointing results.

## RESEARCH PAPER 3

# Promoting Quebec's Cultural System Through Statistics

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### THE CREATIVE ECONOMY

The International Forum on the Creative Economy provided an opportunity to examine the fascinating world of creativity and its impact on society, even though it may be difficult to determine where it fits exactly in the wider context of a creative economy. The aim, as we see it, is to quantify creative contributions in their entirety. Words matter and it seems to me that the concept of a creative economy, at least from the standpoint of studying its impact, leads to a much broader interpretation of the definition of culture such that it includes fields not usually associated with culture, as is the case with public relations, marketing, tourism and sports. Questioning their inclusion in the creative economy is valid because in reality, public relations has little in common with musical composition or creative writing. Consequently, one could quite reasonably wonder whether or not culture is truly part of the creative economy and if so, how to distinguish between the two.

Given the lack of a universal definition of culture and communications, the all-encompassing concept of a creative economy is both a challenge and a risk for researchers who need to define and categorize their subject-matter in order to truly comprehend it. All of these polysemic terms, stratified or superimposed, describe various realities depending on one's viewpoint, be it sociological, anthropological, economic, political

or statistical. To master this multi-layered universe, a conceptual framework that demarcates the limits is required so that it lends itself to study. This is, to some extent, what the *Observatoire de la culture et des communications du Québec* has achieved.

I will not discuss the definition of the “creative economy” here. However, I would like to describe the progress made by the *Observatoire de la culture et des communications du Québec*, or OCCQ as I will refer to it henceforth. At the OCCQ, culture and communications are clearly defined and constitute a major component of its conceptual framework within the wider scope of the “creative economy.” Secondly, I will provide a brief overview of the impact of the OCCQ's work and governance model on the cultural sector. My purpose is not to provide a rigorous study of socioeconomic impacts but rather, to analyze the consequences of disseminating statistical data to the cultural sector. My comments will address the impact of the model that was developed to study the cultural sector as opposed to measuring the impact per se.

This paper focuses on the innovative aspects of the OCCQ's work, particularly its mandate and terms of reference that were established in conjunction with the cultural sector, and the OCCQ's promotion of research in Quebec. This paper will also demonstrate the importance of access to statistical data for public institutions and cultural industries.

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## THE OBSERVATOIRE DE LA CULTURE ET DES COMMUNICATIONS DU QUÉBEC (OCCQ)

Evaluating the economic and social impact of culture requires high-quality data that is both reliable and relevant. The cultural sector has long felt neglected in this regard. In fact, most of the research and analyses on culture conducted in the past suffered from a distinct lack of data on the main components of this economic sector. Government organizations seeking to establish policies and public institutions needing to guide their programs also deplored the lack of reliable data that would help them set specific targets.

When culture was finally recognized as an economic driver and government organizations needed to justify their investment in culture, the lack of reliable data on culture's economic impact came to the fore. In the past, research was conducted<sup>2</sup> but the results were global or macroeconomic in nature and did not entirely meet the needs of the various players in the cultural sector. According to them, microeconomic data often plays a decisive role in the decision-making process, as much for cultural entrepreneurs as for managers of the public purse. The level of frustration expressed by numerous individuals and organizations during consultations on the matter led to the creation of the OCCQ, an organization tasked with producing and disseminating high quality data. The OCCQ has three mandates: the main one is to produce statistics; the two others are to promote research and monitor the cultural sector.

Prior to the OCCQ's creation, existing data could be used as a basis for general discussions on the needs of cultural industries but quite often, a deeper analysis of statistically reliable data for specific components of these industries was required. For example, most of the components were simply never looked at and frequently, the data available was based on estimates produced by consulting firms. As for the few components of cultural industries examined by Statistics Canada, the results are certainly reliable on a national level. However, data by province and territory is

often inadequate, notably because of limited sampling. The OCCQ was created to help rectify some of these problems.

The OCCQ's primary mandate is to produce, compile and disseminate official statistics on culture and communications. Since its creation in 2000, the OCCQ developed and conducted numerous studies on various cultural industries and produced reliable and complete statistical profiles that provide a dynamic overview of the status of these industries in Quebec. The OCCQ's work provides objective information to decision-makers and citizens, stimulates research and contributes to public discourse on the evolution of culture and communications.

The impetus for the creation of the OCCQ came from public institutions and the cultural sector. In 2000, several presentations made by associations and professional groups requesting the creation of the OCCQ were submitted before a parliamentary commission on culture. Their request was one of the commission's recommendations.

The OCCQ is an integral part of Quebec's cultural system and as such, it is part of the complex web that unites artists, producers, distributors, associations, private and public institutions, and even the regulatory system that enforces rules and regulations.

The organizational structure of the OCCQ is a model of collective leadership. There are eight advisory committees<sup>3</sup> and the president of each committee sits on the management committee along with six financial partners<sup>4</sup>. Five of these financial partners are directors of public institutions and the sixth is Quebec's assistant deputy minister of culture. Government institutions

2 Studies on economic impacts conducted by the MCCCCF in 1996 and 2002, and a study on the economic contribution of culture in Canada by Statistics Canada in 2004.

3 Advisory Committees: Visual Arts, Fine Crafts and Media Arts; Film, Audiovisual and Broadcasting; Recording Industry and Performing Arts; Books, Literature and Libraries; Multimedia; Local Municipalities and Administrations; Heritage, Museums and Archives; University Research.

4 Bibliothèque et Archives nationales du Québec, Conseil des arts et des lettres du Québec, Institut de la statistique du Québec, Ministère de la Culture, des Communications et de la Condition féminine, Régie du cinéma, Société de développement des entreprises culturelles.



agreed to play a minor role in the OCCQ though they finance most of its activities.

The OCCQ's association with the *Institut de la statistique du Québec* is another distinguishing feature that allows it to benefit from the Institute's investigative powers and rules governing confidentiality and data processing. These combined attributes provide the OCCQ with the tools it requires to fulfill its mission.

One of the first tasks of the OCCQ was to design and develop terms of reference in conjunction with the cultural sector as a whole. This exercise allowed the various players to express their particular vision of culture and proved to be a unifying force. Based on their input, an integrated model was developed and led to the publication of the *Système de classification des activités de la culture et des communications du Québec*<sup>5</sup>.

## THE OCCQ'S MISSION

The OCCQ's mission is set out in an agreement signed by its financial partners. Though this agreement is subject to renewal every three years, the OCCQ's mission has remained the same since its inception.

The OCCQ's mission is as follows:

- ◆ Develop an integrated statistical system by conducting studies and using various statistical sources as they apply to all cultural and communications industries;
- ◆ Disseminate statistical data to representatives of cultural and communications industries;
- ◆ Cooperate with existing research units and centres, particularly in the academic community;
- ◆ Maximize the existing databanks of public and private partners (associations, labour unions, businesses, etc.) and cooperate with other information and statistical data providers working in a similar or related field;

- ◆ Seek new sources of funding, notably by offering fee for services to public and private organizations that require personalized research. However, the OCCQ accedes to these requests only if it is research that it would have conducted had it had the financial means to do so;
- ◆ Document the role and the importance of culture in Quebec society and contribute to the discourse on major international trends.

The OCCQ exists to meet the needs of government and cultural industries. Therefore, its data must be politically neutral and unassailable from a technical standpoint. This is why the OCCQ, for the time being, has limited its work to quantitative studies, though the organization will undoubtedly widen its scope as it evolves over time.

## ECONOMIC IMPACTS

All of the partners agreed implicitly that the OCCQ's primary mandate was not to evaluate the economic impact of cultural and communications industries but rather to measure the true level of activity for each component, in all of its manifestations. In fact, studies on the economic impacts of culture have demonstrated its importance in terms of national prosperity. However, the process used to measure these impacts is laborious and doesn't allow researchers to track its evolution on a regular basis. The estimates relating to impacts are the product of an elaborate process that cannot be automatically reproduced as would be the case if indicators based on recurrent data were used.

This state of affairs led the OCCQ's partners to concentrate mainly on producing basic data, in particular, attendance, market share, revenues, expenses, etc. First and foremost, these statistics must facilitate the decision-making process for the cultural sector and subsequently contribute to the development of the tools required to generate social and economic indicators so that the development of each cultural component can be tracked.

5 Observatoire de la culture et des communications du Québec, *Système de classification des activités de la culture et des communications du Québec*, November 2003, 141 p.



## SOCIAL IMPACTS

Insofar as social impacts are concerned, the OCCQ decided to rely on research being conducted in academic circles. By virtue of its mandate to support research, the OCCQ works closely with university researchers. To this end, an advisory committee was formed and projects are now financed jointly by the OCCQ and the *Fonds québécois de la recherche sur la société et la culture*. Furthermore, the OCCQ, in partnership with the *Fonds québécois de la recherche sur la société et la culture*, offers a post-graduate scholarship. Other initiatives of a similar nature are underway. Solidifying this partnership is both desirable and strategic because it affords the opportunity to exploit the data and draw the attention of researchers to this field. Thus, the OCCQ supports projects that focus on analyzing the social impact of culture.

## STATISTICS AND THEIR INFLUENCE ON THE CULTURAL SECTOR

In some circles, there is much talk about the economic and social benefits of culture but considerably less discussion about the importance of providing the cultural sector with data that is reliable, impartial and independent of institutions or interest groups, nor is there much recognition of the role of the OCCQ as a catalyst. Making information widely accessible is undoubtedly one of the OCCQ's greatest achievements. Thanks to their presence at the very core of OCCQ's organizational structure, cultural industries and public institutions have access to statistics and information that meet their needs and expectations. The OCCQ's accomplishments are due to its partnerships on the financial and governance front. Public and private decision-makers are an integral part of the organization. Meetings of the advisory committees and the management committee allow participants to exchange points of view and ensure that discussions deal with the real issues, thus limiting sterile debate as to the validity of the data being used.

In short, the OCCQ makes a significant contribution to improving decision-making, accountability and the evaluation of projects and policies, as well as providing good governance for public and private institutions.

The accomplishments of the OCCQ are due to the consensus achieved by partners on the management committee as to priorities, even though these priorities may not necessarily reflect those of individual partners. There is a good deal of give and take around the table because partners know that the OCCQ will, in the middle term, address their concerns in its work plan. Partners recognize implicitly that the cultural dynamics in one field don't exist in a vacuum and that there are numerous overlaps between the fields. Research has repeatedly shown that people who are interested in culture enjoy a variety of cultural interests, a fact which confirms the natural link amongst the various forms of cultural expression.

## KNOWLEDGE ACCESSIBILITY

The OCCQ has vastly expanded the field of cultural statistics, an area of study that had heretofore been sadly lacking in detail. For example, a major project on the state of book publishing led to a study providing detailed information on every aspect of the industry, from writers and readers to publishing, advertising, distribution, retail sales and libraries. In addition, since 2001, the OCCQ has published an annual study that tracks the evolution of book sales in Quebec according to the main points of purchase.

In the fields of music and the performing arts, the OCCQ worked with the cultural industries involved to determine the market share of Quebec's recording artists in the province and attendance at shows. Data concerning attendance at these shows led to a major forum on the presentation of live events in Quebec and contributed to a better understanding of market trends.

In the area of film and independent television production, the OCCQ publishes an annual report<sup>6</sup> that provides aggregate data in this field, and an analysis of the data from creation through to distribution.

Professional associations often use the OCCQ's statistics in their studies and analyses. For example, ADISQ (l'Association québécoise de l'industrie du disque, du spectacle et de la vidéo), uses the data to support its fight against music piracy and to demonstrate the progress made by the performing arts in Quebec. RIDEAU, a group of event organizers, closely monitors live performances touring the regions of Quebec. The *Association nationale des éditeurs de livres* as well as the associations of distributors and booksellers rely on the OCCQ's data and are requesting more detailed analyses. The *Association des producteurs de film et de télévision du Québec* uses OCCQ statistics to build its case as do government institutions, and the list goes on. These few examples are eloquent testimony to the fact that the OCCQ is meeting the needs of cultural industries by giving them broad access to knowledge.

Cultural industries, taken individually and as a whole, have benefited from access to data that provides a clear picture of the impact of their particular field of endeavour and that of the entire creative economy. Thus, each cultural industry can determine its standing in relation to its own sector, to other creative sectors and to the creative sector as a whole.

## TRANSLATING NUMBERS INTO WORDS

The field of statistics can be daunting for those who aren't used to dealing with numbers. Consequently, one of the OCCQ's tasks is to translate numbers into words. The OCCQ's publication plan is to communicate results regularly, in a methodical fashion. The numbers are analyzed and presented in a manner that cultural industries can grasp. Along with its regular

publications,<sup>7</sup> the OCCQ also produces detailed status reports on particular creative sectors such as a recent study that was conducted on books and libraries. More recently, the OCCQ launched a major study on heritage sites, museums and archives that will eventually include 11 research papers in total.

## CULTURAL INDICATORS

First and foremost, the OCCQ is committed to conducting studies, analyzing the results and disseminating the information. It is now working on developing a system of indicators, a task which is a huge challenge for such a small organization.

Now that we have developed statistical profiles for some cultural industries and they have learned how to use this information, we can proceed to the next step, developing a system of cultural indicators. In fact, these indicators and indices are the logical outcome of quantifying hard data. Their purpose is to measure present conditions and their evolution over time. Our theoretical model was published in January 2007<sup>8</sup> and other studies are being conducted on the feasibility of establishing 6 main indicators out of 14, from a total of 69 potential indicators.

The three economic indicators are:

1. the correlation between the GDP of cultural and communications industries and the total GDP;
2. the total sales index for cultural products;
3. the market share of national cultural products.

The three social indicators are:

1. the correlation between household expenditures on culture and expenditures on entertainment;
2. the composite index for visits to cultural facilities;
3. the composite index for participation in cultural activities.

6 Observatoire de la culture et des communications du Québec, *Statistiques sur l'industrie du film et de la production télévisuelle indépendante*.

7 In particular, *Statistiques en bref* : 35 issues published to date.

8 Observatoire de la culture et des communications du Québec, *Le système d'indicateurs de la culture et des communications au Québec. 1<sup>re</sup> partie : Conceptualisation et élaboration concertée des indicateurs*, January 2007, 59 p.

Designing a system of cultural indicators requires establishing statistical correlations so that the quantitative description is coherent. In addition, the system of cultural indicators must be consistent with the OCCQ's conceptual framework. The purpose of this system is not to determine whether the objectives of Quebec's cultural policies have been achieved, though it could be used for this purpose in some instances, but rather to describe the evolution of Quebec culture and facilitate comparisons with other countries. The ultimate objective is to develop tools to describe cultural development in a composite manner and to facilitate informed decision-making.

## RELEVANCE

The partnership established with the cultural sector has proven itself over time and the OCCQ is satisfied with its accomplishments though it is not yet in a position to respond to every need.

One of the main benefits in having created the OCCQ is that it modulates the power relationships between the various players in the cultural system with regard to access to information and how it is used. Everyone now has access to extensive information and is

free to interpret it as they wish (not necessarily the OCCQ's interpretation) and promote their own interests. Regardless of the meaning that is ascribed to the numbers, they nonetheless reflect the reality that is being measured and are considered credible by all interested parties.

By virtue of its very design and structure, the OCCQ's greatest strengths are also its weaknesses. The current statistical program uses up a large portion of its resources. However, it bears repeating: the results are extremely useful to cultural industries and public-interest decision-makers. On the downside, the qualitative work is in its infancy, creating partnerships with research communities has taken time, and maintaining relationships with all the components of the cultural sector requires a huge expenditure in resources. For these reasons, such an ambitious project as developing cultural indicators is not without its risks. To a great extent, its success depends on the support of potential partners, who will have to commit the time required.

In some ways, the OCCQ is a victim of its own success and governance model. However, I am confident that these constraints are also the source of its relevance and the key to achieving excellence.

## RESEARCH PAPER 4

# The Creative Suburb?

*Christopher Gibbon, BOP Consulting, United Kingdom*

### Abstract

Recent research by BOP Consulting indicates that employment levels in the creative industries have levelled off in Britain since the turn of the century, although some sectors are doing better than others. Furthermore, what growth there is seems to be concentrated not in big cities, where job numbers are often static or falling, but in suburbs, smaller towns, and accessible rural areas. The creative industries' share of total employment in such places is now often in line with that seen in urban cores.

This paper suggests that Britain's creative industries have come under strong competitive pressures in recent years from technological change, globalization, and the strong pound. These forces have squeezed profitability in the sector, while the small size of most creative industry firms means that they are unable to fully mobilize financial and labour resources to achieve economies of scale and greater productivity. These factors in turn mean that creative businesses are less likely

to be able to afford the high rents and associated costs of city-centre premises, and are obliged to look to the suburbs or smaller towns to find affordable space.

This shift to the urban peripheries has policy implications. Local authorities in such areas need to think more about the opportunities the creative industries offer, both as a source of employment and as a way to rebrand or market their districts.

The research also suggests that the creative cluster model, which tends to emphasize the urban core, is only part of the creative industries' "story." Clustering may be less important for some industries, such as visual arts and design, than others, and the economic challenges the creative industries are facing may mean that city-centre clusters will in any case be increasingly hard to sustain. Policy makers need to revise their approach to allow for this changing geography.

## INTRODUCTION

**B**OP Consulting is a London-based consultancy<sup>1</sup> which has been mapping and analyzing the creative economy for 10 years. Our investigations into the creative industries across Britain are driven by the demands of our clients rather than a systematic research program, so the opinions offered here are necessarily somewhat tentative. Nevertheless, similar patterns are appearing in work conducted in different parts of the country. This paper examines some of the trends seen in research carried out in the East Midlands and the West of England.<sup>2</sup> It offers an explanation for these, and goes on to explore their possible policy implications.

## EMPLOYMENT LEVELS IN THE CREATIVE INDUSTRIES

Employment in Britain's creative industries rose sharply in the late 1990s alongside the "dotcom" boom (most British definitions of the creative industries include at least part of the computer sector). This rise helped the creative industries attract serious attention from government and coincided with the establishment of the Department for Culture, Media and Sport (DCMS) in 1997. However, job numbers seem to have peaked in the early years of this century and not moved much since, despite Britain's comparatively strong economic growth in that time.<sup>3</sup> A BOP report into creative and digital industries in the English region of Yorkshire

<sup>1</sup> 222.bop.co.uk.

<sup>2</sup> I would particularly like to thank Colin Kirkpatrick of BOP Consulting, who led these two projects.

<sup>3</sup> DCMS, *Creative Industries Economic Estimates Statistical Bulletin* (London: Author, 2007).

and the Humber,<sup>4</sup> which uses a wider-than-standard definition of the creative industries, echoes this. In the majority of English regions, the creative industries' share of employment peaked around 2000-02 before edging downwards (Chart 1).

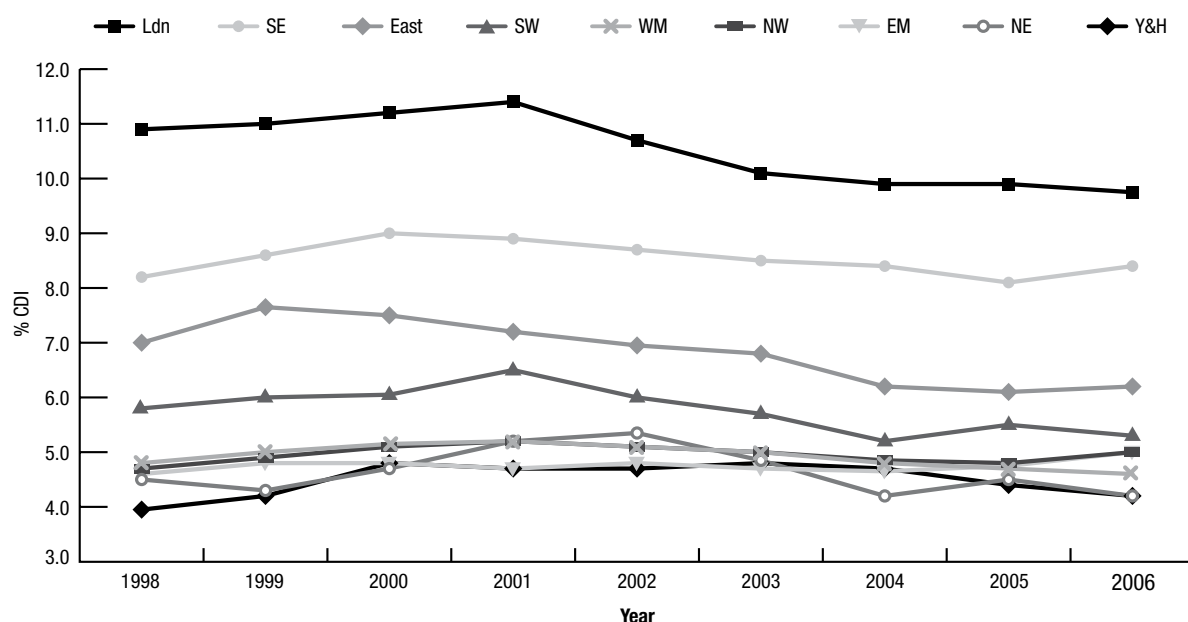
British creative businesses are also characterized by their small size. In the Yorkshire study, for example, 92 percent of creative firms employed 10 or fewer staff. In the West of England, the figure was 93 percent while in the urban East Midlands it was 90 percent. It has to be acknowledged that this pattern of a large number of very small firms and a few large ones is not uncommon in the service sector. In "catering" in the East Midlands, for instance, 75 percent of businesses employed 10 or fewer people. Even so, the dominance of microenterprises in the creative industries is unusual. This lack of size constrains their ability to mobilize financial and labour resources to benefit fully from economies

of scale. As a result, their productivity is often unexceptional. British gross value added (GVA) data have to be used with caution since they are subject to much data suppression on grounds of commercial confidentiality, but they do suggest that while GVA in the creative industries is higher than in the services sector more generally, the differences are not dramatic.

A number of possible explanations suggest themselves. Digital technology is clearly one factor. The dotcom bubble may have burst, but the impact of the Internet and its associated innovations, including file sharing, user-generated content, social networking, and blogging, are still radically altering the business models of companies in many creative fields, from music and photography to journalism and advertising. Retailers of creative products such as books, CDs, and DVDs have also been challenged by the rise of online sellers such as Amazon.

**Chart 1**

Creative and digital industry employment as a percentage of all employment, English regions, 1998–2006



Sources: Office for National Statistics (ONS); Annual Business Inquiry (ABI), 2008.

4 BOP Consulting, *The Creative and Digital Industries in Yorkshire and the Humber: 1998–2006* (London: Author, 2008).

Globalization is a second factor. This has opened up new markets for British firms, but has also exposed them to new competition. Large printing companies, for example, face rivals from Eastern Europe while Britain's remaining creative hardware manufacturing capacity (often the subsidiaries of Japanese multinationals) struggles to compete with China. Such problems are compounded by the strength of the pound over the last decade. All these developments are putting downward pressure on profits and employment in the creative industries.

This paper will now look at a selection of data from two recent projects undertaken by BOP Consulting, one in the East Midlands of England,<sup>5</sup> the other in the West of England.<sup>6</sup>

## THE EAST MIDLANDS

The East Midlands region of England embraces 40 local authority districts, ranging from the largely rural to the heavily urban. It has two sizable cities: Nottingham, which has a population of 670,000, and Leicester, with 440,000. We were asked to adopt a classification devised by the Department of the Environment, Food and Rural Affairs (DEFRA), which divided the

authorities into one of five categories based on their level of urbanization. "Large urban" areas are the most urbanized, while "Other urban" districts have no more than a quarter of their population living in market towns or rural settlements. "Significant rural" have between 26 and 50 percent of residents living in rural areas or smaller towns, while for "Rural 50" the percentage can vary from 50 to 80 percent. For "Rural 80" it is over 80 percent. These classes therefore reflect the urban/rural spectrum.

Chart 2 shows that in 2005 the three more rural classes were home to 45 percent of creative industry employment (by workplace) in the region. It is also worth noting that the creative industries' share of total employment is highest in the "Other urban" districts. In the more urbanized "Large urban" areas, the relative percentage share is only just above the average for the whole region.

We have used the DCMS's Data Evidence Toolkit (DET) to divide the creative industries into four domains: Audiovisual, Books & Press, Performance and Visual Arts & Design. Chart 3 gives an indication of the breakdown of these domains for each urban/rural class.

**Chart 2**

Employment in creative industries by urban/rural class, 2005

	Creative Industries' Employment	Share of All Employment in Class of District (%)	Share of Regional Creative Industries' Employment (%)
Large urban	17,200	3.3	27.5
Other urban	16,700	3.7	26.8
Significant rural	10,400	3.1	16.6
Rural 50	9,800	2.9	15.7
Rural 80	8,400	2.6	13.4
<b>Total East Midlands</b>	<b>62,500</b>	<b>3.2</b>	

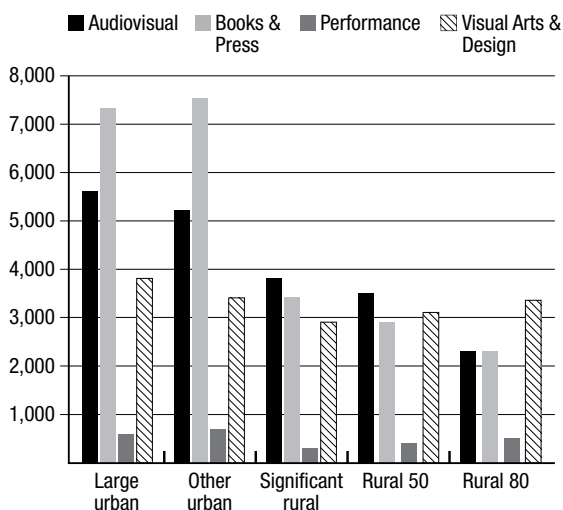
Sources: ONS; ABI, 2008.

5 Ibid., *East Midlands Urban Creative Industries Data Study* (London: Author, 2008).

6 Ibid., *Mapping the Creative Industries in the West of England* (London: Author, 2007).

The two more urban categories have the lion's share of Audiovisual and Books & Press jobs, but the other two domains are much more evenly spread. In the most rural class, Rural 80, Visual Arts & Design is the largest employer.

**Chart 3**  
Employment by domain and urban/rural class, 2005



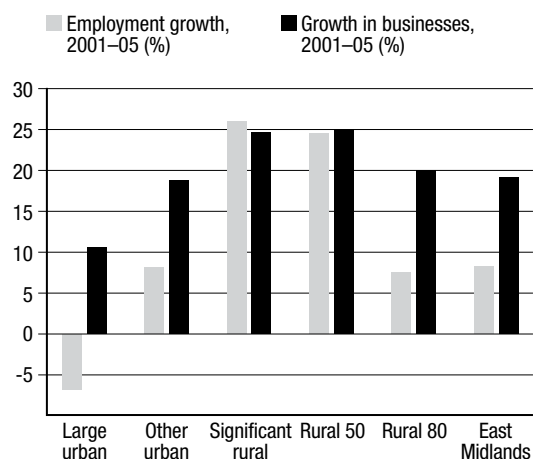
Sources: ONS; ABI, 2008.

The growth rate of creative industry employment in the East Midlands has been greatest in “Significant rural” and “Rural 50”—those districts with a mix of urban and rural areas, such as might be found in suburban or commuter belts. The most rural districts (“Rural 80”) have done relatively poorly by comparison, while “Large urban” areas have lost jobs over the four years. Business numbers have generally grown faster than job numbers, suggesting the average size of companies is getting smaller.

Mapping the creative industries’ relative share of total employment by district reveals that, while the largest absolute numbers of creative industry jobs are still to be found in Nottingham and Leicester, the highest percentage shares are found in the south of the region, which is closer to London and has good transport links.

**Chart 4**

Change in employment and business numbers by urban/rural class, 2001–05



Sources: ONS; ABI, 2008.

These patterns suggest there is no simple city–country divide here. In Britain urban and rural economies increasingly resemble each other, partly due to the decline in traditional land-based industries. Richard Naylor,<sup>7</sup> BOP’s head of research, has argued that framing the discussion in terms of accessible vs. remote locations may be a more sensible way of understanding the geography of the creative industries.

GVA data for the region from 2004 would seem to lend some weight to the idea that productivity levels are acting as part of a “sorting” mechanism. Although these GVA figures are not based on complete datasets (the Office for National Statistics suppresses GVA data if there is a possibility of them identifying individual companies) and have to be treated cautiously, they do appear to show higher GVA levels in urban areas than in the more rural ones, as one might expect if less productive firms were choosing more affordable locations (Chart 6).

7 R. Naylor, “Creative Industries and Rural Innovation” in *Rural Innovation* (London: National Endowment for Science, Technology and the Arts, 2007).







areas contain the majority of South Gloucestershire's inhabitants. Bath & North East Somerset's main urban area is Bath itself, with some 90,000 people, while North Somerset's largest town is the 80,000-strong Weston-super-Mare. This paper will now review a selection of the data from the report.

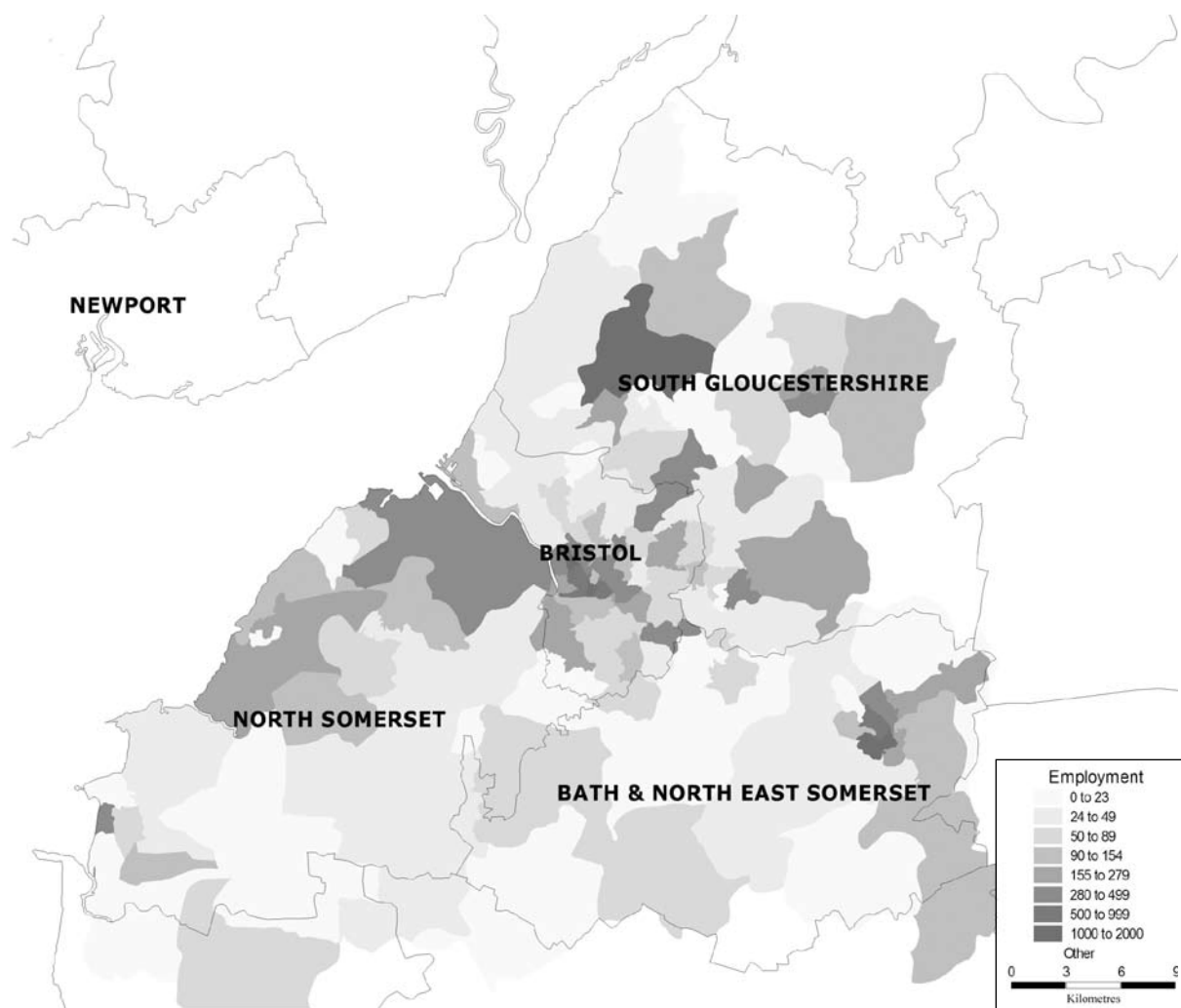
Between 2001 and 2005, creative industry employment grew by just 3 percent in the West of England, a lower rate than that seen in the wider economy of the sub-region (6 percent). Creative industry jobs actually declined in the city of Bristol itself over the four years.

All the sub-region's net growth in creative employment occurred in South Gloucestershire.

A map of creative industry employment by postcode sector shows that, although there are high numbers of creative workers in a handful of Bristol city centre postcodes, there are also significant concentrations around the city's boundaries. Indeed, the highest number of all is found in a sector north of the city, in South Gloucestershire, where two important transport routes, the M4 and M5 motorways, intersect.

**Chart 7**

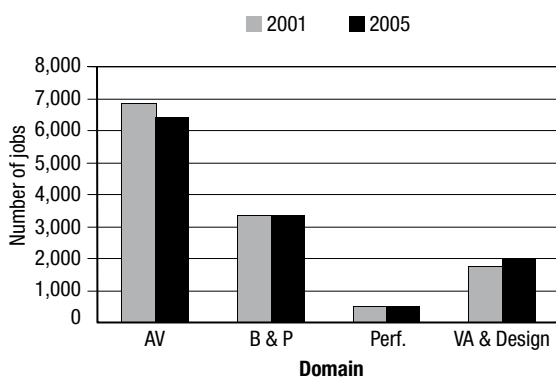
Creative industry employment by postcode sector in the West of England, 2007



Source: BOP Consulting, 2007.

Looking at area data for the two years 2001 and 2005, we can see that the overall level of creative employment in the city of Bristol itself seems to be falling, although it still has the largest absolute numbers. There are also shifts in the patterns of jobs. The Audiovisual domain is shedding jobs, but there is some growth in Visual Arts & Design (Chart 8).

**Chart 8**  
Creative industry employment by domain,  
City of Bristol, 2001–05



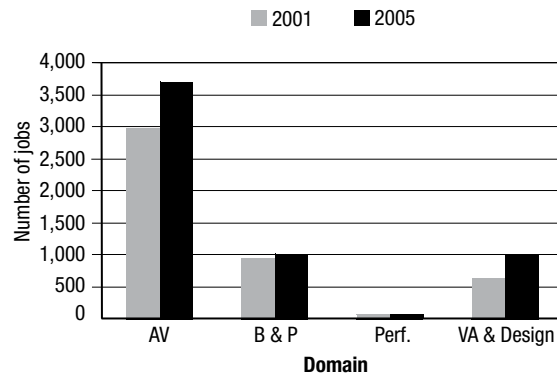
Sources: ONS; ABI, 2007.

In South Gloucestershire, on the other hand, job numbers have risen. Both Audiovisual and Visual Arts & Design have seen strong growth (Chart 9).

The creative industries' relative share of total employment does not differ hugely between the four districts. It is highest in Bath & North East Somerset, at 7 percent, no doubt influenced by Bath's tourist trade. In the city of Bristol it is 5 percent, while in South Gloucestershire and North Somerset it is 4 percent.

Taken together, these two reports seem to indicate that those areas that have done best in recent years are those that offer a mix of urban and rural. Lower overheads and a good quality of life combined with reasonable access to larger urban centres and good transport and communications links may be an attractive mix for creative industries and their

**Chart 9**  
Creative industry employment by domain,  
South Gloucestershire, 2001–05



Sources: ONS; ABI, 2007.

potential workforce. Other studies<sup>8</sup> have suggested that knowledge workers, from whom many creative industries draw their employees, are more likely to live in suburban and commuter belts than in urban cores (though London's boroughs are a partial exception to this). The widespread availability of broadband may be reinforcing this trend. Although it is an exaggeration to talk of the "death of distance," it does seem to be the case that "lifestyle" businesses especially are enthusiastic users of broadband, and it has allowed them more flexibility in their choice of business location. This seems to be particularly true for Visual Arts & Design firms, which tend to be small.

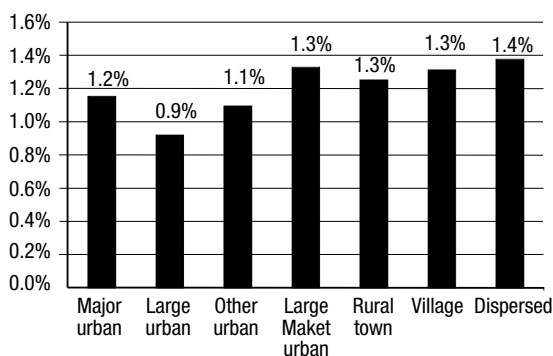
These trends are not out of step with those seen in the wider economy. Data from another BOP report<sup>9</sup> suggest that market towns and rural areas in England have seen faster total employment growth than urban areas in recent years (it should be noted that the category definitions used here differ from those of DEFRA mentioned in the East Midlands report).

8 For example, Local Futures, *State of the Nation 2006: The Geography of Well-being in Britain* (London: Author, 2006).

9 Experian and BOP Consulting, *Creative Countryside* (London: Authors, 2006).

**Chart 10**

Average annual employment growth by urban/rural type, 1995–2005, England



Source: Experian, based on figures from National Statistics, Spring 2006.

## POLICY IMPLICATIONS

If creative industries are indeed either moving out of city centres or are increasingly likely to be established outside of them, what might be the policy implications of this?

Localities on the periphery of larger urban areas should perhaps think more about the creative industries' possible role in their economic mix, and revise their strategies accordingly. Although the creative industries do not form a huge share of total employment—rarely much above 5 percent in Britain—they are attractive employers in many ways. They are often office- or home-based, produce little pollution, and employ highly educated people. As such they can fit in well in largely residential areas. A creative or cultural industries strategy therefore can make sense for suburbs or smaller towns, either in its own right or as part of a broader economic development strategy.

A creative industry presence may also offer such areas a chance to market themselves differently. The creative industries have something to contribute to tourism strategies and may be able to help rebrand allegedly boring suburbs. However, it would be foolish to deny that suburbs and commuter belt towns are still dependent on their urban cores. Given that, in Britain at least,

political administrative boundaries no longer reflect the economic geography of their localities, policy work on the creative industries may need to be coordinated at a city/regional level.

The trends seen in the research also have implications for policies built around the idea of urban creative clusters. While it is true that many clusters of creative industries can be found in city centres, they may owe as much to historical accident and path-dependence as to the diversity and “buzz” of the inner city, and they are not immune to the economic stresses of high rents and technological change. A study of Westminster in the heart of London,<sup>10</sup> for instance, found that the music and television clusters of Soho and Fitzrovia had largely broken up under these pressures. Policy makers need to be aware that this model does not capture the full variety of the creative sector; other patterns of development exist. Sweden offers an intriguing case study in this respect; it has chosen to base much of its national “experience industries” strategy on smaller towns.

## CONCLUSION

This paper has reviewed a number of recent research reports into the creative industries in Britain. It has suggested that the severe competitive pressures under which many of the creative industries currently operate, combined with the predominance of small firms, are squeezing profitability and productivity in the sector. As a result, the economic geography of these industries is changing and there is evidence of a shift in employment toward more suburban and small town locations, though not to truly rural ones. This offers opportunities for such areas in economic development, and branding and marketing. However, these shifts are not being fully recognized in current policy debates. Perspectives need to change if the emergence of “creative suburbs” is to be understood and built on.

10 BOP Consulting and GVA Grimley, *Westminster's Creative Industries* (City of Westminster, 2007).

## RESEARCH PAPER 5

# Socio-Economic Growth in Montréal: A Creative City and an Artistic Career as an Incentive?

*Thomas Pilati and Diane-Gabrielle Tremblay, Télé-université, UQAM, Canada*

### INTRODUCTION

This paper is based on the assumption that, in many areas of the economy, competitiveness relies on intangible assets. A general consensus exists that knowledge and innovation are the major condition for the development of any society and a crucial resource for any local economy. As such, countries with the most significant stores of human capital will experience higher standards of living (Romer, 1989). The argument is inspired by the writings of Richard Florida and intends to test the hypothesis whereby cities, in order to maintain a strong intensity of knowledge, must be capable of providing a favourable urban climate for attracting and retaining creative workers, encourage creativity for fostering innovation, and offer a good quality of life and many career opportunities, particularly in the arts sector, which is seen as a possible source of innovation. We also turn our attention to careers in the arts, as certain studies suggest that artistic careers would be the precursors to the careers of the future, since they are somewhat nomadic or oft times precarious pursuits – a type apparently posed to develop in many other sectors (Menger, 2002).

In addition, cities must promote the development of quality institutions for training workers, good cultural infrastructures, significant networking, and social cohesion characterized by ethnic and cultural diversity and by cooperation in the area of social development. The hypothesis postulated by Florida is, in sum, that creative workers (artists, but also professionals and other creative people) tend to gravitate towards and remain in cities described as “cool,” where the population is open to multiculturalism and tolerant of gays

and lesbians (Tremblay and Tremblay, 2006). Then, the success with which an urban area can generate and sustain creative activity depends on the quality of the place and the factors that foster good neighbourliness and social cohesion within the community.

Elsewhere we have discussed in detail the criticism aroused by Florida’s theses (Pilati and Tremblay, 2007), and this will not be addressed again here; however, we wanted to test the theory empirically, since we feel that although it has often been criticized on a theoretical level (in particular, see Shearmur, 2006), it has received limited testing and deserves a real test in the field because of its wide dissemination and the fairly limited empirical testing it has generated, according to a number of authors, including Shearmur (2006), but also Kotkin (2000). In this regard, Kotkin (2000), and Kotkin and Siegel (1999) state that talent (the authors reject Florida’s notion of a creative class) is concerned first and foremost with the cost of city living, commute times between home and the workplace, and the variety of family leisure activities offered by the city, so Florida’s thesis does not hold up. It is therefore interesting to establish the determining factors for artists first, and other groups later. In this summary of our paper<sup>1</sup>, we will first provide a brief presentation of the theses that inspired our research, then a presentation of Montréal and the situation of artists in Montréal and in the province of Quebec, followed by a presentation of our methodology and findings.

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1 We are summarizing here an article to appear in the *Canadian Journal of Regional Science*, Vol. 30, No. 2 in Spring 2008.

## THE CITY OF KNOWLEDGE AND THE CREATIVE CITY

According to Sacco (2005), creativity is postulated to have a fundamental role for economic and social growth in a territorial system, since it can capture a competitive advantage for businesses, develop new social forms, and thus enter into a social process of accruing knowledge. For his part, in his work entitled “The Rise of the Creative Class”, Florida defines these knowledge workers as the “creative class”, which is comprised of a much diversified group of people and represented in all layers and all ages of the population. Florida (2002) and the Catalytix team, which conducted an analysis on the creative economy in the 24 largest regions in Canada and the United States, claim that the creative class would account for 30% of workers in the United States. It is structured around a “super-creative” core on the one hand and creative “professionals” on the other. According to the same authors, globally the creative sector is comprised of four macro-occupational clusters that form the acronym TAPE (Technology sector, Arts and culture activities, Professional and managerial activities, and Education activities). It groups together individuals working in information industries and life sciences, in the computer-related and mathematics field, as well as in other areas such as architecture, design, the arts, and entertainment. This group is characterized by a strong cultural capital and a *modus vivendi* founded on values of individuality and meritocracy; in addition, they attribute a capital importance to competitive and open work that is both stimulating and flexible, in a context that Florida described as a *cool space*, closer to *sensemaking* and the interaction between individuals (Pilati and Tremblay, 2007).

According to Menger (2002), the arts are a laboratory of flexibility. This will be confirmed in our data, as we will see that the artistic workers interviewed often have intermittent employment, so they must demonstrate contractual flexibility. In addition, an artist’s activity generally plays out as successive periods of work and more or less long periods of instability.

## MONTRÉAL, PROFILE OF A CREATIVE WORKERS’ CITY

In the view of many authors, Montréal has a distinct character and a plan, still under development, to be recognized as the creative and cultural capital of Canada (Bellavance and Latouche, 1999). A study by Florida (January 2005) determined that the creative class in Canada lives in three major metropolitan areas: Montréal, Toronto and Vancouver. According to the same study, these cities are first among 24 cities in North America in terms of super creative ranking. This class has seen impressive growth in recent years, both in the United States and in Canada. Creative workers thus total approximately 4,350,000 in Canada and represent 28% of the working population. In the Montréal area, according to work by Stolarick, Florida and Musante (2005), the creative sector workforce accounts for a large ratio comprised of approximately 450,000 persons, ahead of the services sector, at least as far as their definition is concerned. Of course, some have contested the specific boundaries that these authors give to the creative notion, a rather broad one used in their work. The data are nonetheless interesting, as the arts sector is often considered marginal, and it occupies a place of greater importance here, in conjunction with other creative sectors, of course.

Data from the Canadian study on the arts (Hill Strategies Research, 2006) confirm that the largest Canadian cities have relatively high concentrations of artists, a relatively high average income for artists and particularly strong growth in the arts. The three cities (Montréal, Toronto, and Vancouver) have the largest overall number of artists, that is, 38,400 artists, or 29% of Canada’s 130,700 artists. Quebec artists are concentrated mainly in Montréal (36% of the province’s total number) and Montréal ranks third in terms of artistic concentration in Canada (1.9% for a Canadian average of 0.8%). Montréal has 10,075 artists and its artistic concentration rose between 1991 and 2001 by 24% or close to 2,000 individuals (Hill Strategies Research, 2006). However, this percentage is the lowest for the three largest Canadian cities (Vancouver 57% and

Toronto 35%) and also in relation to 29% for the rest of Canada. The percentage of artistic growth in Montréal was nonetheless the highest of the three largest cities (50% compared to 23% for Vancouver and 36% for Toronto), although Montréal ranked third for the number of artists while Toronto ranked first.

In addition, according to Hill Strategies Research (March 2006), Montréal has the largest number of artists after Toronto: first producers, directors, choreographers and related occupations, then in second rank musicians and singers, followed by authors, editors and writers, and finally actors. According to the study by Bellavance (2004), the practice of the arts is first marked by the considerable growth in the number of artists, in Quebec as elsewhere in Canada or the Western world. Bellavance adds that this domain has been particularly marked in the past 10 years by a diversification of practices as well as by the acceptance not to say institutionalization of contemporary art, where this form of aesthetics has become predominant if not dominant (Bellavance, 2004: 2). As such, a diversification of disciplinary skills, closer to the new technologies and even those of the new arts, is developing. Bellavance further notes that this is combined with an increased tolerance not to say a perfect recognition of the values of creativity and innovation, which is in line with a movement to recognize, at least institutionally, the legitimacy of major aesthetic currents of modernity. From fine arts in the traditional (and disciplinary) sense, we have transitioned to contemporary (and multidisciplinary) visual arts.

Between 1991 and 2001, Montréal had the largest number of artists in Quebec with a 24% growth rate. LaSalle (47%), Verdun (33%), and Saint-Hubert (30%) also recorded considerable growth. But it is nevertheless in Montréal where the largest number of artists is concentrated in Quebec. Montréal also recorded the highest average earnings among artists out of 21 cities in Quebec. However, the earnings gap (the percentage difference between artists' average earnings and average earnings in the local labour) is the lowest (7%) of the province's cities. (Hill Strategies Research Inc., March 2006, p. 30). Let's now move on to the method used for our research.

## METHODOLOGY

Our research is intended to be exploratory, aiming to first test the relevant pull factors for the city of Montréal. For that reason, we have used a qualitative approach of semi-structured interviews. The study focuses on artistic careers and the advantages that Montréal has to offer for visual arts artists; it was conducted between September 2005 and February 2006. The interview guide is comprised of four parts, examining the career path of highly qualified and/or creative workers, the city's strengths and weaknesses, the aspects that facilitate creativity and the city's amenities that favour retention, the role played by artist-run centres in the territory's actors network and, finally, the importance of these values and norms, in line with Florida's "Bohemian Index", or the importance of more "open" values and norms on attracting and retaining manpower. In this regard, Florida says in his book "The Flight of the Creative Class" (2005) that immigration plays a determinant role in attracting the best talent and it gives a metropolitan area a clear-cut competitive edge. Florida says that an essential element in turning a city into a global talent magnet is a flow of immigrants from many different places, citing examples that include North American cities. "What allows these cities to compete with their American rivals is often, especially in the case of Canadian cities, the presence of immigrants both numerous and of every origin. In these cities where no one particular immigrant group dominates is found an extremely diverse mosaic of ethnic and racial groups" (Florida, 2005). Consequently, immigration policies must encourage the entry of new arrivals since immigrants bring us more than their specialized skills. They bring us their networks of contacts who become important assets in terms of the economy and creation. For this paper, we deal with the issues relating to social fundamentals for attracting and retaining talented individuals, as well as the city's labour market characteristics that can contribute to minimizing the risk associated with job loss and that influence the professional path and their artistic career.



## ARTISTS' CAREERS: OUR RESEARCH FINDINGS

We wanted to look at artistic careers, in the aftermath of works by Menger (2002) and Florida (2004a, b and 2005) in particular, which we seek to validate, so to speak, by an exploratory study in the field.

### JOB OR CAREER INSERTION

First of all, we found that artists are mostly in search of a stimulating job where they are able to grow professionally. In the early career stages, artists' professional insertion is achieved by a series of contractual arrangements, mostly in the artistic milieu. As their careers progress, and to the extent that they change jobs voluntarily, artists prefer to stay within the same artistic sector. However, if the change is not voluntary, artists consider other activities that are related to the artistic milieu, teaching, or management, as can be seen in artist-run centres. This aspect was considered in the study by Bellavance (2005), who found that a set of jobs related to the practice of the arts, including teaching, as well as other jobs not related to this practice, occupy an important place in the professional life of artists, and especially their income. In 2000, at the time of the study (conducted by Statistics Canada and analyzed by Bellavance, 2005), one artist in three was involved in either art education activities or activities related to the practice of art of a mostly commercial nature (photography and commercial drawing and other jobs of the same nature). Martin (2005), in the same manner, found that the young people studied, having given up their artistic careers, now demanded other professional status, and teaching mostly. At the start of one's career, relocating to Montréal represents the most important step for the majority of artists, as they are in search of a context and an ambiance characterized by a level of openness to creative experimentation, which they say they find in Montréal, based on our interviews.

Many factors make Montréal attractive for artists insofar as the labour market is concerned: a dynamic context where cultural and artistic activities take place all year

long, the possibility of experimenting with various art forms, the low cost of studio/workshop space, as well as the variety of new events occurring throughout the city and providing them with an opportunity to make themselves known and show their works of art. In terms of more long-term career opportunities, however, if artists had to move away from Montréal, our respondents said they would like to live in cities with even more opportunities such as Toronto or New York in North America, or London or Berlin in Europe. Artists recognize that, in terms of career opportunities, an artist in a city such as the ones mentioned above would gain greater recognition than artists living in Montréal. In the view of one artist (MB) (2006), "artists who continue to perform their creative work over a long time become an artist of the state in France, a commercial artist in Great Britain, and a connected artist in Germany." He added that, in these cities as opposed to Montréal, "there is a larger population; there are many specialized distributors in addition to prestigious institutions."

Another artist (ML) compared Berlin and Montréal. In her view, "Berlin, in terms of quality of life, is maybe pretty much the same, but there are a lot more career opportunities." Another artist (CD) similarly compared Montréal with the neighbouring US city of New York. In terms of quality of life, she found that Montréal was much better; however, she maintained that "even though I haven't lived in New York, in terms of a career, someone with good connections is going to perform more [...]." When compared to Toronto, "of course, there are more opportunities, a whole lot, the population is bigger and there is a larger number of specialized broadcasters and distributors, plus there are prestigious institutions. So, of course, in terms of work, there's more work in Toronto, if not just in the museums, but the cost of living in Toronto is much higher, whereas in Montréal it's not; plus in Toronto everything's in English, so that's a turnoff."

Many artists maintain that Montréal suffers from an obvious shortage of artistic-cultural structures, and that Montréal is at times not very accommodating to investments in this domain. Montréal's infrastructures, according to Minister of Tourism Raymond Bachand,

have been neglected for 30 years. The fact, for example, that Toronto is “credited with the existence of 19 symphony orchestras as opposed to just 4 in Montréal and 58 theatre troupes as opposed to 33 in Montréal certainly has a major impact in this new urban cultural order” (Latouche and Bellavance, 1999: 2).

Montréal is therefore attractive by reason primarily of its low rentals and the possibilities for experimentation that can be found in the early career stages. However, in order to progress in one’s career, many feel that it is lacking in institutions, structures and networks for pursuing a true artistic career, without having to perform other jobs in order to survive.

## THE NETWORK’S ROLE FOR MINIMIZING JOB-RELATED RISK AND PROMOTING CAREERS

In the view of artists, one of the city’s fundamental characteristics that contribute to minimizing the risk of job loss or low income is the creation of a network among the territory’s actors. An active and dynamic cultural environment certainly makes it easier for creating such a network, which is also essential for the growth of the artistic community and artists’ careers. One artist (MJL) said that “I’ve had access to good graces, to well established networks in the artistic community and to an alternative scene, plus a strong interconnection among the various actors in these social networks [...]” Another artist (CB) expressed the same opinion: “I think the network is really key.” She maintained that “it’s having a good professional network so that when you commit in one spot, even though let’s say you change jobs or places, there’s a safety net, so your qualifications aren’t lost or they’re known in one milieu, then you can move elsewhere.”

Cultivating and developing the network of contacts is an effective strategy for implementing expectations and career objectives. However, this network has a relatively limited dimension in the Montréal metropolitan area, and it does not enable artists to have a bigger vision or career aspirations extending beyond Montréal and

Quebec essentially. One artist (MB) maintained that “it’s important having career choices; it’s often opportunities that are given, so I try to increase the number of opportunities by making as many contacts as possible; that way, by playing the field at several levels, I’d say as an artist, coordinator or curator, I get to meet a whole bunch of people and if they like me or they like my work in some way or another, we might end up working together [...]. Alliances are strategic because in any case if you want to continue working in this milieu, you’re going to end up working with those people at some point or another. There are a few players in the community who turned their back on it, and now they’re completely isolated.” The network’s role is determinant, then, for one’s career, and because the community is fairly limited, it is important to have contacts and, most of all, to be well perceived.

## CAREER PLANS, ASPIRATIONS AND CHALLENGES OF THE ARTISTIC CAREER

Many of the artists interviewed said that Montréal has great assets for retaining the arts community. A significant number of artists prefer Montréal as a place for realizing their future plans and career aspirations. Career objectives are centred on the possibility of engaging in the occupation of professional artist full-time, which is not always easy or possible. In the case of artist-run centres, however, and by playing on multiple levels, as artist, coordinator, facilitator or curator, artists are able to meet a wide range of people. It is an aspect that encourages and facilitates the creation of alliances or the delivery of joint projects. The biggest challenge confronting artists is the lack of funding. Artists are often under financial pressure. However, they do whatever they can to address this challenge by creating new arts projects, activity support initiatives, or fund raising policies, or else by diversifying their activities towards teaching, management or hosting artistic networks.

One artist (ML) maintained that “the lack of funding, I would go so far as to say there’s money out there, but it’s how and where it’s invested. Change is a scary proposition, the kind of ideas I’m throwing out there



at the moment is scary [...]. But the fact remains that there is money for artists so that they are able to produce, and the cost of living is low, we have access to rental space at a lower cost for production, studios...” In 1999, a study of these figures on artists’ financial situation confirmed that the sale or rental of works of art, “without necessarily being the primary source of absolute income, was nonetheless the source of income mentioned most often as one of the sources of this income” (Bellavance, 2005: iv, xiv). Artists all have an income derived from diversified sources; however, as Bellavance maintains, “most seem to develop diversified strategies to combine income” (idem) and the earnings made directly from the practice are generally relatively low.

According to the Hill Strategies Research study (2006), Montréal has the lowest earnings gap between artists and the labour force of the three largest Canadian cities. With an average of CDN \$26,200, Montréal ranks tenth for the highest average earnings in Canada and it has the lowest earnings gap with absolute average earnings. However, Montréal has a distinct flavour and a constantly developing potential that is recognized by artists. They consider the city’s unique character crucial to living there and setting down roots. There are factors and forces that make Montréal unique in relation to other world cities. It is the second largest French-speaking city in the world, the pace of work is relatively relaxed in relation to North American cities, and it is easy to create contact networks, plus there is a large gay community. In line with Florida’s work, artists consider the city to be tolerant, it allows the expression of various cultural forms, and it admits diversity. In the paragraphs that follow, we will analyze the most important factors that make the city attractive to artists and make it possible to retain this large number of artists, still on the basis of interviews and documentary research.

## ATTRACTION AND RETENTION FACTORS IN MONTRÉAL

Artists maintain that the quality of life in Montréal is outstanding, and there is no comparison with other cities in terms of cost of living and various amenities. Montréal artists can expect a higher quality of life in relation to what they could obtain in other North American cities. An economy of scale keeps coming up, and access to culture at a low cost is also an advantage for the public and the arts community.

The unique feature about Montréal, in the view of various respondents, would be its talent and creativity. According to a cultural development officer for the City of Montréal who was interviewed, “contrary to cities that might have immediately been associated with us, such as Toronto, which is going to great lengths to secure cultural equipment with renowned architects and unique buildings costing several hundreds of millions, plus a recent opera house – all things we envy them for – and, at the same time, the talk about film festivals, we have always valued this quality, this *joie de vivre* that gives us an edge that is unique, original, distinct, Francophone. [...] Just think, for a small major city like Montréal, if we rank it in comparison with other cities in America in terms of size, we come in 26<sup>th</sup>, maybe. So, we can say we’re unique just because we’re the second-largest French-speaking city in the world. We have a unique quality; I’m not saying it’s a special quality. We’re different in that respect, from a cultural point of view, so that makes us unique as far as that’s concerned, and the trick is to make it work for us rather than against us.”

Compared to other large North American cities, Montréal is extremely safe. One artist (CD) thinks “other things are in the works that will give it even more panache. What I like about Montréal is that it’s a great place to live. [...] the city is relatively safe. I think it has that to its favour too.” Another artist (MB) also added that the city’s extremely tolerant atmosphere is conducive to creativity and experimentation.

## LESS ATTRACTIVE FEATURES OF MONTRÉAL LABOUR MARKET

We also asked artists about Montréal's less attractive features. In the view of many artists, Montréal lacks a more genuine and original strategy on cultural policy. To recognize Montréal as a true, internationally acclaimed cultural metropolis, some said that it would be necessary to develop a specific identity based more on creative freedom removed from the cultural industry. One artist spoke of a "lack of memory, historically there are things that aren't done only in Montréal, I'd say in lots of cities as well, not only what's going on in show districts where we see lots of projects arrive and then quickly disappear." Plus Montréal has a contemporary art market that is relatively weak and not very active, which makes the city less attractive for artists in that area, in spite of low rental costs. Even though these low costs facilitate production, distributing works is considered difficult by many artists in contemporary art who wish to pursue their careers.

## ASPECTS OF THE CITY THAT CONTRIBUTE TO CREATIVITY

Montréal's alternative and underground culture represents an additional element of the artistic/cultural scene – a factor deemed important for artists in developing creativity. For example, one artist (MJL) underscored the importance of alternative periodicals. Another artist (CB) added the important role of details in Montréal's artistic/cultural context. She said that "it's more like the underground now, the neighbourhood initiatives that make the city alive for me. And the diversity too. So for me, it's the culture in Montréal that's attractive, that's what's interesting. The music scene in Montréal gets good marks internationally. The public is curious and there's pop music, the whole underground scene is recognized internationally." So there seems to be a link among the various arts communities, which all contribute to some extent to stimulating the arts communities.

In the view of many artists, the urban dimension is also an important factor for artists' creative ability. One artist (CB) said "maybe it's the feeling I get that there's a network, a sense of community in Montréal. In many neighbourhoods, there's a sort of neighbourhood spirit. It's kind of a sense of belonging, probably being more visible. Being on the street with a shop front, that was like almost the first thing you needed. [...]" Another artist (EG) pointed out that Montréal is a city that is both a village and a metropolis in all its neighbourhoods, a city that's generally three stories high [...] which makes creativity easier in Montréal, you're in a village and a city at the same time, in a really big city with a capital b, meaning like big, spread out over the entire island. Village and big city, that is to say, in proximity, even if you have to take the subway, since the network is accessible, it's easy, there are buses everywhere, taxis don't work out that expensive, because there's a proximity to everything, that's what facilitates creativity."

Artists also maintain that creativity is stimulated by a flexible work environment, where it is possible to access common spaces, with areas for relaxing and socializing. Montréal offers many of these "creative spaces", especially in specific areas of the city, run-down neighbourhoods of the city, or neighbourhoods in the process of conversion. Without the specific intervention of territorial planning, creative people move in, "often reclaiming the properties from ruin by way of illegal conversions and their own sweat equity revitalization" (Florida, 2004a, b), they invest in culture as much as in creativity to transform neighbourhoods into "creative ecosystems." These spaces are subsequently adapted to the artists because, in terms of location, artists prefer an open, bright, relaxed work environment with high ceilings and direct lighting.

One artist (MJL) confirmed that for her artistic work, she "always needed well-lit spaces, always with natural light you see, and then I think back about how I used to work at UQAM, I had a cubbyhole without any light, just a neon fixture, I never went there, I wasn't inspired,

it's not a pleasant environment even for thinking or creativity, in any case there's a wall, that's it. I like a flow of life in the distance, you have the impression you're part of something, it's an urban landscape that I like, we had lots of things happening on the roof [...] also having worked in studios, not a studio all by myself, I was in an immense space, we had open studios so we could talk and see each other, that probably had an impact, not to mention being in contact with people ..."

According to the Hill Strategies Research report on the most creative neighbourhoods in Canada, Montréal is home to five of the 10 most creative neighbourhoods in Canada. The Plateau Mont-Royal area is considered to be the most creative neighbourhood in Canada. It has 605 artists out of a total working population of 7,560, for an artistic concentration of 8.0%. Likewise the neighbourhood adjacent to the Plateau has an artistic concentration of 6.1%. This undoubtedly creates an ambiance conducive to creativity, and artists say they gravitate there for that reason. Adjacent neighbourhoods, such as Mile End, are beginning to develop the same way, because they are in proximity to the Plateau but rents are not as high there yet.

## CONCLUSION

Florida's studies on the "creative class" have raised a lot of interest, but just as much virulent criticism from both the right and left of the political spectrum. This class is often seen as an advanced and alternative community, avant-garde, pioneers who embark on a fascinating journey of creation where freedom of action and self-determination reign. Some of the criticism directed at Florida is for what some consider to be elitism, since less creative or disadvantaged populations are left out of the picture. We did not want to deal with this dimension here, but turned our attention to testing the validity of the thesis on the pull factors for creative people.

Our exploratory research enabled us to determine that visual arts artists have a profile that seems to tie in with the theses of Florida and Menger. Florida points out that the labour market supposedly follows a model where the emphasis is on the creative content of work and strong horizontal mobility. This market is trending toward a horizontal division of work where the relation of interdependence, ranging from cooperation to competition, would no longer be in a hierarchization of roles. As such, it is comprised of a strong component of individual responsibility. More and more, creative workers (like many others, we might add, and not always by choice, see Tremblay, 2007) accept intermittent work and the risks of possible career changes.

What emerges, according to Menger (2002), are "paradoxes of artistic life" that reveal some of the most significant principal transformations of work and employment systems today: freedom of action, a strong degree of commitment in the activity, strong degree of work autonomy, flexibility of work and context and, for a large number of artists, psychological and social rather than monetary gratification. This is, of course, the more attractive side of the equation, whereas that same autonomy and flexibility can lead to fragility, especially in less creative sectors.

In the artistic sector, however, the non-monetary benefits provide what Menger calls "the pedestal of the ideological enchantment of artistic work" (Menger, 2002: 53). Artists are the manipulators of a much more important and powerful capital, which ties in with symbolic dimensions and acts on the identity capital of the individual. Artists commit to this activity that is riskier than jobs in other sectors, but the results of success can be extraordinary at times. They have the advantage of being able to learn and to educate through a multitude of exchanges throughout the course of the activity. In addition, experimentation turns out to be an organizational device that is not only economic but social mostly, and that can be found in artist-run centres in particular. In the view of Menger (2002),

the spirit of invention communicates with the spirit of enterprise, and the creation of a network and work alliances provides an organizational model for other related domains.

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## RESEARCH PAPER 6

# Building Creative Rural Economies: A Case Study of Prince Edward County, Ontario

*Dan Taylor, Prince Edward County, Canada • Greg Baeker, AuthentiCity, Canada*

### INTRODUCTION

**S**mall towns and rural areas face enormous challenges related to economic restructuring. Traditional dependencies on agriculture and a relatively small number of industries leave rural areas vulnerable, especially in the context of a declining industrial base. Many face real questions of viability in the face of a reduced tax base and the capacity to pay for basic services and infrastructure.

To date, ideas related to creative economies and new sources of wealth creation brought to prominence by people like Richard Florida have tended to focus on larger urban centres. This paper will explore the relevance and potential of these same ideas in smaller communities and rural areas using Prince Edward County (PEC), Ontario, as a case study.

It will offer a number of concepts and planning assumptions that we believe have application for building creative economies in communities of vastly different scales and contexts. The first assumption is that communities must move to developing integrated planning frameworks linking *place*, *culture* and *economy*. A second is that municipal cultural planning (MCP) approaches, described in the paper, provide powerful methodologies for building these integrated planning systems.

### BACKGROUND

PEC is a rural municipality situated in Eastern Ontario, with a population of 25,000 people. A 250,000-acre isthmus that juts 40 kilometres south into Lake Ontario, the county boasts some 800 kilometres of shore framed by the lake and the Bay of Quinte, due south of Belleville. “The county,” as it is affectionately known, is a two-hour drive east of Toronto, a two-and-one-half-hour drive southwest of Ottawa, and a three-and-one-half-hour drive west of Montréal. The United States border to Upper New York State is a one-and-one-half-hour drive at the eastern edge of Lake Ontario at Gananoque.

PEC is thus in the middle of “The Mega Region,” defined by Richard Florida as the economy in the Windsor to Québec City corridor, including the economies of southern Lake Ontario/Upper New York State. The Mega Region’s economy is approximately \$530 billion, roughly 50 per cent of Canada’s gross domestic product (GDP). A basic premise of the creative rural economy being built in PEC is the potential to tap a portion of that economy.

### HISTORICAL WAVES OF ECONOMIC PROSPERITY

Settled 200 years ago by United Empire Loyalists fleeing the United States during the American Revolution, the county’s economic history has been primarily agriculture. The first economic activity was ship building, lumber, and milling. The timbers came

from agricultural land clearing, and the shipping and lumber industry developed there due its proximity to the St. Lawrence River and the Great Lakes, a major transportation route at the time.

The county has experienced four waves of economic prosperity. The first wave, 1860–90, was coined Barley Days. “Bay Barley” was some of the best brewing industry barley in North America. The crop was shipped to Upper New York State and the U.S. brewing industry and literally resulted in the rich brick-building stock and period architecture of the county. The crop was so profitable, it is rumoured those brick homes were built and paid for from a single growing season. American tariffs introduced in 1890 ended the Barley Days immediately. One result of this boom time is that PEC has the second largest building stock of Georgian architecture in North America after Virginia.

The second wave, following Barley Days, was dairy driven when the county boasted over 27 cheese factories, which specialized in classic Canadian cheddars sold to the Canadian and British markets. The third wave occurred when the county was known as “The Garden of Canada,” canning everything in sight from traditional fruits and vegetables to, of all things, whole chickens. At the peak of the industry near the end of the Second World War, there were over 40 canning factories and PEC supplied approximately 43 per cent of all the canned tomatoes to the nation. The industry’s last factory closed in the mid-1980s.

### **BIRTH OF A CREATIVE RURAL ECONOMY**

The fourth wave is the current Creative Rural Economy (CRE). Its origins date back to the late 1970s or early 1980s but did not hit its economic stride until the turn of the 21<sup>st</sup> century. Not unlike New York’s SoHo or Toronto’s Queen Street West, new bohemians and artists discovered PEC as a low-cost refuge from which to ply their arts and trades. Like SoHo and Queen Street West, artist clustering began and added to the appeal of the place, others began to discover it, and gentrification began. As a result of these new “immigrants,” economic ties back to Toronto and the Mega Region were re-established.

Today, with its proximity to markets, the baby boom wealth explosion and urban out-migration to ex-urban regions and the county’s affordability and quality of place, the creative economy began to form. Arguably, its formation’s catalyst or major impetus was the birth of the wine industry, immediately bolstered by the growing culinary tourism scene, supported by the rich agricultural resources, all framed by classic towns, hamlets, and villages, supported by old and new culture.

The Economic Development Department of the municipality was instrumental in identifying, packaging, promoting, and attracting investment and attention to these newly forming creative industries and leveraging the quality-of-place assets.

## **PLACE-BASED WEALTH CREATION**

Renowned urban analyst Jane Jacobs defined cities simply and profoundly as “places that produce wealth.” If cities cannot generate wealth, they cannot sustain a tax base needed to support the essential services and infrastructure that ensure quality of life. Four influential thinkers and economists have contributed to our understanding of place-based economic development. An understanding of these four bodies of knowledge has informed PEC’s economic strategies.

## **EVOLVING PLANS AND ECONOMIC STRATEGIES IN PRINCE EDWARD COUNTY**

The past half-decade has seen the county move through a series of planning and economic development strategies. The first in 2004 was an Investment Market Readiness Study and Strategic Economic Development Plan (Economic Strategy). The core conclusion was that the county had *zero* competitive advantages in attracting industry/manufacturing in a traditional economic development paradigm.



**Table 1**  
**Concept****Author****Key Ideas**

Home-grown economies    George Latimer

- ◆ 80 per cent of future investment and economic growth is driven by assets *already in the city*.
- ◆ Rather than leveraging these assets, economic development offices spend too much time chasing a small number of business/industry relocations.

Place marketing    Philip Kotler

- ◆ Strategic marketing of place is key to building vigorous local economies.
- ◆ Cities must invest in essential public infrastructure and market distinctive local features and assets.

Industry clusters    Michael Porter

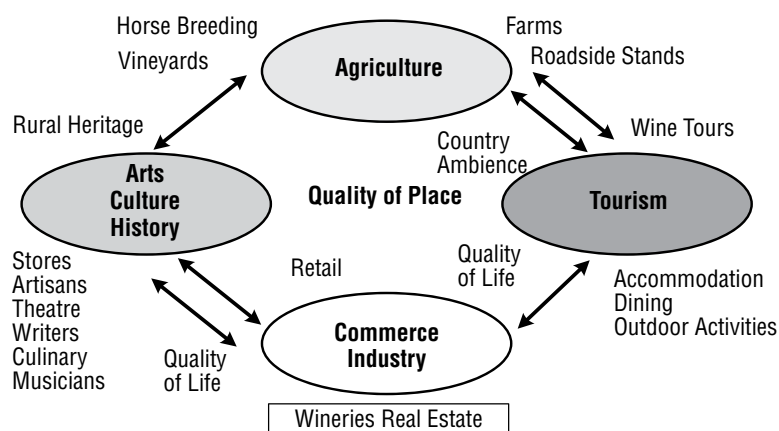
- ◆ Economic success depends on geographic concentrations of interconnected companies, suppliers, and research infrastructure.
- ◆ Cluster strategies are needed to map existing strengths and assess gaps/weaknesses.

Creative economies    Richard Florida

- ◆ Creativity and culture are the new economic drivers.
- ◆ Quality of place is a now core competitive advantage because business and investment follow people—not vice versa.

**Exhibit 1**

2004 Economic Strategy—Prince Edward County



However, the county could succeed, the study argued, using a different kind of economic development model, one built on *quality of place*. While it was not understood or spoken about as such at that time, PEC had many attributes that fit emerging creative economy theories. The consultants proposed an economic strategy with quality of place at its core and built on four pillars.

Following on the economic strategy, the county has completed a series of key plans and research projects. Key studies included:

- ♦ Leveraging Growth and Managing Change: A Cultural Strategic Plan for Prince Edward County (2005)
- ♦ Picton Downtown Revitalization Plan (2005)
- ♦ Tourism Destination Development Strategy (2006)
- ♦ George Morris Centre Value Added Agriculture Research and Plan (2006)
- ♦ Culinary Tourism Survey Ryerson University (2006)
- ♦ Agri-Markets Survey Ryerson University (2007)
- ♦ Queen's University Geography class on PEC's Creative Economy (2008)
- ♦ Creative Rural Economy Strategy for Ontario (in development)

All plans were commissioned by the Economic Development Department and built on core assumptions set out in the 2004 economic strategy to ensure integrated thinking, planning, and execution.

## MUNICIPAL CULTURAL PLANNING AS A CREATIVE RURAL ECONOMY METHODOLOGY

"If creative cities are the end, cultural planning is the means"<sup>1</sup>

*Leveraging Growth and Managing Change: A Cultural Strategic Plan for Prince Edward County* was developed by Dr. Greg Baeker of AuthentiCity. It was awarded best strategic economic plan from the Economic Developers Council of Ontario (EDCO) in 2006. The plan was built on a series of assumptions that collectively are known as

*municipal cultural planning* (MCP) that has been gaining increased attention in Ontario in the past three years.

MCP is built on a set of cultural planning assumptions. Cultural planning emerged in Australia in the early 1990s out of frustration felt by local government with the discipline-based (e.g., separate policies for museums, libraries, theatre, dance, film, and video) cultural policies they inherited from senior levels of government. These vertical policy "silos" were hard to connect with local needs and acted against the horizontal, collaborative, and community-based approaches required to build sustainable local cultural systems.

A powerful symbol of the expanding support for MCP is the Municipal Cultural Planning Partnership (MCPPI). MCPPI is a coalition of seven provincial ministries<sup>2</sup>; the Association of Municipalities of Ontario; individual municipalities; and business, cultural, and community agencies. MCPPI defines municipal cultural planning as follows.

The strategic and integrated planning and use of cultural resources in urban and community development.<sup>3</sup>

The choice of *municipal* cultural planning rather than simply cultural planning is deliberate. Cultural planning roots are founded in the traditions of asset-based community development and engagement. Thus, the dominant perspective was a community-based one—that of community cultural planning. While community perspectives and engagement of course remain essential to MCP, the focus is first and foremost on integrating culture with formal policies, plans, and investments of local government.

Five defining characteristics of MCP can be identified.

1. **Cultural resources**—MCP embraces a broad definition of cultural resources (see below).

1 Jan Verwijnen and Panu Lehouvuri, eds. 2002. *Creative Cities: Cultural Industries, Urban Development and the Information Society* (Helsinki: University of Art and Design).

2 MCPPI members include the ministries of Culture; Municipal Affairs and Housing; Economic Development and Trade; Tourism; Citizenship; Ontario Ministry of Agricultural and Rural Affairs (OMAFRA); and Northern Development and Mines.

3 David Grogan, Colin Mercer, and David Engwicht. 1995. *Cultural Planning Handbook* (Australia: Allen & Unwin). This text was a seminal document in the emergence of cultural planning approaches internationally.

2. **Cultural mapping**—MCP is built on cultural mapping, which is a systematic approach to identifying a community's cultural resources and strengths.
3. **Networks and engagement**—MCP depends on systematic approaches to networking and engagement across the community.
4. **New municipal government roles**—MCP requires municipalities to play a stronger leadership role in planning and policy within the municipality, and an expanded role in community development and capacity building in the community.
5. **Cross-sectoral partnerships**—MCP is built on shared planning and decision-making (governance) models linking the municipality with its business and community partners.

## PRINCE EDWARD COUNTY APPLICATIONS OF MUNICIPAL CULTURAL PLANNING

The following section describes the specific ways in which the Prince Edward County Cultural Strategic Plan embraced these assumptions.

### a. Cultural resources

The cultural plan acknowledged two categories of cultural resources.

- ♦ **Tangible (physical) resources** included the following categories:
  - public facilities (e.g., libraries, museums and galleries, theatres)
  - not-for-profit cultural organizations
  - cultural businesses and creative industries
  - festivals and events
  - human (or cultural) heritage
  - natural heritage
- ♦ **Intangible resources** were all those non-physical forms of culture that define a community's unique identity and sense of place. These include stories and folklore, traditions, perceptions of place, quality of life, etc.

### b. Cultural mapping

Paralleling the categories of cultural resources, the cultural plan focused on two interrelated forms of mapping.

- ♦ **Resource mapping** included identifying and documenting physical (or tangible) cultural resources.

Almost 350 of these resources were identified through the cultural mapping process.

- ♦ **Identity mapping** involved exploring and recording “intangible cultural resources.” Stories have been called “the DNA of culture.” Mapping a community's cultural assets would not be complete without identifying those unique stories, traditions, values, perceptions of place, and quality of life that define a community's unique identity and sense of place. A community survey and subsequent community engagement process was used to support identity mapping.

### c. Networks and engagement

The cultural plan involved extensive community engagement in the form of community surveys, interviews and focus groups, and community forums. There were two interrelated engagement goals. The first was to build stronger networks and collaboration among myriad cultural organizations (not-for-profit and for-profit). The second was to develop stronger connections between this sector and government, business, and community groups and interests.

### d. New municipal government roles

Subsequent to the adoption of the cultural plan, municipal Council developed and adopted a Municipal Cultural Policy that set out an explicit set of commitments on the part of the municipality toward implementing the plan. The policy defined five areas of responsibility and committed the municipality to report annually on each area: Program Delivery, Communications, Policy and Planning, Funding and Investment, and Partnerships and Capacity Building.

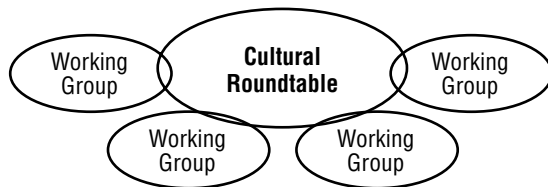
### e. Cross-sectoral partnerships

A core element of the Cultural Plan was establishing a cultural governance system to support collaboration between the municipality and its business and community partners. It had three components (illustrated in Exhibit 2):

- ♦ **A cultural roundtable**—a strategic leadership group with members drawn from local government (elected officials and staff), the business community (including tourism), cultural groups and businesses, and important community agencies such as school boards.

- ♦ **Working groups**—the formation of smaller teams of individuals designed to address specific actions and priorities. Members of the working groups can include members of the roundtable, but more importantly draw on knowledge and expertise in the community.
- ♦ **Annual cultural rally**—a forum to bring together the larger community to celebrate successes and identify strategic issues and priorities for the coming year. The first rally took place in March 2007 and attracted more than 200 county residents.

**Exhibit 2**  
Community Engagement and Expertise



## CREATIVE RURAL ECONOMY RESULTS

The economic outcomes from the systematic economic development strategies pursued by the county over the past few years have produced impressive results.

- ♦ \$45 million in wine industry investment (over seven years)
- ♦ 12 new wineries—750 acres of grapes from 0 (over eight years)
- ♦ \$18 million per annum in wine sales today (from \$0, eight years ago)
- ♦ \$50 to \$85 million in wine sales potential five to seven years out—potentially doubling agricultural GDP
- ♦ building permits up 300 per cent over seven years; \$150 million in incremental investment
- ♦ booming construction industry
- ♦ tourism visits up 74 per cent, spending up 168 per cent; from \$25 million spent per annum in 1999 to \$65 million in 2004—expected to reach \$100 million by 2009; from 225,000 visits to 500,000 visits
- ♦ Property assessment up three-quarters of a \$1 billion

- ♦ Picton downtown revitalization; \$20 to \$30 million in new investment over last few years. Major condo, commercial, and retail developments, major boutique hotel development with culinary and jazz bar, new housing, retail, services, waterfront development
- ♦ Declining population 1996 (2001 Census) rising 2 per cent in 2001 (2006 Census)

## INVESTMENT ATTRACTION

The Economic Development Department is in the process of launching an investment attraction campaign specifically targeted toward attracting creative class entrepreneurs and investors to the community. The initiative is using Web 2.0, digital, and social media tools to reach its target globally. A database will be used to attract marketing effectiveness and the lifetime value of investors, including where leads come from; the number of leads required to convert leads to investors; the total amount of investment; number of employees; increased tax base; growth of investment over time; etc.

## TOWARD A CREATIVE RURAL ECONOMY STRATEGY (OR MCP 2.0)

By 2007, the Economic Development Department had evolved its thinking from the “four-pillar” 2004 Economic Development Strategy to a next generation of integrated, place-based wealth creation and began to use the CRE term. PEC began positioning its business-to-business marketing efforts by branding itself as “Canada’s First Creative Rural Economy” supported by the tag line “People, Enterprise, Creativity.”

The county is now in the process of finding resources and partners to launch a *Creative Rural Economy Strategy for Ontario*. A strong research relationship has been built with Queen’s University in nearby Kingston, Ontario, in particular Associate Professor Betsy Donald of the Geography Department. Professor Donald is a research associate affiliated with the Martin Prosperity Institute at the Rotman School of Management, University of Toronto, headed by Richard Florida.

The project is being proposed in two phases:

- ♦ **Research and community consultation** (current proposal)—This phase will consolidate the best international thinking and experience with on-the-ground assessment of community need to propose an integrated set of strategies and tools to support creative rural economic development in Ontario.
- ♦ **Developing and testing tools**—This phase will implement and evaluate the recommendations developed in Phase I in the three host communities. It will also produce a set of policy recommendations based on project results and dialogue with provincial policy-makers.

Part of the CRE is envisioned to be a virtual collaboration platform to provide a base of resources and forum for dialogue among multiple partners—municipalities, provincial agencies, local practitioners, post-secondary institutions, and others—where they can share their work.

## PLANNING FOR CREATIVE ECONOMIES

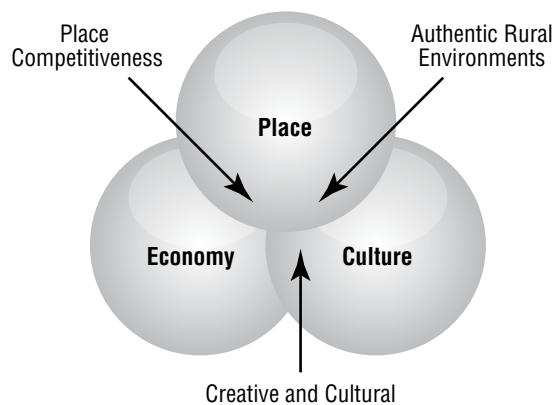
The City of Toronto recently adopted a Creative City Planning Framework (CCPF) developed by AuthenticCity as one component of the Agenda for Prosperity, a new economic development strategy for Toronto launched in January 2008.<sup>4</sup>

In adopting the CCPF, the Economic Development Committee accepted the recommendation that Toronto “adopt a (municipal) cultural planning approach” to planning and economic development. The committee also passed a motion to the Planning and Development Committee to bring recommendations back on how culture could be more fully integrated into the planning process.

The CCPF reflects the same anchor principles and planning assumptions that underpin the CRE. It maps three broad areas of planning—Place, Culture, Economy”—and at intersections among the three identifies the following spheres of planning issues:

### Exhibit 3

#### PEC's three pillars of planning issues



**Place competitiveness**—Success in attracting and retaining a global and mobile class of creative workers and entrepreneurs make quality of place a core competitive advantage for cities. Place competitiveness requires attention to both *form*—in architecture and urban design, the quality of public space, etc. and *function*—evening and nighttime activity, access to educational providers, etc.

- ♦ **Authentic urban (or rural) environments**—Cities or communities with unique histories and distinctive natural and cultural heritage features are magnets for creative people. Authentic places bubbling with lively cultural and entertainment options are magnets that attract and retain creative people.
- ♦ **Creative industries**—Creative industries of all kinds are among the fastest growing economic sectors in many cities today. Success in establishing new and in expanding existing creative industries requires deliberate strategies. These strategies are related to start-up capital, strong educational institutions, and human resources development opportunities. Creative industries require physical places where creative people from across many industries can converge and stimulate thinking and new enterprise.

4 Both reports can be found at [http://www.toronto.ca/mayor\\_miller/initiatives/index.htm](http://www.toronto.ca/mayor_miller/initiatives/index.htm).

## CONCLUSION: BACK TO THE FUTURE

Putting culture in this equation and central to urban planning is not a new idea. Planning as a modern profession was the product of late 19<sup>th</sup>- and early 20<sup>th</sup>-century visionaries such as Patrick Geddes and Lewis Mumford, whose views of cities bore remarkable similarity to those articulated by Jane Jacobs and others many decades later.

Cities were understood as *cultural entities*, places that were shaped by their natural and human heritage and a product of the values and beliefs of their citizens. Geddes believed that planning was more a *human* than a physical science requiring three types of expertise: planners must be *anthropologists* (specialists in culture), *economists* (specialists in local economies), and *geographers* (specialists in the built and natural environment).

Sadly, the professionalization of urban planning that occurred in the 1950s and 1960s, and its institutionalization as a function of local government, undermined these more holistic views. The primary focus was on the administration of land and the efficient delivery of municipal services. If cultural assets were acknowledged by planners, they were narrowly defined, most often in terms of facilities and spaces—museums, galleries, theatres, concert halls, parks, and recreational facilities.

The integrated planning frameworks needed to build prosperous creative communities of all scales require us to return to an earlier vision of planning.

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Under Dan Taylor's leadership, Prince Edward County earned the top Economic Developers Council of Ontario (EDCO) award in 2006; the Lieutenant Governor's Award for Excellence for Marketing in Ontario/Best of Show along with five other economic development awards at the annual ceremony. The department also won four major national awards, including best of category at the 2006 Economic Developers Association of Canada (EDAC) awards ceremony.

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Dr. Greg Baeker developed the *Cultural Strategic Plan for Prince Edward County*. He has completed municipal cultural plans for communities large and small nationally. AuthentiCity recently completed the *Creative City Planning Framework* for the City of Toronto, an anchor element of the Prosperity Agenda, the new economic development strategy adopted by Toronto in January 2008.

## RESEARCH PAPER 7

# Strong Attractors and Lily Pads: How Putting Numbers to the Drift of Creative Talent in the Creative Economy Through the Concentration Effect Can Reveal the Impact of Local Factors

*Peter Higgs and Simon Freebody, ARC Centre of Excellence for Creative Industries and Innovation, Australia •  
Sam Hagaman, Queensland University of Technology, Australia*

### Abstract

Researchers in the field of the creative and cultural Industries, and more recently researchers of the creative class, have raised the issue of the disproportionate concentration of creative talent and creative activity in a limited number of larger cities. While various explanations have been offered to explain why this occurs, there has not yet been a comparative quantitative analysis of the extent to which such concentrations are substantially the results of relatively simple agglomeration effects.

Richard Florida researched the correlation between concentrations of university-educated as well as creative populations and the location of high-tech industries in the United States, and then drew inferences about why this should be so. For all the analysis of indexes—bohemian, tolerance, etc.—he did not foray into the seemingly evident path of trying to quantify the degree of attraction of cities with larger workforces and therefore larger marketplaces.

Using the most recent Australian census data, this research has identified the strength of concentration factors that seem to apply from small towns, right up to large cities. The research seems to indicate, at least for Australia, that some creative segments, such as software and digital content, have a stronger concentration factor than others, for example music and performance art.

Knowing these concentration factors, as well as a city's population or workforce size, allows researchers to predict the normal density of creative employment and creative enterprises for each of the segments, and for the total creative economy. At least for Australia, correlating the actual performance of a city or town against its predicted “base” density aids in determining that other factors may be at work in affecting the creative employment density, such as geographical, educational, historical, or policy factors.

## CREATIVE CITIES: THE RUSH TO “WHY”?

**A**s creative industries mapping project researchers at the ARC Centre of Excellence for Creative Industries and Innovation (known as CCI), we were producing reports on a number of Australia's smaller capital cities and, from a pragmatic point of view, we needed a better

understanding of the degree to which agglomeration factors could account for the different proportions of creative employment among Australian capital cities. In other words, could policy planners in Perth or Brisbane be satisfied with a 5.5 or 4.5 per cent creative share of their workforce compared to Sydney's 6.5 per cent?



**Table 1**

The SOR report's comparison of correlation strengths between the high-tech index with other indexes

<b>R—MEASURES</b>	<b>Bohemian Index</b>	<b>Foreign Born</b>	<b>Talent Index</b>	<b>Diversity Index</b>	<b>Composite Diversity</b>
High-Tech Index Australia	0.80	0.61	0.73	0.74	0.72
High-Tech Index (United States)	0.62	0.43	0.72	0.77	0.68

Source: National Economics State of the Region Report, 2002.

Researchers and analysts in the field of the creative and cultural industries and creative class have noted a disproportionate concentration of creative talent and creative activity in larger cities, especially in the United States and Europe.<sup>1</sup> Richard Florida is perhaps one of the most prominent researchers of the creative cities and in his book *The Rise of the Creative Class*,<sup>2</sup> he researched the correlation between concentrations of creative populations and a number of factors including tolerance and the location of high-tech industries in the United States (Florida, 2003). Although Florida drew inferences about why some cities have higher proportions of creative populations than others, he did not foray into the seemingly evident path of trying to quantify this degree of attraction (Florida, 2003).

Florida's theory has also been applied to European countries. Boschma and Fritsch (2007a; 2007b) have studied the concentration of the distribution of the creative class among European regions, with the aim of discovering the determinants of the share of creative population in a region, and whether the creative class has an effect on regional growth. In Australia, a recent study of employment and economic growth is the State of the Regions (SOR) report<sup>3</sup> produced by the

Australian Local Government Association and National Economics. It stock-takes "the economic well-being of Australia's regions and their prospects for economic development and employment growth" and examines creative regions and provides some Australia–United States benchmarking. Leaving aside the issues surrounding Florida's ultra-inclusive definition of creative class, the correlation analysis conducted by National Economics is interesting—it compared the correlations between the high-tech index and Florida's other indexes for Australia and the United States.

The bohemian index in Australia has the highest correlations with the high-tech index with an "R" of .80, meaning that 80 per cent of the occurrences of the high-tech index can be accounted for by the bohemian index. This is not the same as the United States, where the diversity index has the highest correlation with an R of 77 per cent.

Another Australian study of the same period highlighted the significance of the major cities in Australian creative industry in the cultural economy using census employment data and business location counts with location quotients and metropolitan primacy (the ratio of creative share of capital city employment to the creative share of the balance of the state). While this establishes patterns for the split of creative employment within each of the Australian states, it does not reveal any pattern in the level of creative employment between the capital cities themselves.

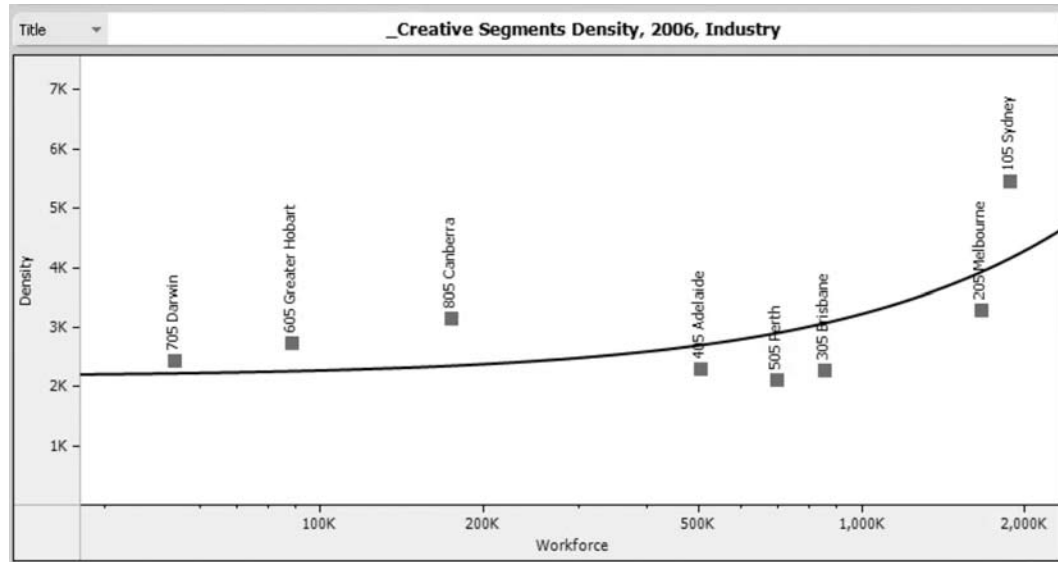
1 Gerard Marlet, Clemens van Woerkens (2004) Skills and Creativity in a Cross-section of Dutch Cities, Utrecht University, Utrecht, <<http://www.uu.nl/uupublish/content/04-29.pdf>> last accessed 4/03/2008 Boschma, R. A. and M. Fritsch. 2007a. Creative Class and Regional Growth – Empirical Evidence from Eight European Countries.

2 Richard Florida (2003) *The Rise of the Creative Class: And How It's Transforming Work, Leisure, Community and Everyday Life*, Basic Books, New York.

3 National Economics (2002) State of the Regions Report 2002-03, Australian Local Government Association, Deakin, <<http://www.alga.asn.au/policy/regdev/sor/2002/2002sor.php>> last accessed 4/03/2008.

**Chart 1**

Comparisons of the density (share) of employment in selected creative industries to the workforce (log scale) of Australian capital cities in 2006



Source: CCI analysis of custom 2006 Census tables from the Australian Bureau of Statistics Census of Population.

A more recent study by Hill Strategies Research Inc. got closer to addressing the search for a pattern. It looked at the employment and incomes of artists in large Canadian cities<sup>4</sup> and compared the direct and relative growth in employment within artist occupations with the growth in their income—their conclusion being that the size of the city does matter in terms of the concentration of artists but not when it comes to growth.

## PERFORMANCE COMPARISONS OF AUSTRALIAN CAPITAL CITIES

Not finding the answer to our benchmarking in the existing research, we looked to see if we could reduce the complexity of all these indices to a simple formula that could predict the “on spec” performance

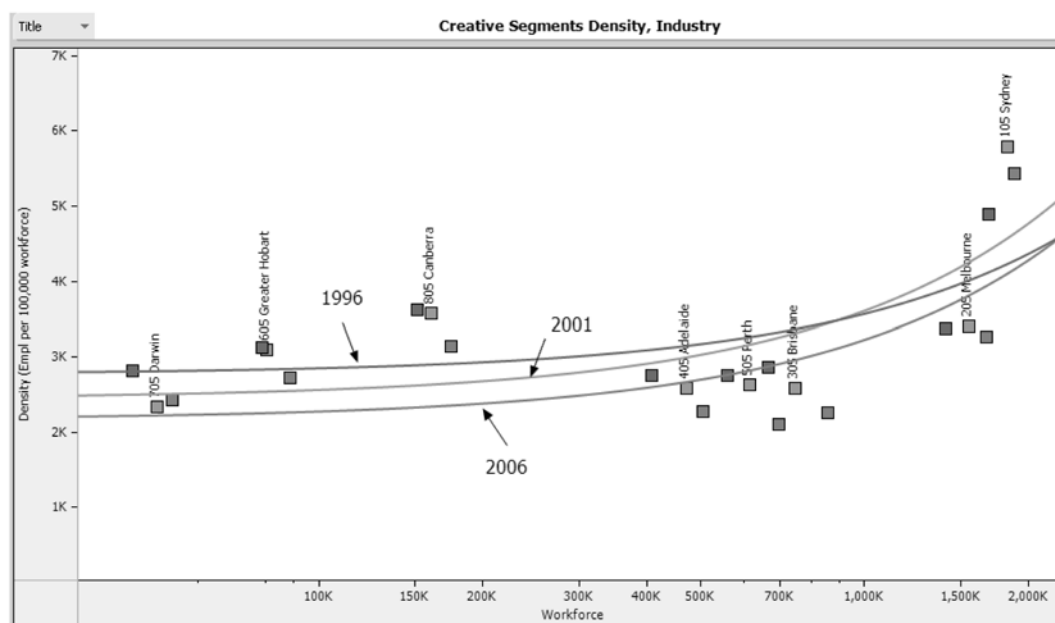
of a city, given some independent characteristic such as workforce or population. And it follows that if a city is significantly “off spec” then other factors are at work—geography, government policy, social, and the other factors covered by Florida’s indices.

We examined detailed census tables of the employment within industry classifications as well as separate tables of employment by occupation classifications across 73 statistical divisions to see if there was a pattern.

4 Hill Strategies Research Inc. (2006) Artists in Large Canadian Cities, Hill Strategies Research Inc, Ottawa, <[http://www.hillstrategies.com/resources\\_details.php?resUID=1000160&lang=0](http://www.hillstrategies.com/resources_details.php?resUID=1000160&lang=0)> last accessed 4/03/2008.

**Chart 2**

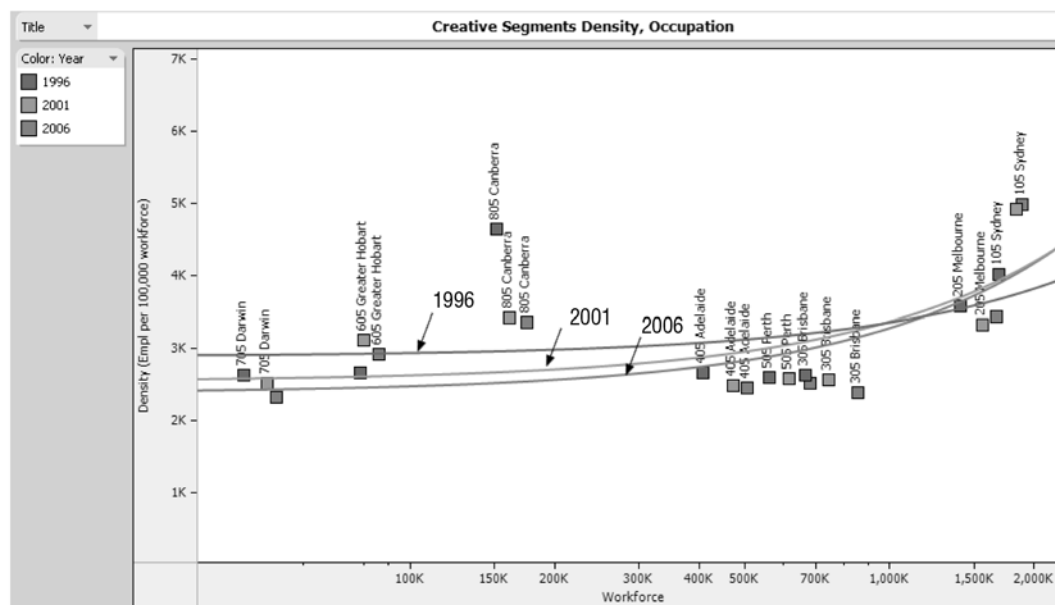
Comparisons of the density (share) of employment in selected creative industries to the workforce (log scale) of Australian capital cities in 1996, 2001, and 2006



Source: CCI analysis of custom 2006 Census data tables from the Australian Bureau of Statistics.

**Chart 3**

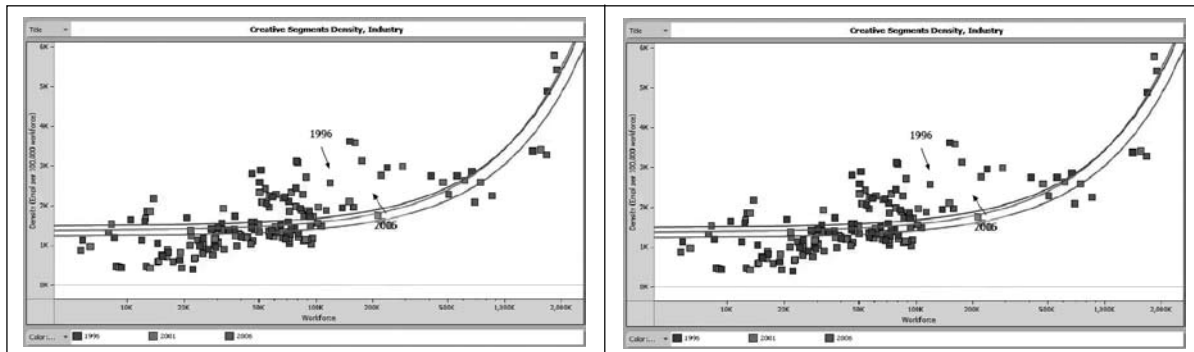
Comparisons of the density (share) of employment in selected creative occupations to the workforce (log scale) of Australian capital cities in 1996, 2001, and 2006



Source: CCI analysis of custom 2006 Census data tables from the Australian Bureau of Statistics.

**Chart 4**

Comparisons of the density (share) of employment in selected creative industries (a) and occupations (b) to the workforce (log scale) of 73 Australian statistical districts in 1996, 2001, and 2006



Source: CCI analysis of custom 2006 Census data tables from the Australian Bureau of Statistics.

Note that under industry classifications nearly every city showed a decline in the creative share of employment between 2001 and 2006. Even though there would have been growth in employment numbers, the growth did not match that of the general workforce.

Analysis on the basis of creative occupations though tells a different story.

Sydney's creative occupation density increased between 2001 and 2006, albeit not as significantly as that between 1996 and 2001. For those cities still showing a decline between 2001 and 2006, it was much less than with creative industries, indicating there was a rise in creatives employed in industries outside the creative industries (embedded employment).

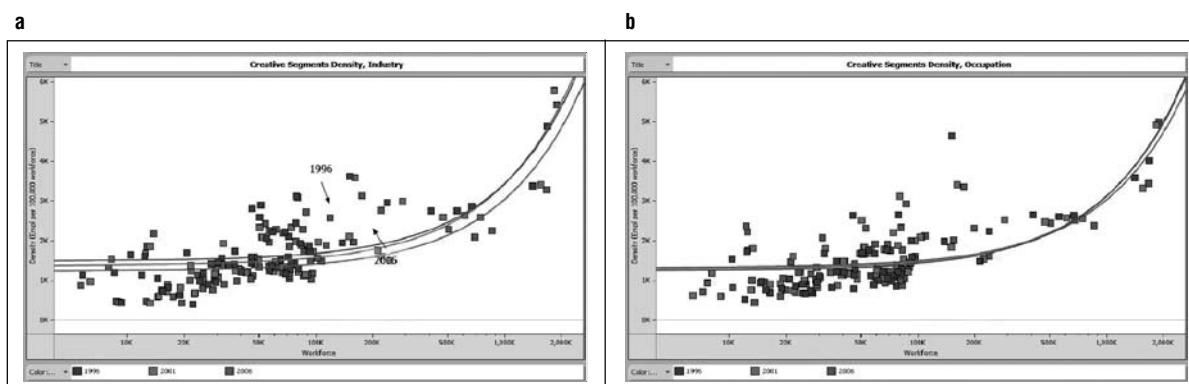
However, eight datapoints are not sufficient to establish a meaningful correlation; therefore, the number of cities analyzed was expanded to 73 with the lowest workforce being 8,000 people.

While each year's trend lines were very close for both industry and occupation densities, there were a number of towns and cities with their densities well outside the trend lines. We suspected that this was because the creative workforce was an aggregation of a number of quite disparate creative segments, each of which also aggregated detailed activities, and each could have a stronger or weaker agglomeration factor.

This can be seen when zooming in on one segment, that of Architecture, Design and Visual Arts. The charts below plot the density (the number of people employed per 100,000 people in the workforce) against the log of the overall workforce size for a particular area. Density is marked on the y axis, and overall workforce size on the x axis. The left-hand chart shows Architecture, Design and Visual Arts segment employment on the basis of industry classification while the right-hand chart is on the basis of occupation classifications.

**Chart 5**

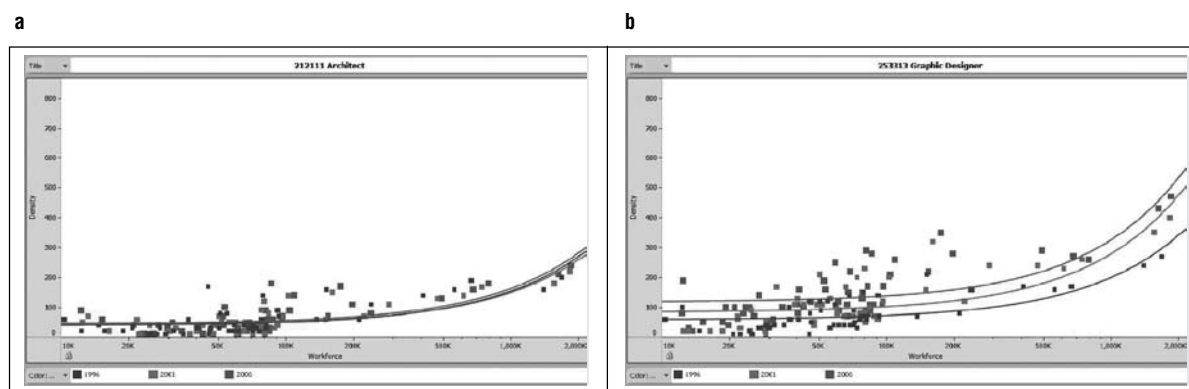
Comparisons of the density (share) of employment in the Architecture, Design, and Visual Arts industries (a) and occupations (b) to the workforce (log scale) of 73 Australian statistical districts in 1996, 2001, and 2006



Source: CCI analysis of custom 2006 Census data tables from the Australian Bureau of Statistics.

**Chart 6**

Comparisons of the density (share) of employment of Architects (a) and Graphic designers (b) to the workforce (log scale) of 73 Australian statistical districts in 1996, 2001, and 2006



Source: CCI analysis of custom 2006 census data tables from the Australian Bureau of Statistics.

Both charts show similar moderate concentration with the curves tilting up only for the largest cities. However, the segment has many component activities within it and these also could have different concentration coefficients, as illustrated in Chart 6.

The left-hand graph shows almost no change in the density of employment of architects between 1996 and 2006 (the three trend lines almost merge) and very little increase in density at the higher workforce level of Melbourne and Sydney.

On the other hand, the occupation of graphic designers shows a consistent and significant growth in the density trends lines between 1996 and 2001 and slightly lower growth between 2001 and 2006. In both occupations though, the curve and slope of the trend lines remain relatively constant over time.

All together there are 27 industry classifications and 26 occupation classifications defined by CCI as being within the Australian Architecture, Design and Visual Arts segment and 28 industry and 84 occupations across all segments. Each of these would exhibit a slightly different concentration coefficient, as detailed in Appendix 2.

## STATISTICAL CORRELATIONS

To determine the correlations for the creative segments, a dataset consisting of over 2,000 observations was statistically analyzed using a linear trend model applied to the log of industry and occupation employment and the log of workforce, for 1996, 2001, and 2006.

The analysis produces two values: the coefficient of concentration and the constant for each segment. These values, as listed in Appendix 1, are then applied to the creative employment formula, which is the antilog of the “Constant” by the Workforce to the power of the “Coefficient.”

For example, calculation of the creative employment on the basis of occupation in 2006 would be:

$$\text{Creative Employment} = 0.000338 \times \text{Total Workforce Employment}^{1.345}$$

The results listed in the tables below are able to explain approximately 94 per cent of the observations (they have an R squared of at least .946), which is considerably higher than the R squared of the high-tech index.

The more significant of the results are the values for the coefficient, as these are effectively the slope of the line in a chart plotting employment and workforce. If in 2006 two cities have a 10 per cent difference in total workforce, then there will be 13.5 per cent difference in creative industry employment.

The concentration coefficient values for the various creative segments have been ranked in descending order in the following table.

**Table 2**

Results of the linear regression of total creative occupation employment with total workforce

Occupation	1996	2001	2006
Correlation Coefficient	1.325	1.350	1.345
Total Workforce (logged)	( <i>p</i> = .000)	( <i>p</i> = .000)	( <i>p</i> = .000)
Constant	-2.952	-3.027	-2.994
	( <i>p</i> = .000)	( <i>p</i> = .000)	( <i>p</i> = .000)
<i>R-Square</i>	.956	.961	.956

Dependent Variable: Total Creative Workforce by Occupation (logged).

**Table 3**

Results of the linear regression of total creative industry employment with total workforce

Industry	1996	2001	2006
Correlation Coefficient	1.33	1.373	1.350
Total Workforce (logged)	( <i>p</i> = .000)	( <i>p</i> = .000)	( <i>p</i> = .000)
Constant	-3.095	-3.293	-3.167
	( <i>p</i> = .000)	( <i>p</i> = .000)	( <i>p</i> = .000)
<i>R-Square</i>	.950	.955	.946

Dependent Variable: Total Creative Workforce by Industry (logged).

**Table 4**

Concentration coefficient for Australian creative segments for 2006 for industry and occupation employment

Segment	Industry	Occupation
Software and Digital Content	1.7564	1.6221
Advertising and Marketing	1.6262	1.4247
Music and Performing Arts	1.4517	1.5010
Architecture, Design and Visual Arts	1.3264	1.3739
Film, TV and Radio	1.2311	1.2406
Publishing	1.2176	1.1338

**Table 5**

Concentration coefficients, creative industries, 2006

High Coefficient Industries	Concentration Coefficient 2006
7834 Computer Consultancy Services	1.76
7851 Advertising Services	1.63
7821 Architectural Services	1.46
9111 Film and Video Production	1.45
2423 Book and Other Publishing	1.42
9122 Television Services	1.38
9259 Services to the Arts N.E.C.	1.38
9241 Music and Theatre Productions	1.38
7852 Commercial Art and Display Services	1.37
2422 Other Periodical Publishing	1.35
9252 Performing Arts Venues	1.30
Moderate Coefficient Industries	Concentration Coefficient
2941 Jewellery and Silverware Manufacturing	1.24
9523 Photographic Studios	1.22
9242 Creative Arts	1.22
2420 Publishing, undefined	1.21
2421 Newspaper Printing or Publishing	1.19
9251 Sound Recording Studios	1.12
2430 Recorded Media Manufacturing and Publishing	1.12
9210 Libraries	1.11
Low Coefficient Industries	Concentration Coefficient
9240 Arts, undefined	1.05
9100 Motion Picture, Radio and Television Services, undefined	0.97
9121 Radio Services	0.92
9220 Museums	0.90



Two segments have very high concentration coefficients—Software and Digital Content as well as Advertising and Marketing, while the Music and Performing Arts segment and Architecture, Design and Visual arts have moderate coefficients.

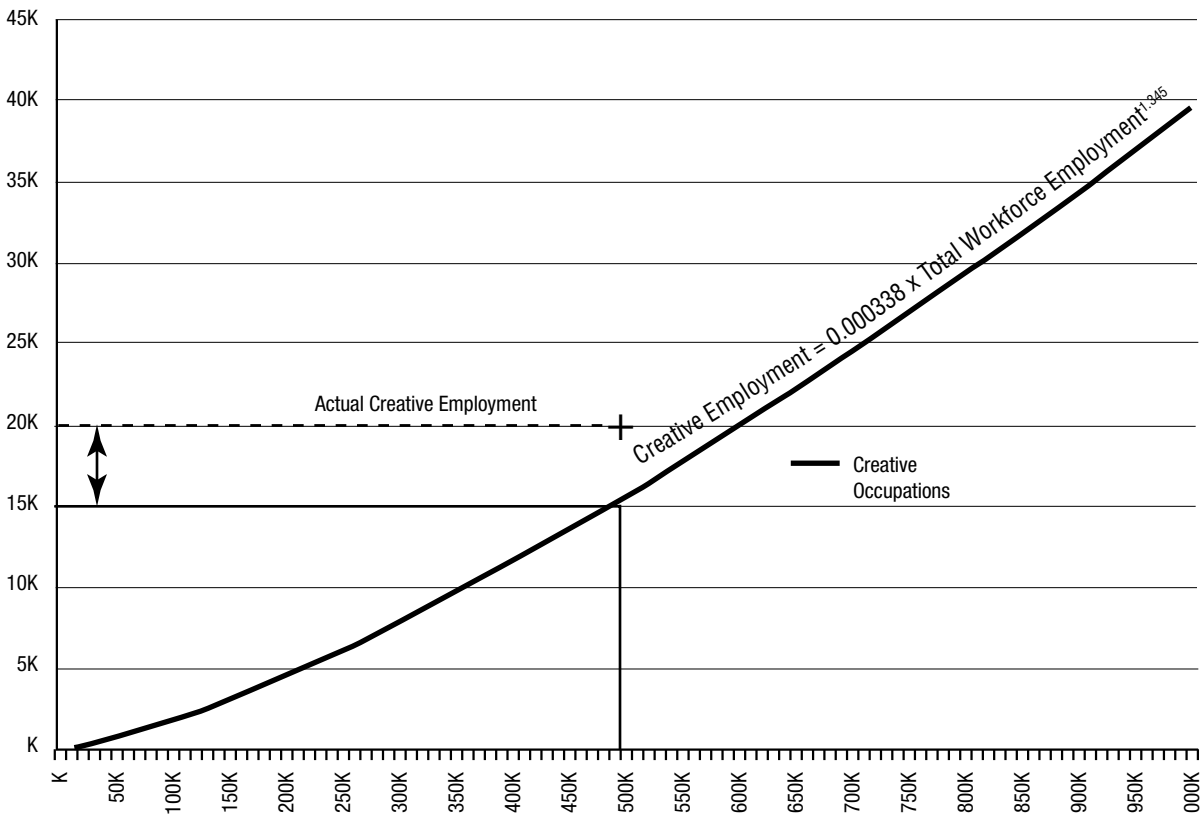
The occupation-derived coefficient for a segment is normally fairly similar to the industry-derived coefficient (i.e., is reasonably close). Where differences occur could indicate a difference in the proportion of embedded creative employment from smaller to larger cities as well as a reduction in the proportion of support staff within creative industries.

In addition, each component of a segment, either an industry or an occupation, could exhibit different coefficients as each profession or business activity has different market and supply characteristics.

### IMPLICATIONS OF THE FINDINGS

The implications of the research, even at the preliminary stage of this analysis, could prove to be significant for industry planners and researchers, as it can be used to predict for the first time a base line or “on spec” level of employment for a creative segment, a specific industry or occupation, or the total creative workforce.

**Chart 7**  
Deriving the expected creative employment knowing a city's workforce



Being able to predict the “normal” or “base” level of either employment or employment density for a specific city given the size of its workforce allows comparison with the city’s actual density.

If a large difference exists between the base density and actual density, then it could be inferred that other—either positive or negative—factors may be at work, such as geographic factors, demographic, educational, historical, or policy factors.

The shifts in the coefficients from year to year are an indicator of the volatility of the segment’s employment. Some occupations such as Architecture show no change with its growth in employment matching that of the workforce from the smallest city to the largest. Others, such as Graphic Design, show significant shifts in the curves, signifying stronger growth than the workforce, but in addition there is a divergence in the curves toward the larger cities that indicates even stronger growth and a higher concentration coefficient than previous years.

## CONCLUSION

The correlations identified apply only to Australian data, and much more work needs to be done both with Australian and other countries’ employment datasets before we could confidently say this approach is generally applicable. The findings of the research done to date show us that there are sometimes significant differences between the creative segments, thus proving that these density changes are not just generalized. The fact that there are different slopes for different segments, occupations, and industries means we can confidently say there is more at work than just a simple, consistent proportional increase in creative density due to workforce size. However, it is intriguing to think that there could be a generalized formula that holds true from the smallest city in Australia to the largest cities in Europe and America. And even more intriguing to be able to use the approach to track the patterns of creative workforce growth in countries such as China and India over the coming decades.

Having a methodology that aids in the better understanding of these geographical patterns in creative employment will add one more analytical tool to our suite and move us a step closer to better evidence for policy-makers.

## APPENDIX 1: ANALYSIS BY SEGMENT

### Trend Lines Model

A linear trend model is computed for Employed Log given Workforce Log. The model may be significant at  $p \leq 0.05$ . The factor Measure may be significant at  $p=0.05$ . The factor Segment may be significant at  $p=0.05$ . The factor Year may be significant at  $p=0.05$ .

Model formula:	Measure*Segment*Year*( Workforce Log + intercept )
Number of observations:	2,138
DF (degrees of freedom):	78
Residual DF:	2,060
SSE (sum squared error):	107.226
MSE (mean squared error):	0.0520514
R-Squared:	0.926738
Standard error:	0.228148
p (significance):	< 0.0001
Analysis of Variance:	

Field	DF	SSE	MSE	F	P
Measure	36	11.1055	0.308487	5.92659	< 0.0001
Segment	66	330.235	5.00357	96.1274	< 0.0001
Year	52	10.2186	0.196512	3.77534	< 0.0001

Segment	Measure	Data	1996	2001	2006
Advertising and Marketing	Industry	Concentration Coefficient	1.4345	1.4340	1.6262
		Antilog of the Constant	0.000009	0.000009	0.000001
	Occupation	Concentration Coefficient	1.4429	1.4961	1.4247
		Antilog of the Constant	0.000010	0.000005	0.000009
Architecture, Design and Visual Arts	Industry	Concentration Coefficient	1.2775	1.3205	1.3264
		Antilog of the Constant	0.000218	0.000121	0.000123
	Occupation	Concentration Coefficient	1.3217	1.3131	1.3739
		Antilog of the Constant	0.000161	0.000170	0.000074
Film, TV and Radio	Industry	Concentration Coefficient	1.2955	1.3378	1.2311
		Antilog of the Constant	0.000068	0.000043	0.000174
	Occupation	Concentration Coefficient	1.2884	1.3088	1.2406
		Antilog of the Constant	0.000046	0.000038	0.000075
Music and Performing Arts	Industry	Concentration Coefficient	1.4502	1.4609	1.4517
		Antilog of the Constant	0.000005	0.000005	0.000005
	Occupation	Concentration Coefficient	1.4132	1.4942	1.5010
		Antilog of the Constant	0.000007	0.000004	0.000003

*Continued*

Segment	Measure	Data	1996	2001	2006
Publishing	Industry	Concentration Coefficient	1.1967	1.1848	1.2176
		Antilog of the Constant	0.000500	0.000629	0.000464
	Occupation	Concentration Coefficient	1.0708	1.1248	1.1338
		Antilog of the Constant	0.001859	0.000999	0.000870
Software and Digital Content	Industry	Concentration Coefficient	1.6476	1.7145	1.7564
		Antilog of the Constant	0.000002	0.000001	0.000000
	Occupation	Concentration Coefficient	1.7409	1.7811	1.6221
		Antilog of the Constant	0.000000	0.000000	0.000001

## APPENDIX 2: DETAILED INDUSTRIES COEFFICIENTS

### Trend Lines Model

A linear trend model is computed for Employed Log given Workforce Log. The model may be significant at  $p \leq 0.05$ . The factor Industry may be significant at  $p=0.05$ . The factor Year may be significant at  $p=0.05$ .

Model formula:	Industry*Year* (Workforce Log + intercept )
Number of observations:	3,211
DF (degrees of freedom):	161
Residual DF:	3,050
SSE (sum squared error):	257.757
MSE (mean squared error):	0.0845105
R-Squared:	0.864588
Standard error:	0.290707
p (significance):	< 0.0001
Analysis of Variance:	

Field	DF	SSE	MSE	F	P
Industry	155	798.211	5.14975	60.9362	< 0.0001
Year	107	27.0993	0.253264	2.99684	< 0.0001

Industry	Data	1996	2001	2006
7834 Computer Consultancy Services	Concentration Coefficient	1.65	1.71	1.76
	Antilog of Constant	0.000002	0.000001	0.000000
7851 Advertising Services	Concentration Coefficient	1.43	1.43	1.63
	Antilog of Constant	0.000009	0.000009	0.000001
7821 Architectural Services	Concentration Coefficient	1.53	1.49	1.46
	Antilog of Constant	0.000004	0.000005	0.000009
9111 Film and Video Production	Concentration Coefficient	1.48	1.35	1.45
	Antilog of Constant	0.000001	0.000007	0.000002
2422 Other Periodical Publishing	Concentration Coefficient	1.48	1.39	1.35
	Antilog of Constant	0.000001	0.000003	0.000004
2423 Book and Other Publishing	Concentration Coefficient	1.38	1.40	1.42
	Antilog of Constant	0.000004	0.000003	0.000002

*Continued*

Industry	Data	1996	2001	2006
9241 Music and Theatre Productions	Concentration Coefficient	1.39	1.42	1.38
	Antilog of Constant	0.000005	0.000005	0.000006
2430 Recorded Media Manufacturing and Publishing	Concentration Coefficient	1.49	1.56	1.12
	Antilog of Constant	0.000000	0.000000	0.000027
9122 Television Services	Concentration Coefficient	1.32	1.38	1.38
	Antilog of Constant	0.000025	0.000012	0.000012
7852 Commercial Art and Display Services	Concentration Coefficient	1.26	1.31	1.37
	Antilog of Constant	0.000055	0.000029	0.000016
9259 Services to the Arts N.E.C.	Concentration Coefficient	1.22	1.30	1.38
	Antilog of Constant	0.000009	0.000005	0.000002
9523 Photographic Studios	Concentration Coefficient	1.23	1.31	1.22
	Antilog of Constant	0.000038	0.000010	0.000047
9252 Performing Arts Venues	Concentration Coefficient	1.20	1.16	1.30
	Antilog of Constant	0.000019	0.000023	0.000008
9242 Creative Arts	Concentration Coefficient	1.22	1.21	1.22
	Antilog of Constant	0.000060	0.000063	0.000051
2420 Publishing, undefined	Concentration Coefficient	1.19	1.06	1.21
	Antilog of Constant	0.000016	0.000067	0.000019
2421 Newspaper Printing or Publishing	Concentration Coefficient	1.12	1.13	1.19
	Antilog of Constant	0.000833	0.000638	0.000362
2941 Jewellery and Silverware Manufacturing	Concentration Coefficient	1.07	1.13	1.24
	Antilog of Constant	0.000162	0.000098	0.000021
9251 Sound Recording Studios	Concentration Coefficient	1.05	1.13	1.12
	Antilog of Constant	0.000044	0.000016	0.000027
9210 Libraries	Concentration Coefficient	1.09	1.11	1.11
	Antilog of Constant	0.000226	0.000353	0.000420
9121 Radio Services	Concentration Coefficient	0.96	1.04	0.92
	Antilog of Constant	0.001050	0.000424	0.001920
9240 Arts, undefined	Concentration Coefficient	0.66	1.01	1.05
	Antilog of Constant	0.003882	0.000083	0.000065
9220 Museums	Concentration Coefficient	0.86	0.93	0.90
	Antilog of Constant	0.002242	0.000879	0.001457
9120 Radio and Television Services, undefined	Concentration Coefficient	0.77	1.05	0.87
	Antilog of Constant	0.000873	0.000037	0.000311
9110 Film and Video Services, undefined	Concentration Coefficient	0.83	0.76	0.89
	Antilog of Constant	0.000240	0.000949	0.000280
9100 Motion Picture, Radio and Television Services, undefined	Concentration Coefficient	0.57	0.62	0.97
	Antilog of Constant	0.006202	0.003791	0.000111
9250 Services to the Arts, undefined	Concentration Coefficient	0.73	0.68	0.29
	Antilog of Constant	0.000547	0.001418	0.158334
9200 Libraries, Museums and the Arts, undefined	Concentration Coefficient	0.20	0.36	0.00
	Antilog of Constant	0.509987	0.088920	9.000010



## RESEARCH PAPER 8

# Creative Economies and Diverse Places: An Analysis of Creative Hubs in Canada

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### INTRODUCTION

An enduring debate in the regional economic development literature concerns the relative merits of local diversity versus local specialization (for overviews, see Feldman and Audretsch, 1999; Glaeser et al., 1992). The persistence of this debate can be partially attributed to each position being supported by equally plausible theoretical foundations. On a very basic level, the hypothetical advantage of local diversity is that the presence of difference facilitates economic dynamism through the mixing of talent and subsequent recombination of knowledge. The parallel argument for specialization is that relative uniformity is inherently more efficient and therefore produces superior economic outcomes. The continuing existence of these opposing views is not due to a lack of theorizing, but to inconsistent evidence. Glaeser (2003: 92) found that “different time periods and different samples give different results which suggest that there is no universal truth on this topic,” and suggested that there are potential methodological issues that need to be addressed, continuing that “investigating the actual hard evidence on innovations, we will be able to assess the relative importance of idea combinations and the role of diversity and concentration.” Following these observations, one of the main intentions of this paper is to address the underlying issues with the very question of local diversity versus specialization and the traditional methodologies employed in pursuing it.

Perhaps the most essential problem with the debate is that it is overly general in nature. It is difficult to attribute regional economic well-being to a single factor, which in this case is local economic structure. Regional economies are highly complex systems that respond to

both internal and external influences. While statistical models are typically designed to control for these additional factors, establishing clear causality is always problematic. This is especially true with attempts to quantify the impact of local diversity and specialization. One of the main reasons for this is that from a theoretical standpoint both diversity and specialization are supposed to facilitate certain outcomes (more dynamism/greater efficiencies), which in turn strengthen the local economy, yet models tend to assume these conditions while using overall economic performance measures as the main dependent variable.

There are two fundamental problems with this approach. One is that they tend to gloss over the micro-foundations of how the local economic structure affects relationships between economic agents. As a result, the very concept of relative local diversity or specialization is often under scrutinized. Debate is often technical in nature, addressing statistical methods, rather than exploring more deeply the nature of difference and how it influences decision making. A second problem with the traditional approach is that it assumes a universal model of regional economic competitiveness. The theoretical outcomes of both diversity and specialization tend to be seen as inherently positive, yet they are treated as mutually exclusive when it comes to quantifying overall economic performance. In this sense, the debate is not really about diversity versus specialization but is instead a debate about the relative merits of the specific outcomes of diversity (dynamism) or specialization (efficiency). This represents a potential explanation for the inconsistency of empirical studies on the subject in that diversity and specialization are supposed to facilitate different outcomes, neither of which is inherently more suited to generating economic growth. The aim of this paper is



to address these fundamental problems by ultimately reformulating the basic question of whether local diversity or specialization provides superior regional economic outcomes. Instead, a revised hypothesis is proposed, whereby diversity and specialization are understood to foster different patterns of interaction and learning, neither of which is seen as universally superior but rather as beneficial to particular types of economic activities. Specifically, this paper provides a theoretical framework that outlines how the presence of local diversity may influence social network formation, subsequent learning opportunities, and consequently how this may benefit certain types of economic activity more than others. The empirical component of this paper shows that the relative degree of local diversity has a much more significant impact on local economic structure than on overall economic performance.

## THEORETICAL FRAMEWORK

### KNOWLEDGE PRODUCTION AS ECONOMIC ADVANTAGE

Contemporary theory on regional economies supposes that knowledge is the main source of advantage. In short, knowing how to produce goods and services that others do not is a key factor of success. This contrasts with notions of local advantage that focus on being able to produce goods and services at the lowest cost. An important implication of this shift is that the complexity of knowledge-based economies requires strong local institutions and investment, particularly in human capital (Morgan, 1997). As Lundvall and Johnson (1994) suggested, the ultimate source of regional economic advantage is not simply derived from the possession of knowledge but the ability to consistently produce new knowledge. In other words, it is not simply the possession of knowledge that matters but the ability to constantly learn and produce new knowledge. Modern economies are characterized by a proportional decrease of materiality as services account for a greater share of overall economic activity. Knowledge itself is a traded good. Issues of ownership, however, are more complex as knowledge is highly intangible. Despite patents, trademarks, and copyrights, most knowledge is not proprietary, and so capturing value can be challenging.

An effective response to this challenge involves staying “one step ahead” through continual learning and developing novel ideas.

### LEARNING AS A SOCIAL PROCESS

A central theme of the literature on learning is the notion that it is fundamentally a social process (Foray and Lundvall, 1998). This idea has strong connections to the recently proposed “relational turn” in economic geography (Bathelt and Gluckler, 2003; Boggs and Rantisi, 2003) and the social sciences in general. In this sense, the traits and characteristics of individuals and groups are not so much the subject of study but rather the connections between them. From this perspective, it is the exchange of knowledge between agents that defines the learning process. A second important theme of the literature is that new ideas are produced from novel combinations of existing knowledge (Jacobs, 1969; Weitzman, 1998). This process requires previously unconnected ideas coming together. When conceived as a social process, this means an exchange of information between agents who possess knowledge that the other does not. In the social network literature, this is commonly expressed as “bridging” groups or “structural holes” (Burt, 1992), whereby interaction occurs between agents who normally occupy disparate networks. It is important to note, however, that such social interaction is atypical, as the concept of homophily (McPherson et al., 2001) suggests that people tend to choose to interact with people who share similar traits and experiences. This has the effect of reinforcing norms and values within relatively well-defined social networks. And so it is the uncommon behaviour of interacting between groups that facilitates the intersection of differentiated knowledge. This type of learning process is a necessary step in the formation of novel ideas derived from the recombination of existing knowledge.

### SOCIAL INTERACTION AS A LOCAL PROCESS

The spatial dimension of social interaction and knowledge exchange is an important concern in the geography literature that relates to learning. More specifically, there is an emphasis on the differences between direct face-to-face interaction and interaction that involves communication technologies. Storper and Venables (2004) argued that interaction and knowledge exchange that

is mediated by technology is often less effective than face-to-face interaction. A key point they make is that communication involves much more than language, but that people express themselves with body language, tone, inflection, and other such devices. A great deal of meaning can be inferred from such queues, and so the suggestion is that face-to-face interaction facilitates the transfer of tacit knowledge in ways that technologically mediated interaction does not. An additional aspect of this discussion is the recognition that the majority of non-face-to-face interactions are an extension of face-to-face relationships rather than a substitute (Nohria and Eccles, 2004). The implication is that the majority of interaction has a distinctly local characteristic. As people interact more frequently with those who are physically near to them, cognitive distance is also reduced, and so a locally recursive relationship is formed between social interaction and institutions.

### **PLACES AS LEARNING OPPORTUNITIES**

The relative strengths of face-to-face interaction are largely responsible for knowledge and institutions having a locally distinct characteristic. Recently developed conceptions of this include “being there” (Gertler, 2003) and “local buzz” (Bathelt, Malmberg, and Maskell, 2004).

As relationships and institutions evolve over time, regions develop distinct identities. Differences in economic structure represent one aspect of local identity, as particular strengths emerge in the course of a region’s development. Local variations in knowledge mean that different places provide different learning opportunities. While development trajectories define qualitative differences in local knowledge profiles, they also generate quantitative differences in local learning opportunities. Larger places are often characterized by a multitude of local communities and economic activities. That is to say larger places are often more diverse places. Scale is important in this respect, as larger places can contain a multitude of distinct networks that have relatively little overlap with other local networks. As a result, larger places can contain a diverse set of groups that differ in what they collectively know. This is in contrast to smaller places where a relative lack of scale means that fewer distinct networks are able to form (Fischer,

1982). For example, in a larger region there may be many people of a particular occupation with whom they tend to interact and socialize with, thereby producing a distinct community based on shared knowledge and experiences, yet in a smaller place there may not be a critical mass of people engaged in a particular type of work and so a distinct network cannot be produced locally. Instead, relationships form across categories, and identity is shaped as much by place as by any ascribed trait. Thus, the connection between scale and diversity is a recursive one, whereby larger numbers allow people the choice to interact with those with whom they have some sort of affinity, and relatively smaller numbers reduce choice and thus reduce overall distinctiveness. An important implication is that different places provide qualitatively and quantitatively different learning opportunities. A greater amount of local cognitive diversity not only means that there is a wider range of knowledge potentially available, but also a wider set of possible new combinations of existing knowledge. Thus, large and diverse places can be said to have a creative advantage over relatively smaller and more homogenous places.

### **MULTIPLE EPISTEMOLOGIES**

The notion that new ideas are produced from novel combinations of existing knowledge is a fairly well-established concept in the literature (Jabobs, 1969; Weitzman, 1998). Certain details of this process are, however, less well understood. A particular aspect of knowledge recombination that has begun to receive more attention concerns optimal levels of difference. Nooteboom (2000) argued that there is an optimal “cognitive distance” in the process of knowledge recombination. The logic of this argument is that knowledge that is highly related will not likely produce significant novelty, and knowledge that is highly unrelated is incongruent and therefore cannot be combined at all. And so, there is an optimal level of cognitive distance whereby knowledge is related enough so that it can be combined, but not too related so that it can generate ideas that are truly novel. Frenken, Van Oort, and Verberg (2007) extended similar reasoning to the regional level by examining the potential effects of related and unrelated industrial variety. A question that these works raise, however, is whether there is a single

optimal level of diversity in all cases of knowledge production. Within the academic setting, there is little discomfort in recognizing that knowledge is produced in different ways across different fields and disciplines. Yet this idea is rarely applied to the study and differentiation of economic sectors despite the understanding that knowledge production is an important source of advantage. A notable recent exception is provided by Asheim, Coehen, and Vang (2007), who categorized knowledge-intensive economic activities into three types: analytic, synthetic, and symbolic. These distinctions are based on the knowledge base that underpins the core production of an industry. They explained the differences with the following,

The analytical knowledge base comprises (predominantly scientific) knowledge that is geared to understanding and explaining features of the (natural) world. The synthetic knowledge base refers to the predominantly engineering knowledge involved in the design and construction of solutions to human problems which is often instrumental, context specific, and practice related. The symbolic knowledge base deals with the creation of cultural meaning through transmission in an affecting sensuous medium. (pp. 660–661)

A key implication of this is that the process of generating knowledge differs depending on the type of knowledge in question. Others have noted this kind of distinction in discussing the differences between creativity and other forms of knowledge production. To Amabile (1996), one of the most significant features of creativity is that it is “heuristic” in nature rather than “algorithmic,” meaning that creativity involves a degree of subjectivity in judging the appropriateness of new ideas. Similarly, Santagata (2004) expressed that creativity is both “non-utilitarian” and “non-cumulative” in nature. In other words, creativity is central to the evolution of social norms and values rather than expanding the understanding the material world (scientific discovery) and adapting it to meet human wants and needs (technological innovation). Creativity involves a high degree of social construction whereas scientific discovery tends more toward an objectivist ontology. To this point, Sternberg and Lubart

(1996) made a distinction between “open” and “closed” problem solving, whereby closed problems have precisely defined answers while open ones do not. Scientific knowledge has fairly well-defined frontiers that are expanded by people with highly specialized knowledge. Creativity on the other hand is much more evolutionary in that while there is a degree of path-dependency, the direction of change is difficult to predict and is therefore dependent on a much wider range of influences and inputs.

The main point of relevance of these distinctions is that the processes of scientific discovery, technological innovation, and creativity differ. And crucially, as they are all social processes, the social dynamics involved also differ. The final piece of logic in this reasoning is that as social environments differ by place, certain places provide intrinsic advantages to certain types of knowledge production, and by extension provide advantages to certain types of economic activity. This leads to the hypothesis of this paper: that places with higher levels of cognitive diversity offer a “creative advantage” over less diverse places. The notion that localized diversity is important to the creative process has long been recognized (see, for example, Wirth, 1938; Jacobs, 1969). Often, however, creativity is often used as a catch-all phrase synonymous with the production of all novel ideas. The key distinction made here is that creativity is but one type of knowledge production and is the most reliant on the local availability of diverse thought. The following section tests these ideas empirically by developing new ways to measure local diversity and identify highly creative economic activities.

## METHODS

This paper takes issue with the central premise of the local diversity versus specialization debate, that one or the other can be said to be a superior driver of economic competitiveness. Instead, it is suggested that both local diversity and specialization can provide economic benefits, albeit in different ways. While the focus of this paper is on the effects of local diversity it is not intended as an indictment of specialization; rather, it intends to illuminate the underlying mechanisms that local diversity may encourage and identify the outcomes

that may occur as a result. More specifically, the hypothesis is that higher levels of local cognitive diversity provide an advantage for specific economic activities, namely ones that compete on human creativity.

This section of the paper tests this idea with two related statistical models. The first model tests the relationship between levels of local diversity and overall economic performance of city-regions in Canada, while the second model uses essentially the same independent variables but tests the relationship between diversity and the local concentration of highly creative economic activities. In assembling these models, there are two significant innovations from more traditional models; one concerns the independent variables and how diversity is measured, and the second deals with the dependent variable and how “creative” industries are identified.

## DATA SOURCES AND UNITS

The models presented in this paper use data from the 1996 and 2001 Census of Population. While the relatively short time frame is not ideal for testing growth hypotheses, it was necessitated by the need to maintain identical variables and congruent geographical units. The units of analysis are Census Metropolitan Areas (CMAs) and Census Agglomerations (CAs). Both are defined by commuting flows and thus represent labour market areas. CMAs have a core population of at least 100,000, while CAs have core populations of over 10,000.

## INDEPENDENT VARIABLES

It is common practice to measure local diversity by assessing the distribution of local economic activities across standard systems of industrial classification. Two common methods of gauging diversity and specialization are the Herfindahl index and entropy measures. These measures and variations of them are based on similar principles, which typically assess the distribution of employment across (usually traded) industries. Although Glaeser (2003) stated a preference for the Herfindahl index, the method chosen for this paper is the numbers equivalent entropy measure as used by Beckstead and Brown (2003), as it is a direct measure of diversity rather than concentration, as is the case with the former. While performing the analysis for this paper, it was found the entropy measure better captures

the “length of the tail,” or in other words the number of smaller categories that are found only in select places. The importance of this becomes more important when gauging the levels of alternate types of local diversity.

While the typical empirical approach to the diversity versus specialization debate is confined to measures of industrial diversity, this does not sufficiently cover the theoretical arguments made earlier in this paper, which focus on the knowledge recombination aspect of the impact of local diversity. The nearly singular focus on industrial diversity (for a recent exception, see Ottaviano and Peri, 2006) can be at least partially attributed to the historical context of the debate, which was more prevalent in the 1960s and 1970s when many of the methods were developed. Since this period, however, much has been written about the embeddedness of economic activity in social relations (Granovetter, 1985) and the recognition that there is more to knowledge and its production than can be captured by systems of industrial classification. Notions of “tacit” knowledge, for example, can be attributed to “cultural” rather than “economic” foundations (Gertler, 1995). Progress has also been made in recent decades on understanding the role of culture in local economic production (Scott, 1997). An important implication is that knowledge production can occur by forming new connections between groups other than industrial categories. In short, different ways of delineating knowledge require different ways of assessing cognitive diversity.

The models presented in this paper use seven different measures of local diversity, three of which can be broadly classified as indicators of economic diversity and the other four can more aptly be described as indicators of cultural diversity. The indicators of local diversity measure the distribution of the labour force across three methods of classification. The first is the standard approach, which uses industry of employment (4-digit NAICS); the second uses occupational categories (3-digit SOC); and the third focuses on the segment of the labour force that holds post-secondary qualifications and uses field of study to categorize the population. In addition to the “economic” measures of diversity, four “cultural” diversity indicators are produced using classifications of ethnicity, mother tongue, place of birth, and religion. Due to the high degree of correlation between

the two sets of diversity indicators, indices of “economic” diversity and “cultural” diversity are derived by averaging the individual indicators (equally weighted). The independent variables for the first set of models use data from the 1996 Census and are somewhat limited. Thus, the economic diversity index is composed of the industrial and occupational diversity indicators and the cultural diversity index is generated from the mother tongue and place of birth indicators.

## DEPENDENT VARIABLES

The main argument made in this paper is that higher levels of local diversity are a benefit to specific types of economic activity rather than economic activity as a whole. Thus, the two models presented use similar sets of independent variables to test two hypotheses. The first model tests the relationship between local diversity and economic growth (measured by income growth and employment growth) between 1996 and 2001, while the second model tests the relationship between local diversity and the local concentration of highly “creative” industries. There is no single classification system that identifies highly “creative” industries. Such an exercise typically involves relying on the knowledge and experience of the investigator(s) rather than an explicitly systematic approach. One of the key contributions that this paper endeavours to make is the development of such a system.

The system classifies industries<sup>1</sup> (4-digit NAICS) according to two dimensions: the per cent of the constituent labour force with post-secondary qualifications and the most common type of qualification based on fields of study (Chart 1). The purpose of the first dimension is to divide industries into two types, as Fujita and Thisse (1996) suggested, that when discussing externalities it is “useful to divide human activities into two categories: production and creation.” Industries that have above-average levels of post-secondary graduates are classified as the latter. The second dimension also employs post-secondary education data but instead differentiates by field of study. The purpose of this measure is to gauge the primary type of knowledge on which certain economic activities are based and is akin to the knowledge bases identified by Asheim and Gertler (2005). It is not meant to suggest that the particular knowledge obtained during post-secondary studies is necessarily of high importance, but rather indicative of the basic type of knowledge and knowledge production processes involved. The original data consist of 10 categories, which are then grouped together into three categories: creative (fine arts, humanities, and social sciences), innovative (engineering and applied sciences), and discovery (natural sciences and mathematics). In total, this framework classifies industries into six categories. The location quotients for each of these categories are used as the dependent variables in the second model.

**Chart 1**  
Knowledge production industry classification system

		Most common subject of qualifications		
		Fine Arts, Humanities & Social Sciences	Engineering & Applied Sciences	Natural Sciences & Mathematics
Percent of Work Force with	Above Average (52%)	‘Creative’ Industries	Innovative’ Industries	‘Discovery’ Industries
Post-Secondary Qualifications	Below Average (52%)	Cultural Goods & Services	Manufactured Goods & Services	Natural Resources Goods & Services

1 Public sector industries are excluded from the analysis, as this paper is primarily concerned with market-driven location rationales.



## MODELS

Two sets of regression models are produced to test the two competing hypotheses. The first set of models investigates the statistical relationship between local diversity and regional economic performance, while the second examines the relationship between local diversity and regional economic structure. As the two sets of models use two different base years, an attempt has been made to maintain as much consistency as possible between the diversity variables.

In addition to the diversity indicators, control variables are included in both sets of models, including population (scale), affordability (per cent households paying > 30 per cent of income on housing), and the proportion of the adult population with post-secondary qualifications. The post-secondary qualifications variable is excluded from the second set of models, as it is auto-correlated with the dependent variables.

## DATA RESULTS AND ANALYSIS

The results from the first set of models show a significant yet weak statistical relationship between local diversity and employment growth (Chart 2) and no statistical relationship between local diversity and income growth. More specifically, the economic diversity index has a significant relationship with employment growth while the cultural diversity index does not. None of the control variables is significant in either case.

**Chart 2**

Summary of results for economic performance models

	Employment	Income
Adjusted R Square	.113***	.024
Standardized Coefficients (Beta)		
Economic Diversity	.306***	.161
Cultural Diversity	.080	.001
Scale	.001	.117
Affordability	.061	-.010
Post-Secondary	-.008	.031

Significance: <.01\*\*\*; .01 to .05\*\*; .05 to .1\*

The results from the second set of models show a strong and significant statistical relationship between local diversity and a local concentration of highly “creative” industries (Chart 3). Both economic diversity and cultural diversity have a significant relationship with the local concentration of “creative” industries, as does scale. The model demonstrates a significant yet weak statistical relationship with the local concentration of “innovative” industries, with neither of the diversity variables being significant. In this case, only affordability has a significant relationship.<sup>2</sup> A significant but weak relationship is evident for the local concentration of “discovery” industries. For this set of economic activities, economic diversity and scale have positive and significant relationships, while cultural diversity has a significant inverse relationship with the dependent variable. The model shows weak statistical relationships with the three remaining sets of industries.

The two sets of models demonstrate that there is a stronger relationship between local diversity and local economic structure than between local diversity and overall local economic performance. Specifically, there is a strong relationship between local diversity and a local concentration of highly “creative” industries. This suggests that local diversity provides advantage to specific types of economic activities rather than to economic activity as a whole. While causality and underlying mechanisms are always clouded with such analysis, the apparent implication is that different types of knowledge are produced in different ways and that underlying processes are aided by certain environments. In particular, the production of knowledge that involves a higher degree of subjectivity, values, and human experience may be enhanced in diverse environments, as combining difference is arguably the central mechanism in the process. The results also suggest that not only is there a relationship between “creative” industries and local diversity, but that more than one kind of diversity is significant. Not only is specific “economic” knowledge relevant, but the confluence of cultures also appears to provide advantage to such economic activities.

2 An inverse relationship with the affordability variable is to be interpreted that regions with higher levels of affordability are also places with higher concentrations of “innovative” industries.

**Chart 3**

Summary of results for economic structure models

	Above-Average Post-Secondary Qualifications			Below-Average Post-Secondary Qualifications		
	Fine Arts, Humanities and Social Sciences	Engineering and Applie Science	Natural Sciences and Mathematics	Fine Humanities and Social Sciences	Engineering and Applied Sciences	Natural Sciences and Mathematics
	“Creative” Industries LQ	“Innovative” Industries LQ	Discovery Industries LQ	Industries LQ	Industries LQ	Industries LQ
Adjusted R Square	.619***	.186***	.258***	.240***	.035*	.054**
Standardized Coefficients (Beta)						
Economic Diversity Index	.438***	-.047	.315***	.079	-.035	-.101
Cultural Diversity Index	.239***	-.063	-.205**	-.222	.107	.252***
Scale (Population)	.324***	.145	.330***	-.005	-.208	-.161*
Affordability	.073	-.442***	.052	.435***	.084	-.064

Significance: &lt;.01\*\*\*; .01 to .05\*\*; .05 to .1\*

**DISCUSSION AND CONCLUSIONS**

The main contribution that this paper seeks to make is to further develop our understanding of the connections between local diversity and human creativity. In doing so, attempts are made to provide more specific conceptions of both diversity and creativity. With the former, the key development presented here is a widening of the notion of what constitutes local diversity. Typically, local diversity has been conceived in terms of economic sectors. This ignores, however, other forms of knowledge that can also be instrumental in the creative process. From an empirical perspective this means expanding the ways in which local diversity is measured beyond economic sectors and including other methods of categorizing people that reflect some common knowledge-based criteria. The theoretical connection to the creativity side of the equation is that more locally differentiated knowledge provides more opportunity to make novel combinations. This leads to the need for a

more specific definition of what constitutes “creativity” and in particular what constitutes “creative” economic activity. The argument made here is that creativity should not be used as a general term that encompasses all knowledge production but rather is a particular form of knowledge production. The important distinction made is the difference between scientific knowledge of the material world (physics, chemistry, etc.) and knowledge that relates to human experience (arts, humanities, etc.). In academic settings, we are comfortable with discussing differences in how knowledge is produced in relation to differences in subject matter, yet these notions are rarely applied to knowledge produced in the course of economic activity. Further discussion of this notion seems a logical way forward if we are to better understand why knowledge production and in particular creative activity thrives in certain contexts and flounders in others. Subsequently, there needs to be a more precise comprehension of how creativity impacts local economic competitiveness.



While the debate between the relative merits of local diversity versus specialization has received a significant amount of attention in the past, there tends to be a lack of theoretical and empirical detail of the specific processes involved. Investigating such details requires more than the regional science approaches typically used to address questions of local diversity versus specialization. The data presented in this paper suggest that local diversity provides favourable conditions for highly creative economic activities. The nature of the analysis does not, however, provide any insights into the underlying mechanisms involved. To investigate these further, we need to be innovative with our research approach and methods. One area that shows promise is connecting geographic location with social network analysis. If we can better understand the connections between how people's local environment affects their access to a variety of other people, we can begin to get at questions of how location affects learning and subsequent creative activity. Another emerging tool is agent-based modelling. This involves constructing simulations of human activity that can include social interaction, learning, and creativity that are carried out across space and time. These models show promise in illuminating how individual choices co-evolve with aggregate structures and can provide valuable insights into how the creative process may play out in "real" situations.

Finally, a potential practical lesson to draw from this analysis is to question the appropriateness of "one-size-fits-all" creative city economic development policies. As the analysis suggests, creative economic activity seems to thrive in highly diverse places. While this does not mean that creativity occurs only in such places, local conditions do need to be considered. If diversity of knowledge is the raw material of creativity, it must be realized that some places are better positioned to obtain and make use of these resources and thus have an inherent "creative advantage" over less diverse city-regions. In this respect, "creative city" policies must be tailored to fit the local environment. It must also be recognized that creativity is not the only source of local economic competitiveness.

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## RESEARCH PAPER 9

# Mapping Creative Industries in South Africa: Experiences and Expectations

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### Abstract

Creative industry mapping projects are a well-known methodology for establishing an economic baseline and tracking trends in the creative economy. In 2007, South Africa initiated its first mapping study, based regionally in two of its nine provinces. With the assistance of the British Council, these projects have utilized existing best practice from the United Kingdom and Columbia to design and implement methodologies for horizontal mapping. Initiated as a partnership between national, provincial, and local government, each study has had a unique development trajectory that influences its process and its scope.

This paper will explore the experiences of mapping in the Gauteng and Western Cape provinces, highlighting key methodological issues and challenges that the research faced along the way. A future methodological approach will also be touched on.

Finally, the paper will examine the expectations from the government partners of the research and will highlight how these have impacted development of the methodology, positioning of the creative industries, and research outputs. These three aspects will have a critical impact on the future of mapping studies in the country, not to mention longer-term implications for the inclusion of the sector into broader industrial strategies.

## INTRODUCTION

Formal arts and culture policy is a relatively new feature across the globe and certainly on the African continent as well. In South Africa, the first White Paper on Arts, Culture and Heritage was promulgated in 1996, ushering in a new democratic age for the sector. In policy terms, the arts, culture, and heritage are regarded as a “public good,” and as such, the policy environment, while making reference to the economic potential of the creative industries, focuses largely on the social benefits of the arts with regard to redress, nation building, and the development of identity. The policy, which is currently under review,

has resulted in the continuation and development of a plethora of state institutions with a range of specific mandates with regard to the development of arts, culture, and heritage, from national libraries to monuments and museums to development agencies such as the National Arts Council (NAC) and the National Film and Video Foundation (NFVF).

With regard to the economic importance of the sector, the starting point was the initiation of the Cultural Industries Growth Strategy (CIGS) process by the then Department of Arts, Culture, Science and Technology (DACST). The final document, *Creative South Africa: A Strategy for Realising the Potential of the Cultural Industries*, completed in 1998, was accompanied by four detailed sectoral reports covering the film and video sector, the music sector, the craft sector and the publishing (books, magazines, and newspapers)

<sup>1</sup> The authors currently act as advisors (on behalf of Culture Arts and Jobs [CAJ]) on the technical committee for the Gauteng mapping study. CAJ is currently engaged in finalizing the documents in collaboration with the Wits research team (CAJ, forthcoming).

sector (DACST, 1998). These four sectors were selected for a number of reasons; from their identification as industries in South Africa to their potential to create employment and offer opportunities for rural and urban job creation as well as their potential international competitiveness. Since CIGS, there has been no new research undertaken on the same scale, although a number of individual sectoral studies have been undertaken both at the national and provincial level by government and private agencies.

Inconsistent policy and sectoral research over the last 10 years has meant that no definitive impact of the policy and its resultant institutional landscape can be determined. The Accelerated and Shared Growth Initiative of South Africa (ASGISA) has now identified the creative industries, and particularly the craft and film sectors, as one of the identified drivers of sustainable economic opportunities and livelihoods for local communities while expanding business opportunities for small, medium, and micro enterprise (SMMEs). The recognition of the creative industries in the ASGISA program is a direct result of the ongoing efforts of the national Department of Arts and Culture (DAC) to remedy the neglect of this important sector from mainstream trade and industry policy. This has renewed the impetus to establish the economic base of the sector and to track the impact of government intervention.

## MAPPING IN SOUTH AFRICA

In 2006, with the assistance of the British Council and experts from the Burns Owens Partnership based in London, three mapping projects were scoped by DAC. Based in three provinces, KwaZulu-Natal (KZN), Gauteng, and the Western Cape, the projects were initially intended to provide both vertical (Western Cape and KZN) and horizontal (Johannesburg) mapping data on a range of key sectors based on particular regional agglomerations. These included film, book publishing, and craft in the Western Cape and rural craft development in KZN. Horizontal mapping in Johannesburg would initially cover a few sectors such as music and performing arts. The Gauteng provincial government requested that the mapping in

Johannesburg be extended to the whole province and include all sectors for which it had responsibility and offered to provide a substantial financial commitment to enable the Gauteng mapping project. Subsequently, it was decided the mapping in KZN be postponed for a second phase and that mapping in the Western Cape follow a horizontal mapping as there were existing research data in this field (particularly film and craft), a result of a sector strategy development process in the Western Cape that encompassed a range of sectors, including the creative industries. The British Council and DAC hoped that a common methodology would allow for comparisons to be drawn between the provincial mapping datasets.

DAC and the Gauteng Department of Sports, Arts, Culture and Recreation (SACR) made it clear that government's investment in the mapping projects was to:

- ♦ validate the focus by government on the creative industries in terms of its contribution to gross domestic product, employment, and small business promotion
- ♦ inform policy decisions
- ♦ influence the strategic direction of programs and projects
- ♦ provide evidence-based information for advocacy purposes
- ♦ provide a baseline from which to measure growth in the sector on a more disaggregated basis

The political will of the Gauteng Members of the Executive Council (MEC) and the financial commitment made by SACR ensured that the mapping study in Gauteng began in early 2007 based on the original brief and terms of reference agreed between DAC and the research contractors at the University of the Witwatersrand. The mapping project was designed to align directly with the Gauteng Creative Industries Development Framework released in October 2005 (SACR, 2005), and the Centre for Applied and Micro-Economic Research (CAMER) at the University of the Witwatersrand was appointed to conduct the research with the guidance of a technical committee comprising government officials, technical experts, and British Council representatives.

The involvement of the Western Cape took the form of meetings primarily with the British Council team and its consultants, BOP, to ensure a common methodological approach. A number of detailed sectoral studies had been produced in the Western Cape through the Micro-economic Development Strategy (MEDS), and the team involved with these as well as other stakeholders in the province had a range of meetings to consider this approach. New research was commissioned by the Department of Economic Development and Tourism with the support of the British Council for music and performing arts.

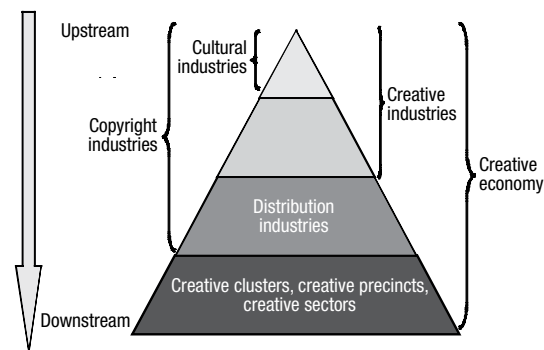
### CRITICAL DECISIONS

In the processes leading up to the initiation of the study, a workshop held with industry stakeholders, the British Council, and visiting experts from BOP assisted in identifying a range of critical factors to be decided on before initiating the research. The first was the issue of defining the creative industries. As Galloway and Dunlop (2007) pointed out, definitions are essential for policy and the implementation thereof. As such, the result of the decisions made in research, the long-term impact is not just to inform future studies but how policy will define its scope of interventions.

Over the years since the publication of the cultural industries growth strategy in 1998, the terms “cultural industry,” “cultural sector,” and “creative industry” have become fluid and have been used interchangeably in many instances. South African research in the cultural industry has changed focus as international definitions changed without interrogating terminology. The first study borrowed the definition of the cultural industry from both UNESCO and the work of the Department of Culture, Media and Sport (DCMS) in the United Kingdom but adapted the parameter and scope of the sectors to the South African context, the research objectives, and the budget available for research at the time. Thus, only four of the commercially active sectors—music, film and video, publishing, and craft—were included. De facto, these became exclusively known as the “cultural industries,” much to the dismay of sectors that were excluded!

Later, the national vocational education and training framework, which was established in 1999, and the Gauteng provincial government’s Creative Industries Development Framework (CIDF) used the term “creative industries” instead. The primary reason was to broaden the scope of engagement and align discussions with the broader international debates about the creative economy and the role of creative industries as key participants. Increasingly, the changing DCMS definitions and that used by the British Council have influenced the South African community of creative industry researchers, consultants, and policy advisors as well as government officials, such that recently the term “creative economy” has been adopted, both for the national creative mapping study in collaboration with the British Council and by the Gauteng government in its branding of Creative Gauteng to refer to the creative economy to which the province aspires. The following exhibit, adapted from Heng et al.’s 2003 study in Singapore, provided a diagrammatic explanation:

**Exhibit 1**  
Composition of the Creative Economy



Source: CAJ, 2007, adapted from Heng, Choo and Ho, 2003.

The Gauteng mapping study thus focused on visual arts, performing arts, audiovisual, multimedia, craft, publishing, print media, fashion, design, heritage, cultural tourism, and music. This definition deviates from the U.K. (UK Creative Industries Task Force, 2001) and Colombian sector definitions (Ministry of Culture, 2007), primarily in the exclusion of the architecture and advertising sectors. Currently, these sectors have not been included in the previous work of either DAC or the Gauteng government. It was argued that their inclusion would severely skew the results of the mapping given their commercial strength. This was not to argue for their permanent exclusion from mapping studies in the creative industries.

The second critical decision related to the scope of the research and the question of including non-commercial aspects. Stakeholders at the initial workshop were concerned that, if excluded, the non-commercial aspects would once again be excluded despite their obvious economic contribution. These concerns have been echoed by a range of researchers, such as Galloway and Dunlop (2007). Aligning itself to the U.K. mapping approach, the Gauteng mapping study explicitly included non-commercial, along with commercial aspects and government activities in the definitions.

### CHALLENGES AND RESEARCH LIMITATIONS

The emerging research into the creative sector in South Africa offers as yet little comparability as many of the studies have been commissioned for particular policy purposes by different government departments and different spheres of government. The lack of available data and statistics both from national government statistics agencies (e.g., Stats SA, Customs and Excise, Labour, Trade and Industry, Revenue Services) and from the industries themselves has resulted in qualitative research instruments being the dominant methodology rather than quantitative methodologies (DPRU, 2003). In addition, studies have tended to duplicate the focus areas of the CIGS process and recommend similar interventions to those contained in the CIGS report. This is largely due to the fact that few of the recommendations in that report were implemented and those that were took a number of years to materialize. Many of the regional analysis and sectoral

studies have not only restated the strategies as suggested in the CIGS report but also found it necessary to act as advocacy tools, as the creative industries remained marginal to the mainstream economy and excluded from trade and industry interventions (CAJ, 2005).

Given that the concept of the cultural industries found a place in public policy only in the last decade or so, it is not surprising that there is a dearth of reliable and consistent data to assess the economic contribution of these industries or their social and developmental impact.

As with the rest of Africa, the poor availability of quantitative and qualitative data provides no real possibility for comparative analysis with international data. In fact, as Higgs and Cunningham (2007) noted, most countries that conducted mapping exercises experienced limitations. There is no single official source of data for the industries as we define them, and existing national statistical collection frameworks and analytical models, such as income and expenditure surveys and labour force surveys, do not sufficiently disaggregate the cultural industries from other activities. The bulk of the activities of the creative industries remain invisible to the statistics. The solution being sought is based on the initiatives taken by the mapping reports of the U.K. government and now promoted by the British Council in its work with developing countries. These reports use the concept of a production cycle for cultural industries (as first elaborated by UNESCO) but made locally specific in each context.

Specific problems of data relate to country specifics such as: a) the informality of part of the creative industry such as craft which consists of small, often informal businesses that are not in the tax net and have no representative industry association; b) the tendency to combine creative industries with other sectors such as entertainment, information and communication technology, or tourism so that it is difficult to separate the data; and c) the collection of industry-specific statistics such as by the Recording Industry of South Africa (RISA) for the music industry, which collects real and nominal sales per year for its members but can offer no real insight into live music, where most of the musicians earn their income.



Although the South African government, agencies, and private companies have been working on the cultural industries since 1996 and attempted to define the parameters of each sub-sector of the creative industries and value their contribution to the national economy, no one study—apart from CIGS—has attempted to value the contribution of all creative industries nationally (CAJ, 2005).

### THE GAUTENG MAPPING STUDY

The Gauteng mapping study is entirely based on primary research, given that the secondary data that mapping studies generally rely on are not available. The methodology focused on firm-level surveys to collect detailed data and telephone interventions that collected high-level information from a random stratified sample. The survey aimed to collect:

- ◆ **General information:** to identify the businesses in the sector according to location, age, legal status, ownership, activity, and type of organization
- ◆ **Sector development:** to identify the needs and potential barriers to the development of the sector
- ◆ **Employment:** to identify the status, number, gender, race, age, and qualifications of the employees
- ◆ **Finances:** to identify the businesses in the sector from the qualitative standpoint, including turnover, cost, income sources, and debt
- ◆ **Markets:** to identify local and international clients
- ◆ **Funding:** to identify the sources and application success rate of funding

The development of the sampling frame proved to be a significant challenge. Given the low levels of organization in the sector, comprehensive databases at the national level, let alone provincial, are generally not available outside of the directories from audiovisual, publishing, and print media sectors. The lists and directories that were made available served two purposes in the context of this research. First, they enabled an estimate to be made of the aggregate size of the population of each sub-sector. Second, they provided the sample frame from which it was possible to select, at random, sufficient names to make up a statistically valid sample for that population. Despite these constraints, it is important to note that since the 2003 National Skills and Resources Audit (CreateSA, 2003) conducted to inform training needs for the vocational educational system, there have been significant strides made in levels of organization. The most important is the establishment of the South African Screen Federation (SASFED) which represents the film and video sectors. There are similar positive movements in the craft and music sectors.

Table 1 provides an outline of the sample per sector:

**Table 1**  
Sampling frame per sector

	Firm Level	Telephonic	Total	% of Total
Visual Arts	14	50	64	9
Performing Arts	27	49	76	10
Cultural Tourism & Heritage	12	63	75	10
Multimedia	11	44	55	8
Music	27	49	76	10
Craft	27	88	115	16
Audiovisual	28	60	88	12
Print Media & Publishing	13	36	49	7
Design	20	48	68	9
Fashion	11	52	63	9
<b>Total</b>	<b>190</b>	<b>539</b>	<b>729</b>	<b>100</b>



**Table 2**  
Sampling approach

	Firm size									
	14		519		2049		50+		Total	
Type of interview	n	% of sector	N	% of sector	n	% of sector	n	% of sector	n	% of overall
Telephonic	326	61	163	30	33	6	14	3	536	74
In-depth	107	57	50	26	23	12	9	5	189	26
<b>Total</b>	<b>433</b>	<b>60</b>	<b>213</b>	<b>29</b>	<b>56</b>	<b>8</b>	<b>23</b>	<b>3</b>	<b>725</b>	<b>100</b>

The sampling approach, guided by the technical committee, has also allowed for a significant focus on micro-, small and very small enterprises,<sup>2</sup> as indicated in Table 2.

Finally, a number of well-known creative enterprises were included in the sample at the direct request of the Gauteng Department of Sports, Arts, Culture and Recreation, resulting in a combination of purposeful targeting and a random stratified sample.

The results of this quantitative analysis are currently under review and are being tested with industry experts. A second phase of the research is currently underway to contextualize the findings so that each of the sector reports provides a comprehensive review of the respective sectors as well as for the overall creative industries in Gauteng. However, a number of critical questions have emerged which need resolution to ensure the credibility of the research. These are:

**a) Value of the creative industries as expressed in value-added**

The Gauteng province has a range of political priorities that include the development of marginalized communities, branding the province as a creative region, promoting the province as a preferred venue for major events, retaining and developing skills, and promoting small business development. As

such, the mapping results will be used not only to argue for an economic contribution but also the degree to which the sector makes a contribution to these broader objectives.

**b) The treatment of freelancers and sub-contractors**

Given the unstable base of the creative sector in the province and the country, the creative industries comprise a large number of freelancers and sub-contractors who make up a highly mobile and flexible workforce that is difficult to track and quantify given the weak organizational base of the sector (although in some sectors this is being addressed). Future methodologies will have to ensure that this workforce is appropriately quantified within the mapping framework. The current methodology relies purely on reporting from contracting agencies and enterprises, which is not a completely reliable source for these data.

**c) Which multipliers to use for each sector in the absence of consistent use**

Multipliers are a controversial tool in all impact studies across all sectors. The expectation of mapping studies in South Africa, however, is that appropriate multipliers will be an outcome of the process. Within a single dataset, it is clear that this will not be possible; however, future studies will either need to develop these or find alternative means for quantifying the up- and downstream value of investment in the creative industries.

2 The *National Small Business Act* creates a tiered definition of "small business" based on the size and income level of enterprises. In terms of employment, microenterprises are defined as employing between 1 and 5 people, very small employing 6 to 20 people, and small employing between 21 and 50 people.

**d) The treatment of purely government-funded agencies and partly government-funded agencies as opposed to purely commercial and non-commercial enterprises**

Like many countries, all spheres of the South African government are significant investors in the creative industries. The challenge with including this information into mapping studies is that of duplicate accounting, also an accurate reflection of the economic base given that government investment is not necessarily premised on returns.

**e) Sample size and sampling methodology in the absence of databases**

Despite the best efforts to gather lists and directories, there is a degree of uncertainty as to the completeness of the population from which the sample was drawn. As such, multiple sampling methodologies have been applied and potentially will make future comparisons a challenge.

## THE FUTURE OF MAPPING IN SOUTH AFRICA

There is a commitment, from the Gauteng provincial government at least, to conduct mapping studies every two years to report appropriately on the impact of government investment in the sector. This is due to a commitment on the part of government to ensure that programs are flexible enough to meet industry needs and ultimately to indicate that broad government objectives are being met.

Higgs and Cunningham (2007) argued that all of what they call “first” and “second” wave studies underestimate employment, a major indicator in most studies, given the focus on enterprises and not creative occupations. South Africa is in the process of updating its Standard Occupational Categories (SOCs) modelled on those of New Zealand and Australia. As such, it may be possible through the national statistical framework to collect more accurate information on an occupational level. It is clear, however, that disaggregation beyond the current three-digit level is required.

In some respects, due to the lack of national accounts, the South African mapping studies have avoided some of the limitations of the “first wave” studies highlighted by Higgs and Cunningham (2007), in that high-level aggregated data have not been the foundation and the firm-level survey has allowed for significant attention to be paid to small businesses. Unfortunately, the firm-level approach has its own limitations, notably the potential for measurement inconsistencies over time. The South African methodology has used an industry-led classification system such as association databases rather than SOC codes given the severe limitations of this outdated system to capture the complexities of the sectors. StatsSA currently collects data only to three-digit code level. Household surveys have been given priority over industrial or firm-level surveys given the need to understand poverty and income levels in the country.

The World Intellectual Property Organization (WIPO) methodology for mapping “copyright industries,” as applied recently in Canada, the United States, and Singapore, represents a significant challenge to the definitions currently used in South Africa (drawn primarily from the United Kingdom, UNESCO, and UNCTAD). It is questionable if this framework based on copyright would be useful at this moment in South Africa. It does, however, together with the “Creative Trident” approach developed at Australia’s Arc Centre of Excellence for Creative Industries and Innovation (Higgs and Cunningham, 2007), warrant the attention of the Gauteng government which is arguably at the forefront of assessing ways to meet the need for information regarding the creative economy more accurately in South Africa.

## CONCLUSION

The South African approach to mapping is in its infancy. It has relied heavily on the models of mapping used in the United Kingdom and Colombia as a starting point. The real opportunity for researchers is to interrogate the methodological assumptions made and to continuously improve on the system. For policy makers, the challenge

is to utilize the information to inform decisions. To date, the South African arts, culture, and heritage policy landscape has been “advocacy” and not “evidence-based.” The mapping studies present an opportunity to inform a new landscape based on a clearer picture than the one based on assumption, opinion, and narrow stakeholder interests.

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## RESEARCH PAPER 10

# Enabling Collaboration in the Cultural and Creative Sector

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### **Abstract**

Extensive international interest in the emerging creative economy highlights the vital role that “place” can play in nurturing the collaborations and collisions that drive innovation. Microenterprises in the cultural and creative sector tend to cluster most successfully in areas of the city that demonstrate a distinctive “milieu” or “creative field”—places where density, diversity, authenticity, and connectivity converge to generate both the raw material and the product of creative communities.

Throughout Toronto, certain habitats have become “sticky” to the flows of talent, capital, and ideas that propel a regional creative economy. Emerging models of collaboration spaces and creative districts illustrate that “place” matters in nurturing, developing, and sustaining entrepreneurial networks. They generate critical mass, concentrate creative capacity, and accumulate capital as entrepreneurial networks form, communities of practice develop, and relationships become more interconnected—they emerge as more than, and different from, the sum of their parts.

Our research has focused on uncovering the location dynamics of creative microenterprises, understanding the infrastructure that underpins their successful clustering, and identifying opportunities to leverage the integration of economic, cultural, and urban development initiatives that support their growth. Utilizing GIS technology, Artscape has mapped the spatial patterns of over 10,000 enterprises in the core arts, cultural industries, and creative services. Comprehensive surveys and “world café” events in key districts have engaged over 400 entrepreneurs in an intensive dialogue, providing a more sophisticated insight into the place-based conditions that support the vitality of Toronto’s creative economy. The conclusions derived from the research suggest a more strategic infrastructure approach to supporting the cultural and creative sector in Toronto at a number of integrated scales.

While not available for this publication, the entire report is available for download at [www.torontoartscape.on.ca](http://www.torontoartscape.on.ca).



## RESEARCH PAPER 11

# Examples of Economic Conditions Fostering Theatrical Production in Canadian Francophone Minority Communities

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**T**his paper aims to illustrate the dynamics underlying theatrical production in Canadian Francophone minority communities. To do so, I will examine the conditions outlined in the agreements between two cultural infrastructures – one in Acadia and the other in Alberta – and I will then describe the theatre troupe resident in each. In this case study, a systems perspective for the study of creativity (Csikszentmihalyi, 1999; 2006) will provide a framework for reflection to explain how these infrastructures can be “a model in the partnering and support available to professional artists, as well as for the creation, production, promotion, dissemination, conservation and documentation of works of art” (Doucet, 2007; New Brunswick Summit, 2007). Faced with an exodus of artists (Association des théâtres francophones du Canada, 2006), theatre troupes in minority communities are realizing that artistic production is closely tied not only to cultural life but to economic growth as well. As such, attempts are being made to convince artists to stay in their communities. The conditions offered to artists, however, play a major role in the appeal that theatre troupes are able to exert in the long term. When they succeed in providing artists with conditions conducive to their development, a sense of kinship is created for transmitting artistic know-how down the line, and this not only contributes to the quality of life in the community, but also enhances it while fostering a sense of belonging, particularly amongst youth.

## CONTEXT OF THEATRICAL PRODUCTIONS

The two theatre troupes discussed in this paper operate in diversified contexts. The Théâtre populaire d’Acadie is based in Eastern Canada, whereas L’UniThéâtre is located in the western part of the country, more specifically in Edmonton, the capital of Alberta. In the first part of this paper, I will attempt to provide a better understanding of the specific nature of each of the two companies by describing their programming and the conditions governing their theatrical productions.

### THÉÂTRE POPULAIRE D’ACADIE

The Théâtre populaire d’Acadie (TPA) has been in existence for over 30 years and is a dynamic place where artistic creation is encouraged. Its programming includes a theatre season and developing arts projects, such as public readings, artist residencies, and training workshops. As part of its mission, TPA stimulates creativity among young people, provides an introduction to theatre, and is a forum where elementary and secondary school troupes can present their artistic endeavours as part of the Festival de théâtre jeunesse. Since TPA professional productions are presented on tour in various Canadian provinces, as well as in France and Belgium, their artistic quality is well recognized (Théâtre populaire d’Acadie, 2007). In June 2006, for example, the Bureau du Québec dans les Provinces atlantiques, and the Société nationale de l’Acadie honoured the Théâtre populaire d’Acadie with the

first ever Prix Acadie-Québec (section Acadie) to underscore the outstanding contribution by persons or organizations toward developing and consolidating relations between Acadia and Quebec (Secrétariat des affaires intergouvernementales canadiennes, 2006).

Since 2004, the Centre culturel de Caraquet has been home to TPA. The prevailing agreement gives it responsibility for managing the theatre and maintaining equipment. As manager, the troupe enjoys the first choice of dates for presenting its program, and it takes charge for renting the centre on other available dates. To this end, TPA employs a technical director whose duties include maintaining the equipment and renting out the spaces. The Centre culturel is responsible for repairing any major breakdown of equipment that needs replacement. However, it is the troupe itself that takes care of minor equipment repairs. Infrastructure-related problems are also the responsibility of the Centre culturel. For example, the troupe is not responsible for repairing a leaking roof or for paying the corresponding costs. The Centre is a corporate entity. It has its own Board of Directors and a staff that includes an executive director who is responsible for maintenance. The Théâtre populaire d'Acadie also has a Board of Directors and its team is comprised of an artistic director, an administrative director, a technical director, and a rentals officer, in addition to persons in charge of communications, dissemination, and financial partnerships. The persons who direct the Centre culturel do not interfere in the troupe's programming or artistic production. The troupe pays a rent to the centre and, based on its needs, has access to offices, a rehearsal studio, and a performance theatre.

### **L'UNITHÉÂTRE**

L'UniThéâtre was born of the amalgamation, in 1992, of the *Théâtre français d'Edmonton*, founded in 1967, and the troupe *La Boîte à Popico*, which was created in 1978. It therefore has a rich, Alberta-based theatre tradition spanning over 40 years. It is the only professional Francophone theatre troupe in Alberta. Its creations, such as *Cow-boy Poétre* and *Fort Mac*, are instrumental

in promoting the unique Franco-Albertan identity and they have been presented in various Canadian provinces.

Much like that of the Théâtre populaire d'Acadie, the L'UniThéâtre programming is diversified and provides Francophone communities in Alberta with the opportunity to work in collaboration with professional artists (L'UniThéâtre, 2007). Through the project *La Caravane*, for example, a group of people of diverse ages are able to live a theatrical experience in their community by participating in the various production stages of a performance that is staged in Edmonton, but that can be adapted to various interpretations by regional actors. L'UniThéâtre is also involved in the development of playwriting, particularly at the Festival de la dramaturgie des Prairies. It organizes the Festival théâtre jeunesse, an annual activity where high-school students present their productions and take part in training workshops.

Since December 1996, L'UniThéâtre has been pursuing its artistic mandate at the Cité francophone. This centre, which contributes to the cultural outreach of Franco-Albertans, is located in the heart of Edmonton's prime Francophone neighbourhood (La Cité francophone). Bearing the dreams of the Francophone community, the Cité francophone is home to a number of associations, plus it is in close proximity to elementary school, secondary school, and university institutions. With a focus on linguistic and cultural vitality, its mission is similar to that of L'UniThéâtre, providing it with a home to build a sense of belonging to a community. In an urban setting, this objective is not as easily attainable as in a community such as Caraquet, where TPA operates.

The agreement reached between L'UniThéâtre and the Cité francophone is also extremely advantageous for the troupe. Firstly, the artistic director was consulted from the initial planning stages so that the needs could be identified for the playhouse. Secondly, an interest for the troupe was clearly expressed, along with the desire that the troupe would make its home within the infrastructure. L'UniThéâtre was, in fact, the first cultural



institution to move into its premises. The conditions of partnering and support offered by the Cité are explicitly laid out in the contractual agreement governing each of the parties. L'UniThéâtre is the manager of the actual theatre: it has priority in scheduling its productions and is in charge of renting the theatre when there are open dates. It is responsible for maintaining the equipment in the event of minor breakdowns and, in this regard, takes charge of hiring a technical director. Any major breakdown involving the building or necessitating the replacement of equipment is the responsibility of La Cité francophone. In addition, the Cité acknowledges the theatre manager's work performed by L'UniThéâtre and pays for a portion of the technical director's salary. This financial contribution is very beneficial for the troupe, since combining technical tasks related to theatrical productions with maintenance of the theatre allows it to enjoy the services of a person on a full-time basis instead of a contract employee.

## BEST PRACTICE CONDITIONS

It is extremely advantageous for a theatre troupe to reside within a cultural infrastructure, just as it is advantageous for the cultural infrastructure to have a theatrical institution under its roof. The advantages relate back to different conditions. In the second part of this paper, I will devote my attention to the functional, artistic, economic, and social conditions that are likely to be profitable based on production contexts. In support of these conditions, I will refer to a systems perspective for the study of creativity (Csikszentmihalyi, 2006), an analysis by McKinnie (2007), who discusses how the metaphor of theatrical language can underpin the economic expansion of a community, as well as the conception of the collective imaginary by Giust-Desprairies (2003).

### FUNCTIONAL CONDITIONS

Needless to say that, from a functional perspective, it is a win-win situation when a theatre troupe resides within a cultural infrastructure and it enjoys favourable conditions, such as the ones offered by the Centre

culturel de Caraquet and the Cité francophone. By not having to determine where it will present its performances, it is able to focus its attention more closely on artistic productions. Priority access to the space it needs also provides the troupe with the possibility of scheduling a more balanced program spread over an entire year. For example, the troupe does not have to group all of its productions together into a few months owing to restricted availability of space. It determines the time it needs for rehearsal, without having to conduct negotiations, and it can vary the kind of activities more easily, while enjoying the flexibility to act on initiatives. In addition, the constant proximity of the theatre facilitates lighting and set design, even if the concept of space has to continually be renewed.

The responsibility for infrastructure maintenance and upgrading, as it is shared by the Théâtre populaire d'Acadie and L'UniThéâtre, is also an undeniable advantage. Since they do not have to worry about major building renovation costs, medium and long-term budget planning is made easier. Even though it seems self-evident to include such a condition for these two best practices in the agreement, this is not always the case for infrastructures where theatre troupes are located in minority Francophone communities. A hike in infrastructure management or maintenance costs may impact on the troupe's theatre rental costs, and theatre troupes, despite the financial support they receive, indisputably have limited budgets. Situations such as these impact directly on artistic productions, as troupes must then slash their budgets for the artistic equipment they need, not to mention the salaries of individuals in their employ. One of the main problems that never goes away in the theatre community is the salary level of the troupe's artists and administrative staff. For that reason, it is important to underscore how an infrastructure can avoid accentuating this problem and even compensate for the imbalance.

For the cultural infrastructure, the presence of a theatre troupe is also an asset from a functional standpoint. Besides other considerations, theatre is a vital force in Canadian Francophone communities. It provides a

forum where their voice can be heard and issues of identity can be raised. It is a collective art form that unites a variety of artists and audiences. For example, the youth festivals organized by the Théâtre populaire d'Acadie and L'UniThéâtre raise awareness of the Centre culturel de Caraquet and the Cité francophone among young people and their parents. The various performances that are presented bring in audiences so that, ideally, they appropriate more and more this cultural presence within the community.

In the view of Csikszentmihalyi (2006, p. 31), what we call culture is the “symbolic knowledge shared by a particular society, or by humanity as a whole.” Creativity has a predominant place in culture and puts three relational entities into play: the individual, the environment and the domain, which interact as a system. For an individual to grow and flourish culturally, it is important that the community prize creativity. Recognizing the contribution of creative expression, however, is not a given, especially when it involves taking risks, producing novelty, or new ways of doing or seeing things. Access to a physical location such as a cultural infrastructure that brings together a group of creators provides an opportunity for acquiring symbolic knowledge that consolidates a sense of belonging to a culture. In a minority Francophone context, the presence of such a place is all the more important as it provides a physical space for expressing the collective imaginary. By what emerges from its artistic production, the theatre troupe allies itself with that vision and gives it a tangible visibility by characters who convey a way of being and of living. It proposes possibilities of identification that may be contested, but that are none the less likely to become anchored in the memory and form part of the culture transmitted in and by society.

### ARTISTIC CONDITIONS

One of the obvious conditions that emerges from the agreements I am referring to in this paper is the respect for the resident troupes' artistic integrity. In many places, domains and media, everyone voices an opinion on just about any product or subject. The result is often confusion between what is totally baseless and what is clearly expressed expertise. In line with this trend,

cultural infrastructure board of director members may be tempted to interfere in what it is being done and what is being planned by the troupes, to promote different points of view. The artistic practice of theatre, however, necessitates a vision that is both unique to the troupe and that reflects the audience. To enjoy this freedom of thought and action, troupe leaders must, on the one hand, feel the confidence and trust of their partners and, on the other hand, enjoy their support when faced with hardships. It is not easy to forge a path artistically when based in a region, not so much because information does not circulate, but because theatre is an art that demands a physical presence. It is therefore necessary to go out to see theatre and follow its evolution, then ensure that what is presented in the programming reaches out to the community, yet goes beyond boundaries. It is a constant case of push and pull: pushing limits when the creative product raises controversy within the community, while pulling back in order to rally the audience whom it is vain to ignore. Striving toward the goal of achieving artistic recognition for a troupe is an arduous task, so it is crucial that the leaders of troupes such as the Théâtre populaire d'Acadie and L'UniThéâtre pursue an artistic path, while ensuring that of the artists who gravitate around the productions. Openness to emerging artists, contact with established artists, and selecting resource persons are their respective means of assuming theatrical direction.

In the view of Csikszentmihalyi (1999; 2006), there is a constant interaction between the individual, the environment and the domain. For novelty to access the domain, the individual must go through the filter of the field or, what is much more difficult, succeed first in being recognized outside of his social context and directly obtain recognition from the domain. This was the case, for example, for a play like *Le chien* by Jean-Marc Dalpé (2003), who received a lukewarm reception from his community in Sudbury when it was presented there in 1988. The play subsequently received standing ovations in Montreal and Paris. Winning a Governor General of Canada award clinched its recognition. It has been included in theatre repertoire and is now part of the transmitted culture (Desabrais, 2005; Nutting and

Paré, 2007). The various social institutions have their importance in the cultural advancement of a community. Today, it is a commonplace that the quality of life goes hand in hand with access to arts events. Twenty or thirty years ago, this was not as obvious.

The symbolic knowledge that is conveyed in artistic products joins a collective imaginary that serves as a reference both for persons exercising their creativity and for persons belonging to the community. For example, theatre people learn from each other when presenting at festivals. Benefiting from this newly acquired knowledge, they return to their respective communities and go even further artistically. Both Acadians and Albertans are challenged by plays such as *Le filet* or *Fort Mac*. These productions are rooted in the issues that affect them, while representing their specificity. The dialogue that ensues around the performance also carries meaning for the community, which questions the aesthetics and reflects on the issue. In both cases, creativity expresses social considerations. A set of institutions are put into play to recognize it and, in this interrelation, the arts, and particularly theatre, are at the heart of both the artistic and economic advancement of a community.

## ECONOMIC CONDITIONS

Artistic production and creativity are dependent on the economic conditions that govern them. That is why it is important to speak of best practices such as those at the Centre culturel de Caraquet and the Cité francophone to develop awareness. Even though it is possible for troupes to seek out financial partners in the community, the money they raise must go first and foremost to artistic productions and thus toward creating performances worthy of recognition and providing artists with the best conditions possible for evolving in their community and wishing to remain there.

Consequently, it is increasingly crucial that theatre's economic contribution to a cultural infrastructure be taken into consideration. In his interdisciplinary study on the evolution of the civic, environmental, and economic ideology behind the neighbourhood centred on King Street and Spadina Avenue in Toronto,

McKinnie (2007) clearly demonstrates the relation that exists between the presence of theatre in a given context and the expansion of the surrounding urban space. He identifies this presence of theatre as one of the drivers of economic pastimes capable of attracting tourists. He highlights use of the metaphor of theatrical language as a way for representing and propelling the community onto the world stage, when the performances that are produced are presented on tour and offer greater visibility not only to the troupe, but to their context as well. In addition, he argues that in the case of this neighbourhood, the presence of theatre has contributed to giving it a "hip" image. In his view (McKinnie, 2007, p. 49), the presence of theatre has contributed to fusing commodity consumption and civic aspiration in that part of the city:

*The District does not, however, want to be seen as merely another shopping zone in the city. It offers exciting entertainment commodities, but wants the consumption of those commodities – and the urban development necessary to make that consumption possible – to be seen as civically virtuous. Theatre is central to achieving this goal, in that it offers the District a grammar that fuses commodity consumption and civic aspiration: as a noun, theatre is a commercial enterprise that contributes to the area's profitability; as a verb, playing is an act of both spectatorship and consumption, something theatre-goers do and which the District wants its customers to do; as an adjective, the description of various activities as theatrical enables their assembly into a designated urban zone; and, finally, as an object, theatre's physical presence helps justify the redevelopment of the District in the name of civic health, anxiously supplanting an urban history of the area based on work with one based on play.*

It is, of course, a case study, and the specific components of what has transpired in Toronto since 1967 cannot be applied directly to other social contexts. That is one of the limitations of McKinnie's study. It can be clearly seen, however, to what extent theatre and a neighbourhood's economic expansion can be

intimately related. Since troupes receive funding, there is a tendency to believe that they receive more financially than they give back to the society in which they evolve. But could the reverse be closer to the reality, for example, in a minority Francophone environment? If one considers just how much a community's cultural vitality owes to the presence and constant dedication of artists, what price and what score are we prepared to give to keep them, accompany them and support them? This is, I believe, the type of questions that must now be asked by decision-makers in cultural infrastructures, because, as summed up by Paulette Gagnon (2004), executive director of the Association des théâtres francophones du Canada: "If, from one day to the next, we took away all the artists and all the arts organizations in minority communities, virtually nothing would remain in those communities for Francophones to live cultural experiences through which they can construct and validate their identity."

### **SOCIAL CONDITIONS**

Being an artist or a troupe in a minority context requires constant redefinition of one's own unique identity, and a good dose of perseverance and a sense of humour are needed for the long haul. It is not enough, as is the case in Alberta, to note that a Francophone population of 2.2% (approximately 55,000 inhabitants out of a total of 2,900,000 according to the 2001 census), makes sustained efforts to maintain and enhance a quality of language; at times, an explanation is needed as to why special attention must be given to a troupe and a community living in a context of this nature. Even though research explicitly recognizes the linkages that prevail between thought and language (Vygotsky, 1997), discourse is still constantly needed to demonstrate that a linguistic Francophone minority has special needs. When diversified cultures are involved, when different ways of thinking find expression, the experiment is questioned and sometimes requires justification.

In this sociocultural context, theatre bears meaning, since the very existence of language is questioned because of the social context in which it is expressed. In addition, as the bearer of echoing symbols, theatre conveys representations that give meaning to what

is thought and conceived in the community. It also collides with what is established. Since the imaginary falls within the realm of subjectivity (Giust-Desprairies, 2003, p. 189), cultural infrastructures provide a social framework that goes beyond the temporal order to where the possibility of longevity and filiation can be conceived.

*Institutions are symbolic systems that have a function of regulating society, transmitting values and stabilizing social relationships by the laws they institute. Value systems, representation systems and final outcomes are building blocks of meanings thus ensuring an order higher than the other social units they cross by codifying exchanges and practices. (Ibid. p. 182)*

When they welcome a troupe, infrastructures contribute to a regulation of society in the sense that they are placing the action of attending a play or participating in a creation within a given and recognized social framework. They are playing a regulatory role because they are implying that it is a function considered normal (Legendre, p. 1170) to offer such activities to a community, to provide artists with an appropriate venue and encourage aesthetic experiences to take place in the French language. Even though they are separated by thousands of kilometres, the Centre culturel de Caraquet and Cité francophone infrastructures share the mission of showcasing the dynamism and vitality of their respective communities, of lending an ear to artistic expression and of seeing that youth are proud to take ownership of the language of theatre and the culture arising from it.

As institutions and "symbolic systems", infrastructures capture, support and structure the imaginary, which they align around central meanings that sustain and legitimize social activities (Giust-Desprairies, 2003, p. 182). It is important to remember that theatre, while an art and a domain with established rules, continues to be a forum for social debate. When developing artistic programming, both novelty and the intended audience must be taken into consideration. In order to move forward, to contribute to the evolution of the domain and to demonstrate

creativity, a troupe cannot simply comfort the audience. It must incite reflection, forge new paths, and exercise freedom of expression so as to arouse a new take on things. In the view of Csikszentmihalyi (2006), it must be hoped that a community prizes creativity so as to promote the emergence of novelty in a society. The capacity to take risks is one of the key features of a person who is recognized as demonstrating creativity (Dacey and Lennon, 1998). For a society to evolve, having model persons who demonstrate this attribute is essential.

The function of art also comes into play when determining the social conditions to offer theatrical institutions because art shapes our emotions and makes them visible and, in so doing, affixes a seal of eternity borne by all works of art that, through a particular form, capture the universality of human experience (Barbery, 2006, p. 218). Canadian Francophone communities are insisting more and more on doing justice to the artistic contribution in their communities for many reasons, not least of which is a desire to give young people the chance to live diverse experiences. They also realize that the world stage is open to them and they want to maintain soft ties with what is going on at the moment in their culture. They do not want to be caught in a folkloric construct of culture. They consider culture to be alive, a reflection of their presence, and that evolution must be incorporated into their productions.

From this perspective, persons working within cultural infrastructures focus their thrust along the same lines as other social institutions, for example, French-language schools. Their role is therefore increasingly that of a transmitter of culture (Zakhartchouk, 1999; Théberge, 2007a, 2007b):

*A transmitter of culture, building bridges between different cultural registers, but the glue as well, binding reason and emotion through the cultural object which becomes a link, serving as an interface between individuals. Creating bonds, the difficult and essential outcome of teaching that can be realized only by an education that aims to unite the person within himself,*

*in his various dimensions, but with others as well. This is the ultimate goal for an education of understanding and a relational education.*  
(Gohier, 2002, p. 233)

Needless to say, many “bridges” have yet to be built for elucidating a deeper meaning of what this role is in the Canadian Francophone context, because little is yet known about the underlying linkages between arts events and the construction of identity among members of a community. The enduring relationship to otherness demands a continued effort to identify both the outcome of infrastructures and the methods of operation that foster the emergence of creativity and artistic development.

## CONCLUSION

In the two examples provided, concerning the conditions that foster theatrical production, it becomes clearly evident that by offering functional conditions favourable to a resident theatre troupe, the cultural infrastructure recognizes the contribution of theatre in the community, supports it in its endeavours, and also comes out a winner from an economic perspective. By offering conditions that facilitate both partnering and artistic evolution, the Centre culturel de Caraquet and the Cité francophone d’Edmonton not only contribute to the Théâtre populaire d’Acadie and L’UniThéâtre as places of expression, but propel the community onto the world stage and ground it there. The contemporary nature and acuity of artistic products then drive an artistic evolution that, of itself, contributes to shaping and informing the generations of artists to come.

It is also important, from an economic perspective, to examine how the presence of theatre can be associated with civic aspirations in terms of well-being and quality of life. To that end, the presence of artists in a community is essential. When combined with a minority context, the presence of artists is even vital and responds to an area of social conditions that must be addressed. Bearing this in mind, cultural infrastructures must look at the conditions they offer so as to serve as models and be examples for providing support. In this paper, I focussed

on best practices. An analysis should no doubt be done on the variety of conditions offered by different Canadian infrastructures so that the contents of these agreements are better known, circulated and even renegotiated. The artistic and theatre milieu could only benefit as a result and serve even more as a springboard for Canadian culture as a whole. Generating a dialogue about practices is not always easy. However, considering just how much the fame of artists in Francophone communities underlies cultural life, it makes sense to clarify the role that infrastructures can play in order to recognize how creativity in artistic productions is dependent on economic conditions.

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## RESEARCH PAPER 12

# The Impact of Digital Technology on Cultural Productions: A Case Study of Taiwanese Puppet Shows

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### Abstract

Digitization has enabled new ways for firms to deliver their products and the opportunity to work interactively with their consumers. The purpose of this paper is to explore how digital technology can be used to create value and obtain a specific advantage for a firm. We investigate two excellent performing and outstanding innovative firms in Taiwan's cultural industries (i.e., in the hand puppetry industry, PiLi International

Multimedia Corporate and the Taiyuan Puppet Theatre Company). Using two case studies and the analytic induction approach to data analysis, we employed an exploratory business model for cultural production. Cultural organizations must not only be able to discover how to make use of digital technology, but also introduce those digital technologies into their business model, if the organization is going to deliver integrated customer value and make the most of synergies between innovations.

## INTRODUCTION

Cultural industries now form a distinct sector in which the creation, production, and marketing of goods and services are combined. Cultural industries include media organizations, film production companies, the audiovisual sphere, publishing and multimedia outlets, architecture, the performing arts, plastic arts, and cultural tourism (UNESCO, 2000). The rise of cultural industries is in part facilitated by the growing popularity of leisure and entertainment activities in the advanced industrialized economies. Cultural industries provide an “experience,” a new and growing source of value in the economy, in commodified and uncommodified forms (Aoyama, 2007). Cultural industries produce consumer goods that convey lifestyles and values with both an informative and entertainment function, and cultural services that cover intangible activities, such as the promotion of the performing arts, films, and values. The fast pace of technological change in the creative industries has a significant impact on how they operate, and will continue to do so. In particular, the

massive development of digital media and the convergence of previously creative work have made some old sectoral boundaries partially obsolete. In the creative economy of the United Kingdom, a challenge for the performing arts sector is to exploit the opportunities offered by broadcast and new technology (Will Hutton, 2007).

Despite a growing number of reports on Taiwan's cultural industries, many questions have yet to be fully addressed (Cohen-Friedländer, 2007) (e.g., What are the challenges that cultural industries must face in terms of the media, information technology, copyright, and technology development? Are the industries capable of developing original and unique cultural products and creative services with sustainable effects?) Pitelis and Verbeke (2007) noted that international business scholars and managers need to focus on research and development investments and the systemic rejuvenation of technology-related firm-specific advantages (FSAs), as well as on dynamic capabilities and the melding of internationally transferable FSAs that permeate beyond the location-bound. In this paper, we analyze the FSAs and the impact of digital

technology on cultural corporations from the viewpoint of sustainable development. In an attempt to fill the research gaps in the literature, one of which is addressed in this paper, we examine how digital technologies can be used to create value and impact business innovation activities in the Chinese puppet show industry.

## LITERATURE REVIEW

### CULTURAL INDUSTRIES, CONTENT PRODUCTION, AND DIGITALIZATION

Cultural industries are characterized by high degrees of creativity in their production and distribution processes (Banks et al. 2000; Department for Culture, Media and Sport 1998, 2000). Although many cultural industries rely heavily on creativity and innovation as their core competencies, it is difficult to maintain that this reliance sets these industries apart from others. This paper is based on the concept that cultural industries are economic actors involved in the production of goods and services whose value is primarily or largely determined by their aesthetic, semiotic, sensory, or experiential content. In this paper, we follow the perspectives posited by Hesmondhalgh (2002): that the main dynamics in cultural industries are the high levels of risk to be found in the cultural industries; high production costs and low reproduction costs; semi-public goods and the need to create scarcity; and various distinctive responses to these conditions, including off-setting misses against hits, concentration and integration, artificial scarcity, formatting and loose/tight control of production and circulation. Despite all the changes in the last 20 years, including massive expansion of cultural industries, and their increasing importance in social and economic life, cultural businesses still have to manage the above problems, which derive from the difficulties of managing creativity and information.

Cultural content can be created from a range of different resources, and cultural assets can feed such needs. Consequently, cultural production can be seen as a full partner of scientific research and technology development in forging a knowledge-based economy. De Laurentis (2006) illustrated how a more fundamental change in the cultural industries' transformation relates to the dynamic of knowledge exploration and exploitation within the local and global digital value chain. He argued that the

knowledge economy can be built by focusing on the value afforded by cultural assets in developing content for emerging media activities that link with digital convergence.

Digitalization had begun to have effects on the ways in which businesses were run from the 1960s onwards, but this happened principally as a result of the effects of mainframe or minicomputers. It was only in the late 1970s and early 1980s, however, that digitalization began to have a more substantial impact on cultural industries as a whole. In many cases, the most immediate impact of digitalization was on technologies of cultural production. With the development of the personal computer in the 1980s, digitalization of production spread through all of the major cultural industries, with important effects on the working practices of photographers, film animators, radio producers, television editors, and so on (Hesmondhalgh, 2007). Digitization has created a new market, triggering the demand for electronic products and services, and one of the most striking effects of such a process is that this has increased the demand for content (Davison and Hyland, 2006). On the cultural production delivery side, the contribution of computers and telecommunications industries together with the diffusion of digital technologies have determined the following effects for media industries (Albarran, 2002): increased speed and flexibility of communication; new economies of scope and integration that change the economics of content distribution; integration of existing and new means of communications allowing readers/viewers/listeners more control and choice; and different methods for interactive communication (namely peer-to-peer communication).

### CULTURAL INDUSTRIES' DEFINITION AND ECONOMIC IMPORTANCE IN TAIWAN

The cultural industries are an expanding complex of economic sectors. Economic and cultural diversity is one of the greatest strengths of Taiwan's cultural industries. In 2005, turnovers in the cultural industries in Taiwan increased by more than 4.4 percent compared to the previous year. In Taiwan, widely agreed definitions and concepts have been developed in national debates over many years, also considering discussions at the international level. Over the last five years, a core area of 13 sectors has been identified to define cultural industries in Taiwan, including the publishing industries (book publishing houses, newspaper publishers, publishers of

phonographic records and music); the film industries (film, video production, distribution, cinemas); broadcasting industries (private radio/television); music and performing arts (art performing, independent artists, technical stage enterprises, art trade, music); visual arts (private theatres, cabaret and variety theatres, theatre and concert agencies); cultural infrastructure for exhibiting and performing industries (art education promotion, ticket system, commercial goods licensing, commercial museum activities and arts exhibitions); architectural office industries (interior, garden, design, building and civil engineering architects); design industries (industrial, product, and commercial film design); designer fashion industries (fashion, textile and similar design); creative life industries; digital entertainment industries (manufacture of software and games, amusement park); advertising industries (advertising agency, advertising design and production); and crafts industries. The following paragraphs address the economic importance of the cultural industries, according to the definition that has been evolved in Taiwan since 2002, and the cultural industries, a term that became generally accepted in the international context.

The cultural industries in Taiwan, comprising the core area of 13 cultural sectors listed above, contributed a total of New Taiwan Dollar (NTD) 308 billion to the gross value added in Taiwan in 2005. Its share of gross domestic product amounted to 3.26 percent. The Taiwan cultural industries annual report (Ministry of Economic Affairs, 2006) shows that all cultural sectors are increasingly characterized by an above-average number of small and very small or one-person enterprises. This tendency seems to have been facilitated by the use of new cost-efficient technological equipment and means of production in the cultural sectors.

## RESEARCH METHOD

Given the early stage of empirical research into firms' capabilities with regard to value creation, we used an exploratory case study research strategy that applied qualitative methods (Eisenhardt, 1989; Miles and Huberman, 1994; Silvia, Rodriguez and EnricRicart, 2006). This study employed inductive methods (initially proposing

an innovation model) and used in-depth interviews and secondary data analysis to analyze the impact of digitalization on cultural production in Taiwan's puppet show business.

We investigate two excellent and outstandingly innovative firms in Taiwan's hand puppetry industry, namely the PiLi International Multimedia Corporation (PIMC) and the Taiyuan Puppet Theatre Company (TPTC). The two companies were chosen for two reasons: 1) both have been in operation profitably for more than a decade and have sizable art creations and audience supports; and 2) both have been acknowledged by a number of national awards in creative performances. The data were collected between January and September 2007 in the form of reviews of companies' public reports and in-depth semi-structured interviews with relevant managers. While the questions were left as open as possible, the interviewees were asked about how organizational innovation processes were organized, and how and why each company was so innovative. Initially, we focused on the features of the value systems to investigate how digital technology affected the process of value creation. The analytic induction approach to data collection and analysis was used. Originally proposed by Znaniecki (1934), analytic induction has been refined into perhaps the best-developed logic for theory development and testing across multiple case studies (Gill and Johnson, 1991). Recent applications in the marketing domain include Wilson, Daniel and McDonald (2002), Daniel (2003) and Wilson and Daniel (2006).

## CASE STUDY

### TECHNOLOGY DEVELOPMENT IN THE PUPPETRY INDUSTRY

PIMC has been using computers for all editing and special effects animation since around 1995. In 2000, PIMC produced a feature film, "Legend of the Sacred Stone," which marked a turning point in the development of the PiLi style. The equipment purchased for the film, including cameras and new colour graphics adapter (CGA) and editing software, as well as many of the technicians hired for its production, were retained for use in the video

serials. The company now officially refers to its products as “digital knights-errant puppetry.” The PiLi satellite television station, established in 1995, is also rebroadcasting at least two older serials at any given time. Recent product developments and the information and communications technology (ICT) applications in the hand puppet industry are listed in Table 1.

### **CASE 1: PILI INTERNATIONAL MULTIMEDIA CORPORATION (PILI PUPPET THEATRE)**

In Chinese, the name “PiLi” is onomatopoeia for the sound of thunder and is often used to mean shocking or amazing. Silvio (2007) noted that the “digital video knights-errant hand-puppetry” serials produced by PIMC are a popular culture genre unique to Taiwan. The production process blends a wide variety of media techniques that combine the traditional southern Chinese craft of hand-puppet theatre, with the frenetic editing of Hong Kong action cinema and computer-generated animation. The narratives fall within the knights-errant genre, but with added elements from fantasy and science fiction stories. PIMC employs more than 200 people, and produces output valued at around US\$60 million a year. According to a company spokesperson, more than a million people rent the videos every week. Since 2001,

PiLi episodes have been released on DVD, usually in sets of two per week. The DVDs are distributed through over 1,800 rental outlets throughout Taiwan (including chain stores, such as Blockbuster and Asia Art, and smaller family-owned stores) and reach an audience of at least one million people (PiLi International Multimedia Corporation, 2006). The PiLi Corporation has been celebrated as one of the great success stories in the “traditional culture creative industries,” an example of how a traditional art can be revitalized through new technology in such a way as to become marketable not only to a new generation of Taiwanese, but throughout the world.

### **CASE 2: TAIYUAN PUPPET THEATRE COMPANY (LIN LIU-HSIN PUPPET THEATRE)**

Dr. Paul C.F. Lin, founder of the Taiyuan Arts and Culture Foundation and a relentless promoter of Taiwanese culture, established the TTT (Toa-Thiu-Thia) Puppet Centre with its director, Dr. Robin Ruizendaal, in 2000. The hand-puppet master Mr. Chen Xihuang (the son of the late Mr. Li Tian-lu) joined the company in 2001. From its very first days, the Centre has been at the very forefront of traditional puppet theatre in Taiwan, organizing exhibitions at the Centre and simultaneously pushing the art to new vistas and new modes of performing. The

**Table 1**  
Main ICT applications in puppet industry

Year	Item/Main ICT applications
1961	Puppet radio program on air
1961	First puppet movie—“Journey to the West”
1962-1974	First time TV puppetry on air
1981	Video program production
1982-89	New TV puppetry shows
1995	Cable TV network broadcasting
1995	Using 3D computer animation
1995	Setting up corporate website
1997	Computer game cartridges
2000	Digital movie knights-errant hand-puppetry—“Legends of the Sacred Stone”
2001	Establishing satellite TV station
2001	First on-line computer game published

museum is dedicated to preserving and promoting traditional Asian puppet culture. To promote both traditional and modern puppet theatres, apart from the museum, two theatre troupes were founded in 2004. Dr. Ruizendaal, a well-known figure in Taiwan's puppet theatre community, wrote his Ph.D. dissertation on Chinese marionette theatre. Since the museum was established over seven years ago, he has arranged tours for the museum's troupe, which has travelled to Europe, Latin America, Hong Kong, and Macao to perform pieces written and directed by Dr. Ruizendaal, whose fine eye for detail and restless avant-garde spirit have earned him a place among the leading lights of contemporary Asian puppet theatre.

## RESEARCH RESULTS AND DISCUSSION

### HOW DIGITAL TECHNOLOGIES CREATE VALUE AND IMPACT BUSINESS ACTIVITIES

We started by compiling a list of firm-specific advantages for the two case companies in Taiwan's puppetry industry. First, we identified the technologies and skills relevant to cultural businesses, as well as the local aesthetic that would meet emerging customer needs related to entertainment and free-time activities. In Table 2, we separated the companies' specific advantages into technology-based and non-technology-based types, both of which enhance competitive advantages of the firms.

From the case studies, we found that technology-based FSAs affect two aspects of cultural businesses: the business organization and the business model. Business organization impacts include emphasizing Internet marketing; changing the organizational working process with drama transcripts and database system; offering new value propositions to consumers in a cost-efficient way through video programs; and trying to reach consumers that the company does not currently target in its marketing and sales efforts, and who would consider its products and services valuable. Technology-based FSAs also allow traditional corporations to develop new business models to meet the demands of globalization. The effects of internationalization include access to global audiences, reconciliation of conflicts between globalization and localization in content; competition between local telecommunication and cable providers that operate the media business; and learning internationalization strategies from advanced countries.

We induced digital technologies impact on cultural production activities as the following:

1. Cultural production, once digitally produced, can be easily versioned, stored, retrieved, and delivered; thus creating and stimulating new market and the new demand from customers.
2. Content is produced in digital formats, leading to efficiency in production and editing processes (digitization and digital data transmission technologies)

**Table 2**  
Firm-specific advantages of PIMC and TPTC

	Firm specific advantages	
	PIMC	TPTC
Technology-based	<ul style="list-style-type: none"> <li>♦ the creative use of information content</li> <li>♦ producing video programs and films efficiently</li> <li>♦ knowledge of visual communication techniques</li> <li>♦ access to distribution channels</li> </ul>	<ul style="list-style-type: none"> <li>♦ the creative use of information content</li> </ul>
Non-technology-based	<ul style="list-style-type: none"> <li>♦ copyright and branding management</li> <li>♦ aggressive marketing</li> <li>♦ local culture aesthetic</li> </ul>	<ul style="list-style-type: none"> <li>♦ expatriate manager and export promotion experience</li> <li>♦ strategic alliances with overseas organizations</li> <li>♦ integrated market knowledge – local aesthetic</li> </ul>

have changed editorial activities through digital storage and digital rebundling of media content). The use of digital technologies by PIMC drastically reduces production costs; moreover, the special effect and aesthetic characteristics associated with the product can be significantly enhanced.

3. Supports are produced with more advanced and efficient technologies, which use digital control systems, thus changing the management and business model of the traditional puppet troupe.
4. Availability in digital format allows distribution and diffusion via digital channels, such as Internet or digital terrestrial and satellite broadcasting for TV; this enhances the two-way communications between the audiences and art performers or puppet troupe operator.
5. Versioning can be used for marketing and promotion purposes, for instance by allowing customers to download a trailer or an early version of games and be involved at the early phases of new product development, thus enhancing the chances of commercial success for new products.
6. Internationalization: From a corporate-level strategy viewpoint, the presence of digital technology inevitably pushes companies to diversify through internationalization and to set up alliances in non-related businesses in order to trade visibility of media for financial resources. Digital technology draws the attention of foreign audiences to overseas TV program or films.

## CONCLUSIONS

We induced digital technologies impact on cultural production activities. Cultural organizations must not only be able to discover how to make use of digital technology, but also introduce those digital technologies into their business model, if the organization is going to deliver integrated customer value and make the most of synergies between innovations. In this respect, our study supports the argument made by Davila, Epstein and Shelton (2006) for managing business innovation and technology innovation in a closely coupled way, while adding detail as to how this can be achieved for cultural productions.

On the one hand, managers need to develop innovative cultural productions that change the way the company operates and how it interacts with its customers. On the

other hand, they need to keep the organization operating as a single, coherent entity so as to create cultural product combinations creatively and deliver consistent service digitally.

Digitization has enabled new ways for firms to deliver their products and the opportunity to work interactively with their consumers. This has led to the emergence of new firms and challenged the way existing firms operate, creating a new sector that innovates and exploits technology and operates in a way that is outside traditional industrial structures. Those processes are also being facilitated further using profiles that people with comparable cultural preferences can use to contact each other and set up virtual reading, film, music, and heritage groups on the basis of shared interests. This study might help businesses re-examine the way they integrate technology-based FSAs into their organizations, and the way they incorporate customers' response to improve their performance. Managers must therefore concentrate on renewing and reproducing rather than protecting their resources of competitive advantage.

There are always limits to the generalization of case study research, as it is difficult to rule out the possibility that the sample organizations are in some way unusual, particularly with a relatively small number of cases. We would therefore welcome further studies to confirm and extend our findings. Further studies could check for any additional dynamic capabilities important in cultural business as well as checking and refining those we have identified. Moreover, when the traditional local culture industry are prompted to enter the global market, balancing the global market's demands and local traditions should be managed carefully by recognizing the culture differences and suitability of the content and context of the story. A survey approach to this topic will become increasingly feasible as case study work continues and the relevant constructs are identified, and could provide a more complete descriptive picture of current practice. We suspect that case study research is likely to be more illuminating in the short term.



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## RESEARCH PAPER 13

# Innovating in the Creative and Knowledge Industries: Not an Open or Closed Case

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### Abstract

The proliferation and circulation of digital information goods, or digital content in the age of the global Internet, is seen by many as fostering creativity and stimulating innovation in ways not possible in the industrial era. For the traditional distributors of content—the media and entertainment industry, book, journal and newspaper publishers—however, this potential for mass participation and the ability to find or receive information, to interact, to contribute, or to participate without need for the traditional mediators marks an end to business as usual. But, we argue this does not mark an end to business. Openness to collaboration and sharing, and access to all manner of digital content challenge deeply held beliefs about the nature of property and social

relations of production. At the same time, they present an opportunity to innovate business processes and to create new services and models for the production, distribution, and consumption of knowledge and other creative artifacts. The authors will present a number of emerging business models and processes, drawing on examples from the creative and publishing industries in particular. Openness, we argue, is a broad strategic framework that fosters new possibilities for economic sustainability, cross-media development, public funding, and above all, innovation in this dynamic and growing sector of the global economy.

### ESTABLISHING THE CONTEXT

A cluster of ideas and practices informed by the ethos of sharing and collaboration and enabled by increasingly global access to the Internet is changing in fundamental ways the nature of productive activity across the economy. The creative economy<sup>1</sup> is already experiencing both the benefits and the challenges of the emerging new social relationships of production. In this paper, we will consider in some detail a specific area of the creative economy—

scientific academic journal publishing—where the debates among the partners in this complex global environment—scholars, funders, librarians, publishers, universities, and governments—have been ongoing for at least a decade and where innovative and sustainable models are beginning to emerge.

First, it is necessary to situate the current debates on the ways in which the productive activity of the economy is changing, and to recognize that this has not arisen *sui generis*. Contemporary debates on the innovative potential of the cluster of ideas that include collaboration, globalization, and the Internet are the current end product of a long movement across the spectrum of debate and prediction about the nature of social and economic change in what have been referred to as “the advanced industrial economies”

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<sup>1</sup> The organizers of this Forum on the Creative Economy have defined the creative economy as the arts and cultural industries that include the following: book, periodical, and newspaper publishing; sound recording; radio and television broadcasting; interactive media (video games, online museums, e-learning with cultural content); film and video, as well as the arts (performing arts, visual arts, and festivals).

or more recently as the Knowledge Economy/Society (KE/S).<sup>2</sup>

Daniel Bell in his now classic work *The Coming of Post Industrial Society* (1973) was the first to identify systematically a constellation of changes taking place in the advanced economies, a shift that would move reliance from labour and capital to information and knowledge as the crucial variables. Moreover, Bell argued this was a transformation to a new social formation—post-industrial society.<sup>3</sup> Theorists debated the merits of the proposal, in particular the notion of discontinuity, suggesting modifications and new names that they claimed more accurately characterized the motive force of change.<sup>6</sup>

By the late 1970s, the academic community and other settled largely on the information society, a term later preferred by Bell himself. Computers and information technology (IT) now figured prominently in the cluster of innovations understood to be driving change, and with the convergence of information and communications technologies, this became ICT: information and communications technology.<sup>4</sup>

Not surprisingly, the impact on the economy was being considered. In 1985, the Science Council of Canada issued a background study, *The Uneasy Eighties: The Transition to an Information Society*. The unbundling of hardware and software in the 1960s<sup>5</sup> would lead to the proprietary software industry, an industry that expanded rapidly in the 1970s and especially in the 1980s with the arrival of the personal computer.<sup>6</sup>

Recognizing the growing centrality of software in all aspects of society, Richard Stallman, more than three decades ago, voiced concern that proprietary software denied fundamental freedoms,<sup>7</sup> and argued that people should be free to use software in all the ways that are socially useful. For Stallman and others, this was a matter of liberty, not price. The elaboration of these ideas by those in the Free and Open Source Software (FOSS) community are an important part of the contemporary framing of the debate, as they bring to the fore issues of ownership and intellectual property rights.<sup>8</sup> Finally, the Internet,<sup>9</sup> the remarkable infrastructure on which so much economic activity now depends, is based on a set of open protocols. The World Wide Web, combined with browsers such as Firefox, Safari, or Internet Explorer<sup>10</sup> gave access to an explosion of content to millions of non-technical users around the globe.<sup>11</sup>

It is this network of connectivity that is enabling the emergence of new organizational forms and social relationships of production; a form of production made visible by the success of open source software development, which is both collaborative and distributed. The Networked Information Economy as Benkler<sup>12</sup> has called it, with its new forms of

2 We should not ignore the situated nature of these debates. The ideas about the global economy, in particular about the Global South, are changing as part of the process of transformation.

3 Bell coined the term post-industrial society in 1955.

4 The term IST: Information Society Technologies has been used to describe the thematic priorities in the European Union Programme which address both the technical aspects and the societal challenges of the use of information technologies.

5 Until this time software had been distributed with hardware.

6 In 1982, *Time Magazine* named the computer "Machine of the Year."

7 These include the right to use, study, copy, modify, and re-distribute computer programs. <http://www.gnu.org/philosophy/>.

8 Intellectual property (IP) is a legal term that includes patents, trademarks, and copyright. Each of these confers exclusive rights of ownership for a specified period of time.

9 An official Canada response to the transformative potential of the Internet can be reviewed in publications of the Information Highway Advisory Committee (IHAC). The final report of IHAC entitled *Preparing Canada for a Digital World* was released in September 1997.

10 Firefox is an open source browser produced by Mozilla, <http://www.mozilla.com/en-US/firefox/>; Safari is from Apple, <http://www.apple.com/safari/>, and Internet Explorer is from Microsoft, <http://www.microsoft.com/windows/products/winfamily/ie/default.mspx>.

11 Access requires access to computer technology and infrastructure, but even more importantly access to skills and learning to make access useful. This idea cannot be developed in this paper, but there is a growing literature on the topic. The current debate about the One Laptop per Child program is a specific example of the debate around international development and ICTs.

12 Yochai, Benkler, 2006, *The Wealth of Networks: How Social Production Transforms Markets and Freedom* (New Haven: Yale University Press).

social dynamics, modes of production, and dissemination, is transforming the industrial economy.

According to Benkler, large-scale collaboration, non-market commons-based peer production, and user-driven innovations are generating new classes of creative industries. The digital information goods<sup>13</sup> that are a significant product of this sector are different in fundamental ways from the material goods produced in the industrial society. Digital information goods are both non-rival; that is, not consumed nor diminished by use, and non-excludable, meaning that is available to all as the marginal cost of additional copies is close to zero. The “replicability” of digital goods and the near-zero marginal cost of reproduction challenges the traditional economic models based on scarcity. However, it is the scale of this global network and the potential for participation this enables that is new today. *Time Magazine*’s Person of the Year in 2006 was “You”<sup>14</sup>—the mirror on the cover a recognition of the shift. The significance and impact of this particular constellation of change is immediately evident in the creative industries.

If the turn to the digital and the Internet challenge the status quo in significant ways, being open pushes this further. To be open can mean many things; it does not necessarily imply free. Openness here is understood as openness to collaboration and to sharing. In the same spirit, openness implies the possibility of access—the ability to find or receive information, to interact, to contribute, and to participate. Openness, we argue, is a key driver of innovation. As a broad strategic framework, it fosters new possibilities for economic sustainability, cross-media development, public funding, and above all, innovation in this dynamic and growing sector of the global knowledge economy.

There is little doubt that the ability to collaborate and share over the global Internet is challenging deeply

held beliefs about the nature of property and social relations of production, but at the same time there is an opportunity to innovate business processes and to create new services and models for the production, distribution, and consumption of digital information goods and other cultural artifacts. Multiple forms will undoubtedly emerge; a few will succeed and many fail, but it is no longer business as usual.

## THE TURN TO DIGITAL

With the context established, we now focus on the specific objective of this paper, namely to consider how the turn to the digital has impacted the development of arts and culture goods and services, and to illustrate through a number of examples how the relationship between access to cultural goods and services, and openness, in particular open access, is driving innovation in this sector. For the traditional distributors of content—the media and entertainment industry, book, journal, and newspaper publishers—the potential for mass participation and the ability to find or receive information, to interact, to contribute, or to participate without the need for the traditional mediators has been seen to mark an end to business. There is plenty of evidence that disintermediation, or more colloquially removing the “middlemen,” is taking place and often on a massive scale. However, it is not the end of business but it is perhaps the end of business as usual.

We are looking specifically at scholarly and scientific journal publishing, a sector that is not generally recognized as part of the “creative economy” due to the esoteric nature of the content published. However, academic publishing is an area that is undergoing tremendous changes as scholars increasingly recognize that new forms of production and dissemination are possible in the networked information economy.<sup>15</sup>

13 Software is one example, but the outputs of the creative industries also are in this category.

14 <http://www.time.com/time/covers/0,16641,20061225,00.html>.

15 John Willinsky, 2003, The Nine Flavours of Open Access Scholarly Publishing. *Journal of Postgraduate Medicine* 49(3): 263-267.

In the “traditional” value chain, scholars conduct research, write papers, and submit them to scholarly journals. Each article is sent out for peer review, and for those receiving a favourable review, a number of value-added services associated with dissemination and promotion are subsequently applied. In lieu of payment, authors gain reputation from the rank of the journal<sup>16</sup> and potentially from other scholars who read and cite their work. These in turn may translate into tenure and promotion and/or an increased rate of success in grant competitions.

In effect, the publishers through the journals take on the role of “reputation manager,” and universities have outsourced this important responsibility to publishing entities, be they commercial or non-profit publishers. Furthermore, authors are generally required to sign over exclusive rights to publishers for their material. With exclusive rights, publishers are then able to sell these works back to the community—the very people who created them. Individuals and institutions pay to subscribe to the journals, and institutions pay again to license the materials to make them accessible online to those within their “walls.” Research libraries thus bear the brunt of the cost of access, often to their own faculty’s output; a fact of which faculty can easily be unaware.

The traditional model was a highly profitable model for the commercial scientific publishers<sup>17</sup> for many years. However, by the 1990s a “serials crisis” occurred, as libraries could not keep up with the growing number of journals and rapidly increasing subscription prices.<sup>18</sup> The sad irony was that even the richest research institutions could not afford to purchase the scholarly

materials their faculty required, and the scholars themselves were blocked from online access to their own publications unless their institutions had paid the licensing fees.<sup>19</sup>

In the print era when the costs of journal publishing and distribution were high, a conventional scarcity model may have been appropriate. But in the networked environment where content is abundant and where the primary producers of the content are themselves the consumers, the practice of giving exclusive rights to publishers and paying for content often created with public funds no longer makes sense. Moreover, “more appropriate forms of economic analysis highlight the critical role that accessibility to information plays in the process of innovation.”<sup>20</sup>

One response to the dilemma of restrictive access in the era of abundance was the Budapest Open Access Initiative, drafted by a group of scholars and publishers meeting in Budapest in 2001.<sup>21</sup> The statement crystallized a series of long-standing concerns in the scientific academic community and galvanized a highly distributed movement into developing an increasingly coherent set of strategies aimed at making publicly funded research worldwide openly accessible online, free of price and permission barriers. Unlike the notion of the “content commons,” which encompasses all creative contents, the primary target of the Open Access Movement is the scholarly and scientific literature. The twin strategies for making open access possible are the production of open access (OA) journals (i.e., journals that do not charge readers for access but fund the cost of production and peer review through other sources), and OA institutional and subject repositories such as TSpace at the

16 In the traditional journal publishing model, it is the journal not the article that is ranked.

17 The majority of publishers of scholarly journals are the learned societies, such as the American Institute of Physics, and commercial publishers, such as Elsevier, Taylor and Francis, or Wiley. It was a small number of commercial publishers that controlled large numbers of expensive titles that contributed most to this crisis.

18 Judith M. Panitch, and Sarah Michalak, January 2005, *The Serials Crisis: A White Paper for the UNC-Chapel Hill Scholarly Communications Convocation*. <http://www.unc.edu/scholcomdig/whitepapers/panitch-michalak.html>.

19 This includes not only subscription fees, which can be in the tens of thousands of dollars for a single title such as Brain Research, but also licensing fees to provide access online.

20 Roger Clarke, 2007, Business Models to Support Content Commons. *SCRIPT-ed* 4(1): 59.

21 <http://www.soros.org/openaccess/read.shtml>.



University of Toronto<sup>22</sup> or arXiv,<sup>23</sup> which provide access to pre-prints and post-prints of papers already accepted or published in peer-reviewed journals.<sup>24</sup>

The declining costs of computing power and storage, coupled with the availability of open source software such as the Open Journal System (OJS),<sup>25</sup> has reduced the cost to scholars and others who wish to start an OA journal. In the social sciences and humanities where there are fewer resources available, this is an attractive option for a number of scholars, scholarly societies, and associations. According to the *Directory of Open Access Journals* (DOAR),<sup>26</sup> there are now over 3,000 OA journals published around the world. Although this number represents only 10 per cent of the world's estimated 20- to 25,000 peer-reviewed journals, there has been impressive growth of the number of OA journals in recent years.<sup>27</sup> In addition, commercial journal publishers have responded to the challenge of making content "open" and today, over 75 per cent of commercial journals permit authors to self-archive their publications, although the content may be embargoed for a limited period of time; the concept of moving wall access. For example, for Elsevier journals it is currently six months before the article is openly accessible.

But who pays for open access, whether OA journals or OA repositories, since neither of them is cost free? And how could new services or businesses be built and sustained on this special class of content? It is to these questions of sustainability and business models that we now turn. Commons-based business models, that is, businesses that leverage off the notion of a distributed

content commons are achievable. An exhaustive study of the business models employed by various OA journals has yet to be conducted, but a survey by Peter Suber<sup>28</sup> suggests that journals rely on a variety of income models, including author pays, membership fees, subsidies, advertising revenue, donations, or some combination of these. Open content also enables the creation and production of new products and services as the potential of the digital realm is explored. In the following section, we will try to bring these ideas to life through a series of examples that illustrate a number of the sustainable models for open content that are currently in use.

## OPEN ACCESS JOURNAL MODELS

### AUTHOR PAYS

The author pays model, or the input pay model, is probably the most well-known and most hotly debated model in open access publishing. In this model, authors whose papers have been accepted by the journal after peer review are asked to pay an article-processing fee, which could range from US\$1,500 to \$3,000, depending on the publication. The not-for-profit publisher Public Library of Science<sup>29</sup> uses this model, as does the commercial publisher BioMedCentral,<sup>30</sup> which now publishes almost 200 journal titles across the biomedical sciences. The idea of page charges is not new; in fact, a number of the traditional commercial scientific publishers have had page charges in place for many years. In the sciences where research funding is generally higher, these charges have been looked on as the cost of getting an article in a journal, especially if it is a journal with a high-impact factor; that is, one ranked high in terms of reputation.

22 <https://tspace.library.utoronto.ca/index.jsp>.

23 <http://arxiv.org/>.

24 Leslie Chan, 2004, "Supporting and Enhancing Scholarship in the Digital Age: The Role of Open Access Institutional Repositories." *Canadian Journal of Communication* 29 (3-4): 277-300. <https://tspace.library.utoronto.ca/handle/1807/2786>.

25 <http://pkp.sfu.ca/?q=ojs>.

26 <http://www.opendoar.org/>.

27 <http://poeticeconomics.blogspot.com/2007/12/dramatic-growth-of-open-access-2007.html>.

28 <http://www.earlham.edu/~7Epeters/fos/newsletter/11-02-07.htm#list>.

29 <http://www.plos.org/journals/index.php>.

30 <http://www.biomedcentral.com/>.



A variation on the author pays model is Hindawi,<sup>31</sup> a new and rapidly growing publisher based in Cairo, Egypt, which has demonstrated how a profitable business can be built on open access regardless of geographic location. Instead of charging an article processing fee for accepted papers, Hindawi charges a fee to authors to submit papers. Because of the lower labour costs in Egypt, Hindawi is able to run a profitable business with a charge of approximately US\$500 per article submitted.

In the social sciences and humanities, there is strong resistance to the idea of author payment, as most researchers in these disciplines are not funded at the level of their colleagues in the sciences.<sup>32</sup> *Theoretical Economics*<sup>33</sup> shows, however, that the submission fee model can work. In this case, the cost of submission is only C\$75, and members of the Society for Economic Theory can submit one article per year for free. The journal is now in its second year and is thriving. The journal receives ample submissions and has a rapidly growing readership. The editorial board is populated with prominent economists in the field. Furthermore, by using OJS and being online only, they are able to reduce back-office costs as well as printing and distribution costs. Of course being open access, they do not have to pay for subscription management costs or for technologies to block access, which are often far more costly than the revenue generated from limited subscriptions. The point is that the journal is using a variety of mechanisms to achieve sustainability: the reputation of the editorial board, more rapid turnaround time from submission to publication—which can be as long as 30 months in other economics journals, the use of membership and submission fees, university support in terms of infrastructure, and most important, the contributed free labour of authors in the field. In addition to providing open access to all of the online

journal content, *Theoretical Economics* sells a yearly printed volume of articles using print-on-demand technology.

Recently, the *Canadian Journal of Sociology* (CJS) has taken the decision to transform itself from a print and subscription-based journal to open access.<sup>34</sup> CJS will charge a processing fee equivalent to the cost of subscription. This transition was prompted, in part, by the decision of the Social Sciences and Humanities Research Council to begin a new program to fund OA journals through its Aids to Scholarly Publishing Program,<sup>35</sup> which in the past supported only subscription-based journals. The transition has also been prompted by the growing understanding among editors and authors that unless they want their publications to remain obscure, they need to ensure that their research output is as openly accessible as possible. This is especially true for society-based journals and for journals published in Canada where the majority of the journals are not ranked in the first tier; in part, it could be argued due to the lack of access under the old business model.<sup>36</sup>

## SUPPORT FROM FUNDING AGENCIES AND GOVERNMENT SUBSIDIES

A growing number of private and government funding bodies and universities now recognize that investment in research is simply the first step in the research process. Without access to the scholarly outputs that result from the funding, their investment is not maximized

31 <http://www.hindawi.com/>.

32 The structure of scholarly communication is not the same across disciplines, and some of the confusion has resulted from a failure to clarify and situate these discussions appropriately.

33 See <http://econtheory.org/> The founder and editor-in-chief of the journal is Martin Osborne, a Professor of Economics at the University of Toronto.

34 Kevin Haggerty's editorial "Change and Continuity at the Canadian Journal of Sociology / Cahiers canadiens de sociologie" CJS 32, 3 (2007): vii-xii.

35 [http://www.sshrc.ca/web/apply/program\\_descriptions/scholarly\\_journals\\_e.asp](http://www.sshrc.ca/web/apply/program_descriptions/scholarly_journals_e.asp).

36 Leslie Chan, Leslie, Frances Groen, and Jean-Claude Guedon, 2007, "Feasibility of Open Access for SSHRC Funded Journals in Humanities and Social Sciences." In Leslie Chan, and Bob Martens, eds., *Proceedings of the 11<sup>th</sup> Annual Conference on Electronic Publishing*. (Vienna, Austria: OEKK-Editions). <https://tspace.library.utoronto.ca/handle/1807/9748>.

either in terms of usage or impact.<sup>37</sup> A number of recent studies have now confirmed that publications that are openly accessible are cited more often; a fact that translates into a greater return on investment—both in monetary and in social terms, for publicly funded research.

There is an urgent need at this time to rethink public funding for the production of knowledge and other forms of creative output. Are there ways to redistribute public funding that are more in line with the 21<sup>st</sup>-century networked economy? How might the funds that are currently being spent sustaining proprietary interests flow back to the creative community? It is also time for the universities to rethink the nature and role of reputation management, a role that has effectively been outsourced to commercial publishers. What new opportunities in terms of creating new and improved metrics for evaluating scholarship, authority, and quality<sup>38</sup> might emerge out of the linkage of an open-content commons and social networking tools? What new insights might be generated when massive volumes of openly available texts are subjected to the rich computational and potential of emerging tools?<sup>39</sup> Above all, how do we ensure that new models of scholarly communication based on open access and open content can be sustained over the long term?

## NEW GOODS AND SERVICES

Perhaps the greatest potential to support open content comes from the new services that could be provided, many as yet unimagined. One recent large-scale experiment aimed at answering these questions is SCOAP3: Sponsoring Consortium for Open Access Publishing in Particle Physics<sup>40</sup> headed by CERN, the world's largest high-energy physics laboratory and also birthplace of

the World Wide Web. In the SCOAP3 model, libraries federate to cover the costs of the organization of the peer-review service through a redirection of a portion of their subscription budget to a new process rather than implicitly supporting peer-review via journal subscriptions, as happens in the current system. SCOAP3 will negotiate the price of peer-review services through a tendering process with major publishers. Then, instead of selling subscriptions, publishers would be paid for their peer-review service and make the electronic content of their journals free to read or open. The effect is to decouple content from credentialling, and the result from a business perspective is the need for a peer-review service. In short, publishers will be contracted for their reputation management service, rather than content as the latter is openly available. In theory at least, this should help resolve what Roger Clarke noted is “a fundamental tension [that] exists between openness and closedness of content” (2007, 60).<sup>41</sup> Publishers would not need to guard “content” with an exclusive copyright clause, but would instead provide the kind of value-added service that is very much needed in an environment of abundance.

Other ways in which revenue might be generated include repackaging digital content to produce thematic volumes. The regular issues of most journals consist of a series of articles in which the specific contents of the issue have more to do with production schedules than subject matter (e.g., when the articles were received and when they returned from the peer review). Special issues on a theme are precisely that—special—and take longer to produce, as the individual articles must be coordinated and available at the same time. Freed from the need for a paper issue, individual articles can now stand on their own and groupings or issues tailored or customized.

There is also a market for complementary services such as high-quality reproduction or information visualization services that require specialized skill and equipment. Information visualization is increasingly important in the sciences, and may eventually be even

37 Frances Groen, Leslie Chan, and Jean-Claude Guedon, 2007, *Open Access in International Perspective: A Review of Open-Access Policies in Selected Countries*. [http://www.sshrc-crsh.gc.ca/web/about/publications/international\\_open\\_access\\_e.pdf](http://www.sshrc-crsh.gc.ca/web/about/publications/international_open_access_e.pdf).

38 Michael Jensen, 2007, “The New Metrics of Scholarly Authority” *The Chronicle Review* 53(41): B6.

39 See Clifford Lynch, 2006, “Open Computation: Beyond Human Reader-Centric Views of Scholarly Literatures.” In Neil Jacobs, ed., *Open Access: Key Strategic, Technical and Economic Aspects*, pp. 185-193. (Oxford: Chandos Publishing Ltd.).

40 <http://www.scoap3.org/>.

41 Roger Clarke, 2007, “Business Models to Support Content Commons.” *SCRIPT-ed* 4(1): 59-71.

more important in the humanities and social sciences. The introduction of video and other media into scholarly communication is in its infancy,<sup>42</sup> but this can be expected to increase and represents new business opportunities going forward. There are also ample opportunities for scholarly societies that are open to exploring the linkage between membership and publishing support, both through “journals” as well as new services, including electronic archives, deep indexing, tagging, summarizing, contextualizing, and automatic linking.

By creating scholarly authority on top of conventional publications, they can provide added value to published materials. These kind of services are likely to attract the scholars of the digital generation who would be willing to pay, not for the content, but for the “conversation.”<sup>43</sup> While it is still too early to assess the outcomes of many of these experiments, the notion that there can be sustainable business models to support opening access to content is increasingly accepted.

Up to this point, our focus has been primarily on scholarly scientific journals. Before concluding, we want to comment briefly on the publication of scholarly books. Here too change is taking place. Three examples from academic presses follow.

**ANU E Press:** The Australian National University Electronic Press produces fully peer-reviewed works. From its website, we learn that the decision to establish ANU E Press was based on several factors. First, a recognition of the urgent need to find an effective mechanism for disseminating high-quality ANU scholarship that lacks a ready commercial market. Second, a determination to eliminate barriers inherent in existing models of scholarly communication. Third, an acceptance that the operational overheads of the conventional

academic press are no longer affordable. Fourth, a realization that emergent electronic press technologies offer a feasible alternative to the conventional academic press in terms of cost and available infrastructure.<sup>44</sup>

Rice University Press is exploring new models of peer-reviewed digital scholarship for the 21<sup>st</sup> century. It has launched as a non-profit organisation<sup>45</sup> the first fully digital academic press in the United States. Connexions<sup>46</sup> is an open source e-publishing platform “for collaboratively developing, freely sharing, and rapidly publishing scholarly content on the Web,”<sup>47</sup> which “provides not only a solution for scholars – particularly those in the humanities – who are limited by the dearth of university presses, but also a venue for publishing multimedia essays, articles, books and scholarly narratives.”<sup>48</sup>

The same model has already proven highly successful for Wikitravel,<sup>49</sup> one of the most visited travel websites online, with thousands of travellers contributing over 30,000 travel guides in 18 languages over the last five years. Recently, Wikitravel has begun to produce a print-on-demand travel guide using Lulu,<sup>50</sup> an Internet press started by Red Hat<sup>51</sup> founder, Canadian Bob Young.

Lastly, an example of an academic publisher that has linked proprietary and open content models is Yale University Press, which published Yochai Benkler’s *The Wealth of Networks: How Social Production Transforms Markets and Freedom* (2006). The press released a hardcover and paperback edition of the work; Benkler launched WikiNotes,<sup>52</sup> “an invitation to collaborate on building a learning and research environment”

42 This includes podcasts, pubcasts, etc. SciVee is one example <http://www.scivee.tv/>.

43 “The future is conversational: when there’s more good stuff that you know about that’s one click away or closer than you will ever click on, it’s not enough to know that some book is good. The least substitutable good in the Internet era is the personal relationship. Conversation, not content, is king.” Science fiction writer, Cory Doctorow, *Locus Online*, 2006. <http://www.locusmag.com/2006/Issues/07DoctorowCommentary.html>.

44 <http://epress.anu.edu.au/titles/index.html>.

45 Not-for-profit organizations are an often overlooked aspect of the creative economy as they create jobs and opportunities and in innovative ways. Wikipedia and the Wikimedia Foundation are prime examples.

46 <http://cnx.org/>.

47 [http://cnx.org/aboutus/index\\_html](http://cnx.org/aboutus/index_html).

48 <http://media.rice.edu/media/NewsBot.asp?MODE=VIEW&ID=8654>.

49 [http://wikitravel.org/en/Main\\_Page](http://wikitravel.org/en/Main_Page).

50 <http://www.lulu.com/en/?gclid=CKvLpdWp-pECFQgRGgodY3hsxg>.

51 <http://www.redhat.com/rhel/>.

52 [http://www.benkler.org/wealth\\_of\\_networks/](http://www.benkler.org/wealth_of_networks/).

based on the book. On this site, you can download the content in several formats, many of them for free. For example, you can choose to read and download it as a pdf file or in HTML, or to select a remix, perhaps an audio version. If you are doing research, you might prefer to access the searchable version available in a number of formats, or to consult a concordance. The press promotes the wiki on its website. From the wiki, you are referred to the Yale University Press, but also to Amazon.com and to a list of libraries near you that hold the title. Is this bold experiment; a model that could work only with a well-known author, or a foolhardy venture? A second example is *The Access Principle*<sup>53</sup> by John Willinsky, published by MIT Press in 2006. In this case, the entire book can be downloaded for free, although MIT continues to sell hard copies. The National Academy of Sciences Press and the International Development Research Centre (IDRC) have been making full text of many of their books available online for free and this has not hurt their print sales, which are typically not high in the first place.<sup>54</sup>

## CONCLUSION

We have looked at a small and esoteric sector of the creative economy. A recent report from UNCTAD shows that the creative industries are emerging as one of the world's most dynamic sectors. "International

trade in creative goods and services surged to US\$445.2 billion in 2005 from US\$234.8 billion in 1996 and between 2000 and 2005 trade grew at an unprecedented average rate of 8.7%." Furthermore, it is not only the developed world that is seen to be the beneficiary: "[t]he creative economy holds potential for developing countries to transform untapped creative resources into growth."<sup>55</sup>

Looking at some of the successes of the new models, it is becoming clear that economic growth and revenue generations will come increasingly, not from the sale of content, but from the development and harvesting of value-added services and "generatives"<sup>56</sup>; intangibles such as reputation, immediacy, or personalization that sit on top of content. Openness and collaboration are driving innovation in the time of the global Internet. In this sense, openness is compatible and indeed conducive to the development of new business models. This requires imagination and creative rethinking on the part of all stakeholders, from the content producers, to the funders, and the intermediaries. Disintermediation need not imply the end of business, but rather the end to business as usual.

53 [https://mitpress.mit.edu/books/willinsky/TheAccessPrinciple\\_TheMITPress\\_0262232421.pdf](https://mitpress.mit.edu/books/willinsky/TheAccessPrinciple_TheMITPress_0262232421.pdf).

54 Personal communication to Leslie Chan from Michael Jensen, the Director of Publishing Technologies at the NAS Press, and from the former publishing director at IDRC.

55 UNCTAD Secretary-General's High-Level Panel on the Creative Economy and Industries for Development, Geneva, Jan. 14-15, 2008.

56 Kevin Kelly, 2008, "Better Than Free." *The Technium*. [http://www.kk.org/thetechnium/archives/2008/01/better\\_than\\_fre.php](http://www.kk.org/thetechnium/archives/2008/01/better_than_fre.php).



## RESEARCH PAPER 14

# Seeding the Lead: A New Model for Innovation, Commercialization, and Technology Transfer Within the Arts

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*If you want 1 year of prosperity, grow grain. If you want 10 years of prosperity, grow trees. If you want 100 years of prosperity, grow people.*

—Ancient Proverb, China

This paper is about how to grow people. Specifically, it is about how to grow—and keep—the kind of people who can accelerate Canada's productivity and improve its competitiveness. It is especially about the kind of people who can innovate, and through the economic value added by their innovation, create net new wealth (i.e., prosperity) for the country.

The need for Canada to grow people is clear. The economic writing has been on our *Facebook* wall for some time now. With its dollar at near record highs, Canada cannot count on a favourable currency exchange rate to make its goods competitive abroad.<sup>1</sup> And with the emergence of the new economies of China, India, and Brazil—especially with their large pools of relatively inexpensive labour—Canada is not likely to compete effectively on price for most commodities. Certainly, increased global economic activity will increase the demand for Canada's natural resources.

But these resources are not inexhaustible. And they are certainly not renewable at a speed matching global needs. In short, unlike their ancestors, contemporary Canadians no longer have the option of being sowers of grain and hewers of wood as they move into the 21st-century.

The result? The country has been put on alert. Canadians, we have been told, must work smarter, not just harder. Restructuring our organizations, optimizing our processes, and incrementally improving our products and services will not solve the problem.<sup>2</sup> Instead, we need to move from high-volume/low-margin activities to low-volume/high-margin activities. In short, we need to find ways to charge—and get paid—a premium for our contribution to the global economy.

Innovation, we have been told, is a key to this charging-a-premium strategy. New ideas lead to new products and services. “New” is a time-based advantage. It means getting into the market ahead of the competition. Without competitors, we can set our own price for our goods and services. Ideally, we can use this premium to finance the development of our next new idea. The plan, then, is simple: to be ready with a new product by the time the competition catches up to our last product and turns it into a commodity.<sup>3</sup>

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1. Canada, Industry Canada, October 30, 2007, “Canada in a Global Context,” in *Sharpening Canada's Competitive Edge*. Accessed online March 3, 2008 at [http://www.ic.gc.ca/epic/site/cprp-gepmc.nsf/en/h\\_00009e.html](http://www.ic.gc.ca/epic/site/cprp-gepmc.nsf/en/h_00009e.html).

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2. Canada, Department of Finance Canada, 2006, “A Strong Canada in a Changing World,” in *Advantage Canada, Building a Strong Economy for Canadians*. Accessed online March 3, 2008 at <http://www.fin.gc.ca/ec2006/pdf/plane.pdf>.

3. Canada, and The Conference Board of Canada, Report, June 2007, “An Overview,” in *How Canada Performs: A Report Card on Canada*. Accessed online March 3, 2008 at <http://www.conferenceboard.ca/documents.asp?nnext=2047>.

If this is going to be our strategy, the classic questions are: How do we foster innovation? And how do we position ourselves higher up the global value chain? Many of the classic answers involve some combination of the following points:

1. Increase our investment in basic and applied science.
2. Increase our investment in research and development.
3. Update our infrastructure generally.
4. Increase our investment in new machinery and equipment.
5. Train our workforce to be highly skilled and educated.

Typically, the arguments connecting these points look something like this: Investment in basic and applied sciences (1) leads to the development and deployment of new technologies (2); these technologies proceed from, and find their way into, our overall infrastructure (3) and our manufacturing processes (4) by means of highly trained people (5).<sup>4</sup>

Underpinning this logic, however, are two deeply held assumptions, both of which we intend to review and rethink throughout this paper: first that science and technology is the sole initiator and sustainer of innovation; second that innovation is primarily about the creation of new features or feature sets. By “features” we mean a product’s or service’s distinctive properties or attributes. Moore’s law—that the number of transistors built into an integrated circuit doubles every two years—is a prediction about features and about the rate of increase in the number of transistors that can be added per computer chip over a specific period. Smaller, bigger, faster, more power—these are typical attributes added to new products to distinguish them from those of the current competition.<sup>5</sup>

But features, as we will argue, are only part of the story. They are often the first link in, but never the **entire**, value chain. Benefits, for example, sit higher up on the chain.

By “benefits” we mean what a product or service does for the customer or end user. More transistors on computer chips add economic value only when they generate benefits, such as increased processing speed and memory capacity. And the consumer experience of benefits sits higher up again on the chain. Benefits add value only if a consumer actually experiences them as benefits; if the new technologies, in fact, save us time, for example, or let us take better pictures, or talk to our friends more often, and so on.

This paper will explore how the University of Waterloo (UW) intends to use its expertise in Fine and Performing Arts, Humanities, and Social Sciences to move feature-based innovation up the value chain, and by doing so, reposition the Arts as an engine of innovation. Specifically, we want to share our strategies and lessons learned to date, gleaned mostly from our recent partnership with Christie Digital Systems Canada, Inc. We call our three main strategies to date **Seeding the Lead**, **Arts at the Crossroads**, and the **Swan Among the Ducks**. Each of these strategies represents a way to both increase the value added to a new product/service and to grow the expertise, loyalty, and enthusiasm of highly qualified personnel. A fourth strategy, **Go West**, differs in scope from the other three, since it goes beyond our work with Christie Digital to envision a new institutional platform for growing and sustaining prosperity.

## BACKGROUND TO THE PROJECT

UW’s Arts Faculty is in an enviable if not unique position. It is located in one of Canada’s most active technology triangles, within one of Canada’s most innovative and entrepreneurial universities, and is connected, via its 17 departments and 210 faculty members, to a wide range of cultural organizations and industries. To exploit these advantages, the Arts Faculty created the Canadian Centre of Arts and Technology (CCAT) in 2003, which has received over \$2 million, including Canadian Foundation for Innovation (CFI) grants, matching Ontario Innovation Trust (OIT) grants, a Canada Research Chair, and research contracts from Statistics Canada, Research

4 Tom Brzustowski’s book was published at the time of writing. *The Way Ahead: Meeting Canada’s Productivity Challenge* (University of Ottawa: 2008). His perspective is very much focused on science and technology, and would be a good example of a feature-oriented approach to innovation.

5 Wikipedia, *Moore’s Law*. Accessed online on March 3, 2008 at [http://en.wikipedia.org/wiki/Moore's\\_Law](http://en.wikipedia.org/wiki/Moore's_Law).



in Motion, TorStar, and most recently, from Christie Digital Systems Canada, Inc.<sup>6</sup>

Christie Digital Canada is a \$500-million business that specializes in designing and building digital display technologies, including digital movie projectors for most Hollywood studios. Christie Digital has over 75,000 projectors installed around the world. It also leads in the design and development of virtual reality and simulation environments. The company is 75 years old, and the Canadian division is located in Kitchener, Ontario, less than nine kilometres from UW.<sup>7</sup>

The CCAT research contract with Christie Digital differs from other CCAT projects, not just in size (\$250,000) but because of the kind of work it involves. Most of our work to date has involved interaction design: testing prototypes or fully developed applications, mostly online, to find out whether they were functional (do they work?), interactive (do they meet the targeted consumers' needs?), and branded (do they meet these needs in a way that reflects the core values of, and creates a long-term relationship with, the organization or company?).

Our work for Christie Digital goes further. On Christie Digital's behalf, CCAT is undertaking two main roles. The first is to oversee research about how people respond—both perceptually and attitudinally—to a new digital display technology (whose capabilities cannot be described at this time because of non-disclosure agreements). To do so, CCAT will lead a multidisciplinary team that will include academics from Optometry, Engineering, and Architecture. The second role is to produce a showcase theatrical application that highlights the design benefits of the new technology. Specifically, we are evaluating the experience of theatre practitioners as they interact with the technology, by focusing on ease of use, flexibility of use, and creativity of application; and the experience of theatre audiences as they watch a performance that uses Christie Digital's new display technology. In the

latter case, we're especially interested in the ability of the technology to create "theatrical presence"; namely, to convince audiences that the world unfolding is "real." Technologies that can increase this illusion can give a theatre company a distinct advantage when competing, not only against other theatres, but against other multimedia forms of entertainment, such as gaming and large video displays.

## SEEDING THE LEAD

In *The Sources of Innovation*, Eric von Hippel argued that lead users are a primary source of innovation. Von Hippel defined lead users as people who face needs typical of—but months or years before—a more general marketplace. To meet their own needs, lead users modify or replace existing solutions. Through a process called "free revealing," these users share their ideas with manufacturers, ideally to encourage the introduction of new and better products to the market.<sup>8</sup>

In the spirit of innovation, we modified von Hippel's theory in order to meet our own and Christie Digital's needs. Rather than interview a wide range of lead users to develop a product idea, we plan to "seed" Christie Digital's display technology directly into a market at the benchscale prototype (functional, pre-manufactured) stage of development. By "seeding" we mean "introducing a new technology into a promising receptor community to find out if the knowledge transfer can take hold, meet the business needs of both parties, and spread out to include other, networked parties." By directly seeding a lead user, we hope to reduce the number of steps involved in knowledge transfer, thereby speeding up the overall process of commercialization. We also hope to increase

6 University of Waterloo, "Canadian Centre of Arts and Technology" [homepage]. Accessed online March 3, 2008 at <http://www.ccat.uwaterloo.ca/>.

7 Christie Digital Systems Canada, Inc. "Christie's Fast Facts." Accessed online March 3, 2008 at <http://www.christiedigital.com/AMEN/Corporate/MediaCenter/FactSheet/ChristieFactSheet.htm>.

8 See Eric von Hippel, *The Sources of Innovation* (Cambridge: Oxford University Press, 1994).

the rate of uptake by other industries as the theatre industry, in turn, becomes a seeder by means of its extensive social networks and loose ties.

We have chosen the theatre industry to be “the lead seed” for four reasons. First, the industry is a major contributor to the Canadian economy (it generated operating revenues of \$2.2 billion in 2005).<sup>9</sup> Second, the industry faces strong competitive pressures from other new media entertainments, as indicated by a relative decrease in attendance, a narrowing of the demographic range of audiences, and falling revenues (Statistics Canada reported a 10 percent drop in revenues in Ontario in 2005).<sup>10</sup> Third, new media and digital technologies have already proven themselves useful to reversing these downward trends, especially in larger commercial theatres such as Ed and David Mirvish Productions and Cirque de Soleil (the largest group in the for-profit sector included multi-disciplinary and other performing arts, such as circuses, generating 42 percent of the \$2.2 billion in 2005).<sup>11</sup> Fourth, it is both a broadly and deeply connected industry, with ties extending out to many subsidiary industries and sectors, including Disneyland, Canada’s Wonderland, the Royal Ontario Museum, and the Art Gallery of Ontario.

By seeding the theatre industry, we plan to determine if the “seeded” pilot project members will become:

- ◆ **technology shapers** for unique markets before the technology goes to market, potentially refining or extending the technology (and therefore the number of adopters in the marketplace—namely, the theatre industry);
- ◆ **advocates for the best practices** toward theatrical presences (the illusion that the drama is “real”) using the technology in their industry by developing lessons learned, either as innovators in theatre production or as visionary advisors to the business venture;
- ◆ **social networkers for the technology** in their sector of activity (theatre), providing businesses with adoption strategies that would be swifter and more creative; and/or

- ◆ **attractors and interest-generators** of other industries through public theatrical performances that showcase the new technology.

A final thought about the “seeding the lead” model of innovation. To be clear, we developed this model to address an exigency: Christie Digital had already created the technology and defined its feature sets before we partnered with them. In short, we did not have the opportunity to help them define features in the context of user needs and desired benefits. We will soon, however. Christie Digital is encouraging us to explore von Hippel’s method of studying lead users. It is encouraging us, especially, to use Arts-based qualitative research methods—ethnographic, interaction, and participant observation—to help it refine the current technology, and more importantly, to envision a new generation of technologies. Over the next three years, we will study how lead users, such as theatre practitioners, interact with current display technologies. Our goal will be to help Christie Digital design future solutions that create positive, unique, and highly valued experiences for its end users.

## ARTS-AT-THE-CROSSROADS

In most innovation discussions, the Arts (and at universities, their Arts faculties) barely get on the agenda. It will not be news to anyone familiar with the UW that Engineering, Math, and Computer Science take the lion’s share of credit for innovation—and receive the lion’s share of money for it. Often, Arts is looked upon as a provider of service teaching (especially in matters of literacy). Or as smoothing out the edges of the hard sciences. Or as adding a bit of spice to an otherwise dry mix of technology and work-a-day life.

The irony here is that the Arts (and many Arts faculties) have a tradition of creating compelling, people-centric experiences that draw on, and adopt, new technologies. From ancient times, theatre has been using cranes to lower the gods on to the stage: from the Renaissance,

9 Statistics Canada, Wednesday, April 18, 2007, *The Daily*. Accessed online March 2008 at <http://www.statcan.ca/Daily/English/070418/d070418c.htm>.

10 Ibid.

11 Ibid.

trapdoors and smoke machines to entertain rowdy audiences; and from the late-1990s onwards, multi-cast and real-time online productions to engage Internet-savvy viewers. Although the artistic and cultural sectors are known to generate, multiply, and accelerate the adoption of innovative technologies, the technology and business sectors tend to view culture and the arts more as recipients of subsidies than as key innovation and commercialization partners.

So how do we correct this preconception? Firmly position Arts at the crossroads—between the technological innovation of new feature sets at one end and industries in mature markets looking for differentiation and competitive advantage at the other. In the middle, bringing together the most talented, creative faculty and students, alumni and professionals, and then leverage their (and the university's) loose ties and connections to business. Give this team the mandate and resources to create the kind of showcase applications consumers will search out and pay a premium for. Pine and Gilmore called this the emerging “experience economy,” and argued that companies that engage people in an inherently personal way—by creating the most memorable and lasting experiences around real benefits—will also create the greatest “stickiness” between consumers and companies.<sup>12</sup> So where new feature sets can help a company be first to market, experience design can help them be longest in market and first in class.

Ideally, our work with Christie Digital will prime the pump, drawing new partners to CCAT. Our plan is to approach Communtech, our regional technology promoter, to identify other technology companies that may be interested in seeding their products to Arts-based industries. Then we plan to invite them to our showcase application for Christie Digital. The idea here is simple: to have prospective technology partners experience the power of experience. Once they see us move technological features up the value chain for one company, they will be more open to the idea of Arts helping them to achieve the same goals.

To be honest, this crossroads strategy is not easy to implement. Faculty members can have narrow comfort zones and short attention spans. Under these conditions, organizing teams is like the proverbial “herding of cats.” Time and scale are issues, too, especially in trimester systems. Students and professors are quite mobile, moving in and out of the university every three months. And integrating projects into the curriculum, so that the students learn relevant concepts and skills, can also be tricky, especially in courses that focus on reproducing disciplinary practices rather than on the production of new ways to do things. But we are working to address all three concerns. First, there's a simple way to herd cats: put kibbles in the bowl. Funding helps to bring people to the table. Money can help offset frustrations about time commitments, and in some cases, insecurities about working with people outside the academy. Second, invite people to invent the most creative, but still constrained application (in terms of logistics) as possible. By doing so, we are increasing student and faculty participation while ensuring the work fits into the time available. And third...

## SWAN AMONG THE DUCKS

Every year, we ask our Digital Arts Communication students the same two questions. “How many of you would like to join a company or organization in order to figure out the best way to cut costs and maximize efficiency?” No hands go up. The students look puzzled and some, a bit terrified. Then we ask: “How many of you would like to join a company that creates experiences so compelling for people that they'll keep coming back for more?” Hands go up. One student invariably asks: “How much will I get paid?” “Lots,” we reply. The rest of the hands go up.

This is not rocket science. Getting value **from** work means adding value **at** work. People want to be creative, smart, and innovative. This is another way of saying that they want careers, not jobs. The government calls these people “highly qualified personnel” and charges the universities with training them. We call these people smart, creative students who will probably leave the region, if not the country, if they do not have a chance to contribute at home.

12 See B. Joseph Pine II, and James H. Gilmore. *The Experience Economy: Work is Theatre & Every Business is a Stage* (Cambridge: Harvard Business School Press, 1999).

So before addressing how we are planning to keep our talent in Canada, let us take a moment to summarize. Canada is facing the following crises:

1. Talented, creative people are mobile. They can, and will, follow opportunities to add and receive value, whether that takes them to the United States, Europe, or Asia.
2. Investment capital is mobile. It circulates globally, looking for the best risk-to-reward ratio possible.
3. Customers are mobile. The competition is only one click away.

The answer is to attract and keep creative, talented people (1) and customers (3) by encouraging loyalty-through-new-and-value-added-experiences. Customers want products and services that offer them this kind of value. Smart, creative people want to create these experiences for customers. It is rewarding work, not only personally but financially. So now we have a win-win scenario. We have created stickiness between companies and customers, and between employers and talented people. But we can still improve on this model. Regions and countries that support and accelerate this win-win will keep their customers happy and their talent at home. This in turn is a formula for attracting mobile capital (2) that is looking for good bets. With the addition of capital, we are now up one more level. We retain talented people, attract capital, and satisfy consumers: a win-win-win for Canada.

With so much wind at our backs, what is keeping us from sailing ahead? Money. Which is also code for “there’s a lot of vested interest in the innovation-as-new-technology-feature-set model, making it hard for the Arts to get a seat at the innovation table. But that situation is changing. A number of funding agencies—particularly, the Social Sciences and Humanities Research Council of Canada (SSHRC) and the Ontario Centres of Excellence (OCE)—have recently shown an interest in new models of innovation. Granted, Arts-based innovation is still an ugly duckling, falling outside of the usual call for more technological features. But differentiation can be good: We stand out from the competition whenever we apply for grants. We are not a business school, though we collaborate with entrepreneurs. We are not a technology group, though we work with industry. As well, following the **Arts in the middle strategy**, and therefore facilitating

the transfer of value along the chain from features to benefits to experiences, we can legitimately argue that we are swans in the making.

For example, SSHRC in 2007 announced that it was calling for proposals for Research in Management, Business, and Finance (MBF). The Canadian government allocated \$11 million to this initiative, and the individual grants would fund up to \$250,000 in research focused on “improving Canada’s competitiveness and quality of life. In collaboration with the Centre for Business, Entrepreneurship, and Technology (CBET), we submitted an MBF proposal to carry out the kind of value-added research discussed above. We want commercialization experts to work alongside theatre practitioners and interaction designers to figure out best practices and lessons learned from our “seeding the lead” experiment with Christie Digital. By mid-March 2008, we will find out the results of the competition. To supplement this funding, we have also applied to OCE for funding to help us grow talent. Specifically, we want to bring together the best Canadian playwrights and multimedia artists to work with UW drama students and actors, as well as with commercialization experts and interaction design specialists on campus, to create a showcase application to highlight Christie Digital’s technology. We hope to hear from OCE by mid-April about our request for funding.

## GO WEST: UW-ARTS AND THE DRIVE FOR INNOVATION

Universities are conservative institutions, building on tradition and drawing strength from the methods, concepts, and approaches of academic disciplines. While traditional disciplines will follow universities into the future, the standard academic model is too insular to take innovation to the next level. For this reason, we have adopted a **Go West** strategy, literally and figuratively. Literally, we are looking to create an innovation centre at Stratford, Ontario, just 35 kilometres west of Kitchener-Waterloo. Figuratively, we are looking for new territory—a physical and conceptual space where science and technology, commercialization, and especially culture come together to help Canada grow, and keep, its talent trust.

The heart of UW's strategy is a new innovation triangle. The traditional approach to innovation has focused exclusively on the commercialization of scientific and technological developments. UW's Stratford initiative has added a third and crucial leg to the model (Exhibit 1):

**Exhibit 1**  
**The new approach to innovation**



In this model, Culture, represented by the fine and performing arts especially, will have an opportunity to interact directly with Science and Technology researchers, and for all of them to engage with existing companies, entrepreneurs, and venture capitalists. In addition, the UW-Stratford approach recognizes that creative, technical, and commercial personnel require an active and timely understanding of both global realities (artististic, scientific, and economic) and the human dimensions of 21st-century innovation.

To facilitate this innovation triad, UW's plan has two key elements:

1. **The Stratford Institute** is designed as a meeting place for science, technology, commerce, and culture. Following the Banff Centre, it will provide a centre for bringing together the full innovation community, and will emphasize the links between the fine and performing arts and the scientific and technological community, primarily to uncover and advance commercial opportunities. The Stratford Institute will operate through a wide variety of events and activities, ranging from temporary collaborations and conferences, to long-term research and development projects, special events, workshops, training sessions, and colloquia.
2. **UW-Stratford** will operate in association with the Stratford Institute. UW-Stratford will focus, at the third- and fourth-year and graduate level, on two interrelated themes: global business and digital media. The academic programs will be integrated (all digital

media students will study global business and vice versa) and the student learning activities will be project- and client-based. The participation of major cultural institutions, such as the Stratford Festival, and leading Canadian corporations promises to create a unique and powerful model for student engagement, corporate-artistic-academic collaboration, and a Canada-centred approach to the enhancement of entrepreneurship.

UW's **Go West** strategy broadens the innovation paradigm in Canada. UW's corporate partners recognize the need to combine cultural content, commerce, and technology in support of innovation; creative supporters acknowledge that they require much stronger connections to current developments in science and technology (and collaborative work on future innovations); entrepreneurs realize that the interface of culture and technology holds enormous potential for profitable investment and development. It places the Arts, broadly defined, in the middle of the innovation enterprise, recognizing that the 21st-century knowledge economy will be as much about content and culture as it is about technology and science.

The Stratford Institute and UW-Stratford, however, are only part of UW's engagement with digital media and 21st-century commercialization. Collaborative initiatives such as the Canadian Project, a national mass digitization undertaking, and advanced research into digital visualization will link the social sciences, humanities, and fine and performing arts to science, technology, and commercialization in Canada.

## **BUILDING INNOVATION LOYALTY**

Canada succeeds very well in many of the basic measures of national innovation. Government-sponsored research is near the top of the competitive tables. In basic scientific and technological (S&T) research, Canada punches well above its weight. We have excellent—if not quite first-rate—S&T facilities. Governments have done, it seems, much of what they set out to do when the Science and Technology innovation economy emerged as the foundation of new national prosperity. But it does not appear to be working as it should. We have national and international success stories—RIM, Open Text, Dalsa, Christie Digital, to use Waterloo region examples—but these examples are still too few. Our economy remains tied to

our traditional resource strengths and a weakening manufacturing connection to the United States. Corporate investment in research and development lags well behind our competitors, an alarming percentage of our highly skilled personnel leave the country, and business creation and sustainability lags behind our key competitors. Canadian firms, including S&T start-ups, fall into a model of innovating to the point of sale-ability, at which juncture intellectual property and key personnel pass into foreign hands. There is, quite frankly, something wrong with the core Canadian innovation model.

Canada's approach to innovation remains only partial, strong on the front end and weak on final delivery. Other nations—Finland, Ireland, Iceland, Israel, South Korea, Japan, Singapore, and Hong Kong—are investing more, engaging their private sector better, and most importantly, holding on to their key researchers, entrepreneurs, and innovations. Canada has emerged as a mobile innovation economy, producing a great deal of value to the globe but less than its share for the country. While the United States remains the world's most magnetic innovation environment, even with the current slow-down, smaller nations have realized that loyalty—holding people, ideas, and companies in place helps build a long-term foundation for national prosperity and competitiveness. We have argued here that moving up the value chain—and integrating the contributions of the social sciences, humanities, and fine and performing arts into the innovation environment—is an essential element in innovation stickiness. The Canadian approach to innovation does not give proper and full weight to the contributions of the full academy. Nor, it must be said, do the people in these disciplines appreciate fully the contributions that can and should be made to sustaining and extending national prosperity.

Our **Go West** strategy seeks to provide a new model for coordinated engagement with national innovation. It seeks to work at the practical level, linking technology, commerce, and culture, while providing students and faculty with a project-oriented approach to education and research. Direct corporate, non-government organizations, and government engagement promises to link all partners in the innovation change; engaging creators into the innovation mix has the potential to broaden and deepen the understanding and trajectory of commercial development. More to the point, however, UW's **Go West** effort focuses on building an innovation community, linking artists, scientists, technologists, corporate and government officials, social science and humanities researchers, community practitioners, and others into the Canadian innovation swirl. At root, there is nothing wrong with linking innovation to national imperatives and inculcating a Canada-first approach to the commercialization of innovation. To do so effectively requires a new approach to seeding the lead, one that places humanities, social sciences, and the fine and performing arts in the middle of the transformational effort. Innovation is no longer perceived as an option for any nation hoping to remain among or join the world's elite economies; innovation loyalty—achievable only by extending the value chain beyond technological developments into viable, sustainable, and Canadian companies—may well be the most important element in Canada's effort to retain its place as one of the most prosperous nations in the world.



## RESEARCH PAPER 15

# Creative Industry Clusters: A Global Perspective

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### BACKGROUND AND FOCUS

Creative industries are important segments of many international economies. They not only contribute toward the economy directly, but also have a powerful, indirect impact on the rest of the economy—by adding style, aesthetics, and prestige to the products of locales with strong or dominant creative output. Examples such as the automotive and fashion design cluster in Milan, games in Seoul, and media and advertising in New York show how these clusters of creative industries create higher-value professional and technical jobs corresponding to the “knowledge-based economy”<sup>1</sup> and are key drivers of regional and national economies. What’s more, creative industry clusters are no longer limited to advanced industrial economies. Successful creative industry clusters have begun to form in developing countries such as India (Bangalore, Mumbai), Singapore, South Africa (Cape Town), and Trinidad (Port of Spain and environs). Creative industries thrive where there is access to competitive broadband networks and pools of professional and technical talent.

Governments increasingly perceive creative industries as key vectors for development and linkage to the rest of the global economy and, as a consequence, are increasingly taking strategic measures to promote them. These measures have aimed at enabling the development of a critical mass of creative enterprises in specific industries where governments perceive a competitive advantage and/or a strategic interest.

In this paper, we examine several global metropolitan creative industry clusters with a focus on centres whose strength lies mainly in three key sectors: digital interactive media, traditional audiovisual production, and the performing arts. This approach corresponds with both a manageable bite for a single paper—given the great diversity of potential creative industry sectors—as well as a key niche for the corporate practice of our firm.<sup>2</sup>

Our firm has quite recent experience in research and analysis of creative clusters, particularly as lead consultant for the Consortium on New Media, Creative, and Entertainment R&D in the Toronto Region (CONCERT).<sup>3</sup> In this paper, we are providing a partial preview of a more comprehensive analysis yet to be put into the public domain through our work with CONCERT. However, this report of preliminary “lessons learned” can still be offered for discussion and to shed light on some of the policy problems associated with creative industry clustering. The positions taken

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<sup>1</sup> Peter Drucker, *The Age of Discontinuity: Guidelines to Our Changing Society* (New York: Harper and Row, 1969). Chapter 12 is devoted to the exploration of this theme.

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<sup>2</sup> A key focus of Nordicity’s corporate experience has been digital media, which itself encompasses many sectors: television, film, games, performing and visual arts, and others. Nordicity also has significant experience in information and communications technology (ICT) broadband applications in health, education, biotech, and high tech, which are also the focus of creative clusters.

<sup>3</sup> CONCERT is a consortium dedicated to fostering research, development, and cross-industry linkages to develop the Greater Toronto Area (GTA) into a leading hub of innovation in the entertainment, screen-based, information and communications technology (ICT), digital media, and creative industries. CONCERT was originally founded by the Ontario College of Art and Design, Ryerson University, and York University, and now joins together more than 30 organizations from within the industries, academic institutions, government, fourth-pillar organizations, and research organizations. CONCERT also receives funding from the Ontario Media Development Corporation.



here obviously cannot be taken to reflect the position of CONCERT or of any of its members.

Part of the basis for cluster theory has been its application to the patterns of development of traditional manufacturing and commodity industries. In *The Competitive Advantages of Nations* (1990), for example, Michael Porter defined industrial clusters as:

...geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (for example, universities, standards agencies, and trade associations) in particular fields that compete but also co-operate.<sup>4</sup>

The drivers and inter-linkages of traditional industrial clusters are pertinent to the creative industries. However, the approach taken with most industrial clusters may not translate perfectly to the creative industries sector. The U.K.'s Department of Trade and Industry says as much in stating "creative clusters are not the same as other clusters, and common strategies will not work."<sup>5</sup> In other words, the creative sector in the United Kingdom may be booming, but not as a consequence of standard industrial development strategies.

## ANALYSIS OF GLOBAL EXPERIENCE

In this analysis, we aim to provide both macro- and micro-perspectives on creative digital media clusters. The macro-view examines several global best practice digital media creative clusters and categorizes them according to a number of key factors. The micro-view examines particular facilities contained within those clusters.

With the benefit of both macro- and micro-perspective, we examine the key decision parameters, success factors, commonalities, differences, and lessons learned from these clusters. We outline the impact of how changes in technology are driving increasing

full cross-platform convergence within the broadband screen-based industries. Where Nordicity has had a direct role in the development of some of these creative industry clusters, such as in Toronto, we relate our understanding of the key drivers of that success, including the role of public agencies, partnerships, and networks of key players. Finally, we provide some recommendations for the development of current and future creative industry clusters.

## PROFILES OF GLOBAL CREATIVE INDUSTRY CLUSTERS

Based on data and reports available in the public domain, we examined eight global digital media creative clusters: London, Paris, Lyon, Stockholm, Brisbane, Singapore, Barcelona, and Montréal. Because it was developed in large part for CONCERT and has not yet been published, we are only able to provide some highlights of our findings at this time. A further caveat is that this preliminary analysis is meant only as an illustrative snapshot of the various global creative clusters. It is focused on the digital sectors, particularly screen-based industries, rather than providing a comprehensive portrait of clusters in all possible creative industry sectors.

We then rated these centres according to their comparative strength in a number of attributes associated with cluster formation: critical mass interdependent firms and institutions, pool of skilled labour, diversity in the components of the value chain, level of collaboration across industry and between government and industry, access to financing/government support, skills development, and commercial output. These key attributes are indicators of the potential of a creative cluster to succeed.

In our comparative examination of the strength of their key attributes, the creative clusters are categorized as "A," "B," "C," or "D." At the top end are "A" clusters, which have the largest, most diverse centres with access to a full range of skills, financing/government support, etc.; at the other end are "D" clusters with limited cluster resources and strengths. Table 1 lists the rating criteria by attribute to document the A, B, C, and D ratings.

4 As cited: <http://www.creativeclusters.com/modules/eventsystem/?fct=eventmenus&action=displaypage&id=36>.

5 Ibid.

6 Source: Forthcoming publication of analysis for CONCERT.

In our analysis, we noted that it is not required for a jurisdiction to attain “A” status in all attributes to earn an “A” overall. For example, London may not have a highly developed, coordinated system of cooperation between its creative industries, but the sheer size of its critical mass nonetheless qualifies London as an “A” creative cluster. Also, while there is no explicit weighting of attributes, the relative importance of each attribute was factored into our analysis on a case-by-case basis.

In the text below, we elaborate on the key characteristics of each of the eight global creative clusters.

### **Creative London—London, U.K.: A**

The creative industries generate upwards of \$42 billion annually in London. Unlike other clusters, the London creative cluster is not geographically localized in a particular part of its metropolitan area. However, significant governmental, industrial, and academic support has been provided to buttress London’s position as a world leader in the creative economy.

- ◆ **High-profile companies:** There are many, including the BBC and EMI.
- ◆ **Labour pool:** There are over 500,000 Londoners employed in the creative industries.
- ◆ **Industry diversity:** All elements of the creative industries can be found in London.

**Table 1**  
Rating criteria

Attribute	Rating			
	A	B	C	D
<b>Critical Mass: High-Profile Companies</b>	Multiple top-tier firms	One top-tier or multiple mid-tier companies	One mid-tier or several small companies	A small number of small companies
<b>Skilled Labour Pool</b>	200,000+ employees	100,000 to 200,000 employees	50,000 to 100,000 employees	Fewer than 50,000 employees
<b>Industry Diversity</b>	More than four creative industries present	Three to four creative industries	Two creative industries involved	One creative industry involved
<b>Level of Collaboration</b>	Significant, coordinated input from government, industry, and academia	Ad hoc efforts from government, industry, and academia	Efforts from two of government, industry, and academia	Not much evidence of collaboration
<b>Access to Financing/ Government Support</b>	Ready access to start-up and expansion financing, and/or strong government support	Main capital found outside jurisdiction, and/or strong government support	Government recognition with some support; very limited local private financial support for equity	No government support; little access to financing
<b>Skills Development Environment</b>	Dedicated interdisciplinary skills development facilities	Strong educational institutions for core skills with significant industry involvement	Good general post-secondary educational facilities, but little focus on creative industry skills development	No dedication to creative clusters in post-secondary institutions
<b>Commercial Output</b>	Cluster generates more than \$30 billion annually	Cluster generates between \$5 and \$29 billion annually	Cluster generates between \$1 and \$5 billion annually	Cluster generates less than \$1 billion annually

- ♦ **Government support:** The London Development Agency offers financial aid and advice to small and medium-sized enterprises (SMEs), and woman- and minority-owned businesses, including those in the creative industries.
- ♦ **Collaboration:** Some initiatives exist to help facilitate collaboration—like the London Creative Network—but most happens on an ad hoc basis.
- ♦ **Skills development:** London is home to a vast number of universities, colleges, and trade schools, many of which train students for work in the creative industries.
- ♦ **Commercial output:** More than C\$42 billion is added to the London economy by the creative industries each year.

### CapDigital—Paris, France: A

Created by the French Ministry of Industry in July 2005, this formal clustering body has 250 members, including 213 private business and 28 public bodies such as research laboratories and universities. By June 2006, it had raised more than €25 million in public funding for several accredited projects. The focus of this cluster is the digital industries in general.

CapDigital offers accredited projects free expert assessment, counsel, and validation for issues like work flow, management, commercial feasibility, and user adaptability. It also provides funding stimulus and international visibility.

- ♦ **High-profile companies:** Beyond the public sector funders, several major companies are present at CapDigital. These include France Telecom, IBM, Unilog, Xerox, and Motorola.
- ♦ **Labour pool:** The Paris region counts over 400,000 ICT jobs, 75 per cent of which are related to digital content and applications.<sup>7</sup>
- ♦ **Industry diversity:** Running the gamut of digital content, CapDigital's focus is on everything from knowledge engineering to video games and audiovisual interaction.
- ♦ **Financing/Government support:** As with all “competitive clusters” in France, CapDigital is directly

funded by several French public entities including the Agency for Industrial Innovation, created in August 2005 to support large-scale projects and endowed with a €1.7 billion budget for 2006–07; the ANR (l'Agence nationale de la recherche); the Directorate General for Enterprise; and various regional and district councils. The funds received by these bodies from the state are allocated throughout the cluster according to their various mandates.

- ♦ **Collaboration:** While the executive committee of CapDigital is largely composed of industry representatives, reflecting the initiative's status as a direct extension of French industrial policy, the Université Paris 13: Paris-Nord, the Université Paris 8: Vincennes – Saint-Denis, and other academic institutions participate in a non-executive capacity in the development and execution of CapDigital's industrial policy.

### Imaginove—Lyon, France: B

Imaginove aims to promote Lyon's video game, animation, audiovisual, and film sectors. It was created by three local industry associations: Citia, an interactive entertainment and animation association; Lyon Game, a games industry association; and Images Rhone-Alpes, the local film trade association. The primary task of this cluster is to support research and development (R&D) in those specific industries by working with companies to ensure that they meet the requirements and accreditation needed to secure public sector funding.

Imaginove provides commercial, international, and strategy programs to companies to support them in creating viable business models, export initiatives, and market strategies. It also supports the employment and training of workers under its purview.

- ♦ **High-profile companies:** Lyon Game, one of Imaginove's founding organizations, represents Ubisoft, Atari, and Electronic Arts, in addition to 200+ SMEs.
- ♦ **Labour pool:** In Lyon there were about 11,000 start-ups, 115,000 students, and 10,000 researchers in 2006.

7 <http://www.capdigital.com/xwiki/bin/view/AboutCapDigital/Competitiveness>

- ♦ **Industry diversity:** Imaginove, and Lyon in general, tend to be focused on interactive media, although film and television are also represented.
- ♦ **Government support:** Imaginove is funded in the same manner as Paris' CapDigital.
- ♦ **Collaboration:** There is strong support by industry in Imaginove, as 650 businesses, 23 research laboratories, and 28 related academic institutions participate in the cluster.

### **Kista Science City—Stockholm, Sweden: B**

Kista Science City is a collaborative effort between industry, academia, and the public sector that stretches across a number of municipalities near Stockholm. The proximity of Kista to Stockholm's Arlanda International Airport has encouraged foreign firms, like IBM and Nokia, to locate operations there. The cluster is a wholly owned subsidiary of the Electrum Foundation, which was set up in 1988 to promote the Swedish ICT industries. Electrum also owns the City of Stockholm's innovation strategy organization (STING). Currently, more than 300 companies and research institutes call Kista home. It even hosts its own university, the IT University, a joint effort of the Royal Institute of Technology and Stockholm University.

The cluster focuses on wireless systems, mobile services, and broadband in a spirit of cooperation, networking, and consensus. Kista supports various project-driven initiatives, including the Kista Mobile Showcase, Kista Business Alliance, and Kista Broadband Alliance.

- ♦ **High-profile companies:** Kista is home to world-leading companies, particularly in the mobile space. These include IBM, Ericsson, and Telia Sonera.
- ♦ **Labour pool:** Kista is home to about 120,000 people, with around 65,000 regular employees and 5,000 students.
- ♦ **Industry diversity:** While Kista nominally aims to foster innovation in IT generally, its principal innovations have been in mobile technology. This also follows of course from deeply entrenched Scandinavian strength in that sector.

- ♦ **Government support:** Both the City of Stockholm, in terms of infrastructure, and Sweden's development agency (SIDA), in terms of funding, contribute to Kista.
- ♦ **Collaboration:** The executive arm of Kista is composed of board members from the business sector (including IBM, Ericsson, and Telia Sonera), the academic institutions (The Royal Institute of Technology) and the public sector (the City of Stockholm). Notably, there is no hierarchy present between these participants.
- ♦ **Skills development:** The Royal Institute of Technology has a campus in Kista, providing direct skills development for the cluster.

### **Creative Industries Precinct—Brisbane, Australia: C**

The Creative Industries Precinct in Brisbane is dedicated to promoting "creative experimentation and commercial development in the creative industries," and is part of the Queensland University of Technology. The Precinct incorporates affordable housing, retail outlets in addition to space for networking (the café hub), exhibitions, and theatre performances. Brisbane, with support of the state government, has also created a physical space—the Enterprise Centre—to help in fulfilling its mandate. The Centre boasts computing studios, media labs for music and sound, newsrooms, design studios, CAD scenic/lighting design, 3D modelling for fashion and textile design, film and television studios, and post-production facilities.

- ♦ **High-profile companies:** Companies operating in the Precinct are generally smaller and Australian. Businesses contributing to the Precinct include Cognitia Studios, Maynard Imaging, and Cueball Creative.
- ♦ **Industry diversity:** The Precinct offers studio space and facilities for creative endeavours from music to visual arts (digital and classical) to theatre.
- ♦ **Government support:** The Precinct is funded by the Queensland Government, State Development and Innovation Initiative, through the Department of State Development and Department of Housing. Local organizations like the Kelvin Grove Urban Village association are also involved.

- ♦ **Collaboration:** Though the project is nominally coordinated by the Queensland University of Technology (QUT), some industry has been incorporated into the initiative.
- ♦ **Skills development:** QUT launched the world's first bachelor's program in Creative Industries. The first class graduated in 2004.

### **Creative Community Singapore—Singapore: B**

The Creative Community Singapore (CCS) was launched by Singapore's Ministry of Information, Communications, and the Arts in July 2005. This was the result of several strategic sectoral studies.<sup>8</sup> By July 2006, the initiative had funded 32 creative enterprises with S\$4 million in funding support.<sup>9</sup> CSS is steered by a partnership comprising members of the public sector, local groups such as community councils, and representatives from the private sector. CSS offers access to office/work space, grants seed funding of up to 80 per cent of eligible costs, and assists residents with marketing and publicity.

- ♦ **High-profile companies:** Private sector partners include the Singapore divisions of IBM, SONY BMG, and Hewlett-Packard.
- ♦ **Industry diversity:** Singapore's creative industries have historically been dominated by those related to their core strength in software development (i.e., games, mobile technologies, etc.).
- ♦ **Government support:** Driven by Singapore's Economic Review Committee, CCS is a concerted attempt by the government of Singapore to support its creative industries, aiming to double the current industry share of gross domestic product (GDP) to 6 per cent by 2012.<sup>10</sup>

- ♦ **Collaboration:** In addition to the high-profile companies listed above, over 15 different public bodies (e.g., the Singapore Land Authority, the National Library Board, and the Ministry of Manpower) are also represented. The academic community is notably absent.
- ♦ **Skills development:** The creative community has designed a training institution aimed at harnessing the latent creativity of Singapore citizenry.
- ♦ **Commercial output:** The creative industries contributed about S\$8.9 billion (C\$6.4 billion) to Singapore's economy in 2000. That figure is expected to grow significantly given the increased level of government support.

### **Parc Barcelona Media—Barcelona, Spain: B**

Parc Barcelona Media is the spearhead of that region's digital media innovation strategy and is managed by Barcelona Media. With a total physical area of over 175,000 m<sup>2</sup>, Parc has attracted some of Europe's finest digital media companies, including Grup Mediapro, one of Europe's leading audiovisual firms, and Pompeu Fabra University. The facility includes the Communications Campus of Pompeu Fabra University, an audiovisual production facility, and exhibition halls for completed content. While government investment in the initiative is strong, major international firms have yet to sign on.

- ♦ **High-profile companies:** Leading Barcelonan businesses include Mediapro (see above); Lavina, a television services firm; and Grupo Plenta, a leading Spanish-language publisher and content producer.
- ♦ **Labour pool:** Home to 4.7 million inhabitants and seven universities (which translates into some 300,000 students), Barcelona has a ready supply of digital-media-savvy labour.
- ♦ **Industry diversity:** Barcelona Media's strategy is primarily geared to the audiovisual and animation/digital creation industries, though advertising innovation is considered to be within the audiovisual sector.
- ♦ **Government support:** Barcelona Media's efforts benefit from significant governmental support. The municipal (Barcelona), state (Catalonia), national (Spanish) and European Union (EU)\_levels

8 Nordicity principals—then as part of a PriceWaterhouseCoopers global team—undertook two studies for the Media Development Authority (MDA) of Singapore. The more recent study, entitled *Benchmarking Study of the Singapore Media/New Media Industries*, covered seven sectors including advertising; digital and new media; film and television; Internet; radio and television broadcasting; print; and publishing.

9 <http://www.channelnewsasia.com/stories/singaporelocalnews/view/217358/1/html>.

10 Work Foundation, "Staying Ahead" (2007).

of government all lend some support to the initiative. Examples of mechanisms for this support include NEOTEC, a low-interest loan program; state-supplied lines of capital risk financing; and the EU program eContent Plus.

- ♦ **Collaboration:** As all three interested parties (government, industry, and universities) initiated this project, collaboration in Parc is both significant and institutional.
- ♦ **Skills development:** Parc is home to the communications department of Pompeu Fabra University.
- ♦ **Commercial output:** A large part of the revenues generated from Parc derive from the rental of adjacent office space to interested companies. Additionally, innovations from the “Innovation Centre” can make use of on-site business officers to help with commercialization. As the facility is currently under construction, it is too soon to judge the success of this model of seeding creative firms and property.

### Hexagram—Montréal, Quebec: B

The Hexagram Institute for Research Creation in the Media Arts and Technologies (“Hexagram”) was founded in 2001 by two Montréal-area universities, Concordia University and the Université du Québec à Montréal (UQÀM). The Institute both facilitates creators’ access to financing and also features state-of-the-art, multipurpose production facilities. These services are offered in both English and French.

- ♦ **High-profile companies:** Hexagram partners include McGill University, Cirque du Soleil, the Gillett Entertainment Group, Cogeco, and The Next Adventure (Clear Channel Entertainment).
- ♦ **Government support:** Hexagram is supported by grants from Valorisation recherche Québec; the Canada Foundation for Innovation; the Quebec ministries of Commerce, and Municipal and Regional Affairs; and the Canadian Economic Development Agency for Quebec Regions.
- ♦ **Collaboration:** Beyond the participation of the two founding universities and the government agencies, several industry partners have subsequently signed on. It remains, however, a program largely driven by its academic partners.

- ♦ **Commercial output:** Through Hexagram, a number of successful programs have been initiated, often with commercial intent. One such is “Darwin Dimensions,” a virtual casting agency in the form of a database with downloadable human characters. Innovative camera hardware and techniques have also been created at Hexagram. The initiative is currently changing its focus from academic research and innovation to product development and promotion.

## LESSONS LEARNED FROM THE EXPERIENCE OF THE CREATIVE CLUSTERS

### PUBLIC SUPPORT MEASURES

As the above scan indicates, the largest metropolitan centres such as London and Paris have obvious advantages in ensuring the continuity and growth of their creative clusters. Their sheer size brings together a critical mass of creative talent and financial resources on a scale that dwarfs those of smaller centres. When a creative cluster organization is articulated at such large scales—as with CapDigital in Paris—the results can be impressive. However, smaller creative centres can also thrive and develop even if some of these drivers are not fully present, by focusing on specific sectors of comparative advantage and strategically networking with other clusters.<sup>11</sup>

Synergies between creative talent and enterprises in creative clusters can be enabled by proactive public initiatives. The geography of creative clusters is largely a result of the combination of pre-existing critical masses of talent and finance with proactive public support. Both large-market players like the United Kingdom and South Korea, as well as smaller actors like Singapore, have recognized that creative industries, clustered in particular jurisdictions, offer an opportunity

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11 Nordicity is currently undertaking a Feasibility Study on a Creative Industries Facility for the Ottawa-Gatineau Film and Television Foundation (OGFT), which is funded by the Ontario Media Development Corporation, the City of Ottawa, and industry players.



for primary and secondary economic benefits.<sup>12</sup> The prevailing theme among these initiatives is that boundaries between creative industries (film, dance, new media, etc.) are rapidly evaporating. Thus, by facilitating the growth of each of the individual elements of the creative cluster, and by fostering collaboration and synergies between previously disparate creative industries, the network of interlocking cultural industries can be enabled to generate greater creativity as a whole. If this is achieved, the entirety of the jurisdiction will benefit as the creative industry cluster begins to take on a life of its own.

While there is some similarity in approach, jurisdictions tend to tailor their strategies for the development of creative clusters to their available infrastructure: their local strengths in creative, industrial, and academic institutions and talent.<sup>13</sup> The creative industry centres outlined above typically have formalized partnerships with academic institutions or government agencies, or both. These partnerships range from sharing of costs and resulting royalties of R&D of broadband applications, agreements for commercialization of research initiatives, cross-nomination of key professional staff, sharing of facilities, development and sharing of broadband networks, and so on.

While convergence is an old slogan, it has not always been successfully enacted by organizations. However, developments in the last five years have finally begun to demonstrate real change: The needed skill sets, the financing requirements, and partnerships to succeed in a cross-platform world are in transformation. This shift will impact how policy-makers must interact with the creative industries.

## SUPPORT MEASURES FOR PHYSICAL VERSUS VIRTUAL CLUSTERS

There is an ongoing debate on whether creative clusters should be encouraged to spread evenly across whole metropolitan regions or whether they should be concentrated in specific districts to maximize their creative output. A third position questions whether creative clusters must even remain tied to urban space, suggesting that clusters can in time be coaxed to gel entirely online. These intensive networks between geographically dispersed individuals might generate new kinds of virtual clusters.

Creative London and CapDigital foster development of creative industries throughout the London and Paris EMAs respectively. This recognizes that creative industries in those regions are too diverse and dispersed to be contained in a single district or physical location. A smaller metropolitan area—Lyon and its department (regional government)—have created Imaginove in a concentrated space in order to foster virtual links among enterprises in the city and surrounding region.

Stockholm and Brisbane have both fostered creative industry districts (the Precinct and the Kista Science City) as well as physical locations (the IT University and the Enterprise Centre) to foster their creative industries. Other centres have opted for dedicated facilities: Barcelona (Parc Barcelona Media), Montréal (Hexagram), and Singapore (Creative Community) fall into this category.

Other jurisdictions not covered in the centres described above are also developing their own facilities, such as the forthcoming mediacity:uk (Manchester), Digital Media City (Seoul) and the Tamana InTech Park (Wallerfield, Trinidad).<sup>14</sup> In considering these kinds of projects, public agencies should recognize the need of creative enterprises for secure, dedicated facilities.

<sup>12</sup> See, for instance, <http://www.mica.gov.sg/MTI%20Creative%20Industries.pdf>.

<sup>13</sup> Creative industries considered in this study include film and television production, multimedia/new media, performing arts, games, advertising, etc.

<sup>14</sup> *Success Requirements for Trinidad & Tobago Information Communications and Technology Sector*, PriceWaterhouseCoopers and Nordicity Group for eTech and Ministry of Industry (August 2006). This ICT park and others in Trinidad focus a cluster of biotechnology, IT, and other related industries.



However, concentrated facilities will function only if there is a high degree of cooperation in inter-firm dynamics. In a period of increased inter-firm competition, the fear of losing talent, creative secrets, and intellectual property can act to deter the sharing of facilities. In these contexts, the individual firms' objectives might contradict those of the jurisdictions attempting to foster a robust and dynamic creative industry cluster within their borders through the development of concentrated infrastructures. The goal of these facilities is to foster synergies among creative talent from different enterprises and backgrounds, a goal that requires a degree of operational trust among the interested agents.

Initiatives are particular to the varying strength and weaknesses of differing jurisdictions. Because clusters occur at the local/metropolitan level, analysis should focus on the place of the geographic cluster.

## **TYPES OF PUBLIC AND PUBLIC-PRIVATE FUNDING MEASURES**

Most jurisdictions with significant creative industry clusters have developed a range of financial incentives to support their creative enterprises. In the smaller "B" and "C" level jurisdictions, like Singapore or Kista, this practice is all the more true. These measures tend to be in four categories:

- ◆ tax credits
- ◆ financial support programs
- ◆ direct investment in facilities
- ◆ public-private venture capital funds

### **Tax credits**

Production and investment tax credits tend to have been designed for multiple sectors, as creative industries/digital media are generally too new in most jurisdictions to have specific dedicated programs. These tax credits are often not tailored to the needs and characteristics of creative industry projects that cross several platforms. These projects often involve the participation of multiple partners resident in many jurisdictions with different taxation/tax credit regimes. In distributed, collaborative e-work processes, the issue of what portion of the work

was performed becomes difficult to document other than through contractual payments.

## **Financial support programs**

Financial support programs for R&D, training, commercialization, support for copyright protection, etc. also tend to be designed for multiple sectors rather than for the needs of creative industries/digital media.

- ◆ **Research and development:** R&D support programs tend to be focused on software/hardware development and networks rather than innovation. While the commercial value of innovation is eventually expressed in the value of the intellectual property rights created by a creative project, this value is at the beginning always speculative in relation to notoriously unpredictable commercial markets. This means that it is often difficult to estimate the market value of any creative industry project early in its development, making strategic R&D funding difficult to secure and allocate.
- ◆ **Training:** Effective funding for training programs must recognize the multidisciplinary nature of the creative industries and the new issues surrounding the training of professionals in SMEs. In the knowledge-based digital economy, professionals tend to cycle through a stable of firms on a project-by-project basis. Training programs need to focus on the individual professionals/technicians rather than permanent staff within firms. Many training programs are developed over the course of many months and/or years, which makes them obsolete given the ongoing, rapid changes in technologies and markets.
- ◆ Training in creative industries needs to be responsive, intensive, and ongoing to compete in global labour markets. In industries in which goods and services can be transmitted around the world without cost or delay, fostering productivity and competitiveness will depend much more than in the past on investments in the continuous training of highly literate, multi-talented individuals capable of competing in the emerging global knowledge-based labour markets.

- ♦ **Commercialization and protection of copyright:** Given the global nature of the market for services generated by creative industries, the costs of commercialization and protection of copyright are often equal to or exceed the costs of development. Financial support programs are generally geared to the development and not the commercialization phase.

### Direct investment in facilities

Funding is usually made to a quasi-public corporation specially created to operate the specific facility. As there are usually many different and competing partners/beneficiaries that might use the facilities, negotiations on financial participation and access to facilities is often long and arduous. The meltdown of tech firms in the 2000–01 dot-com bust persuaded governments in many jurisdictions that technology investments were inherently risky. Thus, direct investment by public agencies, if available, is usually undertaken as a one-time capital infusion rather than stable operational funding as a way to minimize risk to the public purse.

### Public–private venture capital funds

Public–private venture capital funds that target creative industries are found only in a few jurisdictions (e.g., Scotland). Multi-sector funds such as the regional development funds in Canada (e.g., Atlantic Canada Opportunities Agency, Western Diversification), which are available in many jurisdictions for economic development, are not well suited for the creative industries. They tend to focus on the creation of permanent jobs and infrastructure development, rather than the intellectual property that is generated through the innovation of creative industries.

### Education and training

The creative industry workforce is typically attuned to latest global trends, multi-talented and mobile from project to project, and intensively employs professional and social networking to generate and undertake projects. Work processes are a reflection of the modern networked technological environment and involve the participation of many independent contributors from different backgrounds working in creative synergy through distributed work processes. Apart from a few major firms such as Electronic Arts, Ubisoft, etc., most firms are SMEs.

While distributed work processes enable the participation of SMEs, their small size, lack of financial resources, and relative impermanence hamper the development of a stable workforce through ongoing skills training and professional development. These issues are found in traditional and new media.<sup>15</sup>

Human resources development also suffers from the traditional “silo” or one-dimensional viewpoints of each of the individual industry sectors; each silo can tend to underestimate the value of synergies among the creative sectors and therefore to underestimate the need for collaborative efforts and cross-sector, interdisciplinary training.

As most firms work on a project-financing basis, they often lack cash flow to develop standard back-office functions adequately, such as finance, human resources, records keeping, and standard corporate procedures development. The result is major inefficiencies in project development and management.

## LESSONS LEARNED AND RECOMMENDATIONS

To conclude, we would like to suggest some key lessons learned from our analysis of creative clusters and some possible policy recommendations:

- ♦ Support measures need to be designed—and not merely adapted—to the profile and needs of the creative industry enterprises in the region.
- ♦ The tax credits need to take into account the participation of multiple partners resident in many jurisdictions with different taxation/tax credit regimes and recognize the complexity of distributed work processes.
- ♦ R&D support programs need to recognize innovation and the complexities of intellectual property rights produced in the creative project.

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15 Nordicity Group for Department of Canadian Heritage, *Profile of Small and Medium-sized Enterprises in the Canadian Cultural Industries* (2004).

- ◆ Funding for training programs should recognize the inter- and multidisciplinary nature of creative industries, be focused on individual professionals/technicians, and be more responsive, intensive, and ongoing.
- ◆ The significant costs of commercialization and protection of copyright should be recognized and supported.
- ◆ Direct funding of facilities should be considered in the context of the needs of creative firms for virtual and facility-based networks.
- ◆ Public–private venture capital funds that target innovation and intellectual property generated by creative industries should be encouraged.
- ◆ Corporate funding is needed to drive slate development—either by redirected government project financing, or through public–private venture capital funds such as those of Scotland.

By employing some of the above mechanisms, it is Nordicity’s contention that a jurisdiction may augment the creative resources it has at its disposal by helping to develop its digitally based, creative industry clusters. This focus may, in turn, lead to significant subsequent economic benefits, as high-prestige cultural products and the fostering of expertise in all phases of production lead to the steady accumulation of secondary economic benefits. This is not to say, however, that all of the above strategies could be employed successfully by any jurisdiction seeking to augment its creative output; rather, this list forms a starting point from which policy-makers can craft strategies appropriate for their constituencies. In sum, the recipe for a strong creative cluster policy begins with a well-thought-through set of ingredients.



## RESEARCH PAPER 16

# The New Artistic Labour Force: Observations From the Canada Council's Consultations

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### INTRODUCTION

On May 9, 2007, in its 50<sup>th</sup> anniversary year, the Canada Council for the Arts<sup>1</sup> and its Director, Robert Sirman, announced it would develop a strategic plan to guide the Council's programs and priorities for 2008 to 2011. The strategic planning process that followed included the largest stakeholder consultation in the Council's history. The Council recognized that the strategic plan was an opportunity to reinvigorate its conversations with the arts community and to expand the dialogue to include a wider range of interested Canadians. The relationship between the Council and the arts community—artists, arts organizations, arts funders, and partners—is critical to the Council's understanding of the arts and its ability to develop programs and policies that will be of most benefit to the arts in Canada and to Canadians.

The consultations included two components.

### STAKEHOLDER DISCUSSIONS

In May and June 2007, the Council organized discussions with approximately 300 participants from four defined stakeholder groups. These included national

arts service organizations; arts funders at the provincial, territorial, and municipal levels; and selected organizations with an interest in the Council's work.

Most importantly for the purposes of this paper, the Council and provincial/ territorial arts funders brought together a fourth group of close to 200 artists and arts administrators, aged 18 to 30, to discuss their work, challenges, and vision for the future. This project was called the "Next Generation of Artistic Leaders and Audiences Dialogues"<sup>2</sup> (NextGen Dialogues). While the main objective of the dialogues was to engage this group of emerging artists and administrators in helping to define future direction for arts funding and policies, the dialogues also yielded rich information about their work.

### ONLINE COMPONENT

The Council posted its consultation paper and accompanying online survey on its website on May 14, and sent e-mail invitations to approximately 20,000 artists, arts organizations, and individuals with an interest in the arts. This distribution included but was not limited to every applicant to the Council in the past three years. The Council encouraged organizations to circulate the invitation through their networks, websites, and newsletters and to consult with their constituents as much as possible. The Council received approximately 1,200 responses from all 13 provinces and territories. Nearly half of respondents identified themselves as a "professional artist or arts professional."

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1 The Canada Council for the Arts is a federal Crown corporation created by an Act of Parliament in 1957 (the *Canada Council for the Arts Act*) "to foster and promote the study and enjoyment of the arts." The Canada Council offers a broad range of grants and services to professional Canadian artists and arts organizations in music, theatre, writing and publishing, visual arts, dance, media arts, and interdisciplinary and performance art. It also seeks to raise public awareness of the arts through its communications, research, and arts promotion activities. For more information, see the Council's website at [www.canadacouncil.ca](http://www.canadacouncil.ca).

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2 The audience component of the dialogues was a series of focus groups with non-artists in the same age range on what they value in the arts. The full report is available on the Council's website.

At the same time that the strategic planning process was initiated, the Council continued its research activities (e.g., on arts-based cross-sectoral work and digital arts) and its ongoing consultations with artists who sit on its many advisory committees and the more than 700 artists who serve as peer assessors each year. These artists provide an ongoing link between the Council and the arts community and are a valuable source of information on developments in their artistic discipline or field.

This paper brings together observations from the NextGen Dialogues and the online component of the strategic plan consultations, as well as recent findings from ongoing research and consultation, which illustrate trends in the ways that artists are working. Together, these provide a snapshot of the current artistic labour force and some of its emerging characteristics. It attempts to focus on what is new about the ways in which artists are seeing themselves and practising their work.

One of the most important conclusions the Council has reached in the course of its strategic planning process relates to the question of what is needed for a strong and healthy arts ecosystem in which the arts—and artists—can thrive. The Council has begun describing this success factor as the quality of the arts “infrastructure,” using that word in its original meaning as the underlying foundation or basic framework for an organization or system.

For sustainable professional arts practices, a community (however defined) needs excellent individual artists; excellent arts organizations that support, employ, present, exhibit, publish, or provide other resources for artists; engaged audiences; a supportive public; an enlightened funding and public policy environment; and facilities for the practice of art. Together, these elements provide the basis for a sustainable arts sector, which in turn creates the foundation for the community’s cultural life. All of these elements of the infrastructure are challenged to respond as artistic practices and circumstances change.

Within the arts infrastructure, artists are the primary creators of independent creative content. The trends identified in this paper show that artists are pushing boundaries and that they are bringing their perspectives and talents to multiple roles and many sectors of society. This contribution makes artists critical drivers of Canada’s changing and expanding creative economy.

The term “artistic labour force”<sup>3</sup> is used in this paper to refer to those artists within the overall cultural labour force who work primarily as independent creators in a variety of artistic disciplines: dance, music, theatre, visual arts, media arts, writing and publishing, inter-arts and multidisciplinary arts. While some are affiliated with for-profit organizations, the main focus is on artists who are working either on their own or in the context of not-for-profit arts organizations.

## CONTEXT

This paper focuses on the emerging aspects of the artistic labour force that were discussed in the Council’s recent consultations, rather than a quantitative analysis of its characteristics. However, it is important to set the context for these observations by summarizing the most recent available statistical findings about Canada’s artists and other cultural workers.<sup>4</sup>

### SOCIO-ECONOMIC STATUS OF ARTISTS

- ♦ With average earnings of \$23,500, artists are in the lowest quarter of average earnings of all occupations. Other occupations with average earnings similar to artists include medical secretaries, customer services clerks, delivery drivers, and roofers.

3 The cultural labour force as it is defined by Statistics Canada for the purposes of the census includes those Canadians 15 or older in any of 45 occupations, considered cultural. These occupations include heritage occupations (such as librarians, curators, and archivists), cultural occupations (such as graphic designers, print operators, editors, translators, and architects), and artistic occupations.

4 The most recent available data come from the 2001 Census; the results of the 2006 Census pertaining to the arts have not yet been released.

- ◆ Female, Aboriginal and visible minority artists have particularly low average earnings.
- ◆ Economic returns to higher education are much lower for artists than for other workers. Over 40 per cent of artists hold a university degree (compared to 22 per cent in the overall labour force), yet university-educated artists earn, on average, approximately half of the average earnings of university-educated workers in the overall labour force.
- ◆ Rates of self-employment are much higher in the arts than in the overall labour force: 44 per cent for artists compared to 8 per cent overall.<sup>5</sup>
- ◆ On a national basis, the average earnings gap between artists and other labour force workers is 26 per cent. The earnings gap exists in every province and territory, though it varies in degree.<sup>6</sup>
- ◆ In many cities, artists have average earnings below \$20,000.<sup>7</sup>

## GROWTH AND DISTRIBUTION OF ARTISTIC LABOUR FORCE

- ◆ Canada's 27 Census Metropolitan Areas (CMAs) account for two-thirds of the nation's labour force but over three-quarters of its artists.<sup>8</sup>
- ◆ Between 1971 and 2001, while there was an 81 per cent increase in the overall labour force, the number of artists in Canada more than tripled.
- ◆ Between 1991 and 2001, arts labour force growth was very strong in almost all of Canada's 27 CMAs, often more than double the overall rates of growth in the local labour force.<sup>9</sup>

- ◆ Toronto and Montréal—Canada's two largest CMAs—are magnets for Canada's cultural workers.<sup>10</sup>
- ◆ The percentage of artists aged 45 or older (39 per cent) is higher than that of the overall labour force (35 per cent).<sup>11</sup>

These characteristics of the artistic labour force point to the reality within which artists in Canada work. They were referenced in all of the strategic plan consultations with artists and arts organizations.

## NEW ARTISTIC LABOUR FORCE: TRENDS

During the strategic plan consultations, participants were asked to respond to the Council's consultation paper, *Creating Our Future: An Invitation to Contribute to the Strategic Plan of the Canada Council for the Arts*.<sup>12</sup> The paper described and posed questions about the Council's support to the arts, its values, and its core priorities.

The paper also included a discussion of the current environment for the arts and the Council and asked participants in the consultations to respond to these. Most relevant to this paper is a section titled "Changes in the Arts Community," which briefly documents the most important issues and trends that are changing the way that art is created, disseminated, and experienced in Canada.

The following six trends were most frequently addressed by participants in the consultations.

### ◆ Diversity of professional arts practice

The increasing diversity of professional arts practices in Canada, including continuous growth in the numbers of artists, and the emergence of new arts groups and projects.

5 All of the above statistics are from "A Statistical Profile of Artists in Canada Based on the 2001 Census," Hill Strategies, September 2004; summarized in Hill Strategies Research Arts Research Monitor, 3(4) (September 2004).

6 *Artists in Canada's Provinces, Territories and Metropolitan Areas Based on the 2001 Census*, Hill Strategies Research, 2004.

7 *Artists in Large Canadian Cities*, Hill Strategies Research, 2006.

8 *Ibid.*, p. 4.

9 *Artists in Canada's Provinces, Territories and Metropolitan Areas Based on the 2001 Census*, Hill Strategies Research, 2004.

10 *Census Metropolitan Areas as Culture Clusters*, Statistics Canada, October 2004.

11 *A Statistical Profile of Artists in Canada Based on the 2001 Census*, Hill Strategies, September 2004.

12 Available at [www.50.canadacouncil.ca](http://www.50.canadacouncil.ca).



- ◆ **New technologies**

The dramatic impact of new technologies on how the arts are created, produced, and disseminated.

- ◆ **Inter- and multidisciplinary**

Increasing inter- and multidisciplinary reflecting the fact that traditional boundaries among artistic disciplines,<sup>13</sup> genres, and practices are blurring.

- ◆ **Collaborative and cross-sectoral work**

Increasing interest among artists, especially young artists, in working collaboratively with communities and with sectors outside the arts (environment, health, justice, human rights, etc.).

- ◆ **Artist entrepreneurs/Multiplicity of roles**

Artists increasingly “piecing together” their working lives through frequent cross overs between not-for-profit, for-profit, and community arts practices and by inhabiting multiple roles.

- ◆ **Intergenerational and interdisciplinary dialogue**

With senior artists and arts leaders close to retirement age, the need to facilitate intergenerational dialogue, train and attract new talent from the younger generation, manage succession in arts organizations, and preserve artistic legacies.

Each of these themes is explored in more detail below, with examples of artists or arts organizations whose work illustrates the trend.

## **DIVERSITY OF PROFESSIONAL ARTS PRACTICE**

The continuous growth of the cultural and artistic labour force in Canada represents an increase in both numbers and diversity of artists and arts organizations. The Council has seen a continuous increase in the number of artists and organizations applying for support: in 1996-97, the Council received 10,316 applications; in 2006-07, 10 years later, the Council received 15,663 applications.

At the same time that the numbers of artists and arts organizations have increased, so has the diversity of art forms practised in Canada. This diversity includes “emerging art forms” that are new, artists wishing to practise in more than one form, new ways of practising traditional art forms, culturally diverse arts practices, Aboriginal arts, and regional differences in how art is created.

Some artists find it difficult to locate their artistic practices within the broader contemporary art scene and within established artistic disciplines: “Artists working in hip-hop, break dancing and graffiti have difficulty finding support for their work because they feel their practices are not yet recognized as... legitimate by arts funders or society as a whole.”<sup>14</sup>

The concept of “emerging” was applied in different ways by participants in the Council’s consultations. For some, it described artists in the early stages of their careers; for others, it described more senior artists who change their practice and are therefore “emerging” in the new art form. Equally, it was applied to individuals who come to their practice later in life: “The ‘aging’ of the Canadian population is a greatly overlooked source of strength for Canada. There may be a huge number of ‘emerging’ artists within it. They may be starting a second (or third!) career and may have tremendous contributions to make. They may also have resources that only need minimal encouragement to provide a cultural blossoming.”<sup>15</sup>

13 Artistic disciplines refer to different art forms, such as music, theatre, writing and publishing, visual arts, dance, media arts, and interdisciplinary art.

14 *Next Generation of Artistic Leaders and Arts Audiences Dialogues*, Decode, 2007, p. 18. [www.canadacouncil.ca](http://www.canadacouncil.ca).

15 *Analysis of Responses to the Strategic Planning Online Survey*, Hill Strategies Research, 2007; p. 49. [www.canadacouncil.ca](http://www.canadacouncil.ca).

### The 411 Initiative For Change (Toronto)

The 411 Initiative For Change is an arts organization that undertakes public education and the promotion of civic participation of young people on social issues through the creation and dissemination of urban arts practices. The 411 Initiative For Change works to create a world in which all global citizens, and specifically young people, have a say and a role to play in their community, their country, and are active participants in all areas of society and at all levels.<sup>16</sup>

### NEW TECHNOLOGIES

The impact of new technologies on how the arts are created, produced, and disseminated is felt by artists working in all artistic disciplines. New technologies allow greater direct access to the arts and may over time weaken the role of traditional “gatekeepers” (e.g., arts organizations) as work is created and distributed directly via the Internet and other technologies.

Throughout the consultations, artists articulated the impact of new technologies both on the creation and dissemination of their work: “With the increasingly commercial nature of online interaction combined with an increasing number of people interacting online, it is important to foster arts organizations and individual artists using the internet and other networked media for non-commercial purposes.”<sup>17</sup>

In response to questions asking survey respondents to identify trends in the environment, many respondents referenced technological change:

- ♦ “Increasing importance of virtual media and corresponding changes towards increased collaborative, non-hierarchical and distributed creative processes.”
- ♦ “The biggest trend right now is new media Internet, YouTube, MySpace, which is impacting individual artists to a far greater extent than the Council (or anyone else) seems to realize. The art world is exploding right now...”
- ♦ “The impact of social networking and collaborative creation over networks. There is also an internation-

alizing effect to this, especially in terms of how Canadian artists can much more easily work directly with arts communities and organizations in the United States, Europe, etc.”

- ♦ “Technology especially crossovers between fine art and popular culture media.”
- ♦ “Pay particular attention to changes in the technologies being used to produce music or other projects.”<sup>18</sup>

NextGen Dialogues participants are using the Internet and social networking sites such as MySpace and Facebook as a way to market and find audiences for their work. For some participants from isolated or northern communities, Internet access has helped them to stay in their home communities, while marketing their work and connecting with other artists through the Web.<sup>19</sup>

### kondition pluriel (Montréal)

kondition pluriel is a Montréal-based experimental creation/production company that uses choreography and technological tools developed specifically to create original interdisciplinary works. Its work combines movement, performance, interactive technology, and digital video to create new spaces for audiences to experience contemporary art, such as participative works where the audience directly affects the artistic outcome. It also develops new electronic interfaces based on existing technologies, such as tracking systems, which have been used by other organizations in the arts and in cultural industries.<sup>20</sup>

16 Adapted from the 411 Initiative For Change web site and used with permission. <http://www.whatsthe411.ca/>.

17 Raw data from the online survey.

18 Decode 2007, p. 16.

19 Ibid., p. 52.

20 Adapted from the kondition pluriel website and used with permission. <http://www.konditionpluriel.org/>.

### Artengine (Ottawa)

Artengine is an artist-run centre that fosters democratic and innovative approaches to electronic art and its evolving relationship to society. Artengine is committed to the creation, presentation/dissemination, and promotion of art concerned with technological experimentation, both online and in physical space, and to ensuring that artists have affordable access to specific technological resources needed for their work.<sup>21</sup>

## INTER- AND MULTIDISCIPLINARITY

Artists are combining artistic disciplines as traditional boundaries between artistic disciplines, genres, and practices become increasingly blurred. For example, circus artists are working more closely with artists in theatre, music, and dance to create new and innovative forms of expression in the performing arts (see the Artcirq example below).

This increased emphasis on hybridity is due in part to the accessibility of digital technologies but also to the increasingly diverse body of professional artists in Canada.

The Canada Council's report *Opening Up Space: Toward an Expansive Vision for Multidisciplinary Arts in Canada*<sup>22</sup> identified some of these changes, including:

- ◆ artists who work in different artistic disciplines at different times, and artists who regularly engage in work that combines disciplines
- ◆ artists who wish to cross over from their "home" discipline to practise in an art form that is new to them
- ◆ non-arts organizations that engage in professional multidisciplinary arts programming
- ◆ organizations that have expanded their programming outside of strictly disciplinary boundaries, such as those that specialize in the field of arts and health

and those working with social development professionals in the field of social justice

- ◆ multidisciplinary arts networking and service organizations

This rapid pace of change in the arts was also raised during the consultations: "The arts are changing rapidly. Technology and inter-disciplinary practices are more prevalent."<sup>23</sup>

### Artcirq (Igloolik)

The work of Artcirq combines the roots of traditional Inuit culture (acrobatics, juggling, and clown) with the techniques of modern circus. The group provides young Inuit access to universal communication vehicles offered by circus arts and media arts, with a view to bridging the gap between the different generations and cultures. Artcirq often collaborates with Isuma Productions in Igloolik, the independent Inuit film and video production company responsible for *Atanarjuat The Fast Runner*.<sup>24</sup>

## COLLABORATIVE AND CROSS-SECTORAL WORK

A Canada Council internal review of support to arts-based cross-sectoral work—collaborations between one or more arts disciplines and another professional sector that results in an original art work—noted there has been a growth in new approaches to deepening and stabilizing how the arts intersect with other sectors. In particular, young artists are working collaboratively with communities and non-traditional and non-arts sectors and participating as artists in movements for social change (e.g., environment, health, justice, human rights).

This dynamic has resulted in increasing partnership activity between the arts and other professional fields, including (but not limited to) arts and science, arts and health, arts and justice, and arts and ecology. Rather than simply making art "about" health or science,

21 Adapted from Artengine's website and used with permission. <http://artengine.ca/html/index.php>.

22 [http://www.canadacouncil.ca/publications\\_e/research/art\\_disciplines\\_sect/dh128290817209386927.htm](http://www.canadacouncil.ca/publications_e/research/art_disciplines_sect/dh128290817209386927.htm).

23 *Analysis of Responses to the Strategic Planning Online Survey*, Hill Strategies Research, 2007; p. 52. [www.canadacouncil.ca](http://www.canadacouncil.ca).

24 Adapted from the Artcirq website and used with permission. <http://artcirq.org/>.

artists and their peers in other sectors are embarking upon processes that bring their respective expertise to joint exploration and creation. This is in addition to the growth of the community arts field, showing an overall interest of artists to foster stronger connections with the societies in which they live, stimulating critical thought about those societies, and exploring new avenues of collaborative creation and fields of knowledge.

In the most compelling collaborations, the final product is something that could not have been created without the full integration of the sectors, with benefits to both and a sense of co-ownership. The work often pushes the boundaries of what “art” is.

Artists bring to these intersections the ability to question and criticize conventional modes of thought, inventiveness about the application of concepts and products, and the ability to communicate complex ideas to a wide variety of audiences. In turn, cross-sectoral collaboration stimulates creativity, pushes artistic craft, fosters knowledge transfer, and breaks down the barriers between the arts and other professional realms. In the creative economy and knowledge-based society, this kind of exchange and cross-pollination is prized for its ability to transcend disciplinary boundaries and produce innovative results.

It was suggested during the consultations that organizations that support the arts must seek to build linkages between the arts, creative thinking in the educational system, and innovation in every sector of our society.<sup>25</sup> Other issues raised included the need to set artistic standards for cross-sectoral work and the need to pay more attention to pressing environmental issues, such as global warming and its effects on Aboriginal people of the North.<sup>26</sup>

### Common Weal Community Arts (Regina)

Common Weal Community Arts is a Saskatchewan-based non-profit organization and a national leader in the field of artist and community collaboration. Common Weal inspires ideas for social change through art and engages communities and professional artists to come together and create art. Its work is about finding social empowerment through the spirit of collaboration. The process of working together helps the participants build bridges to each other, and leads to the creation of high-calibre art. By linking professional artists with communities to engage in collaborative art projects, Common Weal empowers people—and their communities—to tell their stories in their own voices.<sup>27</sup>

### ARTIST ENTREPRENEURS/MULTIPLICITY OF ROLES

Given their often precarious socio-economic situations, artists wear many hats. While this is itself not new, the Council observed in its consultations an increasing tendency for artists to “piece together” their working lives through frequent cross overs between not-for-profit, for-profit, and community arts practices and by inhabiting multiple roles, including that of entrepreneur.

The report on the NextGen Dialogues summarized this trend.

#### “The Next Generation of Artistic Leaders

Dialogues showed that young artists and arts professionals wear many hats: artist, curator, administrator, educator, small business manager, arts volunteer, community leader and technical support worker. Young arts community members play multiple roles to support themselves and their peers and many believe this is something unique to young and emerging arts practitioners. In addition, many participants believe that the existing arts infrastructure, which emphasizes specialization, linear career development and clear role delineation, is not reflective of their current reality. Many participants spoke of entrepreneurial models when discussing their long-range career plans. The goal for these

25 *Analysis of Responses to the Strategic Planning Online Survey*, Hill Strategies Research, 2007; p. 53.

26 *Report on Canada Council Strategic Plan Consultation: Part 1—Stakeholder Discussions*, Canada Council, 2007, p. 16.

27 Adapted from Common Weal's website and used with permission. <http://www.commonweal-arts.com/>.

participants is to be entirely reliant on income generated through their artistic practices... Even among participants who said they do not realistically feel they will be able to sustain themselves solely from creative work, entrepreneurial skills are highly prized, as it is imagined that they will help lessen the economic pressures they currently face. Business skills are also highly valued by arts administrators who often say they feel under-equipped to manage financial issues they face in their jobs.”<sup>28</sup>

Renewal and the creation of opportunities for the next generation were recurring themes during the consultations: “Make renewal possible and establish support mechanisms that will facilitate the emergence of the next generation and support all forms of renewal (artists, arts organizations and new forms).”<sup>29</sup>

The artist referenced in the following example, Alyson Scott, combines her professional art practice with other related revenue-generating activities. This type of combination—particularly where an artist is working in both a not-for-profit and commercial model, or somewhere between the two—sometimes does not fit arts funders’ eligibility criteria and can leave these artists outside of the funding system.

#### **Alyson Scott (New Brunswick)**

Fibre artist Alyson Scott is co-owner of Legacy Lane Fiber Mill, a full custom fibre-processing mill, which specializes in processing all types of exotic fibre and a variety of sheep wool. The mill’s services include washing, picking, carding, spinning, plying, and felting. Its commitment is to operate a business that is environmentally responsible and that provides a service that is adding value to existing agricultural production, which will create increased demand for fleece-bearing livestock. The intent is to raise awareness on the valuable benefits that the textile industry can create by promoting education in this field.<sup>30</sup>

## **INTERGENERATIONAL AND INTERDISCIPLINARY DIALOGUE**

With senior artists and arts leaders close to retirement age, artists at all stages in their careers are seeking intergenerational dialogue. As the artistic labour force ages and a generation of senior artists leaves the sector, it is becoming more urgent that new talent be trained, attracted, and retained. Arts organizations are feeling pressure to manage succession and preserve artistic legacies.

As part of their desire for continued learning opportunities in both their artistic practice and business side of their work, participants in the NextGen Dialogues wanted to learn from established and senior artists.<sup>31</sup> This intergenerational exchange is particularly important to the arts as many “founding” members of the community—those who established artistic organizations based on their particular artistic vision—approach the end of their careers.

The issue of arts developing a larger presence in the schools for children and adolescents, of nurturing the next generation of artists, and developing future audiences, was also raised during the consultations.<sup>32</sup>

A wide range of organizations play a role in the training and development of artists, making this area one in which many opportunities exist for collaboration and partnership.

#### **Emerging Arts Professional Network (Toronto)**

The Emerging Arts Professional Network (EAP) is an online career resource and community network for arts administrators, managers, and artists who are at the start of their careers and looking for opportunities to gain access to online mentors and insight into the possible directions in which to forward their careers. EAP offers access to existing professional development opportunities in the arts. The network presents a series of informal evening professional development workshops and networking opportunities. EAP also offers subsidized management services to a small roster of emerging artists.<sup>33</sup>

<sup>28</sup> Decode, p. 55.

<sup>29</sup> Ibid., p. 50.

<sup>30</sup> Adapted from Alyson Scott’s website and used with permission. <http://www.legacylanefibermill.ca/>.

<sup>31</sup> Decode, p. 15.

<sup>32</sup> Ibid., p. 12.

<sup>33</sup> Adapted from the EAP website and used with permission. <http://www.eapnetwork.ca/>.

## IMPLICATIONS OF TRENDS FOR THE CANADA COUNCIL

The Canada Council's 2008–11 strategic and action plans set out five broad directions that are informed by the issues identified above. Within these directions, the Council has identified specific strategies in its action plan that it will pursue in 2008–11 to respond to these trends.<sup>34</sup>

### REINFORCE THE COUNCIL'S COMMITMENT TO INDIVIDUAL ARTISTS, WORKING ALONE OR COLLABORATIVELY, AS THE CORE OF ARTISTIC PRACTICE IN CANADA

This direction recognizes that artists, working alone or collaboratively, play a central role in the arts and society, as innovators advancing new ideas and creative thinking and as drivers of the creative economy. It suggests that the Council should devote substantial thought and resources to its work in supporting individual artists and increasing public awareness of their importance to Canadian society, and that this support should meet the changing needs of the artistic labour force.

Strategies under this direction that respond to the trends discussed in this paper include:

- ◆ Strengthen the Council's investment in individual artists working in all artistic disciplines.
- ◆ Improve access to professional development for artists.
- ◆ Continue to engage with young artists by building on the work done in 2007 through the NextGen Dialogues.
- ◆ Develop and plan to introduce in 2009–10 a flexible grant program for individual artists to respond to the diversity of current practices.

### BROADEN THE COUNCIL'S COMMITMENT TO ARTS ORGANIZATIONS TO STRENGTHEN THEIR CAPACITY TO UNDERPIN ARTISTIC PRACTICES IN ALL PARTS OF THE COUNTRY

This direction affirms the crucial role played by arts organizations of all sizes and in all disciplines across Canada. Arts organizations provide opportunities for

the practice and appreciation of art, offer employment and income to artists, and contribute to their professional and career development; they connect artists with audiences, engage the public in the arts, and demonstrate the value of the arts to society. The quality, stability, and resilience of arts organizations are therefore major considerations for the Council.

Strategies under this direction that respond to the trends identified in this paper include:

- ◆ Make a significant additional investment in arts organizations, including in project grants to benefit emerging arts organizations and other groups that do not yet receive operating grants from the Council.
- ◆ Ensure equity of access to operating support for well-assessed emerging, culturally diverse, and Aboriginal arts organizations.
- ◆ Undertake, in partnership with other interested organizations, a research initiative to better map the arts infrastructure/arts ecosystem across Canada, its strengths, weaknesses, and gaps.

### ENHANCE THE COUNCIL'S LEADERSHIP ROLE IN PROMOTING EQUITY AS A CRITICAL PRIORITY IN FULFILLING CANADA'S ARTISTIC ASPIRATIONS

Given the diversity of artistic practice in Canada, this direction reaffirms the importance of existing equity initiatives and asserts that equity in the broadest sense is a fundamental value of the Council that must be reinforced, further operationalized across the organization, and, as resources allow, expanded into areas to which the Council has not yet given priority. This broad understanding of the term includes equity based on region, language, culture, race, generation, gender, and ability.

This direction in itself reflects the Council's commitment to a diversity of artists and practices. Specific strategies that respond to the trends identified in this paper include:

- ◆ Maintain Council's capacity-building support for culturally diverse and Aboriginal arts organizations and for artists working in minority official-language situations.
- ◆ Increase investment through programs that specifically address Aboriginal artists and arts organizations.

34 The full text of the strategic and action plans is available on the Council's website.



- ♦ Integrate equity as a guiding principle and responsibility through the Council.

### **MAKE PARTNERSHIPS WITH OTHER ORGANIZATIONS A KEY ELEMENT IN THE COUNCIL'S APPROACH TO ADVANCING ITS MANDATE**

This direction affirms that the Council will make partnerships a key element in its operations, and it supports arts funders working more effectively together to improve the delivery of programs and services to the arts and offer new opportunities for the public to experience the arts. It recognizes that partnerships expand the Council's impact beyond its resources and into arts-related areas in which the Council has an interest but not a direct mandate or adequate resources to act alone.

Under this direction, the Council intends to increase its investment in partnership activity and further develop its capacity to engage in partnerships with other organizations with an interest in supporting the arts.

### **ENHANCE THE COUNCIL'S CAPACITY TO SUPPORT THE ARTS AND IMPLEMENT CHANGE BY STRENGTHENING ITS STRUCTURE, STAFFING, AND SERVICES**

This direction commits the Council to enhancing its capacities as an organization, increasing opportunities for staff to engage with the artistic community across Canada, making greater use of its knowledge base, and examining its staff structure to address long-standing workload pressures.

Under this direction, the Council will, among other initiatives, set up a new division that will act horizontally to provide enhanced capacity for the priorities in the plan and provide greater opportunities for sharing expertise across and outside the Council. Areas of work

that will be included in this new division are equity, Aboriginal arts, partnership and networks, research, policy analysis, program evaluation, and the Arts Services Unit.

## **CONCLUSION**

The trends in the artistic labour force as they are presented in this paper attempt to synthesize some of the changing ways in which artists are working. This work takes place within a complex system in which many elements interact to support the arts, a system that the Council has referred to in its strategic plan as the arts infrastructure.

The Council—and the grants and services it provides—is one element of this infrastructure. There are many others for which these trends have equal significance. Together, these inter-related elements provide the larger framework in which the arts flourish.

## **ACKNOWLEDGEMENTS**

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## RESEARCH PAPER 17

# Sustainable Livelihood Systems: A Framework for Understanding the Economic Role of Artists in the Creative Economy

*Judi Piggott, BC Cultural Sector Development Council, Canada*

### Abstract

This paper will present a systems approach to mapping and understanding the creative economy at the level of its individual creative assets, the artists, and cultural workers (the knowledge economy's new capitalists, according to Drucker). Despite an increase in data profiling the sector's economic impact and potential, much of the information about how individual artists generate income and sustain themselves is not effectively captured in these studies. To rethink the starving artist stereotype and put creative workers at the centre of the creative economy, it is important to have an understanding of their livelihood systems, and provide

a framework within which this information can be described and used. Although livelihood systems models are most identified with international development work, primarily in poverty work with rural populations, it is certainly not limited to that use. It is an ideal approach for addressing groups, clusters, and individuals. With a sectoral focus on artists and cultural workers, this framework can inform research and policy development, program design and, more importantly, give us a more holistic and effective way of including the individual creative worker as asset and economic contributor within the economic models being developed.

## INTRODUCTION

**I**ncreasingly, the cultural sector in Canada has been required to produce evidence of its impact—on the economy, on social problems, on creating livable cities—as justification for the “investment” of public funding. This is a trend in many countries, and there are, of course, vocal critics of this approach:

...[T]he subsidised cultural sector has been pressed into delivering on a number of government objectives – combatting social exclusion, in particular. ...This very concentration of effort dedicated to identifying and extracting evidence of impact across the whole of the sector is such that it has been described as ‘the huge search to find the holy grail’ – the answer to the question,

why fund the arts or more precisely show us why funding the arts will cure the sick, raise the dead and eradicate world poverty (Selwood, 2002).

However, the establishment of an evidence base for understanding the economic and social contributions and challenges of artists’ working lives is important for informing strategic initiatives that can support them. This is important not only to ensure the existence of a cultural labour force, but as the essential environment for building an economy on knowledge, creativity and innovation. In a creative economy, “...what is different, as Drucker says so well, knowledge workers are the new capitalists—they are the people who own the means of production” (Zoellick, 2001). As such it is important to lay aside stereotypes and examine this complex landscape of contributions holistically.

Understanding the connection of the contributions that artists make across sectors and in the community through artistic practice or otherwise, how they support themselves to continue—or to give up—and where the risks of losing them are greatest, will mean broadening the viewpoint beyond the framework of a manufacturing economy’s language.

## A NEW ECONOMY IN AN OLD PARADIGM

Despite an increase in the amount of data profiling the creative sector’s economic impact and potential, much of the information about how individual artists<sup>1</sup> generate income and contribute to the creative economy is not effectively captured in these studies. For 12 years, while developing programs and working with nearly 2,000 artists on their income development issues, I lived with this conundrum, expecting that over time the challenge would be resolved. The program I proposed in 1996 and then—enriched by the involvement of a team of peer facilitators—built and directed as it evolved over the next 10 years (Piggott, 2007) assumed that artists did not need to be ‘trained’ to find jobs, but rather to be supported to use their creativity on their own behalf to find and create paid work that contributes to their creative lives, without compromising their personal or artistic integrity.

In the SEARCH program, we provided a space where “un- and under-employed” artists could integrate the matrix of their working lives; challenge their own internalized mythology about business and art; adapt planning models to work with their own styles; and build on their skills, talents, and passion to generate revenue from a spectrum of sources. Participants left the program better equipped to navigate the cultural landscape, and less hampered by outmoded assumptions and fears. It was targeted to build the competencies artists need to meet the challenges of the new economy

and succeed on their own terms, not at re-tooling them to find “better” jobs. It was a facilitated, peer-led, active engagement process which had the effect of shifting mindsets and generating long-term results. It was effective for those who experienced it, because it was multidimensional and fostered participants’ individual “capacity to implement” (Luttrell and Quiroz, 2007) any changes they determined for themselves to make. In hindsight, it was built on the same paradigm underlying the “sustainable livelihood systems” approach I am proposing in this paper.

## LABOUR FORCE DEVELOPMENT

The funding for my program came through the federal department responsible for labour force development: Human Resources Development Canada (HRDC). Artists and other creatives are the “cultural workers” who make up the “labour force” of the creative economy. The lack of “fit” between this language and the complex earning lives of artists has frustrated stakeholders who need credible, meaningful measures and descriptions to help support their work to build capacity in the sector. Yet, as ill-fitting as the current labels may be, in Canada we have done our best to use them creatively, where they will do the most good—to raise a positive profile for the contributions of artists’ work and place the cultural sector on the playing field with the other “industries.”

This framework has enabled the sector to take some action on behalf of its “creative and unconventional” workforce through the establishment of the Cultural Human Resources Council of Canada (CHRC). This body has leveraged the federal Sector Council Program funded by HRDC (now Service Canada) into a national baseline of sector research and occupational profiling, and helped raise the consciousness of the sector itself about its human resources challenges and practices (CHRC, 2002). We have been able to put some concrete data and some useful language together to help describe this creative world in terms understood by more stakeholders than previously. But despite this success, the

<sup>1</sup> In this paper, I use the terms “artist” and “cultural workers” in the broad sense, to include professionals in all arts disciplines: visual, theatre, literary, film and video, arts administration, heritage, music, dance, sound recording, technical, and so on.

difficulty inherent in trying to meet the needs of this “workforce” using the available labour force development programs for the unemployed or the self-employed has become even more obvious. To rethink the starving artist stereotype and put the creative worker at the centre of the creative economy, it is important to discard these notions, and provide a framework within which we can start over to discover and describe what is really happening when artists thrive or fail.

When I looked to national and regional statistics and studies for a reflection of what I was documenting in my “participatory research” with the participants in the SEARCH program to bolster the proposals I was writing, I could not find what I needed. Our cultural labour force is not a mere set of employees and contract freelancers. They are also creators, producers, and employers who may fit into all or none of these categories at different times in their lives. And despite volumes of anecdotal evidence, this was not sufficiently organized and measurable to rise above the easy dismissal of the stereotype. In the end, the poor fit of the program’s goals with the funder’s criteria, combined with a change in government and a low unemployment rate, was unsustainable. Without another appropriate source of funding, the program ceased operation in 2007.

It is apparent that in a post-industrial economy, a framework must be developed that is more inclusive of all types of work for all sectors. We can add value to the old paradigm during this transition, without discarding any useful data, by including a more holistic framework that can bridge the gaps left by current methods. By demonstrating tools and methods that can help measure, assess, analyze, and develop capacity for the creative sector’s human capital and leverage support to create an enabling environment for a creative economy, we will be showing the way for all sectors.

## SUSTAINABLE LIVELIHOOD SYSTEMS

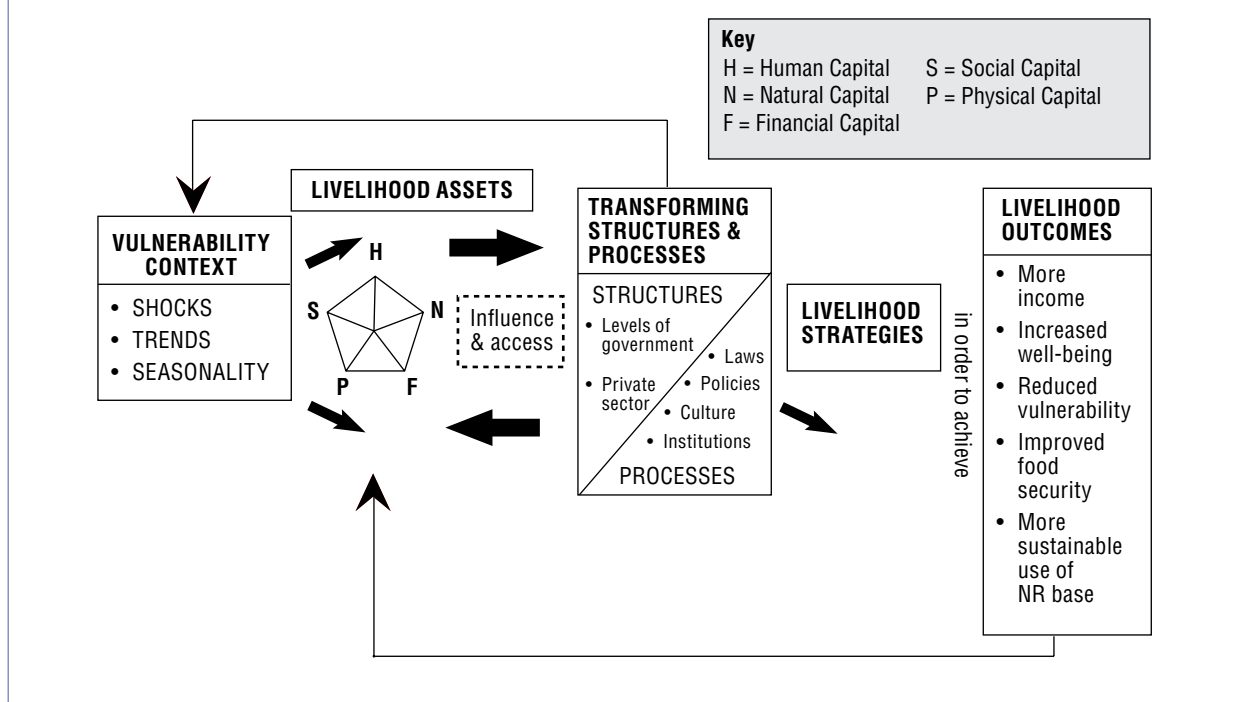
A livelihood system encompasses the capabilities, material and social resources, and activities required for a particular means of making a living. Livelihood systems can be described by a main source of livelihood that is quite broad. LSPs (Livelihood Systems Profiles) have been compiled in various countries of West Africa, Central America and South Asia. They have been used as part of poverty assessments, food security assessments, and vulnerability assessments. Information generated through the LSPs fed into various national and sub-national processes, including policy formulation, awareness raising, beneficiary targeting and project design (Pittaluga, Salvati and Seghieri, pp. 4, 5).

A livelihood system framework is asset-based, identifying and building on existing strengths, rather than focusing on needs. Its core concept is sustainability, in that greater capacity and resilience to reduce economic vulnerability is the goal. This is what makes this conceptual framework attractive for use with artists.

The Arts Economy Initiative at the University of Minnesota has been working on a 10-year project on artists, their livelihoods, and their contributions to regional and local economies. The commitment of resources and the length of that commitment have given us some measures of how artists create and market their artwork in two or more of the commercial, non-profit, and community sectors simultaneously. By tracking this, and listening to artists, they discovered that artists “cross over” not only for income, but also to develop different aspects of their art and livelihoods from their experiences in each sector (Markusen, 2006). This information may not have been available to us, had the researchers not used an integrated approach. It gives a clue to the value of an approach that is person-centred rather than starting from sector or discipline.

**Exhibit 1**

Components of a livelihood system framework (DFID Guidance Sheet 2.1, Fig. 1)



This framework<sup>2</sup> is not linear, and one can start the process of building a livelihood system profile at any of the components described. The Sustainable Livelihoods Guidance Sheets are available online, along with several other comprehensive and useful tools, for anyone to download and adapt to their own needs.<sup>3</sup> DFID states that the Guidance Sheets “aim to stimulate reflection and learning” and users “are encouraged to send comments and contributions” (DFID, 1999).

**VULNERABILITY CONTEXT**

This component “frames the external environment,” which affects access to assets, including things over which people have no control. Adapting this framework to the cultural sector, we might identify a number of

external “trends, shocks, and seasonality” forces—not always negative—that affect artists and groups of cultural workers. For the individual, or grouped by discipline or geography, these could include funding cuts, policy changes, loss of a studio building, or a pending Olympic Games, for example.

**LIVELIHOOD ASSETS**

This approach is founded on the belief that people require a range of assets to achieve positive livelihood outcomes; no single category of assets on its own is sufficient to yield all the many and varied livelihood outcomes that people seek (DFID Guidance Sheet 2.3).

The asset pentagon was developed along five dimensions as a visual schematic of the important interrelationships between each set of asset categories. Social Capital (social resources upon which people draw in pursuit of their livelihood objectives), Human Capital (skills, knowledge, ability to labour and good health), Natural Capital (natural resource stocks from which resource flows and services useful for livelihoods

2 This diagram of the livelihood system framework is more fully explained in the document it was taken from Department for International Development [DFID], 1999 [http://www.livelihoods.org/info/guidance\\_sheets\\_pdfs/section2.pdf](http://www.livelihoods.org/info/guidance_sheets_pdfs/section2.pdf).

3 [www.livelihoods.org](http://www.livelihoods.org).

are derived), Financial Capital (financial resources people use to achieve their livelihood objectives), Physical Capital (basic infrastructure and producer goods needed to support livelihoods); these can be thought of as the building blocks of livelihood. Mapping a group's access to each type of capital on this pentagon—relative to the centre point (zero access to the asset) and the perimeter (maximum access)—makes the strengths and disparities of their vulnerability context visible.

### **POLICIES, INSTITUTIONS AND PROCESSES**

These transforming structures shape livelihoods, by effectively determining:

- ♦ access (to various types of capital, to livelihood strategies, and to decision-making bodies and sources of influence);
- ♦ the terms of exchange between different types of capital;
- ♦ returns (economic and otherwise) to any given livelihood strategy.

Institutions, organizations, policies, and legislation also have a direct impact on where people feel they fit along the inclusion–exclusion continuum, and can affect their sense of well-being. For the cultural sector, this will include the obvious institutions and policies directly focused on the arts, but also those that are indirect, such as zoning bylaws, business licensing, non-profit legislation, and government programs for the general labour force: employment standards, Workers' Compensation and Employment Insurance.

### **LIVELIHOOD STRATEGIES**

This is the overarching term used to denote the range and combination of activities and choices that people make/undertake in order to achieve their livelihood goals (including productive activities, investment strategies, reproductive choices, etc.) (DFID Guidance Sheet 2.5).

This is an area where mapping the enormous diversity of livelihood (or adaptive) strategies undertaken by artists to support themselves and their ability to maintain

an art practice, remain current with technology, hone their craft, and subsidize their work will be greatly beneficial. For many, if not most of the artists I have worked with, the negative self-image generated by the need to find paid work outside the arts is debilitating. Beyond the usefulness of the livelihood system framework for gathering data on earnings and contributions of artists, it has the potential to provide an alternative to the prevailing negative perception of artistic life choices. It can enable artists, through the construction of a map of their own livelihood strategies, to experience a sense of integration. The process is dynamic, “in which they combine activities to meet their various needs at different times....[P]atterns such as this clearly complicate analysis and underline the importance of viewing households and communities within their wider context” (DFID Guidance Sheet 2.5).

### **LIVELIHOOD OUTCOMES**

These are the achievements of livelihood strategies. The framework allows us to “investigate, observe and listen, rather than jumping to quick conclusions or making hasty judgements about the exact nature of the outcomes that people pursue” (DFID Guidance Sheet 2.6). These may include increased income, increased well-being, reduced vulnerability, and improved food security, but in any given situation, these are discovered through participatory inquiry, which is part of the process of developing a livelihood system framework approach to the particular individuals or groups to be studied.

If this framework is to be used to develop programs or interventions into a system, it is essential that these programs be judged on “whether they contribute to the achievement of the livelihood outcomes that people consider important.” This is another powerful engagement tool for artists, as the person-centred approach ensures that the artists will determine what success looks like. Livelihood outcomes can be used as a basis for indicator development, which should be negotiated with the group whose livelihood system is being mapped and to draw them into monitoring processes.

## NEXT STEPS

In Canada, there are two groups that have used a sustainable livelihood system model locally, and then produced informative reports. The Women and Economic Development Consortium (*Women in Transition Out of Poverty*) extends the model by adapting it to a Canadian, gender-specific context (Ferguson and Murray, 2002), although its focus was still on poverty work. In Waterloo Region, a “collaborative” made up of the Cambridge Self-Help Food Bank, Opportunities 2000, and the YWCA of Cambridge used the livelihood system approach to evaluate the effectiveness of a variety of community-based social programs. Both groups used the methods developed by the British DFID and the Institute for Development Studies (IDS) at the University of Sussex, and the materials and support available from DFID through its website.

By building on the experiences of these groups, and with the support of those stakeholders—from the artists themselves to the grant makers and legislators—the livelihood systems framework can be adapted and put to use in a variety of ways. Communities and organizations that are struggling to find ways to create an enabling environment for artistic practice and creative lives can work with artists themselves as partners, to generate the kind of evidence-based data on which good policy and effective plans and programs are made.

With a sectoral focus on artists and cultural workers, the sustainable livelihood system framework can inform research and policy development, program design and, more importantly, give us a more holistic and effective way of including the individual creative worker as asset and economic contributor within the new economic models that must be developed for this century.

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## RESEARCH PAPER 18

# Benchmarking and Understanding London's Cultural and Creative Industries

Alan Freeman, *The University of Greenwich, United Kingdom*

### INTRODUCTION

Starting in 2002, the Greater London Authority<sup>1</sup> constructed a systematic evidence base to support London strategies relating to culture and the creative industries. It has published three reports and a research database, detailing employment and output in the creative industries at city-wide, borough and micro-local-area levels. It recently published a “cultural audit” of London, listing and comparing London’s cultural offer and infrastructure with Paris, New York, Tokyo, and Shanghai. It also produced three reports directed toward harmonizing international standards for defining and measuring cities.<sup>2</sup>

The first purpose of this paper is to show that an evidence base like this is viable, robust, and useful. The second and most important purpose, however, is to encourage others in city management to invest in such evidence bases, and to compile them on a comparable basis. I believe it will be some while before this is done by international agencies, and that national agencies are only at the start of a long journey in recognizing the importance of city data. Hence, I want to argue, a responsibility

devolves onto the cities themselves. This paper is about those responsibilities.

### WHY CITIES?

The first obvious question is: Why compare cities at all? This is really two questions—why study cities, and why compare them?

Notwithstanding their relatively low political influence, cities have become economic drivers of the world. This is recognized in a growing body of literature dealing with world cities, discussed in our recent *London: A Cultural Audit* (Freeman, 2008). Therefore, cities matter economically. As Chart 1 shows, the majority of the people of the world live in urban regions. In four parts of the world—North America, Latin America, Europe, and industrialized South-East Asia—urban population exceeds 75 per cent of the total.

So, why compare them? Because we can better identify the causes of what happens in them by looking at a number of different cities—ideally, over time. Thus, in constructing our cultural audit, we did not simply produce statistics for London and, as it were, challenge others to produce their own. The exercise was designed to identify *why* London had the particular level and type of culture that it does and, therefore, to see in what respects it was similar and in what respects different from other cities.

This gives rise to a basic problem that a North American audience may not be fully aware of: the absence of robust and comparable statistics about cities.

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1 The Greater London Authority is the governing body for London. Most executive power resides with the directly elected mayor. An elected deliberative body, the London Assembly, approves the mayor’s budget and is responsible for scrutinizing his activities. Other bodies are responsible for particular areas of work and report either directly or indirectly to the mayor, including Transport for London (TfL) and the London Development Agency (LDA), which is responsible for economic regeneration and development, and handles much of the work related to the creative industries.

2 See the bibliography for a list of relevant reports.

A large body of comparable statistics is available at the national and regional level. Every country now has National Income statistics (NIPAs) on a standardized basis established after the Second World War, thanks to the United Nations and the indefatigable Richard Stone. A huge variety of social and political data is also available at the national state level. More and more data are also available at the regional level. Countries with a federal administrative structure, like North America and Germany, have a relatively longstanding record of compiling regional statistics. Others, notably Eurostat, are producing a growing volume of statistics for regions at different levels of disaggregation, which, by the way, include sub-regional as well as provincial or state data.

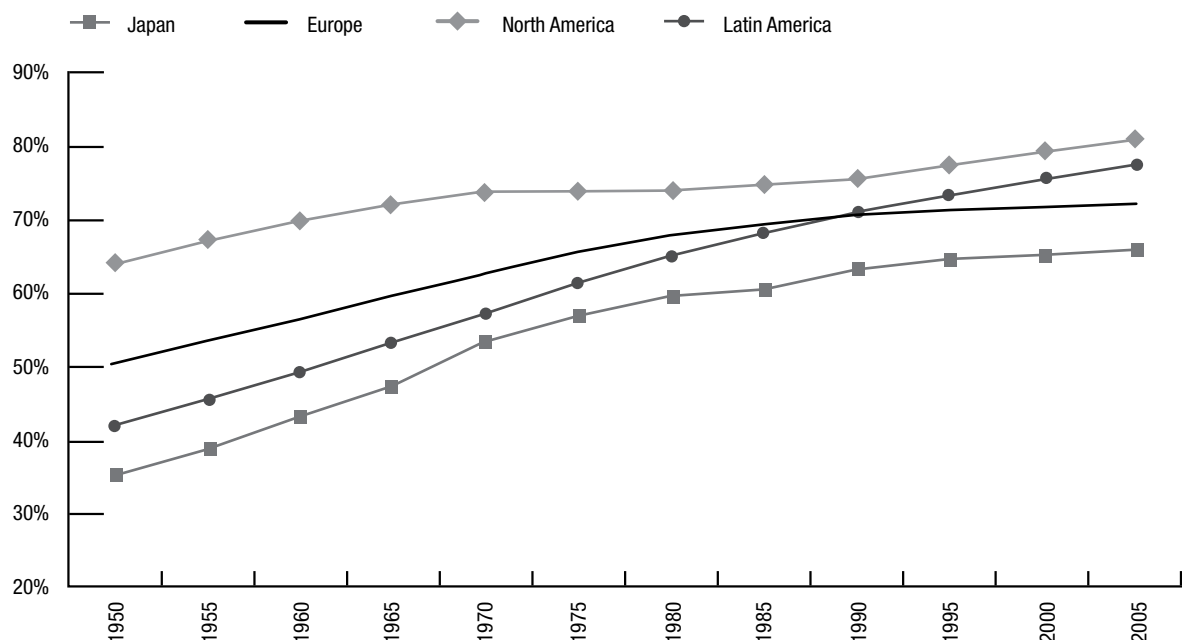
However, a city is not a nation. Nor is it a region, as regions are now mostly conceived. A city is not even reducible to an urbanized area (66 per cent of London consists of green space or water): It is an economic

entity, a kind of integrated machine consisting of an interlocking system of places, connected by transit and communication systems, in which a self-contained group of people conducts the daily business of working and living. Except in those few cases where city boundaries, so defined, happen to correspond with official statistical regions, regional statistics are the wrong ones for making informed decisions about city administration.

Canada and the United States have a longstanding statistical tradition for defining and measuring their cities, and a researcher investigating North America can readily find a wealth of statistics, not simply on standardized regions (states or provinces, counties, and so on), but on cities as such. This tradition does not exist in Europe, which is just at the beginning of a process of attempting to define and measure its cities on a standardized basis.<sup>3</sup> It is also absent from most other parts of the world.

**Chart 1**

Proportion of the world's population living in urban areas, 1950 to 2005



<sup>3</sup> For a detailed discussion, see GLA Economics papers on defining and comparing cities, listed in the bibliography. See also the website of Urban Audit, the main statistical organization charged with collating city data in Europe.

The classic example of this problem is Paris, with at least three definitions. The first is the “Petite Couronne” containing 20 arrondissements, with a mayor, an area of 105 km<sup>2</sup>, and a population of 2.164 million. Paris has extended well beyond this ancient boundary and a frequent alternate definition uses Île de France, a vast region covering 12,012 km<sup>2</sup> and containing 11.362 million residents. The problem is that neither of these corresponds properly to “GLA<sup>4</sup> London,” the only existing official definition, with an area of 1,584 km<sup>2</sup> and a population of 7.371 million. In comparing these two, the researcher therefore either finds that Paris is 10 times smaller than London, or 10 times larger. Neither of these is economically true; the best available definition, obtained by applying the technique developed by the GEMACA group of researchers, defines a “functional urban region” or FUR, showing rather similar populations and areas and affording true comparisons. Table 1 summarizes the main statistics characterising some of these definitions.

London’s current boundary—the GLA—is a better match for its “economic” extent than for many other cities, which has given the city a sufficient evidence base to draw some initial conclusions. Even so, the task of collating accurate statistics covering the “full” London remains to be undertaken. For many cities in the world, the statistical region is simply an inadequate territory on which to construct a robust and informative evidence base. For this reason, GLA Economics has a significant program of research and international collaboration directed toward attempting

to arrive at common, harmonized definitions of cities that can be used for robust comparisons.

## WHY CREATIVE INDUSTRIES?

Why study the creative industries? First, because they are important in their own right, and second because they are particularly relevant to cities.

Our first study in 2002, confirmed by two updates, showed that the creative industries were, in London during the 1990s, the focus of what we termed a “benign productivity revolution.” As Charts 2 and 3 show, productivity growth had outstripped the U.K. economy’s rate in all creative sectors and, unlike many “sunset” sectors in Manufacturing, this combined with employment growth. The growth in output was thus being achieved not by capital-labour substitution but by an expansion drawing in labour. The creative sector was a driver of growth.

The creative sector had also become a major sector in the London and U.K. economy, accounting for one in eight London jobs and a sixth of its output. It employed, by 2000, more than any comparable sector except Financial Services and Business Services.

A third fact that emerged was that these industries were exceptionally concentrated in London: by 2006, our third report showed 32 per cent of creative industry employment

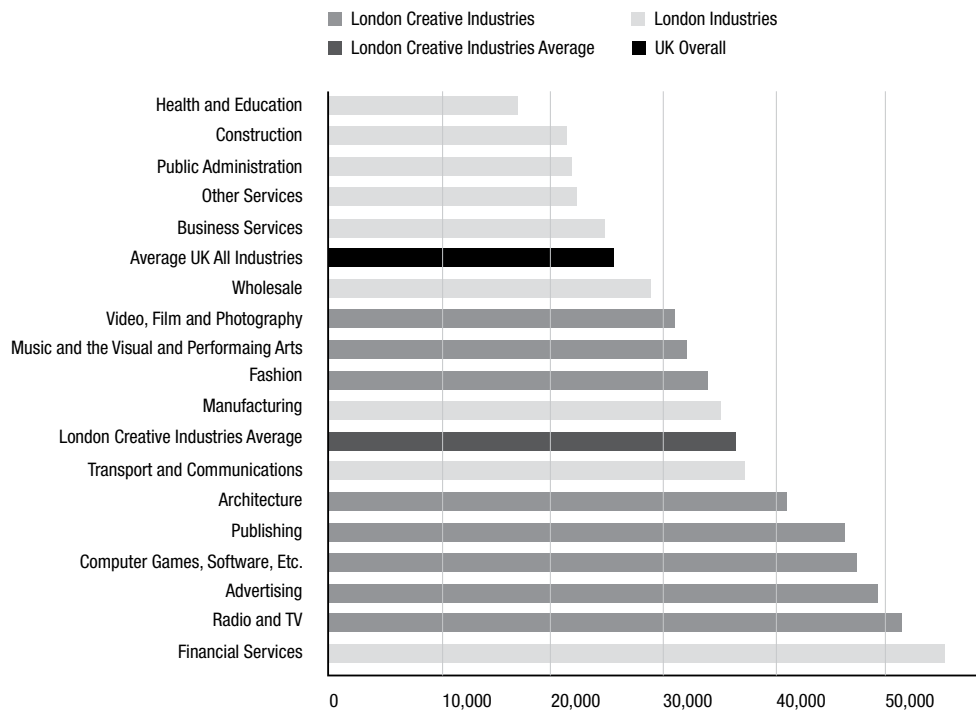
**Table 1**  
Definitions of Paris and London

	Population 2003 (000s))	Workforce Employment 2003 (000s )	GVA* 2003 (billion current)	Area km <sup>2</sup>	Density Population per sq km	Productivity (per worker per year)
Inner	2,892	2,470	160	321	9,023	64,986
GLA	7,371	4,376	260	1,584	4,655	59,329
FUR	13,988	7,706	431	15,344	912	55,915
Paris	2,164	1,656	138	105	20,529	83,422
FUR	11,967	5,616	411	17,873	670	73,259

\* GVA = gross value added.

4 GLA = Greater London Area.

**Chart 2**  
Productivity growth rates, 1995 to 2000



was to be found in London and 58 per cent in the region we have termed the “Greater South East,” consisting of London and the regions immediately adjoining it. For comparison, 15 per cent of all jobs were to be found in London and 38 per cent in the Greater South East.

This gave rise to two immediate questions:

- ◆ Were we witnessing a one-off surge, or a sustainable growth process that could be expected to last over more than one business cycle?
- ◆ Were the factors that had fuelled creative industry growth transferable—could they be reproduced in other industries?

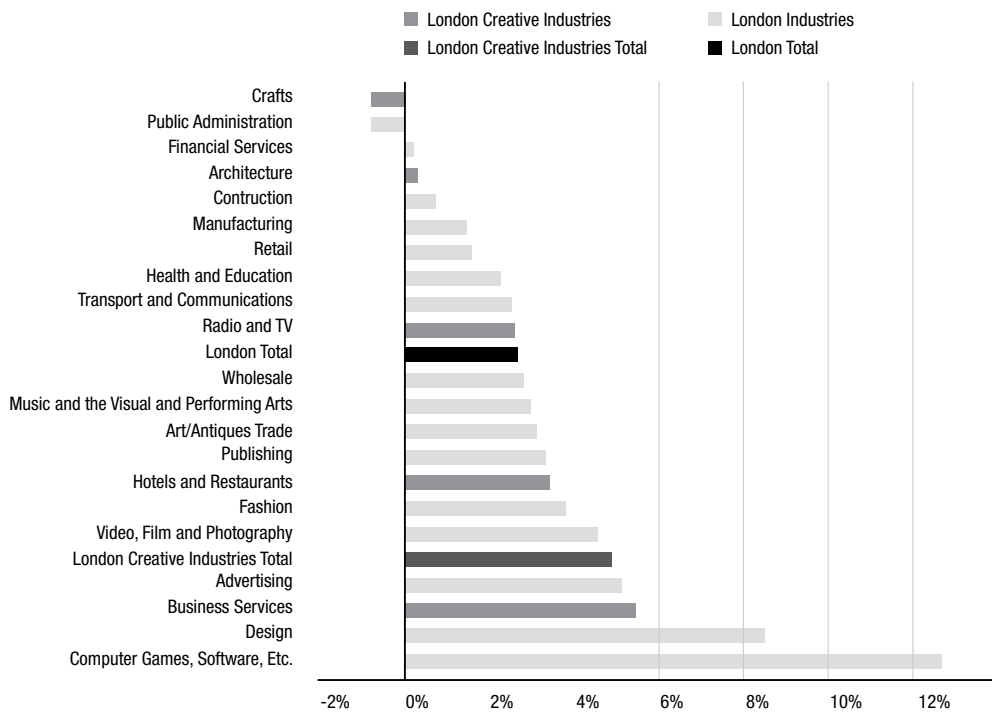
Two other more complex questions surfaced as our information gathering proceeded, and also with the launch of the Creative Economy Programme—an intensive, national research effort conducted by the national Department of Culture, Media and Sport (DCMS).

First, what benefits do creative industries bring to people (or industries) other than direct consumers? These “external benefits”—sometimes termed spillovers—were known to exist for individual consumers. A classic example would be the presence of a beautiful or inspiring building, which brings enjoyment to people beyond those who paid for it or work or live in it.

A second, more complex question is whether *businesses* in London draw indirect benefit from the presence of creative industries—for example, by being able to draw on the talent they brought to London or the inspiration their products gave rise to? There was strong *prima facie* evidence for this. For example, a growing number of multinational companies, including Ford, Nokia, Virgin, and Volkswagen, decided to place their design headquarters in London. Could this be ascribed to the external benefits of a strong creative presence?

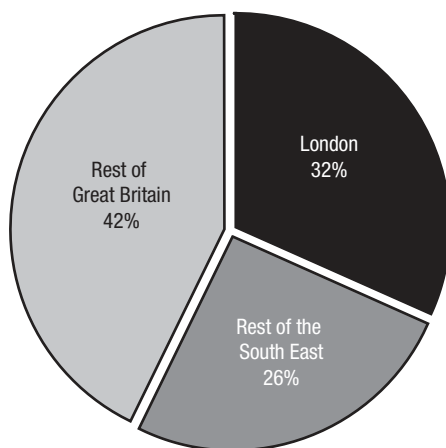
**Chart 3**

Job growth rates, 1995 to 2000

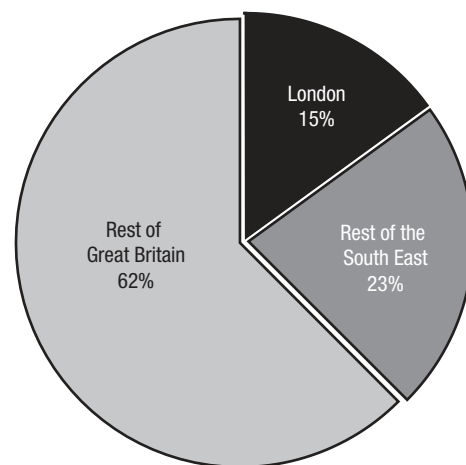

**Chart 4**

Location of creative (a) and all jobs (b)

(a)



(b)



The question, related to the two just mentioned, is this: What are the benefits that business purchasers of creative products draw from them? Do these include an enhanced capacity to innovate or additional productivity growth? Our third creative industries update used input–output statistics to study the interconnections between creative and other industries, and established that:

- ◆ Forty-two per cent of all creative products were sold direct to businesses.
- ◆ Three particular industries—advertising, architecture and software—sold their output almost entirely to businesses.
- ◆ Business expenditure on creative products had, by 2004, exceeded spending on business and financial services.

## BUILDING A CREATIVE INDUSTRIES EVIDENCE BASE

What sources of data were available to us? The objective of comparability dictated that we should seek a standard that was, as far as possible, internationally recognized. While there is no standard with the degree of endorsement to be found with, for example, NIPAs, we had two advantages.

There was a national standard that had been devised by DCMS. The concept “creative industries” was actually coined in Britain in the late 1990s.<sup>5</sup>

- ◆ This standard was itself based on the quite considerable agreement reached in international bodies (thanks to the pioneering work conducted in the Canadian national statistical office), and in particular in the Organisation for Economic Co-operation and Development and in the work of a body known as the Leading European Group (LEG) on the creative industries.
- ◆ DCMS had defined 13 “creative sectors” by identifying sets of *industries*, defined by Standard Industrial Classification (SIC) and *occupations*, defined by Standard Occupation Classifications (SOC).

We were able to use these codes to extract estimates of employees and firm numbers from the U.K.’s standard business survey, now called the Annual Business Inquiry (ABI), and from its standard population survey, now called the Annual Population Survey (APS)—at the time called the Labour Force Survey (LFS). This provided a dataset with characteristics offering both advantages and pitfalls.

Of these, perhaps the most central issue is that the classification is “cross cutting.” It amalgamates enterprises from quite widely differing parts of the industrial and occupational spectrum. Thus, Music and the Visual and Performing Arts consists of code 22140 (Manufacture of musical instruments), 22310 (Sound recording), 92311 (Live theatrical performance), 92319 (Other artistic and literary creation and interpretation), 92349 (Other entertainment activities), and 92721 (Motion picture television and other theatrical casting). The 22xxx codes are drawn from manufacturing and the 92xxx codes from “Other services,” which would not normally be treated as having any relation to each other.

The benefit is the capture of characteristics that are not transparent in the raw SIC system. Cross-cutting classification systems are used to study a variety of putative sectors—for example, the life sciences. They are most useful to study those parts of the economy that are rapidly evolving. In these situations, the standard classification does not change fast enough to yield information about the newly evolving industries or types of industry, and may not change at all, since it is constrained by the requirement that any new classification should remain compatible with previous ones, so that time series comparisons can be made.

However, the classification also involves double counting. The creative industries are not a “sector” in the same sense as manufacturing, because manufacturing excludes all other sectors such as services, transport, and so on. Therefore, creative industry employment cannot simply be added on top of Manufacturing, any of the services, and all the others, since every industry in the creative sector is already included elsewhere in one of the other sectors. Table 2 shows in which standard sectors London’s creative industries fall.

5 See O’Connor (2008) for an account of the origin and history of this term.



**Table 2**

Composition of creative industries in relation to standard SIC categories, 2005

SIC 2-digit	Broad SIC section	Thousands of Employee Jobs in 2005		Per Cent of...	
		Creative	Total (creative and non-creative)	Total creative jobs that work in this section <sup>a</sup>	Jobs in this section that are creative <sup>b</sup>
10,20,30	D: Manufacturing	70	236	20	30
50	G: Wholesale and Retail Trade	7	953	2	1
70–74	K: Business Services	131	1481	37	9
90	O: Other Community, Social and Personal Service Activities	147	342	41	43
<b>Total (all London employees)</b>		<b>355</b>	<b>3,012</b>	<b>100</b>	<b>12</b>

<sup>a</sup> For example, 70,000 out of 355,000 creative workers are in manufacturing, making 20 per cent.

<sup>b</sup> For example, 70,000 out of 236,000 manufacturing workers are creative, making 30 per cent.

## IS THERE SUCH A THING AS THE CREATIVE SECTOR?

Perhaps the most important concern regarding cross-cutting classifications is: Do they correspond to anything real at all? Is there any such thing as the creative “sector” in the same sense as Manufacturing, or is it merely a random assembly of products and activities? In this respect, the evidence itself has helped provide the answer.

In the first place, the data we collected on the growth (and subsequently, temporary retrenchment) of the creative industries showed a high degree of correlation. Basically, the creative sectors rise and fall together.

Second, the creative industries in London are intensive employers of creative workers. This may seem obvious, but it is not; moreover, it does not hold to anything like the same degree outside London.

As mentioned, the definition that we used was well suited to study this issue, because it provided information both on the industries that were considered creative (Fashion, Music, Architecture, Arts and Antiques, Video, and so on) and on the occupations.

The “Trident classification,” as Stuart Cunningham (2008) has called it, facilitates an important distinction. A record company may employ musicians but is actually quite likely not to.<sup>6</sup> Moreover it will employ many people not classified as creative (perhaps wrongly)—for example, accountants and lawyers. And musicians themselves may not work for a creative industry at all (e.g., music teachers who work in the education sector). There is therefore no *necessary* reason to suppose that an industry whose main outputs are creative products will be an intensive employer of creative workers, or that creative workers will necessarily find their way onto the payroll of a creative company.

In London they do. And the “creative factor utilization”—the degree to which the creative industries are specialist employers of creative labour—appears to be the greater the heavier the concentration of creative industries, as a comparison with Table 3 shows.

This strongly suggests that the creative industries are the site of a particular form of industrial organization.<sup>7</sup>

<sup>6</sup> It will, for example, sign them up on record deals, which are not treated statistically as a form of employment.

<sup>7</sup> Freeman (2008) discusses this question at greater length.

**Table 3**  
Creative factor utilization in various London Boroughs

Borough	I	O	O ∪ I	O ∩ I	O ∩ I	O ∩ I / O ∪ I
Havering	2,744	4,147	6,610	281	3,866	4%
Barking and Dagenham	1,948	3,587	5,074	461	3,126	9%
Waltham Forest	6,566	6,900	11,726	1,740	5,160	15%
Harrow	10,517	8,443	16,466	2,494	5,949	15%
Greenwich	7,688	4,939	10,851	1,776	3,163	16%
Bromley	16,098	9,654	21,558	4,194	5,460	19%
Newham	7,072	4,295	9,417	1,950	2,345	21%
Bexley	5,003	3,337	6,848	1,492	1,845	22%
Hillingdon	9,961	9,420	15,874	3,507	5,913	22%
Ealing	17,849	14,523	26,446	5,926	8,597	22%
Croydon	12,256	12,713	20,149	4,820	7,893	24%
Enfield	8,638	6,544	11,844	3,338	3,206	28%
Kingston upon Thames	11,237	9,657	16,153	4,741	4,916	29%
Hounslow	9,536	5,094	11,300	3,330	1,764	29%
Redbridge	7,432	8,338	11,953	3,817	4,521	32%
Merton	9,995	8,905	14,089	4,811	4,094	34%
Lewisham	10,726	10,557	15,780	5,503	5,054	35%
Sutton	9,549	7,337	12,435	4,451	2,886	36%
Brent	12,721	10,794	17,068	6,447	4,347	38%
Richmond upon Thames	18,232	13,535	22,736	9,031	4,504	40%
Wandsworth	27,495	22,574	35,658	14,411	8,163	40%
Barnet	20,093	15,791	25,479	10,405	5,386	41%
Tower Hamlets	9,434	9,121	12,912	5,643	3,478	44%
Westminster	21,213	15,893	25,479	11,627	4,266	46%
Lambeth	20,237	17,561	25,767	12,031	5,530	47%
Hammersmith and Fulham	19,341	14,931	23,344	10,928	4,003	47%
Hackney	11,467	10,285	14,756	6,996	3,289	47%
Kensington and Chelsea	18,410	14,641	22,243	10,808	3,833	49%
Southwark	15,146	14,390	19,565	9,971	4,419	51%
Camden	24,555	19,257	28,665	15,147	4,110	53%
Islington	14,426	12,234	17,854	9,806	2,428	55%
Haringey	18,169	13,750	20,495	11,424	2,326	56%

I = working in creative industry

O = in creative occupation

O ∪ I = Total Creative Workforce = industry + occupation (DCMS definition)

O ∩ I = "Specialist" workforce (any creative occupation also working in creative industry)

O ∩ I / O ∪ I = "Creative Factor Utilization" indicator

The standard definition of a sector (e.g., agriculture or manufacturing) is a group of industries that are similar either in producing similar products, or in using a common resource, or in applying a similar process. If we think of creative labour as a resource, and understand that the output of creative industries is creative products, then the “creative sector” fits at least two of these criteria. In addition, there are strongly related process characteristics. They tend to produce differentiated products, in relatively short runs, to an imprecise or abstract specification, and to tight deadlines. See also Caves (2002) for a very detailed discussion of the contractual and process relationships to be found in the creative industries.

### SAMPLES, ESTIMATES, AND SOURCES

A third difficulty, which we were also able to address, arises more indirectly from the use of cross-cutting classification, particularly one with a high “granularity.” By this, I mean that the SIC codes used to pinpoint creative industries are specified at a very detailed level; as can be seen from the Music/Performance codes cited earlier, many are specified at a five-digit level.

This first gives rise to severe problems of statistical confidence. The sampling base of the main national surveys in London is substantially less than 50,000. If, therefore, data are compiled for a borough (1/30th of London’s area), a single creative sector (often as small as 1/100th of London employment), the resulting jobs estimate will be based on a sample that may well consist of 10 people or less.

A further problem is that the U.K. survey databases provide information only at the four-digit level.<sup>8</sup> Finally, data from series are hard to localize geographically at any level lower than the borough level, because of the sampling problems discussed earlier.

To overcome these difficulties, we commissioned, for one year only (2003) a local area database using “company” data taken from Dunn and Bradstreet, which was

verified against the IDBR, a comprehensive list of U.K. companies used for tax purposes. Data for this were coded at the five-digit level; this permitted us to do two things:

- ♦ to calculate local regional coefficients with which to estimate at the five-digit level, using four-digit data such as those obtained from surveys;
- ♦ to produce very detailed local estimates of employment in the creative industries, permitting the study of spatial location and agglomeration effects.

The local area study—which still awaits a geospatial analysis sufficient to do it justice—revealed or confirmed a number of key features of London’s creative industries. First, they were highly agglomerated, in a way that mirrored the agglomeration of the finance and business sector. London’s financial district lies in the city and, with the growth of docklands, increasingly to its east. London’s creative sector is to be found in all the boroughs surrounding the finance sector but above all, to its west, in Westminster and in a belt fanning out from Westminster toward Heathrow Airport.

Table 4 illustrates the complementarity of financial and creative jobs and confirms the hypothesis, generated by Table 3, that creative factor utilization is strongly associated with creative agglomeration.

### CULTURE AND THE CITY

The most recent report (Freeman 2008), overseen by GLA Economics, but commissioned by the LDA, had an objective that was not merely wider and more ambitious, but very distinct: the benchmarking of culture. Culture is, from one point of view, the generic product of which the creative industries are a part. On closer examination, however, both the motives for studying culture, and its very nature, differ significantly.

Culture is an objective of policy, in all modern nations and cities, not simply or even primarily for its economic or wealth-creating benefits, but as a social and at times political imperative. Thus, in London, it is governed by the mayor’s cultural strategy. Culture moreover cannot be reduced to a simple saleable product, and the emergence

8 A more detailed industry survey, called “ABI II,” provides information at the five-digit level but for fewer years than the ABI, for which earlier surveys have been rescaled to provide a continuous 12-year series.

**Table 4**

Creative and finance/business employment in Inner London (employee jobs)

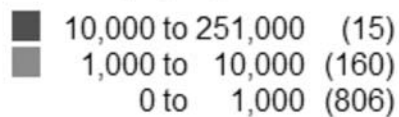
Borough	Creative Workforce Jobs	Financial Intermediation Employee Jobs	Per Cent of All Creative Employee Jobs in London (%)	Per Cent of All Employee Jobs in Finance in London (%)
City of London	9,339	125,122	2.1	40.8
Tower Hamlets	24,085	55,635	5.5	18.2
Islington	27,344	10,487	6.3	3.4
Camden	44,613	11,037	10.2	3.6
Westminster	75,716	31,278	17.3	10.2

**Chart 5**

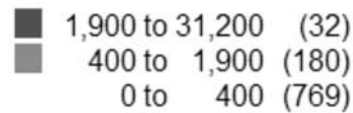
Distribution of financial (a) and creative (b) jobs in London, 2003

**(a) Where financial jobs are**

FBS employee jobs

**(b) Where creative jobs are**

Number of Creative Workforce Jobs



of cultural “industries,” leading to a focus on culture as product, has been slow and is by no means a completed outcome.

A full treatment of the cultural audit (which at the time of writing is still embargoed for publication) is beyond the scope of this paper, but will be dealt with in the verbal and visual presentation.

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## RESEARCH PAPER 19

# Concepts in Value Chain Analysis and Their Utility in Understanding Cultural Industries

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### Abstract

In conducting a major study of the impact of digital technology on the value chains of cultural industries in Canada, the authors discovered a need for the development of new concepts to explain the behaviour of players in the value network, as observed by respondents to the study. Working with the basic idea that the creation and flow of cultural products through the value chain is normally reinforced by a return flow of some kind, they found that both new concepts of product, such as “public benefits,” and new kinds of return, such as “satisfaction,” were needed if the value chain was to accurately describe the activities of cultural players. It was also necessary to describe “disconnects” in the return flow to explain the impact of digital technology.

The concept of “risk” and the “risk equation” for different kinds of players in the “creation/production,” “aggregation,”

and “distribution/retail” areas of cultural product value chains was developed to explain players’ risk mitigation strategies, including consolidation, “gatekeeping,” and “brand association,” and the changes in those behaviours related to the introduction of digital technology. These concepts were also needed to account for differences in investment strategy and to describe the impact and rationale for government “interventions” between players in cultural product value networks, including broadcast regulation and the management of copyright and other product-pricing mechanisms. The use of these concepts is illustrated in discussing the success or failure of specific business models in different cultural product networks through the introduction of digital technology. The paper concludes with a discussion of how these concepts might be developed further.

## THE PURPOSE OF THE STUDY

Conducted for the Department of Canadian Heritage, the intention of this study on “The Transformation of Value Chains in the Canadian Arts and Cultural Industries” was to describe the changes that were occurring to individual players, and to the relationships between players, to reveal opportunities and vulnerabilities, and ultimately inform new ways of thinking about government action in the cultural arena. It was believed that the use of a consistent methodology and terminology might also reveal some

impacts of digital technology that were common across all sectors of the cultural economy. This was of particular importance given the convergence of previously separate sectors in the common distribution platform of the Internet.

The study was primarily qualitative, with much of the evidence based on interviews with leading players in the arts and cultural industries. While some secondary economic data were used in the study, this was limited, due to the absence of useful data in many areas.



## THE CONCEPTUAL FRAMEWORK: VALUE CHAIN / VALUE NETWORK

The term “value chain” originated with Michael Porter in 1985 and has been the foundation of an extensive literature in business management, largely focused on improving the efficiency of organizations in creating and delivering products. Simply defined by Botkin and Matthews, “the value chain is a sequence of activities during which value is added to a new product or service as it makes its way from invention to final distribution.”<sup>1</sup>

Verna Allee, responding to the changing nature of business, extended the concept to “value network,” defined as “any web of relationships that generates both tangible and intangible value through complex dynamic exchanges between two or more individuals, groups or organizations.”<sup>2</sup>

In the study, we tend to prefer the term “value network” in recognition of the complex relationships between firms and individuals that characterize cultural production. However, we branch off from Allee’s use of the term, which focuses strongly on the knowledge relationships among players, to describe the functions that actually produce cultural products, and how these have changed.

We began our task with a strong appreciation that the value network approach offered a real benefit to our analysis in that it could contain ideas that extend beyond a purely economic analysis. From our experience, we knew that economics on its own cannot explain the behaviours that are evident in cultural production—nor did the economics terms “voluntary activity” and “voluntary sector” seem to offer much benefit. Value networks, on the other hand, offered the opportunity to describe comprehensively all forms of cultural product creation within a single framework.

As the study progressed, we became convinced of the helpfulness of this framework in understanding the cultural sector. It does indeed provide a fresh perspective and permit new forms of understanding. However, as we proceeded with interviews and attempts to describe and explain the behaviour of cultural players, we found that we needed to add new concepts and ideas to the framework—borrowing some and inventing others. In some ways, this paper is a description of our process of discovery, the gradual working and reworking of ideas to provide some insight into behaviour.

This process is by no means complete. At the end of the paper we will discuss several ideas that we feel should be developed more thoroughly than we were able to in the context of this study. We are well aware that the framework is not perfect—our hope is simply that this framework will contribute to a better understanding of cultural activity, and that it can be developed further into a yet more useful tool.

## THE FUNDAMENTAL CONCEPTS IN THE FRAMEWORK

We began with five fundamental and simple concepts: products, intellectual property rights (IPRs), functions, players, and technologies. Players perform functions to create products, which may have associated IPRs. Technologies are enablers to functions.

### PRODUCTS

So far, so obvious. But there are some interesting elements—as products are created in the chain, for example, they are often transformed into other products: in the sense, for example, that a television program is made up of scripts, performances, and music. A television service is then made up of programs, and a cable package is made up of services. At the same time, some of these products may branch off and have a different path to the consumer—a TV program becomes a DVD. Many of these branches have been created by new technologies and were thus key to the changes we were studying.

<sup>1</sup> J. Botkin, and J. Matthews. *Winning Combinations: The Coming Wave of Entrepreneurial Partnerships Between Large and Small Companies* (New York: John Wiley & Sons, Inc., 1992).

<sup>2</sup> Verna Allee, *The Future of Knowledge: Increasing Prosperity Through Value Networks* (Butterworth-Heinemann, 2003).

As we worked, we found that to maintain the integrity of the framework, we had to define some products that are not obvious. “Usage,” for example, is a product that derives from the audience’s consumption of other products, and which is then sold to advertisers.

Equally important was the product of “public benefits.” That is, government pays for cultural products to be made—it is a major player in the value network. To account for its presence, it must be paying for some value received—hence, a product called public benefits, which can comprise economic benefits (employment and wealth creation), societal benefits (education, “national cultural sovereignty”), or both at the same time.

### INTELLECTUAL PROPERTY RIGHTS

On the other hand, it turned out that it was not necessary to have a concept of property rights—that is, a concept distinguished from the concept of product—not because property rights are not important, but rather because rights and products are in fact indistinguishable. Most of the time, the value that is being purchased by the next player along the value chain is the “right to use” itself, not the physical manifestation of a cultural product. In cases where the manufactured product had a separate importance (i.e., the CD as opposed to the master recording), it made more sense to describe it as a separate product. So IPRs as a separate concept were ultimately dropped.

### FUNCTIONS

The concept of “function” covered several types:

- ◆ the actions performed on products by players
- ◆ various forms of compensation provided to players
- ◆ actions of government agencies, acting not as end users of public benefits but as interveners in other relationships

In almost all cases, a player must perform a function to move a product along the value chain toward the end user, or to combine products into a new product. We made many distinctions among kinds of functions in our initial framework, to make better cross-sectoral comparisons. For example, we distinguished creation, realization, and compilation as value-adding functions;

but in the end the cross-sectoral analysis made little use of these distinctions.

The distinctions among aggregation, manufacturing, distribution, sale, promotion, and brand association did prove to be useful in analyzing business models, however, and the distinctions among return path functions proved to be crucial. Likewise, the ability to depict and categorize different forms of intervention, such as authorization, pricing interventions, regulation, and subsidy, permitted us to compare and contrast the way that government acted in different sectors.

### PLAYERS

The concept of player is, of course, necessary. Most value chain work analyzes a specific company and its relationships—when analyzing a whole sector, it is important to be able to characterize the separate parts of a consolidated company according to their different relationships. In addition, much of the discussion in the study centred on changes in the functions of some players in different networks as a result of digital technology.

### ROLES

We also found, after we had completed interviewing and writing for a number of sectors, that a new fundamental concept was useful; that is, we grouped players into one of three “roles” that were characteristic of all cultural value networks. These were:

- ◆ **Creation/Production**—comprising primary creators and, in networks where the initial product is somewhat complex to create, producers
- ◆ **Distribution/Retail**—distributors, usually but not always distinguished from retailers
- ◆ **Aggregation**—which occurs in between the other two roles in networks where it is necessary to aggregate products into packages, such as in subscription business models

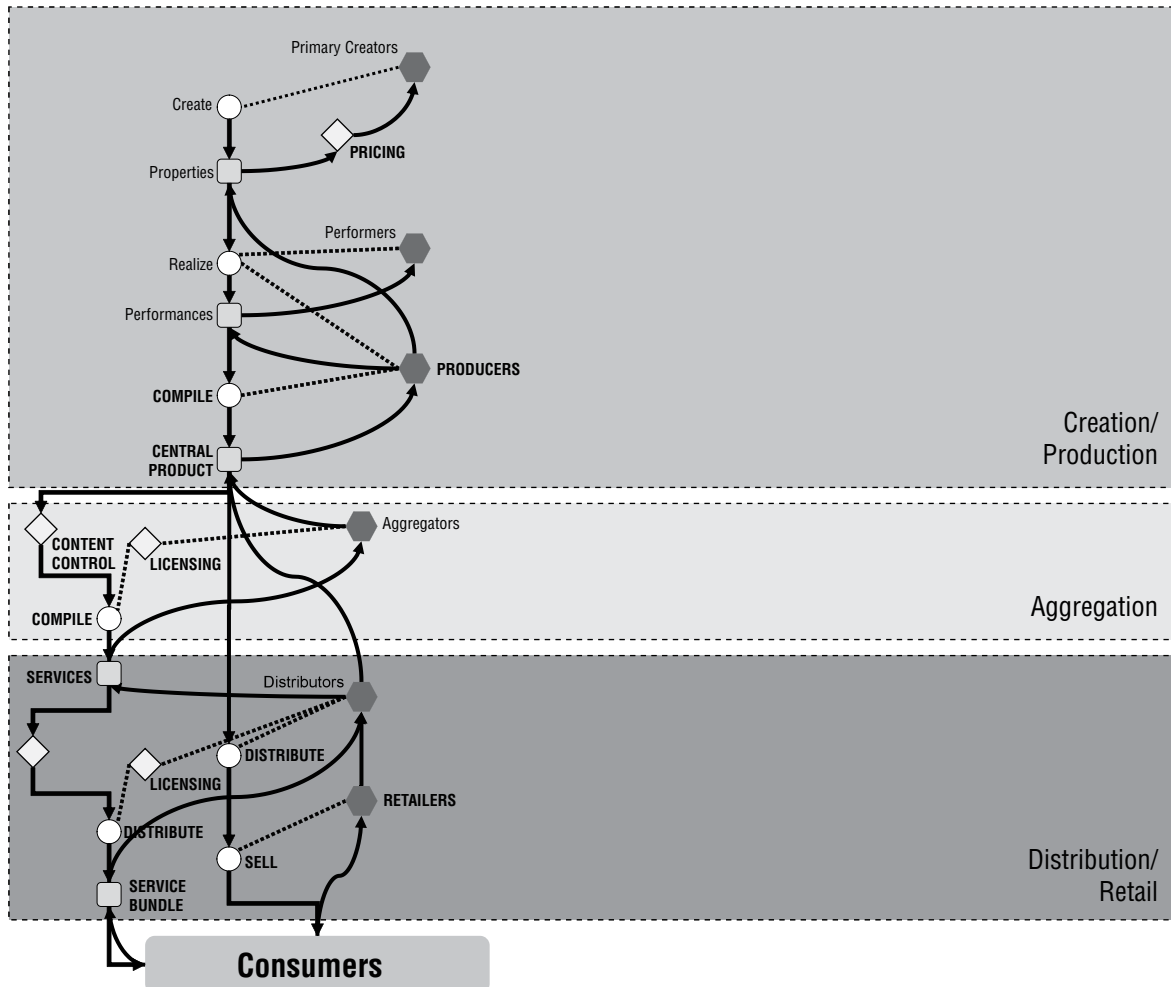
### GRAPHIC DEPICTION

We also planned from the very beginning to depict all of these relationships graphically. Exhibit 1 shows the “generic” depiction of players, grouped into roles. The flow of product is depicted by black arrows; the connection of players to functions is depicted by dotted

lines, and the returns are depicted by green arrows. There are several other symbols that indicated concepts described below.

and what impact it had had on players, products, and functions in their value network. In these descriptions, technologies were easily categorized into one of three

**Exhibit 1**  
Generic Cultural Value Network—3



The interesting thing about the graphic depictions is that creating them was a learning process in itself. Putting our prose description into graphic form frequently forced us to be more disciplined in the use of the concepts, and consequently to clarify relationships and functions.

### TECHNOLOGIES AND THEIR TRANSFORMATIVE EFFECT

The fifth of the basic concepts in the conceptual framework was “technologies.” In interviews, our main focus was to get respondents to discuss each new technology

types: “process improvement,” “new platforms,” and “new products.”

“Process improvement” technologies enable existing functions to be carried out differently: faster or cheaper or with higher quality. These technologies tended not to change the value chain extensively. Even in cases where one would expect new cost efficiencies, the usual result was that money saved on technical processes was spent on quality improvements or other aspects of the player’s operation.

One prominent exception to this was the development of “prosumer” software and hardware in the music recording area, which permitted musicians to create their own recordings—thus hugely expanding the amount of recorded music available and changing the role of record labels in the value network.

The profound changes to the value networks arose from the second category of technology—the new platform. For the purposes of the study, we defined “new platform” as the combination of new receivers for cultural product and the distribution systems that supply product to those receivers. For example, the mobile “smart-phone” or “feature-phone” and the data networks of the phone companies together form a new platform.

New platforms then tend to create new products. Some examples are short-form videos made for mobile viewing, console games, or interactive applications for the Internet.

### **Convergence of sector networks**

Transformations can also arise from the flow of traditional products to the consumer through these new platforms. While the study defined “online content” as a distinct new network, created by digital technology, we also noted that five traditional value networks—film and television, periodicals publishing, music, radio, and electronic games—also move their product through the online content network to the consumer, converging in that space and creating significant changes higher up in each traditional network.

### **Bypass**

Another transformational impact frequently identified by respondents was that of “bypass”; that is, that new platforms, principally the online content network, would allow creators to bypass aggregators, or aggregators and creator/producers to bypass distributors, and to reach consumers without the benefit of the “middle” players’ contribution.

Certainly we found some evidence to support this view. Not that user-generated content is new; on the contrary it has always existed in cultural networks—we simply called it “amateur” production. The difference with the digital UGC phenomenon is the development of

platforms that can take UGC directly to a broad audience without the intervention of a brand aggregator.

However, the fear that user-generated content would take market share from professionally produced content, was, in our final estimation, somewhat exaggerated. Certainly, aggregators and distributors of user-generated content are able to find a business model, which in its way—because it relies on an oversupply of free creative labour—has its roots in traditional strategies. Equally, however, we found traditional content aggregators developing their roles in new ways, and we found distributors actively using digital technology to consolidate their position and avoid bypass.

## **THE RETURN PATH**

### **THE CONCEPT OF A “FUNCTIONING” VALUE NETWORK**

Sometimes a value chain is depicted as a one-way flow of product, but from the very beginning, we had included a return flow of economic benefit as an integral part of the conceptual framework.

This idea was not fully expressed, however, until we were challenged by the Department to explain what we meant by a “functioning value network,” a term that we had used several times in early drafts without precise definition. When we focused on this definition, we realized it had two components.

The first is a combination of culture and economics—it is the shared understanding of the players in a network about how negotiations and prices work. That is, in a functioning marketplace, prices and values are usually set by negotiation among players. Over time, a general cultural understanding of the components of value, and prices relating to value, are established. Television program buyers, for example, have an understanding of the market value of programs (including personal estimates of future popularity) and can bid for the rights appropriately.

Bargaining may also be collective, and may involve real difficulties impeding the functioning of the value network. For example, the recent writers’ strike, and the

preceding long negotiations in Canada for a similar collective agreement, arose from the impossibility of truly understanding the market value of rights for Internet distribution, since the business models are not yet established. In visual arts, not all players understand the concept of exhibition rights yet, and the need to pay these to artists. In music, outright piracy of copyrighted works is felt by some to be justified. These are examples of networks whose functioning is impeded by a lack of clear understandings of values and prices.

The second component of a “functioning” value network is the concept of “return”—specifically, that return should be sufficient to cause players to sustain their activities in the chain. This idea would be self-evident in a purely economic analysis; one could assume that a value network will not exist if its activity cannot be sustained economically.

However, in cultural value networks, creators often continue to create without an economic return to sustain their activity. Writers, musicians, visual artists, web developers, and even production companies stay in the business when, in any other business, they would exit. In fact, the seemingly endless supply of hopeful talent has traditionally been part of the expectations of aggregators like publishers and record labels. This phenomenon had to be accounted for in the framework.

We did so in two ways. The first was the concept of “satisfaction” as a non-economic return. The second was a better understanding of the concept of the “risk equation” for cultural players, and its relationship to investment and to talent. These two concepts—non-economic returns and risk-based economic investments—were needed to balance output with returns and account for the continuation of activities in these networks.

### **Satisfaction**

It should be understood that the idea of “satisfaction” as a return cannot be taken as an excuse for the failure of aggregators to pay creators for their activity. It is an element in the bargaining process, however. The apparent willingness of individuals to engage in creation without

much reward has led to a vast economic oversupply of creators in most fields of cultural activity; this has traditionally depressed prices for creators. The record industry has been notorious for exploitative talent contracts, made possible by talent oversupply.

Collective bargaining has been the necessary remedy—and in many cases it has had to be supplemented by government intervention in the form of arbitration (e.g., the setting of copyright tariffs) to ensure that professional creators can be paid fairly.

### **VALUE NETWORK DISCONNECTS**

A prominent sign that a value network is not functioning optimally is the existence of what we called a value network “disconnect.” This was probably the most controversial of the concepts we designed to explain phenomena described to us—some readers of the study found it very useful, while others rejected it.

We developed it to describe situations in which a revenue return flow is interrupted at some point in the chain. That is, revenue is generated from consumers—implicitly validating their perception of value in a cultural product—but the revenue stops at a player in the network (typically a distributor) and does not flow through to aggregators, producers, or creators. Disconnects can exist for a variety of reasons, but they are anomalies in value networks, since normally in a marketplace, rights and prices are negotiated, and return, once generated, flows right through the chain of players who generated the value and own the rights. The term “disconnect” is not meant to be pejorative, however, nor to imply that products or rights are being appropriated illegally—in fact, some disconnects are created by government.

For example, over-the-air television services currently receive no revenue from cable and satellite distributors in respect of the value of their services in subscription packages. This is a disconnect, but it was originally created by the *Copyright Act*. The Canadian Radio-television and Telecommunications Commission (CRTC) has not used its jurisdiction to correct the situation, though it is reconsidering the matter at this time.

Similarly, the distribution of music and video through peer-to-peer services over the Internet may not be illegal in Canada, yet it represents a disconnect since the revenue received by Internet Service Providers (ISPs) is, in part, generated by the value of this music, which is not “free” to the consumer, since a price has been paid.

It would probably have eased the controversy if we had put more emphasis on the fact that a disconnect is not total, but exists in respect of one or more revenue models that a product may enjoy. The over-the-air television disconnect exists in respect of subscription, but the advertising business model still functions. The music–Internet disconnect exists in respect of sales and subscription, but some may regard this distribution as a promotional activity.

A more challenging question is whether a disconnect exists on the Internet in respect of sales and subscription of other forms of content. Video is offered by its rights holders for free on the Internet largely because it is not possible to sell it—because of the peer-to-peer alternative. But newspaper articles are also offered for free—or through the popular “freemium” model where some content is free and other, premium services require payment. This may turn out to be a viable revenue model in the long run, but certainly the pressure for “free” originated from market conditions in which many newspapers were prepared to offer content for free and others had to follow suit.

As such, it is arguable that this situation does not represent a disconnect, but rather a market where an oversupply of content drives prices to zero.

The distinction is important because of the implication that cultural policy would prefer value networks to function well, and generate as much market return to creators as possible. If the problem is simply content oversupply, then it may be appropriate in some situations to let the market work itself out. On the other hand, disconnects cannot be worked out through negotiation—to repair them, clear rights positions, collective bargaining, and even tariffs may be needed to ensure that rights holders are fairly paid.

## INTERVENTIONS

This discussion leads to the concepts that describe government action. These are of two kinds—government may intervene between players, or it may act as a player itself. In the first case, it sets rules between players to help the network function, or to produce public benefits; in the second, it takes the place of a player to inject financing for the production of products from which it then derives public benefits.

Interventions can be of several kinds.

The most common are pricing interventions. The government may establish by legislation and through independent tribunals that certain rights in a product can or cannot be protected. Then it may authorize collective bargaining agencies to act on behalf of rights holders when it perceives that one-to-one negotiations are not aiding the functioning of the network, either because they inhibit creation or they inhibit use. Finally, if collective negotiation does not produce an agreed result that allows the network to function, they may set prices through a tribunal.

That, at least, is the theoretical basis for pricing interventions, to aid the value network in its functioning. In fact, mechanisms such as copyright tribunals can acquire a life of their own, and players may fail to negotiate seriously if they perceive that the tribunal produces more favourable results.

In addition, we noted in the study that a value network approach implies that pricing is based on value. Some copyright mechanisms, such as reproduction rights, that in the past were reasonable proxies for value, may not be such good proxies for products that take a digital form, and for which reproduction has a different meaning.

A less common form of intervention is “authorization,” in which government decides which firms may enter a value network. Broadcast licensing is a common example of this intervention.

The general term “regulation” also applies for the many rules that government may establish to govern relationships between players, including content regulations.



In broadcasting, CRTC has regulations to govern the relationship of radio broadcasters to the music industry, of television broadcasters to independent producers, and of distribution undertakings to broadcasters. Such rules dominate broadcasting value networks yet are relatively rare in other sectors. It is already evident that this creates a disparity among players and among networks, and there has been much discussion about the growth of online content consumption and the impact on the regulated system of competition from unregulated providers of video and audio.

### INVESTMENT, TALENT, AND RISK

The second role of government is as a player in the system—we have characterized its role as that of an end user, purchasing public benefits. If we had found it useful to create a kind of player called an “investor,” however, government could also fit under that concept.

We did not ultimately use the concept of an “investor” however, in part because of a realization that came to us in the middle of the project, after we had completed many interviews, and had in fact written two chapters. The realization had to do with the nature of risk in cultural networks, and the relationship of investment to talent.

From the beginning, we had taken to heart Fisher’s distinction between value networks designed to deliver innovative products and those designed to deliver functional products. But we realized that cultural value networks were both; that is, at the beginning of the chain products were innovative, but after aggregation and distribution, the products close to the consumer might be more functional. For example, a viewer browsing the Internet will be highly sensitive to the nature of content and may be quickly bored by that which is not fresh and new; but the same person will buy Internet service like a commodity. The ISP package is functional—the content is innovative.

This highlighted the varying nature of risk in cultural value networks. It was clear that players in the creation/production end of the chain experience very high risk. New recordings, books, television programs, etc. have a very high rate of failure—that is, individual products

that fail to make back their costs. Among the major record labels, for example, it was said that only nine in twenty new releases earned back their costs. Only one in ten television pilots made it to air; of those that made it to air, only one in ten made it to a second season—these were the industry benchmarks. So for creators, risk is very high. For aggregators, risk is lessened but still present, and for distributors and retailers, risk is very much smaller.

We used the concept of the “risk equation” to describe the likelihood of failure, and the consequent development of aggregators that could rebalance the risk equation by betting on more than one horse in each race—hoping that the market successes won enough to pay the costs of the market failures.

These risk equations are reflected in the judgment of financiers. A major television distributor will probably have access to a bank line of credit worth hundreds of millions of dollars. But a television producer may have trouble negotiating a bank loan of any kind. Musicians, Internet developers, and other primary creators rely on their own money and labour to make products—if they have continued success they may be able to use cash flow to create new products.

In this context, then, it makes sense that government provides support at the level of the creator; this is the level where private financing—at-risk capital—is absent.

And yet it was not always clear to our respondents that government’s support at this level aided the functioning of the value network. The question that had to be asked was “Does this subsidy remove risk or enhance reward?” If it removes risk altogether, it may in fact inhibit the functioning of the network. Instead of encouraging producers to focus on products that are market-responsive, it may simply pay for supply. Such a strategy may still make sense, if the public benefits produced by the product are great, but if the aim is to strengthen the value network’s functioning, a strategy that encourages private players to invest risk capital may make more sense.



## THE MANAGEMENT OF RISK

With our new understanding of the nature of risk in cultural value networks, certain other observed behaviours could be organized as risk management strategies engaged in by players in the network. We identified four: horizontal consolidation, vertical consolidation, gatekeeping, and brand association.

### Consolidation

Horizontal consolidation resembles aggregation—in aggregation, a player mitigates risk by accumulating similar products, sometimes offering them as a package. In horizontal consolidation, a player acquires similar firms, expanding its share of market.

In this light, media consolidation can be seen as healthy for a value network, in that it reduces the risk of firms failing and leaving the network. In fact, networks that show little evidence of horizontal consolidation, such as the online content network, give rise to some cause for concern.

In vertical consolidation, firms acquire other firms above and below them on the value chain, both to secure access to the market and to improve the risk equation by favouring the distribution and retail of products that originate within the consolidated enterprise.

For example, a record label may produce its own records, manage its own distribution, and take part in music publishing. This is not a universal strategy, however, as (1) many aggregators prefer to limit their activities and (2) government interventions against anti-competitive behaviour may limit this kind of vertical consolidation.

### Gatekeeping

A “gatekeeper” is a company whose position over distribution of products to a *specific group* of consumers allows them to determine which products will be offered and which will not. Often, proprietary technology or facilities is the basis of the gate. The clearest examples are the satellite radio companies: a content provider cannot reach Sirius’ customers without an affiliation agreement with Sirius; it cannot reach XM’s customers without an agreement with XM. Cable companies are also excellent examples, as are mobile telephone companies.

Publishers, however, are not gatekeepers in our sense of the term—while an author may need a publisher to get a book published, there are many to choose from, and all can reach the same book-buying public. There may also be cases, like that of the ISPs, that have the technology to become gatekeepers but that have not exercised that control.

It is often thought that digital technology has opened up the market, so that anyone may create and distribute their own products. And in the online content world, this is true. But on other digital distribution platforms, technology may strengthen a gatekeeper’s control. Gatekeepers may also be able to prevent or inhibit the adoption of new technologies.

Gatekeeping is usually the focus of government intervention of some kind. In some countries, regulations are in place to limit anti-competitive behaviour by gatekeepers—not always effectively. In Canada, distribution gatekeepers have been used by the television regulator to ensure that domestic services will have access to an audience.

### Brand Association

“Brand association” reduces the risk of innovative new products, associating them with familiar and successful products. Examples include a movie derived from a successful video game or book—or vice versa—or a website based on a children’s television show. A musician can be seen as a brand that associates recorded product, concerts, videos, public appearances, and a variety of branded merchandise. A movie may be the origin point for a game, or vice versa.

This is a strategy that emphasizes the importance of the “property,” the original idea for a product, in a multi-platform world. As multi-platform exploitation becomes essential to the success of cultural products, this strategy becomes crucial.

## CONCEPTS THAT WOULD BENEFIT FROM FURTHER DEVELOPMENT

As noted at the beginning, the concepts that eventually filled out the value chain conceptual framework arose from a process in which we attempted to explain the behaviours described by respondents in cultural value networks. We believe they have demonstrated some usefulness in this regard, and will be of assistance in understanding how networks function and how government interventions may help.

However, we are aware that the framework could be extended further. There were several concepts that, for a variety of reasons, were not developed to their fullest extent in this study, but which may prove interesting to others.

### PROMOTION

For example, we defined the activity of promotion—which increases the value of a product without changing it—but could have made more use of it, particularly in understanding the strategy of brand association.

### INVESTMENT

Because we divided actions into those that developed products and those that created a return for products, the concept of investment, which in a sense initiates the chain, was not developed to its fullest. The expectation of return, rather than the return itself, causes investment to take place—can the idea of expectation be developed?

### TOOLMAKERS

Finally, the role of toolmakers in the value chain could be developed further. In online content, we included application developers in the creator level, and noted that their activity created a state of constant change in this network.

However, the makers of new digital receivers—consumer electronics manufacturers—were never completely integrated into the other value networks we described. Respondents, for the most part, viewed their activities as a transformational disruption of a traditional chain. As time goes on, however, and digital inventions continue to create new platforms and products, their ongoing role could be reconsidered and better integrated into our understanding.

## RESEARCH PAPER 20

# The Good, the Bad, and the Ugly: How Have Policy Makers Dealt With the Growing Complexity of the Intellectual Property Debate and the Issue of Online Piracy?

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### INTRODUCTION

Six years ago, 39 percent of households in the then EU15 had access to the Internet at home. Last year that figure was 59 percent for the EU15 countries and 54 percent for the full EU27.<sup>1</sup> In the United States, Internet penetration is currently around 70 percent and there are an estimated 200 million users.<sup>2</sup> In the developing world, Internet penetration is still relatively scarce with rates of between 5 and 15 percent. But here to, the pace of change is staggering. China, for example, has already reached the 210-million mark in Internet users, yet has a population usage rate of less than 20 percent.<sup>3</sup>

Just a decade ago, few people had any real idea of what the World Wide Web was. But as Internet and computer technologies become cheaper and more widespread, increasing numbers of people will come to make use of the Internet in their professional as well as personal lives. A growing side effect of this increase in the use and spread of the Internet has been a steady rise in levels of unsanctioned downloading and viewing of music, film, books, and the myriad other forms of content that is made available

through the web. The growth and success of file sharing and peer-to-peer (P2P) websites such as Napster, Kazaa, and Grokster, as well as video upload sites like YouTube, all illustrate consumers' desire to access and display unsanctioned content through the Internet. While many creative industries are adapting to this new environment by offering more authorized and varied downloading features, the overwhelming majority of Internet downloading is estimated to be of the illegal, or unauthorized, kind.

In the field of music—a particularly vulnerable target for illicit downloads as music files are small and relatively easy to up and download—illegal downloading is said to make up over 90 percent of all downloads.<sup>4</sup> According to the International Federation of the Phonographic Industry (IFPI)—an international trade association representing the recording industry—in 2005 almost 20 billion songs were downloaded illegally worldwide.<sup>5</sup> As a result, 35 percent of all illegal file sharers among European Internet users were said to be buying fewer CDs because of their downloading activity.<sup>6</sup> The availability of free music seems to cut deep into the revenue stream of record companies and artists. While it is debatable whether all of this drop can be attributed to the growth in non-sanctioned downloading, these figures do provide a strong indication that artists and record companies are,

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1 Eurostat: [http://epp.eurostat.ec.europa.eu/portal/page?\\_pageid=1996,39140985&\\_dad=portal&\\_schema=PORTAL&screen=detailref&language=en&product=STRIND\\_INNORE&root=STRIND\\_INNORE/innore/ir031](http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=STRIND_INNORE&root=STRIND_INNORE/innore/ir031).

2 <http://www.internetworldstats.com/stats2.htm>.

3 *The Economist*, "Alternative Reality: The Internet in China" (January 31, 2008).

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4 BBC News online, "Global CD Sales Slump in 2006" (July 3, 2007). <http://news.bbc.co.uk/1/hi/entertainment/6265436.stm>.

5 IFPI, <http://www.ifpi.org/content/library/piracy-report2006.pdf>.

6 Ibid.

because of illegal downloading, facing a very serious situation.<sup>7</sup> A similar case can be made for the motion picture industry which is said to have lost substantial sums of money—\$6.1 billion in 2005 alone—to Internet piracy.<sup>8</sup> In addition, television signal piracy and the illegal transmission of programming over the Internet are also on the rise—the United Kingdom saw a 150 percent increase from 2004 to 2005.<sup>9</sup> And, in Eastern Europe EUR700 million is said to have been lost from 2004 to 2010 due to signal piracy.<sup>10</sup>

Although some of these statistics have been questioned—indeed the music and film trade associations' figures have been accused of being exaggerated by, among others, Canada's own Michael Geist<sup>11</sup>—various independent opinion surveys frequently illustrate consumers' growing and broad acceptance of illegal downloading. For example, a British survey from 2007 found that almost half of those asked had engaged in some form of "unauthorized downloading."<sup>12</sup> In response to this trend, the U.K. government recently issued a Strategy document, *Creative Britain*, in which it argued that it was vital to educate consumers from a young age of the value and economic worth of intellectual property (IP).<sup>13</sup> This would seem to underline the real threat to knowledge-based products that online piracy poses.

But it is not only big business and the trade associations representing large multinational conglomerates that are feeling the pinch of unsanctioned downloading. In the United Kingdom, the independent music industry has repeatedly warned that a lack of copyright enforcement

and agreements between artists and file-sharing sites is a real problem. As early as 2004, in an interview with *Sound on Sound* magazine, Alison Wenham, CEO of the U.K.'s Association of Independent Music (AIM), said that on the issue of peer-to-peer file sharing her view was that "any copyright owner should have the choice as to whether their music is made available for free or not."<sup>14</sup> Similarly, former recording artist Feargal Sharkey—of early 1980's punk fame with *The Undertones* and now chief executive of British Music Rights, an interest group representing the British Academy of Composers & Songwriters, music publishers, and performers—has been a vocal advocate for copyright protection and Intellectual Property Rights (IPRs) on the web.

While relatively few disagree over the basic point that downloading—authorized as well as unauthorized—is probably here to stay, what is currently a debating point is whether or not this is an intrinsically bad thing and what, if anything, policy makers should do about it. The purpose of this paper is to address this debate and outline the various ways in which policy makers and stakeholders in North America and Europe have responded to online piracy.

## THE STATE OF THE DEBATE

Arguments over IP are not new. They can be dated as far back as 1474 when exclusivity privileges were granted for the first time in the city-state of Venice.<sup>15</sup> Fundamentally, this debate boils down to the need to incentivize and compensate individuals for the efforts they have invested in the creation of new knowledge with the desire to use these creations as quickly and as widely as possible. What is in the public interest must be balanced with what is in the individual creator's best interest (be it a person, a company, or any other innovator). Paradoxically, one cannot exist without the other; too excessive a clampdown on either will result in inhibiting knowledge producers in their creative pursuits or cutting off those who wish to enjoy the fruits of that knowledge.

7 The case was made by *The Economist* in a 2004 article that between two thirds and three quarters of the industry's drop in sales had nothing to do with piracy. See *The Economist*, "Music's Brighter Future" (October 28, 2004).

8 From LEK Consulting report on piracy released by the MPAA in 2006, cited in Stephen E. Siwek, *The True Cost of Motion Picture Piracy to the U.S. Economy* (Institute for Policy Innovation, IPI Center for Technology Freedom, Policy Report 186, September 2006).

9 <http://networks.silicon.com/webwatch/0,39024667,39127919,00.htm>.

10 [http://www.nds.com/pdfs/Datamonitor\\_EE\\_Piracy\\_whitepaper\\_August2005.pdf](http://www.nds.com/pdfs/Datamonitor_EE_Piracy_whitepaper_August2005.pdf).

11 See, for example, "Piercing the Peer-to-Peer Myths: An Examination of the Canadian Experience." [http://firstmonday.org/issues/issue10\\_4/geist/](http://firstmonday.org/issues/issue10_4/geist/).

12 *The Guardian*, "Unease at Filesharing Crackdown" (February 21, 2008).

13 Department for Culture, Media, and Sport, *Creative Britain: New Talents for the New Economy* (February 2008).

14 AIM: Association of Independent Music, *Sound on Sound* (November 2004). <http://www.soundonsound.com/sos/nov04/articles/aim.htm?print=yes>.

15 P.S. Ladas, *Patents, Trademarks, and Related Rights: National and International Protection*, vol.1 (Cambridge, Mass.: Cambridge University Press, 1975).

The current debate over unauthorized downloading can broadly speaking be divided into two camps: those who would prefer to have information and content accessed and disseminated freely, and those who would rather have a strict enforcement of online copyright. Proponents of the Internet as a copyright-free zone speak of the limits to intellectual freedom and innovation that strong copyright measures result in. Some, like the Oxford Internet Institute's Dr. Ian Brown, have publicly claimed that a greater enforcement of copyright in cyberspace runs contrary to free market principles espoused by the likes of thinkers such as Adam Smith and are, in fact, "anti-competitive."<sup>16</sup> Most creators of content take the opposite view, arguing that if there is no protection of their work, there is much less of an incentive for them to keep on producing their creative products—music, film, literature, or whatever it may be. They rightly argue that property rights—whether in the online or offline world—ought to be respected; the question is how does one go about doing this in the best way.

In reaction to the growth of online piracy, content creators, governments, and other stakeholders have enlisted a range of tactics in their overall strategy of enforcing copyright protection online. Generally, there have been three responses:

1. the political and legislative;
2. the legal;
3. the self-regulatory and technological.

Usually, more than one stakeholder has cooperated on a particular response or course of action. For example, both creators of content and governments have taken, and are taking, part in all three responses. What follows is a brief outline of these responses and some of the most important and illustrative examples of each individual response—what have they done well, what have done they badly, and what have they not done at all?

## THE POLITICAL AND LEGISLATIVE RESPONSE

Copyright is not a particularly new way of protecting creations and their creators. In fact, the idea of holding a right to copy can be traced back to the English *Licensing Act* of 1662 and the *Statute of Anne*, or *Copyright Act*

1709, which was named after Queen Anne and became British law in 1710. Similarly, international agreements on copyright protection also have a long and pedigreed history. In 1886, the Berne Convention established the first internationally recognized and legally binding form of copy and dissemination rights, putting into treaty form the idea that the work of one author produced and protected by copyright in one country should be accepted and recognized by all Convention signatories. Berne established the principle of national reciprocity and of set and agreed standards of copyright protection, and it has served as a model on which all subsequent international IP agreements are built on.

In December 1996, the World Intellectual Property Organization (WIPO) concluded two treaties—the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty. Because they related mainly to the new possibilities and threats posed by the digital and Internet age, they have become known as the WIPO Internet Treaties. Purportedly designed as a "milestone in modernizing the international system of copyright and related rights, ushering that system into the digital age," the WIPO Internet Treaties in their national forms have not been without their critics.<sup>17</sup> Many claim that the treaties have a built-in bias for rights holders and that the treaties have curtailed innovation and research. The harshest form of criticism has been directed at the United States and its national version of the Internet Treaties, the *Digital Millennium Copyright Act* (DMCA).<sup>18</sup> Some of this criticism seems misplaced as one of the results of the DMCA's safe harbor provision has been that the policing of copyright infringement by third parties has chiefly been in the hands of the content creators themselves under the notify-and-take down procedure. Due to the enormity of the web and the growing number of users, websites, infringers, and infringing activities,

17 WIPO, *The WIPO Internet Treaties*. [http://www.wipo.int/freepublications/en/e-commerce/450/wipo\\_pub\\_450in.pdf](http://www.wipo.int/freepublications/en/e-commerce/450/wipo_pub_450in.pdf).

18 Critics have claimed that the DMCA has provided rights holders with too powerful a legal tool vis-à-vis consumers and Internet users and stifled competition and innovation. This criticism has come as much from conservatives and libertarians, as from liberals and progressives. For example, Timothy B. Lee, of the Cato and Show-Me Institute, has written that the DMCA has resulted in "a legal regime that reduces options and competition in how consumers enjoy media and entertainment." See Timothy B. Lee, "Circumventing Competition: The Perverse Consequences of the *Digital Millennium Copyright Act*," *Policy Analysis* 564 (Cato Institute). [http://www.cato.org/pub\\_display.php?pub\\_id=6025&print=Y](http://www.cato.org/pub_display.php?pub_id=6025&print=Y).

16 Dr. Brown made these statements in November 2007 at the conference *Intellectual Property Rights and Consumer Rights*, in London, organized by the Social Market Foundation, a local think tank.

this arrangement puts a real strain on content creators to relay that information to Internet mediators or service providers. When even large corporations and organizations like the English Premiership are forced to spend a considerable amount of their own resources as well as hiring external businesses to police the net for infringement activity, it is well nigh impossible for smaller rights' holders to keep up.

While a majority of the 64 contracting parties that signed up to the WIPO Internet Treaties have also implemented and are enforcing them, there are a number of exceptions, such as Canada, which has signed but not implemented them. At the present time, there is an intense debate in Canada over the merits and demerits of introducing new copyright legislation that would recognize and incorporate these two treaties. In particular, fears have been raised over the prospect of Canada introducing legislation modelled on the DMCA. Most recently, *The National Post* editorialized against the introduction of such legislation. It claimed that "For Canada to introduce DMCA-style legislation now would do nothing but encourage nuisance lawsuits. There is nothing wrong with tough rules against copyright infringement, but criminalizing behaviour that might facilitate copyright infringement only incidentally is the wrong approach."<sup>19</sup>

In Europe, the voice of strong copyright enforcement has been gaining increasing momentum with French, British, and EU policy makers making speeches and proposing new policies. Most recently, European Information Society Commissioner Viviane Reding stated that "Copyright is a cornerstone of the information and knowledge-based society."<sup>20</sup> Policy-wise the focus has been on introducing new primary legislation that would put pressure on Internet Service Providers (ISPs) to do more to monitor and stop the unsanctioned downloading of copyrighted material. In France late last year, the Sarkozy administration endorsed an industry-wide agreement—The Olivennes Memorandum of Understanding—between content creators such as

Canal +, and ISPs, like France Telecom (Orange) that sought to do just that. This document recommended a three-strikes-and-you-are-out policy for unauthorized downloading and also setting up a special public authority—overseen by a judge—to monitor and enforce the agreement. The Memorandum was the result of an independent review headed by Denis Olivennes, the chairman of Fnac, a French chain of entertainment super-stores. Its overriding purpose is to push ISPs into taking a much more active role in the monitoring of web activity and would place sanctions on ISPs that did not cooperate.<sup>21</sup> Subsequent to its introduction, the Memorandum has been hailed by the music industry and the IFPI. That body's CEO, John Kennedy, recently stated that "More than anyone else in 2007, our industry has to thank French President Nicolas Sarkozy and the chairman of Fnac Denis Olivennes for the change of mood."<sup>22</sup>

However, implementing the agreement will not be easy. First, it faces a major legislative hurdle in that several pieces of current French copyright, data protection, telecoms, and consumer protection legislation would have to be amended or introduced for this new special public authority to be established.<sup>23</sup> Second, some ISPs seem to be having second thoughts. Only a few weeks after the Memorandum was made public, Orange/France Telecom hinted that ISPs would not play that big a role in the proposed arrangement and certainly not take part in any monitoring activity. An article from *IP-Watch* quoted an Orange company spokesman as saying "The ISPs will not monitor their customers' activities... It will be the copyright protection groups that will set up 'honey pots' and then denounce pirates to the authorities."<sup>24</sup> The spokesperson also emphasized that this

19 *The National Post*, "The Post Editorial Board: Protect Creators, Respect Consumers" (February 18, 2008).

20 *IP-Watch*, "EU Online Copyright Bill Coming; Publishers Debate DRMs" (December 9, 2007). <http://www.ip-watch.org/weblog/index.php?p=861>.

21 "Accord pour le développement et la protection des oeuvres et programmes culturels sur les nouveaux reseaux" (November 23, 2007). <http://www.elysee.fr/accueil/>.

22 *Business Week*, "Music Firms Want EU to Cut Off Pirates" (January 28, 2008). [http://www.businessweek.com/globalbiz/content/jan2008/gb20080128\\_493404.htm?chan=globalbiz\\_europe+index+page\\_top+stories](http://www.businessweek.com/globalbiz/content/jan2008/gb20080128_493404.htm?chan=globalbiz_europe+index+page_top+stories).

23 *Financial Times*, "World News: France Proposes to Cut Off Persistent Internet Pirates" (November 23, 2007).

24 *IP-Watch*, "France's Online Anti-Piracy Plan Comes Under Scrutiny" (December 7, 2007). <http://www.ip-watch.org/weblog/index.php?p=860>.



agreement only represented a working framework and would be changed and revised over the coming two years.<sup>25</sup>

In the United Kingdom, there has also been some movement toward similar legislation. In mid-February 2008 a front-page London *Times* headline read: “Internet users could be banned over illegal downloads.”<sup>26</sup> The paper’s story was based on a leaked copy of a Strategy document the U.K. government was due to publish. But when that document was finally made public, the only commitment made was that the government “would consult on legislation that would require internet service providers and rights holders to co-operate in taking action on illegal file sharing—with a view to implementing legislation by April 2009.”<sup>27</sup> Still, the message that had been coming out of government circles for some time was that there is a need for urgency and greater action from all stakeholders, and ISPs in particular. Then Parliamentary Under-Secretary of State for Intellectual Property and Quality Lord Triesman early on made clear that he would not tolerate the status quo. In a much publicized interview with the BBC October 24, 2007, he argued with regard to the responsibilities of ISPs that “if we can’t get voluntary arrangements we will legislate.”<sup>28</sup>

Internationally, the European Union has together with the United States put an increasing emphasis on building an internationally recognized political process that accepts and agrees on the need for strong copyright enforcement. This has been done in two ways. First, the establishing of a new international framework—ACTA (Anti Counterfeiting Trade Agreement)—for combatting piracy and counterfeiting was late last year announced with the support of the United States, European Union, Mexico, Japan, Korea, Switzerland, New Zealand, and most recently, Australia. The purpose of this proposed agreement is to provide the necessary international tools and harmonized standards to effectively tackle global

counterfeiting and digital piracy.<sup>29</sup> Second, both the United States and the European Union have since the early 2000s included the strong protection of IP as part of their bilaterally negotiated free trade agreements.

These two processes suggest that there is a divide developing within the existing WIPO structure. Specifically, there seems to be a conflict between developing and developed countries over the type of IP legislation that is needed. Within one of WIPO’s discussion fora, the Advisory Committee on Enforcement (ACE), two divergent approaches toward IP protection have emerged. Developed countries would like to push for a new treaty (an Italian proposal was made at the latest WIPO General Assembly), whereas developing countries have expressed disagreement with this direction and wish to slow things down. WIPO’s new Committee on IP and Development will have its first meeting in March 2008 and this may shed some light on how the Development Agenda will interact with the enforcement one.<sup>30</sup>

## THE LEGAL RESPONSE

Whether it be through initiating legal proceedings against technological multinationals for the alleged enabling of copyright infringement or suing private individuals for unauthorized downloads, the legal response to online piracy has long been a well-trodden battleground for artists and rights holders. But piracy and the infringement of copyright is not a new phenomenon. Car boot sales of illegally copied film and music are still prevalent today, just as they were 25 years ago, and physical copies of movies, music, and copyrighted goods are still traded and sold all over the world. This is an important point as significant parts of the judicial debates over the rights and wrongs of copyright infringement are remarkably similar today to those 30 years ago.

Many of us will remember the intensity of the court cases and arguments between the music industry and makers of cassette and video recorders during the 1980s. In the

25 Ibid.

26 Times, “Internet users could be banned over illegal downloads” (February 12, 2008). [http://technology.timesonline.co.uk/tol/news/tech\\_and\\_web/the\\_web/article3353387.ece](http://technology.timesonline.co.uk/tol/news/tech_and_web/the_web/article3353387.ece).

27 Department for Culture, Media and Sport, *Creative Britain New Talents for the New Economy* (London: Author, February 2008, p. 51).

28 <http://news.bbc.co.uk/go/pr/fr/-/1/hi/technology/7059881.stm>.

29 European Commission (October 23, 2007), “European Commission Seeks Mandate to Negotiate Major New International Anti-Counterfeiting Pact.” Press release.

30 *IP-Watch*, “Officials Outline International Organisation’s IP Enforcement Policies” (February 28, 2008). <http://www.ip-watch.org/weblog/index.php?p=929>.



United Kingdom, one of the biggest court cases took place in 1986 between the British Phonographic Industries—a trade association of the British music industry—and Amstrad Consumer Electronics plc, a consumer electronics company headed by Alan Sugar (Sir Alan who recently starred as the British version of Donald Trump in the BBC adaptation of *The Apprentice*).

In this case, the argument was not only over the legality of home-copying but, more importantly, the extent to which Amstrad had incited individuals—through its marketing and production of cassette recorders—to engage in the unlicensed activity of copying audio content either off the radio or from existing cassettes.<sup>31</sup> The final court ruling made clear that while home-copying was an infringement of copyright, Amstrad could not be held accountable for what its customers chose to do after purchasing their cassette recorders. As the judge Lawton L.J. put it: “Amstrad market machines which can be, and are, used for lawful purposes. What purchasers do with the machines is outside Amstrad’s control.”<sup>32</sup>

A few years earlier, in 1984, the United States Supreme Court came to a similar conclusion with regard to film content in *Sony Corp et al. v. Universal City Studios*, the so-called Betamax case. Here it was found that the alleged copyright infringement—enabled by Sony’s home video tape recorder (VTR)—was not the responsibility of Sony as

The sale of VTR’s to the general public does not constitute contributory infringement of respondents’ copyrights...The sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes, or, indeed, is merely capable of substantial noninfringing uses.<sup>33</sup>

The Betamax case has been hugely influential. Above all, what the Supreme Court clarified in this case was the

principle of “fair use.” Established by Congress in the *Copyright Act* of 1976, Betamax was the first major case in which fair use was interpreted and thoroughly defined. While an exhaustive outline of the Court’s ruling would be overly time consuming in the context of this paper, suffice it to say that the four factors identified by the Court have been central to recent and ongoing cases. Indeed, over the years fair use has come up as the key arguing point in online piracy cases. It was central in *A&M Records, Inc. v. Napster* in 2001, in *MGM Studios, Inc. et al. v. Grokster, Ltd. et al.* in 2005, and will undoubtedly play a big part in the ongoing *Viacom v. YouTube* case.

In Europe, where common-law systems are less widespread and court precedent, consequently, plays a less important role than in the United States, there are nevertheless some recent examples of important cases involving ISPs and Internet download sites. For example, earlier this year a Danish court ruled that Tele 2, a Scandinavian ISP and telecom giant, would have to take measures to prevent its subscribers and users from accessing the Swedish and Dutch website *Pirate Bay*.<sup>34</sup> *Pirate Bay* has recently risen to fame as the new hotspot for Internet users wishing to access content via peer-to-peer technology. The website claims to be the “world’s largest bittorrent tracker,” a technology used to quickly and reliably download and transfer large computer files.<sup>35</sup> Founded in 2003 by an “anti-copyright” organization, *Piratbyrå* (the Pirate Bureau), *Pirate Bay* was only a few months ago charged by a local prosecutor in Stockholm for violating Swedish copyright law.<sup>36</sup> In the case briefing the prosecution argued that *Pirate Bay* had commercially exploited material—music, film, video games, computer software, etc.—protected by copyright legislation by generating advertising revenue from the website.<sup>37</sup> In addition, the American artist Prince has sued *Pirate Bay* both in the United States and in Sweden for violating the copyright protection of his music.<sup>38</sup> (Interestingly, Prince was most recently criticized by

31 Anne Staines, “Putting the Record Straight,” *The Modern Law Review*, 49 (May 1986), p. 385.

32 Ibid., p. 387.

33 *Sony Corp. of America et al. v. Universal City Studios inc., et al.*, 464 U.S. 417, 418.

34 *Dagens Nyheter*, “The Pirate Bay stoppas i Danmark” (February 4, 2008). <http://www.dn.se/DNet/jsp/polopoly.jsp?a=739490>.

35 See <http://thepiratebay.org/about>.

36 Ibid.

37 *Dagens Nyheter*, “Fyra åtalade i Pirate Bay-härvan” (January 31, 2008). <http://www.dn.se/DNet/jsp/polopoly.jsp?d=3130&a=738344>.

38 Ibid. “Prince stämmer Pirate Bay.” <http://www.dn.se/DNet/jsp/polopoly.jsp?d=3130&a=743184>.

music retailers himself for giving away his latest album free of charge together with the British newspaper the *Daily Mail*.<sup>39</sup>)

### SELF-REGULATION AND THE USE OF TECHNOLOGY

Many companies and governments have explored ways of getting industry stakeholders to agree on a set of principles to regulate the online traffic of copyrighted material. Talks have involved the creators of content, ISPs, the mediators of content, such as search engines and popular download sites such as YouTube, and consumer interest groups. Governments have often taken part in these types of negotiations in a backroom capacity, quietly prodding the various parties along.

Today, there are a number of industry-wide agreements and principles on the regulation of content on the Internet that include some, but, crucially, not all stakeholders. Most recently in Canada, suggestions to toughen up and change the existing copyright legislation by incorporating the WIPO Internet Treaties into Canadian law have been criticized by a who's-who coalition of big business. The Business Coalition for Balanced Copyright includes Google, Yahoo, Rogers, Telus, the Canadian Association of Broadcasters, and the Retail Council of Canada. This Coalition argues that any proposed rewrite of the copyright law needs to do more to expand the existing copyright exceptions, such as fair dealing, as well as limit ISPs' responsibility for enforcing copyright.

Overtures have, and are being made, to conclude an anti-piracy agreement that includes all stakeholders, but as they seem to have such differing views on what copyright means and what kind of policies the legitimate enforcement of copyright should result in, no universal agreement has yet been reached. The most obvious disagreement is between Internet mediators, such as Google and YouTube, and the creators of content. There exists a fundamental suspicion between these two groups over what their respective business interests are and if there is any overlap between what they wish to achieve. The pending \$1 billion lawsuit brought by Viacom and others against YouTube in the spring of 2007, and the English Premier League's—one of Europe's biggest and most profitable sports leagues—class action lawsuit against

Google and YouTube strongly suggest that there is a real sense of animosity between the two parties.

Yet, in the autumn of 2007 these two competing groups of stakeholders launched two anti-piracy plans that show a remarkable degree of convergence on recognizing what a problem online piracy is, and what should be done about it. On October 15, YouTube and Google launched their much-mooted Video Identification software which, according to YouTube, “goes well above and beyond our legal responsibilities” and aims at “accurate identification, choice for copyright holders and a greater user experience.”<sup>40</sup> The software is meant to provide YouTube—and content creators working with YouTube—with the ability to monitor what type of content is being uploaded to the website and let the content creator decide whether it should be left on the website, taken down, or monetized in partnership with YouTube.<sup>41</sup>

Four days later, on October 18, a coalition of content heavyweights, media companies, and providers of online services unveiled a set of User Generated Content (UGC) Principles. The UGC agreement seeks “to foster an online environment that promotes the promises and benefits of UGC Services and protects the rights of Copyright Owners.”<sup>42</sup> This agreement, whose signatories include Disney, News Corp., CBS, Viacom, MySpace, Fox, Microsoft, Dailymotion, NBC Universal, and Veoh, is chiefly about what principles should be applied to use and implement filtering technology. The agreement seeks to implement “state of the art filtering technology with the goal to eliminate infringing content on UGC services, including blocking infringing uploads **before** they are made available to the public.”<sup>43</sup>

Both these plans underline the extent to which a technological filtering solution based on fingerprinting content is increasingly becoming viewed as the best solution to identifying and dealing with user-generated content. But as these are still separate models, it would seem that no matter how advanced the technology is, or how convergent the

39 BBC News online, “Anger at Prince: Free CD Giveaway” (June 30, 2007).

40 [http://www.youtube.com/t/video\\_id\\_about](http://www.youtube.com/t/video_id_about).

41 Ibid.

42 <http://www.ugcprinciples.com/>.

43 Disney (October 18, 2007). “Internet and Media Industries Unveil Principles to Foster Online Innovation while Protecting Copyrights.” Press release.

thinking is on the use of technology to battle Internet piracy, it will be impossible to take full advantage of technology if all stakeholders cannot come to terms on a universal agreement themselves.

## CONCLUSION

Pirates and counterfeiters are no longer restricted by time, space, or access to a physical copy of film, music, or the written word. Instead, the Internet has enabled users across the world to interact together in their usage of legal as well as illegal content. This paper has attempted to provide a broad overview of what some of the important developments and trends in Europe and North America have been in response to this challenge of online piracy.

What has become clear is that Internet piracy is indeed a growing problem and one that policy makers wish to take very seriously, but it seems they are still looking for the best policy solutions. The lack of any universally applied and implemented international agreements or readily agreed ways of dealing with what is essentially a global problem seems to be part of the problem. As does the fact that industry stakeholders, ranging from content creators to Internet and content mediators, have not been able to reach an agreement of what a practical balance between the rights of content creators and of the consuming public would look like. This has led to a clear stalemate. The economic cost of the uncertainty that creators of content, mediators of content, and the broader Internet-using public face is substantial. But what can be done about it?

As consumer technology stands today it seems inevitable that consumers will continue to expect to be able to shift content from one format to another and make use of that content free of charge. The dilemma the content industry faces is how to effectively deal with this. The argument for complete freedom of access to content online would seem to establish a different set of standards on the Internet than those currently being applied in the offline world where IP and rights of copy are respected and enforced.

Certainly, it is true that the availability of certain types of content—covered by such concepts as fair use and fair dealing—has led to more innovation and advances in human knowledge. But it is worth bearing in mind the very real risk that, within the creative community, content creators will be more reluctant to share their content with others if they do not retain a level of control and compensation. While artists, writers, filmmakers, performers, and musicians undoubtedly have a strong altruistic desire to bring the joys of their work to as many people as possible, they—like everyone else—have bills and mortgages to pay. And just like most people, they rightly wish to retain as much control over how their fruits of labour are used and displayed in the public arena.

Where does that leave policy makers? Clearly, legislation can never be the entire solution as online piracy presents as much of a cultural and educational challenge as it does a legislative one. Asking ISPs to take more responsibility for limiting piracy on the Internet is part of the answer, but it is doubtful that it can be the entire solution. If ISPs are solely relied upon to enforce copyright in the online world there is a risk that consumers, who are not necessarily copyright infringers, will object to the monitoring of their Internet usage as a breach of privacy (particularly as there is some debate over whether ISPs are technically capable of monitoring and filtering out the illegal from legal usage of content with a high enough degree of accuracy). Successfully tackling the problem of online piracy would seem to need the involvement of all stakeholders—ISPs, content providers as well as Internet mediators; the latter which play an increasingly significant role as gatekeepers to what is actually on the Internet.

Protecting copyright and IP is not an easy task; nor is protecting the rights of consumers to use legally purchased content freely and within reasonable limits. Achieving both in the digital age will require a commitment from all stakeholders to compromise and make concessions. As of today, the prospects for such an agreement look bleak, but let us hope that the seriousness of the situation will prompt sensible action from all parties.

## RESEARCH PAPER 21

# Creative Content and the Illusive Copyright Balance

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### INTRODUCTION

In the federal government's quest to serve the public interest, and thereby ignite a vibrant creative economy, the current Canadian copyright system does not adequately meet these desirable objectives. Rather, copyright policy is far from "balanced" or supportive of a creative economy, with creators especially ill-served. This paper uses a case study approach and analyzes the popular issue of recycling old works in new media in the mainstream periodical publishing industry. In this context, a key Supreme Court decision, *Robertson v Thomson Corp*,<sup>1</sup> is examined. It is argued that the court defers to private ordering to clarify ambiguities in new-use clauses that will continue to persist as technologies evolve to the detriment of freelancers. The court takes its signals from an ever-reticent Parliament on copyright law's policy objectives. In a similar fashion, the paper also discusses a more recent Supreme Court decision, *CCH Canadian Ltd v Law Society of Upper Canada*,<sup>2</sup> whose underlying logic fares no better for authors. Indeed, both decisions represent attempts by our Supreme Court of Canada to reset the balance in the name of the "public interest" but veer toward a

user-based policy at the expense of authors. Here of course, the current "public" galvanization of users may misrepresent the issues—all which serve to undermine the development of a vibrant creative economy.

### FREELANCERS AND THE CREATIVE DIGITIZED ECONOMY

It is now old news that publishers of mainstream newspapers and magazines exploit authors' works not only in print form but also digitally, on their own websites or by selling them to third-party databases and CD-ROM companies. But this was not the practice before the onset of digital technologies, where before the 1990s freelancers customarily obtained additional compensation for translations, reprints, and other modifications of the work.<sup>3</sup> With increased digitization, publishers have begun to use the digital economy as a new avenue to profit from authors' works.

The proliferation of digital technologies expands the publisher's exploitation powers and puts copyright law's objectives under strain. The vast majority of writers are freelance authors. Studies indicate an escalating use of freelance labour due to a "partial renaissance" in self-employment enabled by changes in industrial organization, technology, and efforts to

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1 (2001) 15 CPR (4th) 147 (SCJ); (2004), 34 CPR (4th) 161 (Ont CA); 2006 SCC 43 ('*Robertson*'). SCC decision released October 12, 2006. For a more comprehensive treatment of the general issues, please see G. D'Agostino "Freelance Authors for Free: Globalisation of Publishing, Convergence of Copyright Contracts and Divergence of Judicial Reasoning" in F. Macmillan, ed., *New Directions in Copyright* (Edward Elgar Cheltenham, 2005) 166 and G. D'Agostino, "Copyright Treatment of Freelance Work in the Digital Era" (2002) 19 *Santa Clara Computer and High Technology LJ* 37.

2 [2004] 1 SCR 339 ("*CCH*").

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3 L.A. Santelli, "Notes and Comments: New Battles between Freelancer Authors and Publishers in the Aftermath of *Tasini v New York Times*" (1998) 7 *JL & Policy* 253–300, 262.

avoid regulation.<sup>4</sup> Unfortunately, this partial renaissance does not translate into a better livelihood for freelancers, or in a greater diversity of works for public use. Freelancers face unsavoury conditions vis-à-vis globalized and technologically sophisticated publishers. These changes have spurred the convergence of publishing practices, and consequently, the changing nature of contractual arrangements.<sup>5</sup> This relationship of subjugation is fortified by the laissez-faire copyright system, purportedly in place to protect creators. Freelancers receive little, if any additional revenue, and do not consent to these new means of exploitation. According to a recent study, “the average net professional income of Canadian freelance book and periodical writers was measured at \$11,480 in 1998, close to the level it had been in 1979, and this constituted only 39% of the average writer’s income, with 61% coming from teaching, editing and other work.”<sup>6</sup> Meanwhile, publishers justify the need to own future copyrights through unilateral non-negotiable standard terms and court action.

Canada’s Supreme Court decision of *Robertson v Thomson Corp*<sup>7</sup> comes after a series of other freelancer-driven copyright infringement suits

decided in continental Europe,<sup>8</sup> the United States,<sup>9</sup> and settled in the United Kingdom.<sup>10</sup> At issue is the period pre-dating electronic publication (before the 1990s) when there were no written contracts; only key terms like submission date and word count were agreed upon. And so, in all these cases, the agreements were oral and new use rights were not addressed. Freelancers argue that they receive no notice, give no consent, and obtain no payment for the exploitation of their works through these new digital uses. Publishers maintain that there is no difference between the media and irrespective, because of contracts previously made with their freelancers, they can exploit new uses of such works through an implied licence. Some publishers justify that they are investing millions of dollars in these new technologies and need a “wait and see” approach; others that they are digitizing works all in the public interest.<sup>11</sup> While this matter is to some extent evidentiary and interpretive in kind as it necessitates an analysis of copyright infringement, it speaks more fundamentally to the contractual nature of the freelance—publisher relationship and to the ways in which the management of such new uses challenge ongoing publishing practices and copyright law and policy generally. The central issue is whether authors’ contracts, by which copyright is transferred or licensed for publishers to reproduce their works,

4 Internationally see: OECD ‘Partial Renaissance of Self-Employment’ *OECD Employment Outlook* (OECD Paris 2000. <http://www.oecd.org/dataoecd/10/44/2079593.pdf> (February 27, 2004); ILO *Declaration on Fundamental Principles and Rights at Work and Its Follow-up* (Geneva: ILO, 1998); ILO *Decent Work in the Informal Economy* (Report No 6, 2002) <http://www.ilo.org/public/english/standards/relm/ilc/ilc90/pdf/rep-vi.pdf> (August 27, 2004). In Canada: J Fudge and others ‘Employee or Independent Contractor? Charting the Legal Significance of the Distinction in Canada’ (Pt 1) (2003) 10 Canadian Labour & Employment LJ 193; J Fudge and others ‘Changing Boundaries in Employment: Developing a New Platform for Labour Law’ (Pt 2) (2003) 10 Canadian Labour & Employment LJ 362.

5 Documented in G. D’Agostino 2005 (n 1).

6 M. Hebb, and W. Shaffer, “Towards a Fair Deal” (October 2006), study prepared for the Creators’ Copyright Coalition, and the Creators’ Rights Alliance/Alliance pour les droits des Créateurs. <http://www.creatorscopyright.ca/documents/hebb-sheffer/contracts-study-introduction.html#introduction>. Similarly, the annual average net professional income of a Canadian musician has been approximately \$15,000 since the mid-1980s.”

7 *Robertson* (n 1).

8 For example, in France: (February 3, 1998) (Tribunal de Grande Instance de Strasbourg – Ordonnance de Référé Commercial) tr (1998) 22 Columbia-VLAJLA 199 (*Plurimédia*). In Germany: *Freelens* (5 July 2001) No I ZR 311/98 Federal Supreme Court (Bundesgerichtshof) tr (2003) 34 IIC 227, 229.

9 *Tasini v New York Times* 533 US 483, 121 S Ct 2381 (2001) (“*Tasini*”). Within Canada, there is another action working its way through the courts: *Association des Journalistes indépendants du Québec (AJIQ) c. Cedrom-SNI* [1999] JQ no 4609 (QSC); *Electronic Rights Defence Committee (ERDC) c Southam Inc* [1999] JQ no 349 (QBC).

10 Settlement between *The Guardian* and its freelancers in 1999 stipulated that the newspaper company (1) stop the practice of coercing freelancers to assign copyright without fresh payment for their work, and (2) give freelancers 50 per cent of spot sales for one year.

11 *De Volkskrant* No D 3.1294 (September 24, 1997) (DCt of Amsterdam) tr (1998) 22 Columbia-VLAJLA 181 argued for a three-year freeze before compensating authors as the technologies were in an “experimental stage”; on the public interest argument see the Abella J’s dissent in *Robertson* SCC (n 1).



contemplate electronic publication rights.<sup>12</sup> For staff writers in common-law countries, it is a moot point, since there is the applicability of the “during course of employment doctrine,” but for freelancers who base their livelihoods on each new contract, the issue is a vital one.<sup>13</sup> In copyright law, freelancers are independent contractors and so without an agreement stating otherwise, they are supposed to control the future exploitation rights over their works.

In *Robertson*, by a 5 to 4 split, the court favoured freelance author Heather Robertson, who sued *The Globe and Mail* in a class action lawsuit to stop newspapers and magazines reproducing freelance articles in online databases without permission (and compensation). The facts revealed that the *Globe* entered into a letter agreement with Robertson’s publisher in August 1995 for one-time usage of one of her works for a fee, which made no reference to electronic rights. In February 1996, the *Globe* entered into a written contract with numerous freelancers, which it revised in December 1996 in order to expand its electronic rights clause. Authors’ groups like the Professional Writers Association of Canada (PWAC) triumphantly stated that the decision “has upheld freelance writers’ ownership and control of the work they produce (a fundamental tenet of copyright law).”<sup>14</sup> But the *Globe* also said in its statement that it was pleased overall.<sup>15</sup> This is because the decision, for the first time, carved out the right for newspapers to republish articles on CD-ROM. Articles reproduced in CD-ROM were seen as “faithful” to the essence of the original print edition and therefore allowable reproductions by the newspaper without the authors’ permission.<sup>16</sup>

But saying that authors own database rights and newspapers own CD-ROM rights is practically meaningless. This is because for both the majority and the dissent, freedom to contract trumps the law. Each party theoretically has contractual freedom, but publishers as the party with the greater bargaining power dictate terms to freelancers who have little power to demand better treatment. This decision—sanctioning freedom of contract—will therefore have little, if any, impact. As such, *Robertson* may not conclusively resolve the question of which party owns and controls future exploitation rights. Rather, the court defers to private ordering to clarify ambiguities in new-use clauses, which will continue to persist as technologies evolve to the detriment of freelancers. In many ways, this decision is unhelpful since it brings the issue back to the pre-litigation period. I have argued repeatedly that the issue is best seen as one of copyright contract (i.e., implied licence issue) and not copyright infringement.<sup>17</sup> Indeed, the case is set to go back to trial September 29, 2009, on this very issue.

## IMPLIED LICENCE ISSUE IN THE LOWER COURTS

From this perspective, it is useful to revisit the first instance decision, where the copyright contract issues were very much alive. Following an American Supreme Court decision on the copyright infringement issue, *Tasini v New York Times*,<sup>18</sup> Cumming J for the first instance court ruled that the publishers had infringed the freelancers’ copyright since the reproductions constituted individual copies of freelancers’ works. In *Tasini*’s 7 to 2 decision, the U.S. Supreme Court had

12 *Copyright Act* RSC 1985 c C-42 (‘CCA’) s 3 setting out the bundle of economic rights (e.g. reproduction right) to which a copyright owner is entitled.

13 CCA s 13(3); in the United Kingdom, *Copyright, Designs and Patents Act* 1988 c 48 as amended s 11(2).

14 Professional Writers Association of Canada (PWAC), “Professional Writers Welcome Supreme Court Decision” (October 12, 2006). <http://www.pwac.ca/2006/10/writers-win.html>.

15 J. Ward, “Supreme Court favours freelancers in copyright case,” *Toronto Star* (October 12, 2006).

16 *Robertson* SCC (n 1) [52].

17 See, for example, D’Agostino (n 1).

18 533 US 483, 121 S Ct 2381 (2001) (Ginsburg J). Six freelancers sued three print publishers—New York Times (NYT), Newsday and Time Inc. The dispute centred on 21 articles written between 1990 and 1993, in which freelancers had registered copyrights. The publishers registered collective works copyrights in each edition in which the articles originally appeared. They engaged the authors as independent contractors under oral contracts that did not contemplate electronic publication. Under separate licensing agreements with database and CD-ROM companies, (LEXIS/NEXIS and University Microfilms International, respectively), and without the consent of their freelancers, the publishers permitted copies of the freelancers’ articles to appear in electronic media.

ruled that pursuant to U.S. Copyright Code section 201(c), the publishers did not have the privilege to reproduce the work as standing alone but could only reproduce the works in context as part of the collective work. The U.S. Court mainly focused on the differences between print and electronic media and did not address licensing issues that were argued in the lower courts.<sup>19</sup>

*Robertson* at first instance found the licensing issues problematic and declined summary judgment, as there was a genuine issue for trial. In interpreting section 13(4) of the *Canada Copyright Act*, the Court held that the licence did not need to be in writing because it did not convey a proprietary interest: The Globe's licence was "arguably non-exclusive" since the freelancer "retains the rights to publish and re-sell the individual work."<sup>20</sup> While the Court did not grant a proprietary interest in the copyright, it left open the question as to whether there was in fact a licence between the parties and more specifically of what type. The decision, for instance, did not preclude the possibility that the defendant could have been entitled to a licence in the new electronic uses of the works. Conflicting evidence could not allow a ruling; freelancers were possibly aware of the existence of an online database long before 1996.<sup>21</sup> In 1996, the Globe merely codified the existing custom of electronically publishing freelancers' works in its new standard contract; if freelancers did not want their works to be re-used, they should have contracted out.<sup>22</sup>

The Ontario Court of Appeal dismissed the Globe's cross appeal regarding copyright infringement, thereby finding for Robertson. Equally, it dismissed Robertson's appeal on the implied licence issue, finding in favour of the Globe. The appellate court held that Robertson granted the Globe a valid oral licence: it was non-proprietary and did not need to be in writing. Nonetheless, the Court did not clarify the full extent of the Globe's licence. It maintained

that since Robertson admitted to allowing the Globe to publish her articles in print and to archive them on microfiche and microfilm, it "had a valid oral licence *at least* for these purposes."<sup>23</sup> Despite Robertson's continued objection to having also licensed her database rights, it remains uncertain whether the oral licence would extend to this new media. As a result, the Court of Appeal decision, which was in an ideal position to clarify the licensing issues, remained silent. *Robertson* was indeed expected to make a determinative ruling on the implied licence issue alongside the defences of laches and acquiescence.<sup>24</sup> Instead, it continued to dwell on delineating the differences between the media on the question of copyright infringement (although it purported not to be following a U.S. approach).<sup>25</sup>

## ROBERTSON SUPREME COURT RULING

The Supreme Court did not settle the licensing issue. Rather, the Court focused on delineating the differences among the media. Finding for *Robertson* on the copyright infringement claim, the Court ruled that the databases were not infringing. Once again applying *Tasini*, it adopted a "decontextualization" test. The articles reproduced in the databases had lost their "intimate connection" with the newspaper and were no longer represented in its context.<sup>26</sup> On the other hand, in a unique twist, and distinguishable from *Tasini*'s holding where all media were found to be infringing, the CD-ROM articles were allowable reproductions as these remained "faithful" to the newspaper.<sup>27</sup> Here the Court's interpretation of the decontextualization test is technology-dependent and

19 See discussion in D'Agostino 2002 (n 1) 2002.

20 *Robertson* SCJ (n 1) 77.

21 *Ibid.*, 160.

22 *Ibid.*, 164-165.

23 *Robertson* CA (n 1) [96] [emphasis mine].

24 W. Matheson, *Robertson* Defence Counsel, phone interview (July 18, 2002).

25 In making the argument that Canada followed a U.S. approach even though it claimed not to do so, see G. D'Agostino, "Anticipating *Robertson*: Defining Copyright Ownership of Freelance Works in New Media" (18)(1) *Cahiers de Propriété Intellectuelle* 2006 tr « *En attendant Robertson : Définir la possession du droit d'auteur sur les œuvres des pigistes dans les nouveaux médias* » 166; see D'Agostino (n 1) for a detailed discussion on the differences between the media.

26 *Robertson* SCC (n 1) [41].

27 *Ibid.* [52].



will likely, if applied in future cases, lead to unclear consequences, as technology is ever-evolving.

Significantly, the Court did not rule on the licensing issues and these remain a triable issue.<sup>28</sup> It merely agreed with the appellate court that an exclusive licence need not be in writing.<sup>29</sup> The Court, however, did affirm that the looming trial, and not its own decision, is the linchpin of resolving such issues. For the Court, “this decision, will of course, be of less practical significance. Parties are, have been, and will continue to be free to alter by contract the rights established by the *Copyright Act*.”<sup>30</sup> This is a very strong pronouncement on the persisting power of freedom of contract to trump any statutory-based right. Via contract, publishers have already standardized “all rights” contracts where they own *all* digital rights. And so, this decision is relevant only for the period before electronic publication, where there were no written contracts and no mention of digital rights. But even for this pre-electronic period, it may be that because of verbal contracts, publishers may also own freelancers’ database rights (found to be infringing by the Supreme Court). Freelancers may therefore end up with no rights.

And so the majority opinion, seemingly more sympathetic to freelancers, acknowledges that it has not even begun to scratch the surface of the real issue: had freelancers implied to give away their digital rights in the first place? Who owns the digital rights for that pre-electronic time period remains a live issue.

But freedom of contract does not always have the last word. The Court is only more or less accurate. At least in the United Kingdom, whose copyright statutes provided Canada with its models, publishers’ freedom to contract has been restricted when dealing with parties with weaker bargaining power, such as freelancers.<sup>31</sup> And where the law failed, courts would often step in

and even the playing field by giving publishers fewer rights in the contracts.<sup>32</sup> If such precedents had been considered in *Robertson*, the contract issues would have been solved in the authors’ favour. Publishers, aware of these restrictive laws, may now have had the incentive to contract precise terms for each of their digital rights. In Canada, freedom of contract is subject to an ancient body of doctrine called “equity,” by which courts check contracts for unfair conduct and terms. For example, equity has been applied in the music industry to break lucrative one-sided contracts unfairly reached by producers with inexperienced musicians.<sup>33</sup>

Nor does the Court’s decision stop Parliament—the final adjudicator on copyright policy—from enacting laws to address copyright contract issues (e.g., more specific provisions on licensing). Such issues were flagged in Parliament’s *Section 92 Report on Supporting Culture and Innovation* (October 2002) but ultimately have not made governments’ priority lists. It is still not too late. This problem will not go away any time soon.

Freelancers are a growing category of cultural workers. More and more work is being outsourced. New means of technology continue to be invented and open up new markets of exploitation and new challenges to today’s standardized contracts and publishing practices. Allowing full freedom of contract will mean that publishers, with their greater bargaining power, will take the greater share of the fruits of new technology markets, at the expense of authors.

For the *Robertson* dissent, this last result would seem just fine. The dissenters seem to go even farther than the majority in allowing publishers’ free rein. They also consider *Tasini*, where the publishers lost and in retaliation purged authors’ works from their online

28 At the time of writing, it is still unknown whether the plaintiff, Heather Robertson, will pursue the trial.

29 *Robertson* SCC (n 1) [56].

30 *Robertson* SCC (n 1) [58].

31 See G. D’Agostino (n 1) discussing the U.K. 1842 *Copyright Act* 5 & 6 Vict c 45.

32 Ibid., discussing cases such as *Hall-Brown v Iliffe & Sons Ltd* (1910–1935) Mac CC 88 ChD (20 Dec 1929).

33 *Schroeder v McCauley* [1974] 1 WLR 1308 (HL); *O’Sullivan v Management Agency and Music Ltd* [1985] 3 All ER 351 (full discussion of equity as applied to freelancers in G. D’Agostino *Towards a Balanced Copyright Treatment of Freelance Authors* (Oxford: Bodleian Library, 2004) (forthcoming in Edward Elgar, 2008).

databases.<sup>34</sup> *The New York Times* has purged approximately 115,000 affected articles. To avoid the same purging happening in Canada that would go against the “public interest,” the dissenters ruled for publishers. There is a great “public interest” purpose, they said, in archived newspapers: “These materials are a primary resource for teachers, students, writers, reporters, and researchers.”<sup>35</sup> But no-one disputes that publishers can copy their newspapers: they just cannot use individual freelance articles elsewhere without asking or for free (or violate authors’ moral rights—an issue not raised in the case). Nor does anyone dispute that archived newspapers serve the public interest. But this does not mean that publishers always prioritize what is in the public interest over what is in their shareholders’ interests. The *Times* proved this by punishing authors and the public by its policy of purging. The dissent also implies that rewarding authors is against the public interest. This falsely pits authors against the public. If we want to nourish the public interest, we cannot rely only on private interests. At least *Tasini*’s dissent deferred to the U.S. government and said that these issues merit further study. For instance, there is no reason why licensing schemes parallel to those in the music industry could not evolve to compensate authors and ensure users greater access and diversity of works. This may be a creative solution to accommodate all parties in the public interest.

## ROBERTSON GOING FORWARD

What the *Robertson* court left the parties with is a copyright test that is a “question of degree” and will lead to much future guesswork.<sup>36</sup> Even publishers need more than this for certainty’s sake. Resolving the live

contract issue in *Robertson* may not close the door on newer uncertainties in future copyright contracts. Bright line rules will be necessary to guide both parties and courts. Indeed, there is a new class action now making its way in the Quebec courts on these very issues.<sup>37</sup>

As in the past, today, even within Canada, Quebec stands out as a province that has attempted to clarify and protect authors’ rights through legislation.<sup>38</sup> Similarly, across Europe, various laws manage copyright contracts so that contracts may be arrived at equitably and so that freedom to contract does not undermine public policy.<sup>39</sup> The government and Parliament in common-law countries such as Canada would do well to learn from the past and the present signalled by *Robertson*. They should produce legislation that avoids courts from having to do their job for them in the future.

## CCH AND THE DISAPPEARANCE OF THE AUTHOR

Indeed, as Parliament has been silent on the direction of copyright policy, the Supreme Court proceeded to render a second author-unfriendly ruling. As a result of the March 4, 2004, Supreme Court of Canada decision in *CCH Canadian Ltd v Law Society of Upper Canada*,<sup>40</sup> for the first time in Canadian copyright history, determined that Canadian law must recognize a “user right” for exceptions generally and fair dealing in particular. Whereas the notion of exceptions before this decision was premised on a narrow interpretation of the scope of the exceptions, the Supreme Court has raised what was a narrow exception to the level of general

34 After *Tasini*, *The New York Times* adopted a policy to accept only freelance works for which authors expressly surrendered all of their copyright. *The New York Times* forced its freelancers to choose between: (1) whether to press for compensation, or (2) forego compensation in favour of keeping their articles in the electronic databases at a time when freelancers had limited information, since the damage awards were yet to be determined. Moreover, *The New York Times* blacklisted those freelancers who brought forward the claim.

35 *Robertson* SCC (n 1) [70].

36 *Ibid.* [40].

37 *Hamel v Southam Inc et al* (initiated in April 7, 1997, by the Electronic Rights Defence Committee for \$33.3 million with respect to 37,000 works dating back to 1985) currently seeking class certification; hearings held February 26 and 27, 2008.

38 *The Act Respecting the Professional Status of Artists in the Visual Arts, Arts and Crafts and Literature, and Their Contracts with Promoters* (1988) RSQ c S-32.01 discussed in D’Agostino (n 33).

39 See discussion in D’Agostino (n 1) on national legislation in Europe, for example, in France, Code de la Propriété Intellectuelle No 92-587 of July 1, 1992 as last amended by Order 2001-670 of July 25, 2001 (“CPI”).

40 *CCH* (n 2).

principle. Thus, it is important in the ongoing project of copyright policy reform to probe the meaning of this ruling since it would affect potential policy work on exceptions, and especially how the notion of fair dealing is conceived and applied.

While I certainly do not dispute the findings of this decision, as a strong user-rights decision has been necessary for some time, I take issue with the Supreme Court's interpretation of Parliament's copyright objectives. And here, I wonder where creators fit in to its underlying copyright philosophy. In *CCH*, the Supreme Court of Canada reaffirmed its previous ruling in *Théberge* that the CCA has supposedly dual objectives: "...a balance between promoting the public interest in the encouragement and dissemination of works of the arts and intellect and obtaining a just reward for the creator..."<sup>41</sup> The Court maintained that the judiciary "should strive to maintain an appropriate balance between these two goals."<sup>42</sup> The Court suggested that when copyright law promotes the encouragement and dissemination of works of the arts and intellect, this is in the public interest. For the Court, the chief method of attaining this is to protect user rights. While rewarding the "creator" is an important part of Canada's "dualistic" copyright objectives, presumably it will not promote the public interest as would protecting user rights.

*CCH*'s skewed expression of balance and the objectives of copyright law is seen further in its discussion of the doctrine of originality. The Court maintained that when courts lower the standard of originality, the balance tips more in favour of the author/creator at the loss of a robust public domain to foster future creative innovation.<sup>43</sup> While this may certainly be plausible, more often than not, copyright assignments and therefore the role of contract law (where the owner steps into the creator's shoes) allows for this erosion. In other words, understanding the dynamic relationship

between author and owner is also important when accounting for future innovation and a robust public domain.

This perhaps ill-conceived copyright policy is matched by equally ill-conceived language. The Court juxtaposed the public versus the creator in grounding its objectives, but in framing the issues it states: "[t]his case requires this Court to interpret the scope of both *owners'* and *users'* right under the *Copyright Act*..."<sup>44</sup> While the Court noted the "creator" in its discussion of balancing copyright objectives, it matter-of-factly replaces "her" with the term "owner" in the framing of the issues. Creators and owners are not the same category of stakeholders for the purposes of copyright.<sup>45</sup> Their interests are often conflicting. One cannot easily replace them as if they were synonyms, as the Court and many commentators often do. Indeed, it is not entirely helpful when commentators argue that *CCH* has "shifted the focus of copyright law from the pro-author approach that had dominated in the past to a balanced approach that weighs the rights of the author against those of the user."<sup>46</sup> And that, as a result, "the law in Canada is now that the courts must balance the interests of the authors of works against the public interest."<sup>47</sup> This is unfortunate copyright parlance in Canadian *CCH* commentary and copyright generally.

So while finally laudable that the Court champions user rights, long forgotten by Canadian legislatures and the judiciary, where do creators fit in *CCH*? While the policy for creators is not central to *CCH* (perhaps because for the most part the case deals with judges as creators, not the (stereo)typical category of creators like musicians, freelance authors, bloggers, and so on), this oversight may limit future "balanced" rulings. Would the Court have reached a similar ruling if other categories

41 *CCH* [10] citing *Théberge v Galerie d'Art du Petit Champlain Inc* [2002] 2 SCR 336 at [30-31].

42 *CCH* [10].

43 *CCH* (n 2) [24].

44 *Ibid.* [13] [emphasis added].

45 As repeatedly argued in each of the noted publications at G. D'Agostino (n 3).

46 P. Esmail, "*CCH Canadian Ltd v Law Society of Upper Canada* Case Comment on a Landmark Copyright Case" (2005) 10 *Appeal* 13-24 [3].

47 *Ibid.* [31].

of creators were at issue? *Robertson v Thomson Corp*, dealing with freelance authors, may decide such an issue, but the new trial is yet to make its way in the courts.<sup>48</sup> In *CCH*, judges and lawyers were creators whose works at issue were decided and shaped by judges and lawyers. The ultimate goal sought by the Great Library's copy practices was to "help ensure that legal professionals in Ontario can access the materials necessary to conduct the research required to carry on the practice of law."<sup>49</sup> This practice saves the cost of additional hotel bills and other travel expenses to non-Toronto lawyers and applies to self-represented litigants as well.<sup>50</sup> Had the Court ruled otherwise, Toronto lawyers may have received an unfair advantage over other members of the profession. Also, it has been argued that the cost of legal services would have increased for clients had the publishers been successful (lawyers would have had to pay extra for copies and would pass on the cost to their clients).<sup>51</sup> As a result, the Supreme Court was intimately familiar with the practices and repercussions of deciding otherwise. Still, these specific factors are not easily applicable to other creative domains, where reaping from the copyrighted work is often the sole source of income for other kinds of creators, such as freelancers.

## SOLUTIONS TOWARD BALANCE

There are many potential avenues to pursue toward a balanced copyright treatment of freelance authors. As previously noted, one must revisit the entire CCA and study what its objectives are, where the balance is being struck. Are right holders the so-called winning parties? Whose interests is copyright law meant to serve? The question remains where is the author/creator? Robertson nor *CCH* appears to account for her. In the current Canadian judiciary, public and academic copyright climate, creators' "rights," if one can still use the two words together, *le droit d'auteur*, seems to be a term of the past or one romanticized and stuck within the civilian tradition and vanishing from the Canadian common-law tradition.<sup>52</sup> There is a hostile climate in enforcing their rights. Creators remain subject to industry power imbalances that are facilitated by the CCA (allowing freedom of contract and in practice favouring right holders) and facilitated by the courts (undermining creators, but championing another stakeholder previously ill-addressed, the users). Below are some suggestions that have been elaborated more fully elsewhere:<sup>53</sup>

**Legislation (domestic and international):** Author-centric provisions may thus be necessary (accounting for the role of contract and moral rights) to balance liberalized fair dealing and potential future exceptions and right-holder centric existing provisions. Legislative intervention could thus be by way of amending the CCA or as in Quebec, devising a *sui generis* approach.<sup>54</sup> Internationally, the author is also unrepresented, and here it might be useful to press for more balanced and inclusive negotiation, organization, and enforcement.<sup>55</sup>

48 Updated as at November 18, 2007; see *infra* n 52.

49 *CCH* (n 1) [63].

50 *Esmail* (n 46) [28].

51 Law Society of Upper Canada "Notice to the Profession: Supreme Court of Canada Releases *CCH Canadian v Law Society of Upper Canada* Copyright Decision." Though it seems that law societies were in discussion with Access Copyright nonetheless. The Copyright Committee of the Federation reaffirmed to CanCopy (now Access Copyright) its willingness to continue discussions with respect to possible blanket licences for certain copying activities by members of the legal profession: Law Society of Saskatchewan "Copyright Notice to member of the Canadian Legal Profession from the National Copyright Committee of the Federal of Law Societies of Canada" (December 14, 1999). <http://www.lawsociety.sk.ca/newlook/News/lawsuit3.htm> (June 29, 2007); access policies remain the same: [http://library.lsuc.on.ca/GL/services\\_access.htm](http://library.lsuc.on.ca/GL/services_access.htm).

52 This was not always the case: D'Agostino *En attendant* Robertson (n 25).

53 D'Agostino 2008 (33).

54 The *Status of the Artist Act* SC 1992 c 33 the *Artist Act* received royal assent on June 24, 1992, and was brought into force in stages until May 9, 1995 when it became fully in force.

55 As argued in D'Agostino (53).

**Voluntary code or best practices:** As an alternative (and ideally complementary) approach to international legislative intervention, it may be possible to establish a voluntary code or non-binding statement of principles to improve publisher and freelancer relations. There is no reason why publishers should resist this cooperative, less intrusive approach. Publishers already have such principles, mainly for dealing with book authors.<sup>56</sup> Many authors' groups also generate these codes of practice at a national level but typically restrict these to members.

**Judicial tools:** Solutions cannot only reside with Parliament, but the entire copyright system must be engaged. Courts also need to develop a more balanced weighing of the issues. Here, judicial interpretation tools are suggested (e.g., restrictive interpretive approaches, where no more terms than necessary are read in to give efficacy to the contract, and avoid factoring in foreseeability and one-sided custom).

**Fairer contracting, model agreements, and authors' groups:** Working toward a balanced copyright treatment includes working with industry players such as authors and publishers' groups. One way to work together would be for scale agreements to be negotiated between them. Collective bargaining could ensure at least minimum terms and provisions for authors.

**Collective societies:** Collecting societies can control the electronic distribution of freelance articles and maintain efficient licensing schemes to distribute freelance articles to the public. Ruth Towse argued that these have strengthened authors' bargaining position.<sup>57</sup> As another commentator has observed, "[c]ommercial copyright transactions require negotiation, monitoring, and enforcement that can be prohibitively costly for individuals' but feasible for such an organization."<sup>58</sup> From an economic perspective, collective rights management "is adopted to spread administrative costs and to reap economies of scale."<sup>59</sup>

**Education and outreach:** More needs to be done to educate legislators, academics, industry players, and the general public on the importance of copyright and authors' rights in creating a vibrant creative economy.

Ultimately, the ideal solution in balancing the copyright system, and in this case, for freelancers, resides mainly in legal intervention through copyright law. Clear and more robust copyright contract laws such as a pro-author default rule and other provisions on use, scope, duration, and equitable remuneration for authors' contracts are necessary. Other options to complement and execute such proposals are available and should be pursued. Solutions need to work both through copyright law and outside of it to sustain the future of creative content.

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56 For example, "The Publishers Association Code of Practice" and in the music industry: "The Code of Fair Practice." [http://www.mpaonline.org.uk/code\\_ofp.html](http://www.mpaonline.org.uk/code_ofp.html) (August 31, 2004).

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57 R. Towse, "Copyright Policy, Cultural Policy and Support for Artists" in W.J. Gordon and R. Watt (eds.), *The Economics of Copyright* (Cheltenham, Edward Elgar, 2003) 66, 73.

58 J. May, "Intellectual Property: Copyright Acquisition and Ownership *Tasini v New York Times Co*" (2001) 16 *Berkeley Technology LJ* 1331; R. Dixon, "Profits in Cyberspace: Should Newspaper and Magazine Publishers Pay Freelance Writers for Digital Content?" (1998) 4 *Mich Telecomm Tech LRev* 127.

59 Towse (n 57) 73.



## RESEARCH PAPER 22

# Intellectual Property: Engine for Growth and the Backbone of the Creative Economy

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### INTRODUCTION

Shahid Alikhan, former Undersecretary General of the United Nations, wrote extensively on how intellectual property (IP) rights are a cornerstone of modern economic policy and a key for long-term sustainable development.<sup>1</sup> The question that plagued Mr. Alikhan at the turn of the century was why the consensus among a broad range of experts and policy-makers on the critical importance of IP has not translated into more pro-IP government policies. His answer: The importance of IP is often buried by distorted and misleading propaganda by uninformed or dogmatic individuals. As Mr. Alikhan lamented:

The need for greater [intellectual property] awareness-building is imperative when one sees views being aired and positions taken and asserted, but little studied, and through repetition, being accepted, owing perhaps again to lack of detailed knowledge or precise information. As the adage goes, there is no worse blind than one who does not want to see.<sup>2</sup>

Our hope is to move the copyright policy debate in Canada past the current atmosphere of catchphrase commentary, *ad hominem* attacks, and simplistic responses. In attempting to move to a reasoned and fact-based policy debate, this paper will focus on how copyright law is critically important to the development of the creative economy in Canada. The paper is divided into five sections, as follows: a brief discussion of the importance of the creative industries to the Canadian economy; an examination of why copyright protection is so important to the prosperity of these creative industries; an overview of the aggregate impact of piracy on the Canadian creative community; an exploration of how these aggregate industry-wide losses impact creators, creative networks, and creative outputs; and a discussion of the emerging global movement toward a solution to rampant online piracy—the regulation of the Internet.

### THE IMPORTANCE OF THE CREATIVE INDUSTRIES: A GLOBAL AND DOMESTIC SNAPSHOT

The global economy is becoming increasingly knowledge-based. As we move from the manufacturing to the information age, conceptual goods (inventions, art, and brand goodwill) are becoming the underpinning of the modern developed economy. In 2000, conceptual assets represented 70 per cent of corporate assets in the

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1 See, generally, Shahid Alikhan, *Socio-Economic Benefits of Intellectual Property Protection in Developing Countries*, WIPO, 2000.

2 Shahid Alikhan, *Socio-Economic Benefits of Intellectual Property Protection in Developing Countries*, WIPO, 2000, p.173.



United States.<sup>3</sup> Similarly, in the European Union, the creative industries (publishing, music, film, software, and the arts) contributed more than 1.2-trillion euros to the EU economy in 2000 and employed 5.2 million individuals.<sup>4</sup> As Professor Richard Florida, head of the Prosperity Institute at the University of Toronto Rotman School of Management, aptly described:

Today's economy is fundamentally a Creative Economy. ... [H]umans of course have engaged in creative activities since antiquity, often with spectacular results. What we are doing now is mainstreaming these activities; building an entire economy infrastructure around them. Scientific and artistic endeavor, for instance, have become industries unto themselves, and they have combined in new ways to create new industries. The joint expansion of technological innovation and creative content work has increasingly become the motor force of economic growth.<sup>5</sup>

In Canada, arguably the most comprehensive study on the creative industries (i.e., the publishing, music, graphic arts, movies, television, and radio industries<sup>6</sup>) was conducted by Industry Canada in 2001. It found that the creative industries are a significant and growing source of our country's economic well-being. Specifically, the study found that the creative industries:

- ♦ accounted for 7.4 per cent of the Canadian gross domestic product (GDP) (\$65.9 billion)—greater

than the health and social services industry, retail trade industry, or wholesale trade industry

- ♦ accounted for \$9 billion in exports in 1999, with a 16 per cent annual growth rate since 1992
- ♦ represented nearly one million jobs in 1999, with a 4.5 per cent annual growth rate since 1992<sup>7</sup>

The study concluded that Canada's creative industries constitute "the third most important contributor to our economic growth." After reviewing the paper, Marcel Boyer, the Bell Canada Chair in Industrial Economy at l'Université de Montréal, concluded that creative industries are a "significant part" of the Canadian economy and that "the proper definition, protection and enforcement of copyrights are or should be an important public policy endeavour."<sup>8</sup>

## THE IMPORTANCE OF COPYRIGHT: THE "CURIOUS ECONOMICS" OF THE CREATIVE INDUSTRIES

As Professor Moyer understood, copyright law, that is, the legal protection of creative works against unauthorized reproduction, is critically important to the success of creators because of the unique characteristics of creative works. While creative works have a number of "curious economics" associated with them, there are two that make them particularly vulnerable to piracy: high fixed costs coupled with low marginal costs; and the heavy reliance on the unpredictable success of "mega-hits," which provide very high profit margins over short periods of time to relatively few artists.

### HIGH FIXED COSTS/LOW MARGINAL COSTS

The production of creative works involves very high fixed or "sunk" costs, while their reproduction (so-called marginal costs) is very low. While it might take tens of millions of dollars and months or years to

3 Kamil Idris, *Intellectual Property: A Power Tool For Economic Growth*, 2002, p.54.

4 Turku School of Economics and Business Administration, prepared for European Commission, Directorate General, Internal Market, *The Contribution of Copyright and Related Rights to the European Economy*, October 20, 2003.

5 Richard Florida, *The Rise of the Creative Class*, 2002, p.44.

6 When using the terms "creative industries" and "creators", this paper will be describing artists (and their investors) who produce fixed (i.e. durable) creative works in the main areas of cultural consumption, i.e., music, movies, television, video games, publishing, graphic arts, and radio. Of course, "creators" and the "creative industries" can have a much broader definition; for example, it can include scientists, engineers, spoken word poets and lawyers. For a broader definition, see Richard Florida, *The Rise of the Creative Class*, 2002, p.69.

7 Charles, Sandra, Gilles McDougall and Julie Tran, *The Importance of the Intellectual Property Industries in the Canadian Economy*, Ottawa, Industry Canada, 2001.

8 Marcel Boyer, "Efficiency Considerations in Copyright Protection", *Review of Economic Research on Copyright Issues*, 2004, vol. 1(2), p.14.

make and market a movie, that movie can be copied and distributed to millions over the Internet in a few minutes for a nominal amount. Olivier Bomsel, one of the world's leading cultural economists and a member of France's Olivennes Commission, explained:

[Creative industries] have a low marginal cost of reproduction but high fixed costs of production. Moreover, most of the fixed costs incurred are "sunk." They are so specifically dedicated to one activity that reallocation or resale is impossible. They are definitely lost once engaged. Content industries produce prototypes: every film, every song, every book is different from another and is produced and promoted individually. Distribution and production costs (like script-writing, casting or setting costs) are totally sunk. But sunk costs can also be intangibles such as the growing marketing and advertising spending... These costs will not be recovered if the project proves difficult or even if it is headed for disaster.<sup>9</sup>

Given these high fixed and low marginal costs, without protection from unauthorized copying by "free riders" (individuals who do not pay the creator for the creative product), the supply of cultural assets is inevitably undermined. In other words, without proper copyright protection, free riders can distribute unauthorized reproductions at nominal expense, without regard to the high fixed costs borne by creators. This can create market failure, where the price of the product is driven down to the marginal cost (which may be close to zero in the case of unauthorized file sharing), while the fixed costs associated with the creative product cannot be recovered. The end point? A perpetually red balance sheet with little incentive to produce or invest in creative products. As William Landes and Richard Posner described, IP rights such as copyright, were devised in part to address this problem:

[Intellectual property] enables people to reap where they have sown. Without that prospect, the incentive to sow is diminished. To take an

example from intellectual property, a firm [or individual] is less likely to expend resources on developing a new product if competing firms [or individuals] that have not borne the expense of development can duplicate the product and produce it at the same marginal cost as the innovator; competition will drive price down to the marginal cost and the sunk costs of invention will not be recouped.<sup>10</sup>

The high fixed/low sunk cost dichotomy is not the only reason why creative industries are so susceptible to piracy. They are also particularly vulnerable to the high failure rates and unpredictable success patterns associated with creative works.

#### **UNPREDICTABLE SUCCESS AND COMMON FAILURE—PATTERNS OF THE CREATIVE ECONOMY**

There is no formula for what makes a creative work successful. Prior to its release, no one can predict with any degree of certainty whether a creative work will be a commercial hit or failure. As Peter Grant and Chris Wood discussed in *Blockbusters and Trade Wars*:

[T]he demand for any proposed cultural product is extremely difficult to predict in advance of incurring the cost of its creation. ... [R]esearch and pre-testing are notoriously ineffective in the realm of popular culture. Until audiences actually experience a creative product, it simply cannot be evaluated. In advance of the actual release of the title, nobody knows.<sup>11</sup>

While the odds of success can be improved with expert assistance, the only certainty prior to the production of a work is that it is statistically *likely* to fail commercially. That is, even at the best of times, the fixed costs associated with the production of a creative work are most often not recouped by creators (or their investors). The high failure rate is indicative of the creative industries in general, as "the great majority of cultural products

9 Olivier Bomsel et al., *When Internet Meets Entertainment: The Economics of Digital Media Industries*, 2006, p.13.

10 W. Landes and R. Posner, *The Economic Structure of Intellectual Property Law*, 2003, p.13.

11 P. Grant and S. Wood, *Blockbusters and Trade Wars: Popular Culture in a Globalized World*, 2004, p.48.

do not succeed” and the investment in the creative product is “not recouped.”<sup>12</sup>

Despite this, the creative industries in Canada flourished under “normal” market conditions (as indicated by the 2001 Industry Canada study). The reason for this success was simple: While creative products were high risk, they were also high reward. Every year, a few successful creative products would become “runaway” hits, generating huge consumer demand and massive profit margins. These “mega-sellers” were, and remain, the critical fuel of the creative industries. Brad Martin, CEO of Random House of Canada, explained:

[L]ike the movie [or music] business, [book publishing] is a hit-based business. Yes, we have a back catalogue that provides us with some ongoing cash flow, but what really moves the needle in this business is a hit, a big hit – whether it’s an Oprah book or a Dan Brown or a Sophie Kinsella that breaks out from nowhere and becomes a blazing success. These are the types of things that drive our bottom line.<sup>13</sup>

The profits associated with these mega-sellers, of course, do not just simply go to the successful creator. A large portion of the profits are fed back into the creative system as research and development. One superstar hit typically funds dozens of creative projects by new and emerging artists. Simply put, the mega-hit revenue is the “tide” that lifts the boats of many other emerging creators.<sup>14</sup>

These highly unpredictable and uncommon “mega hits,” however, have a very short commercial shelf life. For most, the vast majority of revenue is generated in the first two years of release, and often in the first three months. After that, successful creative products typically become dated and fail to generate significant income. This means that creators (and their investors)

must move a large amount of units in a very short period to be viable. Consumers mainly want the “hit-of-the-day” and then quickly move on to the next one.

The unpredictable and perishable “mega-hit” nature of the creative industry makes it especially vulnerable to the free-rider problem. Why? Because free riders not only bypass the enormous fixed costs of developing a creative product, they also avoid the extremely high (and expensive) failure rate that afflicts creative industries (which must necessarily be built into the pricing model). Free riders, by reproducing and distributing *ex post* proven mega hits—the overwhelming majority of unauthorized file sharing consists of well-known commercial hits—undermine the market by ensuring that the creator (and their investors) do not recover *either* their fixed development costs *or* risk premium costs. As a result, widespread piracy risks becoming the “tipping point” that pushes the creative economy to the brink of unsustainability.

The next section further explores whether online file sharing is that “tipping point.”

## PEER-TO-PEER FILE SHARING: THE “TIPPING POINT” OF A CREATIVE CRISIS

In 1999, several technological developments coalesced to create the potential for widespread illegal distribution of content over the Internet. First, computer programmers had reduced the file sizes of creative products (e.g., the computer memory needed to store a song or movie), so that a song, television show, or movie could be “ripped” from a CD/DVD and stored on a computer in less time and using less memory. Second, high-speed Internet service had penetrated enough homes so that a critical mass of individuals could download creative content relatively quickly with little chance of Internet disruption. Third, and perhaps most importantly, peer-to-peer (P2P) file-sharing networks were created that

12 P. Grant, *supra*, p.48.

13 *Toronto Star*, “Pinning hopes on the next megaseller”, February 23, 2008.

14 *Ibid.*

allowed one person's copy to be reproduced at a relatively high level of quality and accessed by millions of people around the world with near simultaneity.

Because songs require much less data than television shows, movies, or video games, file sharing disproportionately affected the music industry when it first arrived.<sup>15</sup> Professor Liebowitz authoritatively summarized the cause and effect:

*[A]lmost all econometric studies that have been undertaken to date, including those in this issue – [indicate that] file sharing has brought significant harm to the recording industry. The birth of file sharing and the very large decline in CD sales that immediately followed is a powerful piece of evidence on its own. The 2004 increase in CD sales, temporarily reversing the decline, largely matches a reversal in the amount of file-sharing activity. Furthermore, analysis of the possible alternative explanations for the decline in CD sales fails to find any viable candidates. ... Common sense is, of course, the handmaiden of economic analysis. When given the choice of free and convenient high-quality copies versus purchased originals, is it really a surprise that a significant number of individuals will choose to substitute the free copy for the purchase?*<sup>16</sup>

While the music industry was the first and hardest creative industry to be hit by unauthorized file sharing, other creative industries soon began to feel similar negative effects as broadband speeds increased and

digital reproduction technologies “improved”.<sup>17</sup> For example, between 2003 and 2007, the ability of a file-sharer to download films increased by 87.5 per cent.<sup>18</sup> As a recent UNESCO publication noted, online piracy affects more creative industries than are affected by traditional “physical” piracy, and it affects them to a greater degree:

Online piracy is widespread, and its continued growth is a function of high-speed internet access and improving forms of compression technology. Already, for example, 58% of Korean internet users have, according to a recent study, downloaded a film without authorization. ... Online piracy is also broader in scope [than physical piracy]. In addition to the creative industries traditionally burdened with significant levels of piracy, online theft extends to categories of rightholders – including photographers, illustrators, and graphic artists – whose works in the physical world were more rarely pirated due to the difficulties involved in reproducing photographic images, graphic arts, and quality books, through traditional means. ... [I]t is perhaps not surprising that *online piracy is growing far faster than piracy in the physical world*.<sup>19</sup>

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17 The main development for mass copying technology has been the bittorrent programs which, as described by Einhorn,

efficiently store chunks of large content files on unused computer space near the point of final use. In so distributing the content, BitTorrent reduces the demand for network capacity (i.e., streaming servers, data centers, local caches, and dedicated bandwidth) that would otherwise be necessary to accommodate file transfer from a central server. The potential efficiencies of this so-called “data swarming” here are particularly considerable for high-bandwidth files, such as movies, games, and videos – which may consume over 1 GB of capacity (as distinguished from 3-4 MB for a song compressed by MP3).

M. Einhorn, *Canadian Quandary: Digital Rights Management, Access Protection, and Free Markets*, 2006, p.15.

18 O. Bomsel, *supra*, p. 52.

19 Darrell Panethiere, *The Persistence of Piracy: The Consequences for Creativity, for Culture, and for Sustainable Development*, UNESCO, 2005, pp. 18, 22 (emphasis added).

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15 Instead of waiting multiple hours or days for a movie to download in 1999, a person only had to wait a few seconds to access their favourite song.

16 Stan Liebowitz, “File Sharing: Creative Destruction or Just Plain Destruction?”, *Journal of Law and Economics*, XLIX (April 2006), p. 24.

## CANADA: THE EPICENTRE OF INTERNATIONAL ONLINE PIRACY

While the impacts of online piracy are felt all over the world, the situation is particularly dire in Canada due to a combination of high broadband penetration, lack of consumer education, and outdated legislation.<sup>20</sup> The RCMP has found that there is an “ever-growing use of the Internet for IP crime” in Canada and that the problem will “escalate” in “upcoming years” due to the fact that “software, music and movie piracy are easy, low risk activities.”<sup>21</sup> A 2005 Organisation for Economic Co-operation and Development (OECD) study found that Canada had the highest level of P2P downloading

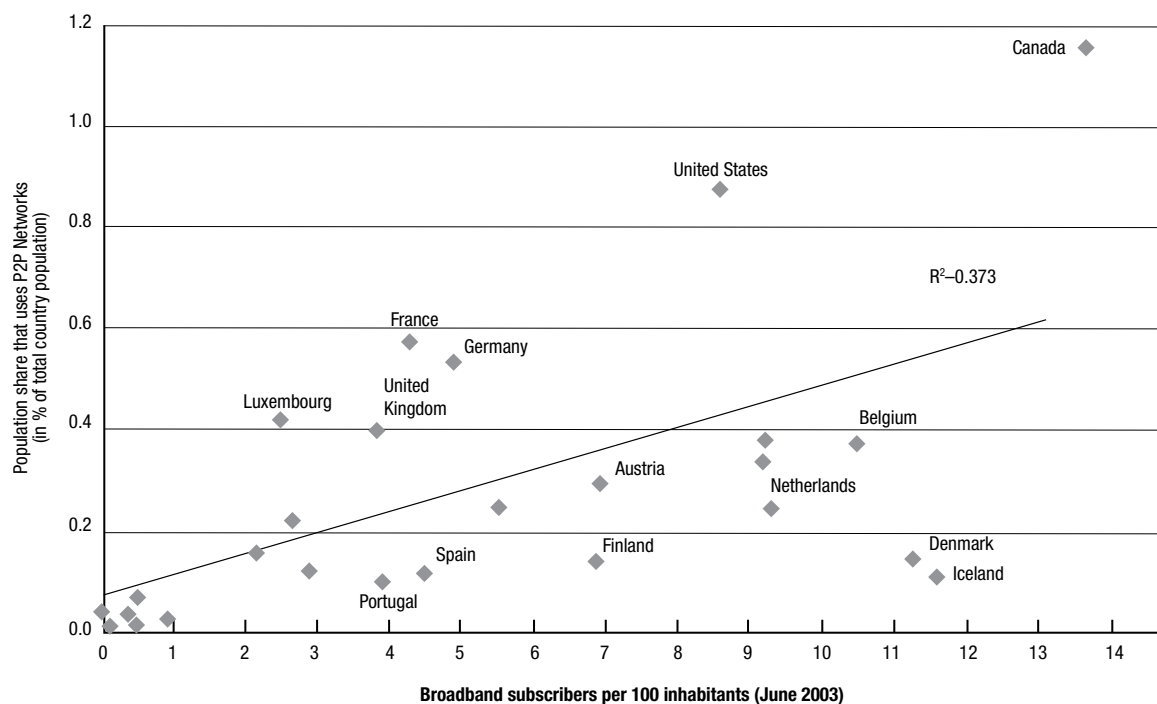
among OECD countries per capita.<sup>22</sup> Canada’s place in the world of online piracy is sharply illustrated by the following chart:

The combined effects of online and physical piracy on the Canadian creative industries have been substantial. For example:

- ♦ The annual loss to the Canadian economy due to software piracy in 2006 is estimated at \$890 million.<sup>23</sup>
- ♦ The annual loss to the Canadian economy due to film piracy in 2005 is estimated at \$225 million.<sup>24</sup>

**Figure 1**

Relationship between broadband access and P2P use in selected OECD countries



Source: OECD, based on BigChampagne data and OECD ICT database.

20 In 2004, Canada had a broadband penetration rate that exceeded that of the U.S. and every country in Europe. See, M. Einhorn, *Canadian Quandary: Digital Rights Management, Access Protection, and Free Markets*, 2006, p.3.

21 RCMP, *Project SHAM: A Strategic intelligence assessment of Intellectual Property Crime in Canada*, 2004, p.14 and *Assessment of commercial scale criminal copyright piracy and trade-mark counterfeiting in Canada*, 2000, p.20.

22 OECD, *Working Party on the Information Economy – Digital Broadband Content: Music*, December, 2005.

23 Canadian Alliance Against Software Theft, Press Release, May 15, 2007.

24 Canadian Motion Picture Distributors Association, *Beyond Borders: An Agenda to Combat Film Piracy In Canada*, 2006.

Canadian music industry retail revenues have shrunk by 47 per cent since 1999 (the year Napster appeared), an over-\$600 million decline in annual sale amounts.<sup>25</sup>

While the statistics underlying losses in the creative industries have been extensively discussed, surprisingly little attention has been focused on the effect of piracy on creators and the production of creative products (or “cultural assets”). The next part of this paper will do just that. It will examine how piracy, by significantly undercutting revenues associated with the creation of cultural assets, is harming creators and creativity in Canada.

## ONLINE PIRACY: DISMANTLING THE CREATIVITY ECOSYSTEM

The production of cultural assets consists of a series of overlapping and interconnecting networks based around a small number of “core” creative individuals (e.g., the novelist, director, video game designer, singer-songwriter). When the marketplace for creative products functions properly, cultural assets are developed, refined, promoted, marketed, and sold by a large number of professionals (e.g., accountants, lawyers, managers/agents, marketing personnel), artists (e.g., editors, designers, sound engineers, studio musicians), and support staff (e.g., technical workers, administrative assistants, equipment manufacturers, art suppliers), who all work in conjunction with one other. As Peter Grant and Chris Wood noted:

Popular culture, it must be remembered, is a team sport. ... The initial creator, whether of prints, books, songs or screenplays, may work alone. But bringing his or her product to its eventual audience requires the input of numerous other specialists and considerable sums of money, in addition to the cash value of whatever time the creator has invested.<sup>26</sup>

If the revenue stream generated from a movie, video game, or other cultural asset is undermined by piracy, the “creativity network” will shrink or, in particularly severe situations, collapse entirely. This has a significant ripple effect on the economy. Instead of having accountants, agents, or technical support staff, creators reduce the payroll and are forced to multi-task. This, of course, means less time (and money) for creative activity. The ramifications—less creative employment, fewer creative assets, and less creative diversity—are examined below.

### LESS CREATIVE EMPLOYMENT

The most obvious effect of the unravelling of the creativity network is less jobs. Successful creators do not simply put food on their own table. They generate work and income for dozens, hundreds, or even, when the likes of David Cronenberg and Celine Dion are in the mix, thousands of others. As Kevin Tierney, the Montréal-based producer of “Bon Cop, Bad Cop,” said in a recent CBC interview:

[Piracy] means that money is not only stolen from me—it’s stolen from the actors, writers and directors and rights holders for *Bon Cop*. ... [I]t’s not just the major Hollywood studios that are hurt by rampant copying of movies and music, but also Canadian artists.<sup>27</sup>

Further, when creativity networks wither, this not only impacts individuals within the core cluster, it also affects a wide range of secondary workers. For example, when major movies are filmed, in addition to those employed directly, another \$200,000 *per day* in secondary revenue is generated by local hotels, caterers, car rental agencies, and dozens of other businesses.<sup>28</sup>

### FEWER CULTURAL ASSETS

When revenues decline, the supply of cultural assets is inevitably reduced. As Richard Florida has noted, one of the reasons for the growth of the creative class in our modern economy has been the ability of creators to “specialize”:

25 Canadian Recording Industry Association statistics.

26 Peter Grant and Chris Wood’s observation in *Blockbusters and Trade Wars: Popular Culture in a Globalized World*, 2004, p.27

27 CBC Arts Report, “Bad copy bad news for Bon Cop producer”, May 10, 2007.

28 MPAA, Press Release, 2005.



A system of specialization and trade has obvious advantages in terms of harnessing creativity. Focusing on one particular kind of activity (or as we've come to say, on one "trade") allows people to devise new and better ways to do it. They can tinker with materials and processes, come up with new product designs – and when successful, they're rewarded by a growing market for work.<sup>29</sup>

Talented artists become successful in part because they are able to focus on art and collaborate with other talented craftspeople. When revenue from creative assets diminishes because of piracy, artists are forced to dismantle their creativity network (i.e., the back-up musicians, marketers, and other support personnel they traditionally relied upon), which allowed them to focus on their art. When faced with declining revenues, most professional creators are forced out of necessity to juggle non-artistic jobs and/or focus their energies on supplemental artistic revenue streams that are not tied to the production of cultural assets (e.g., touring or merchandise sales).<sup>30</sup> As a result, they have less time (and less incentive) to produce creative products.<sup>31</sup>

### LESS CULTURAL DIVERSITY

Not only are fewer creative products developed in an era of rampant piracy, but emerging artists and those creating in niche categories are disproportionately impacted. Faced with diminishing returns and increased risk, investors will choose to support creative products with the greatest potential return (e.g., the movie sequel, mainstream pop album, or formulaic novel). As

professors Liebowitz and Watt discussed in the context of the music industry, greater piracy would inevitably

lead to less variety and choice than we currently have. Record studios would be forced to take fewer chances and would only give record contracts to artists with a very high likelihood of success. Bruce Springsteen, as one example, would not likely have been allowed to record *Born to Run*, his make-or-break breakout third album, coming as it did after the poor performance of his first two albums.<sup>32</sup>

While many view piracy as hurting only the wealthy superstar, evidence indicates the opposite: Niche and independent creators are disproportionately impacted by piracy. While stars have the income reserves to continue generating creative assets, emerging and niche artists simply do not have these capital stockpiles. Furthermore, local creators also lose any price-point advantage they might have over "runaway hits," as they are forced to compete with "free" pirate copies of internationally renowned artists. As the former Director General of the World Intellectual Property Organization (WIPO) explained:

When people are faced with a choice between a cut-rate pirate copy of, for example, the new Ricky Martin CD, as opposed to legitimate local recordings of community artists and musicians (which must necessarily reflect the cost of developing talent) who are perhaps known but not yet popular, the dramatic cost differential most often points in the favour of pirated music. *This process, caused primarily by the absence of effective copyright and related rights, kills the local market, strangles local talent and businesses and precludes any advancement of the local music industry.*<sup>33</sup>

29 R. Florida, *supra*, p.59.

30 Obviously, many creators are not able to access these supplemental artistic revenue streams. For instance, songwriters are not able to tour and rarely have any merchandise rights to support themselves. They are, therefore, cut off from any artistic supplemental income that would partially cushion the revenue loss associated with piracy.

31 For example, see D. Throsby, "The Production and Consumption of the Arts: A View of Cultural Economics", *Journal of Economic Literature*, XXXII (March 1994), p.18, who finds that: "artists supplying the nonart labour market only up to the point where an adequate return was received to support their primary artistic work, with attention being switched thereafter to supplying primarily the arts labour market."

32 Stan J. Liebowitz & Richard Watt, 2006. "How To Best Ensure Remuneration For Creators In The Market For Music? Copyright And Its Alternatives," *Journal of Economic Surveys*, Blackwell Publishing, vol. 20(4), p.531.

33 Kamil Idris, *Intellectual Property: A Power Tool For Economic Growth*, p.201 (emphasis added).



As a 2005 UNESCO report pointed out, “[w]herever piracy flourishes, it is virtually impossible for local software, film, and music industries to compete, to grow, or, in emerging economies, to develop at all.”<sup>34</sup>

### A “FREEECONOMIC” FUTURE?

In a recent *Wired Magazine* article, Chris Anderson, author of “The Long Tail,” suggested that, in light of widespread online music piracy, some artists have willingly accepted that they cannot earn a living from their work. In the course of a discussion of what he calls “freeconomics,” Anderson described his view of the situation as follows:

Between digital reproduction and P2P distribution, the real cost of distributing music has truly hit bottom. This is a case where the product has become free because of sheer economic gravity, with or without a business model. That force is so powerful that laws, guilt trips, DRM, and every other barrier to piracy the labels can think of have failed. Some artists give away their music online as a way of marketing concerts, merchandise, licensing, and other paid fare. But others have simply accepted that, for them, music is not a moneymaking business. It’s something they do for other reasons, from fun to creative expression. Which, of course, has always been true for most musicians anyway.<sup>35</sup>

This statement illustrates the stark future in store for creators when policy-makers decline to impose rules on the Internet. Currently, in Canada, musicians have no choice: their work can be taken at will, and without compensation, via online file sharing.

The impacts of the government’s failure are becoming increasingly evident. Musicians in Canada are finding it harder to earn a living. For example, according to the American Federation of Musicians of Canada, 80 per cent of Canada’s musicians make less than \$15,000 a year.

By failing to impose rules, policy-makers in Canada are in effect choosing winners. Artists unquestionably are not among them.

According to Anderson’s vision, most artists have always created art for “fun.” Fair enough, if he is referring to amateurs and hobbyists. But policy-makers should take note if they are considering the kind of future he outlines: The music that Canadians know best—that they love and value most—was created by *professional* musicians and the creativity networks behind them. It is this class that is most deeply and directly affected by online piracy.

## THE ROAD FORWARD: REGULATING THE HIGHWAY

The UNESCO report describes the beginning of the Internet as an essentially unregulated distribution channel that has accommodated “software designers,” “telecommunications companies,” and “pirates.”<sup>36</sup> The Wild West nature of the Internet has led to it becoming a vehicle for the distribution of massive amounts of pirated material, resulting in huge losses borne by creators and their investors. As economists understand, without marketplace rules enforced by the state, entrepreneurship cannot flourish.<sup>37</sup> This is particularly true for creative entrepreneurs because of the unique economic characteristics of cultural industries described above. In such circumstances, if the integrity of the marketplace is not effectively protected against piracy, creators and their creative output will suffer enormously.

34 D. Panethiere, UNESCO, *The Persistence of Piracy: The Consequences for Creativity, for Culture, and for Sustainable Development*, 2005, p.26.

35 Chris Anderson, “Free! Why \$0.00 Is the Future of Business,” *Wired Magazine*, ([http://www.wired.com/techbiz/it/magazine/16-03/ff\\_free](http://www.wired.com/techbiz/it/magazine/16-03/ff_free)).

36 D. Panethiere, UNESCO, *supra*, p.20.

37 See for example: Douglass C. North, “Institutions”, *Journal of Economic Perspectives* 5, no. 1 (Winter 1991), pp. 97-112.

While the Internet has transformed the economics of digital content distribution, it is not unique as a force of revolutionary economic change. The history of technological change is a story of breathtaking periods of innovation, initial interludes of lawlessness, followed by state regulation and the establishment of a marketplace framework. As Deborah Spar, Harvard Business School professor and Barnard College president, predicted in 2001, the Internet will follow the way of the telephone, radio, and television. Governments will eventually step in and create a “stable framework” based on the protection of property rights, thereby allowing the online market to flourish:

In cyberspace, a very similar process [to historical antecedents] is already underway. On both sides of the Atlantic, for instance, governments have indicated that the basic rules of competition – the same rules that stymied Marconi and dogged Western Union – will apply as strictly across the new technologies. ... Why? Because even along this wildest of frontiers, pioneers need property rights, and standards, and some basic understanding of what constitutes fair and foul play. And the only entity that can sustain and enforce these rules is the state. ... Without property rights, rival claims over the new market can rapidly disintegrate into chaos, stunting commercial development as it did in the early days of telegraphy and broadcast radio.<sup>38</sup>

Professor Spar’s vision has proven to be remarkably accurate. Last year, Nicolas Sarkozy of France established a commission (the Olivennes Commission) to examine how the state could curtail the rampant piracy affecting his country and establish a properly functioning Internet marketplace. President Sarkozy stated that the “Internet must not become a high-tech Wild West, a lawless zone where outlaws can pillage works with abandon or, worse, trade in them in total

impunity.”<sup>39</sup> The Olivennes Commission’s recommendations, announced in November 2007, emphasized the need for marketplace integrity and online regulation:

Illegal consumption [on the Internet] is today destroying value: by undermining creators’ income, funding for production and the economic efficiency of distribution, it jeopardizes the diversity of works and poses a threat to the vigor of creative output, and hence to the identity of France and Europe. It is now imperative to reverse the signals sent out to those who contribute to the economy, especially consumers, and to make them aware that for non-paying illegal use to become the norm incurs a collective cost for the cultural industries, content creators and the nation. ... [T]he idea is to make illegal downloading harder and more costly while making legal downloading easier and cheaper. Any move down this road requires all the stakeholders – rights holders, public authorities and ISPs [Internet Service Providers] – to work together. Private stakeholders and public authorities must see it as a collective responsibility to move together towards disincentives to illegal downloading and incentives to the development of legal uses.<sup>40</sup>

Similarly, in the United Kingdom, a draft government Green Paper has recommended that ISPs should be required by the government to take action against users

38 Debora Spar, *Ruling the Waves: From the Compass, to the Internet, a History of Business and Politics along the Technological Frontier*, 2001, pp. 369-371.

39 IFPI Communiqué, February 12, 2008.

40 Olivennes Commission, *The Development and Protection of Cultural Works on the New Online Networks*, November 2007. Key recommendations of the Commission included: (i) that intellectual property rights holders form a single agency designed to take collective action against piracy and promote common content technologies; (ii) that fingerprinting technologies be used to compile large catalogues of copyrighted material to help identify and curtail pirated materials; (iii) that file filtering technology be tested and used by ISPs and, if proven effective, be brought into general application by ISPs; and, (iv) that a system be implemented and applied to all ISPs that either: (a) uses a targeted policy of prosecutions against piracy; or, (b) establishes a warning and penalty system enabling suspension and cancellation of Internet subscription service as a result of piracy.

who access pirate material if no agreement can be reached between content providers and ISPs.<sup>41</sup>

Finally, in the United States, one of the first countries to regulate the Internet, ISPs have begun to see piracy as a systemic problem that they have a joint responsibility with content holders to tackle. As an AT&T representative stated at a recent anti-piracy conference in Washington, D.C.:

Piracy, as you all know, disincentivizes content providers from putting more content online for more people to use in more new and innovative ways. In fact, piracy simply makes it more difficult for the vast majority of consumers who want to consume content legally. ... [A]t AT&T we've committed to partnering with the content community to develop new solutions to fight online piracy.<sup>42</sup>

In Canada, our hope is that content providers can also work collaboratively with ISPs in a similar manner. The need to do so is great. As this paper describes, it takes a great deal of time and money for creativity networks to develop commercially viable cultural products. Even in the absence of piracy, investing and working in the creative industries involves high risks. The massive level of online piracy is the "tipping point" that undermines the entire creative ecosystem—it hurts employment, reduces the quantity and quality of creative assets, and limits diversity.

The world—especially developed nations—are moving to a knowledge-based economy. Canada's major trading partners, including the United States, European Union, Japan, and Australia, are well aware of this. They have all put the modernization of intellectual property laws—the catalyst of the knowledge economy—at the forefront of their policy agendas. In contrast, Canada has fallen far behind. While our country has a long tradition of supporting its creative industries, we have forsaken that tradition in recent years by failing to take action against online piracy. In the short term, this is costing our economy hundreds of millions of dollars, thousands of lost jobs, and a weakened creative capacity. In the long term, we risk deeper and more widespread impacts on our creative ecosystem.

The solution to this problem is simple: Establish a marketplace framework that ensures creators who wish to sell their creative works are protected from online piracy. We—and the many members of Canada's creator community who we know—only want Canadians to purchase creative content online, instead of stealing it. The music industry alone has lost over a quarter of its workforce since 1999. We do not want to see it lose any more.

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41 *The Times*, "Internet Users could be banned over illegal downloads", February 12, 2008; *The Guardian*, "Internet Users Could Face Disconnection for Illegal Downloads", February 12, 2008.

42 Brent Olson, *Speech at 4<sup>th</sup> Annual Anti-Counterfeiting and Piracy Summit*, October 3, 2007.



## RESEARCH PAPER 23

# Pop and Policy: Music and Law Fast Forward

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### INTRODUCTION

This paper captures the results in summary of a range of interdisciplinary initiatives at McGill University since January 2007 addressing challenges posed by digital media for the law. Those interdisciplinary initiatives have principally consisted of two policy conferences (the first in March 2007, Copyright Day, a second in October 2007, Pop and Policy) and an interdisciplinary course taught twice now by the Faculty of Law, School of Music, Department of Art History and Communications, Department of Computer Science, and the School of Management jointly.<sup>1</sup> While these initiatives have fostered broad research in many disciplines at McGill University, the focus of this paper will be on some of the insights gleaned about legal issues posed by the growth of digital media. Due to space constraints, these legal areas will be discussed briefly and are elaborated in greater detail elsewhere.

The four principal areas of concern that are the focus of this paper are legal issues posed by new business models, recommendation engines, user-generated content such as sampling and mashing, and archiving. These topics have been selected for discussion because they are under-addressed in existing discussions of the law and have emerged as core concerns of the interdisciplinary experts in our discussions. Our research adopts a realist perspective; we point to critical legal issues that may arise as a result of what is actually happening, not what would happen in an idealized (but unrealistic) world of full compliance with the law.

### NEW MODELS FOR THE CANADIAN (AND GLOBAL) MUSIC INDUSTRY

The Canadian and global music industry are facing social and legal challenges posed by the introduction of digital media. These diverse models pose serious questions for Canada's copyright regime, particularly as music production, distribution, and consumption change fundamentally in what some argue is a cultural, not merely technological, revolution.<sup>2</sup> The existing copyright regime relies on monetizing physically contained intellectual property such as music. Creators are granted copyright and "neighbouring rights" in their works, although after making a record the neighbouring rights are often held by a variety of stakeholders, including music publishers, record labels, and the artists themselves. This regime was particularly tailored to facilitating agreement between stakeholders regarding a limited number of vehicles for music delivery (records, tapes, and CDs). "Fast forward" to 2008 the diversity of models introduced by the Internet and MP3s, and the death of brick-and-mortar record stores has made the copyright regime both less relevant and of less use to monetizing music effectively in new business models.<sup>3</sup> Where once actors could negotiate over a predictable vehicle (namely the album and its delivery through CD), today the industry is being asked to consider digital sales, cellphone ringtones, video game soundtracks, and a host of other potential revenue models, all as CD sales continue to decline.<sup>4</sup> The

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1 Entitled "The Treble Cliff: Remonetizing Music and other Promiscuously Transportable Media Objects."

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2 Claudio Prado, presentation to Treble Cliff course 01.03.08.

3 S. Stein-Sacks, *The Canadian Independent Music Industry: An Examination of Distribution and Access*, report prepared for Canadian Heritage. [http://www.pch.gc.ca/pc-ch/pubs/music\\_industry/tdm\\_e.cfm](http://www.pch.gc.ca/pc-ch/pubs/music_industry/tdm_e.cfm) ("SSS Report").

4 Ibid.

complexity of negotiating between the established stakeholders of copyrights and neighbouring rights for a new range of distribution channels restricts realizing new models and bringing them to market. “Clearing” the rights to one song may involve negotiations between 10 or more rights holders, inevitably limiting innovative solutions.<sup>5</sup>

There is no longer a dominant revenue stream or music distribution system, nor may any one system ever dominate again to the extent of the record label model.<sup>6</sup> The diverse new models that do exist include subscription, tariff, or social networking. Our research among various music communities in Montréal suggests that new technologies are allowing more artists to produce music and promote themselves at a low cost; independent artists and labels are finding creative ways to flourish in the new music industry, often by working around or ignoring copyright law.

Even if the stakeholders in the present record industry are able to find a way to fit old copyright to new rights, they face a looming problem in the future. When a song is downloaded for free by a generation of music fans, and then stored and redistributed, tightly negotiated distribution deals and rights-clearing exercises become increasingly disconnected from reality. This incongruity will become only more pronounced through a confluence of factors. As it becomes possible to store the entire collection of music produced in the world in a vanishingly small space whose costs of delivery and distribution are negligible, then “record companies who traditionally were in the business of distributing music will effectively be in the business of preventing the distribution of music and trying to monetize the prevention of listening to music.”<sup>7</sup> Thus instead of providing a service (distribution or even storage) and monetizing that through IPRs, record companies will in reality be blocking distribution through legal rights

to generate revenue, a counter-productive situation. This undermines the inherent advantages of digitally produced music (its portability, size, and ease) and entrenches a business model that may block the emergence of newer, more technologically appropriate business models that reward creators.

Our research suggests that three models are most promising. First, social networking and peer-to-peer (P2P) Internet applications co-exist with a variety of existing and possible models and fit well with the behaviour of young music consumers. One way to do so is to monetize the behaviour of young consumers who demand and access large quantities of free music through P2P sites like Limewire, SoulSeek, or Bittorrent, acknowledging that these downloaders may also buy more music.<sup>8</sup> One potential model that has been explored in depth proposes that advertising revenue is a possible supplemental revenue source.<sup>9</sup> Subscription models that charge a monthly fee for a networking site have proven much less successful. Social-networking sites boost promotion for artists’ touring and concert sales,<sup>10</sup> and some record labels now include partial rights to touring revenue in the deals they strike with emerging artists.<sup>11</sup> Under current legislation, these sites operate in a legal grey area: While the 1997 Levy on Blank Recording Mediums legalized the act of copying a song for private use in Canada, uploading a song to a P2P network is still potentially illegal (and unenforced). While social-networking models could function legally if they used non-exclusively licensed music from emerging artists, any network using existing copyrighted music without negotiating rights would operate in a legal limbo.

5 Kristin Thomson, Pop and Policy 2007.

6 We distinguish in this report between the *music industry* and the *record industry*. SSS Report (n 3).

7 Ed Felten, Pop and Policy 2007.

8 SSS Report (n 3).

9 BUSA Student Presentations, Pop and Policy 2007.

10 SSS Report (n 3).

11 J. Leeds, “The New Deal: Band as Brand,” November 11, 2007, New York Times. <http://www.nytimes.com/2007/11/11/arts/music/11leed.html?scp=9&sq=touring+band+artist&st=nyt> Ny Times article.

A second means of remonetizing music is for government to legislate tariffs, forcing those who profit from music without paying for it to pay a share of their revenues to rights holders.<sup>12</sup> Others propose non-tariff models,<sup>13</sup> such as a government tax on either users or distributors as the best possible solution that taxes music in the aggregate rather than individual compositions. For practical reasons, however, a tax is not likely to be politically feasible in any jurisdiction (except France) within the next five to ten years due to the difficulty in bringing various political actors to consensus.<sup>14</sup>

In lieu of a government-centred solution, Fisher has proposed a third model, Noank Media, for recouping revenue in a manner not unlike a tariff model, except through private actors rather than the government. The Noank model requires that Internet users pay a premium on their monthly Internet bill in exchange for unlimited access to music, film, and other entertainment content. It also presumes at the other end that content providers (mostly the music and film industries) would be willing to make their catalogues available in an unlimited manner to subscribers of the Internet Service Providers (ISPs) in exchange for substantial revenue. Individual copyright holders would receive a share of that gross revenue proportional to the number of times their content is played or viewed. Noank Media mediates between ISPs and content providers by providing an interface with which Internet users can access the content, and in bringing together the various parties to the deal. The system has already been implemented in China with 20 million university students as test subjects. The full version will go online in March 2008, and if successful there may be tried experimentally in the Quebec market due to its particular characteristics.<sup>15</sup>

Some refer to this as the “utility model,” as it is like paying a certain amount of money each month for water or electricity. If all ISPs adopt this model (if one does, then all have an incentive to do so as well to stay competitive), “unauthorized copying” becomes irrelevant as the means of transmitting the copies themselves over the Internet will be legalized by the monthly fee paid by Internet subscribers and the agreement of the copyright holders. The greatest advantage of this system is that it is consistent with Canadian copyright legislation. However, there may be some relatively legal hurdles to its adoption in Canada. The existing Levy on Blank Mediums may have to be reconsidered so as not to “double count” against consumers, and the practice of tracking playback statistics for individual users will have to be carefully considered so as to be consistent with privacy laws in Canada.<sup>16</sup> More practically, it may be more difficult to implement the project successfully in Canada than in China. The Chinese entertainment industry has been devastated by piracy, and its revenue situation is much more constrained than that of equivalent Canadian partners.<sup>17</sup> Canadian content providers will be bargaining from a stronger position, and as a consequence negotiations may take longer, although publishers (particularly at the October summit) have said that they are more than willing to negotiate. Despite the privately negotiated nature of this option, the Canadian government could play a facilitative role in the Noank process by signalling its support for Noank-type solutions and/or encouraging the involvement of Canadian test institutions.

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12 David Basskin, *Pop and Policy* 2007.

13 Prof Terry Fisher, Harvard Law School, *Pop and Policy* 2007.

14 *Ibid.*

15 Similar to China, Quebec has a significant proportion of local artists unattached to the major record labels.

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16 Noank has stressed that all data will be aggregated so as not to identify individual users. Indeed, they claim it will be impossible to do so.

17 Terry Fisher, *Pop and Policy* 2007.



## RECOMMENDATION SEARCH TECHNOLOGIES

Recommendation engines may be based on technologies that recommend music based on an individual's preferences suggested by past behaviour, friends' preferences, and others within social networks or based on the nature of the piece of music itself (the so-called "genetic" approach).<sup>18</sup> Developers have adopted two approaches to enhancing current systems. The first contributes to social data mining by basing recommendations on user contributions, including listener tags, ratings, and expert reviews, reflecting how musical preferences are shaped by factors as varied as community associations, image, and memory.<sup>19</sup> The second approach builds on the genetic approach by employing objective content analysis. Users reveal their current tastes through specific examples. The software then analyzes the structure, rhythm, tempo, and sound of a particular song and identifies music with audio similarities. Objective content analysis is not, however, a complete recommendation system without an additional element of social context. A recurring theme<sup>20</sup> is the likely future importance of recommendation engines to the business and delivery of music due to four factors. First, recommendation engines, such as those constructed by Amazon.com, Pandora, and del.icio.us, for example, may connect music with new audiences and thus increase all sales of music. Second, if these recommendation engines overcome the popularity biases that influence current engines like Amazon.com, they enable new and undiscovered artists to reach relevant audiences generating revenue based on the long-tail phenomenon.<sup>21</sup> Third, as storage capacity and digital music conversion increase, the number of music files stored in digital, non-copy-protected form could conceivably comprise the entire collection of music ever

produced.<sup>22</sup> Since physical computer storage capacity for this collection is already no longer a concern,<sup>23</sup> experts project that the concept of individual or personal storage of music may become anathema as music listening may just as likely involve continuous reception of music rather than storing files.<sup>24</sup> Recommendation engines that sort and effectively organize music become critical in this model. Fourth, as individual users amass vast collections of music, similarly sorting through that music becomes almost more important than acquiring it. The following suggest that the future of music and its effective monetization to reward creators lie less in the distribution of music and more in the ability to create particular lists or recommendation engines to guide users through vast collections of music.<sup>25</sup> Creating these lists may become a profitable service, and the information contained in the lists may become valuable commodities. Legal policy making may need to anticipate legal issues that may arise from recommendation engines that map music, rather than focusing on the musical commodity (or file) itself.

Recommendation engines raise two types of legal issues: intellectual property and privacy law. Canadian law does not deal specifically with recommendation engines and lists; thus, insights must be drawn from existing legal principles. Some recommendation services depend on previews to assess tastes and preferences. The recent Copyright Board decision to exempt previews (the playing of a portion of a song) from the tariff for the communication of musical works over the Internet will likely encourage those services by reducing the cost of licensing. The Board held that music previews constitute fair dealing under section 29, as they can be characterized as copying for the purpose

18 D. Levitin, *This is Your Brain on Music: The Science of a Human Obsession* (Dutton, New York, 2006).

19 One new system called *Goombah* models its system on word-of-mouth discoveries, and draws recommendations from the libraries of people with whom the user shares tastes and interests.

20 In the course and amongst experts who have presented at Copyright Day and Pop and Policy.

21 C. Anderson, "The Long Tail," *Wired*, October 2004.

22 A likelihood that some panellists predicted would occur within the next five years: Sandy Pearlman, Prof. Felten, Prof. Dan Levitin, Pop and Policy 2007.

23 Profs. Felten and Levitin, Pop and Policy 2007.

24 These trends are already evident in the growing popularity of music providers like Pandora ([www.pandora.com](http://www.pandora.com)) and Last.fm ([www.last.fm](http://www.last.fm)), as well as a range of satellite radio stations.

25 Levitin (n 18).

of research,<sup>26</sup> and that “offering previews encourages sales of downloads, which in turn benefits copyright owners.” The technology powering recommendation engines is generally protected as a trade secret where possible, although limited copyright and patent protection may apply to the code that drives the engine. Lists of recommended music could be considered as compilations for the purposes of copyright law.<sup>27</sup> The increasing popularity of these lists may enhance calls for specific legal protection for databases similar to that in Europe.<sup>28</sup> An argument could be made that recommendation software that catalogues, recommends, and potentially even plays<sup>29</sup> collections of music downloaded from P2P networks without payment authorizes copyright infringement contrary to section 27(1) of the *Copyright Act*.<sup>30</sup> This argument is unlikely to gain much traction, particularly after the Supreme Court of Canada’s decision in *CCH Canadian Ltd. v. Law Society of Upper Canada*, which held that authorizing infringement does not encompass authorizing the use of or developing equipment that may be used to infringe copyright.<sup>31</sup> Recommendation engines will presumptively be found to have been created for use only with validly licensed music; although the software could be used for both legal and illegal purposes, courts will presume that a person authorizes an activity only to the extent that it is authorized by the law.<sup>32</sup> Privacy law is also engaged when technologies collect, aggregate, and process data obtained from users. So long as providers stay within the bounds of Canadian privacy law and the *Personal Information Protection and*

*Electronic Documents Act*,<sup>33</sup> this should not be a significant area of concern. Thus, recommendation engines have a relatively clear legal playing field in which to operate in Canada and will likely benefit from a loose legal regulatory regime that allows the market and social forces to determine their success.

## USER-GENERATED CONTENT: THE EXAMPLE OF SAMPLING AND MASHING

Digital media have also given users the means to transform and recreate music, blurring the boundary between users and creators. Accessible mixing software (e.g., Pro Tools) has made it much more possible for users to interact with music they listen to, leading to two increasingly popular practices: sampling and mashing. Sampling incorporates elements of pre-existing sound recordings into new musical compositions and is commonplace in many forms of music, both underground and commercial. Sampling is used to achieve a variety of artistic purposes. It can comment on, parody, or pay tribute to a particular artist, style, or period of time. Juxtaposing disparate genres and styles lends new and unexpected meanings to old works.<sup>34</sup> Importantly, sampling incorporates the sounds fixed in a specific recording, although these may be transformed beyond recognition. Sampling artists must obtain permission from both the owner of the copyright in the recording and the owner of the underlying composition. Mash-ups typically interweave large portions of popular recordings to create new works and have become a popular form of participatory art. However, because of the difficulties involved in obtaining licences for the works they incorporate, the music has not gained mainstream exposure.

Our policy summits have elicited several reasons in support and against sampling and remix culture. In support of the trend to greater sampling and remixing are arguments that sampling transforms passive users

26 *Collective Administration of Performing Rights and of Communication Rights* (October 18, 2007), Copyright Board Decision, online: Copyright Board <<http://www.cb-cda.gc.ca/decisions/m20071018-b.pdf>> p. 36 para. 116.

27 Section 2 *Copyright Act*.

28 Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases.

29 One could imagine through an embedded media player.

30 According to s. 27(1) of the *Copyright Act*.

31 *CCH Canadian Ltd. v. Law Society of Upper Canada*, [2004] 1 SCR 339, 2004 SCC 13. Courts should presume that a person who authorizes an activity does so only so far as it is in accordance with the law: *Muzak Corp. v. Composers, Authors and Publishers Association of Canada, Ltd.*, [1953] 2 SCR 182, at 193.

32 *CCH* (n 31) [38].

33 Particularly the principles in Schedule 1.

34 J. Beck, “Music Composition, Sound Recordings and Digital Sampling in the 21st Century: A Legislative and Legal Framework to Balance Competing Interests” (2006) 13 *UCLA Ent L Rev* 17.

into creators, politically empowering and engaging a normally disenfranchised constituency. Sampling and ground-up creativity promise a more diffuse, less individualistic, and concentrated vision of creativity, enabling all citizens to self-actualize as creators. Younger, successful artists voiced their frustration with contacting and negotiating with copyright holders to clear samples, their concern about the unaffordability of this option that blocks them from engaging with the rich body of musical work, and expressed the view that artists may lose the ability to promote and disseminate their work widely if it is subject to too much copyright protection that their labels (rather than the artist) control. In response, many have turned to solutions like open access licences. Finally, there is growing evidence from musicologists and psychologists that current music is highly derivative of earlier music and that most creativity occurs in relatively small increments, suggesting that involuntary sampling or copying may be more likely than previously thought possible.<sup>35</sup>

To counter this perspective, some argue that sampling, mashing, and the use of copyleft licensing terms encourage a culture of amateurism and discourage investment in significant “pharaonic” projects that may be culturally transformative. Older artists expressed their aversion to having performances sampled without authorization, given their struggles to protect the integrity of their bodies of work.<sup>36</sup> This suggests that artists do not consistently hold the same views and these may depend on the age of the artist, his or her fame, or other factors and poses interesting questions for the role of moral rights in mediating conflicts over sampled works.

These arguments from principle are contextualized by the existing legal regime. Many mashed works created by users would fall under U.S. fair use, and possibly fair-dealing protections, given the broad understanding of user rights articulated in Commerce Clearing House (CCH) Ltd.<sup>37</sup> In so far as they are not created for

commercial purposes, these works likely do little harm to the interests of copyright owners, while contributing to cultural development and public discourse.<sup>38</sup> However, a great deal of ambiguity surrounds these uses as there are no *prima facie* standards, and most works languish in a state of ambiguity surrounding their illegality until a cease-and-desist letter is sent. As a result, organizations in the United States have even started fair-use certification programs.

In the case of sampling, however, this ambiguity is even greater. It is common for sampling artists to interweave large numbers of very short musical fragments when creating a new work.<sup>39</sup> Because trivial copying will not normally violate copyright, many artists will not need to seek licences.<sup>40</sup> Whether or not a licence is required hinges on the meaning of a “substantial part” in section 3(1) of the *Copyright Act*. Often, the use of a fragment of a recording—such as a few seconds or a few notes of a song—will fall below the threshold of substantiality, making a licence unnecessary. However, while the length of a sample is significant, it is not the only factor. As such, artists cannot rely on a length measurement to ensure their use is not infringing.

Courts have applied a combination of quantitative and qualitative tests in evaluating the substantive significance of a piece of a copyrighted work. For instance, a sample’s distinctiveness or qualitative importance can be factors in determining its substantiality.<sup>41</sup> Other factors that can arise in the determination of infringement include whether a use might “impair the incentive to create for other similarly placed authors,” whether the ability of the claimant to exploit his or her

35 D. Levitin, *Pop and Policy* 2007.

36 Patti Smith, *Pop and Policy* 2007.

37 *CCH* (n 31).

38 Balanced against concerns that works that feature long clips prominently can encroach on the market for the original work, depriving the owner of profits.

39 J. Schietinger, “Bridgeport Music, Inc. v. Dimension Films: How the Sixth Circuit Court Missed a Beat on Digital Sampling” (2006) 55 *DePaul L. Rev* 247.

40 *Chatterton v. Cave*, LR 3 App Cas 483 cited in D Vaver, *Essentials of Canadian Copyright Law* (Irwin Law, Toronto, 2000) 144.

41 *Cie Generale des Etablissements Michelin-Michelin & Cie v. C.A.W.-Canada; British Columbia Jockey Club v. Standen (Winbar Publications)* (1985), 8 CPR (3d) 283.

work has been substantially affected, whether the user has been unfairly enriched at the author's expense, and whether the use encroaches on the market for the original work.<sup>42</sup> Courts have also looked to the ability of the average listener to identify the work within the new composition.<sup>43</sup> In fact, scholars of psychoacoustics have demonstrated that hearing half a millisecond of music is enough for some listeners to identify a song.<sup>44</sup>

The quick referential properties of sampled music demonstrate why sampling is such a valuable tool for artists. A short sample can call up a precise and meaningful reference to an earlier work or cultural period in a way that a re-recording may not. Re-recording has been the solution for many artists looking to protect themselves from legal liability,<sup>45</sup> as it is easier to acquire a licence for use of a composition than for the use of the recording. Yet, unless the re-recording can emulate the elements of sound that make the original so evocative, it may fail to stir the listener in the same way. Canadian samples clearances have also been heavily influenced by the decision in *Bridgeport Music, Inc. v. Dimension Films*<sup>46</sup> that stated "get a license or do not sample," holding that any unauthorized reproduction of any part of a preexisting recording constitutes infringement. Without bright-line rules to assist artists in determining whether the amount taken is substantial, artists will have difficulty accurately assessing risks. This often leads to flagrantly illegal behaviour and disrespect for the law. In some limited circumstances, artists can rely on the defence of fair dealing in section 29 of the *Copyright Act*. However, it is unclear whether sampling falls within these categories of protected uses, particularly given how narrow these categories are in Canadian law, although CCH may have opened the door for a more expansive application of section 29 through the concept

of "user rights."<sup>47</sup> As the shape of the record industry changes, and moves from concentrated control in the United States to more novel regimes, Canadian businesses and artists are likely to play a growing role in creating, authorizing, and licensing sampling of their works. Thus, this remains an important area for policy making.

The present process for avoiding legal liability is not simple. Sampling artists must obtain permission from both the copyright holder in the sound recording and from the owner of the copyright in the underlying composition. As these are often separate entities, the transaction costs involved in locating and negotiating with two different parties to obtain permission to use a short sample are often prohibitively high. Industry standard rates have not been established for samples, and bargaining is done on a case-by-case basis. Normally, the licence agreement will be based either on a flat fee or a royalty share. Depending on how prominently the sample is featured in the new work, publishers may negotiate a co-publishing agreement that entitles them to a share in the copyright in the new work.<sup>48</sup> Depending on the prominence of the original recording, a licence for a short sample can cost thousands of dollars. Fees for short, three-second samples range from \$1,500 to \$5,000, and looped samples can cost tens of thousands.<sup>49</sup> Furthermore, it has become common for copyright owners simply to deny permission, particularly where the sampling artist's work is perceived as subversive or politically controversial. Thus, clearing samples is particularly challenging for independent artists who do not have the support of a major label.<sup>50</sup>

42 Vaver (n 40).

43 Canadian Performing Right Society Ltd. v. Canadian National Exhibition Association, [1934] OR 610.

44 D. Levitin, *Pop and Policy* 2007.

45 They were ambivalent as to whether the re-recording produced an album of the same calibre as the previous one using expensive samples.

46 410 F3d 792 (6th Cir 2005).

47 The court stated that "in order to maintain the proper balance between the rights of a copyright owner and users' interests, [fair dealing] must not be interpreted restrictively." *CCH Canadian Ltd. v. Law Society of Upper Canada*, [2004] 1 SCR 339 [48].

48 J.H. Brown, "They Don't Make Music Like They Used To: The Legal Implications of 'Sampling' in Contemporary Music" (1992) *Wis L Rev*, 1957.

49 W.Y. Durban, "Recognizing the Grey: Toward a New View of the Law Governing Digital Music Sampling Informed by the First Amendment" (2007) 15 *Wm & Mary Bill Rts J*, 1026.

50 Even for major-label artists, there are risks involved. Many record contracts hold artists responsible for clearing samples, and for the legal consequences arising from any un-cleared samples.

Various alternatives have been mooted, including a legislative provision that could be enacted to provide for the free use of a fixed amount of sound, while continuing to require licences for samples that might compete with the market for the original. While a more flexible user defence, such as fair use, may provide more protection for sampling artists, the fact that the standard is only clear upon a fact-based judicial determination makes this standard impractical for artists to assess accurately the risks involved in sampling. More promisingly, compulsory licensing schemes could be established to address clearance problems. This would enable sampling to continue, while preserving the ability of copyright owners to be compensated for the use of their works.<sup>51</sup> Under a compulsory licensing system, rates could be negotiated by copyright owners and they could be required to acquire a licence and an artist would agree to pay a set royalty rate. This solution would not involve a radical departure from current practices, as the current law governing permission to play “cover” songs operates as a compulsory licensing system.

A compulsory licensing system for samples would provide equal access for all artists to samples and would drastically reduce transaction costs involved in privately negotiating licences. It would also eliminate the possibility that access could be refused. For copyright owners, it would provide a reliable mechanism for distributing compensation. Reasonable royalty rates—“tailored to the substantiality of their re-uses”—could be paid out periodically.<sup>52</sup> While the system will not allow copyright owners to maximize profits, owners will receive indirect “financial benefit from the increased interest in the original work and a more dynamic music industry as a whole.”<sup>53</sup> Commentators

have observed shortcomings with this solution, including that it removes an artist’s ability to control his or her work, and it may be challenging to account for “the popularity of the sampled song” when determining rates. This latter concern could be addressed by basing rates on the popularity of the sampled song such as the number of records sold.

The formal legal regime regulating sampling is supplemented by novel licensing initiatives like Creative Commons (Canada) (CC) that have enjoyed healthy growth and popularity in recent years. CC is an organization that has developed standardized copyright licences to allow creators to share works with users.<sup>54</sup> In particular, CC has created the ccMixter site as a forum for artists to share, hear, and remix music using CC licences. These licences are permissions that act within existing copyright law, thus do not require any copyright law reform.

Our policy discussions lead us to emphasize a few key observations about these licensing initiatives. First, open access licensing initiatives, apart from their obvious legal role in providing licences and options to creators, also educate people as to their copyrights. Growing copyright literacy is leading to more sophisticated and engaged public debates over copyright and greater demands for involvement from broader constituencies in legislative and other regulatory efforts. Second, as people are given greater choice over their licensing terms, there is a growing debate about why copyright is automatic and how copyright could benefit from a registration scheme. Given the low cost and simplicity of established online registration models, this may be a viable option.<sup>55</sup> Third, copyright legislative reform would do well to consider the informal norms developed through open access licensing. For example, tracking statistics on the use of the various types of CC licences by characteristic (including uses for non-commercial purpose and requir-

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51 A limitation on this right is consistent with the Supreme Court’s statement in *Théberge v. Galerie d’Art du Petit Champlain* that the proper balance for copyright law “lies not only in recognizing the creator’s rights but in giving due weight to their limited nature.”: *Théberge v. Galerie d’Art du Petit Champlain* [2002] SCR 336 [6].

52 *Supra* (n 49). Note that this author actually suggests a flat fee, but a royalty rate might satisfy copyright owners more, while allowing artists to pay less for smaller releases.

53 *Ibid.* 1051.

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54 <http://www.creativecommons.org>.

55 D. Lametti “Coming to Terms with Copyright,” in M. Geist (ed.), *In the Public Interest: The Future of Canadian Copyright Law* (Toronto, Irwin Law, 2005).



ing non-derivative use) may suggest copyright values or norms of the Canadian public that should inform any legislative process.

## FROM ANALOG TO DIGITAL AND BACK: THE BENEFITS OF PRESERVING THE PAST AND PRESENT

A final question that has arisen has been the impact of the current legal and policy regime on the long-term preservation of existing and new “illegal” music. Copyrighted musical works are increasingly being saved in digital file formats that enable easy storage, transferability, and playback. In many cases, the transition from analog to digital has improved the quality and lifespan of music. The radical file compression enabled by the MP3 file format, however, is possible only by removing information from the file, leaving what some call a less “full” sound.<sup>56</sup> Analog music recordings contain important musical information that we are in danger of losing due to poor storage and neglect, as well as haphazard and unsystematic collection practices by private individuals and institutions.<sup>57</sup> As musical sophistication grows through the proliferation of digital sound files, high sound quality analog recordings may come back into demand. As degraded musical works are reproduced, compressed, and modified in their distribution over electronic networks, this potentially infringes artists’ moral right to the integrity of their work. A very poor-quality reproduction could even constitute a new work, raising questions about the scope of copyright of the original owner. Similarly, the “illegality” or legally uncertain nature of mashed and sampled works means that they are not officially monitored, preserved, or

archived, and this important part of our artistic heritage may become lost to future generations. Our policy discussions have arrived at the conclusion that some sort of systematic archive or facility is required to protect both types of works, old and new. Proposals to remedy this have included a “Library of Congress” collection of sampled and mashed works<sup>58</sup> or a “Media Ark”<sup>59</sup> to house analog recordings<sup>60</sup> and two playback devices for each medium (one to play back and one for spare parts) at the national or (ideally) at the international level.<sup>61</sup> It could be funded by a small tariff on revenue from musical works or through tax incentives. At present, we are leaving technological and cultural inspiration to chance, and it is time that we consider how to systematically preserve that which might inspire musical creativity in the future.

## CONCLUSIONS

New business models promise to challenge and reshape existing copyright law. Recommendation engines revive debates over lists and the protection of aggregated consumer information. Sampled, mashed, and user-generated content is creating new norms while its popularity and ubiquity contrast with its uncertain legal status. Finally, the challenges of archiving legal and works of uncertain legality will need to be faced in the near future to protect and preserve our musical heritage.

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56 J. Sterne, “The Mp3 as Cultural Artifact” (2006) 8(5) *New Media & Society* 825.

57 Archivists Society, Pop and Policy 2007.

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58 J. Sterne, Pop and Policy 2007.

59 Playing off the notion of “Noah’s Ark” in the Bible.

60 The storage of these works would fall within the fair dealing exceptions for libraries, archives and museums.

61 Coordinated by UNESCO, for example, this would ensure that countries without resources to invest in preservation are not left behind.





## RESEARCH PAPER 24

# Cultural Consumption and the Broadband Revolution: Canada and Australia

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### INTRODUCTION

There is widespread agreement that diffusion of the Internet and, in particular, the rapid expansion of its capacity to deliver cultural products and experiences through high-speed broadband connections, has altered the relationship between audiences and cultural producers in many important ways, ways that we are still trying to understand. The World Internet Project, and our work on the Canadian and Australian Internet projects, asks Internet and mobile device users about their online activities and experiences, how their use patterns have reshaped their ways of seeing their media environment, and how this has affected their traditional media diet. In this very preliminary analysis of the data, which draws on recent comprehensive national surveys in Canada and Australia, we begin to look at the following questions, in light of our data:

- ◆ To what extent has the integration of the Internet into our everyday lives affected the social and cultural lives of Canadians and Australians?
- ◆ To what extent does high-speed broadband access facilitate changes in Internet use and experience?
- ◆ How much do Canadians and Australians use the Internet to engage with cultural products, services, and experiences?
- ◆ How has access to the Internet, especially high-speed broadband, replaced or supplemented use of traditional media?

According to Jeffrey Cole, director of the USC Annenberg Centre for the Digital Future, the spread of high-speed broadband is a major factor in revolutionary changes in cultural consumption (of products, such as movies, television/video, books, magazines, music, art, and museum exhibits).<sup>1</sup> Technologically, this revolution is driven not only by the new services enabled by greater bandwidth but also by the always-on and ubiquitous nature of high-speed connectivity. The revolution involves a shift in user experiences and expectations of the Internet—from an instrument of communication and information to a place or location for entertainment, culture, and self-expression. How far has this shift gone to date?

Canada and Australia are similar in culture and level of Internet development. Although Canadians had access to high-speed broadband a few years earlier, Australia has been very rapidly catching up. The recently elected government has promised to make high-speed broadband communication accessible to 98 per cent of Australian homes at very high speed, with network construction to begin by the end of 2008.<sup>2</sup> Canada's early lead in broadband connectivity is eroding. Canada and Australia are also similar in that Internet delivery is likely to continue to be dominated by computer-based delivery modalities for the foreseeable future, despite increases in mobile functionality and diffusion.

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1 Jeffrey Cole, December 10, 2007, "World expert pinpoints key Internet trends." [www.nowwearetalking.com](http://www.nowwearetalking.com).

2 Jason Koutsoukis, March 2, 2008, "Lightning Internet on the way," *The Age* (Melbourne). [www.theage.com/au](http://www.theage.com/au).

## INTERNET AND BROADBAND PENETRATION

### INTERNET

Canada and Australia have a relatively high level of Internet penetration. Almost three-quarters of all Canadians and Australians currently use the Internet (Table 1) and nearly nine in ten Internet users in both countries have access at home—where they are most likely to engage in the widest range of online activities. However, a substantial number from these populations are only occasional users. While more than two-thirds of Canadians and Australians are online in a typical week, more than 50 per cent use the Internet for less than five hours a week at home.

Indeed, only about 25 per cent are online at least 10 hours per week. At this point in time, the Internet is second only to television as a source of entertainment and as a central feature in our non-working lives. However, Canadian Internet users in the 12 to 17 age group report spending more time each week online (about 11 hours) than watching television (about 8 hours).<sup>3</sup> It is important to consider whether or not this shift is a function of lifecycle or a trend that will carry forward as the online generation ages.

3 While time estimates may be somewhat unreliable, the fact the younger Internet users perceive that they spend more time online than watching television is an important indicator of the importance they give each activity. We do not have youth data for Australia.

**Table 1**  
Current Internet users (18 years+)

User/Non-User	Australia 2007	Canada 2007	Canada 2004
<b>Current user</b>	72.2%	77.5%	71.9%
<b>Used Internet in past</b>	8.0%	9.3%	9.6%
<b>Never used Internet</b>	19.8%	13.3%	18.5%
<b>N</b>	1,000	2,721	3,011

**Table 2**  
Internet users—Time spent (Internet users only, 18 years+)

Hours Per Week Online	Australia 2007	Canada 2007
<b>Five hours/week or less</b>	52.6%	51.9%
<b>Ten hours week or less</b>	36.2%	33.3%
<b>N</b>	724	2,370

**Table 3**  
Broadband access (total population)

Type of Access	Australia 2007	Canada 2007	Canada 2004
<b>Do not use Internet</b>	27.4%	22.6%	39.7%
<b>Slow speed only</b>	18.3%	23.3%	16.7%
<b>High-speed broadband</b>	54.0%	54.2%	41.9%
<b>N</b>	1,000	3,150	3,014

## BROADBAND

For more technologically sophisticated uses of the Internet—such as movie downloading—high-speed broadband is practically a necessity. In both Canada and Australia, more than half of the population has access to high-speed broadband at home.<sup>4</sup> Among Internet users, more than three-quarters have broadband connectivity.

Most of the differences that emerge in our comparisons between Canada and Australia may be attributed to the more recent expansion of Internet and broadband access in Australia, where broadband also tends to be more expensive and not as high speed. Canada has been ahead of Australia on the adoption curve, but on most measures the two countries are similar. Other data indicate that Canadians were earlier adopters of broadband. By 2004, nearly two-thirds of Internet users in Canada had a high-speed connection, compared to about 50 per cent in Australia. As a result, Canadians are heavier and more experienced users of the Internet, having on average been online considerably longer.

In Canada, Internet users with broadband access tend to be younger people who are heavy users of the Internet. Among those we classify as heavy users (i.e., those who are online at least 15 hours per week), nearly nine in ten have broadband connectivity. Broadband connectivity is also nearly universal among Internet users under 30 years of age. Our research indicates that broadband access is only modestly affected

by income and years of experience online. In general terms, these patterns are found in Australia as well. Rural residents are least likely to have broadband access in both countries.

## THE NATURE OF INTERNET USE

If, as Jeffrey Cole suggests, the Internet is becoming more of a medium—like television—and less of an instrument of communication and information, then it would be reasonable to expect that users would increasingly “turn on” the Internet not for a specific purpose but rather just to see if what is “on” might be interesting. With the advent of the multi-channel television universe, surfing has become somewhat similar on television and the worldwide web.

While a majority of Canadians and Australians do sometimes browse the Internet just for something to do, without a specific destination, only a few do so very often. However, there is evidence of an increasing trend in a positive direction, as younger users are considerably more likely to browse more frequently. In Canada, for example, about 27 per cent of Internet users under 30 years of age browse this way often, compared to about 16 per cent of those over 30. The age factor is even greater in Australia, where 29 per cent of the under 30s often engage in exploratory browsing, compared to 10 per cent of those over 30. It is important to note here, however, that the key variable is access

**Table 4**  
Internet experience—Years online (Internet users)

Years Online	Australia 2007	Canada 2007
6 years or less online	30.3%	21.3%
6 to 9 years online	29.8%	25.2%
10 to 14 years online	32.2%	39.4%
15 years or more online	7.7%	14.2%
N	716	2,200

<sup>4</sup> The World Internet Statistics website reports rapid expansion of broadband access in both Canada and Australia in the past few years. [www.Internetworldstats.com](http://www.Internetworldstats.com).

**Table 5**  
Browsing online without a specific destination (Internet users)

Browse?	Australia 2007	Canada 2007
Yes	57.7%	76.7%
No	42.3%	23.3%
N	726	2,370

to the Internet at home, not access to broadband in itself. Broadband and dial-up users are equally likely to browse (in both countries). We believe that users who are more experienced and comfortable with the technology are increasingly treating the Internet as a place or location rather than a destination or product. This especially true for youth, for whom being online is a place where they socialize and play games as well as to look for information and download music, video, and so on.

#### SHIFT FROM COMMUNICATION/INFORMATION TO ENTERTAINMENT?

As many observers have noted, the Internet was initially adopted primarily as an instrument for communication purposes and for the dissemination of information. In 2007, in both Canada and Australia these uses still predominate. For Canada, we found that nearly six in ten Internet users go online predominantly for information, while less than half as many (24 per cent) go online predominantly for entertainment. When asked how important the Internet is to them as a source of information and of entertainment, Internet users in

both Canada and Australia indicate they still value the Internet more highly as a source of information. Only a minority regard it as not important for that purpose. Clearly, search engines and online news and information services remain central to the utility and appeal of the Internet.

In Canada, however, the importance of the Internet as a source of entertainment has increased by more than 20 per cent in the past three years. In our view, this reflects a number of changes: the emergence of increasing technological comfort that comes from experience online; a transformation of the Internet from a task-oriented medium to a general place or location; increasing receptivity of entertainment-related products and services online, especially those enabled by broadband; and the advent of social networks. It is striking that the importance assigned to the Internet as a source of entertainment by Australians in 2007 is at the level for Canadians three years earlier. If our diffusion curve hypothesis is correct, and experience (i.e., years online) and broadband access contribute to the transformation of Internet use patterns, Australia will follow

**Table 6a**  
Importance of Internet as source of information (users only)

Importance	Canada 2007	Australia 2007
Not important	16.5%	11.7%
Neutral	17.5%	19.6%
Important	66.1%	68.4%
N	2,094	726

**Table 6b**

Importance of Internet as source of entertainment (users only)

Importance	Canada 2007	Australia 2007
Not important	26.4%	44.5%
Neutral	21.1%	23.8%
Important	52.4%	31.5%
N	2,094	726

**Table 7**

Relative importance of entertainment and information

Internet Important as a Source for:	Canada		Australia 2007
	2004	2007	
Entertainment	31.3%	52.4%	31.5%
Information	62.1%	66.1%	68.4%
N	2,268	2,094	726

a similar path, and quite quickly, as broadband increases and users become more experienced. In the early studies of Internet use in the United States, years of experience online was an important determinant of online activities, as it was in Canada in 2004. This is now less so, as new users move more quickly into a broader range of online activities.

## THE INTERNET AND TRADITIONAL MEDIA

In both Canada and Australia, a significant proportion of Internet users believe that their use of the Internet has reduced their time spent with other media. This is especially true of television, and the effect appears to be strongest in the early years of Internet adoption. In 2007, between 20 and 25 per cent of Internet users in both Canada and Australia also reported spending less time with newspapers, magazines, and books as a result of being online. Those with broadband connections are even more likely than dial-up users to reduce their time with traditional media.

When we look at how much time Internet users spend with various media, however, the differences between Internet users and non-users are slight. The time use

data suggest that the Internet is not so much drawing attention away from traditional media, though it is doing that for younger age groups, as it is providing new forms of engagement with those media. In fact, in both countries, Internet users, even those with broadband connections, spend as much time with most traditional media as non-users do. In fact, Internet users with broadband connectivity spend more time with most media than non-users, supporting the observation that they are generally more engaged.

For Canada, the best predictor of cultural/entertainment engagement online is numbers of hours per week spent on the Internet. The heavy users tend not to concentrate on one activity but rather to regard the Internet as a place or location to engage with various online activities. While the ranking of the various services does not differ significantly among light, moderate, and heavy users, the heavy users engage with the whole range of services more frequently. For example, heavy users are much more likely than light users to download and listen to podcasts (26 per cent compared to 5 per cent in Canada and 30 per cent compared to 10 per cent in Australia).

**Table 8**  
Impact of Internet on TV watching

Impact	Australia 2007	Canada 2004	Canada 2007
<b>Watch more TV</b>	3.9%	2.2%	8.8%
<b>No change</b>	52.2%	65.9%	67.0%
<b>Watch less TV</b>	40.4%	31.9%	24.1%
<b>N</b>	726	2,093	2,367

Although age is not quite as strong a predictor, users under 30 are in general much more likely to engage with entertainment-related experiences than users 55 and older. In fact, all age groups are making increasing use of the Internet for music, videos, news, and information on cultural events. In particular, younger Internet users are much more likely to participate in activities that involve the production or sharing of online content. This is illustrated for Canada in Table 9. The Australian data also show a high level of interest in producing and sharing creative content online, especially among younger Internet users. For example, nearly two-thirds of Australian Internet users in the 18 to 29 age group value the opportunity to share their own creative content online, a proportion that drops off quite sharply with age. This appears to be one of the appeals of broadband access.

The emergence of social networking opportunities is, of course, a major element in the development of user engagement and content creation. A substantial minority of Canadians (about 39 per cent) and Australians (about 25 per cent) have visited a social networking site. Broadband users are considerably more active than dial-up users, but the best predictor of social network activity is still age. The 18 to 29 age group is by far the most active (though our Canadian youth study shows that the 12 to 17 age group is also very active). The Australian study did not focus on social networking, but its questions on online posting indicate a somewhat lower level of uptake.

The most popular social networking sites in Canada are Facebook and Hi5. Facebook is most popular with the 18 to 29 age group but has a strong following in all age groups, while Hi5 is most popular with those over 50.

YouTube and MySpace are relatively less popular overall and are used primarily by younger Internet users.

Perhaps the most important development online in recent years for entertainment is the emergence of a number of free and paid services directed at the entertainment market. Overall, about one-quarter of Canadian and Australian Internet users have downloaded music. Most have done so from a file-sharing site (Australia, 28 per cent; Canada, 22 per cent). While 17.5 per cent of Australians have paid to download music, the figure for Canada is less than 10 per cent. Only about 12 per cent of Canadian Internet users have paid a fee for downloading content, mostly music (55.2 per cent of all purchases). Younger broadband users are the most likely to have paid to download content. About 20 per cent of the youngest age group in both Canada and Australia had done so. Among the services that offer fee-for-service downloading, the most popular in Canada are music sites. Nearly 40 per cent of Canadians have visited such a site; iTunes has been visited by more than three in ten Internet users.

## FINAL THOUGHTS

The Internet—facilitated by broadband connectivity—has become a central feature of the everyday lives of Australians and Canadians, complementing and sometimes replacing traditional media. Internet users continue to go online to seek information, to communicate with others, to get news and to access music, videos, and even art and museum exhibits. However, a majority go online without a specific destination at least occasionally, and younger and heavier Internet users do so more often. Internet users increasingly experience the

**Table 9**  
Impact of Internet on TV watching

Activity	18–29	30–44	45–59	60+	Overall
Read/Contribute to Blog	37.9%	26.8%	17.3%	14.4%	24.4%
Read/Contribute to Wiki	19.4%	15.2%	10.8%	7.2%	13.3%
Visit Social Networking Site	54.1%	42.8%	28.1%	22.1%	37.6%
Post to Social Networking Site	39.4%	33.0%	18.9%	11.6%	26.9%
Post to Website	49.7%	35.2%	20.9%	13.8%	30.8%
Post Photos	51.9%	33.0%	21.6%	21.1%	31.9%
Post Video	18.3%	8.9%	6.5%	4.4%	9.4%
Send Original Creations	29.5%	21.9%	16.8%	13.6%	20.9%
N	475	648	594	323	2,098

Internet as a place where they connect with a larger world of socializing, playing, and exploring. Entertainment and self-expression are increasingly important as motives for going online. Communication and information seeking are not being displaced but rather augmented by a broader view of the online world. In both Canada and Australia, the differences in Internet use patterns between broadband and dial-up users are less dramatic than we expected and suggest that dial-up users will make much the same use of broadband as current subscribers when high-speed connectivity becomes available to them.

The Internet is not only a platform for the delivery of various forms of traditional media and an incubator for new genres but also a place for new experiences. The traditional media, however delivered, continue to play an important role in the lives of Canadians and Australians, and the media to date are more of a complement—providing information, for example, on popular television programs—but also a supplement, as Internet users engage with the world in new and interesting ways. When we look at trends, it seems clear that the integration of the Internet into the everyday social and cultural life of Canadians and Australians is increasingly rapid and that the availability of higher speed broadband connectivity will continue to facilitate this process, so long as prices do not become prohibitive.

## APPENDIX A: METHODOLOGY AND PARTNERS

### CANADA

The Canadian Internet Project (CIP) 2007 survey is a national survey of youth and adults of at least 12 years of age living in the 10 Canadian provinces in private homes, able to express themselves in French or English. In total, 3,150 telephone interviews were completed on behalf of the CIP in June and July 2007. For the purposes of this presentation, a sub-sample including only adults, 18 years and older, was used for comparison with the Australian survey. A probabilistic sampling model was used to ensure a random and representative selection of respondents. A report on the 2004 survey is available on the CIP website, [www.cipic.ca](http://www.cipic.ca).

### AUSTRALIA

The 2007 Australian survey is a national survey of adults of at least 18 years of age living in the six Australian states in private homes, able to express themselves in French or English. In total, 1,000 telephone interviews were completed by the Survey Research Centre of the Swinburne University of Technology (Melbourne) on behalf of the Institute for Social Research in June and July 2007. A probabilistic sampling model was used to ensure a random and representative selection of respondents. (*Note: In this paper, only statistically significant differences are reported.*)



### CANADIAN INTERNET PROJECT

The Canadian Internet Project ([www.cipic.ca](http://www.cipic.ca)) is an ongoing longitudinal study that examines Canadians' use of traditional and newer media as well as behaviour and attitudes resulting from media consumption, with a focus on the Internet, mobility, and emerging technologies. Every two or three years, a representative sample of Canadians is surveyed. The first baseline survey took place in 2004 (n = 3,004, 18 years +.) The second survey was conducted in the summer of 2007 (n = 3,150, 12 years+.) The 2004 benchmark study received extensive media coverage and has often been cited in academic studies. CIP invites research associates to make use of its data for further analysis and publication. Its major reports are available in French and English.

The participating partners in CIP include academic, industry, and government stakeholders. The senior partner is the academic stakeholder: the Canadian Media Research Consortium. CMRC is a not-for-profit partnership of three university organizations dedicated to leading-edge research and the promotion of public discussion on the Canadian media. The industry partners include Bell Canada and eBay Canada, and the Interactive Advertising Bureau of Canada (IAB). Government partners and contributors come from the following departments: Canadian Heritage and Treasury Board Secretariat, Chief Information Officer Branch. Additionally, the CBC, Canadian Radio-television and Telecommunications Commission, Telefilm Canada, and Ontario Media Development Corporation are partners of CIP. CIP is peer reviewed by an Advisory

Council composed of members from various academic institutions and industry representatives. CIP investigators include Professor Charles Zamaria (Ryerson University) and Dr. Fred Fletcher (York University).

### WORLD INTERNET PROJECT AUSTRALIA

The Australian component of the World Internet Project (WIP) is a project of the Swinburne University of Technology's Institute for Social Research (ISR), a leading Australian centre for applied research in the fields of politics and government, urban development, and housing and communications. ISR is a main collaborating partner in the ARC Centre of Excellence for Creative Industries and Innovation (CCI). The Centre has an ambitious research agenda organized around three key themes: creative innovation, innovation policy, and creative human capital. As part of its involvement in CCI, ISR is developing the Australian node of the WIP, a major international collaborative project investigating the social, political, and economic impact of the Internet and other new technologies. The project investigators are Dr. Julian Thomas and Scott Ewing.

### WORLD INTERNET PROJECT

Both CIP and WIP-Australia are members of the WIP, an international research consortium, at the Annenberg School for Communication, University of Southern California (Center for the Digital Future; Principal Dr. Jeff Cole), which coordinates the exchange and comparison of data obtained in response to a subset of more than 75 questions posed in 25 countries worldwide. This provides an opportunity for international comparisons. For further details, see [www.worldInternetproject.net](http://www.worldInternetproject.net).

# Still at the Crossroads: Economics and Rhetoric in Canada's DRM Debate

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## INTRODUCTION

Canada in 2007 went through yet another unresolved year in its process to pass legislation to comply with the country's treaty obligations regarding digital protections to safeguard artist rights in copyrighted works.<sup>1</sup> Central to this discussion is the efficacy and appeal of technological content protections (TCP), such as digital rights management (DRM). Both TCPs and DRMs have been criticized in Canada and elsewhere for interfering with putative rights of consumers to make use of copyrighted works for purposes related to flexible fair dealing, time shifting, device shifting, expanded backup, and parody.<sup>2</sup>

The last year has certainly been a momentous one in the United States. Since the release of Apple's iPod in 2003, the four major record labels (Universal Music Group [UMG], Warner Music, EMI, and Sony) had come to view the sale of DRM-protected tracks at download services, including Apple's iTunes, as disappointingly low. As will be explained below,

this was due in some degree to the incompatibility of Apple's market-leading devices and services with other competitive alternatives. To defeat the market impasse, the same labels actually eliminated DRM protections for music sold through several competing online stores, including a ubiquitous Amazon.com. Many are now convinced DRM is finished and the world is better off for the passing.<sup>3</sup>

More nuance is needed here. In the crucible of digital technology, new product offerings generally involve goods, services, devices, and information that are sold or exchanged through a number of competing platforms and business models. New business models in digital presentation and distribution may reasonably test consumer tastes by combining unit retailing, subscription services, advertising, and social networking. As will be shown, TCP and DRM may actually preserve distinct boundaries between different offerings and thus defeat arbitrage, remixing, and other forms of dilution that may reduce the market appeal of any or all competing content services. As product integrity is preserved, rights owners have greater incentives to design and offer more options, and so monetize investments in entertainment product. The combination of property rights, market exchange, and new service offerings involves virtuous cycles that widen the consumer choices that digital markets offer.

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1 In 1997, a slate of national signatories (including Canada) agreed to ratify the World Intellectual Property Organization (WIPO) Copyright Treaty and the WIPO Performances and Phonograms Treaty. Per the respective Article 11 and Article 8, each treating party must provide "adequate legal protection and effective legal remedies against the circumvention of effective technological measures" used by authors, performers, or producers of phonograms "in connection with the exercise of their rights." The treaty commitments came into force in 2002 with the signing of the requisite number of parties. While a great number of nations have passed enacting legislation, Canada has yet to pass the requisite act required by its signature to the treaties.

2 See [http://en.wikipedia.org/wiki/Michael\\_Geist](http://en.wikipedia.org/wiki/Michael_Geist). Accessed online March 4, 2008.

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3 Michael Goodman of the Yankee Group: "Music history will document the transformation from DRMed music to DRM-free music as occurring in 2007. I can't imagine anybody doing a DRM deal in 2008." Accessed online March 4, 2008 at <http://excesscopyright.blogspot.com/2007/12/end-of-music-drm-in-sight.html>.

## DRM AND INTEROPERABILITY

While legal scholars may debate the connection of TCP/DRM and fair dealings and other user exemptions, I shall as an economist confine my attention to actual market events alluded to above.

Before DRM is pronounced dead, we acknowledge that the present difficulties of DRM in the download market face two critical complications that interfere with any direct test of the technologies. First, TCP/DRM-protected music tracks now compete with engrained file-sharing networks where tracks are downloaded free of charge, often illegally. Second, consumer acceptance of protected downloads flagged due to the limited compatibility of different playing devices and online services.

Neither consideration necessarily reflects the inherent tastes of consumers to the controls of technological content protection. Indeed, viewers at academic and research libraries have no large argument with online catalogs of databases and journals that allow viewers to safely access vast amounts of information from their desktops. There is no additional allowance in these catalogs to allow viewers to “rip, mix, burn” reports from online copyrighted materials. And while additional user rights in online libraries might be attractive, users would reasonably forego such options if the financial integrity of the services were to decline, thus jeopardizing their existence. Concerns regarding monetization are then antecedent to the user rights that follow.

As the market’s leading portable device for music downloads, the Apple iPod now accommodates iTunes tracks protected by the company’s Fairplay DRM technology as well as unprotected MP3s that users have ripped from personal collections or downloaded from the Internet. According to Piper Jaffrey, Apple’s iTunes now account for 90 per cent of all tracks sold in the legitimate a la carte download market;<sup>4</sup> second-

place eMusic does not carry acts from major labels. However, while MP3s can be played on any device, Apple’s Fairplay protection can play only on iPods, and iPods admit no other protected DRM technology. Consequently, each potential buyer of an iTunes download faces the future possibility that collections of purchased tracks will become useless if another music player otherwise becomes preferred.<sup>5</sup>

The evidence confirms the predictable consequences of the market lockup. Steve Jobs himself admitted in February 2007 that the average iPod has only 22 tracks purchased directly from iTunes; the remainder were MP3s ripped or downloaded from elsewhere.<sup>6</sup> Moreover, a full 83 per cent of iPod owners do not purchase digital music regularly.<sup>7</sup> Apple’s iPod devices have sold well primarily because they allow fans to carry their MP3 collections everywhere. And iTunes has gained market share primarily because the base of iPods has increased, not because each iPod user stocks up on iTunes.<sup>8</sup>

To no practical avail, major content owners had tried since 2004 to resolve these compatibility problems by coming forth with a standards interface, named Coral, that might have accommodated interoperability among different DRMs.<sup>9</sup> Under pressure from European regulators to implement compatibility in some manner, Apple in February 2007 instead rejected all forms of accommodation for its DRM. Rather, Jobs asserted the importance of maintaining the company’s trade secrets regarding DRM but simultaneously called upon the record labels to abandon DRM altogether.<sup>10</sup>

4 “iTunes Store Still Dominates with 90% Market Share.” Accessed online March 4, 2008 at <http://www.ipodhacks.com/article.php?sid=2191>.

5 Steve Jobs, “Thoughts on Music” (February 6, 2007). Accessed online August 28, 2007 at <http://www.apple.com/hotnews/thoughtsonmusic/>; What Steve Jobs’s DRM announcement means (February 22, 2007). Accessed online August 28, 2007 at [http://www.boingboing.net/2007/02/22/what\\_steve\\_jobss\\_drm.html](http://www.boingboing.net/2007/02/22/what_steve_jobss_drm.html).

6 Ibid.

7 Ibid.

8 Supra note 5 and surrounding text.

9 B. Rosenblatt, “Coral Consortium Aims to Make DRM Interoperable,” *DRM Watch* (October 7, 2004). See also <http://www.coral-interop.org/>. Accessed online March 4, 2008.

10 Supra note 5.

Faced with a market impasse and the unabated use of free file sharing, the four major record companies came in the next months to sell DRM-free tracks in online stores. While EMI in April 2007 came first to offer through iTunes and Amazon unprotected MP3 tracks encoded in a higher resolution format,<sup>11</sup> the market-leading UMG in August priced unprotected MP3s at 99 cents at Amazon, Wal-Mart, Rhapsody, Google, Best Buy, Trans World Entertainment, PassAlong Networks, and Puretracks; UMG did not sign a similar contract with iTunes. Warner Music began to offer DRM-free downloads through Amazon.com in December,<sup>12</sup> and Sony BMG did so in the first quarter of 2008.<sup>13</sup> The move by Sony BMG is especially noteworthy, as the venture had aroused some controversy in 2005 by embedding CDs with a surreptitious DRM that was transferred and buried in user personal computers when the tracks were ripped and stored in hard drive.<sup>14</sup>

With all four labels offering unprotected MP3s of most music catalog, it may be true that DRM is finished in the U.S. download markets. However, there are two areas in the music sector where technological content protection must yet bear proper scrutiny—subscription services and advertising supported-content.

Regarding subscription services, Rhapsody and Napster, etc. now offer to listeners the attractive option of unlimited streaming and temporary downloads of millions of catalog tracks priced at a monthly fee of \$15. Nonetheless, streaming services have disappointed artists and labels; subscription now accounts for a modest 5 per cent of world revenues in digital markets, while

downloads and mobile (i.e., ringtones) respectively notched market shares of 48 and 47 per cent.<sup>15</sup>

Streaming is hurt by two impasses. First, subscribers fear that playlist details may be lost if they migrate to a rival service. This compatibility problem could be resolved if competing services would agree to standards to memorialize playlists for crossovers, much as competitive banks that accommodate one another's customers at ATM machines.

Second, licensors of any record track must also contract with the song publisher for the rights to use the underlying composition upon which the track is based. The matter is a non-issue for the download services, where rights for musical compositions have been made available through compulsory licences.<sup>16</sup> However, streaming and limited download providers in the United States do not have statutory guarantees, and are thus lacking in substantial amounts of publisher catalog. Indeed, the Digital Media Association claimed in 2007 that subscription services lacked rights to some 50 per cent of the compositions that its members now seek.<sup>17</sup> Senior executives at RealNetworks and Napster agreed also that licensing difficulties for publisher catalog—not piracy—represented the single biggest business problem that limits the uptake of its subscription services.<sup>18</sup> The fragmentation of rights has then created an anti-commons that hinders the market uptake of one of the most attractive online services—subscription music.

11 Caroline McCarthy, EMI, "Apple Partner on DRM-Free Premium Music, CNET News.com (April 2, 2007). Accessed online August 31, 2007 at [http://news.com.com/EMI,+Apple+partner+on+DRM-free+premium+music/2100-1027\\_3-6172398.html](http://news.com.com/EMI,+Apple+partner+on+DRM-free+premium+music/2100-1027_3-6172398.html).

12 Cassimir Medford, "Amazon, Warner Rock MP3s, Red Herring" (December 27, 2007). Accessed online March 4, 2008 at <http://www.redherring.com/Home/23366>.

13 C. Holahan, "Sony BMG Plans to Drop DRM," *Business Week.com* (January 13, 2008). Accessed online March 4, 2008.

14 *Business Week* (November 29, 2005). Accessed online March 4, 2008 at <http://www.businessweek.com>.

15 *IFPI Digital Music Report* (London: International Federation of Phonographic Industries, 2008).

16 *Digital Performance Right in Sound Recording Act of 1995*, 109 Stat. 33, Public Law 104-39, encoded at 17 U.S.C. 115. Accessed online March 4, 2008 at <http://www.copyright.gov/legislation/pl104-39.html>.

17 J. Potter, Testimony, Oversight Hearing on "Digital Music Licensing and Section 115 of the Copyright Act," United States House of Representatives Subcommittee on Courts, the Internet and Intellectual Property, Committee on the Judiciary. Accessed online March 8, 2005 at <http://judiciary.house.gov/OversightTestimony.aspx?ID=300>.

18 *Ibid.*

## ADVERTISING AND SOCIAL NETWORKS

In the past three years, two critical trends have affected any prediction of digital futures—the development of social networking and the re-emergence of online advertising. Social networking is the touchstone technology of Web 2.0, a highly interactive “metadomain” involving virtual clubs where content can be shared and redacted with extended network interactions and user editing rights. To allow social networks to eliminate user transactional fees, financing for social networks may presumably come from the pockets of advertisers that would be attracted to the growing numbers and specific demographic natures of interconnected audiences.

Social networks—such as Myspace, YouTube, LiveJournal, Friendster, and Facebook—now allow people with common personal interests to post or exchange blogs, instant messages, music recommendations, photos, classifieds, event notices, and other items of personal interest. As a signal event in the past two years, News Corp. acquired the website, MySpace. With over 100 million viewers,<sup>19</sup> MySpace now is the world’s sixth most popular website, and the third most popular website in the United States.<sup>20</sup> Another social networking site, YouTube, now may include some 72.8-million videos and some 2.8-million user channels.<sup>21</sup> YouTube was launched in February 2005 with an initial investment of \$12.5 million, and was bought out by Google in October 2006 for \$1.65 billion.<sup>22</sup> Now a target of a lawsuit from Viacom for unauthorized use of copyrighted material, YouTube now accommodates the insertion of rich media banner

ads that can monetize Google’s investments in the social network.<sup>23</sup>

Regarding online advertising, the recent history of two digital companies—Google and America Online—should tell us how the market now views the future. The leading search engine Google accounts for over 50 per cent of searches on the Internet and derives some 98 per cent of its annual revenues from the sale of advertising to online sponsors. Since 2002, the company has seen advertising revenues increase from \$439 million to \$16.6 billion and net earnings per share increase from \$0.86 to \$13.53.<sup>24</sup> By contrast, the former online bellwether AOL in September 2006 abandoned its subscription model and made its search engine and accompanying software freely available to all broadband users.<sup>25</sup> AOL expected that the lost subscription fees will be compensated by the gain in advertising dollars expectedly arising from its larger viewing audience.

Online advertising continued the uptrend in 2007, as companies spent a record \$31 billion on websites, search engines, social networks, and blogs.<sup>26</sup> Forrester Research predicted in 2007 that this amount would double to \$61 billion by 2012.<sup>27</sup> For its part,

19 Yinka Adegoke, “MySpace to Sell Music From Nearly 3 Million Bands,” *Yahoo! News* (September 3, 2006). Accessed online March 4, 2008 at [http://news.yahoo.com/s/nm/20060903/tc\\_nm/media\\_myspace\\_songs\\_dc](http://news.yahoo.com/s/nm/20060903/tc_nm/media_myspace_songs_dc); Dan Smith, “Online Social Networks & Communities Are Here to Stay” (September 22, 2006). Accessed March 4, 2008 at [http://www.knowmoremedia.com/2006/09/online\\_social\\_networks\\_communi.html](http://www.knowmoremedia.com/2006/09/online_social_networks_communi.html).

20 Accessed online March 4, 2008 at <http://en.wikipedia.org/wiki/MySpace>.

21 Accessed online March 4, 2008 at <http://en.wikipedia.org/wiki/YouTube#Copyright>.

22 Andrew Ross Sorkin and Jeff Leeds, “Music Companies Grab a Share of the YouTube Sale,” *New York Times* (October 19, 2006), p. C1.

23 Erik Sass, “YouTube Partners with Ad Networks,” *Online Media Daily* (August 10, 2006). Accessed online March 4, 2005 at <http://publications.mediapost.com/index.cfm?fuseaction=Articles.san&s=46629&Nid=22401&p=204029>.

24 Google, “Form 10-K Annual Report, Consolidated Statements of Income, For the Fiscal Years Ended December 31, 2006 and December 31, 2007.” Accessed online March 4, 2008 at <http://www.sec.gov/Archives/edgar/data/1288776/000119312506056598/0001193125-06-056598-index.htm>.

25 Electronic mail, security software, instant messaging, social networking, and parental controls.

26 Reuters News, “Too Many Hands Grabbing for Online Ad Dollars?,” *Red Herring* (October 12, 2007). Accessed online March 4, 2005 at <http://www.redherring.com/Home/22968>.

27 Kristina Knight Forrester: Online ad spending to hit \$61 billion by 2012, *BizReport* (October 29, 2007) Accessed online March 4, 2008 at [http://www.bizreport.com/2007/10/forrester\\_online\\_ad\\_spend\\_to\\_hit\\_61\\_billion\\_by\\_2012.html](http://www.bizreport.com/2007/10/forrester_online_ad_spend_to_hit_61_billion_by_2012.html). Forrester’s expected breakdown in 2012 is search marketing (\$25 billion), display advertising (\$14 billion), social networking (\$10 billion), video (\$7.1 billion), e-mail (\$4 billion), and mobile (\$2.5 billion). Ibid. The comparable breakdown in 2006 was display ads (35 per cent), search (43 per cent), classified (19 per cent), and e-mail/mobile (3 per cent). Zenith, *infra* note 28.

ZenithOptimedia predicted in 2007 that Internet ad spending would overtake radio spending by the end of 2008, and thus become soon the fourth most popular advertising medium in global spending (behind television, newspapers, and magazines).<sup>28</sup>

The nexus of networking and advertising will advance further through the development of massive multi-player distributed games (or virtual worlds), such as *Second Life*.<sup>29</sup> Virtual worlds now offer to users the potential for networked engagements that combine problem solving, cooperation, and competition in gamed situations. In virtual space, users can create second selves called avatars, which can visit, make friends, build homes, buy virtual items, and run businesses in online universes. As the appeal grows, virtual worlds will increasingly accommodate themes with merchandising, entertainment, or cultural venues (e.g., avatars may engage one surrounded by the characters, places, and songs of Disneyworld, National Geographic, or ancient Greece).

## NEW BUSINESS MODELS FOR MEDIA?

There is clear potential for advertising and social networking to help out the media industries, particularly the besieged music industry. Using reasonable numbers, this author calculates label profits could double if as little as 2.5 per cent of broadcast radio advertising in the United States could be diverted to the revenue line of record labels.<sup>30</sup> As an enabling instrument to engage

fans and widen advertising bases, Web 2.0 then offers great potential for the industry to monetize investments.

A great potentiality is demonstrated by News Corp.'s MySpace, which announced in January 2007 a deal to integrate SNOCAP into a "Mystore" widget, and thus allow bands to make licensed MP3 tracks directly available to MySpace audiences.<sup>31</sup> Listeners may then exchange or recommend their downloads with one another, and thus build their appeal through recommendation and social networking. Now ranked as the top social music site, Imeem is a social networking music site where fans engage one another with shared blogs, photos, audio, and video.<sup>32</sup> The company has more than 25-million visitors per month and attracts over 65,000 new users every day.<sup>33</sup>

As an intriguing possibility, Qtrax aims to use peer-to-peer (P2P) technology to combine integrated platforms for advertising messages displayed with online sales.<sup>34</sup> Charging no subscriber fees, the service would allow each listener sampling permissions for five free plays of each song in the catalog. Qtrax also would aim to make available a paid (i.e., advertising-free) subscription service and DRM-protected tracks available for individual purchase. The launch of Qtrax, which claims a catalog of 25-million songs pulled largely from independent bands and labels, is expected momentarily.

PassAlong Networks is a superdistribution network that allows listeners to earn commercial credits by recommending tracks to one another through links sent through e-mail and instant messaging.<sup>35</sup> The architecture is designed to work across all operating systems, devices, and DRM strategy. The PassAlong music catalog features nearly three million songs,

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28 F. Aup, "ZenithOptimedia: Internet Ad Spending Will Overtake Radio Next Year, The ClickZ Network (April 3, 2007). Accessed online March 4, 2008 at <http://www.clickz.com/showPage.html?page=3625467>.

29 Visionary Strategies. Accessed online October 5, 2008 at <http://www.visionarymms.com>.

30 At present, no amount of the total \$20 billion spent in broadcast radio advertising is diverted to record labels and performing artists (other than the songwriters). The four major record companies (which may account for 75 to 80 per cent of the industry total) now earn annual revenues of some \$10 billion per year for sale of label product. Assuming a very generous profit rate of 5 per cent, profit levels for these labels now amount to some \$500 million in profits, or 2.5 per cent of the radio advertising total. Label profits could then double if as little as 2.5 per cent of broadcast radio advertising could be diverted, presumably through the shift of listeners to advertising-based services made available through the Internet.

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31 K. Holton, "Independent Record Labels Sign MySpace Deal," *Washington Post* (January 21, 2007). Accessed online March 4, 2008 at [www.washingtonpost.com/wp-dyn/content/article/2007/01/21/AR2007012100286.html](http://www.washingtonpost.com/wp-dyn/content/article/2007/01/21/AR2007012100286.html).

32 Accessed online March 4, 2008 at <http://en.wikipedia.org/wiki/Imeem>.

33 Ibid.

34 Accessed online March 4, 2008 at <http://en.wikipedia.org/wiki/Qtrax>.

35 Accessed online March 4, 2008 at [http://en.wikipedia.org/wiki/PassAlong\\_Networks](http://en.wikipedia.org/wiki/PassAlong_Networks).



including all major labels. The superdistributor does not now monetize with advertising, but could evidently do so if its user base expands. Metadata to memorialize the flow of material are protected by DRM.

Jun Group allows talent and advertiser to contract directly with one another. The company integrates ad messages with concert and recorded files, and seeds the content in file-sharing networks and in strategic pockets of users on the Internet.<sup>36</sup> Each piece of content is ad-supported, free to the user, and protected from tampering with DRM.

Provided content is similarly protected, advertising can also monetize television and movie content. The British Broadcasting Company now permits its viewers to view and exchange ad-supported programs for one month after the original airing.<sup>37</sup> The major television networks in the United States now similarly allow free viewing of previous broadcasts through their own website or joint venture.<sup>38</sup> Yet more advertising options come from Joost and Babelgum, which will use legitimate P2P technology to economize on bandwidth to stream on-demand full program content, monetized by personalized advertising that may vary from viewer to viewer.<sup>39</sup> These services will compete with advertising-free downloads of video content made available for purchase at Apple iTunes, Amazon UnBox, and network websites.<sup>40</sup>

As a practical matter, it is quite possible to license uses of media works affixed with any advertising instrument on a per transaction or per piece basis. For general advertising tied to a particular network service but not an individual work, rights owners may arrange to share advertising revenues, as is done for Qtrax and Imeem, based on the proportion of uses accounted by each track. Similar blanket licensing arrangements are possible on digital channels financed exclusively or partially through subscription fees. Websites devoid of advertising or subscription revenues may pay licensing fees based on the number of visitors or the number of page views. Additional transactional efficiency can be had through the formation of centralized collecting agencies, such as Merlin, which now licenses the combined catalogs of independent music labels to licensors to MySpace.<sup>41</sup> Merlin supplements its licensing with back-end distribution and payment processing performed by SNOCAP.

Analysts must yet be cautious before claiming advertising to be the magic bullet that can lead content owners and service providers to abandon entirely transactional and subscription charges that have been the incumbent means of financing content. At present, advertising in the United States has not reached the narrow tail of the website universe. Indeed, the top 10 websites accounted for more than 70 per cent of online advertising revenue in the first half of 2007, while the top 50 sites accounted for 90 per cent.<sup>42</sup> As advertisers attach a premium for integrated buys and one-stop shopping, it remains to be seen whether niche markets can cut the mustard.

Indeed, Beth Comstock, president of NBC Universal's Integrated Media Fund (an investor in media and digital companies), phrases the caution:

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36 S. Zeidler, "Entertainment Firms Quietly Using Piracy Networks" (November 3, 2003). Accessed online October 5, 2005 at [http://www.boston.com/business/technology/articles/2003/11/03/entertainment\\_firms\\_quietly\\_using\\_piracy\\_networks?mode=PF](http://www.boston.com/business/technology/articles/2003/11/03/entertainment_firms_quietly_using_piracy_networks?mode=PF).

37 John Borland, "BBC's Model for Broadcast," CNET News.com (April 13, 2005). Accessed online March 4, 2008 at [http://news.com.com/Me+TV+NASCAR+pulls+away+in+content/2009-1041\\_3-5646080-2.html](http://news.com.com/Me+TV+NASCAR+pulls+away+in+content/2009-1041_3-5646080-2.html).

38 For example, Hulu is an online video-on-demand service that is a joint venture of NBC Universal and News Corp., and also includes movies and shows from Bravo, Fuel TV, FX, Sci Fi, Style, Sundance, and Oxygen channels. B. Stone, "Hulu Readies Its Online TV, Dodging the Insults," New York Times. Accessed online October 29, 2007 at <http://www.nytimes.com/2007/10/29/business/media/29hulu.html>.

39 M. Reardon, "Volpie's trek from Cisco to Joost," CNET News.com (June 6, 2007). Accessed online March 4, 2008.

40 G. Sandoval, "Equivalent to iTunes: Media Giants Fight Back," CNET News.com. Accessed online March 4, 2008.

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41 N. Anderson, "Indie Labels Combine to Form a 'Virtual Fifth Major'" (January 24, 2007). Accessed online March 4, 2008 at <http://arstechnica.com/news.ars/post/20070124-8689.html>; K. Holton, "Independent Record Labels Sign MySpace Deal," *Washington Post* (January 21, 2007). Accessed online March 4, 2008 at [www.washingtonpost.com/wp-dyn/content/article/2007/01/21/AR2007012100286.html](http://www.washingtonpost.com/wp-dyn/content/article/2007/01/21/AR2007012100286.html).

42 *Supra* note 26.



“I’m getting to the point where I feel like every answer to every business development pitch is ‘We’re going to be advertiser supported’ ... It’s just not going to be possible ... There are not going to be enough advertising dollars in the marketplace. No matter how clever we are, no matter what the format is.”<sup>43</sup>

Even ZenithOptimedia is cautious: “[T]he [growth rate of 29 per cent] will start to slow naturally. It can’t continue to grow explosively forever. It’s quite possible that new formats will arrive, but looking at the existing formats, they are starting to mature.”<sup>44</sup>

However advertising may allow users to sample and possibly acquire content without direct payment, it is still necessary to protect the content against unauthorized uses that may devalue the instrument. To maintain integrity, it is then necessary to protect owner rights of attribution, to bind accompanying metadata to the underlying content, and to ensure generally that the content is not traded without any deletion or modification of the advertiser’s message. For to do otherwise would vacate the incentives of any sponsor to put content and advertising together, and eliminate the financial support that may otherwise accommodate the growth of price-free content.

## COPYRIGHT AND CIRCUMVENTION IN CANADA

In a recent paper in the *Journal of the Copyright Society*, this author identified critical trends that can be expected to continue in the next few years in the music industry as digital platforms gestate and multiply.<sup>45</sup> Major labels will continue to reduce large upfront investments in producing and marketing new releases. Large record companies will continue to provide distribution services for their own labels, as well as a widening group of independent labels that will

engage major companies in upstreaming contacts and distribution alliances. Traditional record deals will give way to artist management contracts—artists will earn more of album royalties, while labels earn a share of concert, merchandise, and publishing revenues.

Advertising and social networking will surely be a part of the play. However, there is no reason to assert that these financial arrangements will be sufficient under all circumstances to monetize the investments needed to produce a top-quality recording act. There is no general reason to believe the transaction and subscription models will entirely vanish. With a number of competing instruments, the market would then seem the best arbiter of the constellation of business models that may emerge.

While content owners may indeed *choose* to liberalize restrictions and permit a number of free uses, none of this competition in any manner commends the relaxation of intellectual property *law*. However fair use or fair dealing may be defined, content can be monetized in private markets only if some body of use remains outside the allowances of either. Intellectual property protection, including the use of DRM, would seem necessary to maintain both the integrity and the adaptability of the new versions that incumbent players and new entrants may design and test.

While some constellation of fair or free uses may be permitted, it is impractical as an economic matter to permit the trafficking of devices that would allow users to circumvent either access or copy protection. The reasoning is intuitive—such general devices cannot distinguish legal from illegal uses and thus remain at the disposal of any unauthorized user who would freely distribute direct or virtual copies through digital channels without payment. User rights notwithstanding, such exemptions undermine the primary monetization necessary for the funding of production in the first place.

43 Ibid.

44 Supra note 28.

45 Michael A. Einhorn, “Gorillas in Our Midst: Searching for King Kong in the Music Jungle,” *Journal of the Copyright Society* (Winter, 2008).

As an economic matter, it is thus sensible for Canada to pass enabling legislation for the World Intellectual Property Organization Treaty. This does not mean that Canada must model its law after the *Digital Millenium Copyright Act*, which the U.S. Congress legislated in 1998. As its own authority, Canada would be well advised at a minimum to outlaw the manufacturing and trafficking of devices that could be used to break access and copy protection affixed on protected works.

It may reasonably augment its *device ban* by additionally outlawing any *act* of circumvention that would result in the violation of copyright or any other form of electronic theft. Per the U.S. example, some access uses, such as law enforcement and parental exemptions, are conceivably exempted from this action ban, and the government may actually ponder on occasion the advisability of exceptions for limited devices (e.g., backup copies).

## RESEARCH PAPER 26

# Understanding the Consumership of Culture in Canada

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### Abstract

The personal profiles of the persons involved in various cultural activities can provide relevant details to the various concerned parties. This information will allow organizations commissioning or delivering cultural projects or programs to better understand the individuals most likely to attend their events: groups that are under-represented and can probably be identified by potential sources of market growth and cultural services.

In this abstract, we have used a typical regression model as well as data from a general social survey conducted by Statistics Canada in 2005 to examine the socio-economic and demographic attributes of consumers of cultural goods in Canada. Our findings differ in two ways from the norm. First of all, our analysis covers a broader range of cultural activities, allowing us to take into consideration the activities most enjoyed by Canadians of all age and income groups. Second, instead of focusing on the idea that someone has taken part in a cultural activity or not (as was the case with previous studies), we based our analysis on the number of times a respondent attended a specific cultural activity. In using the participation indicator, we do not minimize the importance of

any particular demographic group to a particular cultural activity when that group has attended an event an inordinate number of times; nor do we over-emphasize the impact of a demographic group if the attendance is exceptionally low.

Our multi-branch analysis, which is in keeping with past empirical research, demonstrates that household income, personal spending, and education are all linked to greater participation in cultural activities. Furthermore, our findings indicate that the differences observed in the consumption of cultural goods and services might be linked to family inheritance – e.g. father's and mother's education, level of education of spouse). The impact of the latter, however, is more significant than the former with regard to almost all cultural activities.

While not available for this publication, the entire report is available from the Publications module of the Statistics Canada website (<http://www.statcan.ca/english/freepub/87-008-GIE/pubs.htm>).



# Unintended Consequences: Analyzing the Impact of Labour Tax Credits Programs and Regional Competition on Labour Markets in the Canadian English-Language Film and Television Production Sector

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## INTRODUCTION

Creative hubs, creative clusters, creative cities, and the creative class are all concepts that underscore the creative and cultural industries sectors as key components in developing the knowledge or information economy.<sup>1</sup> There are two broad thematic common to the variety of theoretical frameworks that engage with the value of creative and cultural activity in social and economic spheres. First is the importance of human capital in developing centres of creative excellence. Second is the means by which those centres of creative excellence can be maintained in the face of increasingly complex competitive pressures at multiple scalar levels.

Despite the contours of Canadian federalism, which have meant that Canadian cultural policy has always and necessarily been located at multiple layers of the state, there is a profound lack of analysis about how policies designed to cultivate and promote various Canadian jurisdictions as centres of creative excellence

in a globally competitive environment operate simultaneously at national, regional, and local levels. Additionally, while there is an implicit acknowledgement that creative workers are the driving force behind the creative economy, the voice of labour has yet to be anchored within Canadian cultural policy literature. This analysis, as part of an ongoing broader doctoral research project, will begin to address both of these analytical shortcomings through an analysis of the impact that federal and provincial film and television labour tax credits have on labour markets and workers in the film and television production industry.<sup>2</sup>

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<sup>1</sup> See City of Toronto (2003); Creative City Network of Canada (2008); Richard Florida (2002); Nicholas Garnham (2005); Andy C. Pratt (2004); Allen J. Scott (2006).

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<sup>2</sup> The film and television production sectors are two discrete categories in terms of policy jurisdiction. As noted, television production is highly regulated, marked by a long history of interventionist policy measures. In contrast, feature film production is largely unregulated, although supported by various state funding mechanisms. For analytical purposes, it is impossible and impractical to entirely disentangle the two sectors for several reasons. Workers themselves shift between film production and television production routinely, particularly if those workers are freelancers in the independent production sector. Furthermore, proliferation of specialty channels has heightened the importance of television as a distribution window for films, and an increase in broadcaster financing in film production (particularly specialty broadcasters such as HBO or TMN) leaves the two sectors in practice more related than they are separate.

Using Toronto and Halifax as case studies of major and “regional” production centres, respectively, an analysis of key industry reports and interviews with labour leaders in both labour markets leads me to conclude that despite having a positive impact on the volume of work, industry trends suggest that tax credit structures at federal and provincial levels are producing perverse labour market effects.<sup>3</sup> Rather than promoting Canada and its various jurisdictions as globally competitive centres of excellence for film and television production, the application of the tax credit scheme has negatively impacted both working conditions and labour mobility for highly skilled film and television production workers in the English-language independent production sector.<sup>4</sup> The end result is a hollowing out of film and television production labour markets in both major and regional production centres, a trend that threatens the long-term viability of the Canadian film and television production sector on a broad scale. While tinkering with various aspects of labour tax credit programs may assist in mitigating some of these effects, more investment in other policy measures that will bolster Canada’s competitiveness in foreign service productions and support regional domestic production should be considered as key components of long-term policy strategies for supporting Canada’s creative economy.

## CANADIAN FEDERAL AND PROVINCIAL LABOUR TAX CREDIT INITIATIVES

Acknowledging the nature of film and television production as a labour-intensive industry, and in promoting the value of film and television production as a key component of the knowledge economy, Canada was the international vanguard in developing labour tax credits, a competition strategy that operated to foster labour market development by providing indirect subsidies for both domestic and foreign service film and television production. In

broad terms, both federal and provincial labour tax credit programs allow a production company to claim as a tax write-off a specified percentage of the labour costs incurred in making a film or television production. The credit is applied to reduce the corporate income tax payable, and any balance is paid to the production company.

Policy-makers describe labour tax credits as revenue-neutral policy mechanisms, whereby the total economic contributions of film and television production compensate for the tax credit expenditures paid to individual production companies (Canadian Audio Visual Certificate Office [CAVCO], 2002; Intervistas Consulting, 2005; Nordicity Group, 2004).

### FEDERAL LABOUR TAX CREDITS

The federal government introduced the Canadian Film or Video Production Tax Credit (CPTC) in 1995 to replace the film and television industry tax shelter program, the Capital Cost Allowance. The objective of the CPTC is to encourage Canadian programming and to develop an active domestic production sector through a labour tax credit allowance of 25 per cent of the qualified labour expenditure of an eligible production up to 15 per cent of total cost of production (CAVCO, 2004). The CPTC is available only to Canadian content production, as defined through the CAVCO points system.

In 1997, the federal government introduced the Film or Video Production Services Tax Credit (PSTC), the first Canadian cultural policy measure specifically targeting foreign service (U.S.) production sector. The PSTC is designed to “encourage the employment of Canadians” by “mak[ing] Canada a more attractive place for Canadian and foreign film video production” by offering a tax credit equal to 16 per cent of the salary and wages paid to Canadian residents, with no cap on the amount that can be claimed (Department of Canadian Heritage, 2003).

3 These conclusions are based on my analysis of information gathered from academic and primary sources as well as interviews, and do not necessarily reflect those who contributed to this research project.

4 Political economy of the French-language production sector in Canada is quite specific and deserves specific and separate analysis.

Province	Canadian Production (additional regional bonus)	Foreign Service (additional regional bonus)
British Columbia	35% (12.5% outside of Vancouver)	25% (6% outside of Vancouver)
Alberta	14–23% grant all goods and services	14–23% grant all goods and services
Saskatchewan	45% (5% outside of Regina or Saskatoon)	45% (5% outside of Regina or Saskatoon)
Manitoba	45% (5% outside of Winnipeg)	45% (5% outside of Winnipeg)
Ontario	35% (10% outside of Greater Toronto Area)	25%
Quebec	29.1667% (19.3958% outside Montréal)	25%
New Brunswick	40%	40%
Nova Scotia	50% (10% outside Halifax)	50% (10% outside Halifax)
Prince Edward Island	35%	35%
Newfoundland and Labrador	40%	40%
Yukon	35% labour rebate	35% labour rebate

Source: PriceWaterhousecoopers (2008).

## PROVINCIAL LABOUR TAX CREDITS

In 1995, Nova Scotia was the first province to roll out a labour tax program in the English-language film and television production sector (Nordicity Group, 2004). Since that time, all nine other provinces have rolled out tax credit programs<sup>5</sup> that target labour expenditures as a means to promote their regions as competitive film and television production centres.<sup>6</sup> There have been periods of a “tax credit race” between the provinces, most nota-

bly in 2004 and 2007, that sees provinces raising the tax credit limits to maintain competitive advantage. As of March 2008, general baselines for provincial film and video tax credit incentives are as follows.<sup>7</sup>

5 The exception to this is Alberta, which runs a non-recoupable grant program of between 14 and 23 per cent of total production costs, and Yukon, which offers a 35 per cent labour rebate (PriceWaterhousecoopers 2008). While these are not technically tax credit programs, they do target labour expenditures as a primary factor in regional competition strategies.

6 Quebec introduced a provincial film and video tax credit in 1991 (Nordicity Group, 2004).

7 True comparisons between tax credit initiatives are difficult. Some provinces have a ceiling on the total dollar amount that can be claimed. Some provinces, such as Manitoba and Nova Scotia, run frequent filming bonus programs, Ontario offers a first-time filming bonus, British Columbia offers a training incentive, and Saskatchewan offers a key creative positions bonus. Many provinces also operate complementary programs for digital media, animation, and visual effects tax credit incentives (PriceWaterhousecoopers, 2008). However, in terms of tax credit incentives, the general baselines and regional production bonuses are understood in the industry as having the most impact on a region's competitiveness in the film and television production sector.



## FILM AND TELEVISION PRODUCTION LABOUR MARKET SEGMENTATION AND COMPETITION FRAMEWORKS

The most recent statistics from the Canadian Film and Television Production Association (CFTPA) indicate that total film and television production volume reached \$4.9 billion in 2006–07 (CFTPA, 2008). Independent Canadian television production was the leading economic and employment driver, accounting for 42 per cent of total production worth \$2.1 billion and generating 20,700 full-time equivalent direct (FTE) and 33,200 FTE indirect jobs. Of that, \$1.5 billion was English-language television production, \$553 million was French-language production, and \$19 million was bilingual production. Foreign location production was the second largest sector in 2006–07, accounting for 29 per cent of all production undertaken in Canada, worth \$1.4 billion in total production volume and generating 14,400 FTE direct and 23,100 indirect FTE jobs. Broadcaster in-house production, composed largely of news, sports and talk show programming genres, followed at 23 per cent of production for a total of \$1.1 billion. A distant fourth was Canadian theatrical production at 6 per cent of total production activity, worth \$282 million in total production volume (CFPTA, 2008).

The domestic independent television production sector and foreign service sector are the two key labour market segments for the Canadian film and television production industry. Each plays an important role in the overall health and stability of major and regional labour markets, and both benefit from federal and provincial labour tax credit regimes.

The small size of the Canadian television audience in a stand-alone context, when combined with the variety, production values, and relatively low cost of American programming, creates a financial disincentive for broadcasters to develop their own original programming. Canadian cultural policy has accordingly focused state support for film and television production around two key objectives: ensuring shelf space for Canadian audiovisual content and a production sector capable of creating that content.

Canadian content regulations create shelf space by outlining the minimum amount and type of original Canadian programming television licencees are required to schedule in prime time and throughout the broadcast day, and are commonly credited for the health of the Canadian television production sector.<sup>8</sup> Labour tax credit initiatives support the production sector as key financing tools for Canadian producers. Canadian broadcasters pay some of the lowest licence fees across Western industrialized countries. Compared to the United States and the United Kingdom, where broadcaster licence fees for programming range between 70 and 80 per cent of production budgets, private and public broadcasters licence fees combined accounted for 31 per cent of total budgets for Canadian television programs and theatrical films in 2006–07 (Canadian Coalition of Audio Visual Unions [CCA], 2006; CFTPA, 2008). The second most important source of financing for Canadian production was federal and provincial tax credit initiatives, which accounted for 26 per cent of total financing (CCA, 2006; CFPTA, 2008).<sup>9</sup>

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8 Canadian content regulations dating back to 1970 outline what qualified as “Canadian” programming, and dictate that at least 60 per cent of broadcaster programming overall, and 50 per cent in the evening periods, must qualify as Canadian content. In 1983, CRTC introduced “priority programming” requirements that set programming minimums for Canadian drama, music, and variety programming. Furthermore, in an attempt to ensure such programming was sufficiently financed, CRTC also set priority programming expenditure requirements as conditions of licence for Canadian conventional broadcasters. However, recent deregulatory trends by CRTC have undermined the stability of Canadian television production, particularly dramatic programming. CRTC’s 1999 Television Policy removed expenditure requirements for broadcaster spending on original Canadian content programming and expanded the range of priority programming categories to include long-form documentaries and reality programming. This general deregulatory trend has been faulted for the recent decline in the production of Canadian dramatic programming, which has had a marked impact on television production labour markets. For a more in-depth explanation of the implications of CRTC’s 1999 Television Policy and labour’s response to it, see Amanda Coles (2006).

9 The remainder of financing is sourced from a mix of Canadian Television Fund monies, broadcaster equity investments, funding from independent production funds, as well as contributions from Canadian and foreign distributors (CFTPA, 2008: 33).

On cultural terms, domestic productions are the only truly Canadian creative space, where total creative control remains in the hands of Canadians. When the Canadian Audio Visual Certificate Office (CAVCO) and the Canadian Radio-television and Telecommunications Commission (CRTC) determine Canadian content through their points systems,<sup>10</sup> the script content is not the basis for evaluation. Canadian content is determined by the number of Canadians in key creative positions—writer, director, lead performers, director of photography, art director, composer, and picture editor—who brought the project from script to screen. It is the workers themselves who define Canadian content, and the Canadian television productions sector is an employment driver for many key creative personnel who do not have access to the foreign service sector.

The foreign service sector is defined as “film or video production shot in Canada by US or foreign studios and independent producers, where the foreign producers retain the copyright” and largely refers to U.S. productions shot on location in Canada (CFTPA, 2006). Major U.S. productions far exceed in budget and in scale the kinds of projects that Canadian producers are able to undertake. The foreign service sector thus serves as an important training ground for Canadian crews; much larger budgets often mean access to a broader range of technical equipment and more complicated production requirements, stretching and enhancing the creative and technical abilities of crews. Larger budgets and more complex scripts can also mean prolonged shooting periods, providing extended contract durations and premium rates for freelancers. The foreign service sector also provides an important source of support

for local suppliers including but not limited to, hospitality, travel, and equipment supply.

U.S. shows shot on location in Canada often come packaged with key creative personnel chosen by the U.S. studio. It is routine for an American production to engage U.S. writers, directors, cinematographers, editors, and key cast, and not uncommon, particularly on larger feature films, for Americans to hold additional select creative, technical, and administrative positions, such as production accountant, costume designer, key hair stylists or makeup artists, set decorator, or first assistant director. Furthermore, the Canadian foreign service sector is highly volatile as a result of its vulnerability to the vagaries of international competition for this lucrative market.

The film and television production industry is perhaps prototypical of the now ubiquitous references to globalization. Economic globalization has come to represent, at least in part, highly mobile capital that exploits labour markets to maximize benefit. The film and television production sector is labour intensive and infrastructure light; in fact, I argue that human capital *is* the essential infrastructure of the film and television production sector.<sup>11</sup> This has its benefits; given the historical and contemporary achievements of the English-language film and television production sector in Canada, it positions both major and regional production centres across Canada as keen competitors in a world increasingly fed by screen-based content. However, the highly mobile nature of capital that is able to feed or starve labour markets, combined with the presently high value of the Canadian dollar relative

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10 The points system is used by both CAVCO and CRTC to determine whether a production qualifies as Canadian content. The Canadian Audio-Visual Certification Office uses the point system to determine qualifications for tax credits and provisional CAVCO certification is required for funding from the Canadian Television Fund. CRTC uses a similar point system for determining Canadian content that qualifies toward priority programming requirements set out by CRTC regulations. Under both systems, points are determined through the following number of positions that are filled by Canadians: director (2 points), screenwriter (2), lead performer (1), 2nd lead (1), director of photography (1), art director (1), music composer (1), picture editor (1).

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11 This is not to understate the important role that technical suppliers, studio developments, and other industry supports play in the development of healthy and vibrant film and television production centres. Indeed, it is extremely difficult to sustain human capital resources without access to the structural and technical infrastructure requirements of a rapidly changing highly technical industry. The foundations for the framework of human capital as the primary infrastructure is that a critical mass of producers, key creatives, cast, and crew is required to draw work into major or regional production centres and sustain business levels for the technical and structural supports. For example, Toronto has functioned as a major production centre despite a lack of high-quality studio facilities for decades. In contrast, the development of major studio facilities in Montréal was not originally enough of an incentive to overcome labour specific challenges as perceived by U.S. studios.

to the U.S. dollar and other international currencies, also leaves the film and television production sector vulnerable in both intranational and international contexts.

Labour tax credits at both federal and provincial levels draw film and television production work into and across the country, bolstering the volume of work in both major production centres (Toronto, Vancouver, Montréal) and developing regional production centres (Halifax, Winnipeg, Calgary). They are a cornerstone of financing for domestic producers and a key deciding factor for foreign service productions.<sup>12</sup> The success of Canada's labour tax credit strategy is demonstrated by the proliferation of similar initiatives around the globe. Although Canada enjoys several key advantages in drawing foreign service sector work, including proximity to the United States, skilled crews, shared language and cultural norms, a diversity of locations, and developed technical and support infrastructure, these factors lose their power in the context of increasing competition from within North America and internationally (Nordicity Group, 2004; PricewaterhouseCoopers, 2006; Randle and Culkin, 2005). Canada's historical advantage has been to combine the above-noted factors with a favourable exchange rate for U.S. producers; this is increasingly irrelevant under current economic conditions. Australia, Belgium, Brazil, the Czech Republic, Denmark, Fiji, Germany, Iceland, Ireland, The Isle of Man, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Romania, South Africa, and Sweden are stimulating their film and television service industries through building infrastructure and attractive tax credit structures that foreign studios, with their eye on the bottom line, find increasingly appealing (Ernst & Young, 2004; Randle and Culkin, 2005). Furthermore, the issue of runaway production, wherein U.S. labour groups charge Canada with, "stealing jobs that belong in the US" has encouraged a wave of incentives across U.S. states designed to stimulate local production levels. States including New Mexico, Louisiana, Hawaii, Illinois,

Maryland, Pennsylvania, New Jersey, South Carolina, Connecticut, Massachusetts, Rhode Island, and New York have all recently released tax credit and incentive programs designed to stimulate local production levels (Ontario PC, 2004; Don Carmody, 2008).

Given the international and interprovincial labour tax credits "race" and the rising Canadian dollar, questions arise as to the efficacy and long-term viability of the programs in stimulating and maintaining production centres. To examine the effects of current labour tax credit strategies on labour market activity and employment conditions for film and television workers, it is first necessary to understand what work in the film and television production industry entails.

## WHAT DOES FILM AND TELEVISION WORK LOOK LIKE?

Film and television production is labour intensive.<sup>13</sup> Up to 85 per cent of a production's budget will be accounted for in labour costs (Randle and Culkin, 2005: 2).<sup>14</sup> To speak of the film and television production sector is then to refer largely to the talent pool and employment conditions of the highly skilled creative and technical personnel who work collectively to produce the on-screen product.

Both domestic and foreign-service Canadian English-language independent film and television production is supported by both union and non-union cast and crew, although the overall picture is one of a highly unionized

12 U.S. studios now have entire estimating and tax credit departments dedicated to the analysis of tax credit initiatives. Studios will have spreadsheets with upwards of 19 cities that have been asked to budget for a particular project selected by the attractiveness of their various tax credit initiatives (Perotto, 2008).

13 The film and television production process is composed of three phases. Development and pre-production includes script acquisition and story development, hiring of key creative personnel and production financing. Principal photography is the actual shooting of the project, and post-production is the final stage where editing, digital effects, and sound design take place. Of the three stages, principal photography is the most labour intensive, and is generally the stage referred to in analyses of film and television production (Christopherson, 2005).

14 This is further divided into above-the-line costs (producer, director, writer, cast) of 40 per cent, below-the-line crew costs of 33 per cent, and post-production costs of 12 per cent, subject to script and casting.

sector, with five national labour organizations representing almost all worker categories. The Alliance of Canadian Cinema Television and Radio Artists (ACTRA) represents approximately 18,000 Canadian on- and off-screen performers in English-language-recorded media. The Director's Guild of Canada (DGC) represents over 3,800 key creative and logistical personnel, including directors, assistant directors, location managers, production designers, production managers, editors, and accountants across Canada. The Writers Guild of Canada (WGC) represents more than 1,700 Canadian screenwriters working in film, television, radio, and multimedia. The Communications, Energy and Paperworkers Union (CEP) represents approximately 20,000 media workers across Canada, including in-house broadcaster and independent sector film and television technicians. The International Alliance of Theatrical Stage Employees; Moving Picture Technicians; and Artists and Allied Crafts of the United States, Its Territories and Canada (IATSE) represents approximately 10,000 technicians across Canada.<sup>15</sup>

Perhaps the most defining characteristic of the Canadian English-language film and television production sector is independent production as the dominant form of industrial organization. Independent production, defined as those productions that are not produced internally by broadcasters, accounted for 77 per cent of total film and television production in Canada in 2006–07.<sup>16</sup>

Procuring programming from independent producers means that the broadcasters are able to divest themselves of much of the financial risk associated with television production. Broadcasters are responsible only for contributing a percentage of the total cost of production, in the form of licence fees, leaving completion financing

up to the much more vulnerable independent producer. Due to difficulties in recycling returns from one project to the next, most production companies are set up as single-cycle corporations or “one-offs” that endure only for the duration of the project (Blair, Grey and Randle, 2001: 171). While the emphasis on independent production has fostered the growth of an industry driven by highly skilled and specialized creative workers, high wage does not necessarily equate with either high income or high-quality employment for film and television professionals.

The structure of independent production companies in both film and television formats produces a highly flexible workforce of freelancers reliant on short-term contracts with no job security or guarantee of employment continuity. There are no formal hiring strategies, and workers are largely dependent on personal networks for job leads.<sup>17</sup> Employment contracts vary widely in duration, ranging from a one-day call for “daily” crew or “day player” actor and background performers to up to eight months for a key cast or crew member on a television series. Writers experience extreme isolation due to the nature of their work; it is not unusual for writers to have limited or no contact with the rest of the production crew. Actors’ jobs are highly volatile, with engagements often lasting for one or several days, with long gaps in employment. A standard workday for the shooting crew is 12 working hours, although shooting beyond standard industry hours is not uncommon practice. Some crew, such as production office staff, craft service personnel, transport departments, and assistant directors, routinely work well beyond the start and finish of the shooting day to meet the requirement of their jobs. Shooting hours and locations are dictated by a complex scheduling process that needs to accommodate cast and location availability as well as script requirements, such as interior and exterior

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15 Other labour organizations have jurisdiction in localized regions, such as the Teamsters in Vancouver. The Canadian Media Guild also has jurisdiction in various public and private broadcasters across Canada, but does not represent workers in the independent production sector.

16 Broadcaster in-house production is largely news and sports programming, although it does include other genres (CFTPA, 2008).

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17 There are seniority structures left in some technicians’ locals, especially for daily or weekly calls, but these are being eroded over time.

shoots, day or night scenes, and location availability.<sup>18</sup> Workplace locations change regularly and are often in unusual (and times uncomfortable) locations, such as abandoned factories and warehouses, personal homes, exterior streets, airports, restaurants, universities, or open water vessels, etc. Workplaces can be hazardous, with stunts and special effects in addition to any environmental considerations of a particular location.

Nonetheless, work in the film and television sector also demonstrates qualities that are associated with high-quality employment. Each script is unique, so the nature of the work, while exhausting and challenging, is rarely monotonous. Many workers are given a high degree of autonomy and discretion in how their jobs get done. Furthermore, innovation is actively encouraged, and the collaborative nature of film making encourages “brainstorming” processes that feed the creative process (Hutton, O’Keeffe and Turner, 2005). While the freelance nature of independent production produces employment insecurity, provided there is work available, it can also equate to high income for “a-list” professionals who have well-established careers and solid personal and professional networks.

## TAX CREDITS AS LABOUR MARKET REGULATION

The combination of federal and provincial labour tax credit programs clearly plays an important role in both domestic and foreign service sector labour markets. For domestic producers, labour tax credit programs are a key financing tool. For the foreign service sector, labour tax credits help to sharpen Canada’s edge in terms of global com-

petition for Hollywood’s business. There is significant evidence to suggest that labour tax credit programs have significantly contributed to the volume of work in both Canada’s major film and television production centres of Toronto, Vancouver, and Montréal, and regional production centres, such as Halifax, Winnipeg, and Calgary. Provincial labour tax credit initiatives are commonly credited by industry professionals as being the most important policy instrument in developing smaller regional production centres. ACTRA noted that until the introduction of provincial labour tax credits, it was facing the prospect of closing five of its regional offices (Waddell, 2008). Between 1995 when the Nova Scotia Film Industry Tax Credit (FITC) was introduced and 2004, total production spend in the province rose from \$32 million to \$113 million (Nordicity Group, 2004). During this period, the average compounded annual growth rate was 17 per cent for the film and television production industry, although recent years have seen a considerable fluctuation in production levels as competition from other regional production centres offering tax incentives has intensified (Nordicity Group, 2004; NSFDC, 2008). Ontario, and Toronto as a major production centre in particular, also experienced a significant increase in both domestic and foreign service production after the introduction of the Ontario Film and Television Tax Credit for domestic productions and the Ontario Production Services Tax Credit for foreign service production in 1997. Production volume more than doubled in five years, from \$496 million in 1995 to a peak of \$1011.2 million in 2000. Similar to Nova Scotia, production levels have fluctuated since the peak in 2002, partially because of the erosion of Ontario’s competitiveness through the introduction of labour tax credits in other provincial, continental, and international labour markets.<sup>19</sup>

18 In film and television production, the workday is conceived of as a set number of hours within a 24-hour period. A shooting crew may begin work at 7:00 a.m. on Monday to shoot during daylight hours, 12:00 p.m. on Tuesday to shoot day and night, and 7:00 p.m. on Wednesday to shoot night exteriors. There are union regulations about how many hours crews must have between the wrap of one shooting day and the beginning of the next without financial penalty in the form of “turnaround” pay, which helps to prevent a crew shooting nights that wrapped at 5:00 a.m. being brought back into work at 1:00 p.m. that same day. However, the extreme volatility and unpredictability of the shooting schedule, which is subject to change at a moment’s notice, is both exhausting for the crew and the families that support them.

19 Competition for work largely takes place between similar labour market structures; major production centres, namely Toronto, Vancouver and Montréal, are in competition with each other for work, while regional production centres, such as Halifax, Winnipeg, Saskatoon, Regina, and Calgary, are each other’s primary competitors (Nordicity Group, 2004; PriceWaterhouseCoopers, 2006). There is also some evidence that regional production centres provide considerable competition to major production centres in attracting lower budget Canadian productions (Hardy, 2008). There are also emerging reports that due to the strength of the Canadian dollar, Canadian shows are now being prospectively budgeted in U.S. states that have extremely competitive tax credit structures (Carmody, 2008).



Superficially, the data would indicate that the introduction of labour tax credits has had an overall beneficial impact on the Canadian film and television production industry. However, interviews with labour leaders in both Toronto and Atlantic region labour markets reveal contradictory findings.

As noted at the beginning, the contours of Canadian federalism necessitate that cultural policy is always and necessarily organized at multiple layers of the state. It is the very foundations of Canadian federalism that appear to be the root cause of the perverse labour market effects that the labour tax credits are imposing through inter-provincial competition strategies. Provincial jurisdiction and regional interests restrict labour mobility and limit employment opportunities. Simultaneously, principles of regional economic redistribution in policy design have the practical effect of stretching local work “zones” that impose health and safety and economic costs that are borne by the individual worker. The overall implications of these two phenomena when combined threaten the long-term viability of both major and regional film and television production labour markets.

Provincial labour tax credits work on the basis of provincial residency. For a production to claim labour costs associated with a particular cast or crew member as part of a tax credit, that individual must provide proof of provincial residency in the year the production began. Labour has organized, particularly on Canada’s east coast, around a regional framework to maximize jurisdictional benefits in acknowledging that smaller centres, New Brunswick or Newfoundland, are unlikely to attract sufficient production levels to sustain a local production industry over the long term. However, the need for provincial residency requirements has meant that film and television workers are no longer able to move freely between labour markets, and has constrained opportunities for workers in emerging production centres, such as New Brunswick or Newfoundland, to move to larger regional production centres, such as Halifax, to access work and develop their professional expertise.

This is not to say that there is no mobility between labour markets; to be certain, as some American production brings key cast and crew when shooting on location in Canada, it is not uncommon for key cast, creative, and technical

personnel to be brought from major production centres into regions for particular projects. Furthermore, when regional production centres cannot meet local labour market demands because production volume exceeds labour market capacity, or specialized expertise is not locally available, workers are brought in to meet these demands, albeit largely from major production centres. However, because of the demands to maximize qualifying expenditures under tax credit programs, extra-provincial workers are now pressured to accept contracts as “locals,” forgoing the usual union location contract provisions that include travel, accommodation, and per diem allowances. Residency requirements also undermine the membership benefits of reciprocity between sister locals in a national context. For an industry that is highly mobile, with labour markets experiencing considerable fluctuations in volumes of work from one year to the next, restricting interjurisdictional mobility poses considerable additional challenges to an industry professional’s ability to make a living in the film and television production sector.

The desire to spread economic benefits of film and television production throughout a province has led to the implementation of “regional bonuses” in provincial tax credit structures. A production is eligible to claim an additional percentage, from 5 per cent in Saskatchewan and Manitoba to 12.5 per cent in British Columbia, if the production is shot outside of a specified major urban centre. Arguments are also made that encouraging productions to film throughout a province will help feed the cultural industries’ workforce through exposing more people to the film and television production sector.

There is little evidence that these policy rationales are having their intended effects. As Nordicity Group’s analysis of the impact and long-term strategy of the Nova Scotia FITC structures noted:

Although a significant number of productions do shoot outside of Halifax/Dartmouth, it is unclear how much of the production expenditures actually stay in the region. Outside of accommodations, and food and beverage expenses, it is likely that most purchases of equipment and services flow back to the businesses in Halifax/Dartmouth (Nordicity Group, 2004: 30).

Similarly, none of the labour organizations interviewed reported having a marked influx or interest in membership from outside urban regions since the implementation of regional bonuses.

However, there is evidence to suggest that the practical effects of regional bonuses work against the notion of good public policy; not only do they appear to be weak in redistributing economic and employment opportunities benefits across a province, but they have directly negatively impacted working conditions and labour markets for established production centres. Union locals representing a wide range of workers in Ontario and the Atlantic region report that regional bonuses have had the net effect of both exerting pressure to extend the union “zone” beyond which producers must pay travel time for workers going to and from set, and extending what is an already very long and intense workday for film and television production professionals.

The effects of regional bonuses and competitive tax structures on local labour markets are shared between major and regional production centres. The Toronto Film Board’s 2007 Strategic Plan argues:

...forced commuting flew in the face of Ontario’s health, safety and environmental policies by dragging workers away from their home base in Toronto where most screen arts workers live. The result in Ontario has been startling: in 2001, 84% of all Ontario’s screen arts productions were shot in Toronto. By 2005, that was reduced to 49%.... Instead of supporting Toronto as a world-class centre of excellence, policies have begun to tear it down (Toronto Film Board, 2007: 25).

Workers are thus directly absorbing health, safety, and financial costs that arise as a direct result of provincial tax credit structures. Film and television workers enjoy their work in the production sector and take pride in their profession, but are tired and frustrated by, on the one hand, being asked to travel farther distances and extend an already exhausting workday, while on the other hand, having work opportunities foreclosed by provincial jurisdictional issues. When work “on location” is secured, the pressure to work as a “local” removes the financial union benefits designed to compensate the worker for

personal expenses associated with being away from home. Policy-makers must consider emerging evidence that rather than fostering a broad range of localized creative economic sectors that have the film and television production industry as one of their anchors, current provincial tax credit structure may in fact operate to create labour market disincentives and effectively hollow out labour markets in the long term. In spite of overall (albeit fluctuating) increases in production levels, unions representing both creative and technical workers in Ontario and Nova Scotia report an overall decline in membership in recent years.

## LABOUR ACTIVISM AND RESISTANCE

There is an existing set of literature that examines the effects of regional competition on local film and television labour markets. However, current analyses tend to position labour as relatively disempowered, through arguments that regional competition functions to pit labour markets, union locals, and workers in direct competition with each other for work, fracturing union solidarity and encouraging voluntary wage reductions (Christopherson, 2005; Gasher, 2002; Nigel and Culkin, 2005). In his analysis of the film and television labour market in Vancouver, Coe (2000) demonstrated that competition from other regions can exert tremendous industry pressure for negotiations with producers’ associations to go quickly and smoothly so as to restore a sense of confidence in the localized labour market.

Although regional competition strategies do arguably have potentially disempowering effects on unions’ labour market power, these arguments fail to account for various forms of labour resistance that occur as a direct result of competition frameworks. While various locals and labour districts openly acknowledge they are in competition with each other for work, this has not necessarily fractured union solidarity in terms of national cohesion. In fact, labour leaders report it has in cases enhanced interdistrict communication between locals as national organizations and local memberships work collectively to resist the downward pressure on wages and benefits. Interviews also suggest that competition frameworks have in fact positively impacted labour relations within local markets in the process of developing competitive



strategies while protecting their members' interests.<sup>20</sup> Finally, current policy framework appears to have had a positive impact on the political capacity of the production industry on national and provincial scales, as new sectorally organized coalitions are emerging to articulate and defend their interests in cultural policy networks.<sup>21</sup>

## SHARPENING CANADA'S COMPETITIVE EDGE—ALTERNATIVES TO THE CURRENT LABOUR TAX CREDITS STRUCTURE

Labour tax credits are an integral financing component for the domestic sector, and a lynchpin of the competitive package that Canada has to offer in terms of attracting foreign service production. However, there is widespread acknowledgement within the industry that the current system of labour tax credit programs has limitations which, as the primary policy strategy, will not serve the interests of the Canadian film and television production industry over the long term. There are a variety of alternatives being proposed by the industry that include both minor tinkering as well as additional support mechanisms designed to enhance Canada's competitive edge and strengthen domestic production.

Minor tinkering to the existing programs includes reducing the "grind" between the provincial and federal calculations. The grind occurs when the federal tax credit is calculated after the provincial tax credits have been accounted for, which dramatically undermines the posted value of the savings. Other suggestions include extending the tax credits to include post-production costs in an attempt to secure more post-production work, particularly for foreign

service productions, in Canada. Proposals also include adopting the approach of expanding the scope of eligible expenses to include all costs of production under the framework of a goods and services, rather than labour, tax credit initiative. There is a suggestion from the Atlantic areas that a regional deeming program should be implemented to allow workers from within the Atlantic region to be counted as "residents" for tax credit purposes to facilitate labour mobility within the region. There is a unanimous call from labour in both Ontario and the Atlantic provinces to get rid of the regional bonuses that serve little economic purpose but have demonstrably negative impacts on the working lives of film and television professionals.

There are a host of other policy recommendations put forth by a variety of industry coalitions that target qualitatively different aspects of the film production process. Recommendations from the Canadian Coalition of Audio Visual Unions (CCAU) include the reinstatement of broadcaster expenditure requirements for Canadian dramatic programming to stimulate and sustain domestic production levels (CCAU, 2005; 2006). Other recommendations include investment in concept and script development; terms of trade agreements between broadcasters and producers that would see independent producers have greater access to the exploitation of rights across media platforms in the interests of increasing producer revenue that can be cycled back into further development and production; facilitated financing mechanisms for independent producers that would increase access to working capital for independent producers; marketing and branding initiatives including support for promotional material and activities in both domestic and international markets, and training and professional development support (CFTPA Prime Time Conference, 2008; Nordicity Group, 2004; PricewaterhouseCoopers, 2006). One of the more recent and interesting recommendations is, in keeping with trends coming out of Los Angeles, to strategically position Canada as the international leader in "green" film and television production practices (Leitch, 2008).

The unintended consequences of the application of the film and television production labour tax credits in Canada fundamentally undermine basic public policy objectives of stimulating and sustaining internationally competitive

20 In an attempt to address the health and safety issues associated with long workdays and commutes that the regional bonuses promote, some locals have created "nearby location" clauses in their collective agreements. Such clauses are designed as financial disincentives for producers to schedule filming outside of the designated studio "zone" without overnight accommodation, and include provisions for travel time to and from location to be subject to all premiums, penalties, turnaround and overtime payments, double the amount of time allowed for travel during rush-hour periods paid at the prevailing rate (i.e., in overtime or turnaround if necessary), and mandatory hotel accommodations when the work hour exceeds a 14-hour day.

21 Examples of national coalitions include Coalition of Canadian Audio-visual Unions (CCAU) and the Canadian Film and Television Industry Coalition (CFTIC). Provincial coalitions include FilmOntario and the Nova Scotia Motion Picture Industry Association (NSMPIA).

and regionally vibrant creative economies. By creating perverse labour market effects, the current tax credit regime is effectively eroding the highly specialized and creative talent pool that is the infrastructure for an industry that holds important economic, social, and cultural benefits. It is for this reason that much closer attention needs to be paid to not just the volume of work, but the quality of that work, in both policy and academic contexts.

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## RESEARCH PAPER 28

# Between a Rock and a Hard Place: Making Fiscal Film Policy in Britain<sup>1</sup>

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*Film plays an important role in British culture. The Government's core aim in providing tax relief is to promote the sustainable production of culturally British film (DCMS, 2006: 1).*

### INTRODUCTION

This article examines recent changes to the tax relief system for film production in the United Kingdom. In particular, it addresses the politics underlying and impacting on the implementation of film policy and the role of different actors pursuing competing interests in the policy process. Fiscal incentives for film production in the form of tax reliefs are a relatively recent feature of British film policy. This form of subsidy is given to particular industries when “market failure” means that “sustainability” without support is impossible. Once set up, therefore, tax incentives are a mechanism for delivering subsidies to an industry without the direct intervention of government officials. In the United Kingdom, the Conservatives were the first government to introduce this kind of support in 1992 when they brought in section 42 of

the *Finance (No. 2) Act*. New Labour introduced a second tax incentive, section 48 of the *Finance (No. 2) Act*, when they entered office in 1997. This dual-clause tax structure was in place until 2004, when it was reviewed and overhauled, in part due to alleged abuses of the system. The legislation detailing the new Film Tax Credit (FTC) to replace sections 42 and 48 was eventually contained in the *Finance Bill 2006* and *Finance Act 2006*.

In what follows, I first briefly sketch the history of government intervention into British film policy leading up to the recent tax relief incentives, noting the various forms of state aid provided to the industry. Second, I discuss New Labour film policy, specifically in relation to the review of fiscal incentives and the implementation of the new FTC in 2006. As the epigraph shows, the “sustainability” of the British film industry is a current policy goal. This policy is pursued within a field of competing interests. On the one hand, there is the longstanding need to provide a system sufficiently attractive for the major U.S. studios to make big budget films in the United Kingdom. At the same time, it is also necessary to meet the requirements of the European Commission for which “indigenous” production conducted within the rules of the European Union’s Single Market remains a policy priority. This account identifies crucial moments in recent film policy, highlights key actors involved in the policy-making process, and also considers the role of the different governing parties, ministries and stakeholders at various stages of policy change.

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<sup>1</sup> This research paper is based on a longer article by Maggie Magor and Philip Schlesinger “‘For this relief much thanks,’ Taxation, Film Policy and the UK Government” forthcoming in 2008 and was undertaken as part of an AHRC-funded project on “Creativity: policy and practice: A Study of the UK Government, the BBC and UK Film Council,” ID No.112152.

## A BRIEF HISTORY OF STATE INTERVENTION

John Hill (2004: 32) has argued that film policy in the United Kingdom has a pre-eminently “protectionist” cast as it is “concerned with the preservation and support of commercial [British] film making” in the face of Hollywood competition. Early types of state aid from the 1920s took the form of a quota system and cultural subsidies and were in reaction to the fear of U.S. economic and cultural domination of the British film industry. However, some Hollywood studios had early recognized the strategic importance of Britain in the global film market. Setting up U.K. subsidiaries, companies such as Paramount and MGM could employ British citizens and thus meet the demands of the quota system (Jäckel, 2003: 6). During the late 1940s, following the end of the Second World War, the British film industry fell into crisis through lack of film finance and high post-war production costs. Despite the quota system, fewer British films were being made for exhibitors to screen. Hollywood’s continued domination was a key concern across Europe. So much so that after the war more measures were put in place in many countries to protect indigenous industries from U.S. imports (Jäckel, 2003: 7). In the face of this exclusion, the strategic importance of Britain to the U.S. studios increased due in part to a shared language, but also because of the size and accessibility of its film market. Moreover, as a principal ally, Britain had influence in Europe, an important factor in pending general trade agreements on film (Dickinson and Street, 1985: 177).

In April 1949, the National Film Finance Corporation (NFFC) was set up to distribute loans for British film production. With the quota system now firmly established (despite the Motion Picture Export Association lobbying to abolish it) and the NFFC in place, the introduction of a trade subsidy in 1950 called the Eady Levy, requiring exhibitors to retain a proportion of the ticket price and give half of this sum to fund British film production, marked the end of a period of intense activity in U.K. film policy. During the 1950s, the domination of the U.S. film industry remained a global problem. The Hollywood majors, such as MGM, Columbia, and Fox, continued to make films in Britain through their subsidiaries, as not only was technical

talent cheaper, but they could take advantage of the state incentives meant to help indigenous producers (Baillieu and Goodchild, 2002: 70, 84; Jäckel, 2003: 7). Into the 1960s, the major U.S. studios continued to be the main investors in British film, and in 1967, 90 per cent of funding for “British films” came from the United States (Baillieu and Goodchild, 2002: 84; 89).

This structure of state support for film, comprising the Eady Levy, the NFFC and the quota system, remained in place for many years. However, a significant change in policy came in 1979 when the Conservatives entered office and Margaret Thatcher became prime minister. Over the course of its first five years in power, the new government set about removing economic support, thus transforming how cultural subsidies were distributed for film production. In July 1984, the White Paper on *Film Policy* suggested scrapping the Eady Levy and the NFFC to rid the film industry of “the paraphernalia of Government intervention” (Department of Trade, 1984: 12, cited in Hill, 1996: 102). These proposals were subsequently implemented in the 1985 *Film Act*. The NFFC’s assets were transferred to a private company, British Screen Finance Ltd, and a fiscal measure, which had made films eligible for 100 per cent capital allowances in the first year, was phased out (Hill, 1996: 103–104).

As John Hill has argued, the removal of economic support for film production “was not simply destructive” as the effectiveness of the existing system had become increasingly questionable (1996: 103). However, as economic subsidies for film were dismantled, no alternatives were proposed, and it would seem that economic measures did have an impact on output as following their complete withdrawal film production went into decline. In 1989, only 30 films were produced in Britain (Hill, 1996: 109). The U.S. studios, which during the 1970s had withdrawn from production in the United Kingdom due to recession at home, had returned during the 1980s to make their own films in Britain but not to invest in British films. In 1986, £270.1 million was invested in British film production but this fell to £135.7 million in 1988 and declined further to £49.6 million in 1989 (Hill, 1993: 209).



In June 1990, a seminar was held at Downing Street, chaired by Thatcher, to review the film industry and consider future issues, such as inward investment and the promotion of British films abroad. The position of the U.K. film industry in Europe was also considered given the launch of pan-European initiatives: Eurimages (the Council of Europe's fund to support co-productions) in 1988 and MEDIA I (the program to stimulate growth and competition among Europe's audiovisual industries) in December 1990. The government set up working groups to discuss the key matters, one being the use of fiscal incentives for production investment and subsequently in 1992, the Chancellor, Norman Lamont, introduced tax relief for the film industry covered by a clause in the *Finance (No. 2) Act*. Section 42 was also referred to as "large budget tax relief" and provided incentives for films with budgets in excess of £15 million. Funding opportunities for the arts expanded with the new National Lottery established by Act of Parliament in 1993, and regional arts councils were in charge of allocating the lottery money to film projects.

However, lack of private investment in the British film industry was an enduring problem, and in 1995 the Advisory Committee on Film Finance was set up to explore the main obstacles to industry growth. The committee reported in July 1996, pointing to structural problems in how the industry was organized, financial problems and an overall lack of communication between the industry and the City of London (Advisory Committee on Film Finance, 1996: 3). Meanwhile, the Arts Council of England (ACE) was exploring the feasibility of film franchises "expressly designed to create vertically-integrated companies" (BSAC/PACT, 2005: 9). ACE subsequently invited bids for £96 million of lottery money to be distributed to three film franchises over a six-year period. These were awarded to The Film Consortium, Pathé Pictures, and DNA Films, and the franchises were set up in May 1997, just after the election of the New Labour government.

## NEW LABOUR FILM POLICY

In May 1997, the very week that the film franchises were awarded, New Labour, led by Tony Blair, won the general election and the new government set about investigating the state of the British film industry. In 1998, the Treasury under the new Chancellor of the Exchequer, Gordon Brown, introduced section 48 of the *Finance (No. 2) Act*—a second fiscal incentive—which applied to film productions with budgets below £15 million intended to help indigenous independent filmmakers. Also in 1998, the Film Policy Review Group (FPRG) was set up by the Labour government to explore issues relating to British film and identify initiatives for future film policy. FPRG and its six sub-groups comprised some 50 members who were predominantly film company executives, reflecting the special status that global trade and distributor interests were given in the review. The group did appear to influence policy outcomes, such as the setting up of a Skills Investment Fund, the opening of the British Film Office in Los Angeles, and the establishment of the British Film Commission. It was also credited with setting up the Film Council, which eventually had its inception in 2000.

The establishment of the Film Council was regarded as a "major shift in Government policy for film" (Woodward, 2001: 1) and was described by its first Chair, Alan Parker, as "the most radical shake-up of U.K. public film funding since 1985" (Woodward, 2001: 2). The new body was launched on May 2, 2000, as a non-departmental public body, working at arm's length from government, with the status of a company limited by guarantee. It absorbed a number of public and semi-public bodies in the United Kingdom concerned with film, including the Lottery Film Department of the Arts Council, British Screen Finance, the British Film Commission, and the production and regional funding roles of the British Film Institute (*bfi*). The *bfi* retained its formal autonomy, but now received its funding from the Film Council, which also



appointed the chair of its Board. The Film Council's annual budget was composed of a combination of lottery funding (which it was designated to distribute) together with a grant-in-aid from DCMS. At launch, the annual budget came to some £55 million (UK Film Council, 2000: 7).

The Film Council was set up to act as a conduit between government and the British film industry. However, at first, the relationship between the Film Council and government was unclear to many of its key stakeholders, and the new body's strategic vision for film in Britain was subject to criticism. It was formed to fuse industrial and cultural objectives, and the launch document *Towards a Sustainable Film Industry* (2000) proposed that it work both with the United States and Europe in developing U.K. film policy. However, the first Film Council Board chiefly comprised business leaders and film industry players with a track record in Hollywood (James, 2001: 16). The British producer, Alan Parker, was appointed as the first chairperson. Such key appointments were seen as fundamental in signalling and influencing the early direction of the Film Council and placing industrial objectives—and an orientation toward Hollywood—to the fore. Some have argued that this approach failed to consider that the British film industry might compete successfully against the U.S. studios by building on its differences from Hollywood (Dickinson and Harvey, 2005a: 91). Instead, strategy appeared to be more about cooperating fully with the U.S. industry to attract inward investment.

The United Kingdom was not alone in its pursuit of U.S. inward investment—other competition had come particularly from Canada and Australia since the early 1990s. Dickinson and Harvey (2005b) have argued that the objective of obtaining tax credits for film has always been “to enable the British industry to compete, not against Hollywood, but against potential rivals for Hollywood investment” (2005b: 427). The global film industry had become highly mobile, with U.S. filmmakers seeking out a widening number of locations with competitive skills bases and production capacities. Moreover, the U.S. studios would increasingly cost several different territories before deciding where to

shoot a film, and consider a variety of factors, including local skills and services, exchange rates, language, culture, and the tax incentives on offer.

The Film Council therefore rapidly addressed the question of tax breaks. Its Board proposed that the current 100 per cent relief should be extended and that “a comprehensive examination of the current and new incentives should take place, which would help achieve the Government's objective of a sustainable British film industry” (Film Council Board Minutes, July 25, 2000: 4). The Film Council liaised with tax officials and British producers. A meeting was also held with Jack Valenti, president of the Motion Picture Association of America (MPAA) in advance of his own meeting with the Chancellor of the Exchequer (Film Council Board Minutes, February 27, 2001: 3). Reflecting the easy access to Number 11 Downing Street that the MPAA evidently enjoyed, Valenti had told the Film Council that the Chancellor would be renewing section 48 in the forthcoming budget. It was subsequently announced in the March 2001 Budget that the Treasury would extend tax relief on films until 2005—an extension welcomed by the industry.

Fiscal policy came further into focus in 2002. First, in the March 2001 Budget, when the Chancellor closed a loophole in section 48 to restrict relief to films for theatrical release, thus preventing television programs from qualifying. And next in November 2002, when the House of Commons Culture, Media and Sport (CMS) Select Committee invited responses to the common provocative question, “Is there a British film industry?” The report, published on September 18, 2003, noted that witnesses from the United Kingdom and the United States were almost unanimous in their support for tax incentives. However, the “historical cycle of change in the tax regime” was said to be “a huge disadvantage” in encouraging long-term investment and planning (House of Commons, 2003: 31). Producers' groups, BSAC, and the Producers' Alliance for Cinema and Television (PACT) had both argued that structural changes becoming apparent in the industry were largely due to fiscal incentives, and to maintain these predictability was required, as opposed to the current “‘boom and bust’ seven year cycle” (House of Commons, 2003: 32).

The Hollywood studio heads meanwhile, in responding to the report, had referred to growing competitiveness between filmmaking destinations, such as Canada, Ireland, Australia, New Zealand, and the Czech Republic, noting that the U.K.'s current fiscal structure had "created a level playing field," thereby bringing other criteria "such as facilities and talent" to the fore in deciding where a film is made (House of Commons, 2003: 32, 33). Nevertheless, it was widely believed that section 48 needed to be revised. The Film Council had outlined its ideas for a "son of 48" that would tie in with distribution, as well as production. The CMS Committee called for clarity over fiscal policy and support from all the government departments with an interest in film to "end the current uncertainty plaguing the industry" (House of Commons, 2003: 34, 58).

## FROM CONSENSUS TO CRISIS

As opposed to ending uncertainty, the industry was to enter even greater turmoil, as on February 10, 2004, the Inland Revenue announced that it was closing a loophole with immediate effect to prevent tax avoidance schemes whereby tax partnerships were formed purely to claim "sideways loss relief." Tax avoidance schemes such as this (also known as GAAP [Generally Accepted Accounting Principles] schemes) had become increasingly commonplace since the introduction of section 48 in 1997 and were used by producers to raise capital for film production. Such schemes created specifically for film investors might guarantee that even if a film made a loss, the investor would still receive a tax break under the GAAP scheme. The Treasury's sudden decision to close this loophole was described in *Sight and Sound* as an "almighty jolt" because it came with no prior warning to the industry. It surprised producers, film financiers, the UK Film Council (UKFC), and even the DCMS's Films Minister, Estelle Morris (Macnab, May 2004: 36). The production of some 40 films financed by the GAAP tax partnerships was immediately put into question, and high-profile productions put on hold included *The Libertine*, *Tulip Fever*, and *The Constant Gardener*. The UKFC lobbied furiously to protect the affected productions; some thought this was "with little noticeable effect" (Macnab, May 2004: 38).

The Board compiled an unsuccessful case for emergency funding for 17 productions while acknowledging that the UKFC "would certainly be blamed for not obtaining full transitional relief for all the films" (UKFC Board Minutes, February 24, 2004: 3).

Production plans were evidently still in limbo when the Chancellor, Gordon Brown, made his budget statement on March 17, 2004. Confirming the closure of the tax partnership loophole, he also proposed a review of the section 48 tax scheme with the aim of introducing a new tax relief measure that would transfer "the available reliefs for British made films with budgets below £15 million from the third parties... *to pay reliefs directly to the film-makers themselves*" (HM Treasury, 2004; emphasis added). Section 48 had been due to expire in July 2005, so this announcement came as little surprise. The clause had been subject to routine "abuse" as financiers, lawyers, and accountants had found loophole after loophole to exploit. Secondary legislation had been passed since 2000 to close loopholes, and for this reason section 48 was losing political credibility. The new provisions would not take effect until after section 48 had expired in July 2005. The announcement—10 months in advance—was intended to enable filmmakers to "plan the finances of films in development with confidence about what the tax arrangements will be when those films are completed" (HM Treasury, 2004). The need quickly to return confidence and certainty to a British film industry thrown into further turmoil was now fundamental.

Despite film policy being an issue for the Department for Culture, Media and Sport (DCMS), it was clear that the Treasury was in control of steering the fiscal aspects of film policy. Additionally, some saw the Film Council's lobbying credentials as damaged due to the unpredictable nature of the policy announcements by the Treasury (Adler, 2004: 2). BSAC released a gloomy press notice predicting "a dramatic collapse in film production over the next few months" due to the latest set of announcements as U.S. filmmakers would be unlikely to invest in the United Kingdom without a clear fiscal film structure (BSAC, 2004). This proved to be the case, as the value of U.K. spending from inward investment dropped from £729.54 million

in 2003 to £548.49 million in 2004 with a further fall to £308.66 million in 2005 (UK Film Council, 2007: 143).<sup>2</sup>

In January 2005, Minister of State for the Arts Estelle Morris reconvened the Tax Strategy Working Group (TSWG), which included members from the UKFC, BSAC, PACT, DCMS, and the Inland Revenue. A smaller group called the Industry Working Group on Fiscal Policy for Film (also known as the Hoon Committee) was subsequently formed to speed up the review process. The Hoon Committee's 13 members came from the U.K. film industry as well as legal experts and London media consultancies, although the group's influence on policy was questionable. As this "official review" was taking place, the Treasury was carrying out its own consultation, as well as liaising with other stakeholders behind closed doors. Meetings were organized for independent film producers to meet personally with the film taxation team and give their views on policy proposals. Additionally, all the U.S. studios met Treasury personnel, as their endorsement of the new fiscal structure was vital. It is also open to question whether DCMS and UKFC were centrally involved in these discussions. CEO John Woodward has said that he was in direct talks with ministers at this time, although he also hinted that the final decisions took place elsewhere (BSAC, 2005). However, Woodward did accompany a Treasury official to Los Angeles in April 2005, where they met representatives of the U.S. studios to discuss the uncertainty surrounding U.K. tax reliefs. The studios confirmed that while it was currently not economically viable to make films in the United Kingdom, they said they would return if the value of tax relief increased. In the meantime, they criticized the ongoing Treasury consultation as "one-sided and not well handled" (UKFC Board Minutes, April 26, 2005: 2).

## THE EUROPEAN UNION AND THE CULTURAL TEST

In 2005, DCMS announced its intention to introduce a new "cultural test": this would determine whether a film was "British" and therefore whether or not it was eligible for tax incentives. In this way, a "cultural" criterion was brought together with more self-evidently economic ones. The cultural test was to replace the previous, longstanding criteria for defining films as "British," focused on the level of U.K. spending and the number of British film practitioners working on a production.

So far, the role of the European Union has figured little in this account. However, the European Union had become increasingly important in shaping British film policy toward the end of the 20th century. In 1992, the Maastricht Treaty was signed and the promotion of European culture was a central principle of this agreement. As noted above, in the early 1990s, the United Kingdom began to participate in pan-European initiatives, such as the MEDIA Programme (focused on industry and competition) and Eurimages (which emphasized culture). It was during the 1994 GATT negotiations that the European Community Member States confronted the U.S.'s dominance in the audiovisual sector, and acted as a counterweight to the strength of the MPAA lobbyists. The European Community, largely led by the French, argued that audiovisual "goods" should be treated as a "cultural exception." The U.S. government and MPAA argued that this was protectionism. The matter was never resolved under GATT (Schlesinger, 1997).

In 1998, the Commission reviewed "state aid" policies in the European cinema sector. It noted the many different forms of support across Europe, arguing for clarity in the legal framework, particularly in light of new digital technologies (European Commission, 1999: 2). The review found that many state aid initiatives had not been notified to the Commission, despite such notification being required by treaty. In September

2 U.K. spending from inward investment increased in 2006 to £569.60 million, a rise attributed directly to returned confidence in the United Kingdom as a filmmaking destination due to the new film tax credit (UK Film Council, 2007: 140).

2001, the Commission adopted a Communication on the future of the film and the audiovisual industry in Europe, which included an outline of the criteria for state aid schemes. These are supposed to strike a balance between “cultural diversity and economic competitiveness.” While the criteria included practitioners and expenditure, the Communication first and foremost stipulated that Member States must also “ensure the cultural content of the works supported” (European Commission, 2001). To ensure that the U.K.’s Film Tax Credit was eligible for state aid, its beneficiaries had to produce “cultural products.” However, when DCMS announced the details for the new cultural test in July 2005, the Creative Industries Minister, James Purnell, stated that the new test would allow producers a number of routes to classification and it was not the government’s intention “to dictate the content or subject matter of British films” (DCMS, 2005a).

The final framework for the cultural test was published in November 2005 after consultation with the industry (DCMS, 2005b). The test comprised a points system for films. To be certified as “British” and thus be eligible for tax credits, films needed to accumulate 16 points out of a possible 32. “Cultural content” could be awarded up to 4 points), “cultural hub” relating to the location of production and post-production facilities and activities could bring up to 15 points, and finally, the nationality of key “cultural practitioners” could bring in up to a further 13 points. The fact that the largest single number of points was allocated for being a “cultural hub” drew on broader New Labour creative industries policy, which emphasized maintaining the U.K.’s skills base. To this end, film policy now prioritized U.S. inward investment that could benefit from a state aid structure comparable to other film locations around the world. This was justified as “a positive attempt to develop a sustainable film industry through the development of an indigenous film industry in a highly transnational market” (Redfern, 2007: 159). However, clear tensions were evident, illustrating the U.K.’s unique market position. On the one hand, it sought to attract the Hollywood majors, influenced by their lobbying when formulating the new Film

Tax Credit (FTC). On the other hand, the United Kingdom as part of the EU had to adhere to the Commission’s rules regarding state aid for film. These rules were at odds with the government’s focus on the United Kingdom as a “hub” aiming to attract inward investment. It was the UKFC’s task to address these contradictory imperatives, although as stated from the outset, industrial objectives and relations with the United States were at the forefront of the film agency’s strategic vision. Meanwhile, relations with the EU were secondary, as was engagement with the Commission’s cultural agenda.

Following industry consultation, the cultural test was passed by Parliament in April 2006. The legislation detailing the new FTC was announced in the March 2006 Budget and contained in the *Finance Bill 2006*, although the government still needed final approval from DG Competition at the European Commission. It was at this final stage, however, that the cultural test was rejected because it failed to comply with the Commission’s cultural agenda. This could have resulted in a delay in rolling out the FTC and concerned an industry already subject to months of uncertainty. The government, therefore, had to negotiate quickly with the Commission to amend the test. The final test differed greatly from the first version and according to sources for this research, many in the industry thought that the government had conceded too much. It still comprised three key sections, and 16 points were still the required pass mark. However, the apportionment of points to each section had changed considerably. The number of points for “cultural content” rose from 4 to 16, whereas “cultural hub” was reduced from 15 to 3. Films could now score no more than up to 8 points for British “cultural practitioners” (down from 13). Meanwhile, a fourth section was added for “cultural contribution,” whereby producers could score up to 4 points by demonstrating the role of their film in the “promotion, development and enhancement of British culture” (DCMS, 2007: 22). The test was also subject to a “Golden Point Rule”: this prevented films with no British content except the English language from being made in the United Kingdom. This aimed at

stopping U.S. studios from making U.S. films in the United Kingdom and thereby becoming beneficiaries of the FTC.<sup>3</sup>

## CONCLUSION

This paper has demonstrated the historical continuity of taking economic measures to foster the workings of the British film industry. The most recent form of economic intervention is the FTC. In the eyes of HM Treasury, the FTC is first intended to encourage the production of films that might otherwise not be made. Second, it is meant to promote the “sustainability” of British film production. And third, fiscal policy is supposed to maintain a “critical mass” in the U.K.’s infrastructure for creative and technical skills (Stark, 2006). Much of this thinking looks as though it derives from the current doctrine of “creativity” in the creative economy (DCMS, 2008; Schlesinger, 2007; Work Foundation, 2007), which emphasizes the development of the talent base to engage in global competition. However, aspects of this model have been part of the logic of intervention in film policy—powered by the need both to compete with Hollywood and also to attract U.S. investment—and long preceded present-day creative industries policy (which is mostly a DCMS initiative). U.K. film policy has always borne the distinctive stamp of the Treasury’s thinking, where the perceived special status of film has resulted in distinctive fiscal measures not so far afforded any other of the creative industries. Film is somehow seen as a special asset to the national economy, and to a lesser extent, as crucial to national identity. Aside from illustrating the plays made by DCMS and the Treasury over the ownership of policy, we have also illustrated something of the complex dynamics of lobbying that has long surrounded film policy and which became particularly prominent under New Labour. Expertise—especially that mobilized through the use of film industry figures—has shaped the debate and secured policy outcomes. So too have the contra-

dictory pulls across the Atlantic of the United States and the European Union. British film policy has now reached its most recent fiscal accommodation. Just how long this will last—as the new loopholes in the FTC are discovered and exploited—is quite another question.

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3 The “Golden Point Rule” is applied when a film scores the maximum points for “cultural hub” and “cultural practitioners” and is also filmed in the “English language.” If the score is low for the Britishness of its setting and characters, it must instead score points for British subject matter (DCMS, 2007: 18).



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# “Runaway” Film and Television Production in Canada: The Good, the Bad and the Ugly of Foreign Location Production

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## INTRODUCTION

The term “runaway” refers to a film or television production that originates in Hollywood but is produced elsewhere for creative or economic reasons. Canada has always attracted occasional creative runaways. A burst of economic runaway production occurred in the 1920s and 1930s when Hollywood studios shot “quota quickies” in Canada to gain access to the Commonwealth market. Canada is credited with having accelerated international and inter-regional audiovisual production outsourcing from Hollywood through the introduction of a labour tax incentive, the federal Production Services Tax Credit (PSTC), in 1997 (CEIDR, 2006). By the beginning of the present decade, Hollywood was outsourcing significant volumes of film and television production to geographically dispersed service providers, especially Canada.

Most discussion of international outsourcing of audiovisual production has focused on the effects in originating and host countries in terms of economic or employment gains or losses. Here, we focus instead on the longer-term structural implications and learning effects of audiovisual production outsourcing in the host country, Canada. Historically, outsourcing and offshoring have been major drivers of industrial learning that have allowed some countries to catch up to international practices, first in manufacturing and currently in software and services.

Production outsourcing and offshoring in a creative industry, film and television, can provide similar opportunities to a host country or region. Many jurisdictions are competing for outsourced audiovisual production business with expectations of immediate localized economic and employment benefits. However, some hope for deeper effects on audiovisual capability. Canada is not the only contender for audiovisual production business that aspires to have an economically viable and culturally specific film and television industry. In this context, outsourcing and offshoring need to be understood not just in terms of their immediate economic payoffs but also for their actual or potential contribution to the development of an indigenous audiovisual industry.

In this paper, we briefly describe the contours of foreign location production in Canada, and we review publicly available knowledge about the relationships between foreign location production and the development of domestic film and television capability in Canada. We have borrowed the title of the masterpiece of “spaghetti westerns” as a trope for our inquiry about the effects of production outsourcing on Canadian domestic industry. The film “The Good, the Bad and the Ugly” illustrates a mutually beneficial form of outsourcing/offshoring to almost unknown production companies by an innovative Hollywood major, United Artists, which provided half the financing as well as the distribution capabilities for the venture. The film won eventual critical acclaim as

well as long-term commercial success, and serves as a metaphor for possible innovation pathways that link indigenous Canadian film and television capabilities with international film and television financiers, distributors, and audiences. We also use the title “The Good, the Bad and the Ugly” as an ironic reference to the frequently recurring debates in Canada about the identity and quality of our own audiovisual productions.

## PRODUCTION OUTSOURCING AND THE GLOBALIZATION OF HOLLYWOOD

Production tax incentives have triggered a bitter debate between Canadians and representatives of Hollywood labour and southern California economic development interests. It is argued that tax incentives violate international trade agreements and that production outsourcing undermines the competitiveness of a quintessentially American industry. However, efforts to restrain proliferating intra-U.S. place-based competition for audiovisual production have been unsuccessful (Christopherson, 2008a). Nor have efforts to curtail foreign governments’ film production incentives through threats of international trade sanctions been fruitful (Wright, 2006).

Instead, foreign location production has become an important structural feature of a globalizing and transnationalizing Hollywood-based media industry. The Hollywood media conglomerates clearly appreciate (and profit from) fierce competition for their outsourced film and television production business. For these incumbents, production outsourcing provides a way to reduce production costs, increase production flexibility, enter new markets and maintain market sensitivity, source cultural and other innovations as needed, and shift risks onto less powerful players, without loss of control over the key creative, financial, distribution, and marketing decisions. Rather than undermining Hollywood’s predominance, outsourcing and other forms of transnational audiovisual production have stimulated the emergence of an altered international geography of the film and television industry, a “new international division of cultural labour” (Miller et al., 2005). Hollywood studios have developed a business model that relies heavily on blockbusters with

ancillary revenue streams and merchandising (Shatz, 2008). The studios locate a range of production activities outside of Hollywood, not just the simplest or lowest cost activities, effectively moving from outsourcing to offshoring production activities (Christopherson, 2006; 2008b). This provides entry and growth opportunities for other production centres. Although outsourcing typically begins with the least skill-intensive and most highly routinized activities, the mix of outsourced and offshored activities now extends to lower-budget films, cable fare, and movies of the week. Even blockbusters are produced outside of Hollywood. To an international network of urban nodes of media industries are being added a number of “satellite” or secondary audiovisual production centres in cities around the world, propelled by capture of outsourced production business and, in some cases, development of indigenous production capabilities to service niche or specialized markets (Krätke, 2003; Krätke and Taylor, 2004; Lukinbeal, 2004; Scott, 2004). The contemporary international relations of the motion picture and television industry go well beyond export shares and talent migration to encompass various forms of hybridization between domestic and international interests. These hybridization pathways encompass financial and production outsourcing, co-productions and co-ventures, format franchising, policy isomorphism, strategic alliances, and product development practices that consist of modifying the aesthetic conventions and narratives of media products from one cultural framework to suit another cultural framework (Lorenzen, 2007; Magder and Burston, 2001; Goldsmith and O’Regan, 2008; Miller et al., 2005; Scott, 2002).

## PRODUCTION OUTSOURCING INCENTIVES IN THE CANADIAN FILM AND TELEVISION FINANCING SYSTEM

Canadian audiovisual policies have cultural and economic development objectives that are reflected in the complex institutional arrangement of regulations, tax incentives, subsidies, licensing requirements, quotas, restrictions on foreign ownership, and services that Canadian governments have put in place to promote the

film and television industry.<sup>1</sup> Murray (2002) estimated that approximately half the production cost of every Canadian television program is provided by public subsidies. Three distinct policy objectives may be inferred: (1) strengthening cultural sovereignty through substitution of imported programming by distinctively Canadian content; (2) encouraging the emergence of a Canadian-controlled infant audiovisual production industry in the domestic market while providing incentives for growth in international markets, and (3) developing domestic audiovisual production service capability of international quality for purposes of income generation, investment in infrastructure, and opportunities for industrial learning. Each objective is supported by a funding regime with specific fiscal and regulatory measures:

- ♦ **Film and television production in support of cultural sovereignty (import substitution).** Productions that are certified Canadian by the Canadian Audiovisual Certification Office (CAVCO) and have a recognizable Canadian theme or focus may be eligible for funding by the Canadian Television Fund or the Canadian Feature Film Fund. The purpose of stimulating such productions is to create recognizably Canadian audiovisual content that can regain domestic market share from imported content.
- ♦ **Film and television as an infant industry.** Some productions are certified Canadian under CAVCO for the Canadian Film or Video Production Tax Credit (CPTC), but are not fundable by the Canadian Television Fund or the Canadian Feature Film Fund. Productions that qualify for six or more CAVCO points are controlled by Canadians and use Canadian creative talent, but they need not address a Canadian theme or issue. This production regime encourages domestic development of potentially exportable programming by providing content production inducements without the requirement of distinctively Canadian content. Canadian firms may seek international co-production partners and production contracts from broadcasters in larger markets, especially the United States. To be eligible for the tax credit, control of the intellectual property must remain with the Canadian firm. Although exportable

audiovisual programming produced under this funding regime may have Canadian cultural features or sensibilities, the content is “international” in the sense that it does not aim solely at Canadian markets.

- ♦ **Development of audiovisual production capability of international quality.** CAVCO’s Film or Video Production Services Tax Credit (PSTC) program covers eligible labour costs of productions regardless of the national origin of the production firm. The PSTC is a tax credit equal to 16 per cent of salary and wages paid to Canadian residents or taxable Canadian corporations or foreign-owned corporations with permanent establishments in Canada for services provided to productions in Canada. There is no cap on the amount that can be claimed. All Canadian provincial governments offer similar tax incentives. The program attracts foreign location productions to Canada, providing revenues for services provided by Canadians from the end-of-script stage through post-production. These services typically include below-the-line production crews, which represent about half the cost of production, but not usually above-the-line creative talent.

Under these three funding regimes, Canadian production firms may play three roles: they may act as suppliers of distinctively Canadian audiovisual content; they may act as Canadian suppliers of audiovisual content to clients in Canada or internationally; and they may act as Canadian suppliers of production services to foreign firms. Incentives encourage foreign firms to play two roles: to act as contractors for Canadian production services and to engage in co-ventures or co-productions with Canadian firms.

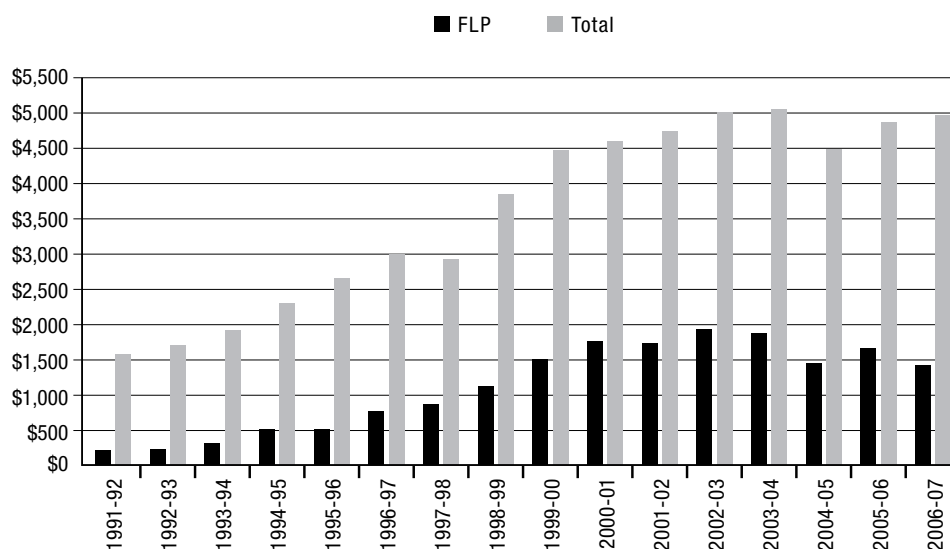
## CHARACTERISTICS OF THE CANADIAN PRODUCTION SERVICES SECTOR

The principal information in the public domain about the PSTC is provided in CAVCO activity reports, Department of Finance tax expenditure reports, and CAVCO data that are reported in the Canadian Film and Television Production Association’s (CFTPA) annual industry profiles. No evaluations of the impact or effectiveness of Canadian audiovisual tax-incentive programs are known (Murray, 2002). Despite the importance of foreign location production in the Canadian audiovisual system, it is infrequently

<sup>1</sup> For a useful overview of Canadian audiovisual policy instruments, see Acheson and Maule (2003). On film and television production financing, see Murray (2002) and PricewaterhouseCoopers (2002).

**Chart 1**

Foreign location production in Canada compared to total volume of film and television production in Canada, 1991–92 to 2006–07, in millions of Canadian dollars.



Source: CFTPA annual reports, 1999 and 2008.

mentioned, let alone discussed, in domestic film and television policy documents. It has received attention by Canadian media researchers mainly in studies of the British Columbia film industry, and little notice has been paid to involvement of Ontario or Quebec in foreign location production.

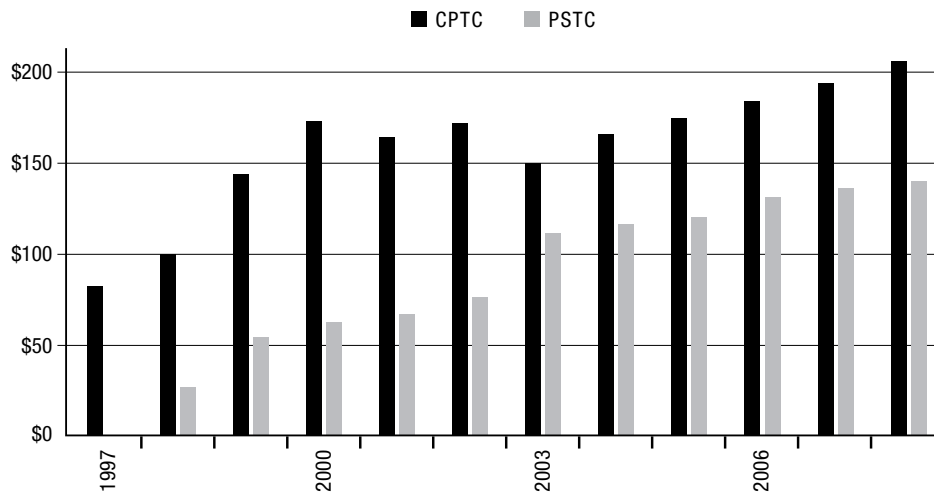
In the mid-1990s, foreign location production began to provide a significant source of income to the Canadian film and television production services industry (see Chart 1). In 2002–03, foreign location production amounted to nearly \$2 billion in production volume, peaking at more than 38 per cent of the total production volume of the Canadian film and television production industry. By 2006–07, owing to the rise in value of the Canadian dollar and increased competition for offshore production business from other locations, foreign location production in Canada declined to approximately 28 per cent of total volume, or \$1.4 billion. Foreign location production remains a significant source of employment for Canadians. CFTPA (2008) estimated that foreign location production provided 14,000 direct jobs and 23,100 indirect jobs in 2006–07.

The cost of federal film and television tax incentives (in foregone revenue called tax expenditures) is estimated by the Department of Finance. As Chart 2 indicates, the cost of CPTC and PSTC tax incentives currently exceeds \$300 million annually. If we assume that federal PSTCs are more or less matched by various provincial tax credits, then the tax expenditure cost of attracting Hollywood productions to Canada in 2005 was approximately \$250 million for approximately \$1.5 billion in production spending.

Chart 2 also shows that production service tax credits, while smaller in volume than CPTCs, are tending to increase in importance in relation to the CPTC. At the time of its implementation in 1998, the PSTC represented about 20 per cent of federal audiovisual tax expenditures. It has since grown to about 40 per cent of federal audiovisual tax expenditures. This doubling is evidence of the increasing saliency of foreign location production in the domestic audiovisual production system. It increases the likelihood of the movement of Canadian production personnel among productions, responding to the logics of the three funding regimes mentioned earlier: productions that aim to tell recognizably Canadian stories, productions by Canadians

**Chart 2**

Estimated and projected CPTC and PSTC tax expenditures, 1997–2008, in millions of Canadian dollars.



Source: Department of Finance, tax expenditures and evaluations 2002, 2004, and 2006.

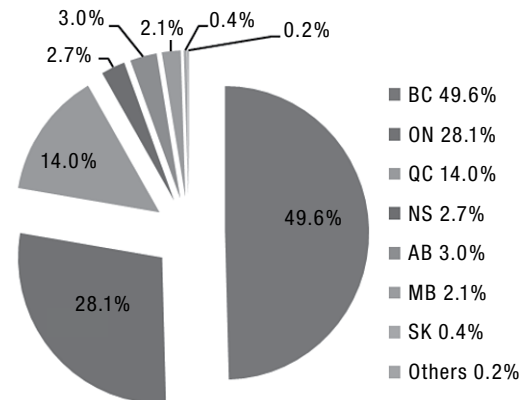
that may or may not seek to communicate Canadian sensibilities, and productions performed under contract for foreign customers.

Production services outsourcing and offshoring activity in Canada is highly concentrated in the three largest Canadian audiovisual production centres—Vancouver, Toronto, and Montréal. Between 1996 and 2007, these three centres hosted more than 90 per cent of the \$16.1 billion in foreign location production spending in Canada (see Chart 3). Of the three cities, Vancouver attracts the largest share of the foreign location production business—nearly half, most of it television. Toronto hosts most feature filmmaking in Canada, both U.S. and Canadian. Montréal attracts international productions in French as well as in English.

The volume of foreign location productions in Vancouver is attributable to entrepreneurship abetted by geography. In the mid-1970s, shrinking production opportunities available through federal film and broadcasting agencies prompted the B.C. government and representatives of the B.C. film/television production community to seek production contract opportunities in Hollywood (Gasher, 2002; Tinic, 2005). The value proposition of locating

**Chart 3**

Distribution of foreign location production by province, 1996–97 to 2006–07. Total amount: \$16.1 billion.



Source: Compiled from CFTPA, 2008.

production in British Columbia was enhanced in Hollywood's eyes by Vancouver's easy air access from Los Angeles, its location in the same time zone as Hollywood, its ability to provide a wide variety of urban and rural shooting locations, and its cost-competitive production community.

## FOREIGN LOCATION PRODUCTION'S IMPACTS ON THE HOST COUNTRY

How does Canadian engagement in foreign location production serve to develop indigenous audiovisual capability? In this section, we review the debate and weigh available evidence about the effects of production outsourcing on the capabilities and competitiveness of the Canadian audiovisual sector.

### RACE TO THE BOTTOM?

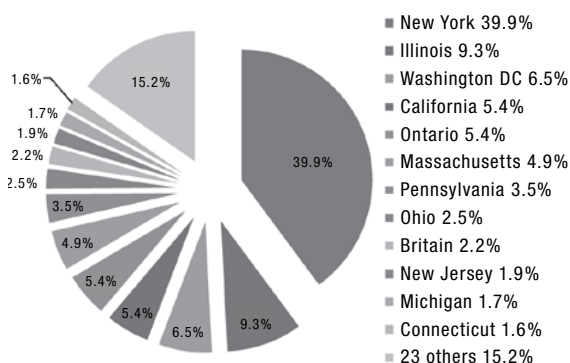
Foreign location production is considered to be a very footloose activity. Competition among jurisdictions for production business on the basis of increasingly generous tax incentives is widely considered to be a race that can be won only by the location that gives away the most. With the rise in the Canadian dollar, the cost advantage previously enjoyed by Canadian production service providers has had to be compensated by increases in tax incentives. However, the competitiveness of Canadian locations for production contracts, while very sensitive to costs, is defined by more than costs. Other factors include the skill set of the production crews, the quality and cost of the local production infrastructure, the relative degree of risk involved, and the quality of prior working relationships (Neil Craig Associates, 2004). Driesch (2002) examined four possible drivers of the migration of production work from Hollywood to British Columbia between 1977 and 2000: the exchange rate, rebates (i.e., tax incentives), escalation of actors' salary demands, and demarcation (make-work) rules in Hollywood workers' production contracts. She found demarcation rules the principal driving force of runaway production, with actors' salaries a secondary factor. Scott and Pope (2007) noted that the landscape of production outsourcing is becoming more variegated, with increasing competition from low-cost production centres as well as centres able to offer state-of-the-art studio complexes. They discount "sentimental attachment" as a significant factor in Hollywood studios' choices of production locales.

### MEXICANS WITH PARKAS?

Brillon (2006) cited the American pejorative conflation of Canadian crews as "Mexicans with parkas" and Australians as "Mexicans with mobiles." Inputs are

**Chart 4**

Locations played by Toronto in 689 film and television productions, 1999–2006.



Source: Compiled from information in Toronto Film and Television Office, List of Productions Shot in Toronto.

assembled under contract by below-the-line production crews. However, development of competitive capability in audiovisual industries requires not only production skills but also business, financial, and organizational skills, as well as complex product development skills that call on cultural sensibilities and knowledge of cultural conventions. Canadian independent production firms are not of one mind regarding the strategic value of engaging in services production. Some Canadian producers consider that engagement in services production provides few opportunities to learn the business, no access to ancillary income through control over intellectual property, and no credibility on the creative side in Hollywood (Davis, Vlatica and Berkowitz, 2008). On the other hand, there are numerous accounts of Canadian independent production firms that have engaged in services production to earn income and capitalize their firm while developing their own programs (Gasher, 1995, 2002; McCullough, 2000). Coe and Johns (2004) presented evidence suggesting that Vancouver's engagement with foreign studios extends into the pre- and post-production phases.

### NO DIFFERENTIATION?

Vang and Chaminade (2007) examined Toronto's film cluster and concluded that the strategy of attracting foreign location production has failed to produce a competitive domestic film industry, as evidenced by the very low



box-office share of indigenous English-language films in Canada. They suggested that the solution is to develop strategic differentiation in film production and post-production. However, the PSTC is not designed to support Canadian productions for the domestic market, nor is it the principal support mechanism for audiovisual production in Canada. Also, we need to consider market share in television as well as film. Toronto can justifiably claim to be a genuine full-service audiovisual cluster, not a thin production complex that relies primarily on low-level production outsourcing. Perhaps the reasons for secondary status need to be sought elsewhere. Scott and Pope (2007) suggested that the relatively small size of the national audiovisual production industry is a factor that disadvantages Canada when they recommended that Vancouver, Toronto, and Montréal collaborate “in the interests of a globally competitive pan-Canadian cinema” (p. 1379). They also recommended that Vancouver shift its emphasis to domestic production, “though whether Vancouver has the threshold of assets necessary to succeed in this prospective task of upgrading remains an open question” (p. 1379). To this question, the answer now seems to be yes. Vancouver, which in 2000 was known as a production centre without a major studio or production house, by 2006 had the two largest production houses in Canada: Brightlight Pictures and Insight Film Studios.

### **INTEGRATION WITH HOLLYWOOD?**

To what extent does integration of Canadian production into the Hollywood circuit create opportunities, or instead paint Canadian audiovisual production into a corner? Canadian scholars who have carefully studied the Vancouver production industry disagree about the extent to which foreign location production displaces or marginalizes indigenous audiovisual production (Gasher, 2002; Tinic, 2005). One well-known disadvantage is the “body-double” phenomenon (Elmer, 2002). Foreign location production practically guarantees locational anonymity, thereby preventing the production location from communicating a place-specific look and feel considered to be a hallmark of cultural industries in pre-eminent cultural cities such as Los Angeles and Paris (Scott, 2007). This is a serious problem in Canada. In the more than 600 film and television movie productions that took place in Toronto region between 1999 and 2006, Toronto played itself in only about 5 per cent

of them (see Chart 4). In the other 95 per cent of productions, Toronto impersonated locations in 34 other jurisdictions, usually New York City, Chicago, or Washington, D.C.

### **NO SOLUTION TO FUNDAMENTAL STRUCTURAL PROBLEMS?**

While foreign location production does generate revenues and undoubtedly provides learning opportunities to the domestic audiovisual industry, it is not a solution to the more fundamental structural problems that confront the Canadian audiovisual industry regarding funding, distribution, marketing, exhibition, audience development, and undermining by policies that seek to disperse production activity away from the three principal Canadian production centres (Ferguson, 2005).

## **CONCLUSION: GOOD, BAD, AND UGLY**

For many years, foreign location production has been the only role in which Canada has been able to develop competitive advantage, having failed to gain significant market share for its audiovisual products at home, in the United States, or abroad. Few and far between are the Canadian movies that recoup their production costs, never mind turn a profit. Far more profitable and with a higher market share is the television sector. Foreign location production has brought immediate economic benefits to the Canadian audiovisual industry, and economic multiplier effects to the city-region. Much more at issue is if or how production outsourcing on Hollywood’s behalf affects the process of industrial development in the host country. Production outsourcing is “a contradictory process that at times limits the labour and resources invested in indigenous production but also provides the requisite capital and experience otherwise unavailable for domestic productions” (Tinic, 2004: 52). Are there viable pathways in the present international division of labour from runaways to domestic productions to competitive audiovisual export capabilities? If so, how do they work?

One possible pathway toward higher value-added roles in the global audiovisual industry is illustrated by the three European companies that produced the unexpected commercial and artistic success of an obscure trilogy



of movies that ended with “The Good, the Bad and the Ugly.” With a transnational perspective and an eye for “the promiscuous nature of capital” (Miller et al., 2005: 41), Sergio Leone, the driving force behind the film, put together funding from Italy, Germany, South America, and the United States to make an Italian–Spanish co-production in Italian and English, shot in Spain. In the process, the trilogy converted a classic Hollywood genre into a new sub-genre, the spaghetti western, and “The Good, the Bad and the Ugly” in particular became a cult classic. The process neither fundamentally altered the international division of cultural labour nor mitigated the requirements for public support and protection of audiovisual industries in Europe. It did, however, demonstrate that hybridization of global audiovisual content need not be a one-way street and was not, even 40 years ago.

Now, in 2008, the movie “Juno” is hailed as an international “sleeper” hit. While the Vancouver-shot movie is technically a runaway, it is directed by a Los Angeles-based Canadian (Jason Reitman), written by an American (Diablo Cody), and stars two Canadians (Ellen Page and Michael Cera) and four Americans (Jennifer Garner, Jason Bateman, J.K. Simmons, and Allison Janney). Director Reitman calls it a Canadian movie and yet it is neither certified Canadian nor is eligible for the Canadian Genie Awards. Fuelled by international funds, it is a U.S./Canada/Hungary co-production/co-venture. Made for approximately \$7.5 million, it has so far brought in \$161 million at the box office in three months, \$131million of that in the United States. It might be the best Canadian movie that Canada never made.

As noted by Magder and Burston, “building new alliances with foreign partners” is something Hollywood is learning to do and that Canada has always had to do. They recommended dispensing with the term “runaway” altogether, since it “clarifies little” (pp. 220–222). Even the term “Hollywood” is more complex than ever. *Global Hollywood* quotes John Ford as having said in 1964, “Hollywood is a place you can’t geographically define. We don’t really know where it is” (p. 1). “The Good, the Bad and the Ugly” did not run away from Hollywood; it ran *toward* Hollywood and still maintained its cultural specificity. As the country closest to the United States in language, culture, and proximity, Canada has some specific advantages not available to any other

country. How talent, funding, cultural policy, economic policy, and international partnerships come together is key not only to success in outsourcing but also to indigenous production, co-productions, co-ventures, and the future of the Canadian film and television industry.

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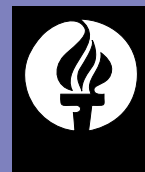
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